

HSBC BANK (MAURITIUS) LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

HSBC Bank (Mauritius) Limited

Annual Report

for the year ended 31 December 2023

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HSBC Bank (Mauritius) Limited

Management discussion and analysis

HSBC Bank (Mauritius) Limited ("the Bank") was incorporated in Mauritius on 27 April 2006 (Company number: 62412) and was granted its banking licence under section 7 of the Mauritian Banking Act 2004 by the Bank of Mauritius ("BoM") on 8 June 2006 and started its operations on 1 August 2006. The Bank's registered office is Level 5, Icon Ebene, Office 1(West Wing) Rue de l'Institut, Ebène, Mauritius. The Bank is primarily involved in commercial and global business banking.

Principal activities

The Bank operates under various business segments namely commercial, global and institutional banking and offers a comprehensive range of financial services including foreign exchange and money market products, global trade and receivable finance, global payments solutions and custody and clearing services. The Bank comprises the following main business units:

Wholesale Banking ("WSB"): Wholesale Banking provides a wide range of financial services and products having international connectivity to meet the need of both corporate, commercial and global banking customers. WSB manages the relationship with corporate customers and provides services including working capital, term loans, payment services and international trade facilitation, among other services, and access to financial markets.

Global Banking and Markets ("GBM"): Manages the Bank's relationships with institutional customers. The GBM business unit comprises:

- Financial Institutions Group ("FIG"): FIG services relationships with bank and non-bank financial institutions, and
- Markets & Securities Services ("MSS"): MSS enables corporate and institutional clients to access financial markets and liquidity, unlock investment opportunities, manage risk and transact seamlessly, including a comprehensive range of custody and clearing services to institutional clients. MSS also provides financial solutions mainly in foreign exchange and money market products to its customers.

The Bank is a wholly owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited ("HBAP"), a company incorporated in Hong Kong. HSBC Holdings plc, a company incorporated in England is the ultimate holding company. HSBC Holdings plc together with its subsidiaries form the HSBC Group ("Group").

The directors are pleased to present the annual report of HSBC Bank (Mauritius) Limited for the year ended 31 December 2023.

The financial statements on pages 85 to 175 have been prepared in accordance with IFRS Accounting 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 18 March 2024 and they do not have the power to amend the financial statements after issue.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

This Annual Report and Accounts 2023 contains certain forward-looking statements with respect to the financial condition, environmental, social and governance ('ESG') related matters, results of operations and business of the Bank, including the strategic priorities; financial, investment and capital targets; and the Bank's ability to contribute to the Bank's ESG targets, commitments and ambitions described herein.

Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore no undue reliance should be placed on them. Forward-looking statements apply only as of the date they are made. The group makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors, including ESG related factors, could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

Financial Review

The commentary in this financial review compares the Bank's financial performance for the year ended 31 December 2023 with the year ended 31 December 2022 unless otherwise stated.

Results Commentary

The Bank's reported profit before tax of USD117.2m which represented growth of 161% year on year as a result of rising global interest rates.

Total operating revenue was USD128.3m, up by USD67.8m, as net interest income increased by USD68.4m (131%), reflecting the positive impact from the higher interest rate environment.

There was a net impairment release on financial assets of USD0.8m in 2023 compared to a charge of USD1.2m against the prior year mainly as a result of a decrease in loans and advances and favorable changes in forward economic guidance assumptions.

The Bank experienced subdued demand for international loan assets during 2023 on account of higher interest rates notwithstanding the improving global economic conditions seen in our major markets in India and South East Asia. Coupled with schedule loan repayments, the Bank's loan assets decreased by USD0.7bn against the prior year.

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

Outlook

The macro-economic environment remains important to the delivery of our financial objectives. During 2023, the Bank has benefitted from elevated levels of interest rates seen in the current interest rate cycle. This is now expected to reverse during 2024 albeit the timing for rate cuts remains uncertain.

The improvements seen in the external economic conditions are not guaranteed and uncertainties have increased and could result in a marked slowdown of global demand and negatively impact the rate of growth of economic activity across India and South East Asia. In addition, high levels of geopolitical tensions persist and remains a drag on the pace of global economic activity, resulting in supply chain disruptions and impacting the growth in international trade.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Financial Review (continued)

Performance against objectives

Objectives for 2023	Performance for 2023	Objectives for 2024
1. Revenue Growth		
Increase revenue above 2022 levels.	Revenue (total operating income) increased by 112% compared to prior year mainly due to increase in net interest income.	Maintaining revenue 2023 levels.
2. Return on tangible equity		
Deliver ongoing ROTE in line with Group target of 10%	The Bank recorded a ROTE of 31% due to higher revenue in 2023.	Deliver in line with Group target to achieve mid-teens ROTE for 2024.
3. Expense Growth		
Achieve positive Jaws in line with the Group's target.	Revenue increased by 112%, and costs fell by 18%, yielding a positive Jaws of 130%.	Maintain operating costs flat to 2023 levels.
Achieve a cost efficiency ratio (total expenses/total operating income) of less than 30%.	The Bank's cost efficiency ratio was 9.3%.	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 ECLs at a minimum (<1% of total on and off balance sheet exposures).	Impairment release of USD0.8m compared to a charge of USD1.2m in 2022.	Proactively continue to manage credit risk within the loan book and keep ECLs at a minimum (Charge of USD1.3m or <1% of total on and off balance sheet exposures).
5. Capital and Liquidity Risk Management		
To maintain total capital ratio above the Bank of Mauritius ("BoM") minimum regulatory requirement of 12.5%.	The capital ratio remained above the regulatory minimum throughout 2023 and as at 31 December 2023, the capital adequacy ratio was at 41.1% and Core Equity Tier 1 (CET1) ratio was 40.0% under Basel III.	To maintain total capital ratio above the BOM minimum regulatory requirement of 12.5%.
To maintain total liquidity coverage ratio above the BOM minimum regulatory requirement of 100%.	Liquidity Coverage Ratio (LCR) stood at 274.1% as at year end well above the regulatory limit of 100%.	Same as 2023.
6. Return on Average Assets		
Monitor return on the average assets to achieve profit before tax above 0.5%.	Return on Average assets has increased to 3% compared to 1.2% in 2022.	Monitor return on the average assets to achieve profit before tax above 1%.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Financial Review (continued)

Performance against objectives (continued)

For the year ended 31 December 2023, the Bank recorded a profit before tax of USD117.2m, representing an increase of USD72.3m against the prior year (Dec 2022: USD44.8m). This performance was mainly driven by an increase in net interest income.

The Bank's net interest income increased by 131% to USD120.5m (Dec 2022: USD52.0m) as the Bank benefited from the continued rise in USD policy rates during the period.

Net fee income remained stable at USD5.2m (Dec 2022: USD5.1m). Trading income decreased to USD2.2m (Dec 2022: USD3.0m) on account of lower revaluation gains recognised on foreign exchange derivatives.

During the year, a net impairment release on financial assets of USD0.8m has been recognised against a charge of USD1.2m to prior year driven by favourable changes in the model assumptions of forward economic guidance and a decrease in loans and advances to customers and banks.

Operating expenses decreased to USD11.9m, a drop of USD2.6m against prior year (Dec 2022: USD14.5m). The decrease is mainly attributable to lower intercompany charges and personnel expenses.

As at 31 December 2023, the Bank's total assets were USD3.4bn, unchanged to prior year, notwithstanding some significant changes in the composition of the balance sheet. Specifically, total loans and advances to customers and banks decreased by USD0.7bn reflecting the impact of scheduled loan repayments as compared to Dec 2022.

Total assets include USD0.6bn of investment securities recognised at fair value through other comprehensive income, an increase of USD0.1bn compared to December 2022. During the year, the Bank recognised a fair value loss in other comprehensive income on the securities of USD0.2m driven by a rise in market interest rates.

On the liability side, the Bank's customer deposit base increased to USD2.7bn (Dec 2022: USD2.3bn) mainly from growth in term deposits. Funds borrowed from HSBC Group parties decreased by USD0.4bn to USD0.4bn (Dec 2022: USD0.8bn) following repayments made during the year.

The Bank's total Capital Adequacy Ratio increased to 41.1% against a regulatory limit of 12.5% as at 31 December 2023, in comparison to 28.9% as at 31 December 2022. The key drivers for the rise of 12.2% were primarily the reduction in risk weighted assets following the fall in customer loans and advances and a higher retained earnings.

As at 31 December 2023, the Bank's Liquidity Coverage Ratio increased to 274.1% (Dec 2022 – 227.5%) against a set limit of 100% (2022: 100%) driven by higher High Quality Liquid Assets arising from an increase in reverse repos.

HSBC Global Businesses

The Group serves its customers through three Global Businesses; Wealth and Personal Banking (WPB), Commercial Banking (CMB) and Global Banking and Markets (GBM), which are responsible for developing, implementing and managing their business propositions consistently across the Group.

In Mauritius, the Bank's activities involve CMB and GBM. In each Global Business, the Bank focuses on delivering growth in areas where the Bank has distinctive capabilities and has significant opportunities.

An overview of the performance for each of the Global Businesses as well as the Corporate Centre which consists mainly of stewardships activities, is available on the following page.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Financial Review (continued)

Key Ratios

	2023	2022	2021
	%	%	%
Net interest margin	3.4	1.5	0.6
Return on average assets	3.0	1.2	0.5
Cost / Income ratio	9.3	23.9	47.0

Key Balance Sheet items

	2023	2022	2021
	USD'm	USD'm	USD'm
Assets			
Cash and cash equivalents	1,243.3	896.9	1,105.6
Loan and advances to banks	237.2	576.8	413.5
Loan and advances to customers	906.8	1,219.8	1,162.5
Investment securities at FVOCI	634.0	526.5	800.3
Investment securities at amortised costs	170.1	174.4	28.3
Liabilities			
Deposits from customers	2,639.3	2,304.4	2,906.2
Other borrowed funds	379.6	768.8	302.7

Net Interest Income analysis

	2023	2022	2021
	USD'm	USD'm	USD'm
Interest Income			
Cash and cash equivalents	64.4	16.7	0.7
Loans and advances to banks	23.9	6.7	3.8
Loans and advances to customers	62.0	35.3	18.8
Investment securities at FVOCI	27.6	6.9	0.4
Investment securities at amortised costs	7.9	1.8	0.4
Total	185.8	67.4	24.1
Interest Expense			
Deposits from customers	(33.1)	(5.0)	(0.3)
Other borrowed funds	(32.2)	(10.4)	(1.9)
Total	(65.3)	(15.4)	(2.2)
Net interest income	120.5	52.0	21.9

Interest income increased to USD185.8m in 2023 largely as a result of the increase in USD interest rates.

Interest expense increased to USD65.3m mainly due to higher interest rates on other borrowed funds and customer deposits.

As a result, net interest income for the year increased to USD120.5m.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Financial Review (continued)

Non-interest income

	2023 USD'm	2022 USD'm	2021 USD'm
Net fee and commission income	5.2	5.1	7.8
Net trading income	2.2	3.0	1.0
Other operating income	0.4	0.4	0.4
	7.8	8.5	9.2

Non-interest income decreased to USD7.8m (2022 – USD8.5m) mainly because of a drop in trading income.

Non-interest expense

	2023 USD'm	2022 USD'm	2021 USD'm
Personnel expenses	(2.5)	(4.8)	(3.4)
Other expenses (including depreciation)	(9.4)	(9.7)	(11.1)
	(11.9)	(14.5)	(14.5)

Non-interest expense decreased to USD11.9m (2022 – USD14.5m). The fall in personnel costs was mainly driven by the non recurrence of restructuring provisions recognised in 2022 coupled with the partial write back of provisions in 2023.

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 2023, the Bank is in compliance with the Bank of Mauritius *Guideline on Credit Concentration Risk*.

Customer advances by industry sector

	2023			2022			2021		
	Gross customer advances		Total Provisions	Gross customer advances		Total Provisions	Gross customer advances		Total Provisions
	USD'm	%	USD'm	USD'm	%	USD'm	USD'm	%	USD'm
Manufacturing	230.2	25.4	0.1	241.3	19.8	0.1	337.1	29.0	0.1
Construction	98.5	10.9	0.1	115.5	9.5	0.1	123.2	10.6	-
Financial and business services	52.7	5.8	-	53.0	4.3	-	68.1	5.9	-
International trade	375.6	41.4	0.2	603.1	49.4	0.3	394.5	33.9	-
Telecommunication	55.1	6.0	-	105.4	8.6	0.1	137.4	11.8	-
Other	95.2	10.5	0.1	102.1	8.4	0.1	102.2	8.8	-
Total	907.3	100.0	0.5	1,220.4	100.0	0.7	1,162.5	100.0	0.1

Off-balance sheet foreign exchange trading contracts by industry sector

	2023 USD'm	2022 USD'm	2021 USD'm
Banks :			
Group	111.6	67.5	56.2
Total	111.6	67.5	56.2

A breakdown of the foreign exchange trading contract by country is disclosed under section Credit Risk Exposures on page 19.

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Management discussion and analysis (continued)

Credit quality (continued)

Restructured Credits

No facilities have been restructured during the year.

Credit Impairment

Net impairment release stood at USD0.8m (2022 – charge of USD1.2m), which is calculated in accordance with IFRS 9 ‘Financial Instruments’ methodology.

In line with the provisions laid down in the Bank of Mauritius Guideline on Credit Impairment Measurement and Income Recognition, a general banking reserve of USD10.3m (2022 – USD16.9m) has been set aside as an appropriation of retained earnings to cater for future potential losses in the loan portfolio.

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 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 35 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: - measured as the amount which could be lost if a customer or counterparty fails to make repayments; - monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and - managed through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers; and by setting limits and appetite accross geographical markets and portfolios.
Treasury Risk		
Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural and transactional foreign exchange exposures and changes in market interest rates, together with pension risk.	Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.	Treasury risk is: - measured through risk appetite and more granular limits, set to provide an early warning of increasing risk, minimum ratios of relevant regulatory metrics, and metrics to monitor the key risk drivers impacting treasury resources; - monitored and projected against appetites and by using operating plans based on strategic objectives together with stress and scenario testing; and - managed through control of resources in conjunction with risk profiles, strategic objectives and cash flows.
Market risk		
Market risk is the risk of an adverse financial impact on trading activities arising from changes in market parameters such as interest rates, foreign exchange rates, asset prices, volatilities, correlations and credit spreads.	Exposure to market risk is separated into two portfolios: - Trading portfolios - Non-trading portfolios.	Market risk is: - measured using sensitivities, value at risk and stress testing, giving a detailed picture of potential gains and losses for a range of market movements and scenarios as well as tail risks over specified time horizons; - monitored using value at risk, stress testing and other measures ; and -managed using risk limits approved by the RMM for the Bank and the various global businesses.

Management discussion and analysis (continued)

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Climate risk		
Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy.	Climate risk can materialise through: – physical risk, which arises from the increased frequency and severity of weather events; – transition risk, which arises from the process of moving to a low-carbon economy; – net zero alignment risk, which arises from failing to meet our net zero commitments or to meet external expectations related to net zero because of inadequate ambition and/or plans, poor execution, or inability to adapt to changes in the external environment; and – the risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to stakeholders.	Climate risk is: – measured using risk metrics; – managed through adherence to risk appetite thresholds, through specific policies, and through enhancements to processes and development of tools including the development of product market controls to manage the risk of greenwashing and the development of portfolio steering capabilities to manage our net zero targets.
Resilience risk		
Resilience risk is the risk of sustained and significant business disruption from execution, delivery, physical security or safety events, causing the inability to provide critical services to our customers, affiliates, and counterparties.	Resilience risk arises from failures or inadequacies in processes, people, systems or external events.	Resilience risk is: – measured using a range of metrics with defined maximum acceptable impact tolerances, and against our agreed risk appetite; – monitored through oversight of enterprise processes, risks, controls and strategic change programmes; and – managed by continual monitoring and thematic reviews.
Regulatory compliance risk		
Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct (including unauthorised trading) and breaching related financial services regulatory standards.	Regulatory compliance risk arises from the failure to observe relevant laws, codes, rules and regulations and can manifest itself in poor market or customer outcomes and lead to fines, penalties and reputational damage to our business.	Regulatory compliance risk is: – measured by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our regulatory compliance teams; – monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.

Management discussion and analysis (continued)

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Financial crime risk		
Financial crime risk is the risk that HSBC's products and services will be exploited for criminal activity. This includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing	Financial crime risk arises from day-to day banking operations involving customers, third parties and employees.	Financial crime risk is: – measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement of, and assessment by, our compliance teams; – monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.
Model Risk		
Model risk is the risk of the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions.	Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.	Model risk is: – measured by reference to model performance tracking and the output of detailed technical reviews, with key metrics including model review statuses and findings; – monitored against model risk appetite statements, insight from the independent validations completed by the model risk management team, feedback from internal and external audits, and regulatory reviews; and – managed by creating and communicating appropriate policies, procedures and guidance, training colleagues in their application, and supervising their adoption to ensure operational effectiveness.

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Management discussion and analysis (continued)

Risk management policies and controls (continued)

Concentration of risk policies

As at 31 December 2023, the top 6 customers or group of connected customers accounted for 67.7% (2022 – 64.0%) of total large credit exposures extended to corporates. The six most significant concentration with respect to non-exempted exposures are listed below.

Customer Group	Total USD'm	% of Large credit Corporate exposure*	% of Tier 1 Capital
Customer Group 1	170.0	16.7%	50.2%
Customer Group 2	135.0	13.2%	39.8%
Customer Group 3	110.0	10.8%	32.5%
Single Customer 1	97.3	9.5%	28.7%
Customer Group 4	89.2	8.8%	26.3%
Single Customer 2	88.1	8.6%	26.0%

*"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 2023, the Bank's credit concentration risk stood at 340.8% (2022 – 289.5%).

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, other than investments in subsidiaries and associates, should not exceed 60 per cent of the financial institution's Tier 1 capital; and
- (b) the aggregate of credit exposures to and investments in equity shares of all related parties in Category 1 and Category 2, other than investments in subsidiaries and associates, should not exceed 150 per cent of the financial institution'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 financial institution;
- (b) a director of the financial institution;
- (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 financial institution has significant interest, excluding a subsidiary of the financial institution as mentioned in Category 2 (e).

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;

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Management discussion and analysis (continued)

Related party transactions policies and practices (continued)

Category 2 (continued)

- (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 financial institution or Government of Mauritius securities or a loan to the extent to which it is guaranteed by the Government of Mauritius;
- (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, including aggregate credit exposures to a group of connected counterparties as defined at Annex II to the Guideline on Credit Concentration Risk, representing less than 2 per cent of the financial institution'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 seven largest related party exposures, outstanding or limits if greater and the respective percentages of the Bank's Tier 1 capital:

Related Party		Exposure USD'm	% of Tier 1 capital
1.	The Hongkong and Shanghai Banking Corporation Limited - Hong Kong Branch	1,732	511
2.	The Hongkong and Shanghai Banking Corporation Limited - India Branch	696	205
3.	The Hongkong and Shanghai Banking Corporation Limited - Dhaka DBU	600	177
4.	HSBC Bank Middle East Dubai IDD CLT	450	133
5.	The Hongkong and Shanghai Banking Corporation Limited - Singapore Branch	403	119
6.	HSBC Bank (Taiwan) Limited	400	118
7.	The Hongkong and Shanghai Banking Corporation Limited - Japan Branch	340	100

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 2023.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Basel III Disclosures

Scope of application

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

Capital Structure

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 USD100m 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:

	2023	2022	2021
	USD'000	USD'000	USD'000
Tier 1			
CET 1 capital			
Paid Up Capital	72,957	72,957	72,957
Other Disclosed Reserves	72,890	73,101	72,749
Retained Earnings	193,671	154,124	138,899
CET 1 capital before regulatory adjustments	339,518	300,182	284,605
Regulatory adjustments:			
Deferred tax	(198)	(418)	(129)
Defined benefit scheme asset	(484)	(635)	-
Tier 1 capital	338,836	299,129	284,476
Tier 2			
General Banking Reserve	9,205	12,704	12,274
Tier 2 capital	9,205	12,704	12,274
Total Capital	348,041	311,833	296,750
Total risk weighted assets	846,508	1,080,031	1,049,272

At least 10 times a year, the ALCO reviews the actual and projected capital adequacy ratios under the local regulatory capital requirement 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.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Basel III Disclosures (continued)

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 ECAs as mentioned on page 21, recognised rating agencies.

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 USD631.4m (2022 – USD998.4m), details of which are given in the Credit Risk: Standardised approach section on pages 21 and 22, minimum capital requirements for credit risk for portfolios subject to the Standardised Approach as at 31 December 2023 was USD78.9m (2022 – USD124.8m). Risk weighted assets of USD105.0m (2022 – USD17.7m) for market and non-market related off-balance sheet exposures and USD0.2m (2022 – USD0.1m) for market risk foreign currency exposure, generated further capital requirement of USD13.1m (2022 – USD2.2m).

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 USD73.3m (2022 – USD42.3m), gave a capital charge for operational risk of USD11.0m (2022 – USD6.3m).

Total risk weighted asset capital requirement therefore stood at USD105.8m (2022 – USD135.0m) compared to the Bank's capital base of USD348.0m (2022 – USD311.8m).

The capital adequacy ratios and their respective regulatory limits, inclusive of capital conservation buffer, applicable to the Bank were as follows:

	2023	2022	2021
	%	%	%
CET 1 capital adequacy ratio	40.0	27.7	27.1
<i>Regulatory Limit – Minimum CET 1 CAR</i>	9.0	9.0	8.4
Tier 1 capital adequacy ratio	40.0	27.7	27.1
<i>Regulatory Limit – Minimum Tier 1 CAR</i>	10.5	10.5	9.9
Total capital adequacy ratio	41.1	28.9	28.3
<i>Regulatory Limit – Minimum Total CAR</i>	12.5	12.5	11.9

Capital adequacy ratios include audited profits for 2023. Capital adequacy ratios for 2022 and 2021 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;
- 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.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Basel III Disclosures (continued)

The Credit Risk Policy Framework (continued)

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 Group's Standards Manual;
- The organisational structure, governance arrangements, the assumption of authority/ responsibility, and the inter-action of functions; and
- The risk rating systems and assessment techniques, controls, reporting and other processes that are employed to measure, evaluate, monitor and manage credit risk.

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

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

The Chief Risk Officer of the Group for the Asia Pacific region establishes the credit approval limit for the Chief Executive Officer ("CEO") and the Chief Risk & Compliance Officer ("CRCO") 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 CEO and the CRCO are approved by the parent company in Hong Kong. The Credit Risk team ensures that credit risk assessment standards remain in line with the Group's credit policy.

The identification, understanding and management of the Bank's different risks are of increasing importance and as a result, a comprehensive Enterprise-wide Risk Management Framework is applied throughout the 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 RMCRC. 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)****Basel III Disclosures (continued)****Credit Risk Exposures**

Total gross credit risk exposures as at 31 December 2023 stood as follows:

Fund based:

Items	USD'000
Claims on Sovereign	767,156
Claims on Central Banks	18,041
Claims on Banks	2,065,998
Claims on Corporates	564,552
Claims on Other assets	7,805
Total	3,423,552

Non fund based:

Items	USD'000
Direct Credit Substitute	1,508
Transaction-related contingencies	80,463
Trade-related Contingent Items	2,083
Other commitments with an original maturity of up to one year	4,575
Other commitments with an original maturity of over one year	131,040
Unconditionally cancellable commitments *	259,386
Foreign Exchange Contracts	111,581
Total	590,636

* 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	3,700
	United States	763,456
Total		767,156

Items	Risk Country	USD'000
Claims on Central Banks	Mauritius	18,041
Total		18,041

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Basel III Disclosures (continued)

Credit Risk Exposures (continued)

Fund Based: (continued)

Items	Risk Country	USD'000
Claims on Banks	Argentina	916
	Bangladesh	217,995
	Belgium	5
	Canada	753
	China, P.R.	111
	France	6,553
	Hong Kong	999,490
	India	156,689
	Japan	765
	South Korea	150,999
	Mauritius	68,207
	New Zealand	1
	Singapore	406,482
	South Africa	1,093
	Switzerland	285
	Thailand	1,144
	United Arab Emirates	152
	United Kingdom	52,275
	Vietnam	2,083
Total		2,065,998

Items	Risk Country	USD'000
Claims on Corporates	Bangladesh	977
	Hungary	11
	India	151,231
	Madagascar	45,030
	Mauritius	293,587
	Maldives	9,399
	Sri Lanka	8,541
	United Kingdom	51,689
	Vietnam	4,087
Total		564,552

Non fund based:

Items	Risk Country	USD'000
Direct Credit Substitute	Hong Kong	69
	Mauritius	1,439
Total		1,508

Items	Risk Country	USD'000
Transaction-related Contingent Items	Hong Kong	102
	India	841
	Mauritius	3,983
	Thailand	43,442
	Vietnam	32,095
Total		80,463

HSBC Bank (Mauritius) Limited**Management discussion and analysis (continued)****Basel III Disclosures (continued)****Credit Risk Exposures (continued)**

Non-Fund Based: (continued)

Items	Risk Country	USD'000
Trade-related Contingent Items	Argentina	1,997
	Mauritius	86
Total		2,083

Items	Risk Country	USD'000
Other commitments with an original maturity of up to one year	Mauritius	4,575
Other commitments with an original maturity of over one year	India	449
	Mauritius	117,784
	Vietnam	6,639
	United Kingdom	6,168
Unconditionally cancellable commitments	India	20,640
	Netherlands	4,000
	Mauritius	83,050
	Thailand	4,558
	Vietnam	147,138
Total		395,001

Items	Risk Country	USD'000
Foreign Exchange Contracts	Hong Kong	604
	United Kingdom	110,977
Total		111,581

The counterparty type distribution of exposures was as follows:

Fund based:

Items	USD'000
Financial Institutions	2,084,039
Corporates	564,552
Others	774,961
Total	3,423,552

Non fund based:

Items	USD'000
Financial Institutions – banks	114,636
Corporates	476,000
Total	590,636

HSBC Bank (Mauritius) Limited**Management discussion and analysis (continued)****Basel III Disclosures (continued)****Credit Risk Exposures (continued)**

The contractual maturity breakdown of the portfolio was as follows:

Fund based:

Items	USD'000							Total
	0-3m	4-6m	7-12m	13-24m	25-36m	37-60m	> 60m	
Number of Months								
Claims on Sovereigns	99,218	326,374	283,086	58,478	-	-	-	767,156
Claims on Central Banks	18,041	-	-	-	-	-	-	18,041
Claims on Banks	1,500,257	232,782	156,236	50,431	126,292	-	-	2,065,998
Claims on Corporates	64,891	24,142	7,827	10,487	79,931	135,200	242,074	564,552
Total	1,682,407	583,298	447,149	119,396	206,223	135,200	242,074	3,415,747

Non fund based:

Items	USD'000							Total
	0-3m	4-6m	7-12m	13-24m	25-36m	37-60m	> 60m	
Number of Months								
Direct Credit Substitute	-	-	740	69	-	-	699	1,508
Transaction-related Contingent Items	-	-	309	64,922	15,175	57	-	80,463
Trade-related Contingent Items	2,083	-	-	-	-	-	-	2,083
Other commitments with an original maturity of up to one year	-	2,210	2,365	-	-	-	-	4,575
Other commitments with an original maturity of over one year	-	-	-	98,639	5,784	20,449	6,168	131,040
Unconditionally cancellable commitments	4,000	-	16,737	699	7,140	111,800	119,010	259,386
Foreign Exchange Contracts	111,224	357	-	-	-	-	-	111,581
TOTAL	117,307	2,567	20,151	164,329	28,099	132,306	125,877	590,636

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

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Basel III Disclosures (continued)

Credit Risk Exposures (continued)

Credit Risk: Standardised Approach (continued)

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

The following ECAIs are used by the Bank:

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

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

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

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

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

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	767,156	767,156	0	-
Claims on Central Banks	18,041	18,041	0	-
Claims on Banks	1,499,524	1,499,524	0	-
	390,322	390,322	20	78,064
	176,152	176,152	50	88,076
Claims on Corporates	76,723	76,723	20	15,345
	26,886	26,886	30	8,066
	188	188	50	94
	453,689	423,394	100	423,394
	7,066	7,066	150	10,600
Claims on Other assets	7,805	7,805	100	7,805
Total	3,423,552	3,393,257		631,444

HSBC Bank (Mauritius) Limited**Management discussion and analysis (continued)****Basel III Disclosures (continued)****Credit Risk Exposures (continued)****Credit Risk: Standardised Approach (continued)**

Non Fund Based:

Items	Exposures Before CRM	Exposures After CRM	Credit Conversion	Credit	RWA
Direct Credit Substitute	1,508	84	100%	84	21
Transaction-related Contingent Items	80,463	79,978	50%	39,989	39,928
Trade-related Contingent Items	2,083	2,083	20%	417	616
Other commitments with an original maturity of up to one year	4,575	4,575	20%	915	915
Other commitments with an original maturity of over one year	131,040	131,040	50%	65,520	65,520
Unconditionally cancellable commitments	259,386	259,386	0%	-	-
Total		477,146			107,000

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	111,581	1	1,116	260	1,376	275

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.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Basel III disclosures (continued)

Market Risk

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

It is the responsibility of the country 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 Group Market Risk function in Group Head Office in London. Any exceptions are subject to the same control and reporting requirements as that applied to risk taken by Markets & Securities Services, including annual review of limits by Group Market Risk.

An Annual Limit Review (ALR) is prepared by Group Market Risk and reviewed by the Risk Management Meeting (RMM) of the Group Management Board (GMB) each year. The Bank henceforth submits a request annually to apply for market risk limits covering the following calendar year. All requests are submitted in writing and these clearly indicate the support of the 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 2023 stood at USD0.2m (2022: USD0.3m) giving a capital requirement of USD0.03m (2022: USD0.03m).

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 Group's business.

The Group's Risk Management Framework is the overarching approach adopted by the Bank to ensure governance and management of operational risks. The framework consists of a set of activities, processes and tools which are used in the management of operational risk across HSBC.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Basel III disclosures (continued)

Operational Risk (continued)

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 2023 stood as follows:

		Financial Year Ended 2023 USD'000	Financial Year Ended 2022 USD'000	Financial Year Ended 2021 USD'000
	<i>Annual Gross Income</i>	128,294	60,521	31,019
(1)	Number of Years with positive income	3		
(2)	Average Gross Income over last 3 years	73,278		
(3)	Capital charge for Operational Risk	10,992		

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 2023 in the trading book by time buckets is disclosed in note 35 of the financial statements.



Philip Fellowes
Chairman



Gregory Lowden
Managing Director



Rajiv Gopaul
Director

Date: 18 March 2024

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices

The Bank is a public interest entity as defined under the 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.

During the year under review, the Board of 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 2023, 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 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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Group Values, Charter and Code of Conduct (continued)

The Bank's values are:

We value difference

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

We succeed together

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

We take responsibility

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

We get it done

- We create value for our customers and investors by always moving forward and making things happen.
- We're entrepreneurial: we try new things, we learn and improve, and we take smart risks.
- We're dynamic: we reject mediocrity. 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.

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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Group Values, Charter and Code of Conduct (continued)

The Board ensures effective management in line with the above values and its Code of Conduct (Code of Ethics) which was reviewed and approved in April 2023. 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 November 2023.

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.

Principle One - 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 ultimate parent company. As at 31 December 2023, 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.

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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle One - Governance Structure (continued)

1.2 Responsibilities of the Board (continued)

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 assessed 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 10 August 2023. 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.

There have been one retirement and one resignation in 2023; the Managing Director, Dean Lam who retired on 30 April 2023 and the Executive Director, Bonnie Qiu who resigned on 14 July 2023. They were replaced by Gregory Lowden who was appointed as Managing Director on 17 July 2023.

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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle One - Governance Structure (continued)

1.3 Board & its Committees Terms of Reference (continued)

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.

Principle Two - 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	Philip Fellowes Dean Lam ¹ Gregory Lowden ² Bonnie Y Qiu ³ Hajrah Sakauloo ⁴ Rajiv Gopaul Timothy Evans Priyadarshini Kini Jonathon Lee	Chairman of the Board and Non-Executive Director Managing Director Managing Director Executive Director Executive Director Executive Director Non-Executive Director Non-Executive Director Non-Executive Director
Main Responsibilities	The key responsibilities of the Board include: (i) setting and overseeing the objectives of the Bank and the strategies for achieving those objectives; (ii) risk governance; (iii) appointment and oversight of senior management, including the Managing Director, as and when required; (iv) setting corporate values and standards; (v) ensuring a suitable and transparent corporate structure; (vi) ensuring effective audit functions; and (vii) ensuring an appropriate degree of transparency in respect of the structure, operation and risk management of the Bank.	

¹: Dean Lam retired on 30 April 2023

²: Gregory Lowden was appointed on 17 July 2023

³: Bonnie Y Qiu resigned on 14 July 2023

⁴: Hajrah Sakauloo was appointed on 4 January 2023

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Two - The Structure of the Board and its Committees (continued)

2.2 Audit Committee

Frequency of meetings	Quarterly	
Composition	Jonathon Lee Timothy Evans Priyadarshini Kini	Chairman of Audit Committee Member and Non-Executive Director Member and Non-Executive Director
Main Responsibilities	<p>The key responsibilities of the Audit Committee include:</p> <ul style="list-style-type: none">(i) reviewing the financial statements of the Bank before they are approved by the directors, to monitor the integrity of such statements;(ii) reviewing, evaluating and where necessary, approving, the Bank's financial and accounting policies and practices;(iii) reviewing the Bank's internal financial controls and its internal control and risk management systems;(iv) monitoring and reviewing the internal audit plan, the effectiveness of the internal audit function and co-ordination between the internal and external auditors, considering the major findings of internal investigations and management's response;(v) reviewing such transactions as could adversely affect the sound financial condition of the Bank as the auditors or any officers of the Bank may bring to the attention of the Committee;(vi) reviewing the terms of appointment, re-appointment or removal of the external auditors and approve the terms of engagement; and(vii) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process.	

Key topics considered during the year

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

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Two - The Structure of the Board and its Committees (continued)

2.3 Risk Management and Conduct Review Committee (RMCRC)

Frequency of meetings	Quarterly	
Composition	Priyadarshini Kini Dean Lam ¹ Gregory Lowden ² Timothy Evans	Chairperson of the RMCRC Member and Managing Director Managing Director Member and Non-Executive Director
Main Responsibilities	The key responsibilities of the RMCRC include: (i) overseeing and advising the Board on all high-level risk related matters; (ii) identifying principal risks, including those relating to credit, market, liquidity, operational, compliance, and reputation of the Bank, and actions to mitigate the risks; (iii) advising the Board on risk appetite and tolerance in determining strategy;	
Main Responsibilities	(i) requiring regular risk management updates from management in the form of the CRCO's report which enables the Committee to assess the risks involved in the Bank's business and how they are controlled and monitored by management; as well as giving clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure which may require a complex assessment of the Bank's vulnerability to hitherto unknown or unidentified risks; (ii) reviewing the effectiveness of the Bank's risk management framework and internal control systems; and (iii) seeking to embed and maintain throughout the Bank a supportive culture in relation to the management of risk and maintenance of internal controls alongside prescribed rules and procedures.	

¹: Dean Lam retired on 30 April 2023

²: Gregory Lowden was appointed on 17 July 2023

2.4 Management Committees

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

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

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

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

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

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Two - The Structure of the Board and its Committees (continued)

2.5 Executive Committee

Frequency	At least 10 times yearly	
Composition	Bonnie Y Qiu ¹	Country Chief Executive Officer (Chairman)
	Dean Lam ²	Managing Director
	Gregory Lowden ³	CEO of HSBC Mauritius and Managing Director
	Hajrah Sakauloo ⁴	Head of Wholesale Banking and Executive Director
	Sarina Saul-Hassam ⁵	Chief Operating Officer
	Heena Patel ⁶	Acting Chief Operating Officer
	Rajiv Gopaul	Chief Financial Officer and Executive Director
	Nitin Ramlugon	Head of Wealth and Personal Banking
	Masud A Monwar	Head of Human Resources
	Vassan Caleemootoo	Head of Markets and Securities Services
	Annick Meerun	Communications Manager
	Yousuf M Syed ⁷	CRCO
	Ashish Gowreesunker ⁸	Chief Compliance Officer
	Ashiti Prosand	Head of Legal and Company Secretary
	Deepa Harcharan	Business Planning and Execution Manager – CEO Office
Purpose	<p>The objective of the Executive Committee (EXCO) is to discuss, review and manage business strategies as well as performance in HBMU. The issues may include matters related to business drivers, competition, rates projection, staffing and training, branding and communication, technology costs, interest margin, updates on conduct and any significant topics. The EXCO will focus on strategic management and provide strategic direction towards the entity target achievements with forward looking trends.</p> <p>The purpose of EXCO is to allow the Chief Executive Officer as country manager to exercise effective control and oversight of business activities within Mauritius, in line with Group and Regional frameworks as set out in GSM 1.3 and GSM 10.1 and project a forward-looking view on profitability together with actions required to achieve this.</p> <p>Members of the committee will discuss and debate the matters to be considered at each meeting and, where appropriate, suggest amendments and alternative options to proposals presented, with a view to reaching majority agreement on each matter under consideration. Decision making authority in relation to all matters considered by the committee remains with the CEO, pursuant to the authority delegated to him/her by the HBAP CEO as recommended by HBAP EXCO.</p>	

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Two - The Structure of the Board and its Committees (continued)

2.5 Executive Committee (continued)

Main Responsibilities	<p>The Committee is a key decision making and monitoring authority for growing and controlling the Group's businesses in Mauritius in line with Group standards, policies and procedures, promoting the Group brand, and ensuring the Group's corporate responsibilities are fulfilled in Mauritius.</p> <p>(i) EXCO will monitor and direct business performance by reviewing monthly business profitability performance by Global Business/Product Group, review major pipe-line income or any major customer issues, benchmark HBMU performance against competitors while assessing market share and HSBC brand awareness in order to direct HBMU resources (the above list is not exhaustive). EXCO will consider and take final decisions on the allocation of capital, manpower, operational and technology resources within approvals provided in the AOP, and to monitor the compliance with regulatory and legislative requirements.</p>
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¹: Bonnie Y Qiu resigned on 14 July 2023

²: Dean Lam retired on 30 April 2023

³: Gregory Lowden was appointed on 17 July 2023

⁴: Hajrah Sakauloo was appointed on 4 January 2023

⁵: Sarina Saul-Hassam went on leave from 27 September 2022 to 13 February 2023

⁶: Heena G Patel was appointed as Interim Chief Operating Officer from 15 August 2022 to 14 February 2023

⁷: Yousuf M Syed was appointed as CRCO as from 1 December 2023

⁸: Ashish Gowreesunker was on Garden Leave as from 1 November 2023 and retired on 1 February 2024

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.

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	At least 10 times yearly	
Composition	Rajiv Gopaul	Chief Financial Officer and Executive Director (Chairman)
	Bonnie Y Qiu ¹	Country Chief Executive Officer
	Dean Lam ²	Managing Director
	Gregory Lowden ³	CEO of HSBC Mauritius and Managing Director
	Hajrah Sakauloo ⁴	Head of Wholesale Banking and Executive Director
	Yousuf M Syed ⁵	CRCO
	Vassan Caleemootoo	Head of Markets and Securities Services
	Shoba Thancanamootoo	Head of Market Treasury
	Prabal Chakraborty	Country Head of Global Payments Solutions
	Rajiv Bali ⁶	Head of GTRF
	Nitin Ramlugon	Head of Wealth and Personal Banking
	Jason Chin	Head of Assets and Liabilities Capital Management (ALCM)

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Two - The Structure of the Board and its Committees (continued)

2.6 Asset and Liability Committee (continued)

Main Responsibilities	<p>The key responsibilities of the Asset and Liability Committee include:</p> <ul style="list-style-type: none">(i) To provide direction on and monitor the balance sheet composition, and ensure tactical;(ii) Follow-through to create an evolving balance sheet structure to meet a site's performance objectives within prescribed risk parameters;(iii) To provide direction on and monitor the capital, liquidity and funding structure, and structural exposures under normal and stressed conditions;(iv) To monitor and assess material balance sheet risks that are incurred or proposed;(v) To review and approve the framework of limits and risk appetite that have been established, within the delegated authorities given by Group, for the control of the material balance sheet risks, having regard to external market, economic and political factors;(vi) To review and monitor asset and capital allocation;(vii) To recommend approval of the Annual Capital Plan;(viii) To review and approve policies and methodologies for the management of balance sheet risks and capital adequacy, including the impact of accounting and regulatory changes;(ix) To advise the Executive Committee ("EXCO") of key ALCO issues;(x) To review the Contingent Funding Plan and to approve the Recovery Plan triggers;(xi) To authorise CFO's approval (outside ALCO) of Liquidity Premium (LP) and/or Liquidity Basis Adjustment (LBA) waiver for special cases, where commercial reasons are justifiable. Such approvals are to be noted at ALCO meetings.
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¹: Bonnie Y Qui resigned on 14 July 2023

²: Dean Lam retired on 30 April 2023

³: Gregory Lowden was appointed on 17 July 2023

⁴: Hajrah Sakauloo was appointed on 4 January 2023

⁵: Yousuf M Syed was appointed as CRCO as from 1 December 2023

⁶: Rajiv Bali was appointed on 1 January 2023

2.7 Risk Management Meeting (RMM)

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

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

The RMM and hence the CRCO are accountable to the Board. The RMM provides risk management reports to the Board through the CRCO in the format of the CRCO'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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Two - The Structure of the Board and its Committees (continued)

2.7 Risk Management Meeting (RMM) (continued)

Frequency	6 meetings per Year	
Composition		
	Yousuf M Syed ¹	CRCO (Chairperson)
	Dean Lam ²	Managing Director
	Gregory Lowden ³	Managing Director
	Hajrah Sakauloo ⁴	Director
	Bonnie Y Qiu ⁵	Country Chief Executive Officer (CEO)
	Rajiv Gopaul	Chief Financial Officer (CFO)
	Sarina Saul-Hassam ⁶	Chief Operating Officer (COO)
	Heena G Patel ⁷	Interim Chief Operating Officer (Interim COO)
	Ashiti Prosand	General Counsel and Company Secretary
	Vassan Caleemootoo	Head of Markets & Securities Services
	Ashish Gowreesunker ⁸	Chief Compliance Officer and MLRO
	Masud A Monwar	Head of Human Resources
Main Responsibilities	<p>The RMM serves as the governance body for enterprise-wide risk management with particular focus on risk culture, risk appetite, risk profile and integration of risk management into the Bank's strategic objectives, including the management of all financial crime risks. The members of the RMM ("Members") will debate, consider, advise, and make recommendations on such matters as the CRCO may from time to time determine. This may include:</p> <p><u>Strategy</u></p> <ul style="list-style-type: none"> • To provide a forum for risk issue to be considered, including strategic and budgetary responses to technology and climate risk • To receive 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 	

¹: Yousuf M Syed was appointed as CRCO as from 1 December 2023

²: Dean Lam retired on 30 April 2023

³: Gregory Lowden was appointed on 17 July 2023

⁴: Hajrah Sakauloo was appointed on 4 January 2023

⁵: Bonnie Y Qiu resigned on 14 July 2023

⁶: Sarina Saul-Hassam went on Maternity Leave from 27 September 2022 to 13 February 2023

⁷: Heena G Patel was appointed as Interim Chief Operating Officer from 15 August 2022 to 14 February 2023

⁸: Ashish Gowreesunker was on Garden Leave as from 1 November 2023 and retired on 1 February 2024

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Two - The Structure of the Board and its Committees (continued)

2.7 Risk Management Meeting (RMM) (continued)

Main Responsibilities	<u>Business Performance and Priorities</u>
	<ul style="list-style-type: none"> (i) Reviewing key risk management policies and framework addendums; including but not limited to HBMU Risk Appetite Framework, annual HBMU Risk Appetite Statements and HBMU Stress Testing Framework and changes thereto, prior to onward submission for HBAP/Board approval where appropriate; (ii) Reviewing of credit and market risk limits for the HBMU businesses and the delegation of these limits for the control of the credit, market, operational and reputational risks in the light of the HBMU's capital and related risk capacity; (iii) Considering the HBMU Risk Profile, Key Risk Management Information, and be informed of material changes to the Risk Appetite Profile, Top and Emerging Risks and Risk Map; (iv) Considering relevant reports and updates pertaining to the key risks and issues in the three lines of defence, commissioning further review where required; (v) Reviewing processes governing new product approval, post-implementation reviews and ongoing monitoring of the current portfolios; (vi) Receiving and reviewing reports and updates on 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; (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 entities that are owned by HBMU and do not come under the supervision of one of the Global Businesses; (viii) Reviewing processes for managing Conduct Risk and cascade a supportive culture in relation to risk management and controls and to ensure our risk management practices support our conduct outcomes; (ix) 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; (x) 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; (xi) Reviewing and providing on-going recommendation of updates to the HBMU Recovery Plan, to ensure that any material changes in HBMU's business, strategy, nature or scale of its activities or the regulatory or operational environment are considered, and the Recovery Plan updated if required; (xii) Reviewing, discussing, and addressing regulatory risks and issues, policy changes and resultant impact. Promote, monitor, and assess the regulatory risk culture. (xiii) Promoting and cascading of a supportive culture in relation to risk management and controls and to ensure our risk management practices support our conduct outcomes.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Two - The Structure of the Board and its Committees (continued)

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.

Principle Three - Director Appointment Procedures

3.1 Appointment of Directors

The Board follows the HSBC Subsidiary Accountability Framework (SAF) issued in February 2022 and updated in September 2023, 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 SAF. 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.

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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Three - Director Appointment Procedures (continued)

3.5 Evaluation of Board Performance

All the directors are employees of the Bank or the 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 Group processes which are required by the Group and the shareholder, HBAP. To that effect, the SAF 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 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.

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 Group.

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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Four - 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:

- (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, RMM and Asset and Liability Committees.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Four - Director Duties, Remuneration and Performance (continued)

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

During the financial year 2023, the directors received emoluments, which includes salaries and other benefits, amounting to USD352,695 (2022: USD150,427). Other directors were not entitled to directors' fees and other remuneration during the year.

The emoluments paid and payable to the directors during the year ended 2023 were as below:

Directors' emoluments	Total (USD)
Dean Lam	205,483
Hajrah Sakauloo	147,212
Total Executive	352,695

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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Four - Director Duties, Remuneration and Performance (continued)

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.

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 through the 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

Philip Fellowes – Chairman and Non-Executive Director (Non - resident)

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, Australia and Mauritius.

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

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Four - Director Duties, Remuneration and Performance (continued)

4.11 Directors' Profile (continued)

Mr. Fellowes 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. Fellowes 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 Market of the Stock Exchange of Mauritius Ltd as at 31 December 2023: None

Dean Lam – Managing Director (Resident) – Retired from the Bank on 30 April 2023

Mr. Lam joined the 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 Market of the Stock Exchange of Mauritius Ltd as at 31 December 2023: Ascensia Group

Bonnie Y Qiu – Executive Director (Resident) – Resigned on 14 July 2023

Mrs. Qiu was the Chief Executive Officer of HSBC in Mauritius until 14 July 2023. 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. 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 2023: None

Gregory Lowden – CEO of HSBC Mauritius and Managing Director – Appointed on 17 July 2023

Mr. Lowden joined HSBC on the International Management Programme in 2009 and has held a variety of senior roles across Commercial Banking, Trade Finance, Financial Crime Risk, and Government Affairs in the UK, US, and Hong Kong. Before moving back to Asia in 2021, he spent three years working directly for the Group Chairman.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Four - Director Duties, Remuneration and Performance (continued)

4.11 Directors' Profile (continued)

Prior to his current role, as Managing Director and CEO of HSBC Mauritius, Mr. Lowden was the Deputy Head of International Subsidiary Banking, Hong Kong, where he led a strong team supporting the complex financing requirements of corporate clients headquartered in Europe, the Middle East, and around Asia. After graduating from the University of Cambridge, he lived and worked in Japan and Hong Kong, at the United Nations and law firm Herbert Smith.

Directorships held in companies listed on Market of the Stock Exchange of Mauritius Ltd as at 31 December 2023: None

Rajiv Gopaul – Chief Financial Officer and Executive Director (Resident)

Mr. Gopaul is Head of Finance, HSBC Mauritius. He joined HSBC in 2000 and has served in a number of roles in 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 2023: None

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

Mr. Evans is the Chief Executive Officer of HSBC Vietnam and 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 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 Market of the Stock Exchange of Mauritius Ltd as at 31 December 2023: None

Priyadarshini Kini – Non-executive Director (Non- resident)

Ms. 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 Market of the Stock Exchange of Mauritius Ltd as at 31 December 2023: None

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Four - Director Duties, Remuneration and Performance (continued)

4.11 Directors' Profile (continued)

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

Mr. 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 Market of the Stock Exchange of Mauritius Ltd as at 31 December 2023: None

Hajrah Sakauloo – Head of Wholesale Banking, Executive Director as from 4 January 2023 (Resident)

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 was previously the Mauritius Head of International which covers a wide spectrum of businesses ranging from large international corporate clients to mid corporates.

Directorships held in companies listed on Market of the Stock Exchange of Mauritius Ltd as at 31 December 2023: None

4.12 Board and Committee Attendance

		Board	Audit	RMCRC
Number of meetings held		4	4	4
Directors:				
Philip Fellowes	Chairman – Non Executive	4	-	-
Priyadarshini Kini	Non-Executive Director	4	4	4
Timothy Evans	Non-Executive Director	4	4	4
Dean Lam*	Executive Director	-	-	-
Bonnie Y Qiu*	Executive Director	2	-	-
Gregory Lowden*	Managing Director	2	-	1
Rajiv Gopaul	Executive Director	4	-	-
Jonathon Lee	Non-Executive Director	4	4	4
Hajrah Sakauloo	Executive Director	4	-	-

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

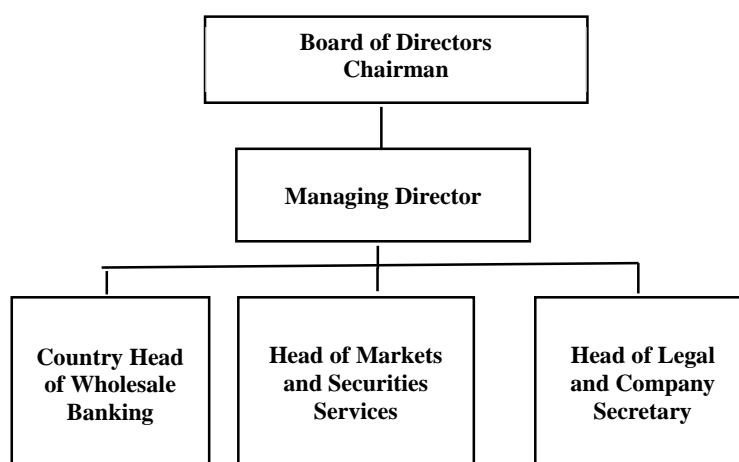
Principle Four - Director Duties, Remuneration and Performance (continued)

4.12 Board and Committee Attendance (continued)

*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

4.13 Senior Management Profile

As at 31 December 2023, the organisation chart of the Bank is as follows:



Gregory Lowden – Managing Director

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

Prabal Chakraborty – Country Head of Global Payments Solutions

Mr. Chakraborty 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 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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Four - Director Duties, Remuneration and Performance (continued)

4.13 Senior Management Profile (continued)

Ashiti Prosand – Head of Legal & Company secretary

Ms. 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 Chartered Governance Institute (CGI), UK.

Yousuf M Syed – Appointed as Chief Risk & Compliance Officer as from 1 December 2023

Mr. Syed has worked in leading international financial service organisations like Citicorp, American Express, Mashreq Bank, India Infoline Finance (IIFL), and geographically in India and the Middle East, mainly on retail risk management. He joined HSBC Invest Direct Financial Services (HIFSL) in 2014 as Chief Risk Officer where he was responsible for managing the enterprise-wide risk. Later he worked in the INM Remediation Management Office and Unsecured risk for India WPB Risk. He was appointed as Interim Chief Risk Officer as from 4 February 2022 to 30 April 2022 for the Bank. As from 1 May 2022, he was acting as the Chief Risk Officer and on 1 December 2023, he has been appointed as Chief Risk & Compliance Officer.

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.

Rajiv Bali – Head of GTRF – Appointed on 1 January 2023

Mr. Bali has over 18 years of Banking experience spanning over different functions covering Corporate Banking, Securities Services & DBS. He has strong risk management, commercial and product skill from previous roles as Relationship Manager in CMB team and as Head of Securities Services where he covered key relationships handling large corporates and FIs clients.

Sarina Saul-Hassam – Chief Operating Officer - On Maternity leave from 27 September 2022 to 13 February 2023

Mrs. Saul-Hassam has been with Group for 18 years and was the Regional CMB Chief Administration Officer for ASP based in Hong Kong prior joining Mauritius as COO. Mrs. Saul-Hassam 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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Four - Director Duties, Remuneration and Performance (continued)

4.13 Senior Management Profile (continued)

Heena Patel - Interim Chief Operating Officer – From 15 August 2022 to 14 February 2023

Mrs. Heena joined HSBC India in 2000 and over the next decade, she worked her way through managerial roles within HSBC Securities and Capital Markets IT, gaining experience and increased responsibility across nearly all aspects of GBM IT. This involved expanding her scope to include over-all IT support and IT Operations while learning on the job about planning and strategy, account management services, and how to manage relationships with the Business. Heena became Head of Global Banking & Markets (GBM) IT for HSBC India in 2014, and was appointed Regional Head of Satellite Sites, ASP GBM IT in 2019. She was also interim CIO for India from October 2018 to August 2019 and took over the ASP CIO Internationals Role from March 2020. Heena holds a Bachelor of Science in Chemistry from the D.G. Ruparel College in India.

Ashish Gowreesunker – Chief Compliance Officer – On Garden Leave from 1 November 2023 and retired on 1 February 2024

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.

Masud A Monwar – Head of Human Resources – Appointed on 1 November 2022

Mr. Monwar is a seasoned HR Professional with more than 16 years' experience across multinational organizations. Prior to HSBC, Masud worked in GlaxoSmithKline as HR Manager in a Business Partnering Role for two Businesses with additional responsibility of Leading Reward, Performance and Talent for the country. He holds an Executive MBA Degree and a Bachelor Degree in Business Administration.

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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Four - Director Duties, Remuneration and Performance (continued)

4.14 Interests register

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

Principle Five - Risk Governance and Internal Control

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.

The Group Risk Management Framework (‘RMF’) 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 RMF describes Group’s and HBMU’s approach to managing risk. It is applicable to all employees and is supplemented by specialist principles, risk frameworks, and guidance such as the “Purpose-led Conduct Approach” which is designed to capture how the Bank’s risk management arrangements impact its customers and the financial markets in which HBMU operates.

The RMF applies to all the types of risk, both financial and non-financial, that the Bank faces in its business and operational activities.

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

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Five - Risk Governance and Internal Control (continued)

5.1 Risk Management (continued)

Governance and Structure	<div> <div>Board Management Committees</div> <div> <div>Audit Committee</div> <div>Risk Management & Conduct Review Committee</div> </div> <div>Senior Management Committees</div> <div> <div>Executive Committee (EXCO)</div> <div>Asset & Liabilities Committee (ALCO)</div> <div>Risk Management Meeting (RMM)</div> </div> <div> <div>Impairment Committee</div> <div>Third Party Governance Forum</div> <div>IT Steering Committee (ISC)</div> <div>Climate Risk Steering Committee (CRSC)</div> </div> </div>			<p>The Board approves risk appetite, plans and performance targets, which sets the 'tone from the top'.</p> <p>RMM oversees the Bank's risk framework & meets to provide Regulatory update on potential financial crime & regulatory risk to GBs, GFs & DBS.</p> <p>IC reviews and challenges the impairment figures generated at regional level.</p> <p>CRSC provides senior oversight of all activities relating to HSBC Mauritius (MAR) approach to climate risk management</p> <p>TPGF ensures control over all the outsourcing arrangements.</p>
	Role of Senior Management			Formulate and implement strategy within risk appetite. Responsible for risk governance and controls
	Risk Appetite			Describes the types and quantum of risks the Bank is prepared to accept in achieving our medium and long term strategic goals
	Risk Governance Framework			Ensures appropriate oversight of and accountability for management of risk
	Enterprise-wide Risk Management Tools			Processes to identify, monitor and mitigate risks to ensure the Bank remain within its risk appetite
	Risk Appetite Reporting	RiskMap, inc. Top Risks	Emerging Risks	
Governance and Structure	<div> <div>Three Lines of Defence Model</div> <div>People</div> <div>Independent Risk Function</div> </div>			<p>The 3LOD model is an organisational structure that outlines the division of roles and responsibilities, defined by the activities performed. It is applicable to all individuals and to all risk types.</p> <p>Our risk culture empowers our people to do the right thing for our customers, reinforces by our approach to remuneration.</p> <p>An independent Risk function ensures the necessary balance in risk / return decisions.</p>
	<div> <div>Define & Enable</div> <div>Identify & Assess</div> <div>Manage</div> <div>Aggregate & Report</div> <div>Govern</div> </div>			Active risk management helps us to achieve our strategy, serve our customers and communities, and grow our business safely and sustainably
Processes	Banking Risks			Risks arising from our business activities that are measured, monitored and managed
	Risk Policies and Practices			Set by Risk Stewards for each of our material banking risks.
	Internal Controls			The Risk Management Framework (RMF) defines minimum standards & processes for operational risks & internal controls

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Five - Risk Governance and Internal Control (continued)

5.1 Risk Management (continued)

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

5.2 Risk Governance

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

Executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework resides with the CRCO. The CRCO is supported by the RMM and ensures all matters of significance are raised to the Board through the CRCO 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 RMM and RMCRC 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 RMM. 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

The Bank's three Line of Defence ('LOD') is an activity-based model and delineates accountabilities and responsibilities for risk management and the control environment within each LOD. The model applies to all individuals and all risk types and supports the delivery of conduct outcomes and a positive risk culture.

There must be a clear segregation between risk ownership (First LOD), risk oversight and stewardship (Second LOD) and independent assurance (Third LOD) to help support effective identification, assessment, management, and reporting of risks. It is the activities, not the job titles, which determine where one sits in the three LOD model.

- The First LOD has ultimate ownership for risk and controls, including read across assessments of identified issues, events and near misses, and the delivery of good conduct outcomes. It is the responsibility of the First LOD to assess whether an issue is likely to have relevance to another part of the business, and therefore what level of read across action is required, and whether when looked at in aggregate the level of consolidated risks is greater than on an individual basis.
- The Second LOD provides subject matter expertise, advice, guidance and review and challenge of the First LOD's activities to help ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The Second LOD is independent of the risk-taking activities undertaken by the First LOD and includes CRCO, Risk Stewards, the Operational and Resilience Risk ("ORR") function and Second LOD Assurance teams.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Five - Risk Governance and Internal Control (continued)

5.3 Risk Roles and Responsibilities (continued)

The Third LOD is Global Internal Audit (“GIA”). GIA helps the Board and Executive Management to protect the assets, reputation and sustainability of the Group. GIA provides independent assurance to management and the non-executive Risk and Audit Committees as to whether our risk management, governance and internal control processes are designed and operating effectively.

The Bank risk function, headed by the CRCO, 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.

5.4 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:** The risk appetite is defined as the level and types of risks that the bank is willing to take in order to achieve its strategic objectives. Embedding risk appetite means there is a clear understanding among the Board, senior management and all employees for the ownership and accountability for risks, and the acceptable levels of risk. The Risk Appetite is set to ensure that the bank’s risks can be properly managed.
- **Risk Map:** The Risk Map is an integrated risk management tool used to assess, monitor and report the current risk profile, including Risk Drivers and Top Risks, of the Bank. It provides a point-in-time view of the risk profile across both financial and non-financial risks in line with HSBC’ Group’s risk taxonomy and identified Thematic Issues. 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.
- **Emerging Risks:** An Emerging Risk is defined as a risk that could have a material impact on the risk profile of the Bank but is not under active management and is not immediate.

The Emerging Risks report is a key enterprise risk management tool used and provides forward-looking and thematic analysis of Emerging Risks which are often large-scale events or trends, difficult to predict and are often beyond the Bank’s ability to directly control. The report is used to assess the internal and external risk environment and provide a view of emerging issues that could threaten the execution of HBMU’s strategy or operations.

All risks should be monitored and managed in line with the Risk Management Framework

Details of risk management policies and controls relating to trading and non-trading activities are disclosed on pages 8 to 12 under the Management discussion and analysis section.

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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Five - Risk Governance and Internal Control (continued)

5.4 Risk Processes and Tools (continued)

As at 31 December 2023, the following risks were identified by the Bank as emerging risks;

- **Climate Risk – “Physical Risk”:** Second-order impacts include all impacts of climate change on economic, human and ecosystems beyond the boundaries of the corporation. These may include changes in the availability of natural resources, agricultural productivity, and the geographic distribution of species, disruption to transport, changes to global trade routes and migration. Clients’ own infrastructure are impacted by extreme weather events, this could result in financial loss for them, increasing credit risk for HBMU. Bank’s business continuity (staff/property/systems) could be impacted, resulting in detriment to clients, thereby increasing operational risk for HBMU.
Climate Risk – “Transition Risk”: Existing clients’ business models may not be aligned with the transition to a low carbon economy, resulting in potential economic and thereby increasing the risk for the Bank, e.g Credit Risk, reputation risk. Transition to low carbon economy may cause reduced income or loss of employment thereby reducing customers’ ability to repay loans and increasing credit risk.
- **Digitalisation and Technological Advances – Lack of Infrastructure/resources/funding to benefit from new technologies:** Continued expansion of technology and organizations involved will create competition.
- **Hire and train resources with expertise in an emerging and rapidly changing technology at a time when they are in extremely high demand.** Lack of adequate infrastructure and funding for the Bank could result in depleting market share.
- **Digitalisation and Technological Advances – Payment Delivery and Future modes of Payments:** Metaverse is a universe of interoperable applications, virtual worlds and real-world connection points that make up an “experiential internet” where people can socialise, work, transact, play and create. As the Metaverse develops and expands, there will be several risks and capabilities that will impact how the Bank conducts business today.
- **Geopolitical and Macroeconomic Risks - Global Minimum Tax and Impact on Mauritius:** Over 140 countries agreed on a fundamental global corporate tax reform in 2021. The new framework includes a consumer-location-based profit taxation (Pillar 1) and a global minimum tax rate of 15% (Pillar 2). This could lead to change in the Tax treaties between countries resulting in subsidiaries moving away from Mauritius and hence impacting transaction volumes and credit requirement from HSBC. Overall, there could also be a reduction in Foreign Direct investments into Mauritius.
- **Geopolitical and Macroeconomic Risks - Increasing Interest Rate Trend:** Bank of Mauritius increased benchmark index rate from 2% in Q1’22 to 4.50% in Q4’22. As a result, the weighted average lending rate has increased, which is likely to have an impact on domestic demand for funding. Increased Interest rate would also impact the monthly instalment of term facilities and could result in higher delinquency level, expected credit losses & capital requirement in the long term and expected to remain within appetite.
- **Third Party Risk (risks arising from the receipt of services from third parties):** HSBC’s Supplier Code of Conduct is an attestation-based exercise which isn’t supported by any targeted diligence or oversight. This is a concern for the primary suppliers but also in respect of the extended network of 4th/Nth parties. Consequently, there is a significant risk of brand damage or detriment as a consequence of inappropriate / unethical / illegal activity somewhere in the extended supply chain / supplier network.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Five - Risk Governance and Internal Control (continued)

5.4 Risk Processes and Tools (continued)

- Evolving Regulatory Landscape and increasing number of policies/guidelines and systems mandated by the Regulators - Failure to meet increasing regulatory developments and/or to implement systems (including changes) mandated by the regulators: The risk of failing to identify, deal effectively with, prepare for, respond to or implement the requirements of regulatory change (including legislations, regulations, guidelines and systems) mandated by the regulators or authorities. The risk applies on an enterprise-wide basis, covering expectations for both the First LOD and the Second LOD when responding to regulatory change across all risk types. It scopes all developments and systems changes. Hence, the need to manage the bank's response to change to all rules, regulations, laws and systems whether they relate to any Financial or Non-Financial risks; in other words, it is not limited to obligations related to Compliance risks. The bank has no appetite for failing to implement material regulatory requirements (new or changing), in a timely and effective manner.
- General Elections and measures - Failure to abide with new measures from the Government: The mandate for the current Government is until December 2024 and the General Election for the country is expected within 6 months after the dissolution of the parliament. Campaigning for the Election has already begun, and various measures are being announced by the Government, with little or no consultation with the private sector, and once effective, HSBC is expected to abide by the new regulation. The new measures being could be an impact on the Bank both from a financial perspective and the way business is conducted.
- The portfolio of risks associated with the remaining part of the business, post the sale of the Wealth & Personal Banking & Business Banking business which will continue to operate as business as usual: The remaining Wholesale business will need to identify risks, due to the transfer of the WPB business, which provides various services and products, such as staff lending, etc. Subsequently, adequate action plans are to be developed to address/mitigate the risks with necessary project management at entity level.

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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Five - Risk Governance and Internal Control (continued)

5.5 Internal Controls (continued)

- 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.

The Group Audit Committee ("GAC") and the Group Executive Committee (through the Group Risk Management Meeting ("GRMM")) are responsible for providing oversight over whistleblowing arrangements in line with their respective Terms of Reference, with the GAC having overall responsibility for determining the efficacy of these arrangements. The Chair of the GAC also acts as the Whistleblowers' Champion for the Group with regulatory responsibility for ensuring and overseeing the integrity, independence and effectiveness of the firm's policies and procedures on whistleblowing and protecting the Reporter.

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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Six - 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 2023, 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 76 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 at page 1-25.

6.3 Safety & Health

The Bank has an obligation as per the occupational safety and health act 2005 of Mauritius to manage safety and health at the workplace which comprises of:

- Conducting workplace hazard assessments to identify potential risks to employee's safety and health;
- Development and implementation of safety policies to address identified hazards;
- Train employees on safety procedures, hazard recognition, and emergency response;
- Maintain records of workplace injuries and illnesses as required by OSHA ACT 2005;
- Regularly inspect the workplace for compliance with OSHA standards;
- Report workplace injuries, illnesses and fatalities to OSHA as required;
- Seek advice and assistance from Ministry of Labour, OSH division.

A qualified Safety and Health Officer (SHO) who is registered with the Ministry of Labour is employed, to review, address and manage safety and health risks within HSBC premises. The SHO provides advice and makes recommendations on risk mitigation and uses the regional H&S risk steward for further H&S advice.

During the year under review, a Safety and Health Report was presented at the Board Meeting on 17 Nov 2023.

The Paper outlined the Bank's strong commitment to safety achieving 100% completion rate for risk assessments and successfully closed all risk assessment findings. Additionally, an independent assurance review was conducted with the aim of identifying any gaps with our health and safety management system. HSBC Mauritius was rated as "Emdedded".

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Six - Reporting with Integrity (continued)

6.4 Related Party transactions

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

Principle Seven - 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. Global Internal Audit (GIA) 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 GIA 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 functionally to the Chairman of the Group Audit Committee and administratively to the Group Chief Executive. 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.

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 GIA are adequately addressed within an appropriate and agreed time frame. The 2023 GIA annual plan was presented to the Audit Committee with regular updates being provided to the Board throughout the year.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Seven – Audit (continued)

7.2 External auditors

With a view to ensuring the overall adequacy of the Bank's internal control framework, the Audit Committee evaluates the independence and effectiveness of the external auditor on an ongoing basis before making a recommendation to the Board on their appointment and retention. The proposal to re-appoint PricewaterhouseCoopers ("PwC") who were first appointed in 2015 as external auditor was approved by the Audit Committee and brought to the Board's attention for approval during 2023. 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 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 2023 has been presented to the Audit Committee on during the year and was approved by the same Committee.

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

	2023	2022	2021
	USD'000	USD'000	USD'000
Audit fees for statutory audit and Internal Control review fees	82	87	105
Fees for other services (Note a)	14	9	-
	96	96	105

Note a: The Bank has a policy on non-audit services which are provided by our External Auditors. Non-audit services were under continuous review throughout 2023 to determine whether they were permitted by reference to their nature, assessing potential threats and safeguards to auditor independence as well as the overall ratio of audit to non-audit fees. The fees for other services relate to comfort on dividend distribution and AML/CFT review.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Eight - Relations with Shareholders and Other Key Stakeholders

8.1 Shareholder's meeting

There was no annual shareholder's meeting during the year 2023 and decisions that need to be taken by the shareholders at this meeting were taken through the shareholders' resolution dated 2 June 2023. 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

Following the end of the financial year, the Annual Report is approved in February/March with any dividends declared usually paid in the second quarter of the financial year, subject to BOM approval.

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, dividend payment amounting to USD70m (2022: USD26m) was paid.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Eight - Relations with Shareholders and Other 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

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

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

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

Employees

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

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Principle Eight - Relations with Shareholders and Other Key Stakeholders (continued)

8.11 Information for Key Stakeholders (continued)

Diversity and inclusion

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

Employee development

The development of the Bank's employees is essential to the future strength of its business. The Bank continues to develop employee capability - in 2017, the 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)

Principle Eight - Relations with Shareholders and Other Key Stakeholders (continued)

8.12 Corporate Social Responsibility and Donations

Committed to sustainable growth

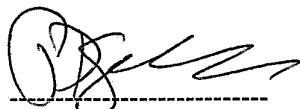
At HSBC, we recognise that how we do business is as important as what we do. We have a responsibility to our customers, employees and the communities in which we operate and understand that to achieve success in the long term, economic growth must also be sustainable.

We aim to support actively the global transition to a low-carbon economy and to contribute to achieving Net Zero. 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.

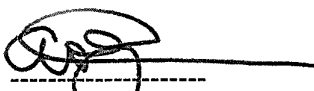
Regarding the Bank's community role, supporting charitable programmes, notably providing quality education and care services to children growing up in deprived areas, continued to be a major focus in 2023.

The amount of provision made for Statutory Charitable Giving in line with Income Tax regulations was USD 12,770 (2022: USD5,570). This amount was paid in full during the year.

There were no political donations made for the year 2023.



Philip Fellowes
Chairman



Gregory Lowden
Managing Director



Ashiti Prosand
Company Secretary

Date: 18 March 2024

HSBC Bank (Mauritius) Limited

Climate-related and environmental financial risks disclosures

The Bank's climate ambition

Transition to net zero

The Bank recognises that it has a role to play in enabling the transition to net zero. The Bank believes that it can make an impact by working with its customers to support their transition to a net zero future. The Bank supports the ambition of the Group, which is to become net zero in the Group's own operations and supply chain by 2030, and aligns the Group's financed emissions to net zero by 2050. The Group aims to help its customers transition to net zero and a sustainable future by providing and facilitating between USD750bn and USD1tn of sustainable finance and investment by 2030. For details of the Group's ambitions, please see the Group's *Annual Report and Accounts 2023* and *ESG Data Pack 2023*, which are available at www.hsbc.com/who-we-are/esg-and-responsiblebusiness/esg-reporting-centre.

The Bank established a local chapter of the globally recognized Climate Governance Initiative (CGI) which was launched in October 2023 in partnership with the Mauritius Institute of Directors. CGI Mauritius will support and empower directors and boards through forums, training sessions, networking events and relevant information.

The Bank's approach to climate reporting

The Bank's disclosure is compliant with the Bank of Mauritius ("BoM") *Guideline on Climate-related and Environmental Financial Risk Management*, which sets out BoM's expected approach to climate-related and environmental financial risks with a view to enhancing the resilience of the banking sector against these risks.

The Bank understands that its existing data, systems, controls and processes require enhancements to drive effective change, but the Bank recognises the necessity to balance this with providing early transparency on climate disclosures.

Climate-related and Environmental Financial Risk Management index table

The table below sets out the requirements as per BoM's guideline and summarises where additional information can be found.

Governance		
Describe the Board's oversight of climate-related and environment financial risks and opportunities.		
Sub-committee accountability, processes and frequency	A Climate Risk Steering Committee ("CRSC") has been instituted in 2023 to provide senior management oversight of all risk activities relating to HSBC Mauritius approach to climate and nature related risk management.	Section 2.7

HSBC Bank (Mauritius) Limited
Climate-related and environmental financial risks disclosures

Climate-related and Environmental Financial Risk Management index table (continued)

Governance (continued)		
Describe the Board’s oversight of climate-related and environment financial risks and opportunities (continued).		
Examples of the Board and relevant Board committees taking climate into account	<p>HSBC Mauritius Sustainability Strategy paper has been endorsed by the local Executive Committee (“EXCO”) members. The paper has been presented at the CRSC in March 2023 and tabled to the Board of Directors in May 2023.</p> <p>CRSC has been instituted, co-chaired by the CEO and CRCO and attended by the EXCO members, to provide senior management oversight and met 3 times in 2023.</p>	Section 5.1
Who manages climate-related risks and opportunities	The Board takes overall responsibility for the climate strategy, overseeing executive management in developing the approach, execution, and associated reporting. The CEO is supported by the EXCO and by delegation of the Board is responsible for the day-to-day management of the business and implementation of the Group’s strategy, including the Group’s net zero ambitions. The CRCO is the key senior manager responsible for the management of climate-related risks.	Section 2.5
Strategy		
i. Describe the climate-related and environmental financial risks and opportunities the Bank has identified over the short-, medium-, and long-term.		
Processes used to determine material risks and opportunities	<p>The Bank’s relationship managers engage with its wholesale clients through a transition risk questionnaire and recently introduced an updated questionnaire, the transition engagement questionnaire. The questionnaire is used to gather information and assess the alignment of the Bank’s wholesale customers’ business models to net zero and their exposure to physical and transition risks.</p> <p>Implementation of the questionnaire for identified sectors, subject to transition risks for Mauritius is ongoing with in-scope customers.</p>	

HSBC Bank (Mauritius) Limited
Climate-related and environmental financial risks disclosures

Climate-related and Environmental Financial Risk Management index table (continued)

Strategy (continued)	
i. Describe the climate-related and environmental financial risks and opportunities the Bank has identified over the short-, medium-, and long-term (continued).	
Relevant short, medium, and long term time horizons	The Group defines short term as time periods up to 2025; medium term is between 2026 and 2035; and long term is between 2036 and 2050. The Bank follows the same approach as the Group.
Transition or physical climate-related issues identified	<p>For transition risk, the Bank has metrics in place to monitor the exposure of its wholesale corporate lending portfolio to six high transition risk sectors.</p> <p>The Group continued its efforts to design and implement a differentiated approach to understand and assess the transition plans and risks of its corporate customers, including state-owned enterprises. These assessments help the Group to identify opportunities, manage climate risks and define areas to drive strategic engagement with each corporate customer.</p> <p>In 2023, the Group completed assessments for most customers in scope of its thermal coal phase out policy. The Group also completed assessments for its customers that make the most material contribution to its financed emissions in the oil and gas, and power and utilities sectors.</p> <p>Once completed, these assessments can be used to support business decisions in relation to its financed emissions portfolio management and alignment, and its climate risk management efforts.</p> <p>The Bank is aiming to follow the Group's approach on transition.</p>
Risks and opportunities by sector and/ or geography	<p>The Group aims to help its customers transition to net zero and a sustainable future by providing and facilitating between USD750bn and USD1tn of sustainable finance and investment by 2030. For a detailed breakdown of the Group's sustainable finance progress, see the Group's <i>ESG Data Pack 2023</i>.</p> <p>The Bank does not currently fully disclose the impacts of transition and physical risk quantitatively by sector/geography. The Bank is aiming to develop the appropriate systems, data and processes to provide these disclosures in future years.</p>

HSBC Bank (Mauritius) Limited
Climate-related and environmental financial risks disclosures

Climate-related and Environmental Financial Risk Management index table (continued)

Strategy (continued)	
ii. Describe the impact of climate-related and environmental financial risks and opportunities which have been identified over the short-, medium-, and long-term on the Bank's strategy.	
Impact on strategy, business, and financial planning	The Bank does not fully disclose impacts from climate-related opportunities on financial planning and performance including on revenue, costs and the balance sheet, quantitative scenario analysis, detailed climate risk exposures for all sectors and geographies or physical risk metrics. This is due to transitional challenges in relation to data limitations, although nascent work is ongoing in these areas. The Bank expects these data limitations to be addressed in the medium term as more reliable data becomes available and technology solutions are implemented.
Risk Management	
i. Describe the Bank's processes for identifying and assessing climate-related and environmental financial risks.	
Traditional banking risk types considered	The Bank provides further details of how it has embedded the management of climate risk across key risk types, including wholesale credit risk, treasury risk, traded risk, reputational risk, regulatory compliance risk, resilience risk, and model risk.
Process	<p>The Group continues to integrate climate risk into policies, processes and controls across many areas of its organisation, and it will continue to update these as its climate risk management capabilities mature over time.</p> <p>The Group updated its climate risk management approach to incorporate net zero alignment risk and developed guidance on how climate risk should be managed for non-financial risk types. While the Group has made progress in enhancing its climate risk framework, further work remains. This includes the need to develop additional metrics and tools to measure the exposure to climate-related risks, and to incorporate these tools within decision making.</p> <p>In 2023, the Group enhanced its internal climate scenario analysis exercise by focusing its efforts on generating more granular insights for key sectors and regions to support core decision-making processes, and to respond to its regulatory requirements. In climate scenario analysis, the Group considers, jointly, both physical risks and transition risks. The Bank is aiming to follow the Group's approach on the process.</p> <p>For wholesale customers, the Bank uses a transition engagement questionnaire as part of its transition and physical risk framework to understand their climate strategies and risk.</p>

HSBC Bank (Mauritius) Limited
Climate-related and environmental financial risks disclosures

Climate-related and Environmental Financial Risk Management index table (continued)

Risk Management (continued)	
i. Describe the Bank's processes for identifying and assessing climate-related and environmental financial risks (continued)	
Integration into policies and procedures	<p>The Group continues to integrate climate risk into the policies, processes and controls across many of its global businesses and functions, and will continue to update these as its climate risk management capabilities mature.</p> <p>The Bank aims to follow the policies, processes and controls set by the Group.</p>
Consider climate-related risks in traditional banking industry risk categories	<p>The Bank provides further details of how it has embedded the management of climate risk across key risk types, including wholesale credit risk, treasury risk, traded risk, reputational risk, regulatory compliance risk, resilience risk and model risk. For further details, see table 'Embedding climate risk within existing risk taxonomy' on pages 72 to 74.</p>
ii. Describe the Bank's processes for managing climate-related and environmental financial risks.	
Process and how the Bank makes decisions	<p>The RMM receives regular updates from the CRCO on the climate risk profile, and the top and emerging climate risks.</p> <p>The Bank's approach to climate risk management is developing and how the Bank manages these risks will vary by risk type. The Bank intends to continue to align to the Group's Risk Management Framework when determining the materiality of its exposure to climate-related risks.</p>
How the Bank has aligned and integrated its approach	<p>The Bank's approach to climate risk management is aligned to the Group-wide risk management framework and three lines of defence model.</p>
How the Bank takes into account interconnections between entities and functions	<p>The Bank's climate risk approach is aligned to the Group-wide risk management framework and three lines of defence model, which sets out how the Bank identify, assess and manage its risks.</p> <p>Through its climate risk programme, the Group continued to embed climate considerations throughout the organisation, including through risk policy updates and the completion of its annual climate risk materiality assessment. The Group also developed risk metrics to monitor and manage exposures, and further enhanced its internal climate scenario analysis.</p> <p>The Bank continues to make progress in enhancing its climate risk capabilities, and recognises it is a long-term iterative process. This includes updating its approach to reflect how the risks associated with climate change continue to evolve in the real world, and maturing how the Bank embeds climate risk factors into strategic planning, transactions and decision making across its businesses.</p>

HSBC Bank (Mauritius) Limited
Climate-related and environmental financial risks disclosures

Climate-related and Environmental Financial Risk Management index table (continued)

Metrics and Targets	
i. Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process.	
Metrics used to assess the impact of climate-related risks on the loan portfolio	The Bank has metrics in place to monitor the exposure of its wholesale corporate lending portfolio to six high transition risk sectors.
Metrics used to assess progress against opportunities	<p>The Group continues to track its progress against its ambition to provide and facilitate USD750bn to USD1tn of sustainable finance and investment by 2030, aligned to its published data dictionary. For a detailed breakdown of the Group's sustainable finance progress, see the Group's <i>Annual Report and Accounts 2023</i> and <i>ESG Data Pack</i>.</p> <p>The Group and the Bank do not currently fully disclose the proportion of revenue or proportion of assets, capital deployment or other business activities aligned with climate-related opportunities, including revenue from products and services designed for a low-carbon economy, forward-looking metrics consistent with its business or strategic planning time horizons. The Group expects the data and system limitations related to financial planning and performance, and climate-related opportunities metrics to be addressed in the medium term as more reliable data becomes available and technology solutions are implemented. The Group expects to further enhance this disclosure in the medium term and the Bank aims to do the same.</p>

HSBC Bank (Mauritius) Limited
Climate-related and environmental financial risks disclosures

Climate-related and Environmental Financial Risk Management index table (continued)

Metrics and Targets (continued)	
i. Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process (continued).	
Metrics used to assess the impact of climate risk on lending and financial intermediary business	The Group and the Bank do not fully disclose metrics used to assess the impact of climate-related physical (chronic) and transitions (policy and legal, technology and market) risks on retail lending, parts of wholesale lending and other financial intermediary business activities (specifically credit exposure, equity and debt holdings, or trading positions, each broken down by industry, geography, credit quality and average tenor). The Group and the Bank are aiming to develop the appropriate systems, data and processes to provide these disclosures in future years.
ii. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	
Details of targets set and whether they are absolute or intensity based	<p>The Bank aims to support the Group's ambition in achieving net zero financed emissions by 2050, and the Group has set interim 2030 targets for on-balance sheet financed or combined on-balance sheet financed and facilitated emissions for certain sectors. The Group aims to help its customers transition to net zero and a sustainable future by providing and facilitating between USD750bn and USD1tn of sustainable finance and investment by 2030. In addition, the Group aims to achieve net zero in its operations and supply chain by 2030.</p> <p>The Group and the Bank do not currently disclose targets used to measure and manage physical risk. This is due to transitional challenges including data limitations of physical risk metrics.</p>

HSBC Bank (Mauritius) Limited

Climate-related and environmental financial risks disclosures

Overview

Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy. Climate risk can materialise through:

- physical risk, which arises from the increased frequency and severity of extreme weather events, such as hurricanes and floods, or chronic gradual shifts in weather patterns or rises in the sea level; and
- transition risk, which arises from the process of moving to a net zero economy, including changes in government policy and legislation, technology, market demand, and reputational implications triggered by a change in stakeholder expectations, action or inaction which arises from the process of moving to a low-carbon economy, including changes in government or public policy, technology and market-demand.

The Group and the Bank may be affected by climate risks either directly or indirectly through their relationships with their customers, which could result in both financial and non-financial impacts.

The Bank may face impacts from physical risk on its own operations and premises, owing to the increase in frequency and severity of weather events and chronic shifts in weather patterns, which could affect the Bank's ability to conduct its day-to-day operations.

Any detrimental impact to the Bank's customers from physical and transitional climate risk could negatively impact the Bank either through credit losses on the loan book or losses on trading assets. The Bank may also be impacted by reputational concerns related to the climate action or inaction of its customers.

The Bank may face model risk, as the uncertain and evolving impacts of climate change and data and methodology limitations present challenges to creating reliable and accurate model outputs.

In addition to these primary drivers of climate risk, the Bank has also identified the following thematic issues related to climate risk, which are most likely to materialise in the form of reputational, regulatory compliance and litigation risks.

- net zero alignment risk - which arises from the risk HSBC failing to meet its net zero commitments or failing to meet external expectations related to net zero, because of inadequate ambition and/or plans, poor execution, or inability to adapt to changes in external environment; and
- the risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to the Bank's stakeholders.

Key developments in 2023

The Bank continues to support the Group's climate risk programme which contributes to the development of its climate risk management capabilities. The following outlines key developments in 2023:

- The Group updated its climate risk management approach to incorporate net zero alignment risk and developed guidance on how climate risk should be managed for non-financial risk types.

HSBC Bank (Mauritius) Limited

Climate-related and environmental financial risks disclosures

Key developments in 2023 (continued)

- The Bank has instituted a CRSC in 2023 to provide senior management oversight of all risk activities relating to its approach to climate and nature related risk management.
- HSBC Mauritius Sustainability Strategy paper was presented to the CRSC in March 2023 and tabled in the EXCO in April 2023.
- The Bank, through the CRSC endorsed the climate risk training plan for all staff.

While the Group has made progress in enhancing its climate risk framework, further work remains. This includes the need to develop additional metrics and tools to measure the Group's exposure to climate-related risks, and to incorporate these tools within decision making.

Approach

The Bank's climate risk approach aims to effectively manage the material climate risks that could impact its operations, financial performance and stability, and reputation. It is informed by the evolving expectations of its regulators.

The Bank is developing its climate risk capabilities across its businesses, by prioritising sectors, portfolios and counterparties with the highest impacts. The Bank continues to make progress in enhancing its climate risk capabilities, and recognise it is a long-term iterative process.

This includes updating the approach to reflect how the risks associated with climate change continue to evolve in the real world, and maturing how the Bank embed climate risk factors into strategic planning, transactions and decision making across its businesses. The Bank's climate risk approach is aligned to its Group-wide risk management framework and three lines of defence model, which sets out how it identifies, assesses and manages its risks. The details of the three lines of defence framework has been explained in the Corporate Governance report.

Governance & Structure

The EXCO takes overall responsibility for the Bank's climate strategy, overseeing executive management in developing the approach, execution and associated reporting.

The Bank's CRCO is responsible for the management of climate-related risks, including responsibility for risk management.

The Bank's CRSC oversees risk activities relating to climate risk management and the escalation of climate risks. The Bank's RMM receives regular updates related to climate and sustainability lending.

Risk appetite

The Bank's climate risk appetite forms part of the Group's risk appetite statement and supports the business in delivering its net zero ambition effectively and sustainably.

HSBC Bank (Mauritius) Limited

Climate-related and environmental financial risks disclosures

Policies, processes and controls

The Group continues to integrate climate risk into the policies, processes and controls across many areas of its organisations, and the Group will continue to update these as its climate risk management capabilities mature over time.

The Bank aims to follow the policies, processes and controls set by the Group.

Embedding climate risk within existing risk taxonomy

The table below provides further details on how the Bank has embedded the management of climate risk across key risk types in line with the Group's risk taxonomy.

Risk type	Details
Wholesale Credit Risk	<p>For transition risk, the Bank has metrics in place to monitor the exposure of its wholesale corporate lending portfolio to six high transition risk sectors.</p> <p>The relationship managers engage with the key wholesale customers through a transition engagement questionnaire (formerly the transition and physical risk questionnaire) to gather information and assess the alignment of the wholesale customers' business models to net zero and their exposure to physical and transition risks. The Bank uses the responses to the questionnaire to create a climate risk score for the key wholesale customers. The credit policies require that relationship managers comment on climate risk factors in credit applications for new money requests and annual credit reviews.</p> <p>The credit policies also require manual credit risk rating overrides if climate is deemed to have a material impact on credit risk under 12 months if not already captured under the original credit risk rating. Key developments to the framework in 2023 include expanding the scope of the transition engagement questionnaire to capture new countries, territories and sectors. Key challenges for further embedding climate risk into credit risk management relate to the availability of adequate physical risk data to assess impacts to the wholesale customers.</p>
Treasury Risk	<p>As part of the its ICAAP in 2023, the Bank enhanced its approach for assessing the impact of climate change on capital, focusing on credit and market risks. As part of the ILAAP, the Bank conducted an initial analysis to identify the potential climate risk exposures across key liquidity risk drivers.</p>
Traded Risk	<p>The Bank aims to adopt and support the Group's and HBAP's Traded Risk policies and approach to climate risk management over a period of time.</p>

HSBC Bank (Mauritius) Limited
Climate-related and environmental financial risks disclosures

Embedding climate risk within existing risk taxonomy (continued)

Risk type	Details
Reputational Risk	<p>The Group manages the reputational impact of climate risk through its broader reputational risk framework, supported by their sustainability risk policies and metrics. The Group's sustainability risk policies set out its appetite for financing activities in certain sectors.</p> <p>The Bank aims to adopt the Group's approach to the management of Reputational and Sustainability Risk over a period of time and with intention of:</p> <ul style="list-style-type: none"> - training employees of the Bank to identify the potential for reputational risk and escalate as appropriate; - defining roles and responsibilities relating to Reputational Risk management and such that they are understood and embedded within the Bank; and - Senior Management having visibility and oversight of the most significant Reputational Risks.
Regulatory compliance risk	<p>The Group's policies set the standards that are required to manage the risk of breaches of regulatory duty to customers, including those related to climate risk, ensuring fair customer outcomes are achieved. To make sure responsibilities are met in this regard, the Group's policies are subject to continuous review and enhancement. There is also focus on the ongoing development and improvement of monitoring capabilities, ensuring appropriate alignment to the broader focus on regulatory compliance risks.</p> <p>Regulatory compliance is particularly focused on mitigating climate risks inherent to the product lifecycle. To support this, the Group has enhanced a number of processes including:</p> <ul style="list-style-type: none"> - ensuring Regulatory Compliance provides risk oversight and review of new product marketing materials with any reference to climate, sustainability and ESG; - developing the Group's product marketing controls to ensure climate claims are robustly evidenced and substantiated within product marketing materials; and - clarifying and improving product marketing framework, procedures and associated guidance, to ensure product-related marketing materials comply with both internal and external standards, and are subject to robust governance. <p>The Group's regulatory compliance operates an ESG and climate risk working group to track and monitor the integration and embedding of climate risk management into the functions' activities, while monitoring regulatory and legislative changes across the ESG and climate risk agenda.</p> <p>The Bank aims to adopt the Group's approach to the management of regulatory compliance risk through the CRSC over a period of time.</p>

HSBC Bank (Mauritius) Limited
Climate-related and environmental financial risks disclosures

Embedding climate risk within existing risk taxonomy (continued)

Resilience Risk	<p>Enterprise Risk Management function is responsible for overseeing the identification and assessment of physical and transition climate risks that may impact on the organisation's operational and resilience capabilities.</p> <p>The Group has developed metrics to assess how physical risk may impact its critical properties. In 2023, the Group also developed an energy and travel risk appetite metric for its own operations to establish and monitor progress against the Group's net zero ambitions.</p> <p>Resilience risk policies are subject to continuous improvement to remain relevant to evolving climate risks. New developments relevant to the Group's own operations are reviewed to ensure climate risk considerations are effectively captured.</p> <p>The Bank aims to adopt and support the Group's and HBAP's resilience risk policies and approach to climate risk management over a period of time.</p>
Model Risk	<p>In 2023, Group Model Risk published a new climate risk and ESG model category standard which sets out minimum control requirements for identifying, measuring and managing model risk for climate-related models.</p> <p>The Group completed independent model validation for a number of models used for financed emissions calculations and climate scenario analysis using both qualitative and quantitative assessments of modelling decisions and outputs.</p> <p>The Bank aims to adopt and support the Group's and HBAP's Model risk policies and approach to climate risk management over a period of time.</p>

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 2023

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
Chairman



Gregory Lowden
Managing Director



Rajiv Gopaul
Director

Date: 18 March 2024

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. IFRS Accounting 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.

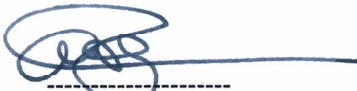
The Bank's internal auditor, who has full and free access to the Audit Committee, conducts a well- designed program of internal audits. In addition, the Bank's compliance function maintains policies, procedures, and programs directed at ensuring compliance with regulatory requirements.

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
Chairman



Gregory Lowden
Managing Director



Rajiv Gopaul
Director

Date: 18 March 2024

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: 18 March 2024



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 2023, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting 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 85 to 175 comprise:

- the statement of financial position as at 31 December 2023;
- 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 material accounting policy information 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.

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



Independent Auditor's Report

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

Report on the Audit of the Financial Statements (Continued)

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Credit impairment provisions under IFRS 9</p> <p>As at 31 December 2023, the Bank recorded allowances for expected credit losses on its financial assets of USD 556,000 (refer to Note 35 (b) (ii) of the financial statements).</p> <p>This is an area of focus because 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. Judgement and subjectivity are involved in determining whether these methodologies and their application in models remain appropriate. Management judgement also include:</p> <ul style="list-style-type: none"> • Evaluation of significant increase in credit risk ('SICR'); • Input assumptions applied to estimate the probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD'); • Incorporating forward economic guidance; • Likelihood of economic scenarios; and • Making post model adjustments. 	<p>Given the complexity of the model used for the ECL computation, specialist teams with experience in modelling assisted us.</p> <p>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.</p> <p>We performed substantive audit procedures over the compliance of ECL methodologies with the requirements of IFRS 9.</p> <p>We selected a sample of Stage 1 and Stage 2 exposures and assessed whether the stage classification of these exposures was appropriate in terms of the Bank's criteria for SICR at the end of the reporting period. This procedure included the inspection of credit ratings at the end of the reporting period, relative to origination date.</p> <p>We reviewed the minutes of the Impairment Governance Forum to assess management's challenge and discussions surrounding models, ECL output and the approval of any model adjustments.</p>



Independent Auditor's Report

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

Report on the Audit of the Financial Statements (Continued)

Key audit matter (Continued)	How our audit addressed the key audit matter (Continued)
	<p>We assessed the appropriateness of methodologies used during the year, giving specific consideration to whether management judgemental adjustments were needed. Where management judgemental adjustments were made, we assessed ECL determined and the analysis supporting them.</p> <p>We further performed the following to assess the significant assumptions, data and disclosures:</p> <ul style="list-style-type: none">• We involved our economic experts in assessing the reasonableness of the severity and likelihood of the economic scenarios used.• We considered whether the judgements made in selecting the significant assumptions, as well as determining the management judgemental adjustments, would give rise to indicators of possible management bias.• We performed substantive audit procedures over critical data used in the determination of ECL to ensure these are relevant and reliable; and <p>We assessed the adequacy of the disclosures in relation to ECL made in the annual report.</p>



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.

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

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

The directors are responsible for overseeing the financial reporting process.



Independent Auditor's Report

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

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



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)

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.

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.



Independent Auditor's Report

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

Report on Other Legal and Regulatory Requirements (Continued)

Mauritian Financial Reporting Act 2004

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.

PricewaterhouseCoopers

PricewaterhouseCoopers

18 March 2024

A handwritten signature in black ink, appearing to read "S. Maghun", with a stylized flourish at the end.

Shakil Maghun, licensed by FRC

HSBC Bank (Mauritius) Limited

Statement of profit or loss and other comprehensive income for the year ended 31 December 2023

	Notes	2023 USD'000	2022 USD'000	2021 USD'000
Interest income		185,752	67,399	24,126
Interest expense		(65,264)	(15,351)	(2,260)
Net interest income	8	120,488	52,048	21,866
Fee and commission income		6,598	6,445	8,740
Fee and commission expense		(1,361)	(1,336)	(929)
Net fee and commission income	9	5,237	5,109	7,811
Net trading income	10	2,209	3,013	992
		127,934	60,170	30,669
Other operating income	11	360	351	350
Total operating income		128,294	60,521	31,019
Net impairment release/(charge) on financial assets	12	754	(1,244)	493
Personnel expenses	13	(2,470)	(4,778)	(3,411)
Depreciation	21	(298)	(163)	(135)
Other expenses	14	(9,114)	(9,514)	(11,047)
Total expenses		(11,882)	(14,455)	(14,593)
Profit before income tax		117,166	44,822	16,919
Tax expense	15	(14,288)	(3,837)	(845)
Profit for the year		102,878	40,985	16,074
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement benefits		111	1,166	866
Deferred tax on remeasurements of retirement benefits	22	(33)	132	(68)
		78	1,298	798
Items that may be reclassified to profit or loss				
Net change in fair value on debt instruments		(240)	381	(321)
Deferred tax on net change in fair value of debt instruments		31	(30)	-
		(209)	351	(321)
Total other comprehensive income for the year		(131)	1,649	477
Total comprehensive income for the year		102,747	42,634	16,551

The notes on pages 90 to 175 form part of the financial statements.

HSBC Bank (Mauritius) Limited

Statement of financial position

at 31 December 2023

	Notes	2023 USD'000	2022 USD'000	2021 USD'000
Assets				
Cash and cash equivalents	16	1,243,288	896,930	1,105,581
Reverse repurchase agreement - non trading	33	188,646	-	-
Trading assets	17	260	1	394
Loans and advances to banks	18	237,160	576,824	413,472
Loans and advances to customers	19	906,833	1,219,760	1,162,521
Investment securities at FVOCI	20	633,953	526,458	800,334
Investment securities at amortised cost	20	170,074	174,383	28,334
Other assets	23	4,521	3,782	3,677
Property, plant and equipment	21	1,402	1,141	181
Deferred tax assets	22	198	418	129
Total assets		3,386,335	3,399,697	3,514,623

The notes on pages 90 to 175 form part of the financial statements.

HSBC Bank (Mauritius) Limited

Statement of financial position (continued) at 31 December 2023

	Notes	2023 USD'000	2022 USD'000	2021 USD'000
Liabilities				
Deposits from customers	24	2,639,336	2,304,375	2,906,215
Trading liabilities	17	7	92	8
Other borrowed funds	25	379,564	768,783	302,693
Current tax liabilities	15	11,316	3,193	145
Other liabilities	26	6,257	6,144	5,087
Total liabilities		3,036,480	3,082,587	3,214,148
Shareholder's equity				
Stated capital	28	72,957	72,957	72,957
Retained earnings	29	193,671	154,124	138,899
Other reserves	29	83,227	90,029	88,619
Total equity attributable to equity holder		349,855	317,110	300,475
Total liabilities and shareholder's equity		3,386,335	3,399,697	3,514,623

Approved by the Board of Directors on 18 March 2024 and signed on its behalf by:



Philip Fellowes
Chairman



Gregory Lowden
Managing Director



Rajiv Gopaul
Director

Date: 18 March 2024

The notes on pages 90 to 175 form part of the financial statements.

HSBC Bank (Mauritius) Limited

Statement of changes in equity for the year ended 31 December 2023

	Stated capital	Retained earnings	Statutory reserve	General banking reserve	Share-based payment	Fair value reserve	Total equity
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at 1 January 2021	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 benefits	-	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
Profit for the year	-	40,985	-	-	-	-	40,985
Other comprehensive income							
Net change in fair value on debt instruments	-	-	-	-	-	381	381
Remeasurements of retirement benefits	-	1,166	-	-	-	-	1,166
Tax on other comprehensive income	-	132	-	-	-	(30)	102
Total other comprehensive income for the year	-	1,298	-	-	-	351	1,649
Total comprehensive income for the year	-	42,283	-	-	-	351	42,634
Transactions with owner of the Bank							
Dividends paid (note 29)	-	(26,000)	-	-	-	-	(26,000)
Share-based payment	-	-	-	-	1	-	1
Transactions with owner of the Bank	-	(26,000)	-	-	1	-	(25,999)
Transfer to general banking reserve	-	(1,058)	-	1,058	-	-	-
Balance at 31 December 2022	72,957	154,124	72,957	16,928	83	61	317,110
Profit for the year	-	102,878	-	-	-	-	102,878
Other comprehensive income							
Net change in fair value on debt instruments	-	-	-	-	-	(240)	(240)
Remeasurements of retirement benefits	-	111	-	-	-	-	111
Tax on other comprehensive income	-	(33)	-	-	-	31	(2)
Total other comprehensive income for the year	-	78	-	-	-	(209)	(131)
Total comprehensive income for the year	-	102,956	-	-	-	(209)	102,747
Transactions with owner of the Bank							
Dividends paid (note 29)	-	(70,000)	-	-	-	-	(70,000)
Share-based payment	-	-	-	-	(2)	-	(2)
Transactions with owner of the Bank	-	(70,000)	-	-	(2)	-	(70,002)
Transfer from general banking reserve	-	6,591	-	(6,591)	-	-	-
Balance at 31 December 2023	72,957	193,671	72,957	10,337	81	(148)	349,855

The notes on pages 90 to 175 form part of the financial statements.

HSBC Bank (Mauritius) Limited

Statement of cash flows

for the year ended 31 December 2023

	Notes	2023 USD'000	2022 USD'000	2021 USD'000
Cash flows from operating activities				
Profit before tax		117,166	44,822	16,919
Adjustments for:				
Depreciation	21	298	163	135
Loss on sale of equipment		-	-	3
Net impairment (release)/charge on financial assets	12	(754)	1,244	(493)
Net interest income	8	(120,488)	(52,048)	(21,866)
Unrealised exchange differences		(2,298)	(3,429)	(7,446)
		(6,076)	(9,248)	(12,748)
Change in:				
Other assets		43,874	412	14,345
Other liabilities		314	2,660	(5,533)
Trading assets	17	(259)	393	(331)
Trading liabilities	17	(85)	84	(169)
Loans and advances to banks	18	339,596	(162,438)	84,962
Loans and advances to customers	19	315,123	(51,043)	2,866
Deposits from customers	24	330,000	(603,438)	675,700
Other borrowed funds	25	(386,647)	462,899	(362,794)
		635,840	(359,719)	396,298
Interest received		147,938	60,742	24,146
Interest paid		(62,875)	(10,851)	(2,489)
Income tax paid	15	(5,947)	(976)	(458)
Net cash from/(used in) operating activities		714,956	(310,804)	417,497
Cash flows from investing activities				
Acquisition of property, plant and equipment		(559)	(1,123)	(7)
Purchase of investment securities	20	(3,254,771)	(3,732,531)	(1,645,193)
Proceed on maturity of investment securities	20	3,094,660	4,004,598	1,320,186
Net cash (used in)/from investing activities		(160,670)	270,944	(325,014)
Cash flows used in financing activities				
Principal elements of lease payments		(110)	(147)	(128)
Dividends paid	29	(70,000)	(26,000)	-
Net cash used in financing activities		(70,110)	(26,147)	(128)
Net change in cash and cash equivalents		484,176	(66,007)	92,355
Cash and cash equivalents at 1 January		1,046,095	1,105,581	1,005,780
Exchange differences in respect of cash and cash equivalents		881	6,521	7,446
Cash and cash equivalents at 31 December	32	1,531,152	1,046,095	1,105,581

The notes on pages 90 to 175 form part of the financial statements.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements

for the year ended 31 December 2023

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 Level 5, Icon Ebene, Office 1(West Wing) Rue de l’Institut, Ebène, Mauritius. The Bank is primarily involved in commercial and global business banking.

2. Basis of preparation

(a) Compliance with IFRS

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

(b) New and amended standards effective during the year ended 31 December 2023

There are new standards, interpretations and amendments to accounting standards that are effective for annual period beginning on 1 January 2023 and that had no material impact on the Bank's financial statements.

IAS 12 Income taxes - Amendments regarding deferred tax on leases and decommissioning obligations

IAS 12 Income taxes - Amendments to provide a temporary exception to the requirements regarding deferred tax assets and liabilities related to pillar income taxes

(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 2023 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.

(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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) *for the year ended 31 December 2023*

2. Basis of preparation (continued)

(e) Critical accounting estimates and judgments

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

(f) Going concern

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

(g) Rounding of amounts

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

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

3. Summary of material 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.

(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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

3. Summary of material accounting policies (continued)

(b) Interest (continued)

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.

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

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

(d) Net trading income

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

(e) Lease payments

Leases are recognised as a 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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) *for the year ended 31 December 2023*

3. Summary of material accounting policies (continued)

(f) Income tax

The 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.

On 20 June 2023, legislation was substantively enacted in the UK, the jurisdiction of the entity's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' global minimum tax model rules of the OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS), with effect from 1 January 2024.

Under these rules, a top-up tax liability arises where the effective tax rate of the parent's operations in a jurisdiction, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15%. Any additional tax arising in relation to jurisdictions in which a Qualified Domestic Minimum Top-up Tax ("QDMTT") applies will be payable to the tax authority in that jurisdiction. Where there is no QDMTT, any resulting tax is payable by HSBC Holdings plc, being the Group's ultimate parent, to the UK tax authority.

During 2022, the government of Mauritius has passed the proposed Pillar Two legislation and a QDMTT, however no effective date has been mentioned. Based on the Group's forecasts, no material top-up tax liability is expected to arise in Mauritius. However the impact is dependent upon the ongoing evolution of rules and guidance in the UK and Mauritius.

(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.

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) *for the year ended 31 December 2023*

3. Summary of material accounting policies (continued)

(f) Income tax (continued)

(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.

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences, and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with right-of-use assets and lease liabilities, and decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. The cumulative effect of recognising these adjustments is recognised in the opening balance of retained earnings, or another component of equity, as appropriate.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

3. Summary of material accounting policies (continued)

(g) Financial assets and liabilities

(i) Measurement methods

Amortised cost and effective interest rate

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

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

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 35(b)(iii), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

3. Summary of material 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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

3. Summary of material 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:

Amortised cost

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

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Contracts that are economically equivalent to reverse repo or repo agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repo or repo agreements.

Fair values of repurchase and reverse repurchase agreements that are held on a non-trading basis provide approximate carrying amounts. This is due to the fact that balances are generally short dated.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

3. Summary of material accounting policies (continued)

(g) Financial assets and liabilities (continued)

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

Fair value through other comprehensive income ('FVOCI')

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

Fair value through profit or loss ('FVPL')

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

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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

3. Summary of material accounting policies (continued)

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

(iv) 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(q)).

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

(v) Offsetting

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

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

3. Summary of material 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 35(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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) *for the year ended 31 December 2023*

3. Summary of material 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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

3. Summary of material 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. Items less than USD227 are not capitalised but expensed when incurred in the profit and loss. All items less than USD1,359 are capitalised with immediate depreciation.

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	– 2 years to 20 years
Computer and other IT equipment	– 3 years to 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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

3. Summary of material accounting policies (continued)

(m) 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).

(n) 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.

(o) 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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) *for the year ended 31 December 2023*

3. Summary of material accounting policies (continued)

(o) 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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) *for the year ended 31 December 2023*

3. Summary of material accounting policies (continued)

(o) Employee benefits (continued)

(iii) State pension plan

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

(iv) Share-based payment

The Bank grants restricted shares of HSBC Holdings plc to certain employees under various vesting. Upon vesting, the HSBC Holdings plc delivers the shares to the employees. The Bank’s liability against HSBC Holdings plc under such arrangements is measured at fair value at the end of each reporting period. The changes in fair value are recognised in “Share-based payment” reserve 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 ‘Share-based payment’ 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.

(vi) Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits at the earlier of the following dates:

- (a) when the Bank can no longer withdraw the offer of those benefits; and
- (b) when the Bank recognises costs for a restructuring that is within the scope of IAS37 and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(p) 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.

(q) 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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

3. Summary of material accounting policies (continued)

(q) 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 35(b)(iii)). The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

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

(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.

(r) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

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

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

- 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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

4. Use of judgements and estimates (continued)

(ii) Assumption and estimation uncertainties (continued)

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 35(b)(iii) and 35(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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

4. Use of judgements and estimates (continued)

(ii) Assumption and estimation uncertainties (continued)

Provisions

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

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

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

Fair Value of Financial Instruments

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

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

5. Fair values of financial instruments

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

(i) Valuation of financial instruments

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

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

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

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

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

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

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

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	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	USD'000	USD'000	USD'000	USD'000
At 31 December 2023				
Trading assets	-	260	-	260
Investment securities	630,253	3,700	-	633,953
Trading liabilities	-	7	-	7
At 31 December 2022				
Trading assets	-	1	-	1
Investment securities	522,712	3,746	-	526,458
Trading liabilities	-	92	-	92
At 31 December 2021				
Trading assets	-	394	-	394
Investment securities	796,517	3,817	-	800,334
Trading liabilities	-	8	-	8

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.

	Carrying Amount	Fair value			
		Valuation techniques			
		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 2023	USD'000	USD'000	USD'000	USD'000	USD'000
Assets					
Loans and advances to banks	237,160	-	239,109	-	239,109
Loans and advances to customers	906,833	-	914,286	-	914,286
Other financial assets at amortised cost	170,074	131,398	36,666	-	168,064
Liabilities					
Deposits from customers	2,639,336	-	2,639,336	-	2,639,336
Other borrowed funds	379,564	-	381,552	-	381,552

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

5. Fair values of financial instruments (continued)

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

	Carrying Amount	Fair value			
		Valuation techniques			
		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 2022	USD'000	USD'000	USD'000	USD'000	USD'000
Assets					
Loans and advances to banks	576,824	-	578,278	-	578,278
Loans and advances to customers	1,219,760	-	1,222,834	-	1,222,834
Other financial assets at amortised cost	174,383	149,116	25,267	-	174,383
Liabilities					
Deposits from customers	2,304,375	-	2,304,375	-	2,304,375
Other borrowed funds	768,783	-	769,858	-	769,858

	Carrying Amount	Fair value			
		Valuation techniques			
		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

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

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

Bases of valuation

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

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)
for the year ended 31 December 2023

6. Operating segments (continued)
**Statement of financial position
USD'000**

USD '000

	Notes	2023			2022			2021		
		Segment A	Segment B	Bank Total	Segment A	Segment B	Bank Total	Segment A	Segment B	Bank Total
Assets										
Cash and cash equivalents	16	17,057	1,226,231	1,243,288	38,596	858,334	896,930	78,719	1,026,862	1,105,581
Reverse repurchase agreement - non trading	33	-	188,646	188,646	-	-	-	-	-	-
Trading assets	17	-	260	260	-	1	1	-	394	394
Loans and advances to banks	18	25,228	211,932	237,160	46,732	530,092	576,824	35,997	377,475	413,472
Loans and advances to customers	19	6,414	900,419	906,833	19,691	1,200,069	1,219,760	40,427	1,122,094	1,162,521
Investment securities at FVOCI	20	3,700	630,253	633,953	3,746	522,712	526,458	3,817	796,517	800,334
Investment securities at amortised cost	20	10,194	159,880	170,074	-	174,383	174,383	-	28,334	28,334
Other assets	23	-	4,521	4,521	-	3,782	3,782	-	3,677	3,677
Property, plant and equipment	21	-	1,402	1,402	-	1,141	1,141	-	181	181
Deferred tax assets	22	-	198	198	-	418	418	-	129	129
Total assets		62,593	3,323,742	3,386,335	108,765	3,290,932	3,399,697	158,960	3,355,663	3,514,623
Liabilities										
Deposits from customers	24	1,574	2,637,762	2,639,336	5,739	2,298,636	2,304,375	10,833	2,895,382	2,906,215
Trading liabilities	17	-	7	7	-	92	92	-	8	8
Other borrowed funds	25	17,625	361,939	379,564	8,074	760,709	768,783	10,689	292,004	302,693
Current tax liabilities	15	-	11,316	11,316	-	3,193	3,193	-	145	145
Other liabilities	26	-	6,257	6,257	-	6,144	6,144	-	5,087	5,087
Total liabilities		19,199	3,017,281	3,036,480	13,813	3,068,774	3,082,587	21,522	3,192,626	3,214,148
Shareholder's equity										
Stated capital	28	-	72,957	72,957	-	72,957	72,957	-	72,957	72,957
Retained earnings	29	-	193,671	193,671	-	154,124	154,124	-	138,899	138,899
Other reserves	29	-	83,227	83,227	-	90,029	90,029	-	88,619	88,619
Total equity attributable to equity holder		-	349,855	349,855	-	317,110	317,110	-	300,475	300,475
Total liabilities and shareholder's equity		19,199	3,367,136	3,386,335	13,813	3,385,884	3,399,697	21,522	3,493,101	3,514,623

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)
for the year ended 31 December 2023

6. Operating segments (continued)
**Statement of profit or loss and other comprehensive income
USD'000**

Notes	Segment A	2023 Segment B	Bank Total	Segment A	2022 Segment B	Bank Total	Segment A	2021 Segment B	Bank Total
Interest income	759	184,993	185,752	1,015	66,384	67,399	730	23,396	24,126
Interest expense	699	(65,963)	(65,264)	(86)	(15,265)	(15,351)	(61)	(2,199)	(2,260)
Net interest income	1,458	119,030	120,488	929	51,119	52,048	669	21,197	21,866
Fee and commission income	-	6,598	6,598	-	6,445	6,445	-	8,740	8,740
Fee and commission expense	-	(1,361)	(1,361)	-	(1,336)	(1,336)	-	(929)	(929)
Net fee and commission income	-	5,237	5,237	-	5,109	5,109	-	7,811	7,811
Net trading income	615	1,594	2,209	-	3,013	3,013	-	992	992
	2,073	125,861	127,934	929	59,241	60,170	669	30,000	30,669
Other operating income	360	-	360	348	3	351	348	2	350
Total operating income	2,433	125,861	128,294	1,277	59,244	60,521	1,017	30,002	31,019
Net impairment release/(charge) on financial assets	-	754	754	-	(1,244)	(1,244)	-	493	493
Personnel expenses	(48)	(2,422)	(2,470)	-	(4,778)	(4,778)	-	(3,411)	(3,411)
Depreciation	(6)	(292)	(298)	-	(163)	(163)	-	(135)	(135)
Other expenses	(173)	(8,941)	(9,114)	-	(9,514)	(9,514)	-	(11,047)	(11,047)
Total expenses	(227)	(11,655)	(11,882)	-	(14,455)	(14,455)	-	(14,593)	(14,593)
Profit before income tax	2,206	114,960	117,166	1,277	43,545	44,822	1,017	15,902	16,919
Tax expense	(452)	(13,836)	(14,288)	-	(3,837)	(3,837)	-	(845)	(845)
Profit for the year	1,754	101,124	102,878	1,277	39,708	40,985	1,017	15,057	16,074
Other comprehensive income									
Items that will not be reclassified to profit or loss									
Remeasurements of retirement benefits	-	111	111	-	1,166	1,166	-	866	866
Deferred tax on remeasurements of retirement benefits	-	(33)	(33)	-	132	132	-	(68)	(68)
	-	78	78	-	1,298	1,298	-	798	798
Items that may be reclassified to profit or loss									
Net change in fair value on debt instruments	-	(240)	(240)	-	381	381	-	(321)	(321)
Deferred tax on net change in fair value of debt instruments	-	31	31	-	(30)	(30)	-	-	-
	-	(209)	(209)	-	351	351	-	(321)	(321)
Total other comprehensive income for the year	-	(131)	(131)	-	1,649	1,649	-	477	477
Total comprehensive income for the year	1,754	100,993	102,747	1,277	41,357	42,634	1,017	15,534	16,551

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

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	2023 USD'000	2022 USD'000	2021 USD'000
Assets				
Cash and cash equivalents	Amortised cost	1,243,288	896,930	1,105,581
Reverse repurchase agreement - non trading	Amortised cost	188,646	-	-
Trading assets	FVPL	260	1	394
Loans and advances to banks	Amortised cost	237,160	576,824	413,472
Loans and advances to customers	Amortised cost	906,833	1,219,760	1,162,521
Investment securities at FVOCI	FVOCI	633,953	526,458	800,334
Investment securities at amortised cost	Amortised cost	170,074	174,383	28,334
Other assets	Amortised cost	3,801	2,910	3,522
		3,384,015	3,397,266	3,514,158
Liabilities				
Deposits from customers	Amortised cost	2,639,336	2,304,375	2,906,215
Trading liabilities	FVPL	7	92	8
Other borrowed funds	Amortised cost	379,564	768,783	302,693
Other liabilities	Amortised cost	4,761	5,095	4,087
		3,023,668	3,078,345	3,213,003

8. Net interest income

	2023 USD'000	2022 USD'000	2021 USD'000
Interest income			
<u>Recognised on financial assets measured at amortised cost</u>			
Cash and cash equivalents	64,426	16,709	674
Loans and advances to banks	23,901	6,722	3,783
Loans and advances to customers	61,996	35,209	18,793
Investment securities	7,869	1,832	489
<u>Recognised on financial assets measured at FVOCI</u>			
Investment securities	27,560	6,927	387
Total interest income	185,752	67,399	24,126
Interest expense			
<u>Recognised on financial liabilities measured at amortised cost</u>			
Deposits from customers	(33,062)	(4,943)	(345)
Other borrowed funds	(32,163)	(10,400)	(1,913)
Interest expense under IFRS 16	(39)	(8)	(2)
Total interest expense	(65,264)	(15,351)	(2,260)
Net interest income	120,488	52,048	21,866

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

9. Net fee and commission income

	2023 USD'000	2022 USD'000	2021 USD'000
Fee and commission income			
Corporate banking related fees	4,151	4,582	4,848
Financial guarantee contracts issued	80	5	68
Global custody	1,948	1,440	1,419
Other	419	418	2,405
Total fee and commission income	6,598	6,445	8,740
Fee and commission expense			
Other	(1,361)	(1,336)	(929)
Total fee and commission expense	(1,361)	(1,336)	(929)
Net fee and commission income	5,237	5,109	7,811

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

10. Net trading income

	2023 USD'000	2022 USD'000	2021 USD'000
Foreign exchange	2,209	3,013	992

11. Other operating income

	2023 USD'000	2022 USD'000	2021 USD'000
Intercompany management fees	360	348	348
External recovery – third party	-	3	5
Loss on disposal of equipment	-	-	(3)
	360	351	350

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

	2023 USD'000	2022 USD'000	2021 USD'000
Release/(charge) for impairment losses for the year:			
Loans and advances to customers	192	(649)	57
Investment securities at FVOCI	201	(203)	(17)
Investment securities at amortised cost	41	(24)	-
Loans and advances to banks	338	(368)	381
Loan commitments and financial guarantees	(18)	-	72
	754	(1,244)	493

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

13. Personnel expenses

	Note	2023 USD'000	2022 USD'000	2021 USD'000
Wages and salaries		1,765	2,167	2,117
Compulsory social security obligations		163	154	144
Contributions to defined contribution plans	27	31	38	44
Contributions to defined benefit plans	27	95	243	280
Equity settled share-based payments		7	13	13
(Reversal)/provision for termination benefits		(511)	1,210	-
Other personnel expenses		920	953	813
		2,470	4,778	3,411

14. Other expenses

		2023 USD'000	2022 USD'000	2021 USD'000
Premises and equipment		66	55	57
Administrative expenses		602	558	661
Intercompany IT charges		3,158	2,699	3,427
Intercompany regionally allocated costs		712	1,407	1,918
Intercompany management fees		4,068	4,272	4,248
Other intercompany expenses		493	413	729
Operating lease expense		15	110	7
		9,114	9,514	11,047

15. Income tax

Income tax is calculated on the Bank's taxable profits as follows:

- up to MUR 1.5bn - 5%
- over to MUR 1.5bn - 15%

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (or loss) of the periods in which the temporary differences are expected to reverse. Based on year 31 December 2023 and the budgeted figures of 2024 to 2026, the effective tax rate for 2023 has been determined to be at 12% (2022:12%).

The Bank is also liable to pay a special levy on its leviabie income (Net interest income and other income before deduction of expenses) derived during the year. Special levy is calculated at the rate of 5.5% on leviabie income 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.

The Bank is taxable at 5% which is in line with the OECD's Pillar Two model rules.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

15. Income tax (continued)

	Note	2023 USD'000	2022 USD'000	2021 USD'000
Income tax charge		14,070	4,024	875
Deferred tax charge/(credit)	22	218	(187)	(30)
Total tax expense per statement of profit or loss and other comprehensive income		14,288	3,837	845
<i>Reconciliation of effective tax rate</i>				
Profit before income tax per statement of profit or loss and other comprehensive income.		117,166	44,822	16,919
Income tax at effective tax rate (12%/8% /5%)		14,060	3,586	846
Tax effect of non-deductible expenses		4	2	1
Prior years over provision		(39)	(17)	(55)
Special levy on banks		225	120	71
Corporate Social Responsibility		26	11	39
Under provision of deferred income tax in current year		12	(232)	(57)
Impact of change in deferred tax rate		-	141	-
Overseas withholding taxes		-	226	-
Other		-	-	-
		14,288	3,837	845
		2023 USD'000	2022 USD'000	2021 USD'000
Current tax liabilities/(assets) at 1 January		3,193	145	(272)
Income tax charge		14,070	4,024	875
Tax paid during the year		(5,947)	(976)	(458)
Current tax liabilities at 31 December		11,316	3,193	145

16. Cash and cash equivalents

	2023 USD'000	2022 USD'000	2021 USD'000
Bank			
Balances with banks in Mauritius or abroad	29,785	196,098	168,398
Unrestricted balances with Central Bank	16,608	35,201	77,357
Money market placements	1,196,895	665,631	859,826
	1,243,288	896,930	1,105,581
Current	1,243,288	896,930	1,105,581
Segment A			
Balances with banks in Mauritius	449	3,281	1,362
Unrestricted balances with Central Bank	16,608	35,201	77,357
Money market placements	-	114	-
	17,057	38,596	78,719
Segment B			
Balances with banks abroad	29,336	192,817	167,036
Money market placements	1,196,895	665,517	859,826
	1,226,231	858,334	1,026,862

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

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

17. Trading assets and liabilities

Trading assets	2023 USD'000	2022 USD'000	2021 USD'000
Derivative assets	260	1	394
Current	260	1	394
Trading liabilities	2023 USD'000	2022 USD'000	2021 USD'000
Derivative liabilities	7	92	8
Current	7	92	8

Trading assets and liabilities comprise of derivative foreign exchange contracts which are denominated mainly in EUR and JPY. The nominal amount is USD111.6m (2022: USD67.5m and 2021: USD56.2m).

18. Loans and advances to banks

	2023 USD'000	2022 USD'000	2021 USD'000
<u>Loan and advances to banks:</u>			
outside Mauritius	211,990	530,489	377,502
in Mauritius	25,228	46,733	36,000
	237,218	577,222	413,502
Less impairment	(58)	(398)	(30)
	237,160	576,824	413,472
Segment A			
<u>Remaining term of maturity:</u>			
Up to 3 months	74	2,607	-
Over 3 months and up to 6 months	-	8,023	-
Over 6 months and up to 12 months	-	18,051	-
Over 12 months	25,154	18,051	35,997
	25,228	46,732	35,997
Segment B			
<u>Remaining term of maturity:</u>			
Up to 3 months	50,052	93,672	374,760
Over 3 months and up to 6 months	10,939	10,605	1,597
Over 6 months and up to 12 months	50,269	275,785	1,148
Over 12 months	100,730	150,428	-
	211,990	530,490	377,505
Current	111,334	408,743	377,505
Non-current	125,884	168,479	35,997
	237,218	577,222	413,502

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

19. Loans and advances to customers

	2023 USD'000	2022 USD'000	2021 USD'000
Entities outside Mauritius	900,884	1,200,726	1,122,101
Entities in Mauritius	6,414	19,691	40,428
	907,298	1,220,417	1,162,529
Less impairment	(465)	(657)	(8)
	906,833	1,219,760	1,162,521
<u>Remaining term of maturity:</u>			
Up to 3 months	419,817	599,919	434,835
Over 3 months and up to 6 months	58,368	132,938	73,550
Over 6 months and up to 12 months	85,392	147,271	210,239
Over 1 year and up to 5 years	343,721	340,289	443,905
Over 5 years	-	-	-
	907,298	1,220,417	1,162,529
Segment A	6,414	19,691	40,427
Segment B	900,884	1,200,726	1,122,102
	907,298	1,220,417	1,162,529
Current	563,577	880,128	718,624
Non-current	343,721	340,289	443,905
	907,298	1,220,417	1,162,529
<u>Credit Concentration of risk by industry sectors:</u>			
Manufacturing	230,224	241,298	337,155
Construction	98,448	115,513	123,187
Financial and business services	52,704	53,022	68,053
International trade	375,612	603,094	394,457
Telecommunication	55,070	105,372	137,446
Others	95,240	102,118	102,231
	907,298	1,220,417	1,162,529

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

	2023 USD'000	2022 USD'000	2021 USD'000
<i>Segment A</i>			
Government of Mauritius Treasury bills	3,700	3,746	3,817
<i>Segment B</i>			
US Treasury bills	630,253	522,712	796,517
	633,953	526,458	800,334

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

20. Investment securities (continued)

(b) Investment securities at amortised cost

	2023 USD'000	2022 USD'000	2021 USD'000
<i>Segment A</i>			
Other financial assets at amortised cost	10,194	-	-
<i>Segment B</i>			
Other financial assets at amortised cost	159,880	174,383	28,334
	170,074	174,383	28,334
Current	802,894	675,574	800,334
Non current	1,133	25,267	28,334
	804,027	700,841	828,668

	Investment securities at FVOCI	Investment securities at amortised cost	Investment securities at FVOCI	Investment securities at amortised cost	Investment securities at FVOCI	Investment securities at amortised cost
	2023 USD'000		2022 USD'000		2021 USD'000	
At 1 January	526,458	174,432	800,336	28,359	504,067	-
Additions during the year	2,898,796	455,193	3,732,531	149,165	1,616,834	28,359
Matured during the year	(2,783,826)	(460,000)	(4,004,598)	-	(1,320,186)	-
Accrual	(7,436)	(959)	(2,192)	-	(58)	-
Fair value loss through other comprehensive income	(39)	-	381	-	(321)	-
Exchange differences	-	1,416	-	(3,092)	-	-
Gross carrying amount	633,953	170,082	526,458	174,432	800,336	28,359
ECL allowance	-	(8)	-	(49)	(2)	(25)
At 31 December	633,953	170,074	526,458	174,383	800,334	28,334

Investments securities at FVOCI comprise US treasury bills and Government of Mauritius treasury bills that are held for regulatory purposes. Investment securities at amortised costs comprise of USD36.9m (2022: USD25.3m) of investment in corporate bonds and USD133.2m (2022: USD146.1m) of US treasury bills.

21. Property, plant and equipment

	2023 USD'000	2022 USD'000	2021 USD'000
Owned property, plant and equipment	816	54	36
Right-of-use assets	586	371	145
Work in progress	-	716	-
At 31 December	1,402	1,141	181

USD'000	Right-of-use assets	Work in progress	Computer and other IT equipment	Office furniture and equipment	Total
<i>Cost:</i>					
At 1 January 2021	622	-	68	163	853
Acquisitions	-	-	10	-	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
Acquisitions	372	716	1	34	1,123
Disposals	(245)	-	(36)	-	(281)
At 31 December 2022	418	716	77	135	1,346
Acquisitions	311	-	52	196	559
Disposals	-	-	-	(63)	(63)
Transfers	-	(716)	-	716	-
At 31 December 2023	729	-	129	984	1,842

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

21. Property, plant and equipment (continued)

USD'000	Right-of-use assets	Work in progress	Computer and other IT equipment	Office furniture and equipment	Total
Accumulated depreciation:					
At 1 January 2021	32	-	67	114	213
Depreciation for the year	114	-	14	7	135
Disposals	-	-	-	(25)	(25)
At 31 December 2021	146	-	81	96	323
Depreciation for the year	146	-	11	6	163
Disposals	(245)	-	(36)	-	(281)
At 31 December 2022	47	-	56	102	205
Depreciation for the year	96	-	43	159	298
Disposals	-	-	-	(63)	(63)
At 31 December 2023	143	-	99	198	440
Net book value at 31 December 2023	586	-	30	786	1,402
Net book value at 31 December 2022	371	716	21	33	1,141
Net book value at 31 December 2021	145	-	31	5	181

22. Deferred tax assets

	Note	2023 USD'000	2022 USD'000	2021 USD'000
At 1 January		418	129	167
Impact of change in deferred tax rate in profit or loss		-	(141)	-
Impact of change in deferred tax rate in other comprehensive income		-	322	-
Movement during the year recognised in other comprehensive income		(2)	(220)	(68)
Movement during the year recognised in profit or loss	15	(218)	328	30
At 31 December		198	418	129
Analysed as follows:				
Impairment of financial assets		68	158	3
Accelerated capital allowance		(4)	(4)	-
Pension funds liability		115	132	110
Fair value reserve		19	(14)	16
Provision for termination benefits		-	146	-
		198	418	129

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

23. Other assets

	Note	2023 USD'000	2022 USD'000	2021 USD'000
Mandatory balance with Central Bank (Note a)		1,433	580	784
Retirement benefit (funded)	27	484	635	-
Receivable from Indian Revenue Authority (Note b)		2,139	2,148	2,390
Others		465	419	503
		4,521	3,782	3,677
Current		4,037	3,147	3,677
Non current		484	635	-
		4,521	3,782	3,677

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 2023 is the tax and penalty deposits paid to the Indian Revenue Authority.

24. Deposits from customers

	2023 USD'000	2022 USD'000	2021 USD'000
<u>Corporate customers:</u>			
Current account	1,589,625	1,667,354	2,702,447
Time deposits with remaining term to maturity:			
Up to 3 months	891,274	518,346	147,100
Over 3 months and up to 6 months	54,754	74,193	24,153
Over 6 months and up to 12 months	103,683	44,482	32,515
	2,639,336	2,304,375	2,906,215
Segment A			
<u>Corporate customers:</u>			
Current account	1,574	5,739	10,833
Time deposits with remaining term to maturity:			
Up to 3 months	-	-	-
	1,574	5,739	10,833
Segment B			
<u>Corporate customers:</u>			
Current account	1,588,051	1,661,615	2,691,614
Time deposits with remaining term to maturity:			
Up to 3 months	891,274	518,346	147,100
Over 3 months and up to 6 months	54,754	74,193	24,153
Over 6 months and up to 12 months	103,683	44,482	32,515
	2,637,762	2,298,636	2,895,382
Current	2,639,336	2,304,375	2,906,215

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

25. Other borrowed funds

	2023 USD'000	2022 USD'000	2021 USD'000
Borrowings from banks:			
In Mauritius	17,625	8,074	10,689
Abroad	361,939	760,709	292,004
	379,564	768,783	302,693
Borrowings from banks:			
Segment A	17,625	8,074	10,689
Segment B	361,939	760,709	292,004
	379,564	768,783	302,693
Current	77,890	288,141	10,689
Non-current	301,674	480,642	292,004
	379,564	768,783	302,693

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

26. Other liabilities

	Note	2023 USD'000	2022 USD'000	2021 USD'000
Accrued interest payable		-	-	289
Retirement benefit obligations (funded)	27	-	-	207
Other retirement obligation (unfunded)	27	214	267	292
Intercompany payable (HSBC Hong Kong)*		1,986	1,785	2,273
Lease liabilities		614	380	136
Drawings payable		-	-	590
Unclaimed demand drafts		144	446	65
Accruals and deferred income		1,825	1,455	1,063
Provision for termination benefits		-	1,210	-
Marginal deposits		1,161	2	7
Other		313	599	165
		6,257	6,144	5,087
Current		5,923	5,803	4,452
Non-current		334	341	635
		6,257	6,144	5,087

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

27. Retirement benefits

(a) Defined benefit plan

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

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) *for the year ended 31 December 2023*

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 USD508,098 (2022 : USD269,864 ; 2021: USD1,169,725).

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.

The Fund is revalued tri-annually and the last valuation was conducted on 31 December 2020. Based on the last valuation report, the bank made no contribution for the year ending 31 December 2022 and is not expected to contribute to the pension scheme for the year ending 31 December 2023.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

27. Retirement benefits (continued)

(a) Defined benefit plan (continued)

The principal actuarial assumptions were:

	2023 %	2022 %	2021 %
Discount rate	4.8/5.2/4.7/5.3	6.30/5.4/5.6	4.7 / 4.6
Future long-term salary increase	3.0 / 3.4	4.0 / 4.7	4.0 / 4.7
Future expected pension increase	3.20 / 3.75	3.75 / 4.03	3.75 / 4.03

The retirement benefit liabilities at 31 December 2023 are based on the report submitted by Swan Life Ltd.

	2023 USD'000	2022 USD'000	2021 USD'000
Equities	2,261	2,007	1,170
Fixed interest	2,987	2,490	2,780
Foreign fixed income	138		
Cash	492	1,202	1,614
Total market value of assets	5,878	5,699	5,564
Present value of plan liabilities	(5,394)	(5,064)	(5,771)
Surplus/(deficit)	484	635	(207)
Net asset/(liability) for retirement obligations recognised in the statement of financial position	484	635	(207)

Expected contribution next year

The Bank is not expected to contribute to the pension schemes for the year ending 31 December 2023.

Maturity profile of the defined benefit obligations

The average remaining working life of the employees at 31 December 2023 is 11 years for ROCS Funded and 11 years for SOCS Funded.

(i) Pension expense components for the year ended

	2023 USD'000	2022 USD'000	2021 USD'000
Current service cost	135	235	262
Interest cost	307	264	137
Interest income	(347)	(256)	(119)
Net interest cost	(40)	8	18
Total amount recognised in profit or loss	95	243	280

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

	2023 USD'000	2022 USD'000	2021 USD'000
At start of the year	635	(207)	(816)
Total amount recognised in profit or loss	(95)	(243)	(280)
Actuarial (losses)/gains	(52)	1,052	680
Employer's contributions	-	-	149
Exchange differences arising on translation	(4)	33	60
At end of the year	484	635	(207)

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

27. Retirement benefits (continued)

(a) Defined benefit plan (continued)

(iii) Change in defined benefit obligations

Present value of defined benefit obligations

	2023 USD'000	2022 USD'000	2021 USD'000
At start of the year	(5,064)	(5,771)	(5,470)
Current service cost	(135)	(235)	(262)
Interest cost	(307)	(264)	(137)
Remeasurements (loss)/gain from change in financial assumptions	(213)	1,036	(371)
Benefits paid	285	37	36
Exchange differences arising on translation	40	133	433
Present value of defined benefit obligations at end of the year	(5,394)	(5,064)	(5,771)

(iv) Change in plan assets

Fair value of plan assets at start of the year

	2023 USD'000	2022 USD'000	2021 USD'000
Interest income	347	256	119
Employer's contributions	-	-	149
Return on plan assets, excluding amounts included in interest income	161	16	1,051
Benefits paid	(285)	(37)	(36)
Exchange differences arising on translation	(44)	(100)	(373)
Fair value of plan assets at end of the year	5,878	5,699	5,564

(v) Analysis of amount recognised in other comprehensive income

	2023 USD'000	2022 USD'000	2021 USD'000
Gains on pension scheme assets	161	16	1,051
Experience gains/(losses) on the liabilities	35	(520)	(1,746)
Changes in financial assumptions on the liabilities	(248)	1,556	1,375
Actuarial (losses)/gains recognised in other comprehensive income	(52)	1,052	680

(vi) Net asset/(liability) relating to the funded plans

	2023 USD'000	2022 USD'000	2021 USD'000
Present value of funded obligations	(5,394)	(5,064)	(5,771)
Fair value of plan assets	5,878	5,699	5,564
Surplus/(deficit) of funded plans	484	635	(207)

(vii) Sensitivity analysis

	2023 USD'000	2022 USD'000	2021 USD'000
Decrease in Defined Benefit Obligations due to 1% increase in Discount Rate	722	709	936
Increase in Defined Benefit Obligation due to 1% decrease in Discount Rate	994	917	1,219
Increase in Defined Benefit Obligations due to 1% increase in Future long-term Salary	264	269	347
Decrease in Defined Benefit Obligation due to 1% decrease in future long-term Salary	246	251	321
Increase in Defined Benefit Obligation due to 1% increase in future long-term Pension	731	629	818
Decrease in Defined Benefit Obligation due to 1% decrease in future long-term Pension assumption	600	520	666

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

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) Severance allowance - Defined Contribution Plan employees

The liability relates to employees who are entitled to statutory benefits prescribed under parts VIII and IX of the Workers' Rights Act 2019 ('WRA'). The latter provides for a lump sum on withdrawal, at retirement or death, whichever occurs earlier, based on final salary and years of service.

For employees who are members of the Defined Contribution plan, half of any lumpsum and 5 years of pension (relating to Employer's share of contributions only) payable from the pension fund have been offset from the gratuities.

The Bank expects to pay approximately USD31,714 as residual liability for the year ending 31 December 2024.

The principal actuarial assumptions were:

	2023	2022	2021
	%	%	%
Discount rate	5.50	6.90	5.30
Future long-term salary increase	3.40	5.00	4.35

(i) Pension expense components for the year ended

	2023	2021	2020
	USD'000	USD'000	USD'000
Current service cost	13	23	33
Net interest cost	18	15	11
Total amount recognised in profit or loss	31	38	44

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

	2023	2022	2021
	USD'000	USD'000	USD'000
At start of the year	(267)	(292)	(396)
Total amount recognised in profit or loss	(31)	(38)	(44)
Actuarial gains	82	58	114
Exchange differences arising on translation	2	5	34
At end of the year	(214)	(267)	(292)

(iii) Change in defined benefit obligations

	2023	2022	2021
	USD'000	USD'000	USD'000
Present value of defined benefit obligations			
At start of the year	(267)	(292)	(396)
Current service cost	(13)	(23)	(33)
Interest cost	(18)	(15)	(11)
Remeasurements – loss from change in financial assumptions	82	58	114
Exchange differences arising on translation	2	5	34
Present value of defined benefit obligations at end of the year	(214)	(267)	(292)

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

27. Retirement benefits (continued)

(b) Severance allowance - Defined Contribution Plan employees (continued)

(iv) Analysis of amount recognised in other comprehensive income

	2023 USD'000	2022 USD'000	2021 USD'000
Experience gains/(losses) on the liabilities	60	(26)	25
Changes in financial assumptions on the liabilities	22	84	88
Actuarial gains recognised in other comprehensive income	82	58	113

(v) Sensitivity analysis

	2023 USD'000	2022 USD'000	2021 USD'000
Decrease in Defined Benefit Obligations due to 1% increase in Discount Rate	70	84	79
Increase in Defined Benefit Obligation due to 1% decrease in Discount rate	57	68	77
Increase in Defined Benefit Obligations due to 1% increase in future long-term Salary	71	86	78
Decrease in Defined Benefit Obligation due to 1% decrease in future long-term Salary	59	70	78

28. Stated capital

	2023 USD'000	2022 USD'000	2021 USD'000
<i>Authorised</i>			
100,000,000 ordinary shares	100,000	100,000	100,000
Stated Capital – 72,956,783 shares issued at par	72,957	72,957	72,957

The Bank's issued stated capital was USD72,956,783 (2022: 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

	2023 USD'000	2022 USD'000	2021 USD'000
Other reserves:			
Statutory reserve	72,957	72,957	72,957
General banking reserve	10,337	16,928	15,870
Share-based payment reserve	81	83	82
Fair value reserve	(148)	61	(290)
	83,227	90,029	88,619
Retained earnings	193,671	154,124	138,899
	276,898	244,153	227,518

During the year, dividend amounting to USD70m or USD0.96 per share was declared and paid (2022: USD26m or USD0.36 per share; 2021: NIL). The dividend was paid out of retained earnings in the previous year.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

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 (2022 & 2021: 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) Share-based payment reserve

The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the group directly by HSBC Holdings plc. The Group 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.

	Share-based payment reserve USD'000
At 1 January 2021	85
Credit to profit or loss	(3)
At 31 December 2021	82
Charge to profit or loss	1
At 31 December 2022	83
Charge to profit or loss	(2)
At 31 December 2023	81

(e) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of investment securities carried at fair value through other comprehensive income until the assets are derecognised.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

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.

	2023 USD'000	2022 USD'000	2021 USD'000
Guarantees on account of customers	82,057	25,759	25,838
Letters of credit and other obligations	1,998	6,153	124,973
	84,055	31,912	150,811

31. Commitments

	2023 USD'000	2022 USD'000	2021 USD'000
<i>Loans and other facilities</i>			
Undrawn credit facilities	395,001	473,343	172,792

32. Cash and cash equivalents analysis

Reconciliation of cash flow statement

	Note	2023 USD'000	2022 USD'000	2021 USD'000
Cash and cash equivalents	16	1,243,288	896,930	1,105,581
Investment securities less than three months		99,218	149,165	-
Reverse repurchase agreement - non trading	33	188,646	-	-
		1,531,152	1,046,095	1,105,581

33. Reverse repurchase agreement - non trading

	2023 USD'000	2022 USD'000	2021 USD'000
Reverse repos - Current	188,646	-	-

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

34. Related party transactions

Key management personnel

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

	2023 USD'000	2022 USD'000	2021 USD'000
<i>Key management compensation</i>			
Short term employee benefits	812	530	449
Post-employment benefits ¹	480	356	336
	1,292	886	785

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

¹An amount of USD112k were paid during the year on retirement (2022: NIL, 2021: NIL).

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 Group's 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-23				
	USD'000				
	HSBC Hong Kong*	HSBC Bank plc*	HSBC Bank USA	Other related parties	Total
Statement of financial position					
Assets					
Intercompany bank accounts	48,952	13,158	-	905	63,015
Reverse repurchase agreement - non trading	188,646	-	-	-	188,646
Balances and placements with banks	1,021,870	46,374	-	914	1,069,158
Liabilities					
Intercompany deposit	111	11	-	-	122
Intercompany bank loans	344,745	-	34,816	3	379,564
Other liabilities	1,986	-	-	-	1,986
Statement of profit or loss and other comprehensive income					
Other interest income	48,788	684	5,186	9,768	64,426
Other interest expense	32,163	-	-	-	32,163
Fee and commissions income	1	-	-	-	1
Fee and commissions expense	994	12	291	8	1,305
Other income	360	-	-	-	360
Other expenses	7,399	-	-	1,022	8,421
Dividends paid	70,000	-	-	-	70,000

* HSBC Hong Kong and HSBC Bank Plc includes their international branches

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

34. Related party transactions (continued)

	31-Dec-22				
	USD'000				
	HSBC Hong Kong*	HSBC Bank plc*	HSBC Bank USA	Other related parties	Total
<i>Statement of financial position</i>					
Assets					
Intercompany bank accounts	46,718	17,664	139,687	599	204,668
Balances and placements with banks	574,399	-	-	119,092	693,491
Liabilities					
Intercompany deposit	-	-	-	118	118
Intercompany bank loans	768,783	-	-	-	768,783
Other liabilities	2,181	-	-	-	2,181
<i>Statement of profit or loss and other comprehensive income</i>					
Other interest income	12,413	33	773	3,490	16,709
Other interest expense	10,351	32	17	-	10,400
Fee and commissions income	3	-	2	-	5
Fee and commissions expense	587	16	673	8	1,284
Other income	348	-	-	-	348
Other expenses	8,123	(107)	-	781	8,797
Dividends paid	26,000	-	-	-	26,000

* HSBC Hong Kong and HSBC Bank Plc includes their international branches

	31-Dec-21				
	USD'000				
	HSBC Hong Kong*	HSBC Bank plc*	HSBC Bank USA	Other related parties	Total
<i>Statement of financial position</i>					
Assets					
Intercompany bank accounts	10,232	10,826	144,889	295	166,242
Balances and placements with banks	859,859	-	-	-	859,859
Liabilities					
Intercompany deposit	2,266	-	-	182	2,448
Intercompany bank loans	300,427	-	-	-	300,427
Other liabilities	2,670	-	-	-	2,670
<i>Statement of profit or loss and other comprehensive income</i>					
Other interest income	482	2	3	187	674
Other interest expense	1,746	93	19	-	1,858
Fee and commissions income	1	-	3	-	4
Fee and commissions expense	593	16	268	6	883
Other income	348	-	-	-	348
Other expenses	10,255	67	-	-	10,322

* HSBC Hong Kong and HSBC Bank Plc includes their international branches

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks (including interest rate and foreign currency 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 35(b)(iii).

Risk management framework

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, GIA (Group Internal Auditors), 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 RMM, which provides a holistic forum for oversight of the different aspects of risk management. The RMM at a minimum meets six times a year to review all risks across all line of businesses and functions. 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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. 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 & Compliance function, headed by the Group Chief Risk & Compliance 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
- 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 Group in the management of credit risk.

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

The Bank's Management, through the local Quarterly Impairment Committee, reviews the adequacy of the Expected Credit Losses ("ECL") and accounts written off, if any.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. 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 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

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. 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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments

2023	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	9,124	623,231	273,457	1,486	907,298	(465)	906,833
– corporate and commercial	9,124	575,528	268,949	1,486	855,087	(381)	854,706
– non-bank financial institutions	-	47,703	4,508	-	52,211	(84)	52,127
Loans and advances to banks at amortised cost	193,648	25,548	18,022	-	237,218	(58)	237,160
Other financial assets measured at amortised cost	1,594,100	11,643	74	-	1,605,817	(8)	1,605,809
– cash and cash equivalents	1,243,288	-	-	-	1,243,288	-	1,243,288
– reverse repurchase agreement - non trading	188,646	-	-	-	188,646	-	188,646
– accrued income and other assets	2,294	1,433	74	-	3,801	-	3,801
– Other financial assets at amortised cost	159,872	10,210	-	-	170,082	(8)	170,074
Investment securities measured at FVOCI	630,253	3,703	-	-	633,956	(3)	633,953
Total gross carrying amount on balance sheet	2,427,125	664,125	291,553	1,486	3,384,289	(534)	3,383,755
Loan and other credit related commitments	20,698	263,063	111,262	-	395,023	(22)	395,001
Financial guarantee and similar contracts	45,153	10,628	26,276	1,998	84,055	-	84,055
Total nominal amount off-balance sheet	65,851	273,691	137,538	1,998	479,078	(22)	479,056
At 31 December 2023					3,863,367	(556)	3,862,811

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (continued)

2022	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	809,655	332,269	65,314	13,179	1,220,417	(657)	1,219,760
– corporate and commercial	193,784	301,236	60,881	13,179	569,080	(657)	568,423
– non-bank financial institutions	615,871	31,033	4,433	-	651,337	-	651,337
Loans and advances to banks at amortised cost	577,222	-	-	-	577,222	(398)	576,824
Other financial assets measured at amortised cost	1,073,534	738	-	-	1,074,272	(49)	1,074,223
– cash and cash equivalents	896,772	158	-	-	896,930	-	896,930
– accrued income and other assets	2,330	580	-	-	2,910	-	2,910
– Other financial assets at amortised cost	174,432	-	-	-	174,432	(49)	174,383
Investment securities measured at FVOCI	522,918	3,745	-	-	526,663	(205)	526,458
Total gross carrying amount on balance sheet	2,983,329	336,752	65,314	13,179	3,398,574	(1,309)	3,397,265
Loan and other credit related commitments	225,213	197,027	51,103	-	473,343	(2)	473,341
Financial guarantee and similar contracts	1,199	10,058	14,502	6,153	31,912	-	31,912
Total nominal amount off-balance sheet	226,412	207,085	65,605	6,153	505,255	(2)	505,253
At 31 December 2022					3,903,829	(1,311)	3,902,518

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (continued)

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 cost	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 cost	-	-	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 sheet	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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis

Expected credit loss measurement

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

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

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Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

Significant increase in credit risk (SICR)

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

Quantitative criteria:

Exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2.

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		Additional significance criteria – Number of CRR grade notches of deterioration required to identify as significant credit deterioration (stage 2)
Number notches in the band		
0.1	1 notch	5 notches
1.1 – 4.2	9 notches	4 notches
4.3 – 5.1	2 notches	3 notches
5.2 – 7.1	5 notches	2 notches
7.2 – 8.2	3 notches	1 notch
8.3	1 notch	0 notch

Qualitative criteria:

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

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. 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 35(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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) *for the year ended 31 December 2023*

35. 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 lien on Land & Buildings, deposit and securities 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 2023, 31 December 2022 and 31 December 2021.

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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

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

Stage 1 and 2

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

Stage 3

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

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

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

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Bank's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Bank remains exposed to credit risk that is not mitigated by credit risk management actions.

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. 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.

	2023		2022		2021	
	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000
Loans and advances to customers at amortised cost	907,298	(465)	1,220,417	(657)	1,162,529	(8)
– corporate and commercial	855,087	(381)	569,080	(657)	787,799	(8)
– non-bank financial institutions	52,211	(84)	651,337	-	374,730	-
Loans and advances to banks at amortised cost	237,218	(58)	577,222	(398)	413,502	(30)
Other financial assets measured at amortised cost	1,605,817	(8)	1,074,223	(49)	1,137,462	(25)
– cash and cash equivalents	1,243,288	-	896,930	-	1,105,581	-
– reverse repurchase agreement - non trading	188,646	-	-	-	-	-
– accrued income and other assets	3,801	-	2,910	-	3,522	-
– Other financial assets at amortised cost	170,082	(8)	174,383	(49)	28,359	(25)
Total gross carrying amount on balance sheet	2,750,333	(531)	2,871,862	(1,104)	2,713,493	(63)
Loan and other credit related commitments	395,023	(22)	473,343	(2)	172,792	-
Financial guarantee and similar	84,055	-	31,912	-	150,811	(2)
Total nominal amount off-balance	479,078	(22)	505,255	(2)	323,603	(2)
At 31 December	3,229,411	(553)	3,377,117	(1,106)	3,037,096	(65)
	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000
At 31 December						
Investment securities measured at FVOCI	633,956	(3)	526,663	(205)	800,336	(2)

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

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

	Gross carrying/nominal amount			Allowance for ECL			ECL coverage %		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
	12-month ECL	Lifetime ECL		12-month ECL	Lifetime ECL		%	%	%
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000			
Loans and advances to customers at amortised cost	592,301	314,997	907,298	(70)	(395)	(465)	0.0	0.1	0.1
- Corporate and commercial	540,090	314,997	855,087	(56)	(325)	(381)	0.0	0.1	0.0
- non-bank financial institutions	52,211	-	52,211	(14)	(70)	(84)	0.0	-	0.2
Loans and advances to banks at amortised cost	237,218	-	237,218	(58)	-	(58)	0.0	-	0.0
Other financial assets measured at amortised cost	1,597,586	8,231	1,605,817	(8)	-	(8)	0.0	-	0.0
Loan and credit other credit related commitments	395,023	-	395,023	(22)	-	(22)	0.0	-	0.0
- Corporate and commercial	252,758	-	252,758	(22)	-	(22)	0.0	-	0.0
- Financial	142,265	-	142,265	-	-	-	-	-	-
Financial guarantee and similar contracts	83,987	68	84,055	-	-	-	-	-	-
- Corporate and commercial	81,972	57	82,029	-	-	-	-	-	-
- Financial	2,015	10	2,025	-	-	-	-	-	-
At 31 December 2023	2,906,115	323,296	3,229,411	(158)	(395)	(553)	0.0	0.1	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 2023

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	Of which: 1	Of which: 30	Stage 2	Of which: 1	Of which: 30	Stage 2	Of which: 1	Of which: 30
		to 29 DPD	and > DPD		to 29 DPD	and > DPD		to 29 DPD	and > DPD
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	%	%	%
Loans and advances to customers at amortised cost									
- Corporate and commercial	314,997	-	-	(325)	-	-	-%	-%	-%
- non-bank financial institutions	-	-	-	(70)	-	-	-%	-%	-%

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. 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	Stage 2	Total	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
	12-month ECL	Lifetime ECL		12-month ECL	Lifetime ECL		%	%	%
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000			
Loans and advances to customers at amortised cost	1,129,633	90,784	1,220,417	(61)	(596)	(657)	0	1	0
- Corporate and commercial	491,103	90,784	581,887	(61)	(596)	(657)	0	1	0
- non-bank financial institutions	638,530	-	638,530	-	-	-	-	-	-
Loans and advances to banks at amortised cost	541,221	36,001	577,222	(172)	(226)	(398)	0	0	0
Other financial assets measured at amortised cost	1,073,485	738	1,074,223	(48)	(1)	(49)	0	0	0
Loan and credit other credit related commitments	473,343	-	473,343	(2)	-	(2)	0	-	0
- Corporate and commercial	330,717	-	330,717	(2)	-	(2)	0	-	0
- Financial	142,626	-	142,626	-	-	-	-	-	-
Financial guarantee and similar contracts	31,897	15	31,912	-	-	-	-	-	-
- Corporate and commercial	7,337	15	7,352	-	-	-	-	-	-
- Financial	24,560	-	24,560	-	-	-	-	-	-
At 31 December 2022	3,249,579	127,538	3,377,117	(283)	(823)	(1,106)	0	1	0

Stage 2 days past due analysis for loans and advances to customers at 31 December 2022

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	Of which: 1 to 29 DPD	Of which: 30 and > DPD	Stage 2	Of which: 1 to 29 DPD	Of which: 30 and > DPD	Stage 2	Of which: 1 to 29 DPD	Of which: 30 and > DPD
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	%	%	%
Loans and advances to customers at amortised cost									
- Corporate and commercial	90,784	-	-	(596)	-	-	-%	-%	-%
- non-bank financial institutions	-	-	-	-	-	-	-%	-%	-%

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. 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	Stage 2	Total	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
	12-month ECL	Lifetime ECL	USD'000	12-month ECL	Lifetime ECL	USD'000	%	%	%
	USD'000	USD'000		USD'000	USD'000				
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%	-	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)

Stage 2 days past due analysis for loans and advances to customers at 31 December 2021

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Of which: 1		Of which: 30	which: 1		which: 30	which: 1		which: 30
	to 29 DPD		and > DPD	to 29		and >	to 29		and >
	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	%	%	%
Loans and advances to customers at amortised cost									
- Corporate and commercial	215,852	-	-	(5)	-	-	-%	-%	-%
- non-bank financial institutions	40,110	-	-	-	-	-	-%	-%	-%

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. 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

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

	Non-credit impaired					
	Stage 1		Stage 2		Total	
	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000
At 1 January 2023	3,249,509	(362)	127,608	(714)	3,377,117	(1,076)
Transfers of financial instruments:	3,177	(227)	(3,177)	227	-	-
- transfers from stage 1 to stage 2	(35,442)	-	35,442	-	-	-
- transfers from stage 2 to stage 1	38,619	(227)	(38,619)	227	-	-
Net remeasurement of ECL arising from transfer of stage	-	28	-	-	-	28
Net new and further lending/repayments	(49,396)	(52)	232,628	(104)	183,232	(156)
Changes in risk parameters - credit quality		373	-	195	-	568
Asset derecognised (including final repayment)	(297,175)	82	(33,763)	1	(330,938)	83
At 31 December 2023	2,906,115	(158)	323,296	(395)	3,229,411	(553)
ECL release for the year		204		319		523
Total change in ECL for the year						523

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

2022	Non-credit impaired					
	Stage 1		Stage 2		Total	
	nominal amount USD'000	Allowance for ECL USD'000	carrying/ nominal USD'000	Allowance for ECL USD'000	nominal amount USD'000	Allowance for ECL USD'000
At 1 January 2022	2,781,836	(19)	255,260	(16)	3,037,096	(35)
Transfers of financial instruments:	120,594	11	(120,594)	(11)	-	-
- transfers from stage 1 to stage 2	(41,071)	25	41,071	(25)	-	-
- transfers from stage 2 to stage 1	161,665	(14)	(161,665)	14	-	-
Net remeasurement of ECL arising from transfer of stage	-	1	-	(34)	-	(33)
Net new and further lending/repayments	1,214,232	(176)	18,450	(67)	1,232,682	(243)
Changes in risk parameters - credit quality	-	(216)	-	(599)	-	(815)
Asset derecognised (including final repayment)	(867,153)	37	(25,508)	13	(892,661)	50
At 31 December 2022	3,249,509	(362)	127,608	(714)	3,377,117	(1,076)
ECL charge for the year		(343)		(698)		(1,041)
Total change in ECL for the year						(1,041)

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

2021	Non-credit impaired					
	Stage 1		Stage 2		Total	
	nominal amount USD'000	Allowance for ECL USD'000	carrying/ nominal USD'000	Allowance for ECL USD'000	nominal amount USD'000	Allowance for ECL USD'000
At 1 January 2021	2,129,607	(606)	217,541	61	2,347,148	(545)
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	-	(7)	-	(2)	-	(9)
Net new and further lending/repayments	1,334,485	(18)	-	-	1,334,485	(18)
Changes in risk parameters - credit quality	453,797	717	115,370	(206)	569,167	511
Asset derecognised (including final repayment)	(1,200,533)	26	(13,171)	-	(1,213,704)	26
At 31 December 2021	2,781,836	(19)	255,260	(16)	3,037,096	(35)
ECL release for the year		587		(77)		510
Total change in ECL for the year						510

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

35. 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	2023 USD'000	2022 USD'000	2021 USD'000
Cash and cash equivalents	(A)	1,243,288	896,930	1,105,581
Trading assets	(B)	260	1	394
Loans and advances to banks	(C)	237,160	576,824	413,472
Loans and advances to customers	(C)	906,833	1,219,760	1,162,521
Reverse repurchase agreement - non trading	(D)	188,646	-	-
Investment securities	(E)	804,027	700,841	828,668
Other assets	(F)	3,801	2,910	3,522
Financial guarantees and other credit-related contingent liabilities	(G)	84,055	31,912	150,811
Loan and other credit-related commitments	(H)	395,001	473,343	172,792
At 31 December		3,863,071	3,902,521	3,837,761

Total exposure to credit risk changed in 2023 with cash and cash equivalents being the largest element as compared to previous year where loans and advances were the largest.

(A) Cash and cash equivalents

The Bank held cash and cash equivalents of USD1.2bn at 31 December 2023 (2022: USD0.9bn, 2021: USD1.1bn) which represent its maximum credit exposure on these assets. The cash and cash equivalents are held mainly with Group's companies and Bank of Mauritius.

(B) Trading assets

The Bank held trading assets of USD260,000 as at 31 December 2023 (2022: USD1,000, 2021: USD394,000). An analysis of the credit quality of the maximum credit exposure is as follows:

	Note	2023 USD'000	2022 USD'000	2021 USD'000
Derivative assets:	17			
Bank counterparties		260	1	394
Non - bank counterparties		-	-	-
		260	1	394

The derivative assets are held mainly with other Group's companies.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

35. 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		
	2023 USD'000	2022 USD'000	2021 USD'000	2023 USD'000	2022 USD'000	2021 USD'000
Neither past due nor impaired	907,298	1,220,417	1,162,529	237,218	577,222	413,502
Gross	907,298	1,220,417	1,162,529	237,218	577,222	413,502
Less: allowance for impairment	(465)	(657)	(8)	(58)	(398)	(30)
Net	906,833	1,219,760	1,162,521	237,160	576,824	413,472

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		
		2023 USD'000	2022 USD'000	2021 USD'000	2023 USD'000	2022 USD'000	2021 USD'000
Credit quality classification	IRB						
Strong	CRR 1	964	606,620	404,943	142,794	137,092	-
	CRR 2	8,160	203,036	284,454	50,796	440,130	413,502
Good	CRR 3	623,232	332,269	180,502	25,548	-	-
Satisfactory	CRR 4	237,493	15,153	243,168	-	-	-
	CRR 5	35,964	50,160	49,462	18,022	-	-
Sub-standard	CRR 6	11	11,000	-	-	-	-
	CRR 8	1,474	2,179	-	-	-	-
Total		907,298	1,220,417	1,162,529	237,160	577,222	413,502

(D) Reverse repurchase agreement - non trading

Reverse repurchase agreement of USD188.6m (2022: NIL) are held for liquidity purposes.

(E) Investment securities

Investment securities of USD767.2m (2022: USD675.6m, 2021: USD800m) represents investment in US Government Treasury Bills and Government of Mauritius Treasury Bills which are held for liquidity purposes. Investment securities of USD36.9m (2022: USD25.3m) represents investment in corporate bonds.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Credit exposure (continued)

Maximum exposure (continued)

(F) Other assets

The Bank held a mandatory balance of USD1,433,000 (2022: USD580,000, 2021: USD784,000) with the Bank of Mauritius.

(G) 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.

(H) Loan commitments

As at 31 December 2023, the Bank held USD395.0m (2022: USD473.3m, 2021: USD172.8m) 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:

2023		Sovereign	Corporate *	Banks	Others	Total
		USD'000	USD'000	USD'000	USD'000	USD'000
Cash and cash equivalents	16	16,608	-	1,226,680	-	1,243,288
Trading assets	17	-	-	260	-	260
Loans and advances to banks	18	-	-	237,218	-	237,218
Loans and advances to customers	19	-	907,298	-	-	907,298
Reverse repurchase agreement - non trading	33	-	-	188,646	-	188,646
Investment securities	20	767,150	36,885	-	-	804,035
Other assets		1,433	-	-	2,368	3,801
		785,191	944,183	1,652,804	2,368	3,384,547
Financial guarantees and other credit-related contingent liabilities	30	-	83,055	1,000	-	84,055
Loan commitments	31	-	395,001	-	-	395,001
		-	478,056	1,000	-	479,056

* inclusive of non-bank financial institutions

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(v) Concentration of exposure (continued)

2022		Sovereign	Corporate*	Banks	Others	Total
	Note	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and cash equivalents	16	35,201	-	861,729	-	896,930
Trading assets	17	-	-	1	-	1
Loans and advances to banks	18	-	-	577,222	-	577,222
Loans and advances to customers	19	-	1,220,417	-	-	1,220,417
Investment securities	20	675,574	25,316	-	-	700,890
Other assets		2,728	-	-	182	2,910
		<u>713,503</u>	<u>1,245,684</u>	<u>1,438,952</u>	<u>182</u>	<u>3,398,321</u>
Financial guarantees and other credit-related contingent liabilities	30	-	24,688	7,224	-	31,912
Loan commitments	31	-	473,343	-	-	473,343
		<u>-</u>	<u>498,031</u>	<u>7,224</u>	<u>-</u>	<u>505,255</u>

* inclusive of non-bank financial institutions

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	-	-	413,502	-	413,502
Loans and advances to customers	19	-	1,162,529	-	-	1,162,529
Investment securities	20	828,695	-	-	-	828,695
Other assets		3,174	-	-	348	3,522
		<u>909,226</u>	<u>1,162,529</u>	<u>1,442,120</u>	<u>348</u>	<u>3,514,223</u>
Financial guarantees and other credit-related contingent liabilities		-	9,912	140,899	-	150,811
Loan commitments	31	-	172,792	-	-	172,792
		<u>0</u>	<u>182,704</u>	<u>140,899</u>	<u>0</u>	<u>323,603</u>

* inclusive of non-bank financial institutions

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(b) Credit risk (continued)

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

2023	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	4,280	12,744	57	1,204,877	21,330	-	1,243,288
Trading assets	17	-	260	-	-	-	-	260
Loans and advances to banks	18	-	-	-	211,154	25,154	910	237,218
Loans and advances to customers	19	-	52,104	309,870	230,146	315,178	-	907,298
Reverse repurchase agreement - non trading	33	-	-	-	188,646	-	-	188,646
Investment securities	20	790,141	-	-	-	13,894	-	804,035
Other assets		-	-	2,139	-	1,662	-	3,801
		794,421	65,108	312,066	1,834,823	377,218	910	3,384,547
Financial guarantees and other credit-related contingent liabilities	30	-	-	841	75,709	5,507	1,998	84,055
Loan commitments	31	-	10,168	21,088	158,335	205,410	-	395,001
		-	10,168	21,929	234,044	210,917	1,998	479,056

2022	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	140,085	116,803	116	599,077	40,768	81	896,930
Trading assets	17	-	1	-	-	-	-	1
Loans and advances to banks	18	-	100,285	42,006	235,671	68,796	130,464	577,222
Loans and advances to customers	19	-	33,727	413,139	485,437	288,114	-	1,220,417
Investment securities	20	671,877	-	-	-	29,013	-	700,890
Other assets		-	-	2,148	-	762	-	2,910
		811,962	250,816	457,409	1,320,185	427,453	130,545	3,398,370
Financial guarantees and other credit-related contingent liabilities	30	-	-	801	21,513	3,445	6,153	31,912
Loan commitments	31	-	17,934	35,036	223,605	196,768	-	473,343
		-	17,934	35,837	245,118	200,213	6,153	505,255

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

35. 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		North America	Europe	India	Other Asia Pacific	Middle East and Africa	Others	Total
	Note	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and cash equivalents	16	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	-	-	375,185	2,287	36,030	-	413,502
Loans and advances to customers	19	-	40,259	706,005	232,137	184,128	-	1,162,529
Investment securities	20	796,544	-	-	-	32,151	-	828,695
Other assets		-	-	2,390	-	1,132	-	3,522
		941,835	50,368	1,083,662	1,079,502	358,799	57	3,514,223
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

(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 Group has adopted the use of four economic scenarios, which are used to capture the latest economic expectations and to articulate management's view of the range of risks and potential outcomes. Each scenario is updated with the latest economic forecasts and estimates every quarter. Three scenarios, the Upside, Central and Downside, are drawn from external consensus forecasts, market data and distributional estimates of the entire range of economic outcomes. The fourth scenario, the Downside 2, represents management's view of severe downside risks.

The consensus Downside and the consensus Upside scenarios are each calibrated to be consistent with a 10% probability. The Downside 2 is calibrated to a 5% probability. The Central scenario is assigned the remaining 75%. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances.

HSBC's Central scenario reflects expectations for a low growth and high interest rate environment across many of markets, where GDP growth is expected to be lower in 2024 than in the previous year. The key assumptions such as GDP growth, inflation, unemployment, policy rates Crude Oil Price, etc.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. 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 consensus Upside and Downside scenarios are created with reference to distributions for select markets that capture forecasters' views of the entire range of economic outcomes. In the later years of those scenarios, projections revert to long-term consensus trend expectations. Reversion to trend is done with reference to historically observed quarterly changes in the values of macroeconomic variables.

The consensus Upside scenario features stronger economic activity in the near term, before converging to long-run trend expectations. It also incorporates a faster fall in the rate of inflation than incorporated in the Central scenario. The scenario is consistent with a number of key upside risk themes. These include a faster fall in the rate of inflation that allows central banks to reduce interest rates more quickly, an easing in financial conditions, and a de-escalation in geopolitical tensions as the Israel-Hamas and Russia-Ukraine wars move towards conclusions, and the US-China relationship improves.

In the consensus Downside scenario, economic activity is weaker compared with the Central scenario. In this scenario, GDP declines, unemployment rates rise, and asset prices fall. The scenario features an escalation of geopolitical tensions, which causes a rise in inflation, as supply chain constraints intensify and energy prices rise. The scenario also features a temporary increase in interest rates above the Central scenario, before the effects of weaker consumption demand begin to dominate and commodity prices and inflation fall again.

The Downside 2 scenario features a deep global recession and reflects management's view of the tail of the economic distribution. It incorporates the crystallisation of a number of risks simultaneously, including a further escalation of geopolitical crises globally, which creates severe supply disruptions to goods and energy markets. Inflation surges and central banks tighten monetary policy further, confidence evaporates. However, this impulse is assumed to prove short lived, as recession takes hold, causing commodity prices to correct sharply and global price inflation to fall.

The weights were consistent with the calibrated scenario probabilities, as key risk metrics implied a decline in the uncertainty attached to the Central scenario, compared with the fourth quarter of 2022. Economic forecasts for the Central scenario remained stable, and the dispersion within consensus forecast panels remained low, even as the Israel-Hamas war escalated. Risks, including the economic consequences of a broader war in the Middle East, were reflected in the Downside scenarios.

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;

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. 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 and;

- 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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(c) *Liquidity risk*

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

(i) Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

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 2023, the Bank maintained an LCR ratio of 274.1% (2022: 227.5%) against a set limit of 100% (2022: 100%).

In addition to regulatory metrics, HSBC enhanced its liquidity framework in 2022 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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

35. Financial Risk Management (continued)

(c) Liquidity risk (continued)

(iii) Maturity analysis for financial assets and financial liabilities

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

	Note	Less than 1 month USD'000	1-3 months USD'000	3 months to 1 year USD'000	1-5 years USD'000	More than 5 years USD'000	TOTAL USD'000
2023							
<i>Non-derivative liabilities</i>							
Deposits from customers	24	(2,222,531)	(260,233)	(163,608)	-	-	(2,646,372)
Other borrowed funds	25	(39,825)	(2,349)	(36,154)	(303,168)	-	(381,496)
Other liabilities		(4,192)	(181)	(268)	(120)	-	(4,761)
		(2,266,548)	(262,763)	(200,030)	(303,288)	-	(3,032,629)
<i>Derivative liabilities</i>							
Trading:							
Outflow		(438)	-	(360)	-	-	(798)
Inflow		434	-	357	-	-	791
		(4)	-	(3)	-	-	(7)
Loan commitments		-	(26,378)	(367,623)	(1,000)	-	(395,001)
<i>Non-derivative assets</i>							
Cash and cash equivalents	16	1,243,288	-	-	-	-	1,243,288
Loans and advances to banks	18	74	50,052	61,207	125,885	-	237,218
Loans and advances to customers	19	205,724	214,092	143,762	343,720	-	907,298
Reverse repurchase agreement - non trading	33	188,646	-	-	-	-	188,646
Investment securities	20	-	413,435	389,466	1,134	-	804,035
Other assets		3,572	141	88	-	-	3,801
		1,641,304	677,720	594,523	470,739	-	3,384,286
<i>Derivative assets</i>							
Trading:							
Outflow		(110,530)	-	-	-	-	(110,530)
Inflow		110,790	-	-	-	-	110,790
		260	-	-	-	-	260
Net liquidity gap		(624,988)	388,579	26,867	166,451	-	(43,091)

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(c) Liquidity risk (continued)

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

	Note	Less than 1 month USD'000	1-3 months USD'000	3 months to 1 year USD'000	1-5 years USD'000	More than 5 years USD'000	TOTAL USD'000
2022							
<i>Non-derivative liabilities</i>							
Deposits from customers	24	(2,031,003)	(155,855)	(121,047)	-	-	(2,307,905)
Other borrowed funds	25	(132,756)	(55,638)	(102,409)	(499,143)	-	(789,946)
Other liabilities		(4,715)	(140)	(166)	(74)	-	(5,095)
		<u>(2,168,474)</u>	<u>(211,633)</u>	<u>(223,622)</u>	<u>(499,217)</u>	<u>-</u>	<u>(3,102,946)</u>
<i>Derivative liabilities</i>							
Trading:	17						
Outflow		(66,855)	-	(363)	-	-	(67,218)
Inflow		66,818	-	361	-	-	67,179
		<u>(37)</u>	<u>-</u>	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>(39)</u>
Loan commitments		<u>(159,579)</u>	<u>(92,906)</u>	<u>(220,857)</u>	<u>-</u>	<u>-</u>	<u>(473,342)</u>
<i>Non-derivative assets</i>							
Cash and cash equivalents	16	896,930	-	-	-	-	896,930
Loans and advances to banks	18	50,594	45,685	312,464	168,479	-	577,222
Loans and advances to customers	19	309,696	290,223	280,209	340,289	-	1,220,417
Investment securities	20	-	675,623	-	25,267	-	700,890
Other assets		497	2,393	10	10	-	2,910
		<u>1,257,717</u>	<u>1,013,924</u>	<u>592,683</u>	<u>534,045</u>	<u>-</u>	<u>3,398,369</u>
<i>Derivative assets</i>							
Trading:	17						
Outflow		(293)	-	-	-	-	(293)
Inflow		295	-	-	-	-	295
		<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>
Net liquidity gap		<u>(1,070,371)</u>	<u>709,385</u>	<u>148,202</u>	<u>34,828</u>	<u>-</u>	<u>(177,956)</u>

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(c) Liquidity risk (continued)

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

	Note	Less than 1 month USD'000	1-3 months USD'000	3 months to 1 year USD'000	1-5 years USD'000	More than 5 years USD'000	TOTAL USD'000
2021							
<i>Non -derivative liabilities</i>							
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		(699)	(75)	(58)	-	-	(832)
		(2,800,283)	(56,915)	(56,764)	(296,123)	-	(3,210,085)
<i>Derivative liabilities</i>							
Trading:	17						
Outflow		(227)	-	(404)	-	-	(631)
Inflow		225	-	390	-	-	615
		(2)	-	(14)	-	-	(16)
Loan commitments		(52,003)	(64,853)	(55,936)	-	-	(172,792)
<i>Non-derivative assets</i>							
Cash and cash equivalents	16	1,080,581	25,000	-	-	-	1,105,581
Loans and advances to banks	18	263,358	111,402	1,597	1,148	35,997	413,502
Loans and advances to customers	19	289,445	145,382	73,550	210,239	443,913	1,162,529
Investment securities	20	-	596,950	203,384	-	28,361	828,695
Other assets		1,257	15	2,251	-	-	3,523
		1,634,641	878,749	280,782	211,387	508,271	3,513,829
<i>Derivative assets</i>							
Trading:	17						
Outflow		(55,187)	-	-	-	-	(55,187)
Inflow		55,584	-	-	-	-	55,584
		397	-	-	-	-	397
Net liquidity gap		(1,217,251)	756,981	168,068	(84,736)	508,271	131,333

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

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(d) Market risks

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

(i) Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are 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 management purposes.

Overall authority for market risk is vested in RMM. The 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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(d) Market risks (continued)

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

The Bank uses VaR limits for total market risk and specific foreign exchange, interest rate, and equity and other price risks. The overall structure of VaR limits is subject to review and approval by the 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
2023				
Foreign currency risk	162	110	287	26
Interest rate risk (PVBP)	0.302	0.068	0.405	0.001
2022				
Foreign currency risk	287	193	336	92
Interest rate risk (PVBP)	0.405	0.342	1.020	0.045
2021				
Foreign currency risk	263	195	275	142
Interest rate risk (PVBP)	0.259	0.659	1.570	0.064

(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.

HSBC Bank (Mauritius) Limited
Notes to and forming part of the financial statements (continued)
for the year ended 31 December 2023
35. Financial Risk Management (continued)
(d) Market risks (continued)
(iii) Exposure to interest rate risks – non trading portfolios

		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
2023	Note							
Cash and cash equivalents	16	1,243,288	1,196,895	-	-	-	-	46,393
Loans and advances to banks	18	237,218	50,125	187,093	-	-	-	-
Loans and advances to customers	19	907,298	555,066	231,251	76,957	44,024	-	-
Reverse repurchase agreement - non trading	33	188,646	188,646	-	-	-	-	-
Investment securities	20	804,035	413,282	361,384	28,236	1,133	-	-
Other assets	23	3,801	-	-	-	-	-	3,801
		3,384,286	2,404,014	779,728	105,193	45,157	-	50,194
Deposits from customers	24	(2,639,336)	(2,480,899)	(54,754)	(103,683)	-	-	-
Other borrowed funds	25	(379,564)	(7,262)	(26,732)	(9,077)	(301,674)	-	(34,819)
Other liabilities	26	(4,761)	(226)	(134)	(134)	(120)	-	(4,147)
		(3,023,661)	(2,488,387)	(81,620)	(112,894)	(301,794)	-	(38,966)
Interest sensitivity gap		360,625	(84,373)	698,108	(7,701)	(256,637)	-	11,228
		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
2022	Note							
Cash and cash equivalents	16	896,930	665,631	-	-	-	-	231,299
Loans and advances to banks	18	577,222	96,279	18,628	293,836	168,479	-	-
Loans and advances to customers	19	1,220,417	599,919	132,938	147,271	340,289	-	-
Investment securities	20	700,890	675,623	-	-	25,267	-	-
Other assets	23	2,910	-	-	-	-	-	2,910
		3,398,369	2,037,452	151,566	441,107	534,035	-	234,209
Deposits from customers	24	(2,304,375)	(2,185,700)	(74,193)	(44,482)	-	-	-
Other borrowed funds	25	(768,783)	(188,013)	(100,128)	-	(480,642)	-	-
Other liabilities	26	(5,095)	(140)	(83)	(83)	(74)	-	(4,715)
		(3,078,253)	(2,373,853)	(174,404)	(44,565)	(480,716)	-	(4,715)
Interest sensitivity gap		320,116	(336,401)	(22,838)	396,542	53,319	-	229,494
		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
2021	Note							
Cash and cash equivalents	16	1,105,581	861,259	-	-	-	-	244,322
Loans and advances to banks	18	413,502	374,760	1,597	1,148	35,997	-	-
Loans and advances to customers	19	1,162,529	434,834	73,550	210,240	443,905	-	-
Investment securities	20	828,695	596,977	-	203,384	28,334	-	-
Other assets	23	3,523	-	-	-	-	-	3,523
		3,513,830	2,267,830	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	(832)	(78)	-	(58)	-	-	(696)
		(3,209,740)	(2,640,953)	(24,153)	(36,407)	(292,004)	-	(216,223)
Interest sensitivity gap		304,090	(373,122)	50,994	378,365	216,232	-	31,622

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(d) Market risks (continued)

(iv) Exposure to currency risks

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

	2023 USD'm	2022 USD'm	2021 USD'm
Pound Sterling	-	(0.01)	-
Euro	0.06	0.05	0.04
Japanese yen	-	(0.01)	0.01
Indian rupee	0.07	0.12	0.09
Other foreign currencies	0.03	0.12	0.14
	0.16	0.27	0.28

(v) Interbank Offer Rates ('IBOR') transition

As from 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. However, the Bank 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.

As at 31 December 2023, non-derivative financial assets amounting to USD319.5m have transitioned to alternative benchmarks. SOFR (Secured Overnight Financing Rate) has replaced USD LIBOR.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(e) Capital management

Regulatory capital

The Bank's lead regulator, the Bank of Mauritius, sets and monitors capital requirements for the whole banking sector in Mauritius. As per the Guideline on Scope of Application of Basel III and Eligible Capital issued in June 2014, the Bank of Mauritius adopted Basel III with effect from 1 June 2021.

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.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued) for the year ended 31 December 2023

35. Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

The Bank's regulatory capital adequacy position at 31 December 2023 was as follows:

USD'000	Reference	2023	2022	2021
<u>Tier 1 Capital</u>				
CET 1 capital				
Paid Up Capital	A	72,957	72,957	72,957
Other disclosed reserves	B	72,890	73,101	72,749
Retained Earnings	C	193,671	154,124	138,899
CET 1 capital before regulatory adjustments		339,518	300,182	284,605
Regulatory adjustment: Deferred tax	D	(198)	(418)	(129)
Defined benefit scheme asset	F	(484)	(635)	-
Tier 1 capital		338,836	299,129	284,476
<u>Tier 2 Capital</u>				
Provisions	E	9,205	12,704	12,274
Other adjustment to Tier 2 capital		-	-	-
Tier 2 Capital		9,205	12,704	12,274
Total Capital		348,041	311,833	296,750
 Total on-balance sheet risk-weighted credit exposures		 631,444	 998,449	 951,917
Total non-market-related off-balance sheet risk-weighted credit exposures		104,709	17,735	29,838
Total market-related off-balance sheet risk-weighted credit exposures		275	135	191
Risk weighted assets for operational risk		109,917	63,437	67,041
Aggregate net open foreign exchange position		163	275	285
Total risk weighted assets		846,508	1,080,031	1,049,272
Risk asset ratio		41.1%	28.9%	28.3%

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

Each component of the capital base is mapped by cross reference to a full reconciliation of the Bank's statement of financial position as at 31 December 2023 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	1,243,288		
Trading assets	260		
Loans and advances to banks	237,160		
Loans and advances to customers	906,833		
Reverse repurchase agreement - non trading	188,646		
Investment securities	804,027		
Property, plant and equipment	1,402		
Deferred tax assets	198	198	D
Other assets	4,521	484	F
Total assets	<u>3,386,335</u>		
Liabilities			
Deposits from customers	2,639,336		
Trading liabilities	7		
Other borrowed funds	379,564		
Current tax liabilities	11,316		
Other liabilities	6,257		
Total liabilities	<u>3,036,480</u>		
Shareholders' Equity			
Share capital and share premium	72,957		
of which amount eligible for CET1	72,957	72,957	A
Retained earnings	193,671	193,671	C
Other reserves	83,227		
of which Other disclosed reserve	72,890	72,890	B
of which General Banking Reserve	10,337	9,205	E
Total equity and liabilities	<u>3,386,335</u>		

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. 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 1 January 2021, banks are required to meet the following new minimum capital requirements in relation to risk-weighted assets (RWAs):

- (a) 6.5% Common Equity Tier 1/RWAs;
- (b) 8.0% Tier 1 capital/RWAs, and
- (c) 12.5% 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.

	2023	2022	2021
	%	%	%
CET 1 capital adequacy ratio	40.0	27.7	27.1
<i>Regulatory Limit – Minimum CET 1 CAR</i>	9.0	9.0	8.4
Tier 1 capital adequacy ratio	40.0	27.7	27.1
<i>Regulatory Limit – Minimum Tier 1 CAR</i>	10.5	10.5	9.9
Total capital adequacy ratio	41.1	28.9	28.3
<i>Regulatory Limit – Minimum Total CAR</i>	12.5	12.5	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 2023. The main features of the stated capital are that it is perpetual and there are no circumstances under which distributions are mandatory.

HSBC Bank (Mauritius) Limited

Notes to and forming part of the financial statements (continued)

for the year ended 31 December 2023

35. 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 the Group Internal Risk Based Approach (IRBA). ALCO then manages the balance between the notional capital allocated to businesses and the actual invested capital to ensure the Bank does not fall below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation and is subject to review by ALCO as appropriate.

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

36. Subsequent event

The directors approved the payment of a dividend of USD105m for the financial year 2023 on 18 March 2024 subject to regulatory approval.

The directors are not aware of any matter or circumstance arising since the end of the financial year to the date of this report which could significantly affect the financial position of the Bank at 31 December 2023.

37. 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.

Additional cautionary statement regarding ESG data, metrics and forward-looking statements

The *Annual Report and Accounts 2023* contains a number of forward-looking statements (as defined above) with respect to the Group's (including the Bank's) ESG targets, commitments, ambitions, climate-related pathways, processes and plans, and the methodologies and scenarios the Group (including the Bank) uses, or intends to use, to assess the Group's (including the Bank's) progress in relation to these ('ESG-related forward-looking statements').

In preparing the ESG-related information contained in the *Annual Report and Accounts 2023*, the Bank has relied on a number of key judgements, estimations and assumptions of the Group and the processes and issues involved are complex. The Group has used ESG (including climate) data, models and methodologies that it considers, as of the date on which they were used, to be appropriate and suitable to understand and assess climate change risk and its impact, to analyse financed emissions, operational and supply chain emissions, to set ESG-related targets and to evaluate the classification of sustainable finance and investments. However, these data, models and methodologies are often new, are rapidly evolving and are not of the same standard as those available in the context of other financial information, nor are they subject to the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. In particular, it is not possible to rely on historical data as a strong indicator of future trajectories in the case of climate change and its evolution. Outputs of models, processed data and methodologies are also likely to be affected by underlying data quality, which can be hard to assess and the Group expects industry guidance, market practice, and regulations in this field to continue to change. The Group (including the Bank) also face challenges in relation to its ability to access data on a timely basis, lack of consistency and comparability between data that is available and its ability to collect and process relevant data. Consequently, the ESG-related forward-looking statements and ESG metrics disclosed in the *Annual Report and Accounts 2023* carry an additional degree of inherent risk and uncertainty.

Due to the unpredictable evolution of climate change and its future impact and the uncertainty of future policy and market response to ESG-related issues and the effectiveness of any such response, the Group (including the Bank) may have to re-evaluate its progress towards its ESG ambitions, commitments and targets in the future, update the methodologies it uses or alter its approach to ESG (including climate) analysis and may be required to amend, update and recalculate its ESG disclosures and assessments in the future, as market practice and data quality and availability develop.

No assurance can be given by or on behalf of the Bank as to the likelihood of the achievement or reasonableness of any projections, estimates, forecasts, targets, commitments, ambitions, prospects or returns contained herein. Readers are cautioned that a number of factors, both external and those specific to the Group (including the Bank), could cause actual achievements, results, performance or other future events or conditions of the Bank to differ, in some cases materially, from those stated, implied and/or reflected in any ESG-related forward-looking statement or metric due to a variety of risks, uncertainties and other factors (including without limitation those referred to below):

Additional cautionary statement regarding ESG data, metrics and forward-looking statements (continued)

- Climate change projection risk: this includes, for example, the evolution of climate change and its impacts, changes in the scientific assessment of climate change impacts, transition pathways and future risk exposure and limitations of climate scenario forecasts;
- ESG projection risk: ESG metrics are complex and are still subject to development. In addition, the scenarios employed in relation to them, and the models that analyse them have limitations that are sensitive to key assumptions and parameters, which are themselves subject to some uncertainty, and cannot fully capture all of the potential effects of climate, policy and technology-driven outcomes;
- Changes in the ESG regulatory landscape: this involves changes in government approach and regulatory treatment in relation to ESG disclosures and reporting requirements, and the current lack of a single standardised regulatory approach to ESG across all sectors and markets;
- Variation in reporting standards: ESG reporting standards are still developing and are not standardised or comparable across all sectors and markets, new reporting standards in relation to different ESG metrics are still emerging;
- Data availability, accuracy, verifiability and data gaps: the Group's (including the Bank's) disclosures are limited by the availability of high-quality data in some areas and the Group's (including the Bank's) own ability to timely collect and process such data as required. Where data is not available for all sectors or consistently year on year, there may be an impact to the Group's (including the Bank's) data quality scores. While the Group (including the Bank) expects its data quality scores to improve over time, as companies continue to expand their disclosures to meet growing regulatory and stakeholder expectations, there may be unexpected fluctuations within sectors year on year, and/or differences between the data quality scores between sectors. Any such changes in the availability and quality of data over time, or the Group's (including the Bank's) ability to collect and process such data, could result in revisions to reported data going forward, including on financed emissions, meaning that such data may not be reconcilable or comparable year-on year;
- Developing methodologies and scenarios: the methodologies and scenarios the Group (including the Bank) uses to assess financed emissions and set ESG-related targets may develop over time in line with market practice, regulation and/or developments in science, where applicable. Such developments could result in revisions to reported data, including on financed emissions or the classification of sustainable finance and investments, meaning that data outputs may not be reconcilable or comparable year-on year; and;
- Risk management capabilities: global actions, including the Group's (and the Bank's) own actions, may not be effective in transitioning to net zero and in managing relevant ESG risks, including in particular climate, nature-related and human rights risks, each of which can impact the Group (including the Bank) both directly and indirectly through its customers, and which may result in potential financial and non-financial impacts to the Group (including the Bank). In particular:

Additional cautionary statement regarding ESG data, metrics and forward-looking statements (continued)

- the Group (including the Bank) may not be able to achieve its ESG targets, commitments and ambitions (including with respect to the positions set forth in the Group's thermal coal phase-out policy and its energy policy, and its targets to reduce its on-balance sheet financed emissions and, where applicable, facilitated emissions in its portfolio of selected high-emitting sectors), which may result in the Group's (including the Bank's) failure to achieve some or all of the expected benefits of its strategic priorities; and the Group (including the Bank) may not be able to develop sustainable finance and ESG-related products consistent with the evolving expectations of its regulators, and its capacity to measure the environmental and social impacts from its financing activity may diminish (including as a result of data and model limitations and changes in methodologies), which may affect its ability to achieve its ESG targets, commitments and ambitions, including its net zero ambition, its targets to reduce its on-balance sheet financed emissions and, where applicable, facilitated emissions in its portfolio of selected high-emitting sectors and the positions set forth in its thermal coal phase-out policy and energy policy, and increase the risk of greenwashing.

Any forward-looking statements made by or on behalf of the Group (including the Bank) speak only as of the date they are made. The Group (including the Bank) expressly disclaims any obligation to revise or update these ESG forward-looking statements, other than as expressly required by applicable law.

Written and/or oral ESG-related forward-looking statements may also be made in the Group's (including the Bank's) periodic reports to its regulators, public offering or disclosure documents, press releases and other written materials, and in oral statements made by the Group's (including the Bank's) Directors, officers or employees to third parties, including financial analysts.

The Group's data dictionaries and methodologies for preparing the above ESG-related metrics and third-party limited assurance reports can be found on: www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.