It is by *living our values* on a daily basis that we give ourselves the *tools and power* to *climb successfully to new heights.*

ANNUAL REPORT 2020

ABC BANKING CORPORATION

AS WE WERE HIT BY THE COVID-19 PANDEMIC...

We learned
to use our skills
and expertise
differently.

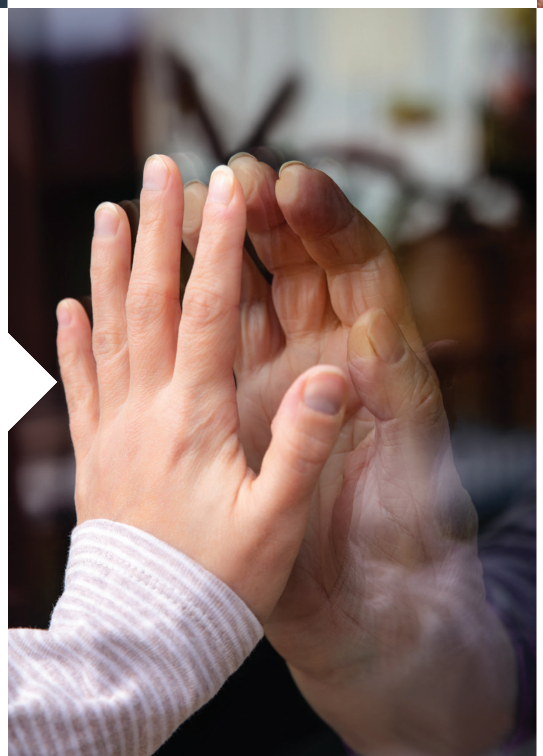
We kept faith
and never missed
an opportunity to
send positive vibes to
everyone around us.

We changed
our approach and
consumption habits.

We found
new ways of doing
old things.

We learned
to be grateful for
what we had and
thankful to the
people who were
risking their lives to
protect and save us.

We demonstrated
great solidarity,
putting our hearts
into overcoming
all challenges.



We observed
social distancing but
bridged the gap by
keeping in touch with
all our stakeholders,
strengthening our
ties like never before.

We worked
together through it all,
united as one people.

CORPORATE INFORMATION

Registered Office, Head Office & Main Branch

WEAL HOUSE
Duke of Edinburgh Avenue
Place d'Armes
11328 Port Louis
Tel: (230) 206 8000
Fax: (230) 208 0088 / 217 1908
www.abcbanking.mu
BRN: C07018920

External Auditors

Ernst & Young
9th Floor, NexTeracom Tower I
Cybercity, Ebene
Mauritius

Legal Services

Me Dev Erriah
Me Jean Christophe Oh-San Bellepeau
Me Georgy Ng Wong Hing
Me Michael King Fat
Me Ghanshyam Bhanji Soni
Me Yash Balgobin
Me Didier Dodin
Me Roobesh Ramanjooloo
Me Sheffick Sookia

Main Correspondent Banks

Abu Dhabi Commercial Bank
Bank of China (Shanghai RMB Trading Unit)
Crown Agents Bank Limited
Mizuho Corporation Bank Ltd
Société Générale, Paris
Standard Bank of South Africa Limited
Standard Chartered Bank, Germany
Standard Chartered Bank, London
Standard Chartered Bank, New York
Yes Bank Limited

BOARD OF DIRECTORS – FOR THE YEAR ENDED 30 JUNE 2020

Chairperson
Honourable Yeung Kam John (Bernard) Yeung Sik Yuen, G.O.S.K.

Managing Director
Professor Donald Ah-Chuen, G.O.S.K.

Strategic Business Executive
Mr David Brian Ah-Chuen

Members
Mr Patrick Andrew Dean Ah-Chuen
Mr Sydney Ah Yoong
Mrs Ah Foon Chui Yew Cheong
Mr Bhanu Pratabsingh Jaddoo
Me Marie Danielle Low Kwan Sang
Mrs Stephanie Ha Chow (Ceased to be a director as from 20 December 2019)

COMMITTEES OF THE BOARD

Composition as at 30 June 2020

Supervisory & Monitoring Committee

Professor Donald Ah-Chuen *(Chairperson)*
Mr David Brian Ah-Chuen
Mr Sydney Ah Yoong

Audit Committee

Mr Sydney Ah Yoong *(Chairperson)*
Mr Bhanu Pratabsingh Jaddoo
Honourable Ah Foon Chui Yew Cheong *(Appointed as member as from 20 December 2019)*
Mrs Stephanie Ha Chow *(Ceased to be a member as from 20 December 2019)*

Risk Management Committee

Mr Bhanu Pratabsingh Jaddoo *(Chairperson)*
Professor Donald Ah-Chuen
Mr Sydney Ah Yoong
Mr Patrick Andrew Dean Ah-Chuen *(Appointed as member as from 20 December 2019)*
Mrs Stephanie Ha Chow *(Ceased to be a member as from 20 December 2019)*

Conduct Review Committee

Mr Sydney Ah Yoong *(Appointed as Chairperson as from 20 December 2019)*
Honourable Ah Foon Chui Yew Cheong
Mr Bhanu Pratabsingh Jaddoo
Mrs Stephanie Ha Chow *(Ceased to be a member as from 20 December 2019)*

Corporate Governance Committee

Me Marie Danielle Low Kwan Sang *(Chairperson)*
Honourable Yeung Kam John (Bernard) Yeung Sik Yuen
Professor Donald Ah-Chuen

Nominations and Remuneration Committee

Me Marie Danielle Low Kwan Sang *(Chairperson)*
Honourable Yeung Kam John (Bernard) Yeung Sik Yuen
Professor Donald Ah-Chuen

Business Strategic Committee

Mr Bhanu Pratabsingh Jaddoo *(Chairperson as from 19 September 2019)*
Professor Donald Ah-Chuen
Mr David Brian Ah-Chuen
Mr Sydney Ah Yoong

COMPANY SECRETARY & SHARE REGISTRY

ABC Professional & Secretarial Services Ltd, represented by Mr Mahesh Ittoo, *ACIS*.
The Company Secretary acts as Secretary to the Board and all Board committees.

ABOUT THE REPORT

This Annual Report of ABC Banking Corporation Ltd (the "bank") has been prepared with the aim of providing all our stakeholders with material information relating to the bank's strategy and business model, material risks, stakeholder interests, performance, prospects and governance, for the period spanning from 1 July 2019 to 30 June 2020. Material events after this date and up to 28 September 2020, the date of approval by the Board of Directors of the bank, have also been considered for this report.

This report is a testimony of the bank's effort to adopting the principles of the Integrated Reporting Framework as directed by the International Integrated Reporting Council (IIRC). Hence, over and above the customary financial reporting, this report extends its coverage to non-financial performance, opportunities, risks and outcomes attributable to or associated with our key stakeholders.

The bank, being regulated by the Bank of Mauritius (BOM), is also subject to a number of regulatory reporting as part of the annual report. The bank had to, therefore, find a balance in this report between the regulatory sections and a strategic section, which is more in line with the principles of the Integrated Reporting Framework in relation to the conciseness and clarity of strategic reporting.

The report is therefore split as follows:

1.Strategic section

- Chairman's Letter
- Board of Directors
- Corporate Profile
- Products and Services
- Managing Director's Report
- Management Team
- Strategy Report
- Our Business Model
- Material Matters in our Operating Environment
- Risks for the Bank
- Financial Highlights

2.Regulatory section

- Corporate Governance Report
- Statement of Compliance
- Other Statutory Disclosures
- Company Secretary's Certificate
- Statement of Directors' Responsibilities
- Management Discussion and Analysis
- Risk Report
- Statement of Management's Responsibility for Financial Reporting
- Independent Auditor's Report
- Financial Statements

FORWARD-LOOKING STATEMENT

The report contains forward-looking statements which, by their nature, involve risk and uncertainty because they relate to future events and circumstances that may be beyond our control. We therefore advise readers to use caution in interpreting any forward-looking statements in this report.

TABLE OF CONTENTS

Strategic section

Regulatory section

We greatly respect and value our history, culture and traditions, our country and our planet, our ancestors and our elders. We are honest with ourselves and to others.

CHAIRMAN'S LETTER

It is with mixed emotions that I am presenting you the bank's Annual Report for the financial year ended 30 June 2020. Given the unforeseen sudden change in the economic and medical landscape across the globe, it is with great humility, courage and resilience that the board, the management and the staff of the bank have coped with the depressing situation brought by COVID-19 to our country and to the whole world since March of this year.

As this is my last report as Chairman of ABC Banking Corporation Ltd, I also feel proud to have been part of the amazing journey that the bank has undertaken to stand solidly where it is today. Indeed, my last year as Chairman of the Board of Directors of ABC Banking Corporation Ltd has been nothing short of challenging. Having to deal with the national lockdown due to COVID-19 and more importantly the consequences of the lockdown has been a primary focus of the Board. These difficult times have shown how resilient the bank has become given that the Capital Adequacy Ratio (CAR) of the bank was at 17.3% and the Liquidity Coverage Ratio (LCR) was 299%, both were comfortably above the regulatory minimum at 11.975% and 100% respectively. It is with these strong fundamentals, acquired over years of hard work, determination and steady growth, that the bank has been able to weather this storm and contribute effectively in solidarity with the authorities and the people of Mauritius to contain the spread and repercussions of the pandemic.

Despite a solid operating income generated over the first three quarters of the financial year, the predicted figures for the year were strongly impacted by the allowance for credit impairment (as further explained in the Financial highlights on page 30 to31). The Board remains fully alive to our shareholders' expectations with regard to the performance of the bank and strongly believe that with its solid foundations, the negative impact on profits should be temporary and that the bank will come out of this stronger than before.

I want to take this opportunity to first thank the Board of Directors for their invaluable input and participation during my tenure as Chairman. I also want to thank the management team for their passion and drive for success. Having the right team in place has been key to the bank's accomplishments. Thank you for the immense honour of serving the bank and its outstanding team. I leave the bank today feeling optimistic about the future of the bank as it stands ready for future challenges.

My best wishes and good luck to ABC Banking Corporation Ltd.

Hon. Yeung Kam John (Bernard) Yeung Sik Yuen, G.O.S.K
Independant Chairperson

BOARD OF DIRECTORS

Profiles of Directors on pages 38 to 40.

IT IS BY PUTTING OUR MINDS AND HEARTS TO GIVE OUR CUSTOMERS FULL SATISFACTION, THAT WE WERE ABLE TO OVERCOME ALL OBSTACLES DURING THIS WATERSHED YEAR. TRUE TO OUR VALUES, WE SUCCEEDED IN PROVIDING QUALITY PRODUCTS AND SERVICES TO ALL OUR CUSTOMERS.

1. **Hon. Yeung Kam John (Bernard) Yeung Sik Yuen**
2. **Professor Donald Ah-Chuen**
3. **Mr David Brian Ah-Chuen**
4. **Mr Patrick Andrew Dean Ah-Chuen**
5. **Mr Sydney Ah Yoong**
6. **Hon. Ah Foon Chui Yew Cheong**
7. **Mr Bhanu Pratabsingh Jaddoo**
8. **Me Marie Danielle Low Kwan Sang**
9. **Mrs Stephanie Ha Chow**

CORPORATE PROFILE

With its Headquarters and banking operations all based at its prestigious WEAL HOUSE, strategically located in the heart of the island's capital at Place d'Armes, Port-Louis, ABC Banking Corporation Ltd (the "bank") continues its steady ascending course and stands as a well-established bank, highly respected for its excellent reputation, its strict integrity, and top quality of its products & services. In February 2020, major departments within the bank shifted to the newly renovated PLANTATION HOUSE acquired by the bank in 2018.

The bank is organised on four main pillars being: Retail & Corporate Banking, Private Banking, International Banking and Treasury. To run the business and deliver its products & services successfully, the bank is equipped with a highly motivated and committed team of experienced professionals and competent staff, led by a talented, innovative and supportive Management, in turn guided by a wise and experienced, well informed, prudent, and cohesive Board of Directors.

Starting in December 2010 with a portfolio of MUR 2.0 billion of Term Deposits, a legacy of its original status as a Finance & Leasing Company, the bank has the great merit of having built up after nine and a half years of operations as a bank, a Deposit base totalling MUR 16.8 billion while the total of its Shareholders' Equity during that period was MUR 1.8 billion.

A major milestone was achieved in January 2016 when the bank opened its shareholding to the public and was listed on the Development and Enterprise Market (DEM) of the Stock Exchange of Mauritius (SEM). The bank ranks among DEM listed companies whose share prices have achieved significant percentage increases since listing. In March 2018, the bank was honoured by the election of its Managing Director, Professor Donald Ah-Chuen, as director of the SEM.

Following its rapid growth, successful performance and steady progress, the bank has been receiving prestigious trophies during the past few years. In 2014, the bank obtained the "Best Private Bank in Mauritius" award in the category of offshore services, for the second consecutive year from Euromoney Magazine. It also won in 2014 and 2015 the prize of "Best Bank for International Banking Services Mauritius" awarded by Global Banking & Financing Review. Three distinctions came successively in 2015, 2016 and 2017 from Capital Finance International (CFI.co) Magazine recognising the bank as one of Africa's top performing financial services providers with the award of "Best International Bank Indian Ocean". The bank also won the "Fastest Growing Banking Brand, Mauritius" for the year 2016 by the Global Brands Magazine. Last year, the bank was honoured with an award by the CFI Magazine, with the accolade of "Most Innovative & Fastest Growing International Bank in the Indian Ocean 2018", which is a fitting recognition of the hard work achieved by everyone at the bank.

OUR VISION

To be the preferred and trusted bank in our stakeholders' quest for success and value creation.

OUR MISSION

We strive to delight our customers whilst delivering on our responsibilities towards the country, community & environment.

We shall also drive the continuous development of the bank as one team, whilst catering for diverse interest, providing development opportunities for individual talents.

Furthermore, we commit to uphold our shareholders' and all stakeholders' trust in us.

OUR VALUES

Integrity

A commitment to always do the right thing, no matter what the situation or potential gain involved.

Loyalty

To have a strong sense of belonging and dedication to the groups' activities, beliefs and values.

Tenacity

An inner desire to keep advancing and progressing in the face of adversity.

Spirit of innovation

The zest to continuously come up with new and creative solutions amidst changing times.

Service excellence

The dedication to deliver the utmost level of customer experience.

PRODUCTS AND SERVICES

ABC BANKING CORPORATION
count on us

DOMESTIC BANKING

CORPORATE BANKING

- Corporate Accounts
- Internet Banking
- Corporate Leasing
- Trade Finance
- Treasury Line
- Invoice discounting
- Revolving Credit Line
- Project Financing
- Multi-currency Line

PRIVATE BANKING

- Diamond Savings account
- Fast track approval on loans and leasing facilities
- Foreign exchange and Treasury services
- Customized financial solutions
- Term Deposits in MUR and FCY
- Housing loan facilities in MUR and FCY (EUR and USD)

RETAIL BANKING

- Savings account
- Current account
- Senior account
- Term Deposit Account
- Loans and leasing
- Overdraft
- Debit Card
- E-banking

INTERNATIONAL BANKING

- Call deposits
- FOREX transactions: at attractive rates
- 24/7 Online Banking
- Standing Orders
- International wire
- Transfer/Payments
- Money Market
- Term deposit solutions
- Accounts in all Major currencies
- Payroll services
- Trade Finance

TREASURY

- Investment and cash management
- Risk management
- FX conversions
- Asset & Liability Management
- Securities Trading
- Market Insights

E-BUSINESS

- Issuing and acquiring services
- e-commerce
- e-payment solutions

MANAGING DIRECTOR'S REPORT

Dear Valued Shareholders,

It gives us much pleasure to share with you a review of this challenging year and more importantly to convey our reassuring views and our hopes, and the basis of our optimistic expectations for the continued progress and growth of our bank.

> One positive impact of COVID-19 has been the acceleration of the digital revolution in payments.

Overview

The advent of COVID-19 has indeed inflicted terrible shocks, turmoil and disasters to our planet. With the severe blow suffered by all countries in their financial, economic, and social activities, it will be a long and arduous task for all nations and governments to recover from such difficult situations, but countries like Australia and Mauritius are already in the forefront for taking the necessary initial steps towards a gradual recovery of the economy.

The Mauritian Gross Domestic Product (GDP) is projected to shrink further during the rest of the year, before starting to recover in 2021. On the global stage, the US economy shrank lower in what is the biggest contraction ever, pushing the economy into a recession as the COVID-19 pandemic has forced many businesses to close. Fed officials see the US economy shrinking 6.5% in 2020. In Europe, the number of unemployed persons rose to 12.7 million, with several countries across the bloc remaining under strict containment measures. This shows that no country has been spared from the COVID-19 pandemic. However, there is now the good news of the breakthrough made by scientists of British and Australian universities in the development of vaccines and an effective drug against the Corona virus, with the trials having now reached their final stage. This is a most encouraging turn of events which will bring about a conclusive death blow to the pandemic and speed a smooth recovery of the world's economy and social progress.

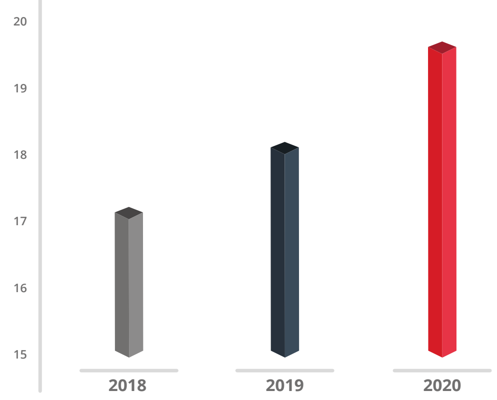
Moreover, another unfortunate surprise in the year was the inclusion of Mauritius in the European Union's Black List of Countries on the 7th May 2020. This is understood to be a direct consequence of the listing of Mauritius by the Financial Action Task Force (FATF) on its list of "Jurisdictions under Increased Monitoring" earlier this year. It is a very good sign that the Government has taken serious steps to remedy the weaknesses identified by the FATF although it appears unlikely that Mauritius will be removed from the list until mid to late next year.

Performance of the bank 2019-20

The bank was building on the momentum of the last few years and was steadily growing the loans and advances portfolio.

The bank was on track for a very good performance up until the quarter ended 31 March 2020 where as per the published results, the asset book had grown to above MUR 20 billion. However, it was not possible to maintain that growth momentum with the national lockdown followed by a slowdown in the economy. Nonetheless, a growth of 8.8% in terms of total assets given the circumstances is something the bank can be proud of.

Total assets (MUR bn)



The allowance for credit impairment has significantly grown from MUR 57 million to MUR 311 million due to an exceptional increase in specific provisions linked to exposures which have become non-performing assets. There is also an increase in general provisions linked to the increased credit risk in exposures affected by COVID-19. However even though this represents a meaningful increase, the bank's Non-Performing Loan (NPL) ratio of 5.4% is still aligned with market norms reflecting the bank's robust credit assessment policy as well as a culture of not taking shortcuts for short term profit but focusing on sustainable income.

The Capital Adequacy Ratio (CAR) is a key metric to assess the robustness of a bank and one of the main purposes of Basel III was to ensure that banks are robust enough to sustain adverse changes in the economic cycle. It is therefore very important in this current climate to have the right capital planning in place. The bank's CAR stood at 17.31% compared to the regulatory minimum of 11.975%. This is a healthy buffer to hold and is a result of a consistent growth in the retained earnings over the past years as well as the Tier 2 bond issue raised in 2019.

The future of payments

One positive impact of COVID-19 has been the acceleration of the digital revolution in payments. With the lockdown, an increase in e-commerce activities could be observed, which indicates an acceptance of digital payments in the Mauritian consumer habits.

However even before COVID-19, the country was already in its digital transformation with regard to payments. The Bank of Mauritius launched on 14 August 2019 MauCas, which is an electronic platform to facilitate cash transactions in the country. MauCas will simplify the current payment system by routing transactions through cards, mobile phones or internet platforms for settlement at the Bank of Mauritius. This should result in instant payment at much better pricing and more innovation in the payment space, both of which will be to the benefit of the end consumer.

Outlook

With the restriction on business activities and the closure of our frontiers, the resulting impact on the economy has been significant. Over and above posing a serious health threat, COVID-19 has interrupted movement of people and also of goods throughout the country and the world. In this regard, the bank has already helped a good number of our customers by providing them with the necessary Moratorium Relief with respect to their loans.

We believe that our country has the capacity and the solidarity to rely on the intelligence and savoir-faire of its people to rebuild its economic and financial situation. The country is self-sufficient in a number of alimentary items, such as the production of chicken, eggs, flour and potatoes; the country is becoming more sustainable in terms in its production of energy with new wind and solar farms being set up; and also Mauritius has a strong credit rating and through the Central Bank has built up over the last 25 years a salutary reserve of several billions of US Dollars.

Therefore, despite a situation of zero revenue in the tourism sector, our country has enough resources and organizational skills and willpower to stand up again and move forward.

I want to underline that we have succeeded during the nine years of our bank's operation to build up a strong share capital as well as a solid and protective shield of reserves & provisions, as well as a significant deposit base totaling nearly MUR 16 billion. The way we reacted following the national lockdown in terms of being agile enough to adapt to the situation to ensure a seamless service to our local and international clients stands as a testament to the commitment and constant readiness, hard work and perseverance, courage and tenacity, and passion and drive of the Management and staff at all levels of the bank to whom I would like here to extend our deep appreciation and gratitude.

Together, we have succeeded against all odds to achieve a positive and respectable financial outcome for the financial year just ended which will strengthen further our bank's operations, lending capacity and financial standing.

Acknowledgement

I wish to place on record the unabated hard work and perseverance of the whole team amidst these unprecedented times. This have been instrumental in ensuring we achieve a decent performance given the current situation. It is also crucial to highlight the guidance and the invaluable support of the Bank of Mauritius. Moreover, I praise our customers and other stakeholders for their trust and continuous support. Yes you can all count on us!

Professor Donald Ah-Chuen, G.O.S.K
Managing Director

MANAGEMENT TEAM

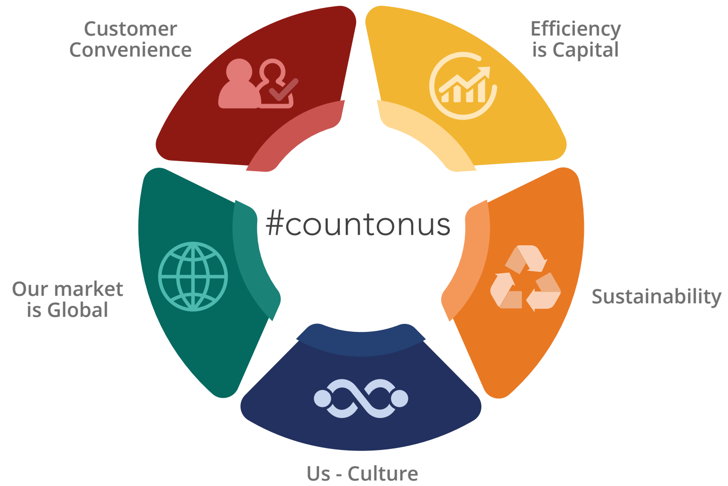
TEAMWORK AND OUR ABILITY AT ADAPTING TO THE SITUATION, HAVE BEEN KEY IN OVERCOMING THE CHALLENGES WE HAVE FACED THESE LAST FEW MONTHS. THIS YEAR, MORE THAN EVER, WE HAVE LEARNED TO EMBRACE NEW TECHNOLOGIES AND TRENDS TO SUCCEED.

1. **Mr Yashodaren Umanee**
2. **Mr Patrick Andrew (Andy) Leong Son**
3. **Mr Abdool Wahab Khadaroo**
4. **Mrs M. A. Christine K.L. Ng Cheong Hin**
5. **Mr Kushal Bajnathsingh**
6. **Mr Abdullah Nurmahomed**
7. **Mrs Natasha Jade Wong Chung Ki**
8. **Mrs Laura Li Shen Pin**
9. **Mr Veeramdeve Nem**
10. **Mr Ashees Maunick**

Profiles of Management team on pages 42 to 44.

STRATEGY REPORT

What a year it has been – 2020 has so far been full of surprises and unfortunately most of them not good ones. Having a strategic direction is key to the success of any organisation and knowing how to adjust goals and objectives within that strategic direction as a result of unforeseen circumstances is an essential skill in this now ever-changing world.



[the above is a compass representing the strategic direction of the bank, as approved by the Board]

The COVID-19 pandemic leading to numerous national lockdowns which is likely to result in a global recession, the Wakashio Oil Spill and the effect of the EU Blacklist on the local economy – these are to name a few of the events that occurred in 2020, where it was important to assess their impact on the bank's execution of its strategy. It was important to step back and reflect for a moment. Not only for the bank, but as a country, we can now see how much reliance we place on the tourism sector and how crucial it is that we achieve self-sustainability. As for the banking sector, being part of the essential services during lockdown has shown how integral it was to the running of the economy and how the banking sector's role in the recovery of the economy cannot be understated. Even as individuals, we have taken the time to reflect on what is important and what is superficial in our life and we can already see the impact of this in the change of daily habits. Now is the time to press the reset button.

As a bank, this reflection allowed us to put even more emphasis on being agile as it is with this agility that we have been able to switch to a work-from-home mode without any impact on our customers. We have seen how our operational stability is an important foundation on which we can develop new products and strategies. The next few years will be challenging and it is difficult to predict how the market will evolve but we know we have the right strategy when its ultimate goal is to make our customers' lives easier and ensure they can count on us at all times.

Outlook for the bank

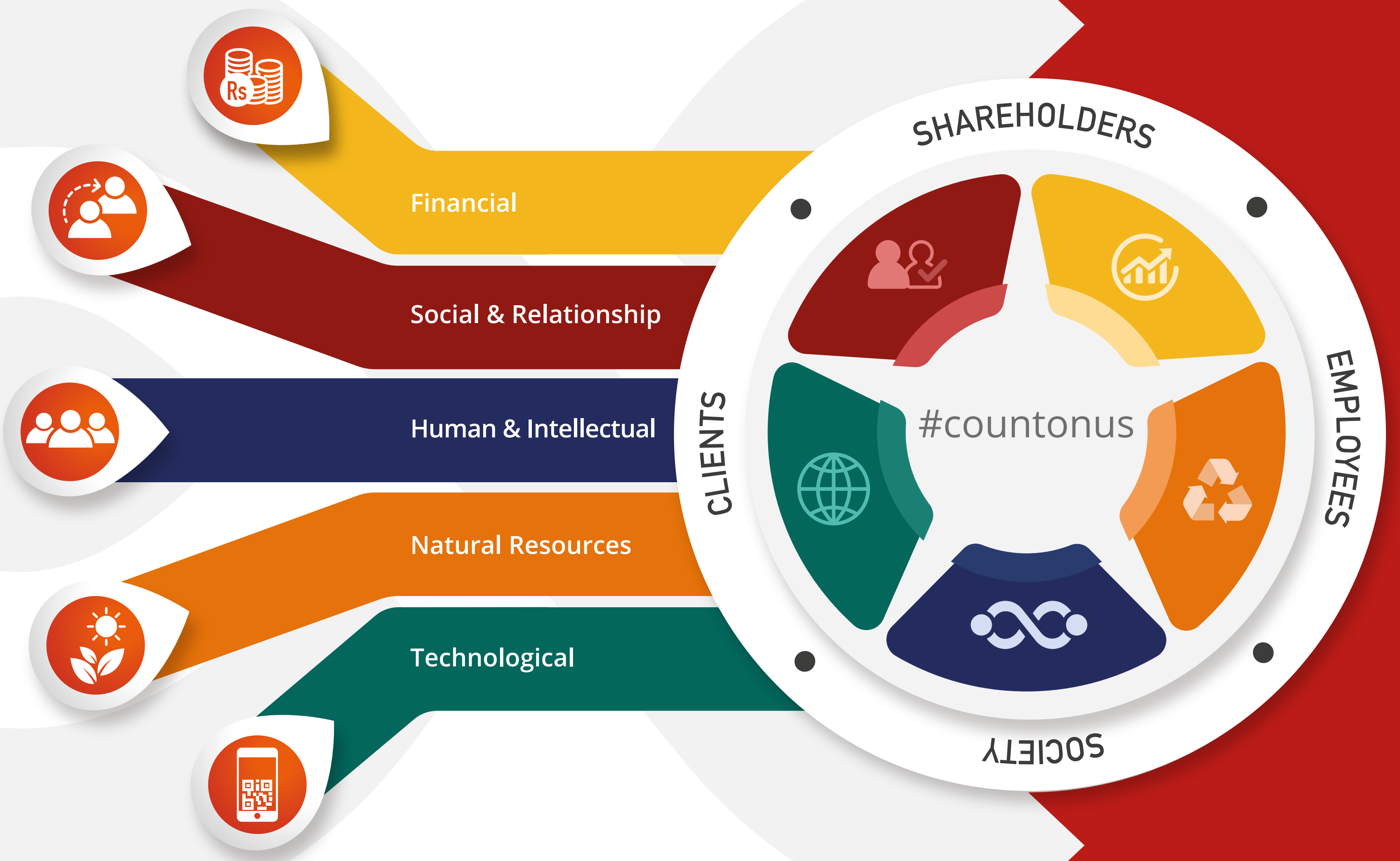
The bank has a clear plan to achieve its strategic goals with a number of projects initiated:

- Investment in technology: the bank has partnered up with tech/fintech companies to develop and implement new software that will significantly improve the banking experience of our clients. These are the first steps of the bank's digital transformation.
- International expansion: Given the current closure of borders by a number of countries, including Mauritius, plans to open a new Representative Office have been delayed but nonetheless going forward as soon as practically possible.
- Corporate partnerships: the bank is keen to build on its network and have formal affiliation in place in its expansion plans.
- Office space: the expansion of the office to Plantation House was a strategic move to allow the bank to have enough space to support the growth of the bank.

Mr. Brian Ah-Chuen
Strategic Business Executive & Director

OUR BUSINESS MODEL

INPUT
OUR CAPITALS



OUTPUT
VALUE DRIVEN BY STAKEHOLDERS

Customers
- Loan and advances increased by 28%
- Revamp Private Banking offering
- Implementation of phase 1
  - Digital transformation program

Staff
- In-house Training Centre
- MUR 2.5m invested in training
- Male : Female ratio = 1.1 : 1.0

Shareholders / Investors
- No dividend declared
- PAT of MUR 120M
- Strong CAR of 17.3%
- Capital & reserves grew to MUR 1.84Bn

Society
- MUR 1.91m CSR Contibution (refer to page XX for more information)
- Over 200 clients assisted through BOM COVID-19 support programme

Regulators
- Compliance with all banking and listing regulatory requirements
- Adoption of Macro-prudential measures
- Implementation of Risk-Based Monitoring of operations

OUTCOMES
OUTCOMES DRIVEN BY OUR CAPITALS

Financial
As an economic enabler, we strive to be our clients' financial companion of choice. We also value the implementation of technologically innovative projects as a means to maximise shareholders' value

Social & Relationship
Our unique business model coupled with our expertise ensure that our clients can count on us to experience a bespoke customer service and assistance. Based on our personal relationship approach, we ensure our products and services fulfil the needs, expectations and requirements of our clients

Human & Intellectual
We value our employees and constantly engage with our team members. As an equal opportunity employer, we also accompany our staff in their quest for professional development so that they may furtherance their role as brand ambassadors

Natural Resources
As a responsible institution, we reckon that our current needs should not compromise those of the future generations. As such, we have initiated an Integrated Sustainability Plan and we are currently working on a series of internal projects to sensitize our staff and immediate stakeholders on the cruciality of our green initiatives

Technological
With the deployment of our digital transformation roadmap, we aim at enhancing our value proposition by developing end-to-end solutions geared at sustaining our growth and maximizing customer experience. We also aim at becoming a data-driven institution

MATERIAL MATTERS IN OUR OPERATING ENVIRONMENT

MACROECONOMIC ENVIRONMENT – DOMESTIC & GLOBAL

Economic fundamentals have drastically shifted with the COVID-19 pandemic impacting the bank's domestic and global markets. Recession will hit most world countries with widespread repercussions on growth and business opportunities. The Mauritian economy is likely to contract by a record 13.00% in 2020 whereas the world economy is expected to shrink by 5.20%, its deepest recession in recent memory. Mauritius being an open economy and having growth pillars such as Tourism and Manufacturing, will be particularly hit and recovery will be a long and painful course. The depreciation of the rupee together with disrupted maritime and air routes will heavily impact import prices and quantity. The closure of the export sector led to a shortage of currency and the Rupee immediately depreciated. This had led to the importance for the country to be more self-sufficient for its consumption. Exacerbating the situation, Mauritius was included in the EU blacklist of high-risk countries allegedly having strategic deficiencies in their AML-CFT framework. The offshore segment substantially contributes to the balance sheet and profitability of banks locally.

Given the expected prolonged effect of the pandemic on the economy, it is likely that the bank will face lower demand for its traditional products. Furthermore, based on current applicable accounting standards and regulations, the provisions for credit impairment would also increase as the expected credit loss associated with the recession settles in. Mauritius, being no exception to the global trend, has entered the low interest environment and this situation is expected to persist over at least the next year, hence impacting interest income, especially the fixed income investment portfolio. The EU blacklist will pressurise our deposit balances and fee income on remittances.

However, this new normal has also brought about a shift in approach for business. In fact, these bottom-line impacts and other restrictions have caused the rethinking of the strategic goals and tactical organisation of our bank, namely international & corporate expansion. For instance, the development of new products, services and digital channels are being inevitably accelerated.

REGULATORY LANDSCAPE

The regulatory panorama has evolved in response to the challenges and risks posed by COVID-19. Banks need to lay special emphasis on capital resiliency, risk appetites, frameworks and additional liquidity buffers. In this respect, new guidelines are being issued to support the industry. Correspondent banks are equally re-adjusting their policies towards servicing offshore banks, with the EU blacklist in perspective.

The bank is faced with more stringent correspondent banking relationship management and higher compliance costs. New guidelines will impact our business model, especially with regards to cross border lending, credit concentration and re-defined risk appetite, both credit or liquidity. Dividend payment restrictions will impact investor interests and enhanced due-diligence will impact operational efficiency. However valuable lessons are being learnt which will positively impact the bank's operations and strategy for the longer term. Regulatory capital and liquidity requirements were likewise relaxed, at least for the short term to assist banks navigate through this pandemic.

FINANCIAL TECHNOLOGY ENABLERS

The new normal has greatly spurred unprecedented changes in the way businesses and customers behave and function. Digitized operations bring more efficiency and the digitalization of business models enable an inroad into new markets and opportunities. It is believed that great disruptions bring about great innovations. Customers, including those previously reluctant towards digital solutions, were forced to adopt these new technologies. As they embark on this new experience and start enjoying it, their expectations are equally changing. The launch of MauCas, being an electronic platform to facilitate cash transaction, on the 14th August 2019 by the Bank of Mauritius is expected to bring innovation and better pricing in the payment market. It has also been observed that in the recent budgetary announcement, the Government announced that a Central Bank Digital Currency ("CBDC") will be one the key products to be development by BOM in the coming years. This is in anticipation of a number of central banks, especially in Europe that are fast tracking the adoption of CBDC. All of these will have a significant impact on the banking landscape.

The bank commenced its digital transformation journey some time back, and is now accelerating the deployment of various offerings that will contribute to its future success. Our business is modelled to exploit disruptive technologies. Customer education and cyber-security remain major success determinants in this pursuit.

SANITARY MEASURES ON HUMAN & INTELLECTUAL CAPITAL

The term "New normal" has been used in a number of contexts and the sanitary measures put in place to combat the pandemic has been among the first ones to really affect the day to day habits of everyone. Social distancing, lock-downs, curfews, travel restrictions or frequent use of sanitisers, these are new elements in our lives that we have to adapt to. Working from home, once not on the agenda of many boards, is now a reality. It is estimated that only 7.9% of the world's workforce worked from home on a permanent basis pre COVID-19. Obviously, this figure is now much higher. Companies have adapted to the new reality and learned the numerous benefits in addition to the known challenges. New policies needed to be drafted and logistics organized to make this possible. For some time now, the human capital element in a business has attracted much attention and positive changes. Employee welfare is central and has a direct correlation to business success.

The bank adopted a number of measures such as work from home quite rapidly using available technologies such as remote connectivity and other security tools. Proper steps were taken to ensure that social distancing was maintained in the working environment and operational procedures had to be adequately amended to cater for these changes. Talent management together with recruitment policies will need to encompass new employee needs and aspirations.

OPERATIONAL EFFICIENCY

The new normal is more with less. More services in less time, or more benefits at lower costs and less time. Customer and operational convenience are related and the latter determines the former. As customer expectations are now higher and new technologies embraced, a drastic change of mindset has brought about a paradigm shift, urging companies to acclimate to be successful.

The bank will need to make sure that, from its strategic objectives to micro level projects, all activities are in line with this necessity. Value creation and long-term success will depend on how we operate in the new normality. Automation for the point of stating such project is not the point but automation resulting in improved efficiency, in making better use of our resources or having a value-added operations is what is necessary.

RISKS FOR THE BANK

1.RISK MANAGEMENT FRAMEWORK

Risks exist when a decision or action has an uncertain outcome that could impact our performance. The risk framework aims to manage rather than eliminate the risk of failure in order to achieve the business objectives. It can provide reasonable but not absolute assurance against material misstatement or loss. The bank seeks to ensure that the expected returns compensate for the risks taken and appropriate measures are put in place to mitigate any identified weaknesses in the control environment. The risk management framework sets a balanced risk appetite that takes into account the operating environment and our strategy. It is essential that business plans are supported by an effective risk management framework to allow us to grow sustainably and responsibly.

BOARD
RISK MANAGEMENT COMMITTEE
GOVERNANCE SET-UP
RISK APPETITE FRAMEWORK
THREE LINES OF DEFENCE
RISK CONTROL ASSESSMENT
IDENTIFICATION OF RISKS

Three Lines of Defense

1st LINE	2nd LINE	3rd LINE
Process and control owners in customer facing segments and Group functions which are responsible for managing end-to-end risks and controls in their businesses.	Independent risk, compliance, legal and control functions which formulate risk and control policies, and review the first line's adherence to these.	Internal audit function test and review controls to determine that the first and second lines execute their responsibilities effectively and consistently.

2.RISK RATIOS AT A GLANCE

LCR Consolidated: 299%
MUR: 1390%
USD: 121%
EUR: 103%

CAR: 17.3%
TIER 1 CAPITAL: 12.8%

NPL: 5.4%

3.RISK HIGHLIGHTS

	SN.	RISK CATEGORY	RISK DESCRIPTION	RESIDUAL RISK*
FINANCIAL RISK	1	FUNDING AND LIQUIDITY RISK	Funding risk refers to the risk that a bank does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient. Liquidity Risk is defined as the potential loss arising from either the inability to meet its obligations when they fall due or to fund increases in assets without incurring unacceptable cost or losses.	
	2	INTEREST RATE RISK	The risk of potential negative impact on the Net Interest Income and refers to the vulnerabilities due to movement in interest rates.	
	3	MARKET RISK	Market Risk refers to the risk of loss arising from adverse changes in interest rates, foreign exchange rates, equity prices, commodity prices and other market changes.	
	4	COUNTRY RISK	Country risk refers to the risk attributable to events in a specific country. It is the risk of loss associated with lending, pre-settlement, money market and investment transactions in any given country.	
	5	CREDIT RISK	Credit risk is the risk of financial loss resulting from failure of the parties, with whom the bank has contracted, to meet their obligations (both on and off-balance sheet).	
NON-FINANCIALL RISK	6	CYBER RISK	Cyber Risk is defined as the potential threats occurring from failures in digital technologies, electronic systems, technological networks, devices and media.	
	7	OPERATIONAL RISK	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	
	8	COMPLIANCE RISK	Compliance risk is exposure to legal penalties, financial forfeiture and material loss the bank may face as a result of failure to comply with laws and regulations, internal policies and prescribed best practices.	
	9	INFORMATION RISK	Information risk are risks associated with regards to data protection, system performance, service delivery and time to market new products.	
TRANSVERSAL RISK	10	BUSINESS STRATEGIC RISK	Strategic Risk refers to the risk to earnings and/or capital arising from adverse effects of business decisions, failure to meet the business development targets, improper implementation of business decisions/projects, failure to react to unexpected external events which can impact on the business.	
	11	REPUTATIONAL RISK	Reputational Risk refers to the risk of loss arising from the adverse perception of the image of the bank by customers, counterparties, stakeholders.	

*Residual risk is the residual risk after taking into consideration the control environment put in place by management.

Low Medium

FINANCIAL HIGHLIGHTS

Mr. Andy Leong Son
Head of Finance

Interest income grew by 9.8% this year in line with the growth in the total asset balance of the bank by 8.2%. It is observed that the low interest rate environment (partially caused by the reduction in Key Repo Rate by 150bps) prevailing during the year has materially impacted the contributions of Investment Securities, Loans and Advances, and Placements with Banks to the total interest income balance as same represented only 40.0% this year compared to 46.6% last year. The trend over the last few years shows a healthy growth in interest income while also demonstrating good control on the interest expense, resulting in a healthy interest margin of around 65.0% for the last 2 years.

Interest Income | **9.8%** ↑

Total Asset Balance of the Bank | **8.2%** ↑

It was inevitable that all businesses were impacted by Covid-19 this year and the banking sector is no different. The first nine months of the year, although challenging, were positive for the bank and this is reflected in the Operating income line showing a growth of 17.0%.

The bottom-line figure was impacted by the increase in provision for credit impairment. With the adoption of IFRS 9 last year, the bank's use of an Expected Credit Loss (ECL) model would limit the delay in the recognition of credit losses ensuring that if and when an exposure does become non-performing, the impact on the bank's performance and capital is less significant.

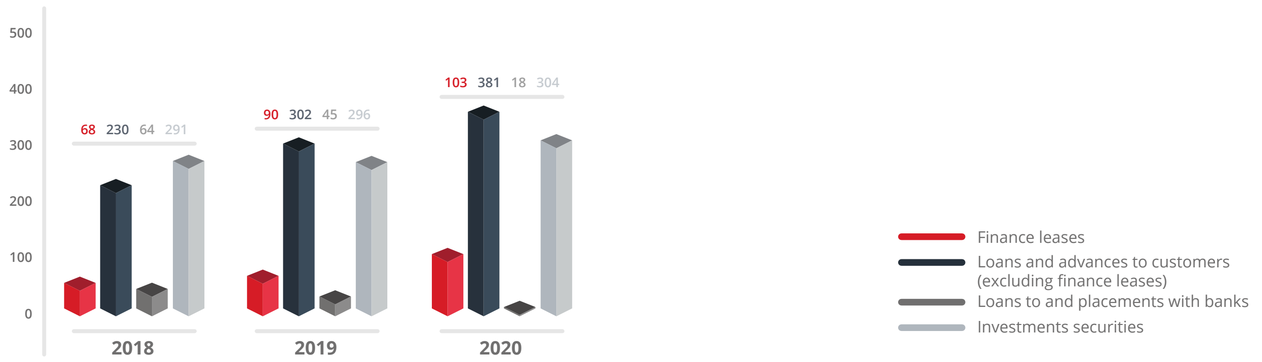
The impact on the Covid-19 pandemic on businesses cannot be understated and the role of the banking sector is an important one in the recovery of the local economy. It is to assist that recovery that the Central Bank has put in place a number of measures such as the reduction of the Cash Reserve Ratio requirement or the easing of guidelines on capital requirements. From the bank's perspective, given a strong Capital Adequacy Ratio of 17.3%, we believe that we are in a good position to contribute to that recovery and come out of these uncertain times as a stronger bank.

	BANK		
	2020	2019	2018
INCOME STATEMENT (MUR m)			
Net Interest Income	**516.4**	482.5	385.8
Operating Income	**762.9**	652.3	559.4
Profit before impairment	**432.1**	328.0	301.3
Profit before tax	**121.4**	271.3	291.8
Profit after tax	**120.4**	223.9	242.4
STATEMENT OF FINANCIAL POSITION (MUR m)			
Total assets	**19,705.1**	18,175.0	17,104.0
Net loans and advances portfolio	**9,769.4**	7,635.9	6,054.5
Total deposit	**16,799.7**	15,239.5	14,966.2
Shareholders' fund	**1,836.8**	1,771.2	1,510.3
Tier 1 Capital	**1,804.8**	1,759.2	1,484.7
Total net capital	**2,444.8**	2,358.8	1,574.1
Risk- weighted assets	**14,124.5**	12,361.9	10,385.8
PERFORMANCE RATIOS (%)			
Return on average total assets*	**0.6**	1.3	1.4
Return on equity*	**6.6**	12.6	16.1
Non-interest income to operating income	**32.3**	26.0	31.0
Loans and advances to deposit ratio	**60.6**	51.2	41.5
Cost to income ratio	**43.4**	49.7	46.1
CAPITAL ADEQUACY RATIOS (%)			
Capital & Reserves/Total assets	**9.3**	9.7	8.8
Capital adequacy ratio	**17.3**	19,1	15.2
Tier 1 ratio	**12.8**	14.2	14.3
INVESTOR DATA			
Earnings per share (MUR)**	**1.6**	2.9	3.2

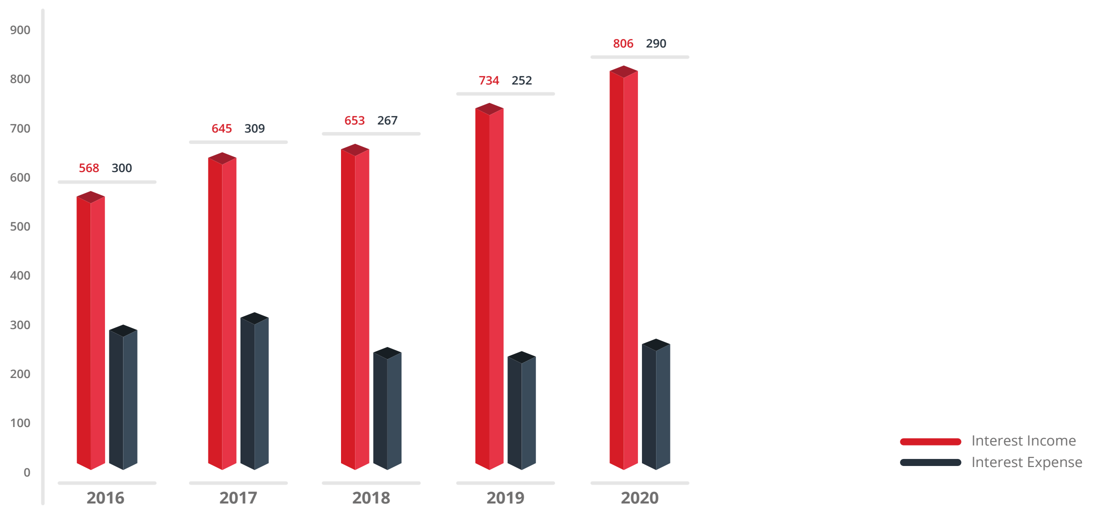
*based on profit after tax
**based on average number of shares

FINANCIAL HIGHLIGHTS

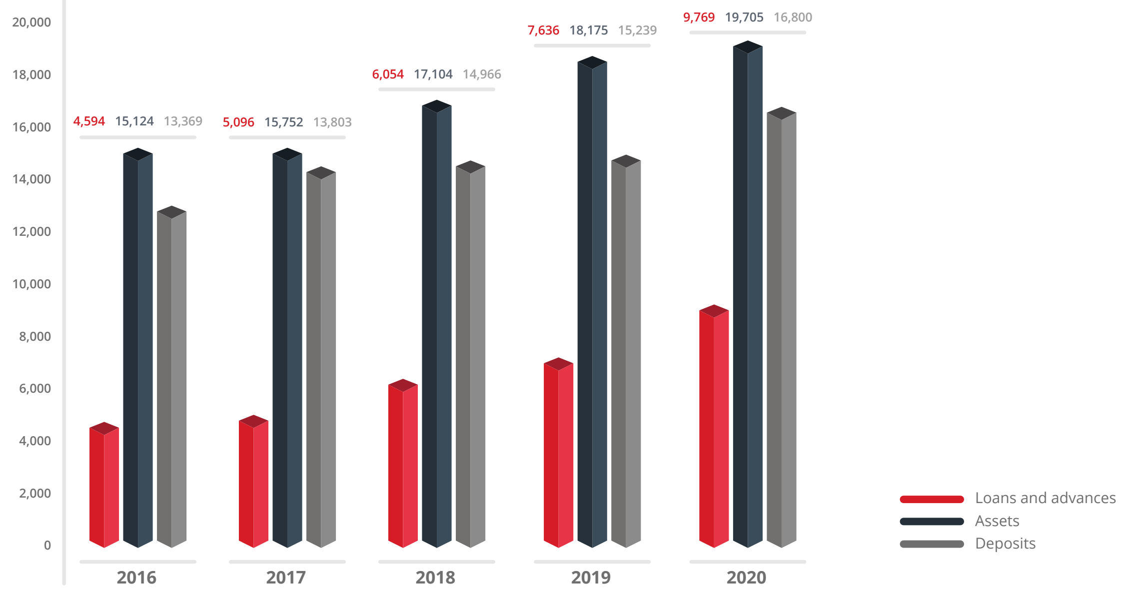
INTEREST INCOME (MUR m)



INTEREST INCOME & EXPENSE (MUR m)



ASSETS, DEPOSITS AND LOANS (MUR m)



We delight our customers through quality products and services and we put our minds and hearts to give full satisfaction to our customers.

CORPORATE GOVERNANCE REPORT

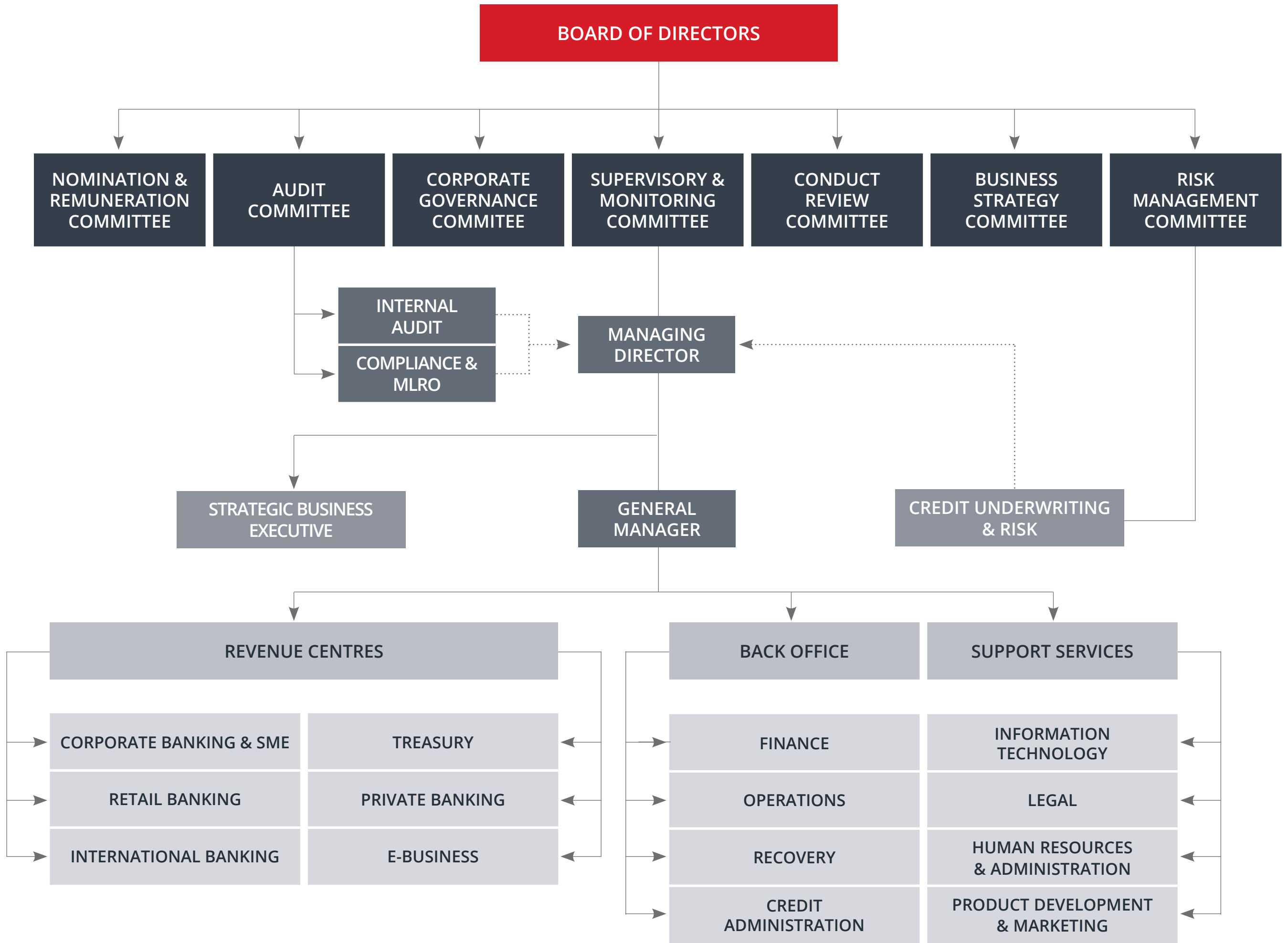
Corporate Governance has been at the centre of academic and professional discussions since a few decades, and now, it seems that it is increasingly important to embrace the best governance practices. In fact, it has been demonstrated more than often that during dire moments like the current Covid-19 pandemic that the companies which boast strong governance frameworks are the ones which are more likely to make it through the storm.

The Board of Directors of the bank is fully cognizant of the above and has thus always been committed to attaining and sustaining high standards of corporate governance with the objective of enhancing shareholders' value while also improving the service and benefits to stakeholders at large.

OUR GOVERNANCE FRAMEWORK

Our Framework has been designed and built such that it becomes the system of rules and practices by which our Board of Directors ensures accountability, fairness, and transparency in the Company's relationship with its stakeholders. Moreover, the Board views the Framework as the supporting structure to entity management and compliance which is providing the trunk from which the various branches of compliant operations can grow and flourish.

The below diagram depicts the bank's Structure Chart provided by the Framework:



THE BOARD AND ITS ROLE

The Board of Directors is the brain of the organisational body and, through the spinal cord which is the governance framework, it sets the parameters within which the different parts of the body are to function as well as the direction which needs to be taken. The Board of Directors oversees that the conduct of the operations of the bank by the management and staff are compliant with the legal and regulatory requirements while also being of the highest level of business ethics.

The directors continuously review the implications of corporate governance best practices and affirm that the bank materially complies with the provisions of the National Code of Corporate Governance and Bank of Mauritius Guideline on Corporate Governance.

The bank's Constitution provides that the Board of Directors shall consist of not less than 6 or more than 10 directors. In accordance with the provisions of the Banking Act 2004 and the Bank of Mauritius Guideline on Corporate Governance, the Board of the bank had a maximum of 9 directors in office during the year ended 30 June 2020, out of which, two were executive directors, one was a non-executive director and 6 were independent directors, including the Chairman of the Board. Gender Diversity has also been on the forefront of the Board since the setting up of the bank and one third of the Board consists of women. As the Board is ultimately responsible for the affairs of the bank, all the directors are appointed to serve on the Board by the shareholders of the bank at the Annual Meeting of Shareholders.

The above composition enables the Board to function effectively and independently under the guidance of the Chairman, Honourable Bernard Sik Yuen. Professor Donald Ah-Chuen and Mr David Brian Ah-Chuen, being the two executive directors, ensure that the policies and strategies approved at Board level are cascaded through the organisation.

The Board was comprised of a maximum of 9 members during the year ended 30 June 2020 as follows:

DIRECTORS	CATEGORY
Honourable Yeung Kam John (Bernard) Yeung Sik Yuen, G.O.S.K.	Independent Chairperson
Professor Donald Ah-Chuen, G.O.S.K.	Executive (Managing Director)
Mr David Brian Ah-Chuen	Executive (Strategic Business Executive)
Mr Patrick Andrew Dean Ah-Chuen	Non-Executive Director
Mr Sydney Ah Yoong	Independent
Honourable Ah Foon Chui Yew Cheong	Independent
Me Marie Danielle Low Kwan Sang	Independent
Mr Bhanu Pratabsingh Jaddoo	Independent
Mrs Stephanie Ha Chow (up to December 2019)	Independent

All the directors of the bank as at 30 June 2020 were residents in Mauritius.

CORPORATE GOVERNANCE REPORT

PROFILE OF DIRECTORS

Honourable Yeung Kam John (Bernard) Yeung Sik Yuen, G.O.S.K.
Independent Chairperson

Honourable Yeung Kam John (Bernard) Yeung Sik Yuen, G.O.S.K. was appointed Judge of the Supreme Court in 1989 and Senior Puisne Judge in 1995. In June 2007, he was appointed as Chief Justice of Mauritius and retired from that position on 31 December 2013. He is the holder of the Honorary Freedom of the City of Port Louis and that of the City of Curepipe. He is an Honorary Bencher of two Inns of Court, the Middle Temple and the Lincoln's Inn.

Honourable Bernard served from 1998 to 2002 on the Sub-Commission for the Promotion and Protection of Human Rights at the Office of the High Commissioner for Human Rights of the United Nations (OHCHR) in Geneva. Since 2007, he has served as a Commissioner of the African Commission on Human and Peoples' Rights and he is also serving on the United Nations Committee on the Elimination of Racial Discrimination (CERD) since June 2013.

Honourable Bernard was awarded the Gusi Peace Prize by the Gusi Peace Prize Foundation in 2012 and was also awarded the International Jurists Award in 2013.

Professor Donald Ah-Chuen, G.O.S.K.
Managing Director

Professor Donald Ah-Chuen holds an M.B.A (University of Strathclyde, UK). He is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of the Institute of Chartered Accountants of Australia and holds an M.C.I.P.D (Chartered Institute of Personnel & Development, UK). In March 2009, he was conferred the distinction of G.O.S.K. (Grand Officer of the Order of the Star and Key of the Indian Ocean) in recognition of his valuable contributions in the sectors of Banking & Financial Services and Tertiary Education.

Professor Donald is a director of the Stock Exchange of Mauritius Ltd (SEM). He is also a director of ABC MOTORS COMPANY LIMITED and P.O.L.I.C.Y Limited, listed on the DEM and SEM respectively. He is a former Board Director of the Development Bank of Mauritius and the Bank of Mauritius. His other previous responsibilities include the Presidency of the Mauritius Chamber of Commerce and Industry and the Chairmanship of the Tertiary Education Commission of Mauritius. He was also Pro-Vice Chancellor of the University of Mauritius and Chairman of the Mauritius Broadcasting Corporation.

Mr David Brian Ah-Chuen
Strategic Business Executive

Mr David Brian Ah-Chuen holds a BBA Honours from Schulich School of Business, York University, Toronto, Canada.

He was previously the Executive Director of ABC Autotech Ltd which markets the Fiat & Alfa Romeo motor vehicles, Executive Director of Marina Resort, President of Chinese Chamber of Commerce (2006 to 2007) and Board Member of the Mauritius Chamber of Commerce & Industry (2006 to 2007). He is a director of ABC Motors Company Limited, a company listed on the DEM, Chue Wing & Company Limited (ABC Foods) and is also a Fellow Member of the Mauritius Institute of Directors.

Mr Patrick Andrew Dean Ah-Chuen
Non-Executive Director

Mr Patrick Andrew Dean Ah-Chuen holds a BA degree in Computer Science, Economics and Mathematics from the University of Sydney (Australia) and holds an MBA in International Business from the University of Western Sydney. Mr Dean worked for Westpac Banking Corporation (Australia) in the IT Division and for Toyota before returning to Mauritius in 1994 where he joined the ABC MOTORS COMPANY LIMITED as Business Development Manager. As at date, he is the Managing Director of ABC MOTORS COMPANY LIMITED, listed on DEM, with overall responsibility for the Automobile Division of the ABC Group. He is currently an independent director on the Board of Harel Mallac & Co Ltd, a listed company and is a Board member of Lovebridge Ltd (a joint private/public project to assist poor income families). Previously, he was a director of the Mauritius Post & Cooperative Bank Ltd.

Honourable Ah Foon Chui Yew Cheong
Independent Director

Honourable Ah Foon Chui Yew Cheong retired in 2017 as Judge of the Supreme Court after having served over 40 years in the legal and judicial service of the country. After having read law at the University of London, King's College, she was called to the bar of England and Wales by the Honourable Society of Lincoln's Inn in 1975. Upon her return to the country, she was one of the first two women to be appointed in 1977 as law officers at the then Crown Law Office. She was also the first woman law officer to lead for the prosecution at an Assises case. Over the years, she served as district magistrate, as Principal State Counsel, President of the Intermediate Court, President of the Industrial Court and Master and Registrar of the Supreme Court. She was the Director of Public Prosecutions from 1999 to 2003. She was appointed Supreme Court Judge in 2003. As a Judge of the Supreme Court, she held a special interest in civil and commercial matters and in mediation. She was a Mediation Judge from 2010 to 2014.

She has been since 2011 the Chairperson of the Institute for Judicial and Legal Studies which was set up by statute in the same year to provide continuing legal and judicial education. She still takes an active interest in the legal and judicial scene of the country. She is also the current Chair of SOS Villages Mauritius, a charitable and non-governmental organisation which provides alternative care to needy children.

Mr Sydney Ah Yoong
Independent Director

Mr Sydney Ah Yoong is a Fellow member of the Association of Chartered Certified Accountants (ACCA) since 1987. He has worked at Deloitte for more than 38 years and rose to the position of Partner. He retired in December 2012. He is currently also an independent director of P.O.L.I.C.Y Limited, a company listed on the Official Market of the Stock Exchange of Mauritius.

CORPORATE GOVERNANCE REPORT

PROFILE OF DIRECTORS (CONT'D)

Mr Bhanu Pratabsingh Jaddoo
Independent Director

Mr Bhanu Pratabsingh Jaddoo is a Fellow Member of the Institute of Chartered Accountants in England and Wales and is a Corporate Finance and Advisory specialist with a special focus on investment management. During his career, Mr Jaddoo has held important executive roles and directorship in entities of the De Chazal Du Mée Group and was the Chief Financial Officer and Director of Titanium Resource Group Ltd, a mining company listed on the London Stock Exchange. He also held the position of Managing Director of the Board of Investment between 2005 and 2010 and was until recently the Secretary General of the Mauritius Chamber of Commerce and Industry (MCCI). He currently sits on a number of Private Equity Funds and international boards as an independent director with a focus on risk management, governance issues and investment management.

Me Marie Danielle Low Kwan Sang
Independent Director

Me Marie Danielle Low Kwan Sang is holder of a Master's degree in Law, (specialization in business law) from Aix – Marseille III University, France.

After her Tertiary Studies in France, she returned to Mauritius to undertake a three-year term of training in Notary Practice, following which she qualified as a Notary and was awarded the Chamber of Notaries prize for the 1987 Notaries' Examinations organized by the Council of Legal Education of Mauritius. In 1988, she was commissioned and began practicing as a Notary.

Me Danielle Low was elected Reporter (1989), Secretary (1990 – 1991) and Chairperson (2006 – 2007) of the then Chamber of Notaries of Mauritius, now she has been with the Association of Notaries of Mauritius since 2008. She is the Notary of many of the leading companies from both the private and public sectors of Mauritius and of international corporations and is deeply involved in the application of civil and commercial laws. She has also been closely associated with the legal setup of many innovative projects and has collaborated with eminent jurists, both local and international.

Me Danielle Low is currently the Secretary and Director of the "SOS Children's Villages (Mauritius)", a company formed to promote the alleviation of poverty and the well-being of children and families in distress.

Mrs Stephanie Ha Chow
Independent Director (Ceased to be a director on 20 December 2019)

Mrs Stephanie Ha Chow is a Fellow member of the Institute of Chartered Accountants of England and Wales and holds a BSC in Computer Science with Management from King's College, University of London. She has worked for over ten years in London specializing in accounting and auditing for both private sector and international public sector agencies, namely the European Commission and the United Nations. Since 2010, she has been a Manager of the family business, Ah Koye Ha Chow & Co. Ltd.

The responsibilities of the Board of Directors are set out in its Board Charter and same is reviewed at least once a year or as may be required by the introduction of or amendment to laws, regulations and practices. The responsibilities of the Board include, but are not limited to:

- determining appropriate policies and processes to ensure the integrity and adequacy of the bank's risk management practices and internal controls
- retaining full and effective control over the bank and be responsible for the appointment and monitoring of Management in its implementation of the Board's approved plans and strategies
- functioning independently of Management and putting in place appropriate structures and procedures to achieve and protect its independence
- ensuring that the bank's policies and systems are effective enough to achieve a prudential balance between the risks and potential returns to the shareholders
- giving strategic directions to the bank
- approving the bank's objectives, strategies and business plans and budgets

Management

While the Board has delegated to the Supervisory & Monitoring Committee the responsibility of implementing and realizing the policies, strategies and directives of the Board as set out by itself, the day-to-day management and operation of the bank's business has been delegated to the Senior Management Team.

The Senior Management Team comprises of the Managing Director, the Strategic Business Executive and the General Manager. The departmental heads and the managers have been delegated the task of implementing the strategies and policies approved by the Board and ensuring that same are communicated to all relevant staff. They are also responsible for the design and monitoring of the internal control systems, ensuring that there exists an adequate segregation of duties, with prevalence of dual control in all areas where required. The Senior Management Team ensures that the Board is provided with timely, relevant and complete information on the affairs of the bank on a regular basis to enable it to periodically review the performance of the bank and to make appropriate decisions for its future course of action and development.

PROFILE OF MANAGEMENT TEAM

SENIOR MANAGEMENT	
Professor Donald Ah-Chuen	Managing Director
Mr David Brian Ah-Chuen	Strategic Business Executive
Mr Yashodaren Umanee	General Manager

MANAGEMENT TEAM	
Mr Patrick Andrew Leong Son	Finance
Mr Abdool Wahab Khadaroo	Credit Underwriting & Risk
Mr Veeramdeve Nem	Compliance
Mrs M. A. Christine K.L. Ng Cheong Hin	Internal Audit
Mr Kushal Bajnathsingh	International Banking
Mr Ashees Maunick	Private Banking
Mr Abdullah Nurmahomed	Treasury
Mrs Natasha Jade Wong Chung Ki	Corporate Banking & SME Dept
Mrs Laura Li Shen Pin	Administration & Recovery

CORPORATE GOVERNANCE REPORT

PROFILE OF MANAGEMENT TEAM (CONT'D)

Mr Yashodaren Umanee
General Manager

Mr Yashodaren Umanee is a banker with over 41 years of experience. He worked for the Barclays Bank PLC as International Banking Division Director and has also been the Corporate Director in Barclays Seychelles for the last 9 months prior to joining the bank. In July 2011, Mr Umanee joined the bank as the Head of Banking – Domestic and International and was promoted to the post of General Manager in January 2012. He holds an MBA from Heriot Watt University. He is also an Associate of the Chartered Institute of Bankers (ACIB).

Mr Patrick Andrew (Andy) Leong Son
Head of Finance

Mr Patrick Andrew Leong Son has over 11 years of experience in the accountancy and financial sectors both in Mauritius and in the UK. Prior to joining the bank as Head of Finance, he was the Head of the Advisory division of Perigeum Capital, a Corporate Finance House. He previously worked at KPMG, London and at the British Business Bank Investments Ltd, a national economic bank based in London. Mr Leong Son is a member of the Institute of Chartered Accountants in England and Wales and he also holds a BSc in Computer and Business from the University of Warwick.

Mr Abdool Wahab Khadaroo
Head of Credit Underwriting and Risk

Mr Abdool Wahab Khadaroo has more than 21 years of experience in the financial services industry. Before joining the bank in October 2016 as Head of Credit Underwriting & Risk, he worked for 13 years in different departments (Corporate Credit Risk, Offshore Banking, Internal Audit) across Barclays Bank Mauritius Ltd and acquired international exposure with ABSA Bank South Africa, within the Corporate & Investment Banking space, where he was seconded for duty in 2016. He won the Gold Medal in 2016 for "Net Interest Income performance across Southern Africa countries". Mr Khadaroo also had 6 years exposure in external audit with Deloitte & PwC. He is qualified from the Association of Chartered Certified Accountants.

Mr Veeramdeve Nem
Head of Compliance

Mr Veeramdeve Nem has over 31 years of experience in the financial services sector. Prior to joining the bank, Mr Nem held several positions in the banking sector in Mauritius and abroad. He started his career at the Bank of Mauritius in 1983 where he occupied several positions before retiring as Senior Bank Examiner in 2007. Mr Nem was employed as Head of Compliance & MLRO at AfrAsia Bank from 2007 to 2009, a position which he held afterwards at Banque des Mascareignes from 2009 to 2011. Between 2011 and 2016, Mr Nem held various positions at entities like Capital Horizons Ltd, Bank Internasional Indonesia (Mauritius branch), Banque Privée de Fleury Limited and Seychelles International Mercantile Banking Corporation Ltd (Nouvobanq) before joining the bank in August 2017. Mr Nem is a member of the Association of Certified Fraud Examiners, the Association of Certified Anti-Money Laundering Specialists and the MIPA. He holds an MSc in Finance and is also a Fellow member of the Association of Chartered and Certified Accountant (FCCA).

Mrs M. A. Christine K.L. Ng Cheong Hin
Head of Internal Audit

Mrs Christine Ng has more than 19 years of experience acquired on the local & international market. Mrs Ng was appointed as Head of Internal Audit of the bank in June 2012. Prior to joining the bank, she worked in the risk advisory and consulting divisions of Ernst & Young for 11 years. During her tenure with EY, she led local audit assignments and worked in various African countries to conduct European Union institutional assessments and financial audits. As part of secondment, she also worked at Ernst & Young Ltd in South Africa during the years 2006 and 2007. She holds a BSc. (Hons.) in Management Sciences from the University of Warwick (UK) and a MSc. in Human Resource Studies from the University of Mauritius. She is a Certified Internal Auditor from the Institute of Internal Auditors (USA) and a Certified Risk Based Auditor from the London School of Business and Finance (UK). Mrs Ng is also a member of the Institute of Internal Auditors.

Mr Kushal Bajnathsingh
Head of International Banking

Mr Kushal Bajnathsingh has more than 18 years of experience in the Global Business and Offshore Banking field. He joined the bank in August 2011 and he oversees the bank's International Banking operations. Prior to this assignment, he was a Relationship Manager in the Global Business Department at AfrAsia Bank. He also worked for more than 6 years at Barclays Bank Mauritius as Manager and Head of Department in the International Banking Division. He was assigned several overseas duties in Barclays Bank Ghana, Barclays Bank Seychelles and Banque de Kigali in Rwanda. In 2008, he was awarded the title of Change Champion for the overall of Barclays Bank in Mauritius. Mr Bajnathsingh is a holder of a post-graduation in Business Administration from Wales University in UK.

CORPORATE GOVERNANCE REPORT

PROFILE OF MANAGEMENT TEAM (CONT'D)

Mr Ashees Maunick
Head of Private Banking

Mr Ashees Maunick has acquired previous experience in the financial sector, namely as Head of Private Banking at the Banque Française Commerciale Ocean Indien, La Réunion and Deputy Head of Private Banking at the Banque des Mascareignes Ltée. He also worked for Société Générale in Paris, France from 2011 to 2017 where he occupied the post of Portfolio Manager and Private Wealth Manager respectively. Mr Maunick holds an LLB from the University of Mauritius and he also holds a Master 2 in 'Gestion de Patrimoine' and 'Droit Privé de L'Entreprise' from the Université d'Auvergne Clermont 1 as well as a Certificate in Asset Management from Wharton School, University of Pennsylvania.

Mr Abdullah Nurmahomed
Head of Treasury

Mr Abdullah Nurmahomed has 15 years of experience in the financial services industry, out of which 9 years in treasury. Prior to joining the bank, he worked for 4 years as Money Market, Fixed Income, and Interbank & Forex Dealer at the State Bank of Mauritius (SBM) and was posted as Treasurer in 2012 and 2013 at SBM Madagascar Branch. He also worked for 4 years as Trader (Shift / Team Leader) at Superfund Asset Management Mauritius and for 3 years at HSBC Mauritius as Credit Support Staff. Mr Nurmahomed joined the bank in March 2014 as Head of Treasury. He holds a BSc. First Class Honours in Finance from the University of Mauritius and an ACI Dealing Certificate of the Financial Markets Association. He is currently studying for CFA Level 3.

Mrs Natasha Jade Wong Chung Ki
Head of Corporate Banking

Mrs Natasha Wong has over 18 years of experience in the financial services sector. Mrs Wong Chung Ki joined the bank in 2015. She was previously an Executive Director for over 10 years at the Mauritian Eagle Leasing (previously a member of the IBL Group). She also previously held office at DTOS Ltd Management Company and Deloitte. She is a Chartered Accountant, a Fellow member of ACCA and also holds an MBA in Finance from the University of Leicester, UK. She is also a member of MIPA and MIoD.

Mrs Laura Li Shen Pin
Head of Debt Administration & Recovery

Mrs Laura Li Shen Pin has more than 11 years of experience in the banking sector. She previously held the post of Accountant at the MCB Group for 7 years where she acquired significant experience in the finance department. Mrs Li Shen Pin joined the bank in July 2011 as Accountant and was appointed as Senior Recovery Manager in February 2014. She was promoted to Head of Debt Administration & Recovery in June 2016. Mrs Li Shen Pin is a Fellow member of the Association of Chartered Certified Accountants (ACCA).

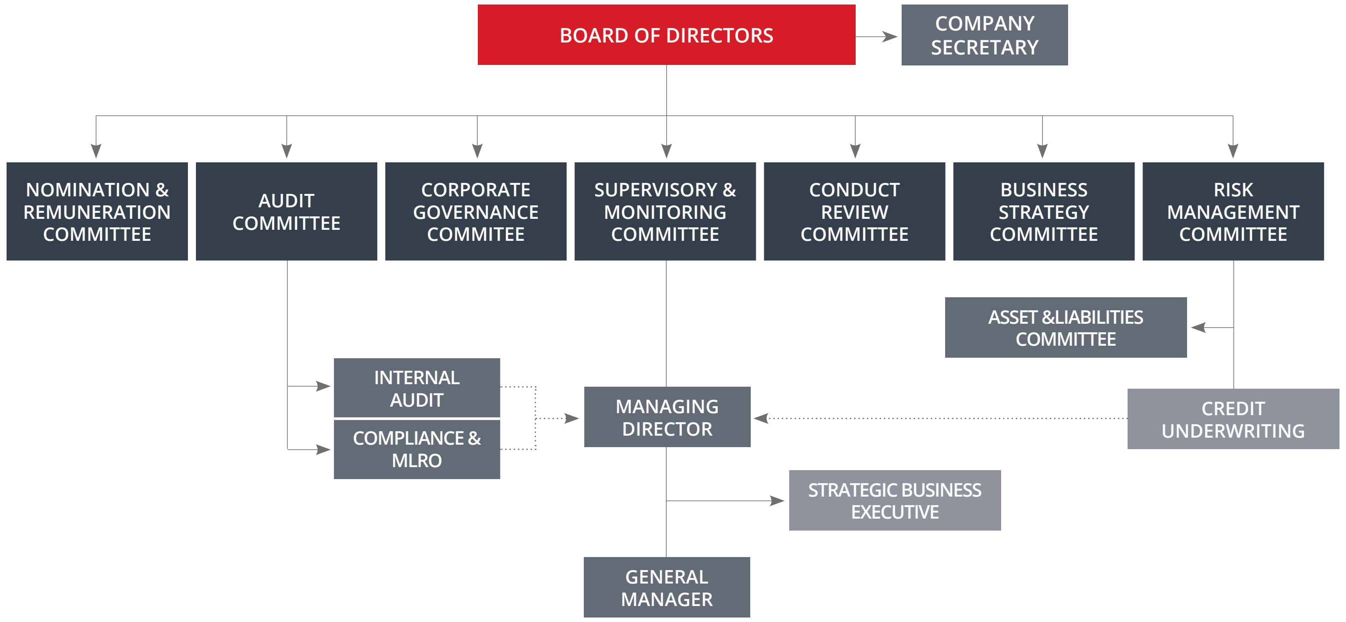
BOARD STRUCTURE AND ITS CONDUCT OF AFFAIRS

Our Corporate Governance Framework provides that a unitary Board of Directors shall be entrusted with the necessary powers to direct and supervise the management of the business and affairs of the bank in an ethical and responsible manner in line with the Guidelines of the Bank of Mauritius and the National Code of Corporate Governance. While some of the responsibilities are discharged directly by the full Board of Directors, others are delegated to committees of the Board to ensure that appropriate attention is given that granular level. A summary of such discussions and actions points are reported by the chairpersons of the respective committees at the subsequent meeting of the Board of Directors.

Board Committees

The Board has set up 7 committees to facilitate the effective and efficient discharge of its duties and responsibilities, namely the Supervisory & Monitoring Committee, the Audit Committee, the Risk Management Committee, the Conduct Review Committee, the Nominations and Remuneration Committee, the Corporate Governance Committee and the Business Strategy Committee. The Company Secretary acts as secretary for all meetings of the Board of Directors and its Committees. The terms of reference and composition of the Board Committees are summarized below.

The below diagram depicts the organisation of the Board:



CORPORATE GOVERNANCE REPORT

Supervisory & Monitoring Committee

The Supervisory & Monitoring Committee ("SMC") has been delegated the responsibility of implementing and realizing the policies, strategies and directives of the bank as set out by the Board. The primary attributions of the Committee are:

- submitting to the Board the development strategy of the bank
- delegating authority to the Managing Director for the day-to-day operations of the bank and supervising and monitoring the management of the bank
- liaising with all Board committees as required
- setting out the corporate values and principal policies, including the credit policy, in respect of the conduct of the business
- reporting to the Board on the progress of the operations of the bank

Members of the SMC:

- Professor Donald Ah-Chuen *(Chairperson)*
- Mr David Brian Ah-Chuen
- Mr Sydney Ah Yoong

The General Manager is in attendance at weekly-held SMC meetings.

Audit Committee

The Audit Committee assists the Board of Directors in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reports and statements in compliance with all applicable legal requirements and accounting standards. The responsibilities of the Audit Committee are defined in its terms of reference and include, but are not limited to:

- reviewing the audited financial statements and quarterly results of the bank before they are approved by the directors
- ensuring that Management implements and maintains appropriate accounting, internal control and financial disclosure procedures and review, evaluate and approve such procedures
- reviewing such transactions as could adversely affect the sound financial condition of the bank
- reviewing and approving the audit scope and frequency
- receiving audit reports and ensure that Management is taking appropriate corrective actions in a timely manner to address and control weaknesses and identified areas of non-compliance
- satisfying itself that accounting principles, policies and practices are adequate to ensure resources are safeguarded, laws are followed, reliable data is disclosed, and internal control systems are adequate

Members of the Audit Committee:

- Mr Sydney Ah Yoong *(Chairperson)*
- Mr Bhanu Pratabsingh Jaddoo
- Honourable Ah Foon Chui Yew Cheong *(Member as from 20 December 2019)*
- Mrs Stephanie Ha Chow *(Ceased to be a member as from 20 December 2019)*

The Head of Internal Audit and Head of Finance are in attendance at all Committee meetings and the external auditor is requested to attend the meetings as and when required. The Head of Compliance also reports to the Committee on a quarterly basis.

Risk Management Committee

The Risk Management Committee assists the Board of Directors in the discharge of its duties relating to corporate accountability and the associated risk in terms of management, assurance and reporting. The responsibilities of the Risk Management Committee are defined in its terms of reference, and include, but are not limited to:

- reviewing of the principal risks, formulating and making recommendations to the Board in respect of risk management issues
- reviewing and approving discussions and disclosure of risks
- reviewing the Assets and Liabilities Committee ("ALCO") reports

Members of the Risk Management Committee:

- Mr Bhanu Pratabsingh Jaddoo *(Chairperson)*
- Professor Donald Ah-Chuen
- Mr Sydney Ah Yoong
- Mr Patrick Andrew Dean Ah-Chuen *(Member as from 20 December 2019)*
- Mrs Stephanie Ha Chow *(Ceased to be a member as from 20 December 2019)*

The Head of Credit Underwriting & Risk is in attendance at all Committee meetings.

Conduct Review Committee

The responsibilities of the Conduct Review Committee are as specified in the Guideline on Related Party Transactions, and include, but are not limited to the following:

- ensuring that Management establishes policies and procedures to comply with the requirements of the Guideline on Related Party Transactions
- reviewing the policies and procedures periodically to ensure their continuing adequacy and enforcement, in the best interests of the bank
- reviewing and approving each credit exposure to related parties
- ensuring that market terms and conditions are applied to all related party transactions

Members of the Conduct Review Committee:

- Mr Sydney Ah Yoong *(Chairperson as from 20 December 2019)*
- Honourable Ah Foon Chui Yew Cheong
- Mr Bhanu Pratabsingh Jaddoo
- Mrs Stephanie Ha Chow *(Ceased to be a member as from 20 December 2019)*

Nominations and Remuneration Committee

The Nominations and Remuneration Committee has been delegated the responsibility of overseeing the nomination and remuneration functions of the Board and making recommendations to the Board such matters. The responsibilities of the Nominations and Remuneration Committee are defined in its terms of reference, and include, but are not limited to:

- monitoring the bank's succession plan
- establishing the procedures for identification, selection and recommendation of new directors
- establishing and monitoring the bank's remuneration policy and recommending appropriate remuneration for directors

Members of the Nominations and Remuneration Committee:

- Me Marie Danielle Low Kwan Sang *(Chairperson)*
- Honourable Yeung Kam John (Bernard) Yeung Sik Yuen
- Professor Donald Ah-Chuen

Corporate Governance Committee

The Corporate Governance Committee has been established by the Board of Directors to make recommendations to the Board on all corporate governance provisions to be adopted so that the bank remains effective and complies with prevailing corporate governance principles. The Committee shall be constituted to ensure that the reporting requirements with regard to corporate governance, whether in the annual report or on an on-going basis, are in accordance with the guidelines set out by the Bank of Mauritius and the Code of Corporate Governance.

Members of the Corporate Governance Committee:

- Me Danielle Low Kwan Sang *(Chairperson)*
- Honourable Yeung Kam John (Bernard) Yeung Sik Yuen
- Professor Donald Ah-Chuen

CORPORATE GOVERNANCE REPORT

Business Strategy Committee

During the past years, the high-level of Board oversight on the operations of the bank has facilitated the fast and steady growth of the latter. Commensurate with its ambitions of making a major leap in growth, the Board has set up the Business Strategy Committee.

The Business Strategy has been set up to monitor and follow-up the implementation, control and review of the agreed strategies of the bank. The duties of the Business Strategy Committee are as follows:

- to review, and recommend to the Board for onwards approval, the strategic plan of the bank which has been prepared in accordance with the bank's values, vision and mission whilst taking into consideration all relevant factors present in the bank's business environment.
- to monitor the progress of the implementation of the strategic plan through the measurement of various Key Performance Indicators (KPIs) and the regular review of ongoing projects.
- to oversee the Management's Strategic Management Framework and to review and make recommendations with respect to the management's strategic plan for each financial year.
- to review the annual budget as proposed by Management from a strategic perspective.

Members of the Business Strategy Committee:

- Mr Bhanu Pratabsingh Jaddoo *(Chairperson)*
- Professor Donald Ah-Chuen
- Mr David Brian Ah-Chuen
- Mr Sydney Ah Yoong

Company Secretary

The corporate secretarial duties of the bank have been outsourced to ABC Professional & Secretarial Services Ltd, a company which is a member of the ABC Group of Companies (ABC Group) and which acts as company secretary for all the companies of the ABC Group.

ABC Professional & Secretarial Services Ltd is represented by Mr Mahesh Ittoo, ACIS MCSI. Mr Mahesh Ittoo is a holder of a BA (Hons) Law and Management from the University of Mauritius and is an Associate of the Institute of Chartered Secretaries and Administrators (ICSA). He is also a member of the Chartered Institute for Securities and Investment and the MIoD.

Mr Mahesh Ittoo has 9 years' experience in the corporate administration field and was working in the Global Business Industry prior to joining the ABC Group in 2016.

The Company Secretary is responsible for the organization of Board and Committee meetings and acts as a bridge between executive management and the non-executive board members. The Company Secretary also oversees all governance matters at the bank and is the link between the bank and its shareholders.

KEY ACTIVITIES OF THE BOARD

Strategic Planning and Monitoring

The Board of Directors is responsible for setting the ultimate direction for the bank. Like many large organisations, at the bank, the initial strategy is developed at executive level following an assessment of the issues, opportunities and risks that drive performance in the current market and in line with the bank's risk tolerance, capacity and appetite. The role of the Board in the strategic planning process entails the identification of priorities, establishment of goals and objectives, finding resources, and allocating funds to support the decisions that need to be made around strategic planning. The Board is also responsible for monitoring the execution of the strategic plan. This requires the Board to oversee the implementation of the strategic plan and as the plan progresses, the Board considers whether there is a need to revisit the allocation of resources as well as the applicability of certain projects. At the bank, strategic management is not just another cyclical task, it is a dynamic and continuous exercise. Whilst the executive team has been tasked of the implementation of the strategic plan, the Board has, since last year, also set up a Business Strategy Committee whose responsibility is to oversee and monitor the implementation of the plan on a quarterly basis. Over and above the works of the Business Strategy Committee, the Board as a whole, on a quarterly basis, questions, challenges and clarifies the plan submitted by Management to ensure that plan is well thought out, realistic, market-appropriate and compatible with the organization's mission, vision and values.

Succession Planning

The Board highly rates the importance of a succession plan being in place at the bank as it is the component of the governance framework which helps to avoid any disruption in case of unplanned departure of any director or senior officer. The Nomination and Remuneration Committee has been delegated the task by the Board to regularly assess the situation at Board and Management levels and to ensure that appropriate coverage action can be taken at all times to fill any gap in regard to all key positions at the bank.

The succession plan is reviewed on at least on a quarterly basis and any update to same is tabled at the Nomination and Remuneration Committee as and when required.

Appointment of new Directors and Senior Officers

Over and above the requirements identified by the Succession Plan, as part of its mandate, the Nomination and Remuneration Committee also continuously assesses the balance of skills and experience required at Board level, and whenever the need for a new/additional member is required, the following process is rigorously followed:

- A profile of the best candidate is prepared, specifying the necessary skills and experience required for the position.
- Prospective candidates are identified by the Committee or a consultant.
- Should there be more than one candidate, the profiles of prospective candidates are transparently vetted by the Committee and each shortlisted candidate are interviewed by the members of the Committee or an appointed panel.
- Once a prospective candidate has been selected, his/her appointment will be put forward to the Board of Directors for appointment. In the case of a director, the appointment shall be up to the next Annual Meeting of the Shareholders, whereby he shall present for election. Appointment of any director or senior office at the bank is subject to approval by the Bank of Mauritius.

Once a prospective non-executive director has accepted a seat on the Board, he/she is requested to sign a letter of appointment which carefully outlines the terms of appointment, the duties and responsibilities expected by him/her.

All new directors are, upon their appointment, invited to participate in an induction session whereby, the Managing Director and the Company Secretary shall introduce the Company to the new director. The incoming director is provided with all necessary information he/she needs to fulfil his/her role and duties as director of the bank.

All directors of the bank have participated in an induction session upon appointment.

Board Evaluation and Remuneration

In line with the National Code of Corporate Governance and Bank of Mauritius Guideline on Corporate Governance, the Board has established a mechanism to evaluate the performance of the Board, its committees and its members. The review and evaluation include an assessment of the Board's composition and independence, performance and effectiveness, as well as the maintenance and implementation of the Board's governance, relationship with management, with the addition of an evaluation of the sub committees. The Nominations and Remuneration Committee was delegated the task of conducting such appraisal to identify additional competencies and resources as appropriate and enable the Board to discharge its responsibilities more efficiently and effectively. Such a process also aids the Board to identify and deal with issues that impede its effectiveness. The "fit and proper person" criteria of Board members are also reviewed periodically to ensure that the same are up to date.

The Nominations and Remuneration Committee has also delegated the task of conducting periodic reviews of the above process to ensure that same be always in line with the applicable legislations and regulations.

CORPORATE GOVERNANCE REPORT

Approval of Remuneration Policy

In compliance with the National Code of Corporate Governance and Bank of Mauritius Guideline on Corporate Governance, the Board has established a Remuneration Policy to establish clear and guiding principles for decisions around employee and executive remuneration to ensure fair, competitive and appropriate pay for the market in which the bank operates.

The bank's goal is to ensure that the mix and balance of remuneration is appropriate to attract, motivate, retain and reward employees fairly and is consistent with the National Code of Corporate Governance.

Attendance at Committee and Board Meetings
FYE 2020

	Board Meeting	SMC	Audit Committee	Risk Management Committee	Conduct Review Committee	Corporate Governance Committee	Nomination and Remunerations Committee	Business Strategy Committee	Special NMC Meeting
AH-CHUEN David Brian	6	46	-	-	-	-	-	4	2
AH-CHUEN Donald	6	42	-	6	-	4	4	3	2
AH-CHUEN Patrick Andrew Dean	4	-	-	2	-	-	-	-	-
AH YOONG Sydney	5	43	5	6	7	-	-	4	2
CHUI YEW CHEONG Ah Foon *	4	-	3	-	12	-	-	-	2
HA CHOW Stephanie **	3	-	2	5	5	-	-	-	-
JADDOO Bhanu Pratabsingh	6	-	5	7	12	-	-	4	2
LOW KWAN SANG Marie Danielle	5	-	-	-	-	4	4	-	-
YEUNG SIK YUEN Bernard (Chairman)	6	-	-	-	-	4	4	-	2
Total Number of Meetings	**6**	**48**	**5**	**7**	**12**	**4**	**4**	**4**	**2**

Mrs Stephanie Ha Chow reached the term of her directorship mandate on 20 December 2019.

* On 20 December 2019, the following changes were made to the Committee composition:

I. Appointment of Mrs Ah Foon Chui Yew Cheong as member of Audit Committee
II. Appointment of Mr Dean Ah-Chuen as member of the Risk Management Committee
III. Appointment of Mr Sydney Ah Yoong as member and Chairperson on the Conduct Review Committee

** End of Mandate as from 20 December 2020.

Directors' Remuneration

The Directors' remuneration is annually reviewed by the Nominations and Remuneration Committee to ensure that the remunerations are commensurate with the size of the bank, the time commitment required by the directors to carry out their duties, and the market rates for such services.

Any change in remuneration is recommended by the NRC to the Board for consideration. The Board shall review the proposal and table same at the next Annual Meeting of Shareholders for approval.

With respect to the basis of remuneration, the Board has determined that non-executive directors shall be remunerated based on attendance at Board and Committee meetings during the year. Non-executive directors are not subjected to any other sort of remuneration or long-term incentive plans.
Executive directors are remunerated with monthly emoluments and are subjected to an annual discretionary bonus should the bank achieve or exceed its targets.

The directors' fees FYE 2020 have been reported on page 60.

Risk Governance and Internal Control

Risk management refers to the process by which the bank monitors and mitigates its exposure to risk. At the bank, risk management is not viewed as an exercise seeking to identify and eliminate all risks, but rather, it is involves a comprehensive approach consisting of the identification and assessment of all potential risks in the banking business, the development and execution of an action plan to deal with and manage these activities that incur potential losses, and, the continuous review and reporting of the risk management practices after implementation. All of these need to be carried within a risk appetite framework.

The Board has established a risk appetite framework where its business objectives are articulated in contrast with the level of risk it is willing to assume to achieve its targets. The framework offers a platform for the Board of Directors to be actively engaged in the improvement of risk governance and discussion of risk from a strategic point of view. The clear definition of risk tolerance and desired risk profiles helps cascade the risk strategy approved by the Board to individual business unit levels.

While the Board is responsible for the overall risk management and internal control systems, oversight of the bank's risk management process has been delegated to the Risk Management Committee. The Risk Management Committee in turn appoints a Head of Credit Underwriting and Risk who is responsible for overseeing the risk management and internal control functions on a daily basis and he reports to the Risk Management Committee on a quarterly basis on key risk matters for discussion, and material matters are then reported to the Board by the Chairperson of the Risk Management Committee.

The risk management framework, including policies and systems in place, ensures a systematic and continuous identification and evaluation of risks and actions to terminate, transfer, accept or mitigate each risk to achieve a prudential balance between the risks and potential returns to shareholders is explained in the Risk Report. Identification of key risk areas and internal control systems in place are also addressed.

Information Governance

Information Technology and Data Governance are critical to the bank given that the operations of the bank rely heavily on same and the banking industry is growing towards an increasingly digitized environment.

The Board has set up an Information Security Policy which encompasses all aspects of information governance at the bank and the Internal Audit Section has been charged with responsibility to carry regular checks to ensure compliance. The Internal Audit reports are tabled at the quarterly Audit Committee meetings and any material information is reported to the Board accordingly.

The Credit Underwriting and Risk Dept has been charged by the Risk Management Committee to monitor the bank's IT Risks and reports on the above are tabled at the quarterly meetings of the Risk Management Committee. Significant IT Risks are then highlighted to the Board at the following Board meeting.

Furthermore, the policy is reviewed on an annual basis by the Risk Management Committee and any necessary update is implemented promptly.

CORPORATE GOVERNANCE REPORT

Management has also set up an IT Steering Committee, consisting of the General Manager, the Strategic Business Executive, the Head of Finance and the IT Manager, to regularly assess the state of the IT infrastructure of the bank and to approve any required significant changes and related expenditures.

Reporting with Integrity

The Board acknowledges that the banking business is built on trust and same goes in line with the highest degree of integrity. As such, the Board recognizes its responsibility to ensure that the accounts are prepared in a way that fairly present the bank's state of affairs.
The accounts are prepared by the Finance Section and are regularly reviewed by management. The Supervisory and Monitoring Committee receives a weekly financial progress report from Management. The financial position and income statements are also reviewed on a monthly basis by the Committee. Interim financial statements are tabled and discussed at the Audit Committee and Board meetings on a quarterly basis. The bank's external auditors, Ernst & Young Mauritius ensures that the financial statements adhere to all international accounting standards and any deviation from same is disclosed, explained and quantified in the audit report and financial statements of the bank.

Corporate Social Responsibility

Named after the founder of ABC Group, the Sir Jean Etienne Moilin Ah-Chuen Foundation (referred to as "the Foundation"), is a not-for-profit entity which is entrusted to carry out the social mission of ABC Group of Companies.

The Foundation spearheads the Corporate Social Responsibility (CSR) programme of ABC Group and its main areas of intervention are: Community Empowerment, Education, Health & Sports and Environment.

The Foundation has disbursed Rs 1.9 million during the past year, in the pursuit of its social mission.

Community Empowerment

The empowerment and social development of local communities remains, above all, one of the Foundation's priorities. In this regard, the Foundation partnered with its long-standing partner NGOs with the objective of empowering vulnerable communities and promoting inclusive growth.

Several households have been impacted by the Covid-19 pandemic albeit those already living under the poverty line. In this vein, the Foundation has joined forces with three key partners in a bid to provide assistance to vulnerable communities and alleviate their pain in these times of hardship, namely Lovebridge for the provision of in-kind help to beneficiary families living in poverty and to the SAFIRE, an NGO engaged in rehabilitating street-connected young people.

Moreover, the Foundation offered its support to SAPRETA with the objective of aiding vulnerable families not registered on the Social Register of Mauritius and whose situation has been exacerbated by the Covid-19 pandemic.

The Foundation also reiterated its partnership with Caritas Ile Maurice for the School Feeding Project, which consists in the provision of breakfast to needy primary school children attending Emmanuel Anquetil Government School.

The Foundation also extended its support to SOS Children's Village for its alternative residential care project and to Mouvement Pour le Progrès de Roche Bois for the social and empowerment support of out-of-school children and their parents.

Education

Education is an enabler of economic and social development. In this vein, the Foundation created the Sir Jean Etienne Moilin Ah-Chuen Foundation Scholarship Scheme, commonly referred to as the "ABC Group Scholarship Scheme", to allow full-time students coming from underprivileged backgrounds to pursue tertiary and vocational training in Mauritius.
Over the past year, the Foundation has granted 15 scholarships to deserving students enrolled in undergraduate courses at the University of Mauritius and 5 to students enrolled in technical training at the College Technique St Gabriel, a long-time partner of the Foundation that aims at democratising access to professional courses to needy children.

The Foundation also extended its support to Terrain for Interactive Pedagogy Through Arts (TIPA) for its interactive pedagogy programme in ZEP schools. Founded in 2007, TIPA supports the teaching of arts and the development of skills and values through the conduction of weekly creativity classes with the collaboration of teachers.

The Foundation also offered its support to Emmanuel Anquetil Government School for the purchase of equipment for the storage and distribution of drinking water.

Health & Sports

Sport is a powerful tool for social integration and illustrates core values that make up our DNA, namely team spirit, tenacity and competitiveness amongst others.

Over the past years, the Foundation and ABC Group have partnered with high-level athletes who have taken Mauritian sport to new heights and who have gained international recognition for their world-class performance.

In this context, the Foundation reiterated its partnership with the Magic Club de Quatre Bornes to support para-athlete and gold medallist Noemi Alphonse, who was Team Mauritius' flag-bearer during the Indian Ocean Islands' Games held in July 2019.

Besides, to further contribute to the promotion of social integration of people with disabilities, the Foundation reiterated its support towards the Global Rainbow Foundation. This NGO, which has a long-standing relationship with ABC Group, advocates for the inclusiveness and integration of persons with disabilities, and channelizes its venture towards the abilities of people, rather than their disabilities.

Environment

The Covid-19 pandemic has reminded us that the health of our planet and human health are intrinsically linked.

Indeed, the United Nations Sustainable Goals call for urgent action to combat climate change and its impacts, and for sustainable consumption and production patterns. The survival of the world, as we know it today, heavily depends on our capacity to protect nature and mitigate damages caused by human activity.

In keeping with our vision, Inspired for Future Generations, we firmly believe in sustainable development and aspire to offer a better world to generations to come.

In this regard, the Foundation reiterated its commitment towards We-Recycle, an NGO that collects and prepares PET plastic bottle waste for recycling, with the objective of making Mauritius a clean and plastic-free island.

Moreover, a '*plogging*' activity that regrouped around 50 employees, was organised in September 2019, in collaboration with We-Recycle to raise awareness amongst staff.

Recycle bins also were installed across ABC Group in a bid to encourage staff to recycle at work and develop new habits in terms of waste management.

True to its commitment to protect the environment and endangered species, the Foundation reiterated its commitment towards the Mauritius Wildlife Foundation for its Echo Parakeet Conversation Programme.

The Foundation also extended its support to Association des Planteurs de Pandanus du Sud-Est, to encourage the production of reusable pandanus (vacoas) shopping bags, to help in reducing the use of plastic bags and, at the same time, promote local handicraft.

CORPORATE GOVERNANCE REPORT

AUDIT AND REPORTING

Internal Audit

The Board recognizes the importance of having a robust internal audit function at the bank to provide assurance, through continuous, independent, and internally organized detailed checks and assessment, that the bank's risk management, governance and internal control processes are operating effectively, and, an Internal Audit Section has been set up at the bank accordingly. The Internal Audit Section comprises of auditors with a mix of banking and auditing experience who are able to assess the current state of affairs and provide valuable recommendations to management.

The Internal Audit function provides assurance to the Board on the overall effectiveness of the governance, risk management and internal control framework at the bank. In line with The National Code of Corporate Governance for Mauritius (2016), the Board delegates oversight of the internal audit function and responsibility for receiving internal audit reports to the Audit Committee. Internal Audit reports are considered at Audit Committee meetings which are held on a quarterly basis, and the Head of Internal Audit has ready and regular access to the Chairperson of the Audit Committee. The Audit Committee also approves the Audit Plan at the beginning of each new financial year to ensure proper coverage of the bank's key risk areas/ activities by Internal Audit. The Head of Internal Audit adopts a systematic and disciplined approach to review all areas of activity of the bank, i.e. operations, internal controls, risk management systems, and governance process, and makes recommendations accordingly to Management. The internal audit reports highlighting the methodology, findings, recommendations and Management responses are tabled on a quarterly basis at Audit Committee meeting. The scope of action of the Internal Audit has no restriction to any aspect of the bank.

The Audit Committee is also responsible to provide ongoing feedback and guidance to internal audit to help it provide the assurance service that it needs. Reviewing internal audit reports helps the Audit Committee to assess the quality of internal audit's work during the course of the year. As part of annual review by Audit Committee, feedback may also be obtained from Senior Management, Management and external auditors.

To ensure the independence of the Internal Audit function, the Head of Internal Audit is appointed by the Audit Committee and directly reports to the latter while reporting only administratively to the Managing Director as illustrated in the Organigram on page 36. The Head of Internal Audit also has direct access to the Chairman of the Audit Committee and has regular meetings with him.

External Audit

External Audit is a key pillar of corporate governance which provides assurance to stakeholders as they are appointed by the shareholders to provide assurance that the accounts have been prepared as per the International Accounting Standards and that they give a true and fair picture of the financial status of the bank.

Following the amendment of the Banking Act 2004 in 2016, the bank was required to rotate its external auditors. As such, a tender exercise was launched in late 2016 to three of the big four audit firms in Mauritius, and following submissions of their proposals, Ernst & Young Mauritius was selected by a committee consisting of the members of the Audit Committee and Management. The final proposal of Ernst & Young Mauritius was the recommended to the Board by the Audit Committee. The Board subsequently appointed Ernst & Young Mauritius as external auditors following the approval by the Bank of Mauritius. Since then, Ernst & Young Mauritius have been reappointed thrice as External Auditors of the bank at the Annual Meeting of Shareholders.

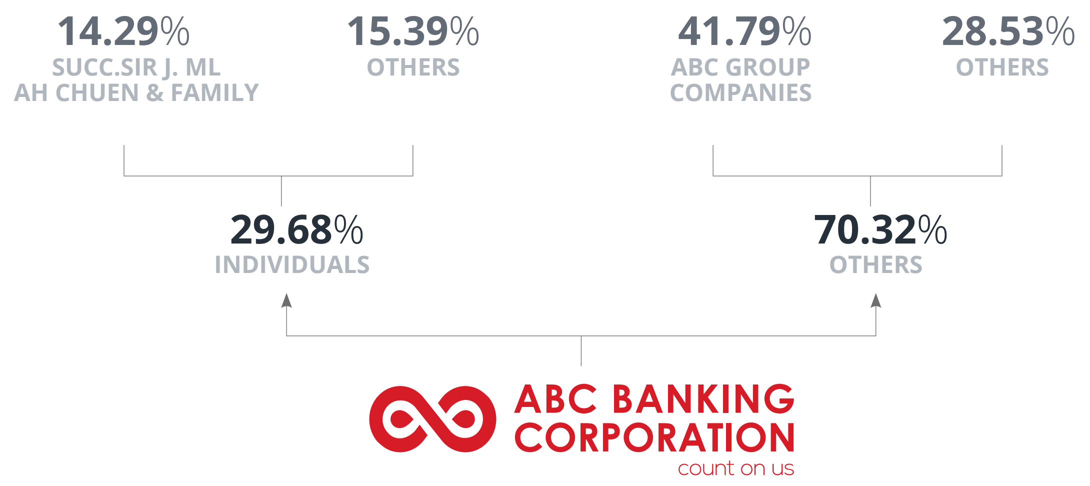
The external auditors meet the Audit Committee at least twice a year to discuss the audit plan prior to the statutory external audit exercise, and to present the audit findings and report at the end of the exercise.

Relations with Shareholders and Other Key Stakeholders

The Board is fully aware of its fiduciary duties towards the shareholders of the bank, but it also acknowledges that the bank is accountable to a wider range of stakeholders, namely its clients, employees, regulators and the public at large.

Shareholders

The bank forms part of the ABC Group of Companies and, as at 30 June 2020, the shareholding structure of the bank was as follows:



As of 18 January 2016, all of the issued 57,203,904 ordinary shares of the bank were admitted on the Development & Enterprise Market of the Stock Exchange of Mauritius. The 19,067,968 ordinary shares of the bank, issued on 10 June 2016 pursuant to the Rights Issue, were also admitted on the Development & Enterprise Market of the Stock Exchange of Mauritius on 20 June 2016. The Board encourages communication with shareholders of the bank and the Company Secretary is always available to receive to entertain any query or request which the shareholders may have with respect to the bank.

Moreover, all shareholders are duly notified 21 days in advance of the Annual Meeting of the bank, where the directors and members of management are available for discussion.

List of Shareholders holding more than 5% in the bank

ABC Car Rental Limited
ABC MOTORS COMPANY LIMITED
Chue Wing & Company Limited
Good Harvest Limited

CORPORATE GOVERNANCE REPORT

Breakdown of Shareholding

NO. OF SHARES	NO. OF SHAREHOLDERS
1 – 999	165
1,000 – 9,999	143
10,000 – 19,999	34
20,000 – 49,999	49
50,000 – 99,999	32
100,000 – 499,999	51
500,000 – 999,999	7
1,000,000 – 4,999,999	15
Above 5,000,000	3

Share Option Plans

The bank has no share option plan.

Shareholders' Agreement

The bank is not aware of any agreement among the shareholders.

Management Agreement

The bank has not entered into any management agreement with third parties.

Dividend Policy

Payment of dividends is subject to the profitability of the bank, its cash flow and its capital expenditure requirements.

STAKEHOLDERS

Regulators

The main regulator of the bank is the Bank of Mauritius ("BOM"). The officers of the bank regularly participate at the forums and working groups of the BOM. The Trilateral Meeting, between the bank, the BOM and the bank's external auditors, is held on a yearly basis to discuss on the bank's state of affairs, conduct and progress.

The bank is also accountable to the SEM and the Financial Services Commission by virtue of the listing of its shares on the Development and Enterprise Market. The bank is required to strictly comply to the listing rules and to submit reports to the FSC on a regular basis.

The bank maintains an open channel of communication with all of its regulators to whom it always assures its cooperation.

Customers

Without customers, there would be no business and the bank thus recognize their vital importance. Customers are therefore central to every management decision, and Management and staff must endeavour to achieve customer satisfaction.

Employees

The Human Capital is one of the key drivers for the achievement of the bank's objectives, growth, development and competitiveness. The management team as well as the members of the Board have always laid emphasis on the empowerment and engagement of employees, along with employees' wellbeing.

The bank aims to develop excellence in employees by creating a supportive environment in which all employees are given the opportunity to learn, develop and grow to achieve their full potential. The learning and development programme for the preceding year represents 4,149 man-hours.

The bank is committed to ensure and maintain the highest standards of safety and health for its employees and other stakeholders. Identifying hazards and controlling risks is of utmost importance. Thus, to meet these commitments, the bank complies with The Occupational Safety and Health Act. Employees have been trained as first aiders and fire wardens. Fire drills are being organised as stipulated under relevant regulations.

The bank is an equal opportunity employer and supports the principle of equal employment opportunity for all staff at all levels of employment. The bank is committed to providing a working environment which is free from discrimination and strives for equal treatment and respect of all employees at the workplace. The bank employs 194 employees and currently employs approximately 47% women within the organisation.

In line with the National Code of Corporate Governance, the bank's website contains a condensed version of the above report to ensure that our stakeholders are informed of the bank's governance framework. The Governance page on the website is reviewed and updated from time to time to reflect the changes and dynamism of our governance framework.

LEGAL DUTIES

All Directors of the bank are fully apprised of their fiduciary duties, as laid out in the Company Act 2001, during the Induction Session. They also have access to the advice and services of the Company Secretary who is responsible for the provision of guidance to the directors regarding their duties and responsibilities.

All directors also have access to senior executives to obtain information on any item to be discussed at Board or Board Committee meetings or any other relevant area they deem appropriate. The Board and committees also have the authority to obtain such outside or other independent professional advice as they consider necessary to carry out their duties.

ETHICAL CONDUCT

The bank is committed to the highest standards of business integrity, transparency and professionalism and ensures that all its activities are managed responsibly and ethically whilst seeking to enhance business value for all stakeholders. In line with this objective, the bank has put in place a Code of Conduct and Ethics which clearly reveals the core values which the bank stands for and the standard of dealings that the public at large can uncompromisingly expect. This code is designed to help employees at all levels to understand their responsibilities and to carry out their duties with due diligence, honesty and integrity, which are fundamental to the reputation and success of the bank. The bank also has in place an anti-fraud policy to encourage employees to freely communicate concerns about illegal, unethical or questionable practices to Senior Management or the Head of Internal Audit without fear of reprisal. Other bank policies are also in place to ensure against improper use of the bank's property and/or information, unfair dealing with customers/clients, employees and other stakeholders.

During the Financial Year ended 30 June 2020, the Board has revised the Code of Ethics for Staff and has adopted a new Code of Ethics for directors. The latter document was reviewed by the Corporate Governance Committee and has been adopted by the Board to ensure that the bank complies with the Code.

Workshops have been organized for all staff to ensure that they are apprised of the contents of the Code of Ethics and of the consequences of non-compliance. The document has also been published on the website of the bank.

CORPORATE GOVERNANCE REPORT

Directors' Interests and Dealings in Shares

In accordance with the Companies Act 2001 and the Banking Act 2004, an Interest Register is maintained by the Company Secretary to ensure that the interests of every director in the affairs of the bank be recorded and referred to whenever required. The Interest Register is available to shareholders upon written request to the Company Secretary.

The following table shows the interests of the directors in the share capital of the bank as at 30 June 2020 together with the directors' dealings in shares during the period ended 30 June 2020:

DIRECTORS	NO. OF SHARES ACQUIRED	NO. OF SHARES SOLD	DIRECT HOLDING	INDIRECT HOLDING
AH-CHUEN David Brian	-	-	0.37%	0.02%
AH-CHUEN Donald	-	-	1.69%	3.45%
AH-CHUEN Patrick Andrew Dean	-	-	0.30%	0.86%
AH YOONG Sydney	-	-	NIL	NIL
CHUI YEW CHEONG Ah Foon	-	-	NIL	NIL
JADDOO Bhanu Pratabsingh	-	-	NIL	NIL
LOW KWAN SANG Danielle	-	-	NIL	NIL
YEUNG SIK YUEN Bernard	-	-	NIL	NIL
HA CHOW Stephanie (Ceased to be a director as from 20 December 2019)	-	-	0.14%	0.00%

Pursuant to section 48 of the Banking Act 2004, the bank has a rigorous procedure for the management of situations of conflicts of interest. All directors are required to disclose any interest they may have in any activity of the bank. Whenever there is any situation of conflict, the item is discussed at Board level and the member of the Board shall be asked to leave the meeting while the Board determines whether the situation amounts to a conflict of interest or whether the transaction is being done at arm's length basis. Should the Board determine after deliberation that there is a conflict of interest, the transaction is recorded as such in the Board minutes and in the Register of Interests. Any decision relating to a proposed transaction in which a director is conflicted is reached in the absence of that director.

Related Party Transactions are carried by the bank in accordance with the BOM Guideline on Related Party Transactions. Such transactions are reviewed and approved by the Conduct Review Committee of the Board and ratified by the latter at quarterly board meetings.

All situations of conflicts of interest and related party transactions during the period ended 30 June 2020 have been conducted in accordance with the above guidelines and the code of ethics of the bank.

STATEMENT OF COMPLIANCE
(SECTION 75 (3) OF THE FINANCIAL REPORTING ACT)

Name of Public Interest Entity: ABC Banking Corporation Ltd

Reporting Period: 30 June 2020

Throughout the year ended 30 June 2020, to the best of the Board's knowledge, the Organisation has complied with the Corporate Governance Code for Mauritius (2016). The Organisation has applied all the principles set out in the Code and explained how these principles have been applied.

Date: 28 September 2020

Honourable Y.K.J Yeung Sik Yuen, G.O.S.K.
Chairman

David Brian Ah-Chuen
Strategic Business Executive Director

OTHER STATUTORY DISCLOSURES
(PURSUANT TO SECTION 221 OF THE COMPANIES ACT 2001)

Principal Activity

The bank is the holder of a banking licence from the Bank of Mauritius and provides the full range of banking products to the public at large.

Directors & Interests

The directors of the bank as at 30 June 2020 were as follows:

Honourable Yeung Kam John (Bernard) Yeung Sik Yuen, G.O.S.K.
Professor Donald Ah-Chuen, G.O.S.K.
Mr David Brian Ah-Chuen
Mr Patrick Andrew Dean Ah Chuen
Mr Bhanu Pratabsingh Jaddoo
Me Marie Danielle Low Kwan Sang
Mr Sydney Ah Yoong
Honourable Ah Foon Chui Yew Cheong

Directors' interests in shares of the bank are set out on page 23 of the annual report. No directors have any service contract with the bank.

Directors' Emoluments

During the financial year ended 30 June 2020, the executive received emoluments amounting to MUR 18,983,866.67 (2019: MUR 19,172,558) and non-executive directors received MUR 3,112,000 (2019: MUR 2,853,000).

As per section 221(1)(e)(iii), the remuneration received by each director individually are as follows:

DIRECTOR	REMUNERATION (MUR)
Honourable Yeung Kam John (Bernard) Yeung Sik Yuen, G.O.S.K.	650,000
Professor Donald Ah-Chuen, G.O.S.K.	11,597,666.67
Mr David Brian Ah-Chuen	7,386,200
Mr Patrick Andrew Dean Ah Chuen	89,000
Mr Bhanu Pratabsingh Jaddoo	568,500
Me Marie Danielle Low Kwan Sang	240,000
Mr Sydney Ah Yoong	1,052,500
Honourable Ah Foon Chui Yew Cheong	276,500
Mrs Stephanie Ha Chow *(Ceased to be a director as from 20 December 2019)*	235,500
	22,095,866

Directors' Service Contract

There were no service contracts between the bank and its directors during the financial year under review.

Directors and Officers Liability Insurance

The bank has arranged for appropriate insurance cover in respect of legal actions against its directors and officers.

Donations

Donations made during the year were as follows:

	2020	2019
	MUR	MUR
Donations	15,000	51,150
Political Donations	1,300,000	-
	1,315,000	51,150

Auditors

The fees payable to the auditors, Messrs. Ernst & Young, for audit and other services were:

	2020	2019
	MUR	MUR
Audit Services	2,210,000	1,850,000
Other Services*	50,000	300,000
	2,260,000	2,150,000

Note: Other services for 2020 include review of tax.

Date: 28 September 2020

Honourable Y.K.J Yeung Sik Yuen, G.O.S.K.
Chairman

David Brian Ah-Chuen
Strategic Business Executive Director

COMPANY SECRETARY'S CERTIFICATE

We certify that, to the best of our knowledge and belief, the company has filed with the Registrar of Companies, in respect of the financial year ended 30 June 2020, all such returns as are required of the company under the Companies Act 2001 in terms of section 166(d).

Mahesh Ittoo, ACIS MCSI
Company Secretary
28 September 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation of financial statements which give a true and fair view of the financial position, financial performance and cash flows of the bank and which comply with the Mauritius Companies Act 2001, the Banking Act 2004 and the International Financial Reporting Standards.

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

- select suitable accounting policies and then apply them consistently
- make judgments 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the bank will continue in business
- adhere to the provisions of the National Code of Corporate Governance

They are also responsible for safeguarding of the assets of the bank and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with the above requirements in preparing the annual report and financial statements. The Board acknowledges its responsibility for ensuring the preparation of the financial statements in accordance with the International Financial Reporting Standards and the responsibility of external auditors to report on these financial statements. The Board also acknowledges its responsibility for ensuring the maintenance of adequate accounting records and an effective system of internal controls and risk management.

The Board of Directors considers that the bank has complied in all material aspects with the provisions of the National Code of Corporate Governance for the year ended 30 June 2020.

Approved by the Board of Directors on 28 September 2020 and signed on its behalf by:

Honourable Y.K.J Yeung Sik Yuen, G.O.S.K.
Chairman

Mr Sydney Ah-Yoong
Chairman
Audit Committee

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The bank recorded a Profit for the year of MUR 120 million compared to MUR 224 million the prior year. This reduction is primarily driven by the increase in allowance for credit impairment on financial assets from MUR 57 million in 2019 to MUR 311 million this year. A number of circumstances contributed to making 2020 a challenging year: the COVID-19 drove down business activities locally and internationally, the low interest rate environment had an impact on the Net Interest Income performance of the bank, and the inclusion of Mauritius in the EU Blacklist of countries also slowed the progress of the international banking sector. However, the growth in Operating income from MUR 652 million last year to MUR 763 million in 2020 demonstrates some positive aspects of the year for the bank.

PERFORMANCE AGAINST OBJECTIVES

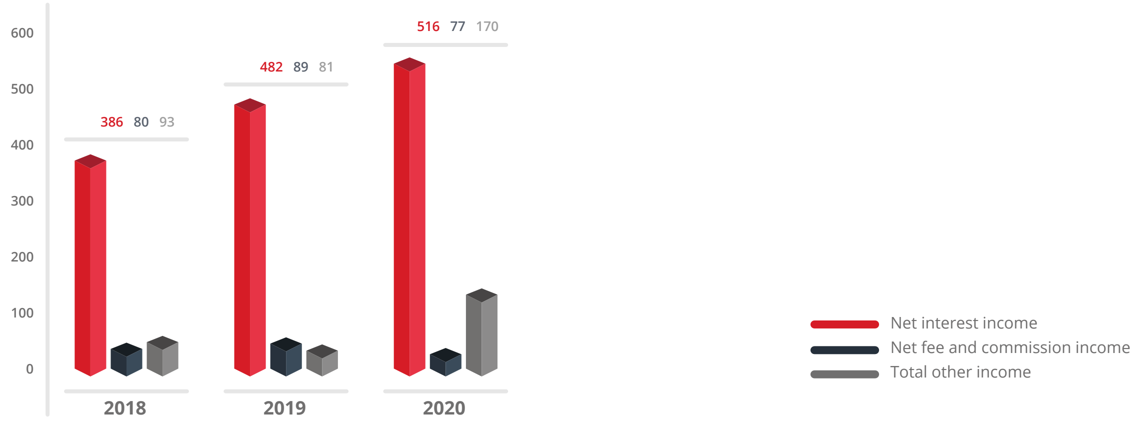
AREA OF PERFORMANCE	OBJECTIVES FOR FY 2019/20	ACTUAL FOR FY 2019/20	OBJECTIVES FOR FY 2020/21
Net Interest Income	Net Interest Income is forecast to grow by around 16% with the bank's strategy to develop its loans and advances portfolio and growth in investment securities and placement with banks.	Net Interest Income grew by 7%. This is primarily due to the decrease in business activity following COVID-19 as well as the low interest rate environment.	Given the slowdown in the economy, Net Interest Income is expected to contract slightly in the coming year.
Non-Interest Expense	With the expansion, in coming year 2019/20 the bank will expect an increase in its technology, human resource and assets to cope with the business requirements.	Non-Interest Expense increased slightly by 2% following close cost monitoring due to COVID-19 situation.	The bank expects to continue spending in the core areas of technology and human capital.
Productivity (Non-interest expense as a % of the sum of Other income and Net Interest Income before impairment)	The bank expects to keep the cost to income ratio in a similar range for the year 2019/2020 in order to achieve its strategy in the coming years.	Cost to income ratio fell to 43%, given the higher increase in operating income compared to the relatively stable operating expenses.	The cost to income ratio will increase next year due to an expected challenging year on income and planned increased cost on technology and human capital.
Return on Equity (Net profit/Equity)	Maintain an ROE of about 15%.	ROE for the year ended stood at 6.6% on account of difficult operating conditions.	Given the expected challenging year ahead, the bank expects a minimum ROE of 10%.
Return on Average Total Assets	The bank aims to keep ROA above 1% for the year 2019/2020.	Return on average total assets stood at 0.6%.	The bank aims to keep ROA above 0.5% for the year 2020/21.
Portfolio Quality	Following our well-defined strategy set, the bank aim to keep lowering its NPL ratio.	The NPL ratio increased from 0.9% to 5.4%.	Notwithstanding the difficult global economy, the bank aim to keep lowering its NPL ratio.
Deposit from Customers	The bank aims to increase its deposit base to support the growth of the loan and advance portfolio. With the ALM desk in place, we will aim for an efficient use of our balance sheet.	Total deposit portfolio has increased by 10% for the year under review.	Given the expected reduced growth of the loan book due to the economic slowdown, the growth in deposit will be adjusted accordingly.
Loans and other Advances portfolio	The bank will target to achieve growth in the loans and advances portfolio at a greater pace than the year before.	The loans and advances portfolio achieved its target by a growth of 28% for the year.	In this economic environment, the bank expected the portfolio to grow by a minimum of 10%.

REVIEW OF CORE FINANCIAL PERFORMANCE

Operating Income

Operating income stood at MUR 763 million for the year ended 30 June 2020 representing an increase of 16.9% compared to last year MUR 652 million. Net interest income increased by 7.0% following growth in loan book. Net fees and commission income witnessed a drop of 13.2%. Conversely, Other income contributed 22% of operating income and increased from MUR 81 million in 2019 to MUR 169 million this year.

Operating Income *(MUR m)*

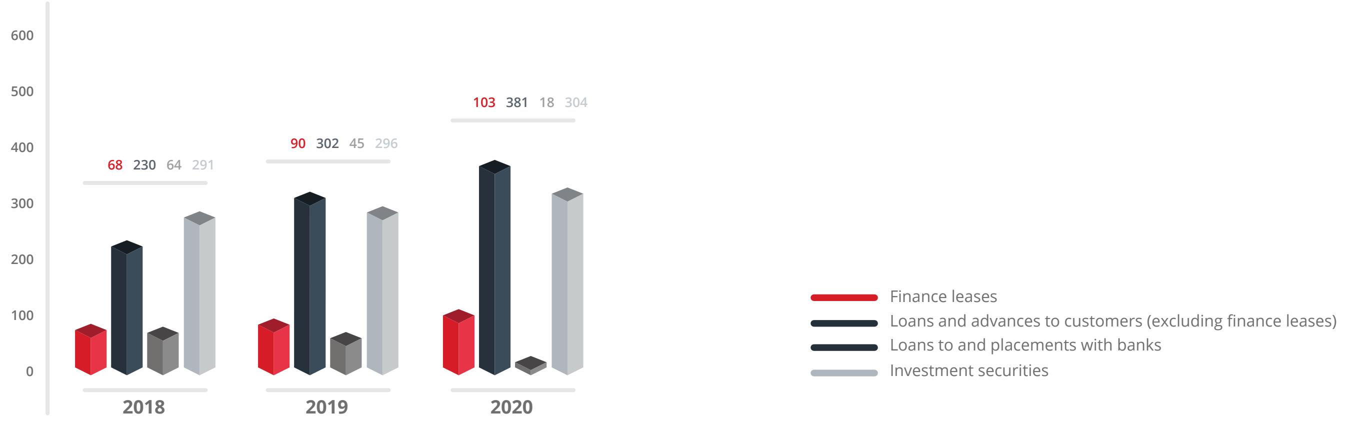


Net Interest Income

The bank interest income continued to grow progressively to reach MUR 806 million for the year compared to previous year figure of MUR 734 million, representing a growth of 10%. The increase is mainly attributable to an increase in loans and advances portfolio. Interest Expense has increased by 15% from MUR 252 million to MUR 290 million primarily on the back of subordinated Tier 2 bond issued by the Bank in April 2019 and a growth in term deposit. The bank witnessed an increase in Net interest income for the year amounting to MUR 516 million compared to MUR 482 million the previous year.

The chart below shows the yearly progress of Interest Income over the last 3 years:

Interest Income *(MUR m)*

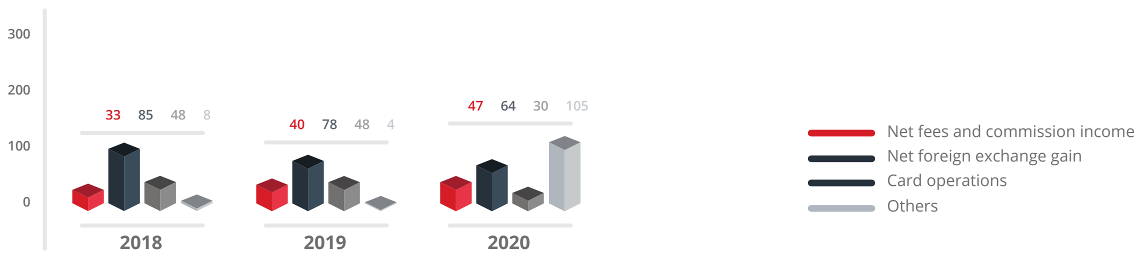


MANAGEMENT DISCUSSION AND ANALYSIS

Non-Interest Income

Non-Interest Income of the bank registered a growth of 45% to reach MUR 246 million compared to last year of MUR 170 million. The main increase was driven from net gain on sale of government securities amounting to MUR 104 million for the year. Net foreign exchange gain stood at MUR 64 million as at 30 June 2020 compared to MUR 78 million last year, representing a fall of 17.9%. The card operations dropped by 37% for the year ended June 2020 to reach MUR 30 million. The decrease in both FX and card operations were mainly driven by a drop in volume of transactions on account of COVID-19. Net fees and commission income stood at MUR 46.7 million compared to preceding year of MUR 40.4 million representing an increase of 16%.

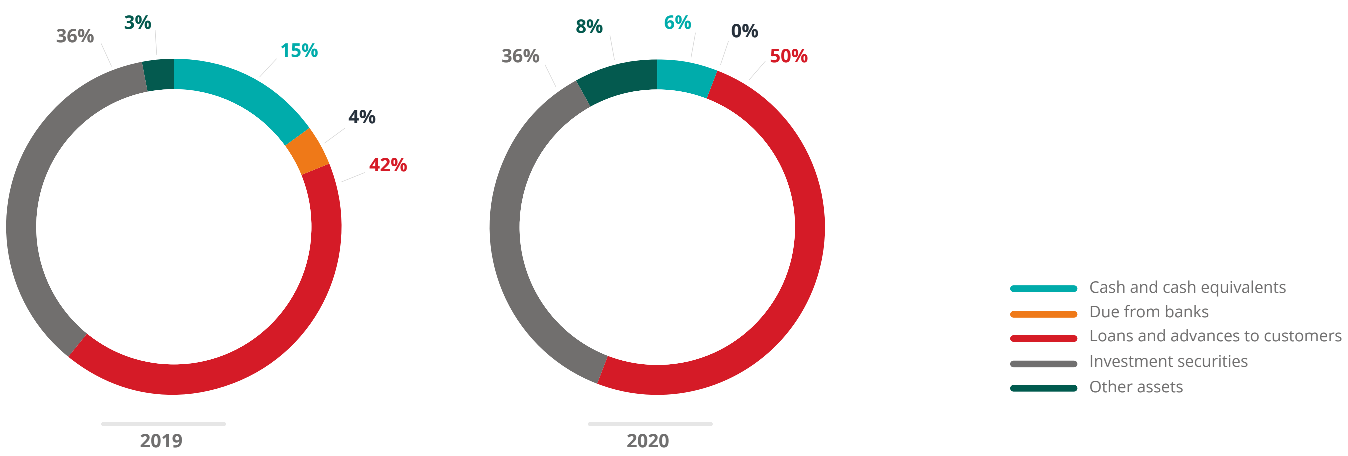
Non-Interest Income *(MUR m)*



Asset Mix

The bank's total assets grew slightly by 8.4% from MUR 18.2 billion at 30 June 2019 to attain MUR 19.7 billion as at 30 June 2020 mainly driven by an increase in Loans and advances to customers of MUR 2.1 billion and investment securities of MUR 634 million. This has been achieved by the bank pursuing asset growth whilst aiming simultaneously for an acceptable risk-return profile. The loans and advances portfolio and investment securities represent 50% and 36% respectively of the bank's asset mix for the year ended 30 June 2020.

The following chart represents the Bank's asset mix for the year ended 30 June 2020 and 30 June 2019 respectively:



Investment Securities

The bank's investment portfolio stood at MUR 7.1 billion as at 30 June 2020, which represents a growth of 9% compared to 30 June 2019 at MUR 6.5 billion. Investment in Local securities experienced the highest growth of 67.7% of bank's investment portfolio notably driven by increase investment in corporate bonds.

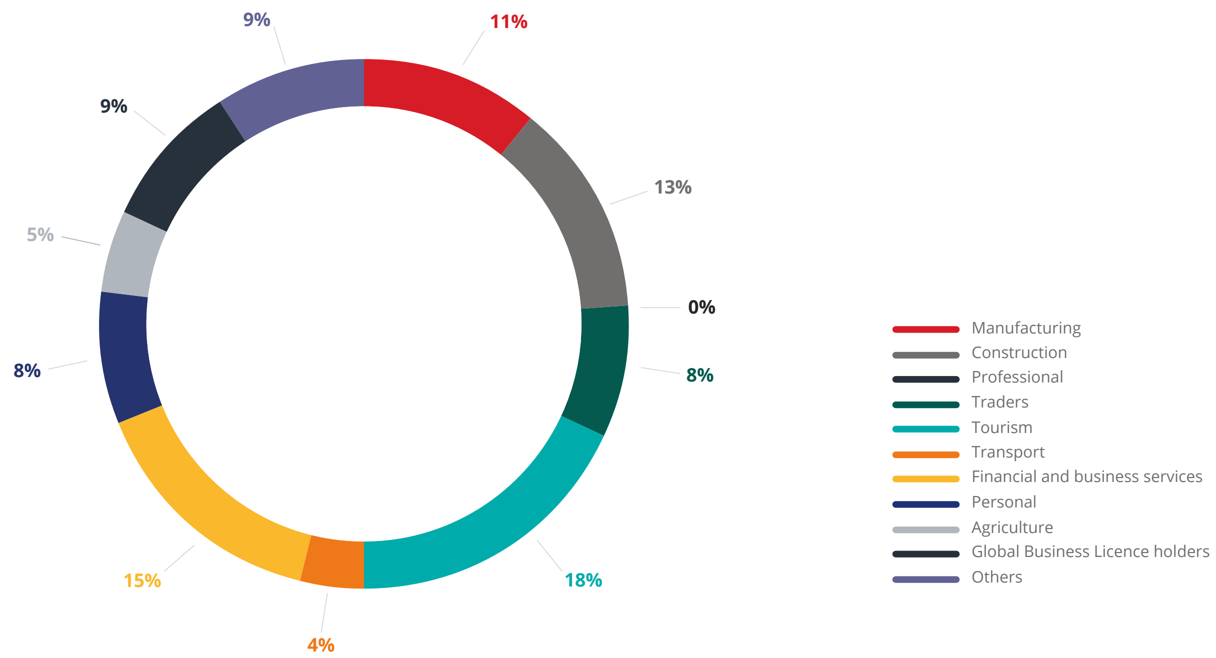
Cash and cash equivalents

Cash and cash equivalents witnessed a fall of 53% to reach 1.3 billion compared to last year's MUR 2.7 billion. Balances with banks abroad dropped by 38% compared to 30 June 2019 whilst mandatory balances with central bank recorded a rise of 62%. The decrease in cash and cash equivalents is mainly due to decrease in interbank loans and placement with foreign banks.

Credit Exposure

The bank's net loans portfolio recorded a year-on year growth of 28% to reach MUR 9.8 billion as at 30 June 2020 compared to last year's MUR 7.6 billion underpinned by an increase in segment B representing 24.9% compared to last year's 13.9%. Amidst the difficult economic conditions marked by COVID-19, the bank continued to follow its strategy of having a diversified portfolio in order to mitigate its level of credit concentration risk across different economic sectors. Its major borrowers remained in the sectors of Tourism at 18%, Financial and business services at 15%, Construction and Manufacturing at 13% and 11% respectively, with slight variances among other economic sectors.

Credit Exposure by Sector as at 30 June 2020



Provisioning and asset quality

The bank's allowance for credit impairment on financial assets experienced a significant increased from MUR 57 million as at 30 June 2019 to MUR 311 million as at 30 June 2020 mainly driven by a one-off increase in specific provision on exposures becoming non-performing assets due to circumstances outside of the control of the bank. There was also an increase in the general provision linked to the increased credit risk following the COVID-19, especially to sectors directly and indirectly affected by the Tourism industry.

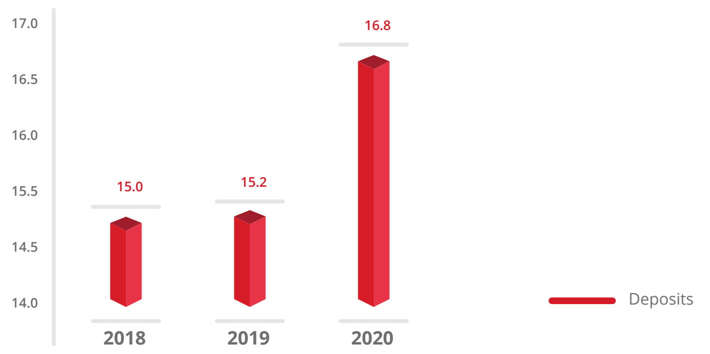
The bank's non-performing loan ratio of 5.4% has witnessed an increase compared to last year of 0.9%. Even though this is a significant increase, the NPL ratio remains within the market norms and this is thanks to a prudent approach adopted by the bank over the years where sustainable income was a strategic choice over short term income.

MANAGEMENT DISCUSSION AND ANALYSIS

Deposits

The bank's deposit base experience a reasonable rise of 10% to reach MUR 16.8 billion as at 30 June 2020 (2019: MUR 15.2 billion). Notwithstanding the issue of Silver Savings Bond and Silver Retirement Bond from Bank of Mauritius for the period August 2019 to January 2020, current and savings portfolio - which accounted for 67.8% of total deposits as at 30 June 2020 - witnessed a growth from MUR 11.0 billion in 2019 to MUR 11.4 billion in 2020. Finally, in its approach to further strengthen its market positioning by offering competitive long-term deposit rating, the bank had successfully raised its term deposits portfolio from 4.2 billion in 2019 to 5.4 billion in 2020 – representing a growth of 29%.

Deposits *(MUR Bn)*

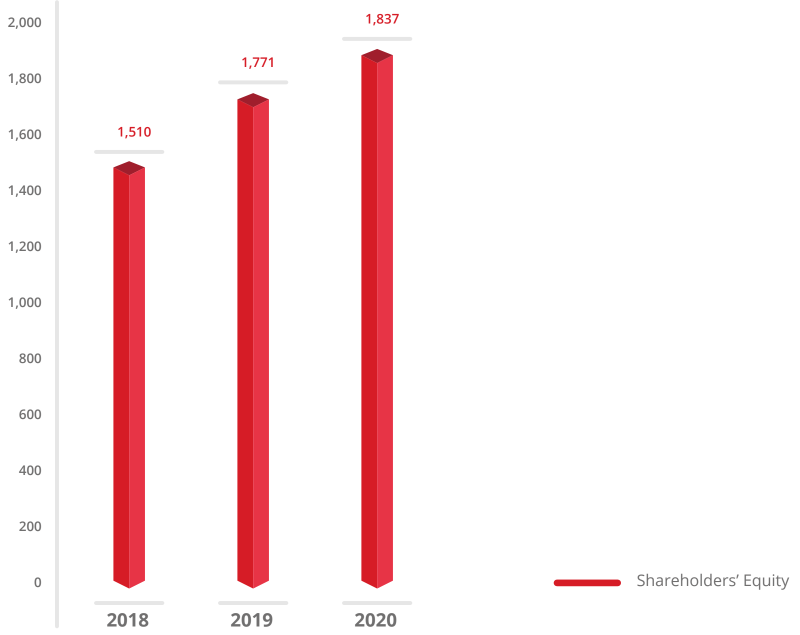


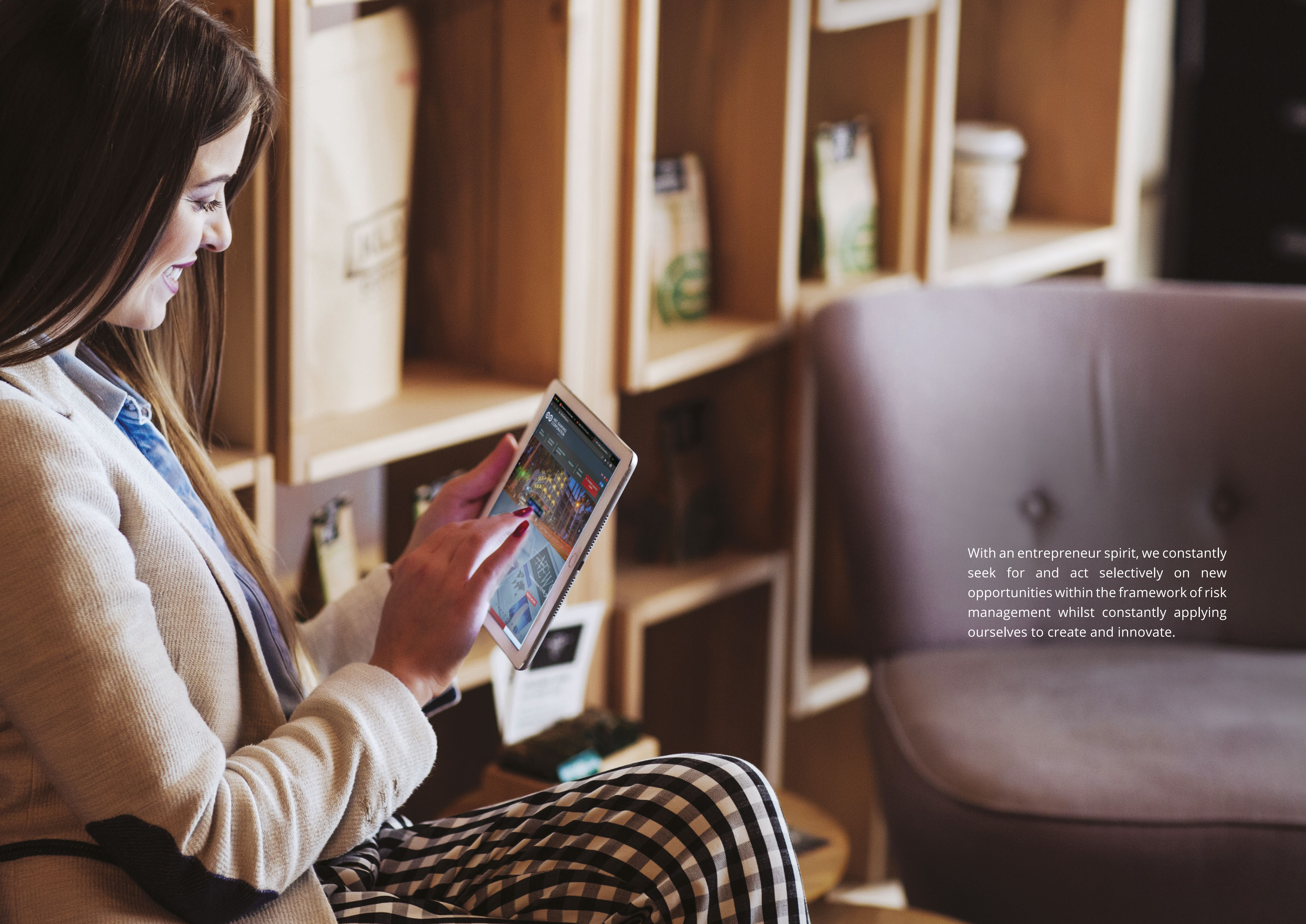
Capital resources

As at 30 June 2020, the bank's Shareholders' equity stood at MUR 1,837 million (2019: MUR 1,771 million). The rise in equity was driven by a growth of 15% in other reserves mainly due to rise in market price in our investment portfolio.

On the regulatory side, with Tier 1 of MUR 1,804.8 million and Total Capital base of MUR 2,444.8 million coupled with total risk weighted assets of MUR 14,124.5 million, the Bank achieved a satisfactory total capital adequacy ratio of 17.31% well above the regulatory requirement of 11.875%.

Shareholders' Equity *(MUR m)*





With an entrepreneur spirit, we constantly seek for and act selectively on new opportunities within the framework of risk management whilst constantly applying ourselves to create and innovate.

RISK REPORT

1. HIGHLIGHTS FOR FINANCIAL YEAR ENDED JUNE 2020

- **Asset Quality**

  The bank recorded a deterioration in asset quality with an increase in its impairment ratio. Non-Performing Loans (NPL) ratio of the bank rose to 5.4% as at 30 June 2020 compared to 0.9% as at 30 June 2019. A large impairment charge of MUR 217.8 million was taken in the same period. The majority of the charge related to a one-off exposure.

- **Sovereign Risk**

  Investment in local and foreign sovereign securities remained stable at MUR 4.8 billion as at June 2020 compared to MUR 4.9 billion as at June 2019, as part of the bank's strategy to continue leverage on HQLA assets to build up liquidity buffer in a time of significant global and regional challenge.

- **Country Risk**

  Domestic exposure out of total exposure remained stable at 79.9% (2019: 80.7%). Exposure to United States of America increased by MUR 737.9 million due to investment in short dated US Treasury Bill resulting in the US becoming the second largest country exposure concentration for the bank at 4.8%. Exposure to Europe declined from 5.7% to 2.6% as at June 2020 mainly due to bank placement being rolled off.

- **Bank Risk**

  An overall reduction of MUR 1.6 billion in exposures to banks noted driven by a contraction in FCY inflows following Covid-19 pandemic resulting in lesser bank placement for the period under review.

- **Sector Concentration**

  The top 4 sectors namely Manufacturing, Tourism, Construction, and Financial & Business Services made up 60.5% of total credit exposures. The weightage of the Bank's loan book sits primarily at 21.8% in tourism, 13.9% in construction, 15.0% in financial and business services sector and 9.8% in the manufacturing sector. The sectorwise concentration reflects a well-diversified portfolio.

- **Funding Mix and Loan to deposit ratio**

  The split between MUR and FCY deposits is fairly balanced at 50:50 respectively. Net Loan to deposit ratio rose from 50.1% as at June 2019 to 58.2% as at June 2020 due to expansion of loan book.

- **Operational Risk**

  No material operational loss reported for the financial year ended June 2020 which is testimony of the robustness of internal control of the bank.

2. RISK GOVERNANCE STRUCTURE

The risk management process comprises of the following steps:

RISK IDENTIFICATION → RISK ASSESSMENT → RISK CONTROL → RISK MONITORING → RISK REPORTING

The process seeks to ensure that the risk exposures are adequately managed within the set limits and guidelines.

The risk framework aims to manage rather than eliminate the risk of failure in order to achieve the business objectives. It can provide reasonable but not absolute assurance against material misstatement or loss. The bank seeks to ensure that the expected returns compensate for the risks taken and appropriate measures are put in place to mitigate any identified weaknesses in the control environment.

Limit Structure

REGULATORY LIMITS				
Liquidity Coverage Ratio	Capital Adequacy Ratio	Credit Concentration	Related Party Transactions	Cash Reserve Ratio

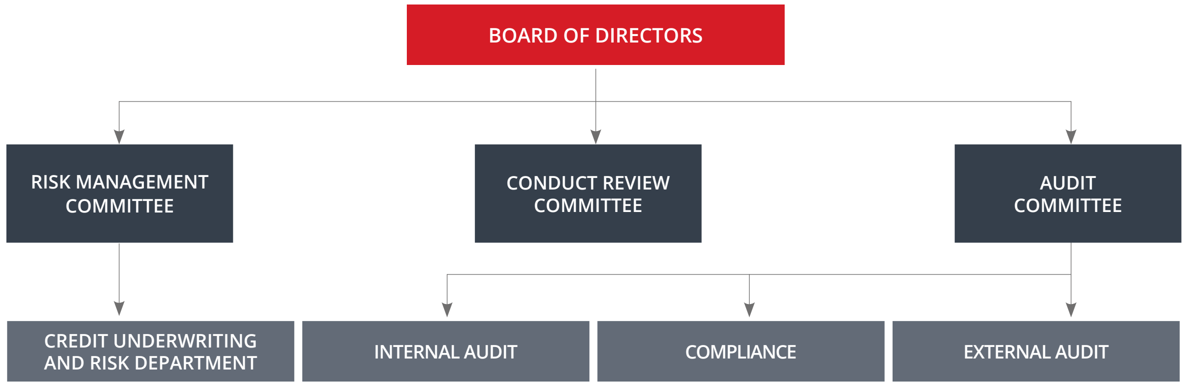
INTERNAL LIMITS								
Liquidity Coverage Ratio	Cumulative Liquidity Gap	Country Limit	Bank Limit	Sectorwise Concentration	Credit Concentration	Top Depositor	Top 20 Depositors	Group Depositor

CREDIT RATING TOOL

RETAIL CLIENTS	CORPORATE CLIENTS
The rating assesses factors such as repayment capacity of the client, track record and type of security provided	The model takes into account qualitative and quantitative factors to generate a rating

RISK REPORT

3. RISK GOVERNANCE FRAMEWORK



3.1 Board Oversight and Management of Risks and Internal Control

The Board of the bank is responsible for determining the long-term strategy of the business, the markets in which it operates and the level of risk acceptable to the bank. The bank has both domestic and international client bases.

The Board has the responsibility of ensuring that management maintains an effective system of Risk Management and Internal Control and for reviewing its effectiveness.

The Board is principally responsible for:

- Establishing risk appetite and tolerance.
- Approving risk management policies.
- Overseeing policy compliance and effectiveness of the risk systems, controls and policies to meet the requirements of regulations.

3.2 Risk Management Committee

The Risk Management Committee is responsible for assisting the Board in fulfilling its oversight responsibilities relating to corporate accountability and risk in terms of management, assurance and reporting.

Responsibilities include:

- Determining risk tolerance and appetite.
- Reviewing and assessing the integrity of the risk control systems.
- Reviewing policies and ensuring risk policies and strategies are effectively managed.
- Monitoring exposures against limits set.
- Reviewing the Internal Capital Adequacy Assessment Process (ICAAP) document and recommending same to the Board.
- Ensuring the effectiveness of procedures and compliance with Bank of Mauritius Guidelines.

3.3 Conduct Review Committee

The responsibilities of the Conduct Review Committee include the following:

- Ensuring that management establishes policies and procedures to comply with the requirements of the Guideline on Related Party Transactions.
- Reviewing and approving credit exposures to related parties.
- Ensuring that market terms and conditions are applied to all related party transactions.

3.4 Assets and Liabilities Committee (ALCO)

The ALCO comprises of the following members or be as determined by the Risk Management Committee:

- Managing Director
- General Manager
- Strategic Business Executive
- Head of Credit Underwriting and Risk
- Head of Finance
- Head of Treasury

Other employees including the Head of Internal Audit may be invited to attend depending on the agenda to be discussed.

The Committee meets every month. The Chairman of ALCO may also convene a special meeting of the Committee in the event an issue arises that cannot wait until the next regularly scheduled meeting and the issue cannot be adequately dealt with via a quorum of ALCO members or the rapid response protocol.

ALCO is responsible for advising the Risk Management Committee on all matters relating to the balance sheet of the Bank, specifically the following matters:

- Capital structure and related matters
- Funding and
- Liquidity

ALCO will advise the Risk Management Committee and recommend actions it considers necessary or desirable to establish that the Bank's balance sheet matters are suitably understood and managed.

The Risk Management Committee will report key recommendations and provide information to the Board.

ALCO is also responsible for:

Interest Rate Risk

- Setting the Bank's interest rate expectations. Consider, and if it be determined, authorise any specific actions arising from this agreed interest rate view;
- Set policies for the management of market value risk and earnings risk within the balance sheet in relation to the agreed interest rate view; and
- Monitor the impact of basis risk on the net interest margin and authorise mitigating actions.

Funding

- To review and assess the management of funding undertaken by bank and formulate appropriate actions to be taken.
- To review the Bank's funding profile and consider
  - the diversification, cost and robustness of funding sources
  - the funding needs (both actual and projected)
  - current and new funding structures e.g. deposits
  - the impact of structural investments and
  - formulate appropriate actions to be taken.
- To evaluate the results of stress scenarios relating to the Bank's funding position, and formulate appropriate actions.

Liquidity

- Monitoring internal and regulatory liquidity coverage ratio being complied with.
- To review and assess the management of the Bank's liquidity position within the framework and policies established by the Risk Management and Conduct Review Committee, as the case may be, and formulate appropriate actions to be taken.
- To review the Bank's liquidity profile and consider the management of rupee and currency short term liquidity and formulate appropriate actions to be taken.
- To evaluate the results of stress scenarios relating to the Bank's liquidity position and formulate appropriate actions to be taken.

RISK REPORT

Balance Sheet Management

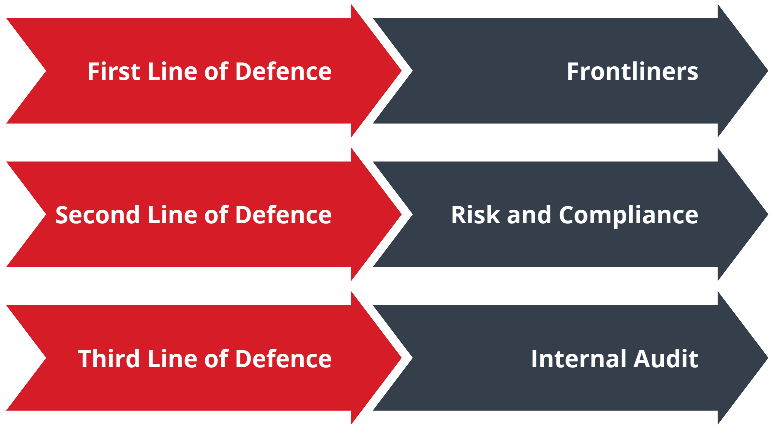
- To ensure proper management within defined control parameters set by the Risk Management Committee of the Bank's net interest income and its structural exposure to movements in market rates and other changes in the external environment.
- To consider interest rate forecasts and, in light of these forecasts and other information:
  - To consider the Bank's structural exposures, including the evaluation of appropriate stress scenarios, and to formulate actions, where required; and
  - To review information of the Bank's net interest income margin performance in order to identify potential margin compression or similar concerns and formulate appropriate actions to be taken.
- To consider the significance on Asset and Liability Management (ALM) of any changes in customer behaviour and formulate appropriate actions.

3.5 Audit Committee

The Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities by monitoring management's approach with respect to financial reporting, internal control, accounting, legal and regulatory compliance, and by reviewing the Risk control framework and compliance. Major roles of Audit Committee with respect to Risk Management include:

- Overseeing the effectiveness of the bank's Internal Control and Risk Management Systems.
- Overseeing the policies and procedures to ensure compliance with legal and regulatory requirements.
- Reviewing the scope of internal audit, the annual audit plan and significant matters reported by Internal Audit department.
- Reviewing the scope of compliance, its work plan and significant matters reported by Compliance department.
- Reviewing the scope of external audit, its work plan and significant matters reported by External Auditors as part of their financial year-end audit.

3.6 Line of Defence



3.7 Risk Department

The Risk Department develops methodologies to identify, measure, mitigate and monitor the major risks. The department reports to the Risk Management Committee and ultimately to the Board in a structured manner on credit, market and operational risk matters. The department is responsible for:

- Ensuring that risk remains within the boundaries and limits established by the Board.
- Ensuring that the business lines comply with risk parameters and prudential limits established by the Board.
- Remedial measures are implemented by the departments concerned to address identified issues and problems.
- Ensuring compliance with regulatory norms.
- Stress testing.
- Risk Reporting to Risk Management Committee on matters relating to credit, market and operational risks.
- Presenting the ICAAP to the Bank of Mauritius and addressing queries.

4. CREDIT RISK

Credit risk is the risk of financial loss resulting from failure of the parties, with whom the bank has contracted, to meet their obligations (both on and off-balance sheet).

4.1 Credit Risk Management Approach

The Credit Underwriting and Risk Function is segregated from origination and sales function. Credit granting and approval authority is in compliance with the delegation of authority as set out in the credit policies.

The Credit Risk Management process at the bank can be summarised as follows:

- Establishment and use of limits including individual obligor/group limits, concentration limits to control concentrations within countries and industry sectors to avoid any undue concentrations.
- Consistent assessment of credit worthiness of counterparties and clients.
- Active use of credit mitigation tools.
- Dual sign off and approval.
- Escalation to the next level of approval authority for non-standard lending.
- Monitoring compliance with limits, policy and guidelines.
- Continuous monitoring of advances and identification of potential risky advances.
- Systematic approach to recognise credit impairment.
- Reporting to Board Risk Management Committee on risk matters.

4.2 Credit Policies

The credit policies set the standards on credit origination and credit risk assessment, concentration risk, credit risk mitigation, credit monitoring, collection and recovery. In addition, it incorporates the delegated powers of approval authorities, as approved by the Board Risk Management Committee. Approval authorities are tiered based on line of business and the aggregate credit facilities to the related customer group.

Credit Policies are reviewed on at least an annual basis. More frequent reviews are undertaken in response to changes in the economic environment or strategies to ensure that the policies reflect the risk appetite of the bank accordingly.

RISK REPORT

Credit Approval Process

FRONT OFFICE
- In contact with customer
- Collect all relevant documents and information
- First evaluation of the deal
- Submit credit proposal

→

CREDIT UNDERWRITING AND RISK
- Ensure compliance with guidelines and the Bank's policy
- Independent assessment of risk
- Provide recommendation to appropriate approval authority

→

APPROVAL PROCESS

Approval by Management Credit Committee/Executive Credit Commitee/conduct Review Committee/Supervisory and Monitoring Commitee dependent on type of deal and amount

4.3 Concentration Risk and Credit Risk Profile

Concentration Risk refers to the risk of loss arising from an excessive concentration of exposure to single borrower/groups of closely related customers, counterparties, industry, geography or collateral.

The approach adopted by the bank relies on reporting of concentration risk along key dimensions, the setting of limits for banks, sectors, group and single exposures and through stress testing. The bank also applies the HHI (Herfindahl-Hirschman Index) to analyse the concentration to credit risk sectors and clients.

4.3.1 Sovereign Risk

Sovereign Risk is a type of credit risk specific to government debt. A decrease in exposure is noted in total investments in Bank of Mauritius and Government securities from MUR 2,764.0 million as at June 2019 to MUR 2,060.6 million as at June 2020. Investment in local treasury bills increased from MUR 675.0 million to MUR 948.9 million as at June 2020.

4.3.2 Country Risk

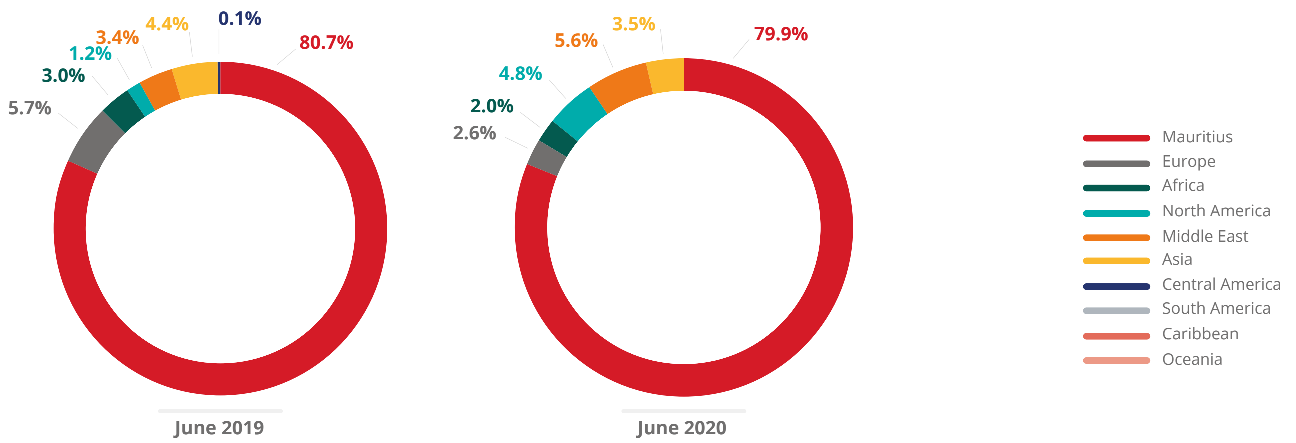
Country risk refers to the risk attributable to events in a specific country. It is the risk of loss associated with lending, pre-settlement, money market and investment transactions in any given country. The occurrence of a country risk event may result in all counterparties in a country to be unable to effect timely payments, despite their willingness to meet contractual debt obligations.

With the expansion in International Banking line of business, the bank has granted loans to entities/invested in corporate bonds under Segment B. Country risk is taken into account in the credit approval process of clients under Segment B as the country risk event may impact on the default probability of counterparties.

To manage and assess country risk, the bank uses Moody's, Standard and Poor's and /or Fitch ratings. Country limits are worked out based on the country risk ratings and the bank's Tier 1 capital.

The following chart shows the distribution of exposure by country.

Country Risk Exposure



Domestic exposure as a percentage of total exposure decreased by 0.8%, from 80.7% as at 30 June 2019 to 79.9% as at 30 June 2020 on account of investment in US T-bills and increase in exposure in United Arab Emirates.

Exposure to Europe went down from 5.7% of total exposure as at 30 June 2019 to 2.6% of total exposure as at 30 June 2020 mainly on account of decrease in placement in France and investments in Lithuania and Romania.

As for North America, exposure increased from 1.2% as at 30 June 2019 to 4.8% as at 30 June 2020 due to investment in US T-bills. Exposure also increased for Middle East over the same period from 3.4% to 5.6% as a result of increase in loans and advances in the United Arab Emirates.

Country Limit

Limits to exposure for each country are set based on the following:
- The strategic intent of the Bank.
- The Country's Risk Rating.
- Business opportunities available in the Country.
- Exposure to the Bank's Tier 1 Capital.

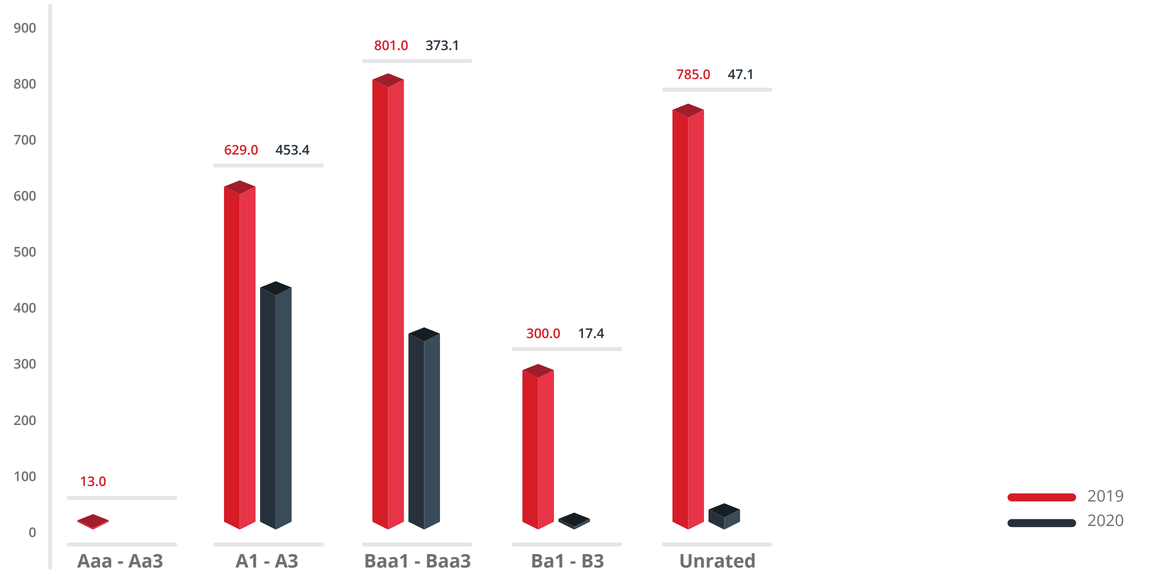
4.3.3 Bank risk

Bank risk is the risk of loss arising from default or changes in circumstances of a bank or a banking industry.

Surplus funds are invested in treasury bills/bonds or placed with other banks. Moody's, Standard and Poor's and /or Fitch ratings are used to assess the counterparty risk related to financial institutions. Limits on banks are worked out based on the ratings of the banks and the bank's Tier 1 capital. Where ratings are not available, other parameters are taken into consideration, including the financial strength and reputation of the bank, tenor of exposure and the return on the placement.

Exposures to banks by rating are reflected below.

Bank Risk Classification by Credit Rating (MUR m)



In terms of bank risk, we note an overall decrease in exposure. Significant fall in exposure can be observed for Ba1-Ba3 on account of matured interbank loans and placements with SBM Bank (Mauritius) Ltd and Nedbank SA. Exposure in unrated banks decreased mainly due to Absa Bank (Mauritius) Limited being assigned Moody's Baa3 deposit rating in February 2020.

RISK REPORT

4.3.4 Sector Concentration

SECTOR	EXPOSURE (OUTSTANDING BALANCE) Jun 19						EXPOSURE (OUTSTANDING BALANCE) Jun 20						Prudential limits
	Segment A		Segment B		TOTAL		Segment A		Segment B		TOTAL		
	(MUR m)	% of Total Exposure	(MUR m Equiv.)	% of Total Exposure	(MUR m Equiv.)	% of Total Exposure	(MUR m)	% of Total Exposure	(MUR m Equiv.)	% of Total Exposure	(MUR m Equiv.)	% of Total Exposure	
Agriculture and Fishing	401.8	5.0%	-	0.0%	401.8	4.2%	866.4	8.5%	-	0.0%	866.4	6.7%	15.0%
Manufacturing	1,057.6	13.1%	185.3	12.8%	1,242.9	13.0%	1,219.4	12.0%	44.1	1.6%	1,263.4	9.8%	16.5%
Tourism	1,454.3	18.0%	479.4	33.2%	1,933.7	20.3%	2,144.8	21.0%	659.2	24.5%	2,804.1	21.8%	25.0%
Transport	379.1	4.7%	1.3	0.1%	380.5	4.0%	412.3	4.0%	0.5	0.0%	412.7	3.2%	10.0%
Construction	1,234.4	15.3%	47.5	3.3%	1,282.0	13.4%	1,669.9	16.4%	121.2	4.5%	1,791.1	13.9%	16.0%
of which Commercial, Residential and Land Parcelling	785.5	9.7%	-	0.0%	785.5	8.2%	852.6	8.4%	-	0.0%	852.6	6.6%	12.5%
Global Business Licence Holders	-	0.0%	687.4	47.6%	687.4	7.2%	-	0.0%	1,004.4	37.4%	1,004.4	7.8%	10.0%
Traders	996.9	12.3%	-	0.0%	996.9	10.5%	825.4	8.1%	-	0.0%	825.4	6.4%	30.0%
Information Communication and Technology	69.9	0.9%	-	0.0%	69.9	0.7%	157.6	1.5%	356.6	13.3%	514.2	4.0%	10.0%
Financial and Business Services	1,438.1	17.8%	38.8	2.7%	1,476.9	15.5%	1,891.8	18.5%	43.3	1.6%	1,935.1	15.0%	26.0%
Infrastructure	1.1	0.0%	-	0.0%	1.1	0.0%	4.1	0.0%	-	0.0%	4.1	0.0%	15.0%
Professional	15.8	0.2%	-	0.0%	15.8	0.2%	12.9	0.1%	-	0.0%	12.9	0.1%	5.0%
Health Development Certificate Holders	1.3	0.0%	-	0.0%	1.3	0.0%	1.9	0.0%	-	0.0%	1.9	0.0%	5.0%
Education	6.3	0.1%	-	0.0%	6.3	0.1%	5.8	0.1%	-	0.0%	5.8	0.0%	10.0%
Media, Entertainment and Recreational Activities	14.8	0.2%	-	0.0%	14.8	0.2%	18.2	0.2%	-	0.0%	18.2	0.1%	5.0%
Other	419.1	5.2%	3.1	0.2%	422.2	4.4%	236.6	2.3%	413.2	15.4%	649.7	5.0%	10.0%
Personal	599.5	7.4%	-	0.0%	599.5	6.3%	734.5	7.2%	46.1	1.7%	780.6	6.1%	12.5%
Total	**8,089.9**	**100.0%**	**1,442.9**	**100.0%**	**9,532.8**	**100.0%**	**10,201.5**	**100.0%**	**2,688.5**	**100.0%**	**12,890.0**	**100.0%**	

Table 1: Sector-wise distribution

Tourism is the sector with the highest exposure at 21.8%. 60.5% of total exposures was concentrated in 4 top sectors being Manufacturing, Tourism, Construction, and Financial & Business Services. All sector exposures are within the respective internal limits approved by the Board. Prudential Limits for Tourism and Transport Sector were reduced to reflect the impact of COVID-19 on the Mauritian Economy.

Exposures to Segment B increased from MUR 1,442.9 million (15.1%) as at 30 June 2019 to MUR 2,688.5 million (20.9%) as at 30 June 2020.

RISK REPORT

4.3.5 Credit Concentration Risk for large exposures

The bank is exposed to the credit risk of large single/group counter parties. In the event of default of their obligations to the bank, this will have a significant impact on impairment charge.

The bank is in compliance with the Bank of Mauritius Guideline on Credit Concentration Limits. The bank ensures that it does not grant credit to a single customer or group of connected counterparties, which exceeds the regulatory limit stipulated in the Guideline.

The table below provides a breakdown of the bank's large credit exposures (group and single).

Group and Single Exposure	Net Exposure incl commitments at 30.06.20 (MUR m)	Exposure and undrawn commitments as a % of Tier 1
1	640.7	35.5%
2	632.5	35.0%
3	583.5	32.3%
4	525.7	29.1%
5	522.2	28.9%
6	512.8	28.4%
7	439.3	24.3%
8	418.4	23.2%
9	409.3	22.7%
10	406.0	22.5%
11	399.6	22.1%
12	384.9	21.3%
13	379.2	21.0%
14	356.6	19.8%
15	333.9	18.5%
16	329.7	18.3%
17	318.3	17.6%
18	270.0	15.0%
19	254.0	14.1%
20	251.3	13.9%
21	249.2	13.8%
22	241.4	13.4%
23	225.0	12.5%
24	214.1	11.9%
25	200.5	11.1%
26	190.9	10.6%
Total	**9,689.1**	**536.9%**

Table 2: Credit Concentration - Single/Group of Connected Counterparties

As at 30 June 2020, 21 groups of connected counterparties and 5 single customers had exposures exceeding 10% of the bank's Tier 1 Capital. The aggregate of the exposures is within the regulatory limit of 800% of bank's Tier 1 Capital.

4.3.6 Related Party Transactions

The bank adheres to the Bank of Mauritius Guideline on Related Party Transactions. As at 30 June 2020, the bank's exposure to related parties in category 1 and category 2 represented 30.8% of Tier 1 capital, well within the regulatory limits of 150% of Tier 1 Capital. The bank's exposures to non-exempt related parties aggregated to MUR 522.2 million (28.9% of Tier 1 Capital) as at June 2020, compared to MUR 525.3 million (29.9% of Tier 1 Capital) as at June 2019. Same was within the regulatory limit set by the Bank of Mauritius.

The top 5 exposures to non-exempt related parties aggregated MUR 348.0 million (19.3% of Tier 1 Capital) as at 30 June 2020 compared to MUR 340.1 million (19.3% of Tier 1 Capital) as at 30 June 2019.

Top 5 Exposure to Related Parties - Non-exempt	Net Exposure incl commitments at 30.06.20 (MUR m)	% of Tier 1 Capital
1	116.9	6.5%
2	105.0	5.8%
3	61.7	3.4%
4	32.2	1.8%
5	32.2	1.8%
Total	**348.0**	**19.3%**

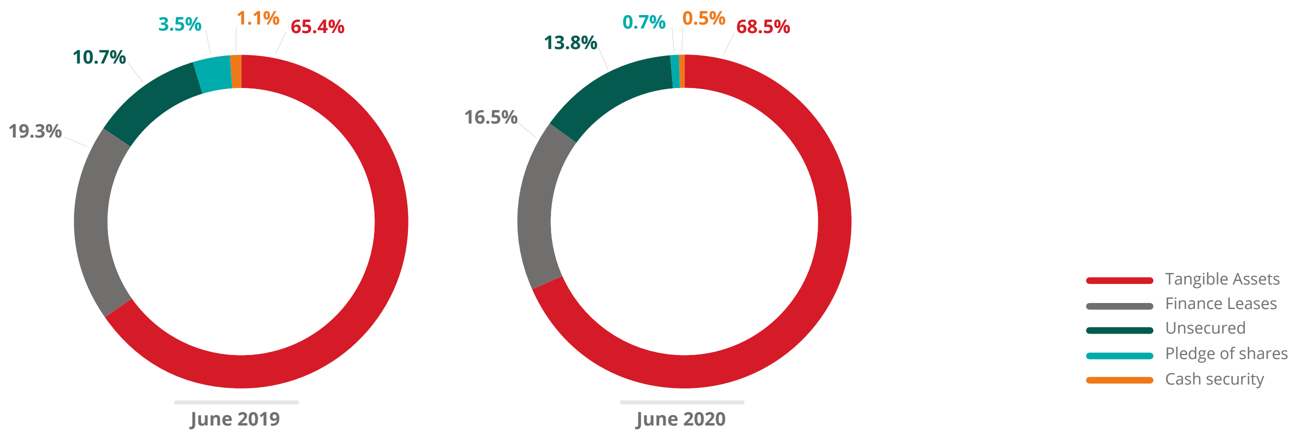
Table 3: Top 5 Exposures to non-exempt related parties

None of the facilities granted to related parties was impaired. The facilities granted to related parties are approved by the Conduct Review Committee.

4.3.7 Credit Risk Mitigation

Potential Credit Losses are mitigated by the use of collateral and other guarantees where feasible. The extent of risk mitigation provided by collateral depends on the amount of charges, type and quality of collateral taken. Policies and guidelines are in place regarding the types of collateral acceptable to the bank, their strengths as credit risk mitigation and the valuation frequencies. Physical collaterals are insured against all risks. Obtaining collateral does not replace a rigorous assessment of the borrower's ability to meet its obligations. For Corporate deals, legal opinions are sought and documentation is reviewed by the legal advisor where required.

The breakdown of loans and advances by security types is given below.



68.5% of exposure was secured against fixed/floating charges as at June 2020, up from 65.4% as at June 2019. The proportion of unsecured facilities increased from 10.7% as at June 2019 to 13.8% as at June 2020. The increase is explained by MML granted to large local corporates.

RISK REPORT

4.4 Account Monitoring and Recovery

Credit granted and borrowers are monitored on an ongoing basis. Restructuring of facilities is undertaken on a case by case basis, taking into account the repayment capacity of the borrower.

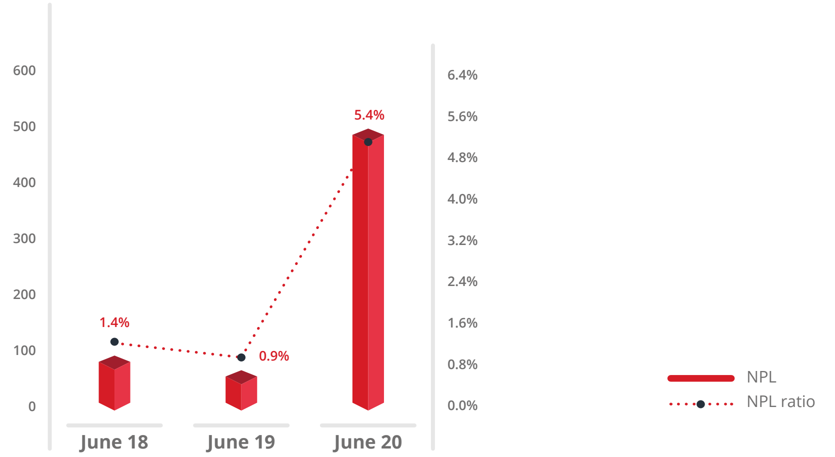
Key Indicators of Credit Quality

RATIO	As at 30 June 2018	As at 30 June 2019	As at 30 June 2020
Non-Performing Loans (NPLs)/ Gross loans and advances	1.4%	0.9%	5.4%

Table 4: Key Indicators of Asset Quality

NPLs as a percentage of gross loans and advances increased from 0.9% as at 30 June 2019 to 5.4% as at 30 June 2020.

(MUR m)



The performance of the Recovery team is reviewed on a monthly basis by management and on a quarterly basis by Supervisory Monitoring Committee. The focus is to ensure prompt recovery of assets.

5. MARKET RISK MANAGEMENT

Market Risk refers to the risk of loss arising from adverse changes in interest rates, foreign exchange rates, equity prices, commodity prices and other market changes.

The Assets and Liabilities Committee (ALCO) and the Risk Management Committee are involved in evaluating, managing and monitoring the market risks of the bank. Performance is monitored against policy limits and gap analysis undertaken to ensure that market risk is captured, reported and effectively managed.

The primary tools used by the bank to assess market risks are:

Gap analysis

Liquidity gap analysis is the difference between a bank's assets and a bank's liabilities, caused by said assets and liabilities not sharing the same properties. This gap can be positive or negative, depending on if the bank has more assets than liabilities or vice versa. For banks, the liquidity gap can change over the course of the day as deposits and withdrawals are made. This means that the liquidity gap is more of a quick snapshot of a firm's risk, rather than a figure that can be worked over for a long period of time. To compare periods of time, banks calculate the marginal gap, which is the difference between gaps of different periods.

Value at Risk (VaR)

VaR is a statistical risk measure used to estimate the potential loss from adverse market moves in a normal market environment. The bank has a single VaR framework used as a basis for calculating Risk Management VaR.

The framework is employed across the bank using historical simulation based on data for the previous 12 months. The framework's approach assumes that historical changes in market values are representative of the distribution of potential outcomes in the immediate future. The use of Risk Management VaR provides a stable measure of VaR that is closely aligned to risk management decisions made by the lines of business, and provides the appropriate information needed to respond to risk events.

Earnings-at-risk (EAR)

The bank evaluates its structural interest rate risk exposure through earnings-at-risk, which measures the extent to which changes in interest rates will affect the bank's net interest income and certain interest rate-sensitive fees.

5.1 Liquidity risk

Liquidity risk is the potential loss to a bank arising from either its inability to meet its obligations when they fall due or to fund increases in assets without incurring unacceptable cost or losses. Large unexpected outflows resulting from customer withdrawals and unplanned loan drawdowns may impact on the balance sheet and entail inability to fulfill lending obligations and a failure to meet liquidity regulatory requirements.

5.1.1 Liquidity Risk Management

The bank manages liquidity risk in accordance with the Guideline on Liquidity Risk Management and within the risk appetite and tolerance of the bank for liquidity risk. The market risk policy of the bank sets out the framework within which the liquidity of the bank is managed and monitored. Funding, liquidity, and foreign exchange exposures in the banking book are managed centrally by the treasury department.

LIQUIDITY RISK MANAGEMENT	CONTINGENCY LIQUIDITY RISK MANAGEMENT
• Manage intra-day liquidity positions	• Monitor and manage early warning liquidity indicators
• Monitor Interbank Outstanding Balances	• Maintain contingency funding plans
• Monitor daily cash flow requirements	
• Manage short term/long term cash flows	
• Manage daily foreign currency liquidity	
• Identify and manage structural liquidity mismatches	
• Preserve a diversified funding base	
• Monitoring of the ratios against limits set	

Limits are reviewed at least annually or more frequently if required to ensure that they remain relevant in the context of prevailing market conditions and business strategy. Some of the liquidity risk management tools include monitoring the list of top depositors, funding source mixture and maturity profile of funding sources. Excesses above limits are ratified at Board Risk Management Committee.

RISK REPORT

5.1.2 Funding Risk

Funding risk refers to the risk that a bank does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

The primary funding sources are from deposits from retail and corporate clients, comprising of savings, call deposits and term deposits. Deposits (including accrued interest) increased to MUR 16.8 billion as at June 2020. FCY deposits (excluding accrued interest) increased slightly from 49.2% as at June 2019 to 49.7% as at June 2020, whilst MUR deposits dropped from 50.8% to 50.3% over the same period.

Net Loan to deposit ratio rose from 50.1% as at June 2019 to 58.2% as at June 2020 due to an increase in loans and advances.

43.1% of deposits were consumer deposits as at June 2020. Although savings accounts and call deposits are repayable on demand, these are considered to be fairly stable sources of funding at the bank.

5.1.3 Liquid Asset Ratio

The Liquid Asset Ratio measures the extent to which assets can be readily converted into cash or cash substitutes to meet financial commitments. The Liquid Asset Ratio (MUR) was at 12.1% as at June 2020 (June 2019: 10.7%).

5.1.4 Contingent Liquidity Risk

Committed credit facilities, whilst drawn in period of liquidity crises, give rise to contingent liquidity risk. The liquidity gap is worked out taking into account committed exposures to assess the risk as part of the stress testing exercise.

5.2 Interest Rate Risk

Interest Rate Risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. Interest rate risk is the potential negative impact on the Net Interest Income and refers to the vulnerabilities of the bank's financial condition to movement in interest rates. In line with the Guideline on Measurement and Management of Market Risk, the bank conducts repricing gap analysis for individual currencies accounting for 5% or more of the bank's banking book total assets or liabilities.

The tables below provide an analysis of the interest rate risk exposure for the bank. As at 30 June 2020, currencies accounting for 5% or more of total assets or liabilities included MUR, EUR, and USD. The up to 3 months column includes assets and liabilities bearing floating rates of interest that do not reprice at set dates, but reprice whenever the underlying interest rate changes.

Repricing Gap – BANK

As at June 2020

	Up to 3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non interest sensitive	Total
	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m
Assets	11,489.4	472.5	651.1	1,386.4	2,325.2	577.1	3,220.5	20,122.3
Liabilities	5,089.2	495.8	894.4	2,028.8	1,494.6	-	7,865.5	17,868.3
On Balance sheet interest rate repricing gap	6,400.3	(23.3)	(243.3)	(642.4)	830.6	577.1	(4,645.1)	2,253.9
Cumulative repricing gap	6,400.3	6,376.9	6,133.6	5,491.2	6,321.9	6,899.0	2,253.9	
As a % of total assets	**32.5%**	**32.4%**	**31.1%**	**27.9%**	**32.1%**	**35.0%**	**11.4%**	

As at June 2019

	Up to 3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non interest sensitive	Total
	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m
Assets	9,204.1	137.2	579.0	1,206.1	3,340.5	1,323.2	2,553.0	18,343.1
Liabilities	4,931.6	833.6	564.7	749.8	1,384.6	500.0	7,439.5	16,403.8
On Balance sheet interest rate repricing gap	4,272.5	(696.4)	14.3	456.2	1,955.9	823.2	(4,886.6)	1,939.3
Cumulative repricing gap	4,272.5	3,576.2	3,590.5	4,046.7	6,002.6	6,825.8	1,939.3	
As a % of total assets	**23.5%**	**19.7%**	**19.8%**	**22.3%**	**33.0%**	**37.6%**	**10.7%**	

Repricing Gap – MUR

As at June 2020

	Up to 3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non interest sensitive	Total
	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m
Assets	6,008.2	359.7	285.7	855.8	1,809.7	533.6	1,565.4	11,418.2
Liabilities	4,681.4	123.1	859.1	1,868.2	1,482.2	-	357.5	9,371.6
On Balance sheet interest rate repricing gap	1,326.7	236.7	(573.4)	(1,012.4)	327.5	533.6	1,207.9	2,046.6
Cumulative repricing gap	1,326.7	1,563.4	990.0	(22.4)	305.1	838.7	2,046.6	
As a % of total MUR assets	**11.6%**	**13.7%**	**8.7%**	**-0.2%**	**2.7%**	**7.3%**	**17.9%**	

Repricing Gap – EUR

As at June 2020

	Up to 3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non interest sensitive	Total
	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m
Assets	2,251.5	112.8	-	77.4	366.9	-	187.5	2,996.2
Liabilities	-	-	-	-	-	-	2,231.9	2,231.9
On Balance sheet interest rate repricing gap	2,251.5	112.8	0.0	77.4	366.9	0.0	(2,044.4)	764.3
Cumulative repricing gap	2,251.5	2,364.3	2,364.3	2,441.8	2,808.7	2,808.7	764.3	
As a % of total EUR assets	**75.1%**	**78.9%**	**78.9%**	**81.5%**	**93.7%**	**93.7%**	**25.5%**	

Repricing Gap – USD

As at June 2020

	Up to 3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non interest sensitive	Total
	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m
Assets	3,206.4	-	365.5	453.2	148.6	43.5	619.9	4,837.0
Liabilities	407.7	372.8	35.3	160.6	-	-	4,404.0	5,380.5
On Balance sheet interest rate repricing gap	2,798.7	(372.8)	330.1	292.6	148.6	43.5	(3,784.1)	(543.5)
Cumulative repricing gap	2,798.7	2,425.9	2,756.0	3,048.6	3,197.1	3,240.7	(543.5)	
As a % of total USD assets	**57.9%**	**50.2%**	**57.0%**	**63.0%**	**66.1%**	**67.0%**	**-11.2%**	

RISK REPORT

Tables 5: Repricing gap

The treasury department tracks and reviews the gap analysis to recommend strategies to reduce the repricing mismatches and manage the interest rate risk. ALCO meetings are held on a monthly basis.

Interest Rate Sensitivity Analysis

The management of interest rate risk is measured from an earnings perspective. Earnings at risk is used by the bank to measure the sensitivity of net interest income over the next 12 months. The bank assesses the impact of various interest rate shocks on net interest income over a 12 months period assuming a static position.

An analysis of a 50 basis points parallel shift in the yield curve and its impact on interest earning assets and interest-bearing liabilities has been carried out for respective currencies as below.

Additionally, the table also indicates that a 100 basis points change in interest rate for MUR will have an impact of MUR 8.4 million as at 30 June 2020 (MUR 4.1 million as at June 2019) on our profit and loss.

CURRENCY	CHANGE IN BASIS POINTS	SENSITIVITY OF PROFIT OR LOSS AND EQUITY (MUR m)
MUR	50	4.2
	100	8.4
EUR	50	14
USD	50	16.2

5.3 Foreign Exchange Risk

Foreign exchange risk refers to the risk that the bank may suffer loss as a result of adverse exchange rate movement during which period it has an open position, either spot or forward, or both in the same foreign currency. There is also settlement risk arising out of default of the counterparty and time lag in settlement of currencies due to different time zones.

The risk element in foreign exchange risk is managed and monitored against appropriate limits – open position, stop loss, day light as well as overnight limits for each currency. To manage the foreign exchange risk, dealers operate within the prudential limits approved by the Board and the regulatory limit as prescribed by the Bank of Mauritius. The regulatory daily overall foreign exchange limit is 15% of the bank's Tier 1 capital.

5.4 Price Risk

Price risk refers to the risk arising from fluctuations in the market value of trading and non-trading positions, resulting in losses in the value of the portfolios. The bank is exposed to risks associated to both locally and internationally quoted securities. Investment in securities increased from MUR 6.5 billion as at 30 June 2019 to MUR 7.1 billion as at June 2020.

5.5 Value at Risk (VaR)

Another market risk measure used within the bank is Value at Risk (VaR). VaR is used to determine the potential loss from adverse currency movements under normal conditions. VaR is based on historical observation period of 12 months and using a one day holding period and a confidence interval of 99%. VaR is calculated based on exposure at close of business. There is the risk that intraday trading and exposures may vary from close of day level, but given that the volume is low, the risk is mitigated. VaR was MUR 746,565 as at 30 June 2020 as compared to MUR 104,356 as at 30 June 2019.

5.6 Risk Appetite Framework

The purpose of the Risk Appetite Framework helps to align the bank risk profile and strategic orientation, and is the key success factor of the risk management strategy that determine the level and type of risk, bank is willing to take and sustain while executing its business strategies.

The risk appetite is established by means of a complementary set of statements that are cascaded throughout the business units and updated to reflect internal customer and shareholders aspirations depending on the economic and Geo political context.

The Bank's risk appetite is defined by a risk appetite framework set by the Board. It lays emphasis on a strong risk culture and defines the threshold to manage aggregate risks through an acceptable scale and in line with Bank of Mauritius Guidelines on credit and country risk management and cross border lending.

6. OPERATIONAL RISK MANAGEMENT

Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk. It is not possible to eliminate all operational risks. However, the likelihood of material operational risks should be reduced by introducing mitigating controls.

6.1 Key types of Operational Risk

- Processing Risk
- People Risk
- Legal Risk
- Compliance Risk including AML
- Technology Risk

6.2 Management of Operational Risk

The bank identifies and manages operational risks in the following ways:

- Reporting by Business units of the specific operational risks inherent in their business activities on both regular and event-driven basis.
- Key Risk Indicators have been developed, where appropriate to act as early warning signals for risk of potential losses. The Key Risk Indicators are reported to the Risk Management Committee on a quarterly basis.
- Tracking of Loss incidents.
- Processes and procedures of the different departments are reviewed by the Risk Management Team.

The main responsibility for the management of Operational Risk and compliance with control requirements rests with the business and functional units where the risk arises.

To mitigate the impact of some operational risks, measures used by the bank include the following:

- Complaints tracking and prompt resolution of issues
- Capital management
- Risk transfer via Insurance
- Disaster recovery and business continuity plans
- Procedures implemented and maintained to comply with the increasingly complex laws and regulations.

No material operational loss reported for the financial year ended June 2020 which is testimony of the robustness of internal control of the bank.

RISK REPORT

7. INFORMATION TECHNOLOGY RISK

IT risks comprise of any hardware and software failure due to human error, malicious attacks, spam and viruses, as well as natural disasters such as fires, floods or cyclones, and this forms an integral part of operational risk management. An IT Steering Committee comprising of senior management meets on a regular basis to discuss on IT matters relating to the improvement of current systems in terms of digitalization and cybersecurity, as well as resolution of any issues. The IT key risk indicators, including system downtime, incidents, virus detection are tracked, monitored and reported quarterly to the Risk Management Committee.

8. STRATEGIC RISK

Strategic Risk refers to the risk to earnings and/or capital arising from adverse effects of business decisions, failure to meet the business development targets, improper implementation of business decisions/projects, failure to react to unexpected external events which can impact on the business.

The strategic planning process includes the development of a three-year strategic plan, which is reviewed annually during the budgetary process to ensure that the strategic initiatives are on track or need to be amended. To mitigate the risk, performance against strategic plans, budgets or projects are monitored.

9. REPUTATIONAL RISK

Reputational Risk refers to the risk of loss arising from the adverse perception of the image of the bank by customers, counterparties, stakeholders. This risk is interrelated to other risks such as strategic risk, fraud and regulatory risk.

Presently, the bank has minimal reputational risk profile given that its activities are predominantly vanilla in nature. The operational systems and controls put in place also help to mitigate this risk. Reputational risks are also mitigated by the use of standardized industry documentation and by seeking the appropriate legal advice. Complaints are tracked and tackled promptly. The bank is of the view that the Operational risk capital charge encompasses potential reputational issues.

10. PENSION OBLIGATION RISK

Pension Obligation Risk is the risk that a firm's obligations towards an employee pension scheme may increase because of a deterioration in the scheme position.

The bank launched its pension scheme, effective July 2014. The pension plan is a Defined Contribution Pension Plan (DC). The pension scheme administrator is MUA Pension Ltd. The investment manager is ABC Capital Markets Ltd.

Under a DC Pension Plan, the bank will pay fixed contributions or contribute based on the contribution of the employee. Pension plan benefits at retirement are determined by the contribution paid into the plan and the investment returns generated by these assets over time.

There will be little risk borne by the bank under the Defined Contribution Pension Plan.

11. COMPLIANCE AND ANTI MONEY LAUNDERING

The compliance function ensures that the bank continuously complies with the existing and emerging regulations impacting banking operations. The bank recognises its responsibility to conduct business in accordance with the relevant laws and regulations. The bank is subject to supervisory governance and seeks to abide to the highest standards in terms of compliance practices.

Regular training is provided to ensure employees are kept well informed of regulatory changes and the bank's regulatory obligations. The Compliance function through the Money Laundering Reporting Officer (MLRO) is also empowered to report any suspicious transactions to the Financial Intelligence Unit (FIU).

To ensure consistent management of compliance risk, the compliance function provides advice on regulatory matters and works closely with business and operational units. The Compliance department also monitors compliance risks by ensuring that the bank complies with all the relevant banking and anti-money laundering rules and guidelines issued by regulatory bodies. The department has the responsibility to ensure a sound compliance-risk management framework which helps to identify the risks and propose measures to mitigate compliance issues which may arise.

As from December 2016, the bank has put in place Oracle Financial Services Analytical Applications (OFSAA), an AML Software which scrutinizes all wire transfers effected by the bank. The solution is a globally recognized AML solution which provides a robust screening system allowing the bank to deal with potential violations of AML /CFT guidelines in a timely manner. The alerts generated by the OFSAA software are attended to by our compliance team as part of its monitoring exercise on a daily basis. The OFSAA AML software is based on seven scenarios, including cash transactions, pattern of transactions and large reportable transactions. Where deemed necessary, the nature and purpose of the transaction and origin/ source of funds are scrutinized by the Compliance Team.

On the other hand, and with a view to avoid any issue relating to inward and outward remittances undertaken by the bank, the SWIFT Sanction Screening system carries necessary checks on a daily and on a real time basis which is dealt with by the Compliance team. Concerning name checks, the bank uses Bankers Accuity and the World Check - One software for other AML risks by cross-checking against the FATF list of high-risk and non-cooperative jurisdictions, UNSC list, PEP lists and internal caution and blacklists, amongst others.

The bank has also put in place systems and procedures to comply with the new requirements of the Common Reporting Standards (CRS) which, just like FATCA , is the automatic exchange of information which involves the systematic and periodic transmission of "bulk" taxpayer information by the source country to the residence country concerning various categories of income (e.g. account balance or value, dividends, interest, royalties, salaries, pensions, etc.).

Systems and procedures are also being reviewed to meet the expectations that has been brought by the new requirements of Section 123D of the Finance Act 2017 which has become effective as from July 2018 as well as the ESAAMLG Report and the National Risk Assessment Report compiled during 2019.

Other changes following new rules and Regulations, as the one stated below have also been undertaken by the bank when drafting its new Anti-Money Laundering policy.

- The 5th European Anti-Money Laundering Directive.
- The Financial Intelligence and Anti-Money Laundering Act 2002- Updated 2018.
- The Financial Intelligence and Anti-Money Laundering Regulations 2018.
- The United Nations (Financial Prohibitions, Arms Embargo and Travel Ban) Sanctions Act 2019.
- The Anti-Money Laundering and Combatting the Financing of Terrorism and Proliferation (Miscellaneous Provisions) Act 2019; and
- The Anti-Money Laundering and Combatting the Financing of Terrorism and Proliferation (Miscellaneous Provisions) Act 2020.

Our bank is also aligning its policies to reflect changes made by the Guideline on Anti-Money Laundering and Combatting the Financing of Terrorism and Proliferation financing and changes brought pursuant to the new AML/CFT Act of June 2020 to meet the challenges of the ESAAMLG Report.

RISK REPORT

12. INTERNAL AUDIT

The Head of Internal Audit, in line with the Code of Corporate Governance, reports to the Audit Committee for direction and accountability and administratively to the Managing Director. The scope of work is provided in an annual Risk Based Internal Audit Plan which is approved by the Audit Committee at the beginning of each financial year.

To accomplish its duties, the Internal Audit team has unrestricted access to the bank's records and employees. Its process includes an in-depth review of the bank's policies and procedures and a risk assessment exercise to identify key risk areas and the mitigating controls. The main role of internal audit is to test the design and operating effectiveness of these controls through walkthrough's and substantive testing. At the end of fieldwork, audit findings are risk rated in terms of high, moderate and low and are discussed with the Head/ Manager in charge during a closing meeting. The draft audit report is then circulated to the Head/ Manager in charge to obtain the management comments. The final audit report includes the management action plan and timing for implementation and is circulated to the Audit Committee, Strategic Business Executive, General Manager and relevant Head/ Manager.

Key responsibilities of the Internal Audit function include the following:

- Evaluating the overall internal control framework by testing adherence to the bank's defined policies and procedures and legal/ regulatory requirements;
- Providing feedback to management where required e.g. in the setting up of new policies and procedures and internal projects;
- Carrying out adhoc investigations and reviews as requested by management and approved by the Audit Committee;
- Assessing the means for safeguarding assets and verifying the existence of the bank's assets including cash counts, stock counts and other site visits where required;
- Evaluating the reliability and integrity of financial information; and
- Acting as a facilitator with the bank's external auditors.

For the period ended 30 June 2020, Internal Audit completed its review of the Anti-Money Laundering systems used by the bank namely World Check, OFSAA and Swift Sanction Screening, its review of the Credit Scoring Tool used by Risk Department and the audit of Treasury Front Office, Treasury Middle Office and Operations Departments. Internal Audit also conducted a follow-up on implementation status of the prior year recommendations from the bank's External Auditors, and provided the Audit Committee with an update of IT matters following internal audit's review of vulnerability assessments and database SYS logs.

13. CAPITAL ADEQUACY AND MANAGEMENT

The aim of the bank is to maintain an adequate capital base to support the development of business and to meet regulatory capital requirements.

Regulatory capital adequacy is measured through the Capital Adequacy Ratio (CAR). This ratio measures the capital supply relative to capital demand as measured by Risk Weighted Assets.

Risk Weighted Assets

Risk Weighted Assets are worked out by applying risk weights from prescribed risk parameters. The bank has adopted the standardised Approach to Credit and Market risks and the Basic Indicator Approach to Operational Risks.

For regulatory purpose, the bank has adopted the Standardised Measurement Approach for market risk capital charge. The bank complies with the Guideline on Measurement and Management of Market Risk issued by the Bank of Mauritius.

For Operational risk, the Basic Indicator Approach is used by the bank. Under the Basic Indicator Approach, the capital charge of the bank is calculated by multiplying the 3-year average gross income to a beta factor of 15%.

Capital Ratios

The **Tier 1 and the Eligible Capital Adequacy Ratios** are provided below:

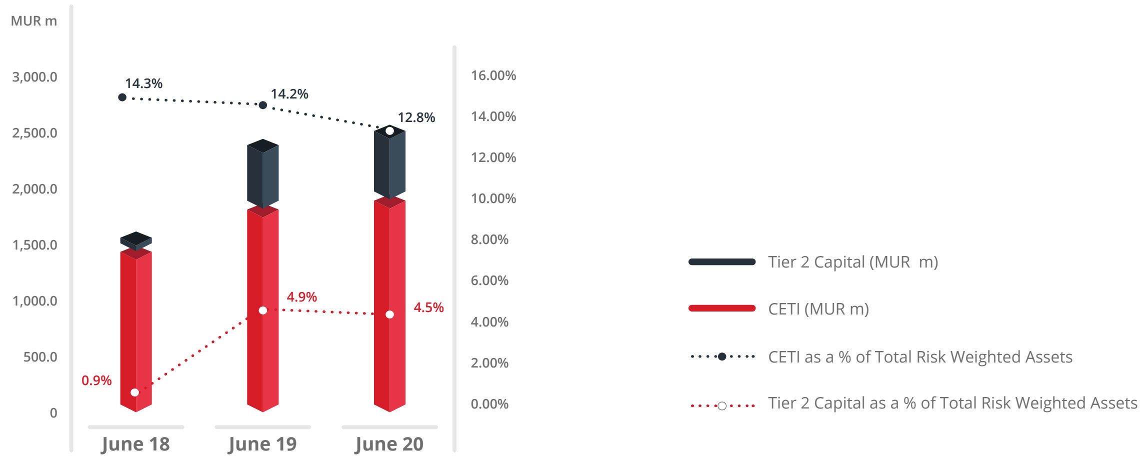
Capital Ratios (%)	As at June 2018	As at June 2019	As at June 2020
Capital Base	**MUR m**	**MUR m**	**MUR m**
Tier 1 Capital	1,484.7	1,759.2	1,804.8
Tier 2 Capital	89.5	599.6	640.1
Total Capital Base	**1,574.1**	**2,358.8**	**2,444.8**
Total Risk Weighted Assets	**10,385.8**	**12,361.0**	**14,124.5**
CET1 CAR	14.3%	14.2%	12.8%
Tier 1 CAR	14.3%	14.2%	12.8%
CAR	15.2%	19.1%	17.3%

Buffers	MUR m
Tier 1 Buffer	674.8
Total Capital Buffer	1,032.4
Total Capital Buffer with Minimum Capital Conservation Buffer	767.5

Table 6: Capital Ratios

Tier 1 CAR and CAR were within the regulatory limits as at end of June 2020.

At least 8.375% of risk weighted assets needs to be covered by Tier 1 as from March 2020.
Tier 1 CAR and CAR were within the regulatory limits as at end of June 2020.



RISK REPORT

Monitoring

Capital is managed and stress analyses are conducted as part of the Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP report serves the following main purposes.

- It documents and informs the Board of Directors as to how the bank conducts its risk assessment and the measures put in place to mitigate those risks;
- It sets out a forward-looking capital planning and forecasting of capital requirements; and
- It sets out a stress testing framework to determine the capital buffer above the minimum regulatory levels.

Three-year forecasts of the bank's capital position are produced annually to inform the Board on the capital strategy of the bank.

The table below shows the capital adequacy ratios and the breakdown of the capital base.

	Jun-20	Jun-19	Jun-18
	MUR m	MUR m	MUR m
Common Equity Tier 1 capital: instruments and reserves			
Ordinary shares capital	762.7	762.7	762.7
Share premium	177.8	177.8	177.8
Retained earnings	557.0	641.0	478.5
Accumulated other comprehensive income and other disclosed reserves	218.8	189.7	91.3
Current year's interim profits (subject to certification by the bank's external auditors)	120.4	-	-
Common Equity Tier 1 capital before regulatory adjustments	**1,836.8**	**1,771.2**	**1,510.3**
Common Equity Tier 1 capital: regulatory adjustments			
Other intangible assets	(8.9)	(2.3)	(4.4)
Deferred tax assets	(23.1)	(9.7)	(21.3)
Total regulatory adjustments to Common Equity Tier 1 capital	**(32.0)**	**(12.0)**	**(25.7)**
Common Equity Tier 1 capital (CET 1)	**1,804.8**	**1,759.2**	**1,484.7**
Tier 1 capital (T1 = CET1 + AT1)	**1,804.8**	**1,759.2**	**1,484.7**
Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital	500.0	500.0	-
Provisions or loan-loss reserves	140.1	99.6	89.5
Tier 2 capital before regulatory adjustments	**640.1**	**599.6**	**89.5**
Tier 2 capital (T2)	640.1	599.6	89.5
Total Capital (capital base)	**2,444.8**	**2,358.8**	**1,574.1**
Risk Weighted Assets			
Total on-balance sheet risk-weighted credit exposures	12,626.7	11,132.8	9,349.0
Total non-market-related off-balance sheet risk-weighted credit exposures	444.4	343.6	280.7
Total market-related off-balance sheet risk-weighted credit exposures	10.7	13.1	-
Risk weighted assets for operational risk	987.3	852.4	744.0
Aggregate net open foreign exchange position	55.4	20.0	12.1
Total risk weighted assets	**14,124.5**	**12,361.9**	**10,385.8**
Capital ratios (as a percentage of risk weighted assets)			
CET1 capital ratio	12.8%	14.2%	14.3%
Tier 1 capital ratio	12.8%	14.2%	14.3%
Total capital ratio	17.3%	19.1%	15.2%

Risk weighted of On-Balance Sheet assets	Jun-20			Jun-19	Jun-18
	Amount	Weight	Weighted amount	Weighted amount	Weighted amount
	MUR m	%	MUR m	MUR m	MUR m
Cash items	14.0	0-20	-	-	-
Claims on sovereigns	4,182.5	0-100	122.1	317.5	335.4
Claims on central banks	1,783.7	0-100	-	151.0	101.4
Claims on banks	835.6	20-100	258.5	1,079.3	1,107.9
Claims on corporates	7,816.7	100	7,350.7	6,250.2	5,371.7
Claims on regulatory retail	1,234.3	75	925.7	437.9	309.3
Claims secured by residential property and commercial estate	1,068.8	35-125	1,207.7	1,000.4	513.2
Past due claims	339.2	50-150	273.5	0.4	3.3
Others	2,488.5	100	2,488.5	1,896.1	1,606.8
Total On-Balance Sheet	**19,763.3**		**12,626.7**	**11,132.8**	**9,349.0**

Risk weighted of Off-Balance Sheet assets	Jun-20					Jun-19	Jun-18
	Amount	Credit conversion factor	Credit equivalent amount	Weight	Weighted amount	Weighted amount	Weighted amount
	MUR m	%	MUR m	%	MUR m	MUR m	MUR m
Trade related contingencies	372.3	20%	157.0	20-100	157.0	79.2	20.6
Outstanding commitments	1,437.2	20%	287.4	100	287.4	264.4	260.0
Total Off-Balance Sheet	**1,809.5**		**444.4**		**444.4**	**343.6**	**280.7**

Risk weighted Assets for Operational risk	Jun-20	Jun-19	Jun-18
	MUR m	MUR m	MUR m
Average gross income for last 3 years	658.2	568.3	496.0
Capital Charge	98.7	85.2	74.4
Risk weighted assets for operational risk	**987.3**	**852.4**	**744.0**

RISK REPORT

Liquidity Coverage Ratio

LCR COMMON DISCLOSURE TEMPLATE		TOTAL UNWEIGHTED VALUE (quarterly average of monthly observations) (MUR m)	TOTAL WEIGHTED VALUE (quarterly average of monthly observations) (MUR m)
HIGH-QUALITY LIQUID ASSETS			
1	Total high-quality liquid assets (HQLA)	4,726	4,668
CASH OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:		
3	*Stable deposits*	-	-
4	*Less stable deposits*	4,800	480
5	*Unsecured wholesale funding, of which:*	394	39
6	*Operational deposits (all counterparties)*	6,862	1,715
7	*Non-operational deposits (all counterparties)*	264	114
8	*Unsecured debt*	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:		
11	*Outflows related to derivative exposures and other collateral requirements*	675	675
12	*Outflows related to loss of funding on debt products*	-	-
13	*Credit and liquidity facilities*	1,153	191
14	Other contractual funding obligations	161	161
15	Other contingent funding obligations	644	32
16	**TOTAL CASH OUTFLOWS**	**14,953**	**3,409**
CASH INFLOWS			
17	Secured funding (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	1,274	1,000
19	Other cash inflows	672	672
20	**TOTAL CASH INFLOWS**	**1,946**	**1,672**
			TOTAL ADJUSTED VALUE (MUR m)
21	TOTAL HQLA		4,668
22	TOTAL NET CASH OUTFLOWS		1,737
23	LIQUIDITY COVERAGE RATIO (%)		269%
24	QUARTERLY AVERAGE OF DAILY HQLA		4,659

Notes:

1. The reported values for 'quarterly average of bi-monthly observations' are based on the 15 April, 30 April, 15 May, 31 May, 15 June and 30 June 2020 figures. The number of data points used for the calculations are 6.
2. The reported values for 'quarterly average of daily HQLA' are based on end of daily figures over the 1 April 2020 to 30 June 2020's period. The number of data points used for the calculations are 91.

As at 30 June 2020, the bank's LCR stood at 299% whereas the quarterly average of bimonthly observations for the Quarter ended 30 June 2020 was 269%, mainly due to the significant investment in eligible securities. The bank's high-quality liquid assets (HQLA) is primarily made up of sovereign and central bank securities and the weighted value as at end of June was MUR 4.7 billion and the quarterly average of bi-monthly observations for the Quarter ended 30 June 2020 was at MUR 4.7 billion. The bank continues to monitor its liquidity position and will adjust its investment strategy to meet the prescribed requirement.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements for the bank's operations in Mauritius presented in this annual report have been prepared by management, which is responsible for their integrity, consistency, objectivity and reliability. International Accounting Standards / International Financial Reporting Standards as well as the requirements of the 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, Risk Management Committee and Conduct Review Committee, which comprise of independent directors, oversees management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

The bank's Internal Auditor, who has full and free access to the Audit Committee, conducts a well-designed program of internal audits in coordination with the bank's external auditors. In addition, the bank's compliance function maintains policies, procedures and programmes directed at ensuring compliance with regulatory requirements.

Pursuant to the provisions of the 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, Ernst & Young, has full and free access to the Board of Directors and its committees to discuss the audit and matters arising therefrom, such as their observations on the fairness of financial reporting and the adequacy of internal controls.

Honourable Y.K.J Yeung Sik Yuen, G.O.S.K.
Chairman

Mr David Brian Ah-Chuen
Strategic Business Executive Director

Mr Sydney Ah-Yoong
Chairman
Audit Committee

28 September 2020

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of ABC Banking Corporation Ltd (the "bank") set out on pages 108 to 188 which comprise the statement of financial position as at 30 June 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the financial statements give a true and fair view of, the financial position of the bank as at 30 June 2020, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act 2001, Banking Act 2004 and Financial Report Act 2004.

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 are independent of the bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Mauritius, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Expected credit losses (ECL) - Impaired facilities The bank has net loans and advances portfolio of MUR 9.8 billion at 30 June 2020. As explained in the accounting policies, these loans and advances are carried at amortised cost, less allowance for credit impairment MUR 277.1 million for impaired facilities and MUR 133.5 million for non-impaired facilities respectively. A financial asset is considered to be credit impaired in accordance with IFRS 9 when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.	We reviewed and assessed the design of the controls over the identification of facilities that are credit impaired and the related calculations of expected credit losses, including the quality of underlying data and systems. For impairment of loans in stage 3, judgement is required to determine when a loan is considered to be credit impaired and the determination of the impairment loss suffered. Where cash flows for large credits include the realisable value of collateral securing the credit, the value of such collateral is based on the opinion of independent and qualified appraisers. We thus assessed the independence and the qualification of the appraisers.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Expected credit losses (ECL) - Impaired facilities (Cont'd) Identification of credit impaired facilities and determination of the expected credit losses thereon involves significant judgement, estimates and assumptions regarding (i) the determination of whether a facility is credit impaired and (ii) in estimating the forecasted cash flows that the bank expects to receive from the obligors. This includes an estimate of what the bank can realise from the collaterals it holds as security on the impaired facilities. The spread of the Covid-19 epidemic during the year and its impact of the economy has added some degree of uncertainty in predicting future economic outcomes and hence added more complexity in the use of estimates and judgement in determining whether exposures are credit impaired and in estimating future cash flows in the context of the pandemic.	We ensured that all credit impaired loans have been properly identified by management by: 1. Reviewing the minutes of the Risk Management Committee and Supervisory & Monitoring Committee. 2. Obtaining and testing loan arrears reports and ensuring that all arrears exceeding 90 days are included in the stage 3 impairment list of the ECL model. 3. Identifying loan facilities meeting certain criteria such as financial difficulties of the borrower, restructured loans, insufficient collaterals and exposures to sectors in decline and ensuring these are included in the list of credit impaired facilities. 4. Where exposures are collateralised, we tested the bank's legal right to the collateral, as well as the reasonableness of the valuation of the collateral. Where management has utilised specialists, we have assessed controls related to their competence and objectivity. 5. Where future cash flows are estimated based on a valuation of the loan counterparty's underlying business, we have tested these valuations with reference to available market information and counterparty specific information. We have utilised our valuation specialists for a sample of more complex assessments. 6. Where borrowers have been given moratoriums in the context of Covid-19, we have assessed whether such concessions have been given to address short term liquidity needs of the obligors (for example due to the impact of the lockdown) or whether they would relate to the borrowers' financial distress indicating a credit impairment event.

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

Key Audit Matters (Cont'd)

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Expected credit losses (ECL) – facilities which are not credit impaired The determination of ECL on loans and advances which are not credit impaired involves the highest level of management judgement, thus requiring greater audit attention. Specific areas of judgement and estimation uncertainty include: 1. Identification of significant increase in credit risk (SICR), and in particular the selection of criteria to identify a SICR. These criteria are highly judgemental and can materially impact the ECL recognised for certain portfolios where the life of the facilities is greater than 12 months. 2. Whether concessions such as moratoriums given in the context of Covid-19 would result in a SICR. 3. Complexity of the ECL model involving a number of critical assumptions in the determination of probabilities of default (PD), loss given default (LGD) and Exposure at default (EAD). 4. Use of forward looking information to determine the likelihood of future losses being incurred. 5. Consideration of different economic scenarios incorporating different assumptions relating to the evolution of Covid-19 and the measures taken to contain the pandemic. 6. Qualitative adjustments made to model driven ECL results raised to address model limitations, emerging risks and trends in underlying portfolios which are inherently judgemental. 7. Accuracy and adequacy of the financial statement disclosures.	We have evaluated the IFRS 9 accounting policies, appropriateness of the disclosures for credit risk and ECL methodologies applied and compared this to the requirements of IFRS 9: Financial instruments. The carrying value of financial instruments within the scope of IFRS 9 may be materially misstated if judgements or estimates made by the Group are inappropriate. For stage 1 and stage 2 loans, we assessed the appropriateness of the model used including the inputs and assumptions by performing the following procedures: 1. Reviewing the methodology adopted by the bank for calculation of ECL and in particular the segmentation of loans in appropriate portfolios reflecting different risk factors. Our review also includes an assessment of the design of the models used for determination of PD, LGD and EAD for different types of loans including inter-alia terms loans, overdraft facilities, credit cards, guarantees and other off-balance sheet exposures. 2. Checking the adequacy and quality of the data used for the calculation of PD, LGD and EAD. 3. Assessing the key assumptions used in PD, LGD and EAD models and ensure such assumptions reflect the actual behaviours of the credit facilities. 4. Reviewing the criteria for staging of credit exposures and ensure these are in line with the requirements of IFRS 9 including any backstops used in the methodology. We also assessed the criteria used by management to differentiate between "Covid-19 restructurings" and "distressed restructurings" in order to establish whether there has been a SICR; Where management has applied a SICR on all accounts in certain specific sectors most affected by the Covid-19 pandemic, we evaluated the reasonableness of such assumptions. 5. Reviewing the minutes of Risk Management Committee and ensure proper classification to Stage 2 is made for all clients on watchlist. 6. Checking the accuracy of critical data elements input into the system used for credit grading and the approval of credit facilities.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
	7. Review of the PD and LGD calculations including the incorporation of forecast macro-economic information by our data modelling specialists. This included an assessment of the assumptions used around the Covid-19 evolution. 8. Tested the accuracy and completeness of the ECL model by reperformance and focussing on exception reports.

Other Information

The directors are responsible for the other information. The other information comprises the Corporate Governance Report, Secretary's Certificate, Statement of Directors' Responsibilities, Management Discussion and Analysis, Risk Report and the Statement of Management's Responsibility for Financial Reporting, which we obtained prior to the date of this auditor's report. Other information 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 (other than the Corporate Governance Report) 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 obtained prior to the date of this auditor's report, 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.

Corporate Governance report

The directors are responsible for preparing the Corporate Governance Report. Our responsibility under the Financial Reporting Act is to report on the compliance with the Code of Corporate Governance 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 Group has, pursuant to section 75 of the Financial Reporting Act, complied with the requirements of the Code.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act 2001, Banking Act 2004 and the Financial Reporting Act 2004, 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.

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

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 bank's 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 director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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.

Use of our report

This report is made solely to the bank's members, as a body, in accordance with Section 205 of the Companies Act 2001. Our audit work has been undertaken so that we might state to the bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the bank and the bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Companies Act 2001

We have no relationship with or interests in the bank other than in our capacity as auditors, tax advisors and dealings in the ordinary course of business.

We have obtained all the information and explanations we have required.

In our opinion, proper accounting records have been kept by the bank as far as it appears from our examination of those records.

Banking Act 2004

In our opinion, the financial statements have been prepared on a consistent basis and are complete, fair and properly drawn up and comply with the Banking Act 2004 and the regulations and guidelines of the Bank of Mauritius.

The explanations or information called for or given to us by the officers or agents of the bank were satisfactory.

ERNST & YOUNG
Ebène, Mauritius

DAVID NG MAN CHUEN, F.C.C.A.
Licensed by FRC

Date: 28 Sep 2020

Passionate about what we do, we strive to achieve excellence, value creation, equity and fairness.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	2020	2019	2018
		MUR	MUR	MUR
ASSETS				
Cash and cash equivalents	9	**1,280,041,690**	2,732,131,072	3,276,741,586
Due from banks	10	**14,819,085**	698,739,467	1,030,811,338
Derivative financial assets	11	**2,183,441**	3,763,559	4,289,595
Loans and advances to customers	12	**9,769,375,208**	7,635,939,083	6,054,488,404
Investment securities	13	**7,114,456,335**	6,479,991,942	6,223,153,289
Other assets	14	**891,377,784**	99,997,305	94,025,588
Property, equipment and right-of-use assets	15	**600,843,664**	512,458,466	394,861,578
Intangible assets	16	**8,922,365**	2,263,140	4,351,872
Deferred tax assets	17	**23,084,417**	9,710,148	21,307,487
Total assets		**19,705,103,989**	18,174,994,182	17,104,030,737
LIABILITIES				
Due to banks	18	**-**	-	110,061,479
Derivative financial liabilities	11	**9,759,640**	5,812,757	2,774,759
Deposits from customers	19	**16,799,731,794**	15,239,475,798	14,966,194,318
Preference shares	20	**144,534,198**	145,202,573	145,340,753
Subordinated debts	21	**504,762,329**	505,070,890	-
Current tax liabilities		**8,165,603**	23,979,561	30,924,434
Other liabilities	23	**401,393,162**	484,274,838	338,395,576
Total liabilities		**17,868,346,726**	16,403,816,417	15,593,691,319
Shareholders' Equity				
Issued capital	24	**940,495,472**	940,495,472	940,495,472
Retained earnings		**677,416,500**	640,979,429	478,528,990
Other reserves	25	**218,845,291**	189,702,864	91,314,956
Capital and reserves		**1,836,757,263**	1,771,177,765	1,510,339,418
Total liabilities and equity		**19,705,103,989**	18,174,994,182	17,104,030,737

These financial statements have been approved and authorised for issue by the Board of Directors on 28 September 2020

Hon. Y.K.J Yeung Sik Yuen, Yen, G.O.S.K
Chairman

Mr David Brian Ah-Chuen
Strategic Business Executive Director

Mr Sydney Ah Yoong
Chairman of Audit Committee

The notes set out on pages 112 to 188 form part of these financial statements.
Auditor's report on pages 100 to 105.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Notes	2020	2019	2018
		MUR	MUR	MUR
Interest income using the effective interest method		**806,413,125**	734,009,109	653,296,994
Interest expense		**(290,014,171)**	(251,525,883)	(267,458,708)
Net interest income	26	**516,398,954**	482,483,226	385,838,286
Fee and commission income		**99,664,534**	117,765,876	104,693,292
Fee and commission expense		**(22,677,240)**	(29,062,998)	(24,210,364)
Net fee and commission income	27	**76,987,294**	88,702,878	80,482,928
Net trading income	28	**64,092,741**	77,535,761	85,243,497
Net gain on derecognition of financial assets measured at fair value through other comprehensive income	29	**45,313,979**	39,475	4,475,513
Net gain on derecognition of financial assets measured at amortised cost	29	**57,500,278**	-	-
Net gain on derecognition of financial assets measured at fair value through profit or loss	29	**1,233,374**	2,254,236	1,979,814
Other operating income	29	**1,334,486**	1,282,895	1,428,987
Total other income		**169,474,858**	81,112,367	93,127,811
Operating income		**762,861,106**	652,298,471	559,449,025
Personnel expenses	31	**(192,884,473)**	(192,124,468)	(162,194,232)
Depreciation and amortisation	15, 16	**(34,058,940)**	(24,528,399)	(21,624,665)
Other operating expenses	32	**(103,850,853)**	(107,644,781)	(74,337,683)
Non interest expenses		**(330,794,266)**	(324,297,648)	(258,156,580)
Operating profit before impairment		**432,066,840**	328,000,823	301,292,445
Allowance for credit impairment on financial assets	30	**(310,708,038)**	(56,721,957)	(9,538,421)
Operating profit before tax		**121,358,802**	271,278,866	291,754,024
Income tax expense	22	**(970,960)**	(47,390,626)	(49,322,296)
Profit for the year		**120,387,842**	223,888,240	242,431,728
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss, net of tax:				
Net gain on investments in equity instruments designated at fair value through other comprehensive income	25	**6,190,622**	3,147,386	-
Remeasurement of retirement pension	38	**(7,163,254)**	(2,935,360)	(746,523)
		(972,632)	212,026	(746,523)
Items that may be reclassified subsequently to profit or loss, net of tax:				
Expected credit loss allowance relating to debt instruments designated at fair value through other comprehensive income	25	**3,300,152**	571,457	-
Net gain on investments in debt instruments designated at fair value through other comprehensive income	25	**1,593,477**	60,047,001	-
Remeasuring available for sale assets	25	**-**	-	(22,811,840)
		4,893,629	60,618,458	(22,811,840)
Other comprehensive income/(loss) for the year		**3,920,997**	60,830,484	(23,558,363)
Total comprehensive income for the year		**124,308,839**	284,718,724	218,873,365
Earnings per share				
Basic and diluted	33	**1.58**	2.94	3.18

The notes set out on pages 112 to 188 form part of these financial statements.
Auditor's report on pages 100 to 105.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Notes	Issued capital	Retained earnings	Statutory reserve	Fair Value reserve	Total
		MUR	MUR	MUR	MUR	MUR
At 1 July 2017		940,495,472	322,022,542	76,556,747	1,205,290	1,340,280,051
Profit for the year		-	242,431,728	-	-	242,431,728
Other comprehensive loss		-	(746,523)	-	(22,811,840)	(23,558,363)
Total comprehensive income/(loss) for the year		-	241,685,205	-	(22,811,840)	218,873,365
Transfer to statutory reserve		-	(36,364,759)	36,364,759	-	-
Equity dividends	34	-	(48,813,998)	-	-	(48,813,998)
At 30 June 2018		940,495,472	478,528,990	112,921,506	(21,606,550)	1,510,339,418
At 1 July 2018 - as previously reported		940,495,472	478,528,990	112,921,506	(21,606,550)	1,510,339,418
Impact of adopting IFRS 9		-	30,759,262	-	1,038,828	31,798,090
At 1 July 2018		940,495,472	509,288,252	112,921,506	(20,567,722)	1,542,137,508
Profit for the year		-	223,888,240	-	-	223,888,240
Expected credit loss allowance relating to debt instruments designated at fair value through other comprehensive income		-	-	-	571,457	571,457
Other comprehensive income		-	(2,935,360)	-	63,194,387	60,259,027
Total comprehensive income for the year		-	220,952,880	-	63,765,844	284,718,724
Transfer to statutory reserve		-	(33,583,236)	33,583,236	-	-
Equity dividends	34	-	(55,678,467)	-	-	(55,678,467)
At 30 June 2019		940,495,472	640,979,429	146,504,742	43,198,122	1,771,177,765
At 1 July 2019		**940,495,472**	**640,979,429**	**146,504,742**	**43,198,122**	**1,771,177,765**
Profit for the year		**-**	**120,387,842**	**-**	**-**	**120,387,842**
Expected credit loss allowance relating to debt instruments designated at fair value through other comprehensive income		**-**	**-**	**-**	**3,300,152**	**3,300,152**
Other comprehensive income		**-**	**(7,163,254)**	**-**	**7,784,099**	**620,845**
Total comprehensive income for the year		**-**	**113,224,588**	**-**	**11,084,251**	**124,308,839**
Transfer to statutory reserve		**-**	**(18,058,176)**	**18,058,176**	**-**	**-**
Equity dividends	34	**-**	**(58,729,341)**	**-**	**-**	**(58,729,341)**
At 30 June 2020		**940,495,472**	**677,416,500**	**164,562,918**	**54,282,373**	**1,836,757,263**

The notes set out on pages 112 to 188 form part of these financial statements.
Auditor's report on pages 100 to 105.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Notes	2020	2019	2018
		MUR	MUR	MUR
Cash flows from operating activities				
Profit before taxation		**121,358,802**	271,278,866	291,754,024
Adjustments for:				
Depreciation	15	**31,803,749**	22,439,667	19,147,497
Amortisation	16	**2,255,191**	2,088,732	2,477,168
Provision for credit impairment	30	**310,708,038**	56,721,957	9,538,421
Employee benefit costs	38	**4,625,465**	7,777,144	696,557
Exchange difference		**51,561,476**	39,143,390	(81,393,106)
Loss/(profit) on disposal of property and equipment	29, 32	**-**	63,167	(187,032)
Profit on disposal of investment securities	29	**(104,066,571)**	(2,293,711)	(6,455,327)
		418,246,150	397,219,212	235,578,202
Net changes in operating assets and liabilities				
Increase in loans and advances to customers		**(2,428,452,256)**	(1,597,744,023)	(964,599,546)
Increase in other assets		**(792,417,448)**	(5,971,717)	(62,801,749)
Decrease/(increase) in derivative financial instruments		**5,527,001**	3,564,034	(13,638,338)
Decrease in due from banks		**684,962,604**	326,935,958	152,502,850
Increase in deposits from customers		**1,560,255,996**	273,281,480	1,163,128,621
(Decrease)/increase in other liabilities		**(101,508,219)**	136,172,428	37,904,351
		(653,386,172)	(466,542,628)	548,074,391
Income tax paid		**(29,661,207)**	(49,215,494)	(38,754,653)
Net cash (used in)/generated from operating activities		**(683,047,379)**	(515,758,122)	509,319,738
Cash flows from investing activities				
Purchase of investment securities		**(3,076,040,778)**	(6,768,127,756)	(12,765,561,286)
Proceeds from sale and redemption of investment securities		**2,552,104,311**	6,582,928,901	11,271,338,400
Purchase of property and equipment	15	**(120,188,947)**	(140,099,722)	(41,703,598)
Purchase of intangible assets	16	**(8,914,416)**	-	(9,430)
Proceeds from sale of property and equipment		**-**	-	391,957
Net cash used in investing activities		**(653,039,830)**	(325,298,577)	(1,535,543,957)
Cash flows from financing activities				
Proceeds from debt securities issued and due to banks	18	**-**	-	110,061,479
Repayment of debt securities issued and due to banks	18	**-**	(110,061,479)	-
Net (decrease)/increase in preference shares and subordinated debts	20, 21	**(976,936)**	500,000,000	(124,981,000)
Repayment of principal portion of lease liabilities		**(4,734,420)**	-	-
Dividend paid	34	**(58,729,341)**	(55,678,467)	(48,813,998)
Net cash (used in)/generated from financing activities	41	**(64,440,697)**	334,260,054	(63,733,519)
Net decrease in cash and cash equivalents		**(1,400,527,906)**	(506,796,645)	(1,089,957,738)
Net foreign exchange difference		**(51,561,476)**	(37,813,869)	49,340,354
Net cash and cash equivalents at beginning of year		**2,732,131,072**	3,276,741,586	4,317,358,970
Net cash and cash equivalents at end of year	9	**1,280,041,690**	2,732,131,072	3,276,741,586
Operational cashflows from interest and dividends				
Interest paid		**293,512,178**	234,304,674	236,889,734
Interest received		**792,036,496**	726,410,754	652,985,611
Dividend received		**1,314,895**	1,282,397	1,237,480

The changes in liabilities arising from financing activities has been disclosed on Note 41.
The notes set out on pages 112 to 188 form part of these financial statements.
Auditor's report on pages 100 to 105.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

1. CORPORATE INFORMATION

ABC Finance and Leasing Ltd was incorporated on 21st November 1997 as a private company and was converted to a public company in 1998.

The company has changed its name to ABC Banking Corporation Ltd (referred to as the "bank") on 21st April 2010 and was granted a banking licence on 1st June 2010.

The main pillars of the bank are: domestic banking, international banking, treasury and private banking.

The financial statements for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 28th September 2020.

2. BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis, except for available-for-sale investments (applicable before 1 July 2018), equity and debt instruments measured at fair value through other comprehensive income (applicable as from 1 July 2018), derivative financial instruments, financial assets held for trading and financial assets designated at fair value through profit or loss (FVTPL), all of which have been measured at fair value. The financial statements are presented in Mauritian Rupees (MUR) which is the bank's functional and presentation currency and all values are rounded to the nearest rupee, except otherwise stated.

3. STATEMENT OF COMPLIANCE

The financial statements of the bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB, and in the manner required by the Companies Act 2001, Financial Reporting Act 2004, Banking Act 2004, and Guidelines and Guidance Notes as issued by the Bank of Mauritius.

4. PRESENTATION OF FINANCIAL STATEMENTS

The bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 43(c).

Financial assets and financial liabilities are generally reported gross in the statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the bank and/or its counterparties.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

5.1. Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All differences are taken to the profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the dates of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

5.2. Finance Leases (policy applicable before 1 July 2019)

5.2.1. Initial recognition

Assets held under a finance lease are recognised in the statement of financial position and are presented as an asset at an amount equal to the net investment in the lease.

Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred by the bank, and thus the lease payment receivable is treated by the bank as repayment of principal and finance income.

Initial direct costs such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease, but excluding general overheads, are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable.

5.2.2. Subsequent measurement

The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease.

The bank aims to allocate finance income over the lease term on a systematic and rational basis. This income allocation is based on a pattern reflecting a constant periodic return on the bank's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

Estimated unguaranteed residual values used in computing the bank's gross investment in a lease are reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognised immediately.

5.3. Financial instruments - initial recognition

5.3.1. Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' account. The bank recognises due to customer balances when funds reach the bank.

5.3.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 5.4.1.1 and 5.4.1.2. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the bank accounts for the Day 1 profit or loss, as described below.

5.3.3. Day 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique with the variables including only data from observable markets, the bank immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in net trading income. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the statement of profit or loss when the inputs become observable, or when the instrument is derecognised.

5.3.4 Measurement categories of financial assets and liabilities

As from 1 July 2018, the bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 5.4.1;
- FVTOCI, as explained in Notes 5.4.2 and 5.4.3; and
- FVTPL.

The bank classifies and measures its derivative and trading portfolio at FVTPL as explained in Notes 5.4.4 and 5.4.5. The bank may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 5.4.6.

Before 1 July 2018, the bank classified its financial assets as loans and receivables (amortised cost), FVTPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 5.4.1, 5.4.9 and 5.4.10.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 5.4.6.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.4. Financial assets and liabilities

5.4.1. Due from banks and loans and advances

Before 1 July 2018, balances due from banks and loans and advances include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the bank intends to sell immediately or in the near term and those that the bank, upon initial recognition, designates as at FVTPL
- Those that the bank, upon initial recognition, designates as available-for-sale
- Those for which the bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts due from banks and loans and advances are subsequently measured at amortised cost using the EIR methodology, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. Therefore, the bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of the loan, hence, recognising the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (prepayments, penalty interest and charges).

If expectations are revised, the adjustment is booked as a positive or negative adjustment to the carrying amount in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the statement of profit or loss.

From 1 July 2018, the bank only measures Due from banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The ECL calculation for Due from banks and loans and advances is explained in Note 5.7.

5.4.1.1. Business model assessment

The bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the bank's original expectations, the bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

5.4.1.2. Solely Payments of Principal and Interest (SPPI) test

As a second step of its classification process, the bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

5.4.2. Debt instruments at FVTOCI (Policy applicable from 1 July 2018)

The bank applies the new category under IFRS 9 of debt instruments measured at FVTOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test.

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under IAS 39.

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 5.14. The ECL calculation for Debt instruments at FVTOCI is explained in Note 5.7.3. Where the bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

5.4.3. Equity instruments at FVTOCI (Policy applicable from 1 July 2018)

Upon initial recognition, the bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVTOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVTOCI are not subject to an impairment assessment.

5.4.4. Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

a. Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (also known as the 'underlying').
b. It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
c. It is settled at a future date.

The bank enters into derivative transactions with various counterparties. These include forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

5.4.5. Financial assets or financial liabilities held for trading

The bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short term profit taking. Held for trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income where as interest income earned on the financial asset is included in interest income line.

Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

5.4.6. Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at FVTPL upon initial recognition when one of the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis
  or
- The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
  or

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.4. Financial assets and liabilities (CONT'D) (Cont'd)

5.4.6. Financial assets and financial liabilities designated at fair value through profit or loss (Cont'd)

- The financial instrument contains one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earnt on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rate as explained in Note 5.14. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

5.4.7. Debt issued and other borrowed funds

Financial instruments issued by the bank that are not held for trading or designated at FVTPL, are classified as liabilities under debt issued and other borrowed funds, where the substance of the contractual arrangement results in the bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

5.4.8. Financial guarantees, letters of credit and undrawn loan commitments

The bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within 'Other liability') at fair value, being the premium received. Subsequent to initial recognition, the bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision as set out in Note 36.

The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 July 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 36.

5.4.9. Available-for-sale financial investments (Policy applicable before 1 July 2018)

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at FVTPL. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in market conditions.

The bank has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in OCI in the available-for-sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss, in other operating income. Where the bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR which takes into account any discount/premium and qualifying transaction costs that are an integral part of the instrument's yield.

Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of profit or loss as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of profit or loss in 'impairment losses on financial investments' and removed from the available-for-sale reserve. Where the equity instrument does not have a quoted price in an active market and whose fair value cannot be reliably measured , such unquoted equity instrument is measured at cost less impairment.

5.4.10. Held-to-maturity financial investments (Policy applicable before 1 July 2018)

Held-to-maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities that the bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in interest and similar income in the statement of profit or loss. The losses arising from impairment of such investments are recognised in the statement of profit or loss within allowances for credit impairment on financial asset.

If the bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

5.5. Reclassification of financial assets and liabilities

From 1 July 2018, the bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The bank did not reclassify any of its financial assets or liabilities during the reporting period.

5.6. Derecognition of financial assets and financial liabilities

5.6.1. Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired. The bank also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition.

The bank has transferred the asset if, and only if, either:

- The bank has transferred its contractual rights to receive cash flows from the asset
  or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement.

Pass-through arrangements are transactions when the bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates.
- The bank cannot sell or pledge the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.
- The bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The bank has transferred substantially all the risks and rewards of the asset
  or
- The bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

In relation to the above, the bank considers the control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.6. Derecognition of financial assets and financial liabilities (Cont'd)

5.6.1. Financial assets (Cont'd)

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass– through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in it. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the bank's continuing involvement is the amount of the transferred asset that the bank may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

The bank also derecognises a financial asset, in particular, a loan to customer when the terms and conditions have been renegotiated to the extent that it substantially became a new loan, with the difference recognised as an impairment in the statement of profit or loss.

5.6.2. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

5.7. Impairment of financial assets (Policy applicable as from 1 July 2018)

5.7.1. Overview of ECL principles

The adoption of IFRS 9 has fundamentally changed the bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 July 2018, the bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 5.7.2. The bank's policies for determining if there has been a significant increase in credit risk are set out in Note 43(b).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The bank's policy for grouping financial assets measured on a collective basis is explained in Note 43(b).

The bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 43(b).

Based on the above process, the bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:
- Stage 1: When loans are first recognised, the bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit impaired (as outlined in Note 43(b)).The bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

The bank determines the movement in staging based on:
1. Days past due monitoring per account on a monthly basis as part of IFRS 9 workings to ensure DPD have improved in the following brackets:
   Stage 1 - up 30 days
   Stage 2 - from 31 to 89 days
   Stage 3 - 90 days and above.
2. Interim review of credit files at regular interval to determine improvement in credit profile.

For financial assets for which the bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

5.7.2. The calculation of ECLs

The bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at the original EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:
- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 43(b).
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 43(b).
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 43(b).

When estimating the ECLs, the bank considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 36. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities is explained in Note 5.7.5.

The mechanics of the ECL method are summarised below:

Stage 1	The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.
Stage 2	When a loan has shown a significant increase in credit risk since origination, the bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
Stage 3	For loans considered credit impaired (as defined in Note 43(b)), the bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
5.7. Impairment of financial assets (Policy applicable as from 1 July 2018) (Cont'd)
5.7.2. The calculation of ECLs (Cont'd)

- POCI — POCI assets are financial assets that are credit impaired on initial recognition. The bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.
- Loan commitments and letters of credit — When estimating LTECLs for undrawn loan commitments, the bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.
- Financial guarantee contracts — The bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions.

5.7.3. Debt instruments measured at fair value through OCI
The ECLs for debt instruments measured at FVTOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

5.7.4. Purchased or originated credit impaired financial assets (POCI)
For POCI financial assets, the bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

5.7.5. Overdraft and other revolving facilities
The bank's product offering includes a variety of corporate and retail overdraft and other revolving facilities. Of occurrence of certain events, the bank has the right to cancel and/or reduce the facilities with a 30 day's notice.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 43(b), but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for overdraft and other revolving facilities is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 43(b), on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

5.7.6. Forward looking information

In its ECL models, the bank relies on a broad range of forward looking information as economic inputs, such as:
- GDP growth.
- Inflation rates.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 43(b).

PDs have been revised after the negative growth in our GDP (this was not factored in our previous model) following the outbreak of COVID-19.

5.8. Collateral valuation
The bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the bank's quarterly reporting schedule. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as housing price indices and other independent sources.

5.9. Collateral repossessed
The bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value or fair value less cost to sell for non-financial assets at the repossession date in line with the bank's policy.

5.10. Write-offs
The bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

5.11. Forborne loans
The bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The bank considers a loan forborne when such concessions or modifications are provided due to the borrower's present or expected financial difficulties and the bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, significant arrears for 90 days or more in a three-month period, or concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the bank's policy to monitor forborne loans to ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 July 2018, when the loan has been renegotiated or modified but not derecognised, the bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 43(b). The bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:
- All of its facilities has to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

5.12. Impairment of financial assets (Policy applicable before 1 July 2018)
The bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset, or a group of financial assets, is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.12. Impairment of financial assets (Policy applicable before 1 July 2018) (Cont'd)

5.12.1. Financial assets carried at amortised cost

The bank's impairment methodology for assets carried at amortised costs comprises:

A. Specific impairment losses for individually significant or specifically identified exposures.
B. Collective impairment for exposures on which there is no objective evidence of impairment.

A. Specific impairment losses for individually significant or specifically identified exposures.

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held to maturity investments), the bank first assesses whether objective evidence of impairment exists for financial assets that are individually significant or are already under specific work out by management.

It is the bank's policy to regularly monitor its loan portfolio. A specific assessment is made on an individual basis for loans that are 90 days past due. Impairment indicators include: internal rating of the borrower indicating default or near-default, the borrower requesting emergency funding from the bank; the borrower having past due liabilities to creditors or employees; a material decrease in the underlying collateral value where the sale of the financed asset is required to repay the loan; a material decrease in the borrower's turnover or the loss of a major customer; a material decrease in estimated future cash flows; any material facility at the debtor level falling beyond 90 days past due; a covenant breach not waived by the bank; the debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection and/or debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in allowance for credit impairment on financial assets in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income.

Loans and advances together with the associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced (but only up to the extent of the carrying amount had the impairment not been recognised) by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to the 'allowance for credit impairment on financial asset'.

The present value of the estimated future cash flows is discounted by the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

B. Collective impairment

For the purpose of a collective evaluation of impairment, financial assets are grouped into smaller homogenous portfolios (i.e., a group of individually insignificant loans and advances in groups of assets) based on key characteristics that are relevant to the estimation of future cash flows.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, personal indebtedness, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5.12.2. Available-for-sale financial investments

For available-for-sale financial investments, the bank assesses at each reporting date, whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the bank assesses individually whether there is objective evidence of impairment such as:

Observable data regarding a decline in estimated future cash-flows and or a decline in underlying collateral (in the case of asset backed securities when the bank expects to recover the outstanding from the sale of the underlying assets) impacting the bank's ability to recover all cash flows.

The amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of interest and similar income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence includes:

- A 'significant' or 'prolonged' decline in the fair value of the investment below its cost and/or
- Other information about the issuer that may negatively affect an equity issuer's performance.

The bank treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss, is removed from equity and recognised in impairment losses on financial investments in the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in the fair value after impairment are recognised in other comprehensive income.

5.13. Determination of fair value

The bank measures financial instruments at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.13. Determination of fair value (Cont'd)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

5.14. The effective interest rate method

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability. The amortised cost of the financial asset or financial liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change in is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instruments and are further explained in the respective accounting policies.

5.15. Interest income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the bank revises their estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for measuring the impairment loss. The bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit impaired assets.

When a financial asset becomes credit impaired and is, therefore, regarded as Stage 3, the bank calculates interest income by applying the effective interest rate to the outstanding amount of the financial asset. For all credit impaired assets, the interest income is reversed and charged against the outstanding amount of the financial asset. If the financial assets cures and is no longer credit impaired, the bank reverts to calculating interest income on a gross basis.

5.16. Fee and commission income

Fee income forming an integral part of the corresponding financial instrument.

Fees that the bank considers to be an integral part of the corresponding financial instruments include: loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognised as interest income through an adjustment to the EIR. The exception is, when it is unlikely that a loan will be drawn down, the loan commitment fees are recognised as revenue on expiry.

5.17. Dividend income

Dividend income is recognised when the bank's right to receive the payment is established, which is generally when the shareholders approve the dividend.

5.18. Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash in hand, current accounts with banks and amounts due from banks on demand or with an original maturity of three months or less.

5.19. Property and equipment

Construction in progress is stated at cost, net of accumulated impairment losses, if any. Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the bank depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgements, estimates and assumptions (Note 6) and provisions (Note 5.23) for further information about the recognised decommissioning provision.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. No depreciation is charged on freehold land. The estimated useful lives are as follows:

• Buildings	50 years
• Improvement to buildings	20 years
• Other fixed assets (comprising office furniture and equipment and vault)	10 years
• Computer equipment	4 years
• Motor vehicles	5 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "other operating income" or "other operating expense" in profit or loss in the year the asset is derecognised.

Bank as a lessee - as from 01 July 2019

The bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term and are subject to impairment in line with the Bank's policy as described below. It ranges from a period of 2 to 5 years. Type of right-of-use assets are offices and motor vehicles.

• Offices (right-of-use assets)	2 years
• Motor vehicles (right-of-use assets)	3 to 5 years

5.20. Intangible assets

Intangible assets relate to the value of computer software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset. The bank does not have any intangible asset with indefinite useful life.

Amortisation is calculated using the straight-line method to write down the cost of computer software to its residual value over a period of three to ten years.

5.21. Impairment of non-financial assets

The bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or banks of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.21. Impairment of non-financial assets (Cont'd)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The bank bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the bank's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of three years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

5.22. Post-employment benefits

Retirement gratuities

Post-employment benefits relate to retirement gratuities payable under the Employment Rights Act 2008 and provided for. The obligations arising under this item are determined by actuarial valuation carried out every year.

Defined contributions plans

The bank operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the bank by the employees and is recorded as an expense under personnel expenses.

5.23. Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

5.24. Taxes

5.24.1. Current tax

Current tax liabilities for the current and prior years are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

5.24.2. Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences and carry forward of unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the statement of profit or loss except for tax related to the fair value remeasurement of available-for-sale assets, financial instruments at FVTOCI, foreign exchange differences and which are charged or credited to OCI.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5.24.3. Value Added Tax

Revenues, expenses and assets are recognised net of the amount of value added taxes except:

- Where the value added taxes incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables that are stated with the amount of value added tax included.

The net amount of value added taxes recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

5.25. Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the bank.

5.26. Segmental reporting

The financial statements have been prepared in line with the requirements of the Bank of Mauritius Guideline on Public Disclosure of Information and Guideline on segmental reporting under a Single Banking Licence Regime which require the bank to disclose information on two reportable segments, namely Segment A and Segment B.

Segment B activity relates to the provision of international financial services that give rise to "foreign source income". Such services may be fund based and/or non-fund based.

Segment A activity relates to all banking business other than Segment B activity.

Segmental reporting is reviewed by senior management team.

5.27. Operating lease (policy applicable before 1 July 2019)

Rentals payable under operating leases are charged to the statement of profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

5.28. Application of New and Revised International Financial Reporting Standards (IFRS)

In the current year, the bank has applied all of the new and revised Standard and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to the bank's operations and effective for accounting period beginning on or after 1 July 2019.

IFRS 16 - Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 operating leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 01 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 01 July 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Bank has lease contracts for its assets. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to note 15 Property, equipment and right-of-use assets for the accounting policy prior to 01 July 2019.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.28. Application of New and Revised International Financial Reporting Standards (IFRS) (Cont'd)

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Based on the above, as at 01 July 2019:
The effect of adoption IFRS 16 as at 01 July 2019(increase/decrease) is as follows:

Assets	**MUR**
Increase in Property, equipment and right-of-use assets	9,617,695
Liabilities	
Increase in lease liabilities	9,617,695

Right-of-use assets of MUR 9,617,695 were recognised and presented in the statement of financial position within "Property, plant and right-of-use assets".
Additional lease liabilities of MUR 9,617,695 (included in "Other liabilities") were recognised.
The adoption of IFRS 16 had no impact on the bank's retained earnings and no material impact on its CET1 ratio.

Operating lease commitments as at 30 June 2019	11,398,337
Weighted average incremental borrowing rate as at 01 July 2019	5.02%
Discounted operating lease commitments as at 01 July 2019	9,876,510
Less:	
Commitments relating to short-term leases	-
Commitments relating to leases of low-value asset	(258,815)
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 30 June 2019	-
Lease liabilities as at 01 July 2019	9,617,695

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.
It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates and
- The effect of changes in facts and circumstances.

The application of this IFRIC does not have any significant impact on the bank.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

- The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are:
- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The application of this Standard does not have any significant impact on the bank.

Relevant new and revised Standards in issue but not yet effective

At the date of authorisation of these financial statements, the following relevant new and revised Standards were in issue but effective on annual periods beginning on or after the respective dates as indicated:

Amendments to References to the Conceptual Framework in IFRS Standards (effective 01 January 2020).
Definition of Material-Amendments to IAS 1 and IAS 8 (effective 01 January 2020).

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

Definition of Material (Amendments to IAS 1 and IAS 8).

The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

The bank is still assessing the impact of these new standards and interpretations on its financial statements.

6. USE OF ESTIMATES AND JUDGEMENTS

In the process of applying the bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

6.1 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 5.13.

6.2 Effective interest rate (EIR) method

The bank's EIR methodology, as explained in Note 5.14, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to the country's base rate and other fee income/expense that are integral parts of the instrument.

6.3 Impairment losses on financial assets (Policy applicable as from 1 July 2018)

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP, inflation rate and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

6. USE OF ESTIMATES AND JUDGEMENTS (CONT'D)

6.3 Impairment losses on financial assets (Policy applicable as from 1 July 2018) (Cont'd)

It has been the bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Following the impact of COVID-19, the bank has revised the existing model by using index values instead of percentage change to provide feasible outputs on the adverse economic scenarios.
Impairment losses on financial assets is explained on Note 43(b).

6.4. Impairment losses on loans and advances (Policy applicable before 1 July 2018)

The bank reviews its problem assets under loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in profit or loss . In particular, judgement by management is required in the estimation of the amount, timing of future cash flows, future default rates, realisable value of collaterals and time required to liquidate collaterals when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant assets under loans and advances, the bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in economic environment, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

6.5. Impairment of available-for-sale financial investments (Policy applicable before 1 July 2018)

The bank reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired as explained in Note 5.12.2.

This assessment, including estimated future cash flows and other inputs in to the discounted cash flow model and in the case of equity instruments, the interpretation of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the bank evaluates, among other factors, historical share price movements, and the duration and extent to which the fair value of an investment is less than its cost.

6.6. Incremental borrowing rate of leases

The bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR')to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects the rate the bank 'would be subject to', which requires either estimation when no observable rates are available or adjustments to reflect the terms and conditions of the lease. The bank estimates the IBR using observable inputs which has been derived from the board rate on lease products and latest borrowing rate on local currency lease liabilities and overdraft rate 1Y on foreign currency lease liabilities.

6.7. Going concern

Management has assessed the impact of COVID-19 on the bank's ability to continue as a going concern.
This is detailed in the following note.

7. COVID-19 PANDEMIC – ASSESSMENT OF GOING CONCERN

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by our government and regulators to contain the virus have been successful from a sanitary perspective but have unfortunately affected economic activity and the business in various ways:

- The lockdown has seen a number of the bank's customers not being able to operate and as such earn income; and
- Due to the lack of economic activity, demand for new projects and therefore new credit facilities are scarce.

7.1 The Government has announced the implementation of government assistance measures to individuals and economic operators which might mitigate some of the impact of the COVID-19 pandemic on the bank's results and liquidity.

7.1.1. Reduction of Cash Reserve Ratio ("CRR") requirement

In March 2020, the Bank of Mauritius ("BOM") announced a reduction in the fortnightly average CRR on MUR deposits from 9% to 8% to allow banks to use these funds for any facility to be granted to any impacted economic operator.

7.1.2. The Government Wage Assistance Scheme ("GWAS")

In March 2020, the Government through the Mauritius Revenue Authority ("MRA") announced a scheme to ensure that all employees earning up to MUR50,000 are duly paid their salary by providing assistance to the employers. To date, the scheme is still in place for sectors still impacted by the closure of the borders, such as the hospitality sector.

7.1.3. Assistance scheme for self-employed

The Government has decided to implement a Self-Employed Assistance Scheme ("SEAS") through the Mauritius Revenue Authority ("MRA") to assist self-employed persons who have suffered a loss of revenue as a consequence of the lockdown in the fight against COVID-19.

7.1.4. Setting up of a solidarity fund

The Government has set up the COVID-19 Solidarity Fund which has 3 main objectives:

- contribute to the financing of projects, programmes and schemes related to the COVID-19 virus and other related public health issues;
- provide financial support to persons residing in the Republic of Mauritius and organisations being affected by the COVID-19 virus; and
- provide assistance in such other circumstances related to the COVID-19 virus as the Ministry of Finance, Economic Planning and Development may approve.

7.1.5. Moratorium schemes

Commercial banks will provide a moratorium of 6 months on capital repayment for existing loans for economic operators that are being affected by COVID-19. These moratoriums aim at temporarily alleviating the financial constraints of those businesses, households and individuals currently experiencing difficulties over the scheduled repayment of loans as a direct result of the COVID-19 pandemic.

7.1.6 Special Relief

The Bank of Mauritius has introduced a Special Relief Amount of Rs5 Billion through commercial banks to meet cash flow and working capital requirements of economic operators which are being directly impacted by COVID-19. Disbursements will be effected through commercial banks and the Bank of Mauritius is capping interest on these advances to impacted economic operators at the fixed rate of 1.5 per cent per annum. The repayment period is extended from 30 months to 48 months, with a moratorium period of up to 9 months.

7.1.7 Swap arrangement to support import business

BOM introduced on 23 March 2020 a USD/MUR swap arrangement with commercial banks for an initial amount of USD100 Million. This arrangement aims at enabling commercial banks to support import-oriented businesses. BOM has increased the amount for swap transactions by an additional USD100 Million.

7.1.8. Special Foreign Currency Line of Credit

BOM has now raised the amount of the FX line of credit to banks for funding purposes from USD300 Million to USD500 Million, that is, by an additional amount of USD200 Million.

7.1.9. The Mauritius Investment Corporation ("MIC")

BOM has set up MIC whose objective is to mitigate contagion of the ongoing economic downturn to the banking sector, thus limiting macro-economic and financial risks. Operating independently within the parameters of a strict governance structure, the MIC will provide support through a range of equity/quasi-equity instruments in view of ensuring that domestic systemic economic operators are kept afloat during these challenging times and that jobs are preserved.

7.1.10. Easing of banking guidelines

The Bank of Mauritius has put on hold the Guideline on Credit Impairment Measurement and Income Recognition, which was effective since January 2020. This decision has been taken to allow commercial banks to continue supporting enterprises facing cash flow and working capital difficulties in the context of COVID-19.
BOM also announced the delay in the increase of the regulatory minimum requirements with regards to the Capital Adequacy Ratio ("CAR") of banks from 1 of January 2020 to 1 of January 2021.

7.1.11. Issue of 2020 Savings Bond

BOM has introduced a 2.5% Two-Year Bank of Mauritius 2020 Savings Bond for an amount of MUR 5.0 Billion from 23 of March 2020. The Bond will be issued at par in multiples of MUR 25,000 to individuals who are Residents of Mauritius and up to a maximum cumulative investment amount of Rs1,000,000 per investor, whether singly or jointly, and to locally registered Non-Governmental Organisations running on a non-profit making basis for the same maximum investment amount of MUR 1,000,000. This measure aims at further assisting depositors to diversify their savings portfolio.

7.1.12. Reduction in Key Repo Rate ("KRR")

On 10 March 2020, the MPC voted to reduce the KRR by 50 bps to 2.85% followed by another 100bps cut on 16 April 2020 to 1.85%. The MPC considered that an accommodative monetary policy was deemed appropriate to support domestic economic activity.

7.2 Management has taken into consideration these measures when assessing the impact of COVID-19 on the going concern of the bank and has also done significant work to mitigate the risk of the COVID-19 pandemic.

7.2.1. Re-assessing the bank's 3-year budget

The bank has done extensive work to do the 3-year budget taking into consideration the COVID-19 implications. The sales teams, the risk department, the finance department and the senior management team came together to put together a budget and propose as well as challenge on assumptions in light of what is expected to be a difficult next few years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

7. COVID-19 PANDEMIC – ASSESSMENT OF GOING CONCERN (CONT'D)

7.2.1. *Re-assessing the bank's 3-year budget (Cont'd)*

The bank has taken a very prudent view on the expected disbursement in the forecast taken into consideration the difficult market conditions. Projects have been put on hold, market opportunities are scarce and the borrower's profile given the economic outlook is no longer what it was pre-COVID-19.

It appears that the borders will be partially opened before the end of the year and this can be seen to have a positive impact on businesses. However, the bank has been prudent with its forecast with regards to its provisioning for impairment assumptions.

The 3-year budget shows that even though affected by the expected market condition, the bank is still profitable and continues to operate as a going concern.

7.2.2. *Managing the bank's CAR*

CAR is a key metric to assess the robustness of a bank and one of the main purposes of Basel III was to ensure that banks are robust enough to sustain drops in the economic cycle. That being said, the measure from the Central Bank to delay the increase in the minimum regulatory limit to next year was well received in the market.

The bank's current CAR level compared to the regulatory limits are as per below:

	Jun-20	Regulatory Limit
CET1 Ratio	12.78%	8.38%
Tier 1 Capital	12.78%	8.00%
Total CAR	17.31%	11.88%

Given the healthy growth of the retained earnings in the past years as well as the bond issue done in 2019, it can be observed from the figures above that the bank is well capitalised and has a healthy buffer over the regulatory limit. On top of that, the bank actively monitors the CAR at management level and additionally, this is regularly discussed as part of the bank's Asset and Liability Committee ("ALCO") which happens on a monthly basis.

Given that buffer, it is seen as very unlikely that the bank would incur losses significant enough to breach the regulatory limits. Taking into consideration the 3-year budget as well as stressed scenarios, the bank is comfortable with its CAR level and that there are no issues with the going concern assessment.

7.2.3. *Management of the bank's liquidity*

The Treasury department actively manages the liquidity position of the bank, and has enhanced its surveillance ever since the COVID-19 pandemic broke out. Strict regulatory liquidity ratios are adhered to and the bank has also internally increased its buffer of high quality liquid assets above the minimum requirements. The bank's LCR levels are monitored by the Central Bank on a fortnightly basis. Below are the measures taken to ensure that the bank has enough liquidity for the next 12 months:

- Raise internal liquidity buffers
  In addition to the fortnightly LCR submission, the bank actively monitors its liquidity position. On top of adhering to the minimum regulatory requirement, the bank has added internal buffers to act as warning triggers. The bank also conducts frequent stress tests to make sure that it remains highly liquid. This will ensure that decisions can be taken ahead of any breach of regulation or significant drop in liquidity.

- Access to Highly Liquid Asset
  The bank has access to highly liquid assets as per the table below.

	MUR m	USD m	EUR m	GBP m	TOTAL MUR m
HQLA1					
Investment	2,975.00	32.3	-	-	
Coins & Bank notes	5.3	0.1	0.1	0.1	
Central bank reserves in excess of daily CRR	258.2	3.8	1.1	0.3	
HQLA2	-	8.9	-	-	
TOTAL STOCK HQLA (MUR m)	**3,238.50**	**1,805.00**	**56.5**	**15.9**	**5,115.90**

- Deposit campaign
  The bank has started a 15 months deposit campaign that has been very successful in the past months. The bank has already raised over MUR 700 million in a period of about 4 months and is actively looking for new products to satisfy the needs of the customers.

- Borrowing lines
  The bank currently has access to borrowing lines amounting to around MUR 900 million through a number of banks.

- Reduction in CRR requirement
  The bank is looking to make use of the release of 1% of CRR requirement from the Central Bank with regard to the Stimulus package. This amounts to approximately MUR 85 million.

- Access to the Debt Capital Market
  In 2019, the bank issued bonds through the MUR 2,000,000,000 Multi-Currency Medium Term Programme. It has been observed that the debt capital market has been active for the last few months with a number of successful bond issues being indicative of the demand for fixed income products. The bank has the option of issuing new bonds through the same Programme if such need arises.

7.2.4. *Impact on ECL*

The business operations of certain industries such as airlines, tourism & hospitality and retail have been directly impacted by the travel restrictions and social distancing requirements. A number of government measures have been put in place to assist these businesses in financial/ liquidity difficulties.

From the bank's perspective, it was important to distinguish between a temporary liquidity constraint on a borrower (e.g. no revenue during lockdown) from a SICR over the lifetime of the exposure. Therefore, taking into consideration all the government measures was an important factor in this assessment. For example, while the bank has assisted over 200 clients with regards to measures mentioned above, this event does not necessarily mean that the client will be moved to Stage 2 and result in an increased ECL.

Below is the Loans and advances to customer portfolio split by sector.

Sector	%
Manufacturing	11.1
Construction	13.5
Professional	0.1
Traders	7.8
Tourism	17.5
Transport	4
Financial and business services	14.1
Personal	7.7
Agriculture	5
Global Business Licence holders	8.4
Others	10.8
	100

While it is observed that the top 3 sectors are Tourism, Financial and Business Services and Construction, it is also noted that there is a relatively good diversification within the portfolio. Of the top 3 sectors mentioned, we note how integral those sectors are for the national economy and also note a number of measures already announced by the Government to support these sectors. As part of the bank's portfolio monitoring process, exposures seen as having experienced a SICR due to COVID-19 were moved to Stage 2 resulting in an increased ECL (as shown in the financial statements). Given this, it is not expected that there will be significant movement to Stage 2 given the current context. The ECL is also expected to increase with the movement of exposures to Stage 3. However, given the current measures in place to assist the operators in the market and the bank's robust credit assessment with regards to collateral, the bank expects that this impact will be manageable. As mentioned in section A, given the expected prudent view with regards to the disbursement of loan and advances to customers going forward, this will result in a slower growth of the ECL where there is a direct correlation between the growth in the loan portfolio and the growth in the ECL.

Therefore, given the above, even in a stressed scenario, it is highly unlikely that the increase in ECL would result in the significantly enough reduction of retained earnings so as to affect the bank's capital adequacy or going concern.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

7. COVID-19 PANDEMIC – ASSESSMENT OF GOING CONCERN (CONT'D)

7.2.5. Managing the relationship

The most important element of banking is the management of the relationship with the customer and that is even more important in challenging times. Even since the COVID-19 pandemic broke out, the bank has put even more emphasis on reaching out to its clients to:

- understand the situation that they are in;
- understand the impact of COVID-19 on them;
- explain to them what measures are in place that they can take advantage of;
- understand what actions they are taking if they are in financial difficulty; and
- see if and how the bank can assist in any way.

This has been an on-going process and one that the bank is convinced will help mitigate the risk of default of the customers.

Based on the above, management has assessed the impact of COVID-19 and concluded that the bank is still operating as a going concern.

8. CAPITAL MANAGEMENT

The bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Bank of Mauritius in supervising the bank.

During the past year, the bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the bank's capital management are to ensure that the bank comply with externally imposed capital requirements and that the bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The capital structure of the bank consists of issued capital, reserves and retained earnings. Note on stated capital is disclosed in Note 24. The bank has to comply with the Banking Act 2004 in respect of both its stated capital and reserves which is detailed in the notes. For the year ended 30 June 2020 and at that date, the bank has complied with the regulatory requirement for both share capital and reserves. The bank manages its capital with the aim of maximising the return to the shareholders and other stakeholders.

The bank capital adequacy ratio is analysed as follows:

	2020	2019	2018
	%	%	%
CET1 capital ratio	12.8	14.2	14.3
Tier 1 capital ratio	12.8	14.2	14.3
Total capital ratio	17.3	19.1	15.2

Minimum capital adequacy ratios under the Guideline on Scope of Application of Basel III and Eligible Capital:

	2020	2019	2018
	%	%	%
CET1 capital ratio	6.5	6.5	6.5
CET1 capital ratio plus Capital Conservation Buffer	8.375	8.375	7.75
Tier 1 capital ratio	8.0	8.0	8.0
Total capital ratio	10.0	10.0	10.0
Total capital ratio plus Capital Conservation Buffer	11.875	11.875	11.25

9. CASH AND CASH EQUIVALENTS

	2020	2019	2018
	MUR	MUR	MUR
Cash in hand	14,038,021	11,296,564	6,907,102
Unrestricted balances with Central Bank	475,470,513	293,415,551	371,944,871
Balances with banks	509,345,980	823,261,756	1,826,588,270
Loans to and placements with banks	281,187,176	1,604,157,201	1,071,301,343
	1,280,041,690	2,732,131,072	3,276,741,586

Loans to and placements with banks with an original maturity of less than 3 months are included in cash and cash equivalents.

Unrestricted balances with Central Bank represents amounts above the minimum cash reserve requirement.
The minimum cash reserve requirement has been reported under 'Other assets' for the year ended 30 June 2020.
Refer to Note 25 for more information.

10. DUE FROM BANKS

	2020	2019	2018
	MUR	MUR	MUR
Banks outside Mauritius	-	-	422,240,976
Banks in Mauritius	-	-	-
Deposits with the Central Bank	14,839,238	39,075,842	17,315,550
Restricted balances with the Central Bank	-	660,726,000	591,254,812
Less: Expected credit losses	(20,153)	(1,062,375)	-
	14,819,085	698,739,467	1,030,811,338

For restricted balances with the Central Bank, refer to Note 14.

10.1 Impairment allowance for due from banks

The table below shows the credit quality and the maximum exposure to credit risk based on the bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the bank's internal grading system are explained and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 43(b):

	2020	2019
	MUR	MUR
Performing		
Investment grade	-	-
Standard Monitoring	-	-
Watchlist	-	-
Unrated	14,839,238	39,075,842
Gross carrying amount	14,839,238	39,075,842
Expected Credit Losses	(20,153)	(52,885)
	14,819,085	39,022,957

The bank assessed all its due from banks as at 30 June 2020 and classified those financial assets as Stage 1.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

10. DUE FROM BANKS (CONT'D)

10.1 Impairment allowance for due from banks (Cont'd)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

	2020	2019
	MUR	MUR
Gross carrying amount as at 1 July 2019	39,075,842	422,240,976
New assets originated or purchased	14,839,238	39,075,842
Assets derecognised or repaid (excluding write offs)	(39,075,842)	(422,240,976)
At 30 June 2020	14,839,238	39,075,842

	2020	2019
	MUR	MUR
ECL allowance as at 1 July 2019	52,885	5,113,737
Increase in expected credit losses	20,153	52,885
Assets derecognised or repaid (excluding write offs)	(52,885)	(5,113,737)
At 30 June 2020	20,153	52,885

11. DERIVATIVE FINANCIAL INSTRUMENTS

The bank enters into derivatives for the optimal deployment of its liability base in foreign currencies and for liquidity risk management. The bank may also take positions with the expectation of profiting from favourable movements in rates.

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts.

The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument.

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

	MUR	MUR	MUR
30 June 2020			
	Notional amount	**Assets**	**Liabilities**
Foreign exchange contracts	**959,127,612**	**2,183,441**	**9,759,640**
30 June 2019			
	Notional amount	Assets	Liabilities
Foreign exchange contracts	1,002,700,103	3,763,559	5,812,757
30 June 2018			
	Notional amount	Assets	Liabilities
Foreign exchange contracts	389,745,945	4,289,595	2,774,759

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the underlying asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the bank.

As at 30 June, the bank has exposures in the following types of derivatives.

Foreign exchange forward contract

A forward exchange forward contract is a derivative instrument used to manage foreign exchange risks. It is an agreement between two counterparties to convert one currency into another at a later date, but at a rate agreed earlier on the deal date.

Foreign exchange swap

A foreign exchange swap is the simultaneous buying and selling of an identical amount of one currency for another but with two different value dates. One value date is a spot and the other one is a forward date.

The following table shows an analysis of derivative financial instruments by level of the fair value hierarchy:

Valuation is done on a daily basis using live market rates, hence providing an up to date mark to market of our exposures.

	2020	2019	2018
	MUR	MUR	MUR
Level 1	-	-	-
Level 2	2,183,441	3,763,559	4,289,595
Level 3	-	-	-
	2,183,441	3,763,559	4,289,595

12. LOANS AND ADVANCES TO CUSTOMERS

	2020	2019	2018
	MUR	MUR	MUR
Loans and overdrafts			
Retail	744,930,675	413,226,908	320,596,942
Corporate	7,695,236,365	5,855,264,879	4,738,788,744
	8,440,167,040	6,268,491,787	5,059,385,686
Less: Allowance for impairment losses (Note 12(c))	(379,850,609)	(90,944,557)	(78,036,671)
	8,060,316,431	6,177,547,230	4,981,349,015
Investment in finance leases			
Retail	756,984,832	632,249,977	472,472,536
Corporate	982,827,435	898,055,843	679,098,611
	1,739,812,267	1,530,305,820	1,151,571,147
Less: Allowance for impairment losses (Note 12(c))	(30,753,490)	(71,913,967)	(78,431,758)
	1,709,058,777	1,458,391,853	1,073,139,389
Net loans and advances to customers	9,769,375,208	7,635,939,083	6,054,488,404

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

12. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(a) Investment in finance leases

	2020 MUR	2019 MUR	2018 MUR
Gross investment in finance leases:			
Up to 3 months	171,589,122	172,974,560	159,137,605
Over 3 months and up to 6 months	131,407,513	114,321,051	91,485,283
Over 6 months and up to 12 months	256,452,908	216,822,055	170,529,981
Over 1 year and up to 5 years	1,365,083,849	1,216,349,545	839,094,570
Over 5 years	12,924,689	31,494,593	61,434,313
	1,937,458,081	1,751,961,804	1,321,681,752
Allocation of unearned finance income	(197,645,814)	(221,655,984)	(170,110,605)
Present value of minimum lease payments	1,739,812,267	1,530,305,820	1,151,571,147
Analysed as follows:			
Current			
- Not later than 1 year	481,343,536	422,112,382	356,713,924
Non current			
- Later than 1 year and not later than 5 years	1,245,744,528	1,077,357,508	736,410,052
- Later than 5 years	12,724,203	30,835,930	58,447,171
	1,739,812,267	1,530,305,820	1,151,571,147

(b) Credit concentration of risk by industry sectors

	2020 MUR	2019 MUR	2018 MUR
Sectorial concentration of loans and advances (gross of impairment)			
Manufacturing	1,126,834,093	969,359,285	1,013,659,648
Construction	1,376,462,738	1,082,781,648	441,396,053
Professional	12,908,935	15,751,150	17,024,777
Traders	798,358,572	975,320,638	844,809,000
Tourism	1,777,553,356	1,519,765,901	886,884,218
Transport	410,628,408	378,466,313	348,280,509
Financial and business services	1,440,085,940	1,085,495,637	1,047,793,648
Personal	780,553,720	598,632,516	452,331,741
Agriculture	510,356,118	99,820,890	363,767,334
Global Business Licence holders	853,353,264	554,355,809	621,246,607
Others	1,092,884,163	519,047,820	173,763,298
	10,179,979,307	7,798,797,607	6,210,956,833
Analysed as follows:			
Loans and overdrafts	8,440,167,040	6,268,491,787	5,059,385,686
Investment in finance leases	1,739,812,267	1,530,305,820	1,151,571,147
	10,179,979,307	7,798,797,607	6,210,956,833

Total credit facilities including guarantees, acceptances and other similar commitments extended by the bank to any one customer or group of closely related customers for amounts aggregating more than 15% of its capital base classified by industry sectors:

	2020 MUR	2019 MUR	2018 MUR
Manufacturing	541,021,649	460,855,570	475,014,629
Construction	27,888,667	67,446,459	301,982,379
Traders	329,970,299	286,985,236	258,391,314
Tourism	1,493,982,280	1,002,116,944	1,045,713,263
Transport	216,296,557	240,898,408	231,835,438
Financial and business services	1,904,833,925	1,082,764,783	474,310,867
Agriculture	351,571,360	-	288,500,000
Global Business Licence holders	686,575,147	27,580,858	329,915,254
Others	1,951,883,991	27,384,683	61,004,273
	7,504,023,875	3,196,032,941	3,466,667,417

(c) Impairment allowance for loans and advances

The table below shows the credit quality and the maximum exposure to credit risk based on the bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the bank's internal grading system and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 43(b).

Corporate Lending

	2020			
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
	MUR	MUR	MUR	MUR
Performing				
Investment grade	161,219,292	103,306,420	-	264,525,712
Standard Monitoring	3,435,489,158	554,621,413	-	3,990,110,571
Watchlist	357,053,341	3,024,828,236	-	3,381,881,577
Unrated	464,864,950	47,970,265	-	512,835,215
Non - performing				
Default	-	-	528,710,725	528,710,725
Total	4,418,626,741	3,730,726,334	528,710,725	8,678,063,800

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

	2020			
	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual	Total
	MUR	MUR	MUR	MUR
Gross carrying amount as at 1 July	6,298,980,148	420,998,208	33,342,367	6,753,320,723
New assets originated or purchased	4,605,455,806	349,356	-	4,605,805,162
Assets derecognised or repaid (excluding write offs)	(2,325,580,056)	(334,606,509)	(1,396,796)	(2,661,583,361)
Transfers to Stage 1	4,658,652	(4,658,652)	-	-
Transfers to Stage 2	(3,665,468,313)	3,665,468,313	-	-
Transfers to Stage 3	(499,419,493)	(16,824,382)	516,243,875	-
Amounts written off	(3)	-	(19,478,721)	(19,478,724)
At 30 June	4,418,626,741	3,730,726,334	528,710,725	8,678,063,800

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

12. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(c) Impairment allowance for loans and advances (cont'd)

	2020			
	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual	Total
	MUR	MUR	MUR	MUR
ECL allowance as at 1 July	73,378,085	4,149,727	31,657,571	109,185,383
New assets originated or purchased	343,462,118	29,670	38,667	343,530,455
Assets derecognised or repaid (excluding write offs)	(42,719,265)	(3,934,487)	(255,595)	(46,909,347)
Transfers to Stage 1	49,694	(49,694)	-	-
Transfers to Stage 2	(91,367,181)	91,367,181	-	-
Transfers to Stage 3	(258,377,703)	(707)	258,378,410	-
Amounts written off	-	-	(19,473,286)	(19,473,286)
At 30 June	24,425,748	91,561,690	270,345,767	386,333,205

Retail Lending

	2020			
	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual	Total
	MUR	MUR	MUR	MUR
Performing				
Investment grade	383,624,638	-	-	383,624,638
Standard Monitoring	382,380,541	16,837,251	-	399,217,792
Watchlist	217,808	51,282,214	-	51,500,022
Unrated	630,043,613	19,423,627	-	649,467,240
Non - performing				
Default	-	-	18,105,815	18,105,815
Total	1,396,266,600	87,543,092	18,105,815	1,501,915,507

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

	2020			
	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual	Total
	MUR	MUR	MUR	MUR
Gross carrying amount as at 1 July	988,788,082	19,038,858	37,649,944	1,045,476,884
New assets originated or purchased	724,867,974	50,831	11,036	724,929,841
Assets derecognised or repaid (excluding write offs)	(230,180,210)	(7,158,734)	(648,370)	(237,987,314)
Transfers to Stage 1	3,943,589	(3,922,716)	(20,873)	-
Transfers to Stage 2	(85,599,079)	85,599,079	-	-
Transfers to Stage 3	(5,553,669)	(6,064,226)	11,617,895	-
Amounts written off	(87)	-	(30,503,817)	(30,503,904)
At 30 June	1,396,266,600	87,543,092	18,105,815	1,501,915,507

	2020			
	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual	Total
	MUR	MUR	MUR	MUR
ECL allowance as at 1 July	16,576,387	304,754	36,791,998	53,673,139
New assets originated or purchased	11,392,633	511,004	-	11,903,637
Assets derecognised or repaid (excluding write offs)	(10,079,656)	(155,083)	(574,281)	(10,809,020)
Transfers to Stage 1	24,880	(24,770)	(110)	-
Transfers to Stage 2	(5,807,603)	5,807,603	-	-
Transfers to Stage 3	(413,333)	(607,569)	1,020,902	-
Amounts written off	-	-	(30,496,868)	(30,496,868)
At 30 June	11,693,308	5,835,939	6,741,641	24,270,888

The following is a reconciliation of the individual and collective allowances for impairment losses on loans and advances to customers for periods before 1 July 2019:

	Individual impairment	Collective impairment	Total
	MUR	MUR	MUR
At 1 July 2017	82,827,690	72,131,391	154,959,081
Allowance for credit impairment for the year (Note 30)	2,375,594	5,478,706	7,854,300
Provision released (Note 30)	(2,052,771)	-	(2,052,771)
Written off	(4,292,181)	-	(4,292,181)
At 30 June 2018	78,858,332	77,610,097	156,468,429
At 1 July 2018	78,858,332	77,610,097	156,468,429
Allowance for credit impairment for the year (Note 30)	-	-	-
Provision released (Note 30)	-	-	-
Written off	-	-	-
At 30 June 2019	78,858,332	77,610,097	156,468,429

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

12. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(d) Allowance for credit impairment by industry sectors

	2020					
	Gross Amount of Loans	**Non performing Loans**	**Stage 1**	**Stage 2**	**Stage 3**	**Total Expected Credit Losses**
	MUR	**MUR**	**MUR**	**MUR**	**MUR**	**MUR**
Manufacturing	**1,126,834,093**	**12,002,028**	**4,994,151**	**8,989,318**	**11,546,052**	**25,529,521**
Construction	**1,376,462,738**	**83,786,599**	**10,853,461**	**7,809,268**	**53,177,639**	**71,840,368**
Professional	**12,908,935**	**-**	**51,564**	**7,724**	**-**	**59,288**
Traders	**798,358,572**	**28,319,996**	**3,231,073**	**4,545,441**	**3,436,630**	**11,213,144**
Tourism	**1,777,553,356**	**-**	**156,291**	**62,525,316**	**-**	**62,681,607**
Transport	**410,628,408**	**5,048,408**	**2,271,234**	**8,322,490**	**1,001,074**	**11,594,798**
Financial and business services	**1,440,085,940**	**-**	**1,894,291**	**1,062,001**	**-**	**2,956,292**
Personal	**780,553,720**	**4,732,150**	**4,200,417**	**981,215**	**1,934,155**	**7,115,787**
Agriculture	**510,356,118**	**-**	**1,239,807**	**41,764**	**-**	**1,281,571**
Global Business Licence holders	**853,353,264**	**-**	**87,221**	**-**	**-**	**87,221**
Others	**1,092,884,163**	**412,926,959**	**7,139,547**	**3,113,093**	**205,991,862**	**216,244,502**
Total	**10,179,979,307**	**546,816,140**	**36,119,057**	**97,397,630**	**277,087,412**	**410,604,099**

	2019						2018
	Gross Amount of Loans	Non performing Loans	Stage 1	Stage 2	Stage 3	Total Expected Credit Losses	
	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Manufacturing	969,359,285	13,566,173	8,211,102	70,932	13,553,520	21,835,554	23,940,719
Construction	1,082,781,648	14,039,821	17,127,085	166,683	13,939,821	31,233,589	28,591,726
Professional	15,751,150	-	157,513	-	-	157,513	170,340
Traders	975,320,638	8,674,537	8,884,459	720,073	7,002,395	16,606,927	16,414,656
Tourism	1,519,765,901	394,016	19,409,005	2,682,231	394,015	22,485,251	18,141,313
Transport	378,466,313	7,867,602	3,481,243	12,763	7,867,602	11,361,608	11,309,280
Financial and business services	1,085,495,637	15,837	10,701,438	4,666	15,837	10,721,941	10,494,326
Personal	598,632,516	22,553,189	11,013,116	174,614	22,553,189	33,740,919	32,426,413
Agriculture	99,820,890	251,147	392,190	598,411	251,146	1,241,747	3,886,994
Global Business Licence holders	554,355,809	-	5,543,728	-	-	5,543,728	6,212,753
Others	519,047,820	3,629,989	5,033,594	24,110	2,872,043	7,929,747	4,879,909
Total	7,798,797,607	70,992,311	89,954,473	4,454,483	68,449,568	162,858,524	156,468,429

13. INVESTMENT SECURITIES

		2020	2019	2018
		MUR	MUR	MUR
Available-for-sale investments	13(a)	**-**	-	2,315,156,141
Loans and receivables	13(b)	**-**	-	3,058,593,442
Held to maturity investment securities	13(c)	**-**	-	849,403,706
Debt instruments at FVTOCI	13(d)	**3,638,084,595**	3,190,321,497	-
Equity instruments at FVTOCI	13(e)	**42,657,771**	36,467,145	-
Debt instruments at amortised cost	13(f)	**3,234,369,969**	3,253,203,300	-
Debt instruments at FVTPL		**199,344,000**	-	-
		7,114,456,335	6,479,991,942	6,223,153,289

(a) Available-for-sale financial investments

	2020	2019	2018
	Total	Total	Total
	MUR	MUR	MUR
Bank of Mauritius treasury bills	**-**	-	126,053,550
Bank of Mauritius bonds and notes	**-**	-	74,592,108
Government of Mauritius treasury bills	**-**	-	100,466,641
Government of Mauritius bonds and notes	**-**	-	225,735,952
Foreign sovereign bonds	**-**	-	1,338,995,515
Corporate bonds	**-**	-	416,492,616
Corporate shares	**-**	-	32,819,759
	-	-	2,315,156,141

(b) Loans and receivables

	2020	2019	2018
	Total	Total	Total
	MUR	MUR	MUR
(i) Bank of Mauritius bonds and notes	**-**	-	110,696,341
Government of Mauritius treasury bills	**-**	-	-
Government of Mauritius bonds and notes	**-**	-	2,624,332,664
Corporate bonds	**-**	-	326,832,765
	-	-	3,061,861,770
Less collective impairment	**-**	-	(3,268,328)
	-	-	3,058,593,442

(ii) Analysed as follows:

	2020	2019	2018
	Total	Total	Total
	MUR	MUR	MUR
Bank of Mauritius bonds and notes	**-**	-	110,696,341
Government of Mauritius treasury bills	**-**	-	-
Government of Mauritius bonds and notes	**-**	-	2,624,332,664
Corporate bonds	**-**	-	323,564,437
	-	-	3,058,593,442

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

13. INVESTMENT SECURITIES (CONT'D)

(b) Loans and receivables (cont'd)

(iii) Impairment allowances on loans and receivables

	Collective impairment
	MUR
At 1 July 2017	2,970,208
Allowance for credit impairment for the year	298,120
At 30 June 2018	3,268,328

(c) Held to maturity investment securities

	2020 Total	2019 Total	2018 Total
	MUR	MUR	MUR
(i) Corporate bonds	-	-	857,983,541
Less individual impairment loss	-	-	-
Less collective impairment	-	-	(8,579,835)
	-	-	849,403,706

(ii) Analysed as follows:

	2020 Total	2019 Total	2018 Total
	MUR	MUR	MUR
Corporate bonds	-	-	849,403,706

(iii) Impairment allowances on held to maturity investment securities

	Individual impairment	Collective impairment	Total
	MUR	MUR	MUR
At 1 July 2017	4,183,140	5,495,625	9,678,765
Allowance for credit impairment for the year	(4,183,140)	3,084,210	(1,098,930)
At 30 June 2018	-	8,579,835	8,579,835

(d) Debt instruments at FVTOCI

	Up to 3 months	3-12 months	1 to 3 years	Over 3 years	2020	2019
	MUR	MUR	MUR	MUR	MUR	MUR
Bank of Mauritius treasury bills	599,670,001	-	-	-	599,670,001	425,687,115
Bank of Mauritius bonds and notes	-	-	-	-	-	65,811,248
Government of Mauritius treasury bills	1,043,171,079	-	-	-	1,043,171,079	249,719,500
Government of Mauritius bonds and notes	-	76,438,063	-	-	76,438,063	384,357,695
Foreign sovereign bonds	-	366,879,050	468,989,934	43,586,767	879,455,751	1,400,116,378
Corporate bonds	-	-	315,970,039	723,379,663	1,039,349,702	664,629,561
	1,642,841,080	443,317,113	784,959,973	766,966,430	3,638,084,596	3,190,321,497

	2020	2019
	MUR	MUR
Performing		
Investment grade	2,110,197,364	1,273,412,337
Standard Monitoring	564,533,466	1,158,019,609
Watchlist	-	-
Unrated	963,353,765	758,889,551
Default	-	-
	3,638,084,595	3,190,321,497
Expected Credit Losses	(6,434,945)	(3,134,792)
	3,631,649,650	3,187,186,705

	2020 Total	2019 Total
	MUR	MUR
Gross carrying amount as at 1 July	3,190,321,497	2,807,994,228
New assets originated or purchased	2,559,652,262	952,179,318
Assets derecognised or repaid (excluding write offs)	(2,111,889,164)	(569,852,049)
At 30 June	3,638,084,595	3,190,321,497

	2020 Total	2019 Total
	MUR	MUR
ECL allowance as at 1 July	3,134,792	2,563,335
Increase in expected credit losses	5,229,629	1,538,061
Assets derecognised or repaid (excluding write offs)	(1,929,477)	(966,604)
At 30 June	6,434,944	3,134,792

(e) Equity instruments at FVTOCI

As at 30 June 2020, the bank had corporate shares of MUR 42,657,771 classified as Equity instruments at FVTOCI.

(f) Debt instruments at amortised cost

	Up to 3 months	3-12 months	1 to 3 years	Over 3 years	2020	2019
	MUR	MUR	MUR	MUR	MUR	MUR
Government of Mauritius bonds and notes	-	-	887,807,253	1,096,317,681	1,984,124,934	2,339,564,759
Corporate bonds	316,615,916	304,892,142	287,339,381	346,890,342	1,255,737,781	917,808,546
Gross carrying amount	316,615,916	304,892,142	1,175,146,634	1,443,208,023	3,239,862,715	3,257,373,305
Expected Credit Losses	(249,475)	(1,059,211)	(2,046,951)	(2,137,109)	(5,492,746)	(4,170,005)
	316,366,441	303,832,931	1,173,099,683	1,441,070,914	3,234,369,969	3,253,203,300

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

13. INVESTMENT SECURITIES (CONT'D)

(f) Debt instruments at amortised cost (cont'd)

	2020	2019
	MUR	MUR
Performing		
Investment grade	500,093,314	175,183,600
Standard Monitoring	1,984,124,934	2,339,564,759
Watchlist	-	-
Unrated	755,644,467	742,624,946
Gross carrying amount	3,239,862,715	3,257,373,305
Expected Credit Losses	(5,492,746)	(4,170,005)
	3,234,369,969	3,253,203,300

	2020	2019
	MUR	MUR
Gross carrying amount as at 1 July	3,257,373,305	3,394,187,464
New assets originated or purchased	368,955,858	152,866,631
Assets derecognised or repaid (excluding write offs)	(386,466,446)	(289,680,790)
At 30 June	3,239,862,717	3,257,373,305

	2020	2019
	MUR	MUR
ECL allowance as at 1 July	4,170,005	4,249,310
Increase in expected credit losses	1,637,021	477,102
Assets derecognised or repaid (excluding write offs)	(314,279)	(556,407)
At 30 June	5,492,747	4,170,005

14. OTHER ASSETS

	2020	2019	2018
	MUR	MUR	MUR
Restricted balances with the Central bank	693,741,733	-	-
Deposits	173,041,341	81,673,917	82,431,067
Non banking assets acquired in satisfaction of debts	2,623,184	75,000	1,190,333
Other receivables	23,008,495	18,248,388	10,404,188
Less: Expected credit losses	(1,036,969)	-	-
	891,377,784	99,997,305	94,025,588

Non banking assets acquired in satisfaction of debts relate to repossessed assets and the bank intends to dispose of such assets as soon as the market permits.

Restricted balances with the Central Bank represent the mandatory reserve deposits and are not available for use in the bank's day-to-day operations. This was previously reported under 'Due from banks'. To be in line with Bank of Mauritius Guideline, the bank has classified the amount in other assets for the current year.

Other receivables comprises mainly prepaid expenses.

15. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	Freehold land	Buildings	Improvement to buildings	Computer equipment	Motor vehicles	Other fixed assets	Work in Progress	Right-of -use assets Motor vehicles	Right-of -use assets Offices	Total
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
COST										
At 1 July 2017	123,435,858	127,872,234	105,954,058	29,338,953	5,395,001	38,442,051	-	-	-	430,438,155
Additions	-	-	-	3,242,736	10,531,756	442,912	27,486,194	-	-	41,703,598
Disposals	-	-	-	-	(815,000)	(23,000)	-	-	-	(838,000)
At 30 June 2018	123,435,858	127,872,234	105,954,058	32,581,689	15,111,757	38,861,963	27,486,194	-	-	471,303,753
At 1 July 2018	123,435,858	127,872,234	105,954,058	32,581,689	15,111,757	38,861,963	27,486,194	-	-	471,303,753
Additions	-	12,048,739	-	17,220,381	1,000,000	2,536,063	107,294,539	-	-	140,099,722
Transfer	-	28,910,753	-	-	-	1,512,503	(30,423,256)	-	-	-
Disposals	-	-	-	-	-	(98,235)	-	-	-	(98,235)
At 30 June 2019	123,435,858	168,831,726	105,954,058	49,802,070	16,111,757	42,812,294	104,357,477	-	-	611,305,240
At 1 July 2019	**123,435,858**	**168,831,726**	**105,954,058**	**49,802,070**	**16,111,757**	**42,812,294**	**104,357,477**	**-**	**-**	**611,305,240**
Effect of adoption of IFRS 16	-	-	-	-	-	-	-	**4,622,924**	**4,994,771**	**9,617,695**
Additions	-	**1,755,058**	**1,010,553**	**5,742,579**	-	**10,482,606**	**90,571,590**	-	**1,008,867**	**110,571,252**
Transfer	-	**168,298,654**	-	-	-	**26,630,413**	**(194,929,067)**	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-
At 30 June 2020	**123,435,858**	**338,885,438**	**106,964,611**	**55,544,649**	**16,111,757**	**79,925,312**	**-**	**4,622,924**	**6,003,638**	**731,494,187**
DEPRECIATION										
At 1 July 2017	-	5,575,991	14,492,486	15,273,261	2,050,253	20,535,762	-	-	-	57,927,753
Charge for the year	-	2,557,445	5,297,703	5,803,684	1,765,122	3,723,543	-	-	-	19,147,497
Disposals	-	-	-	-	(626,750)	(6,325)	-	-	-	(633,075)
At 30 June 2018	-	8,133,436	19,790,189	21,076,945	3,188,625	24,252,980	-	-	-	76,442,175
At 1 July 2018	-	8,133,436	19,790,189	21,076,945	3,188,625	24,252,980	-	-	-	76,442,175
Charge for the year	-	3,240,103	5,297,703	6,707,132	3,189,018	4,005,711	-	-	-	22,439,667
Disposals	-	-	-	-	-	(35,068)	-	-	-	(35,068)
At 30 June 2019	-	11,373,539	25,087,892	27,784,077	6,377,643	28,223,623	-	-	-	98,846,774
At 1 July 2019	-	**11,373,539**	**25,087,892**	**27,784,077**	**6,377,643**	**28,223,623**	-	-	-	**98,846,774**
Charge for the year	-	**4,226,903**	**5,322,967**	**8,726,522**	**3,097,351**	**5,055,092**	-	**1,132,968**	**4,241,946**	**31,803,749**
Disposals	-	-	-	-	-	-	-	-	-	-
At 30 June 2020	**-**	**15,600,442**	**30,410,859**	**36,510,599**	**9,474,994**	**33,278,715**	**-**	**1,132,968**	**4,241,946**	**130,650,523**
NET BOOK VALUE										
At 30 June 2020	**123,435,858**	**323,284,996**	**76,553,752**	**19,034,050**	**6,636,763**	**46,646,597**	**-**	**3,489,956**	**1,761,692**	**600,843,664**
At 30 June 2019	123,435,858	157,458,187	80,866,166	22,017,993	9,734,114	14,588,671	104,357,477	-	-	512,458,466
At 30 June 2018	123,435,858	119,738,798	86,163,869	11,504,744	11,923,132	14,608,983	27,486,194	-	-	394,861,578

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

15. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (CONT'D)

Other fixed assets consist of office furniture, office equipment, fixtures and fittings and security and vault.
There is no restriction on title or asset pledged as securities for liabilities at reporting date (2019 and 2018: nil).
Following completion of the renovation project of Plantation House, the bank transferred the relevant cost from Work in Progress to Buildings and Other fixed assets.

Tabled below are the carrying amounts of lease liabilities (included under 'other liabilities') and the movements during the year.

	MUR
As at 1 July 2019-Effect of adoption of IFRS 16	**9,617,694**
Additions	**1,008,867**
Accretion of interest	**402,851**
Payments	**(5,137,270)**
At 30 June 2020	**5,892,142**

The following are the amounts recognised in profit or loss:

	MUR
Depreciation on right-of-use-assets	5,374,914
Interest expense on lease liability (note 26)	402,851
Low value leases being expensed	263,040
Total amounts recognised in profit or loss	6,040,805

Lease Liability	Up to 1 year	1 to 3 years	after 3 years	Total
Undiscounted cash flows	2,675,385	3,507,048	322,352	6,504,785

The bank had total cash outflows of MUR 5,114,445.The initial application of IFRS 16 resulted in non-cash additions to right-of-use assets and lease liabilities of MUR 9,617,694 at 01 July 2019.

16. INTANGIBLE ASSETS

Computer Software

	2020	2019	2018
COST	MUR	MUR	MUR
At 1 July	**24,881,393**	24,881,393	24,871,963
Additions	**8,914,416**	-	9,430
At 30 June	**33,795,809**	24,881,393	24,881,393
AMORTISATION			
At 1 July	**22,618,253**	20,529,521	18,052,353
Charge for the year	**2,255,191**	2,088,732	2,477,168
At 30 June	**24,873,444**	22,618,253	20,529,521
NET BOOK VALUE			
At 30 June	**8,922,365**	2,263,140	4,351,872

17. DEFERRED TAX ASSETS

The deferred tax included in the statements of financial position and changes recorded in the income tax expense are as follows:

	2020	2019	2018
	MUR	MUR	MUR
As at 1 July	**9,710,148**	21,307,487	24,025,071
Impact of IFRS 9	**-**	(6,648,770)	-
	9,710,148	14,658,717	24,025,071
Accelerated tax depreciation	**(1,786,268)**	2,401,195	37,738
Impairment allowance	**14,361,902**	(7,710,328)	(2,965,867)
Retirement benefit obligations	**798,635**	360,564	210,545
As at 30 June	**23,084,417**	9,710,148	21,307,487

Analysed as:

	Statement of financial position			Statement of profit or loss and other comprehensive income		
	2020	2019	2018	2020	2019	2018
	MUR	MUR	MUR	MUR	MUR	MUR
Accelerated tax depreciation	**(5,142,187)**	(3,355,919)	(5,757,114)	**(1,786,268)**	2,401,195	37,738
Impairment allowance	**26,398,398**	12,036,496	26,395,594	**14,361,902**	(7,710,328)	(2,965,867)
Retirement benefit obligations	**1,828,206**	1,029,571	669,007	**798,635**	360,564	210,545
	23,084,417	9,710,148	21,307,487	**13,374,269**	(4,948,569)	(2,717,584)

Movement of deferred tax to profit or loss and other comprehensive income analysed as follows:

	2020	2019	2018
	MUR	MUR	MUR
Profit or loss (Note 22)	**12,876,289**	(5,120,005)	(2,834,093)
Other comprehensive income	**497,980**	171,436	116,509
	13,374,269	(4,948,569)	(2,717,584)

18. DUE TO BANKS

	2020	2019	2018
	MUR	MUR	MUR
Interbank borrowings	**-**	-	110,061,479

The interbank borrowing as at 30 June 2018 was unsecured, bore interest rate at 3.40% p.a and was repaid on 02 July 2018.

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For the year ended 30 June 2020

19. DEPOSITS FROM CUSTOMERS

	2020 MUR	2019 MUR	2018 MUR
Retail customers			
Savings accounts	3,394,409,759	3,706,678,411	3,452,276,646
Current accounts	1,066,917,821	585,452,777	784,229,641
Term deposits with remaining term to maturity:			
Up to 3 months	335,479,281	211,530,574	206,410,255
Over 3 months and up to 6 months	119,578,500	216,167,570	133,243,226
Over 6 months and up to 12 months	255,734,790	218,694,244	313,092,006
Over 1 year and up to 5 years	2,097,778,434	1,491,774,855	1,325,892,658
Corporate customers			
Savings accounts	157,680,717	320,060,866	379,114,526
Current accounts	6,763,218,928	6,414,327,204	6,827,151,929
Term deposits with remaining term to maturity:			
Up to 3 months	560,380,144	482,545,683	529,391,222
Over 3 months and up to 6 months	360,735,014	634,366,120	257,923,861
Over 6 months and up to 12 months	550,760,222	402,522,714	208,918,365
Over 1 year and up to 5 years	1,137,058,184	555,354,780	548,549,983
	16,799,731,794	15,239,475,798	14,966,194,318

20. PREFERENCE SHARES

	2020 MUR	2019 MUR	2018 MUR
At 1 July	145,202,573	145,340,753	265,749,768
Shares redeemed at maturity	-	-	(124,981,000)
Interest accrued	6,240,625	6,909,000	14,320,503
Dividend paid	(6,909,000)	(7,047,180)	(9,748,518)
At 30 June	144,534,198	145,202,573	145,340,753

On 18 March 2011, the bank issued 7.5% cumulative redeemable preference shares amounting to MUR 53,825,000 and were redeemed on 17 March 2017. These shares carry no voting rights and confer preferential rights to distributions of capital and income over ordinary shares.

On 2 April 2012, the bank issued 7.8% cumulative redeemable preference shares amounting to MUR 124,981,000 with a maturity period of six years and were redeemed on April 2018. While the shares carry no voting rights, except upon a resolution purporting to alter any of the acquired rights, they confer to the holders the right to a fixed cumulative dividend of 7.8% per annum and ranking before ordinary share dividend. The said shares also carry the right to a share in the distribution of the surplus assets of the bank ranking before ordinary shareholders, in the event of a winding up of the bank.

On 25 June 2015, the bank issued cumulative redeemable preference shares at floating rate (Repo+1.5%) with a maturity of six years for a total consideration of MUR 138,180,000. The shareholders do not have the option to redeem the preference shares before maturity date.

	2020 MUR	2019 MUR	2018 MUR
Level 1	-	-	-
Level 2	144,534,198	145,202,573	145,340,753
Level 3	-	-	-
	144,534,198	145,202,573	145,340,753

The preference shares are valued based on the market yield of similar instruments as made publicly available by the local regulator and are classified as Level 2.

21. SUBORDINATED DEBTS

	2020 MUR	2019 MUR
Issue of shares	500,000,000	500,000,000
Interest accrued	4,762,329	5,070,890
At 30 June	504,762,329	505,070,890

On 25 April 2019, the bank issued subordinated notes MUR 375,000,000 at fixed rate (5.60%) and MUR 125,000,000 at floating rate (Repo + 1.8%) with a maturity of six years. The notes are eligible as Tier II Capital.

	2020 MUR	2019 MUR
Level 1	-	-
Level 2	504,762,329	505,070,890
Level 3	-	-
	504,762,329	505,070,890

The subordinated debts are valued based on the market yield of similar instruments as made publicly available by the local regulator and are classified as Level 2.

22. INCOME TAX EXPENSE

Income tax is calculated at the rate of 5% (2019 and 2018: 15%) on the profit for the year.

The components of income tax expense for the years ended 30 June are:

	2020 MUR	2019 MUR	2018 MUR
Current income tax	20,658,685	43,712,045	46,488,203
Over provision in previous years	(6,811,436)	(1,441,424)	-
Deferred tax relating to origination and reversal of temporary differences (Note 17)	(12,876,289)	5,120,005	2,834,093
Income tax expense	970,960	47,390,626	49,322,296

Reconciliation of the total tax charge

A reconciliation between the tax expense and the accounting profit multiplied by the domestic statutory tax rate for the years ended 30 June is as follows:

	2020 MUR	2019 MUR	2018 MUR
Accounting profit before tax	121,358,802	271,278,866	291,754,024
At statutory income tax rate of 5% (2019 and 2018: 15%)	6,067,940	40,691,830	43,763,104
Non-deductible expenses	15,948,271	12,787,697	6,668,630
Exempt income	(5,244,251)	(192,360)	(3,405,985)
Corporate social responsibility	3,886,724	4,388,836	2,956,462
Special levy	-	-	16,387,790
Income tax (over)/under provision for the previous year	(6,811,436)	(1,441,424)	-
Deemed credit on segment B profits	-	(18,926,590)	(19,881,947)
Deferred tax rate differential arising on corporate social responsibility and special levy	(12,876,288)	10,082,637	2,834,242
Tax expense	970,960	47,390,626	49,322,296

Non-deductible expenses consist mainly of provision for impairment and depreciation.

Corporate Social Responsibility (CSR) Tax

Corporate Social Responsibility (CSR) was legislated by the Government of Mauritius in July 2009. The bank is required to allocate 2% of its Segment A chargeable income of the preceding financial year to Government approved CSR Non Governmental Organisations.

Special Levy

The bank is liable to pay a special levy of 10% on its chargeable income of Segment A operations and 3.4% on book profit plus 1% on operating income of Segment B operations. This special levy is no longer considered as tax as from 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

23. OTHER LIABILITIES

	2020	2019	2018
	MUR	MUR	MUR
Unallocated receipts	189,133,405	300,845,767	204,468,564
Employee benefit liability (Note 38)	28,126,242	15,839,543	4,955,603
Bankers' drafts	26,176,584	39,136,982	53,961,839
Special levy payable	20,078,832	20,078,832	-
Deferred income	24,098,435	18,441,117	9,617,026
Other payables	107,887,522	89,932,597	65,392,544
Lease liability	5,892,142	-	-
	401,393,162	484,274,838	338,395,576

Other payables include provision for expenses, accrued staff related costs, advance fee income, VAT payable and ECL allowance on contingent liabilities.

Following changes in tax legislations, the bank is required to pay a special levy to tax authorities as from 2019.
Refer to Note 43c for the maturity analysis of lease liability.

24. ISSUED CAPITAL

	2020	2019	2018
	MUR	MUR	MUR
Ordinary shares of MUR 10 each			
Issued and fully paid capital	762,718,720	762,718,720	762,718,720
Share premium	177,776,752	177,776,752	177,776,752
At 30 June	940,495,472	940,495,472	940,495,472

	2020	2019	2018
	MUR	MUR	MUR
Issued and fully paid			
At 30 June	940,495,472	940,495,472	940,495,472
Number of shares			
At 30 June	76,271,872	76,271,872	76,271,872

Rights conferred to an ordinary share are the following: right to one vote on a poll at a meeting of the bank on any resolution, right to an equal share in dividends authorised by the Board and right to an equal share in the distribution of the surplus assets of the bank.

On 28 November 2014, the bank issued 12,000,000 Ordinary Shares at MUR 12.50 per share for a total consideration of MUR 150,000,000. The new ordinary shares rank pari passu with the existing ordinary shares in the capital of the bank.

On 23 October 2015, the bank issued 9,533,984 Ordinary Shares of par value of MUR 10.00 each of the bank at a price of MUR 13.50 per share for a total consideration of MUR 128,708,784. The new ordinary shares rank pari passu with the existing ordinary shares in the capital of the bank.

On 10 June 2016, the bank issued 19,067,968 Ordinary Shares of par value of MUR 10.00 each of the bank at a price of MUR 16.00 per share for a total consideration of MUR 305,087,488. The new ordinary shares of par value of MUR 10.00 each of the bank rank pari passu with the existing ordinary shares in the capital of the bank.

25. OTHER RESERVES

	2020	2019	2018
	MUR	MUR	MUR
Net unrealised investment fair value reserve	54,282,373	43,198,122	(21,606,550)
Statutory reserve	164,562,918	146,504,742	112,921,506
	218,845,291	189,702,864	91,314,956

Net unrealised investment fair value reserve

	2020	2019	2018
	MUR	MUR	MUR
At 1 July	43,198,122	(21,606,550)	1,205,290
Impact of adopting IFRS 9	-	1,038,828	-
Net loss on available-for-sale financial investments	-	-	(22,811,840)
Expected credit loss allowance relating to debt instruments designated at fair value through other comprehensive income	3,300,152	571,457	-
Net gain on investments in equity instruments designated at fair value through other comprehensive income	6,190,622	3,147,386	-
Net gain on investments in debt instruments designated at fair value through other comprehensive income	1,593,477	60,047,001	-
At 30 June	54,282,373	43,198,122	(21,606,550)

This reserve records fair value changes on available-for-sale financial investments and financial instruments at fair value through other comprehensive income. Following adoption of IFRS 9, available-for-sale reserve has been changed to Fair value reserve.

Statutory reserve
The statutory reserve represents transfers from retained earnings in accordance with the Banking Act 2004. A sum equal to not less than 15% of the net profit is transferred each year until the balance is equal to the amount paid as stated capital.

	MUR
At 1 July 2017	76,556,747
Transfer to statutory reserve	36,364,759
At 30 June 2018	112,921,506
At 1 July 2018	112,921,506
Transfer to statutory reserve	33,583,236
At 30 June 2019	146,504,742
At 1 July 2019	**146,504,742**
Transfer to statutory reserve	**18,058,176**
At 30 June 2020	**164,562,918**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

26. NET INTEREST INCOME

	2020 MUR	2019 MUR	2018 MUR
Interest income using the effective interest method			
Finance leases	103,448,633	90,354,837	68,076,752
Loans and advances to customers (excluding finance leases)	381,387,357	302,470,846	229,924,450
Loans to and placements with banks	17,755,453	44,921,449	64,236,176
Investment securities	303,821,682	296,261,977	291,059,616
	806,413,125	734,009,109	653,296,994

	2020 MUR	2019 MUR	2018 MUR
Interest expense			
Deposits from customers	252,948,197	237,493,913	252,061,262
Preference shares	6,240,625	6,909,000	14,320,503
Subordinated debts	27,078,938	5,070,890	-
Borrowed funds	3,343,560	2,052,080	1,076,943
Lease liabilities	402,851	-	-
	290,014,171	251,525,883	267,458,708
Net interest income	516,398,954	482,483,226	385,838,286

27. NET FEE AND COMMISSION INCOME

	2020 MUR	2019 MUR	2018 MUR
Fee and commission income			
Card and related fee income	36,186,483	56,977,576	53,211,817
Processing fees	11,277,329	6,996,216	10,591,725
International banking	34,405,883	41,446,135	25,062,665
Interbank transaction fees	2,469,049	5,053,653	10,934,052
Others	15,325,790	7,292,296	4,893,033
	99,664,534	117,765,876	104,693,292
Fee and commission expense			
Card and related fee expense	15,824,905	21,681,969	17,776,682
Interbank transaction fees	6,852,335	7,381,029	6,433,682
	22,677,240	29,062,998	24,210,364
Net fee and commission income	76,987,294	88,702,878	80,482,928

28. NET TRADING INCOME

	2020 MUR	2019 MUR	2018 MUR
Net foreign exchange gain	64,092,741	77,535,761	85,243,497

29. OTHER OPERATING INCOME

	2020 MUR	2019 MUR	2018 MUR
Net gain on derecognition of investment securities measured at fair value through other comprehensive income	45,313,979	39,475	4,475,513
Net gain on derecognition of investment securities measured at amortised cost	57,500,278	-	-
Net gain on derecognition of investment securities measured at fair value through profit or loss	1,233,374	2,254,236	1,979,814
Dividend income from available-for-sale financial investments	-	-	1,237,480
Dividend income from equity instruments under FVTOCI	1,314,895	1,282,397	-
Profit on disposal of property and equipment	-	-	187,032
Others	651	498	4,475
Fair value gain on revaluation	18,940		
	105,382,117	3,576,606	7,884,314

Net gain on sale of investment securities are mainly on Bank of Mauritius, Government of Mauritius securities (Bonds, notes and bills) and foreign securities.

30. ALLOWANCE FOR CREDIT IMPAIRMENT ON FINANCIAL ASSETS

	2020 MUR	2019 MUR	2018 MUR
Due from banks	(5,253)	(4,073,538)	-
Loans and advances to customers	295,016,131	55,174,756	5,855,717
Investment in securities	4,622,894	492,152	3,226,428
Provision on guarantee	11,074,266	5,128,587	456,276
	310,708,038	56,721,957	9,538,421

	2020 MUR	2019 MUR	2018 MUR
Loans and advances to customers			
Provision for credit impairment	355,583,844	103,448,760	7,854,300
Provision released (Note 12(c))	(57,706,627)	(46,572,947)	(2,052,771)
Bad debts recovered (Note 12(c))	(2,898,922)	(1,707,907)	(945,711)
Bad debts written off for which no provision was made	37,840	6,850	999,899
	295,016,135	55,174,756	5,855,717

	2020 MUR	2019 MUR	2018 MUR
Investment in securities			
Individual impairment loss - held to maturity securities	-	-	(155,902)
Impairment loss - available-for-sale investments	-	-	-
Collective impairment - loan and receivables	-	-	298,120
Collective impairment - held to maturity investments	-	-	3,084,210
Expected Credit Losses - Debt instruments at FVTOCI	3,300,152	571,457	-
Expected Credit Losses - Debt instruments at amortised cost	1,322,742	(79,305)	-
	4,622,894	492,152	3,226,428

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

30. ALLOWANCE FOR CREDIT IMPAIRMENT ON FINANCIAL ASSETS (CONT'D)

The table below shows the ECL charges on financial instruments for the year recorded in the profit or loss:

	2020				2019
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
	MUR	**MUR**	**MUR**	**MUR**	MUR
Financial assets					
Due from banks	**(5,060,852)**	**-**	**-**	**(5,060,852)**	(4,073,538)
Loans and advances to customers	**(53,937,667)**	**92,943,148**	**255,709,071**	**294,714,552**	55,174,756
Investment securities					
Debt instruments at amortised cost	**3,300,152**	**-**	**-**	**3,300,152**	571,457
Debt instruments at fair value through OCI	**1,322,742**	**-**	**-**	**1,322,742**	(79,305)
	4,622,894	**-**	**-**	**4,622,894**	492,152
	(54,375,625)	**92,943,148**	**255,709,071**	**294,276,594**	51,593,370
Contingent liabilities	**11,074,266**	**-**	**-**	**11,074,266**	5,128,587
	(43,301,359)	**92,943,148**	**255,709,071**	**305,350,860**	56,721,957

31. PERSONNEL EXPENSES

	2020	2019	2018
	MUR	MUR	MUR
Wages and salaries	151,702,057	151,036,137	135,303,828
Employees benefit costs (Note 38)	4,625,465	7,777,144	696,557
Others	36,556,951	33,311,187	26,193,847
	192,884,473	192,124,468	162,194,232

Others consist of medical benefits, training and other allowances.

32. OTHER OPERATING EXPENSES

	2020	2019	2018
	MUR	MUR	MUR
Motor vehicle expenses and insurance	6,020,975	6,233,379	3,742,676
Rental of office	681,219	604,303	626,728
Advertising and marketing	4,375,406	5,270,456	5,940,039
Information technology costs	19,603,095	14,651,471	11,754,659
Licences	3,182,102	3,595,763	3,182,147
Loss on disposal of property and equipment	-	63,167	-
Communication costs	9,247,216	9,159,077	8,280,338
Legal and professional fees	12,112,659	17,402,699	11,558,723
Maintenance costs	6,152,958	5,699,720	4,211,061
Special levy (Note 23)	20,078,832	20,078,832	-
Others	22,396,391	24,885,914	25,041,312
	103,850,853	107,644,781	74,337,683

Others consist of postage and stationary, utilities, security, overseas travelling, subscription and other operating costs.

33. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit attributable to the ordinary equity holders of the bank by the weighted average number of ordinary shares during the year.

	2020	2019	2018
	MUR	MUR	MUR
Net Profit	120,387,842	223,888,240	242,431,728
Weighted average number of ordinary shares	76,271,872	76,271,872	76,271,872
Earnings per share			
Basic and diluted earnings per share	1.58	2.94	3.18

34. DIVIDENDS PAID AND PROPOSED

	2020	2019	2018
	MUR	MUR	MUR
Declared and paid during the year			
Dividends on ordinary shares:			
Final dividend for 2019: MUR 0.77 per share (2018 : MUR 0.73 per share, 2017 : MUR 0.64 per share)	58,729,341	55,678,467	48,813,998
Proposed for approval at Annual General Meeting (not recognised as a liability as at 30 June 2020)			
Dividends on ordinary shares:			
Final dividend for 2020: MUR 0 per share (2019: MUR 0.77 per share, 2018: MUR 0.73 per share)	-	58,729,341	55,678,467

35. RELATED PARTY DISCLOSURES

(a) The following table provides the total amount of transactions and balances, which have been entered into with related parties for the relevant financial years.

		LOANS AND ADVANCES			DEPOSITS FROM CUSTOMERS		OTHERS	
		Loans and advances	Outstanding amount at year end	Interest receivable for the year	Deposits at year end	Interest payable for the year	Amount owed by related party	Other expenditure
		MUR	MUR	MUR	MUR	MUR	MUR	MUR
Directors and key management personnel	**2020**	**41,130,669**	**15,327,024**	**556,180**	**156,054,625**	**3,574,053**	**-**	**4,835,333**
	2019	5,047,053	12,966,697	394,857	106,263,069	2,625,976	-	5,708,644
	2018	997,863	8,783,783	418,650	114,786,870	2,881,368	-	3,492,530
Corporate shareholders with significant influence	**2020**	**52,639,798**	**244,885,055**	**13,653,243**	**28,058,597**	**459**	**-**	**3,344,044**
	2019	130,818,088	220,066,590	9,459,477	1,141,281	741	-	2,571,154
	2018	4,276,328	105,389,797	11,849,705	6,332	1,042	-	11,094,121
Enterprises that have a number of directors in common	**2020**	**52,068,096**	**117,490,168**	**7,957,967**	**20,280,056**	**45,197**	**-**	**8,909,571**
	2019	7,434,785	120,518,480	7,981,255	11,632,711	50,272	-	10,109,102
	2018	64,487,570	152,995,502	8,449,754	16,308,722	43,610	-	4,518,108
Total	**2020**	**145,838,563**	**377,702,247**	**22,167,390**	**204,393,278**	**3,619,709**	**-**	**17,088,948**
	2019	143,299,926	353,551,767	17,835,589	119,037,061	2,676,989	-	18,388,900
	2018	69,761,761	267,169,082	20,718,109	131,101,924	2,926,020	-	19,104,759

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. Credit facilities are secured except for short term money market lines and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2020, the bank has not recorded any impairment of receivables relating to amounts owed by the related parties (2019 and 2018: Nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Equity contribution from shareholders paid in cash is disclosed in Note 24.

(b) Compensation of key management personnel

	2020	2019	2018
	MUR	MUR	MUR
Short term employee benefits	36,667,560	32,126,275	20,701,000
Long term employee benefits	1,717,268	1,631,836	1,421,733

(c) The bank's top six exposures to related parties amount to MUR 323,806,918 (30 June 2019: MUR 301,195,459 and 30 June 2018: MUR 311,549,390). These represent 18% of Tier 1 Capital. None of these facilities were non-performing (2020 and 2019: Nil). Allowance for impairment losses amount to MUR 6,777,829 (30 June 2019: MUR 4,173,406 and 30 June 2018: MUR 3,271,721).

36. CONTINGENT LIABILITIES

	2020	2019	2018
	MUR	MUR	MUR
(a) Instruments			
Financial guarantees	605,266,761	118,138,466	32,168,218
Letter of credit and other obligations on account of customers	11,000,000	3,373,422	13,459,409
(b) Commitments			
Undrawn credit facilities	1,193,184,899	1,321,902,701	1,300,121,698
	1,809,451,660	1,443,414,589	1,345,749,325

	2020	2019
	MUR	MUR
Performing		
Investment grade	610,960,867	95,864,391
Standard Monitoring	788,495,604	518,047,420
Watchlist	287,287,430	2,040,665
Unrated	13,585,441	827,462,113
Non - performing		
Default	109,122,318	-
	1,809,451,660	1,443,414,589

	2020	2019
	MUR	MUR
Gross carrying amount as at 1 July	1,443,414,589	1,345,749,323
New assets originated or purchased	1,809,451,660	1,443,414,589
Assets derecognised or repaid (excluding write offs)	(1,443,414,589)	(1,345,749,323)
At 30 June	1,809,451,660	1,443,414,589

	2020	2019
	MUR	MUR
ECL allowance as at 1 July	6,957,846	1,829,259
New assets originated or purchased	8,810,112	6,957,846
Assets derecognised or repaid (excluding write offs)	(6,957,846)	(1,829,259)
At 30 June	8,810,112	6,957,846

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

37. PLEDGED ASSETS

The assets that have been pledged to secure the credit facilities with the Bank of Mauritius and other commercial banks are as follows:

	2020	2019	2018
	MUR	MUR	MUR
Government of Mauritius bonds, notes and bills	345,000,000	235,000,000	285,000,000

38. RETIREMENT BENEFIT OBLIGATION

(a) Defined contribution plan

As from 1 July 2014, the bank operates a defined contribution plans for all its employees. The assets of the plans are held separately from the bank under the control of ABC Group Pension Fund. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the group are reduced by the amount of forfeited contributions.

The total expenses recognised in profit or loss of MUR 9,948,957 (2019: MUR 8,846,042; 2018: MUR 4,874,884) represents contributions payable to the plan by the bank.

(b) Gratuity on retirement

The bank is required to pay gratuity in accordance with Section 49 of the Employment Rights Act 2008. The bank has engaged Feber Associates to calculate the obligations arising out of the gratuities payable. For members of the bank's defined contribution, the obligation relates for the residual retirement gratuity and as a result 5 times the annual pension, relating to the employer's share of contributions, is offset from the retirement gratuity.

The following table summarises the components of net benefit expense recognised in the statement of profit or loss and the unfunded status and amounts recognised in the statement of financial position.

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined contribution plans is as follows:

	2020	2019	2018
	MUR	MUR	MUR
Present value of funded defined contribution obligation and liability recognised in the statement of financial position (Note 23)	28,126,242	15,839,543	4,955,603

Amounts recognised in the statement of profit or loss in respect of these defined contribution plans are as follows:

	2020	2019	2018
	MUR	MUR	MUR
Current service cost	2,988,396	1,823,743	874,838
Net interest cost	814,488	641,706	196,387
Past service costs	822,581	5,311,695	-
Curtailment gain	-	-	(374,668)
Net cost for the year recognised in profit and loss	4,625,465	7,777,144	696,557
Remeasurement recognised in other comprehensive income	7,661,234	3,106,796	863,032
Net cost for the year	12,286,699	10,883,940	1,559,589

	2020	2019	2018
	MUR	MUR	MUR
Changes in the present value of the obligation			
Present value of obligation at start of period	15,839,543	4,955,603	3,396,014
Interest cost	814,488	641,706	196,387
Current service cost	2,988,396	1,823,743	874,838
Past service costs	822,581	5,311,695	-
Curtailment gain	-	-	(374,668)
Expected obligation at end of period	20,465,008	12,732,747	4,092,571
Present value of obligation at end of period	28,126,242	15,839,543	4,955,603
Remeasurement recognised in other comprehensive income at end of period - loss	(7,661,234)	(3,106,796)	(863,032)
Deferred tax	497,980	171,436	116,509
Retirement pension net of deferred tax	(7,163,254)	(2,935,360)	(746,523)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2020	2019	2018
Normal retirement age	65	65	65
Discount rate	2.62%	5.20%	6.25%
Expected rate of return on plan assets	0.00%	0.00%	0.00%
Future salary increases	3.00%	5.00%	5.00%
Annual proportion of employees leaving service	5% up to age 40, decreasing to 0% at 45 & nil thereafter	5% up to age 40, decreasing to 0% at 45 & nil thereafter	5% up to age 40, decreasing to 0% at 45 & nil thereafter
Actuarial table for employee mortality	PMA92_PFA92	PMA92_PFA92	PMA92_PFA92

Movements in the present value of the defined contribution obligation in the current year is as follows:

	2020	2019	2018
	MUR	MUR	MUR
Opening defined contribution obligation	15,839,543	4,955,603	3,396,014
Current service cost	2,988,396	1,823,743	874,838
Past service cost	822,581	5,311,695	-
Interest cost	814,488	641,706	196,387
Curtailment gain	-	-	(374,668)
Net actuarial gain recognised in other comprehensive income	7,661,234	3,106,796	863,032
Present value of obligation at end of year	28,126,242	15,839,543	4,955,603

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and longevity rates. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	2020	2019
	MUR	MUR
Sensitivity		
Effect on present value of obligations:		
1% increase in discount rate	(23,287,038)	(13,117,799)
1% decrease in discount rate	33,065,291	19,483,213
1% increase in salary increase assumption	32,258,637	18,883,461
1% decrease in salary increase assumption	(23,904,498)	(13,542,769)
Effect of changing longevity - one year up	27,254,946	15,644,782
Effect of changing longevity - one year down	(27,788,778)	(16,023,523)

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

39. CAPITAL COMMITMENT

	2020	2019	2018
	MUR	MUR	MUR
Amount contracted for but not yet incurred	110,325,458	121,259,366	18,414,557

The above expenditure relates to our new core banking, Treasury and Internet banking modules.

40. EVENT AFTER REPORTING DATE

There have been no events subsequent to the reporting date which require adjustment of or disclosure in the financial statements or notes thereto.

41. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Due to banks	Ordinary Dividend	Preference shares	Subordinated debts	Total
	MUR	MUR	MUR	MUR	MUR
At 1 July 2018	110,061,479	-	145,340,753	-	255,402,232
Dividend declared	-	55,678,467	-	-	55,678,467
Cash flows	(110,061,479)	(55,678,467)	-	500,000,000	334,260,054
Other	-	-	(138,180)	5,070,890	4,932,710
At 30 June 2019	-	-	145,202,573	505,070,890	650,273,463
At 1 July 2019	-	-	145,202,573	505,070,890	650,273,463
Dividend declared	-	58,729,341	-	-	58,729,341
Cash flows	-	(58,729,341)	-	-	(58,729,341)
Other	-	-	(668,375)	(308,561)	(976,936)
At 30 June 2020	-	-	144,534,198	504,762,329	649,296,527

42. SEGMENTAL REPORTING

For management purposes, the bank is organised into one main operating segment, which is the conduct of its banking activities. All significant operating decisions are based upon analysis of the bank as one segment. The financial result from this segment are equivalent to the financial statements of the bank as a whole.

In line with the Guideline on Segmental Reporting under a Single Banking Licence Regime and Guideline on Public Disclosure of Information as issued by the Bank of Mauritius, the bank classifies its assets and liabilities into two segments: Segment A and Segment B. Segment B activity is essentially directed to the provision of international financial services that give rise to "foreign source income".

Segment B assets will generally consist of placements with and advances to foreign financial institutions.

Segment B liabilities will normally arise from deposits, borrowings and funds deposited by non-residents and global business companies.

Segment A activity relates to all banking business other than Segment B activity.

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

Statement of financial position

	Notes	2020			2019			2018		
		Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B
		MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
ASSETS										
Cash and cash equivalents	42(a)	1,280,041,690	776,641,105	503,400,585	2,732,131,072	1,466,786,289	1,265,344,783	3,276,741,586	609,330,875	2,667,410,711
Due from banks	42(b)	14,819,085	14,819,085	-	698,739,467	698,739,467	-	1,030,811,338	608,570,362	422,240,976
Derivative financial assets		2,183,441	110,205	2,073,236	3,763,559	502,188	3,261,371	4,289,595	2,718,078	1,571,517
Loans and advances to customers	42(c)	9,769,375,208	7,548,106,329	2,221,268,879	7,635,939,083	6,581,631,950	1,054,307,133	6,054,488,404	5,117,515,641	936,972,763
Investment securities		7,114,456,335	5,103,353,191	2,011,103,144	6,479,991,942	4,680,979,288	1,799,012,654	6,223,153,289	4,198,605,155	2,024,548,134
Other assets		891,377,784	732,769,080	158,608,704	99,997,305	17,147,338	82,849,967	94,025,588	30,854,636	63,170,952
Property and equipment		600,843,664	450,632,748	150,210,916	512,458,466	384,343,849	128,114,617	394,861,578	296,146,183	98,715,395
Intangible assets		8,922,365	8,922,365	-	2,263,140	2,263,140	-	4,351,872	4,351,872	-
Deferred tax assets		23,084,417	23,084,417	-	9,710,148	9,710,148	-	21,307,487	21,307,487	-
Total assets		19,705,103,989	14,658,438,525	5,046,665,464	18,174,994,182	13,842,103,657	4,332,890,525	17,104,030,737	10,889,400,289	6,214,630,448
LIABILITIES										
Due to banks		-	-	-	-	-	-	110,061,479	110,061,479	-
Derivative financial liabilities		9,759,640	224,675	9,534,965	5,812,757	1,284,912	4,527,845	2,774,759	587,382	2,187,377
Deposits from customers	42(d)	16,799,731,794	9,248,246,995	7,551,484,799	15,239,475,798	8,155,884,117	7,083,591,681	14,966,194,318	8,181,597,553	6,784,596,765
Preference shares		144,534,198	144,534,198	-	145,202,573	145,202,573	-	145,340,753	145,340,753	-
Subordinated debts		504,762,329	504,762,329	-	505,070,890	505,070,890	-	-	-	-
Current tax liabilities		8,165,603	8,165,603	-	23,979,561	23,979,561	-	30,924,434	30,924,434	-
Other liabilities		401,393,162	401,393,162	-	484,274,838	177,704,018	306,570,820	338,395,576	338,395,576	-
Total liabilities		17,868,346,726	10,307,326,962	7,561,019,764	16,403,816,417	9,009,126,071	7,394,690,346	15,593,691,319	8,806,907,177	6,786,784,142
Shareholders' Equity										
Issued capital		940,495,472			940,495,472			940,495,472		
Retained earnings		677,416,500			640,979,429			478,528,990		
Other reserves		218,845,291			189,702,864			91,314,956		
Capital and reserves		1,836,757,263			1,771,177,765			1,510,339,418		
Total liabilities and equity		19,705,103,989			18,174,994,182			17,104,030,737		

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

42. SEGMENTAL REPORTING (CONT'D)
Statement of profit or loss and other comprehensive income

	Notes	2020 Bank MUR	2020 Segment A MUR	2020 Segment B MUR	2019 Bank MUR	2019 Segment A MUR	2019 Segment B MUR	2018 Bank MUR	2018 Segment A MUR	2018 Segment B MUR
Interest income using the effective interest method		806,413,125	650,948,411	155,464,714	734,009,109	593,940,772	140,068,337	653,296,994	528,066,852	125,230,142
Interest expense		(290,014,171)	(275,042,240)	(14,971,931)	(251,525,883)	(240,591,962)	(10,933,921)	(267,458,708)	(262,104,410)	(5,354,298)
Net interest income	42(e)	516,398,954	375,906,171	140,492,783	482,483,226	353,348,810	129,134,416	385,838,286	265,962,442	119,875,844
Fee and commission income		99,664,534	19,917,109	79,747,425	117,765,876	19,957,399	97,808,477	104,693,292	22,418,973	82,274,319
Fee and commission expense		(22,677,240)	(2,644,429)	(20,032,811)	(29,062,998)	(3,756,216)	(25,306,782)	(24,210,364)	(2,862,342)	(21,348,022)
Net fee and commission income	42(f)	76,987,294	17,272,680	59,714,614	88,702,878	16,201,183	72,501,695	80,482,928	19,556,631	60,926,297
Net trading income	42(g)	64,092,741	39,831,463	24,261,278	77,535,761	40,534,405	37,001,356	85,243,497	28,086,346	57,157,151
Net gain on sale of investment securities	42(h)	104,047,631	73,353,202	30,694,429	2,293,711	2,293,711	-	6,455,327	6,455,327	-
Other operating income	42(i)	1,334,486	1,334,486	-	1,282,895	1,282,895	-	1,428,987	1,428,987	-
Total other income		169,474,858	114,519,151	54,955,707	81,112,367	44,111,011	37,001,356	93,127,811	35,970,660	57,157,151
Operating income		762,861,106	507,698,002	255,163,103	652,298,471	413,661,004	238,637,467	559,449,025	321,489,733	237,959,292
Personnel expenses	42(k)	(192,884,473)	(144,663,355)	(48,221,118)	(192,124,468)	(141,209,149)	(50,915,319)	(162,194,232)	(118,460,551)	(43,733,681)
Depreciation and amortisation		(34,058,940)	(25,544,205)	(8,514,735)	(24,528,399)	(18,396,299)	(6,132,100)	(21,624,665)	(16,218,499)	(5,406,166)
Other operating expenses	42(l)	(103,850,853)	(81,083,218)	(22,767,635)	(107,644,781)	(81,991,011)	(25,653,770)	(74,337,683)	(50,448,533)	(23,889,150)
Non interest expenses		(330,794,266)	(251,290,778)	(79,503,488)	(324,297,648)	(241,596,459)	(82,701,189)	(258,156,580)	(185,127,583)	(73,028,997)
Operating profit before impairment		432,066,840	256,407,224	175,659,615	328,000,823	172,064,545	155,936,278	301,292,445	136,362,150	164,930,295
Allowance for credit impairment on financial assets	42(j)	(310,708,038)	(96,803,741)	(213,904,297)	(56,721,957)	(61,631,268)	4,909,311	(9,538,421)	(4,441,347)	(5,097,074)
Operating profit before tax		121,358,802	159,603,483	(38,244,682)	271,278,866	110,433,277	160,845,589	291,754,024	131,920,803	159,833,221
Income tax expense		(970,960)	1,162,258	(2,133,218)	(47,390,626)	(38,794,304)	(8,596,322)	(49,322,296)	(42,037,805)	(7,284,491)
Profit for the year		120,387,842	160,765,741	(40,377,900)	223,888,240	71,638,973	152,249,267	242,431,728	89,882,998	152,548,730
Other comprehensive income										
Items that will not be reclassified subsequently to profit or loss, net of tax:										
Net gain on investments in equity instruments designated at fair value through other comprehensive income		6,190,622	6,190,622	-	3,147,386	3,147,386	-	-	-	-
Remeasurement of retirement pension net of deferred tax		(7,163,254)	(7,163,254)	-	(2,935,360)	(2,935,360)	-	(746,523)	(746,523)	-
		(972,632)	(972,632)	-	212,026	212,026	-	(746,523)	(746,523)	-
Items that may be reclassified subsequently to profit or loss, net of tax:										
Expected credit loss allowance relating to debt instruments designated at fair value through other comprehensive income		3,300,152	3,429,334	(129,182)	571,457	787,874	(216,417)	-	-	-
Net gain on investments in debt instruments designated at fair value through other comprehensive income		1,593,477	21,733,156	(20,139,679)	60,047,001	942,860	59,104,141	-	-	-
Remeasuring available for sale assets		-	-	-	-	-	-	(22,811,840)	805,895	(23,617,735)
Other comprehensive income/(loss) for the year		3,920,997	24,189,857	(20,268,860)	60,830,484	1,942,760	58,887,724	(23,558,363)	59,372	(23,617,735)
Total comprehensive income		124,308,839	184,955,598	(60,646,760)	284,718,724	73,581,733	211,136,991	218,873,365	89,942,370	128,930,995

	2020 Bank MUR	2020 Segment A MUR	2020 Segment B MUR	2019 Bank MUR	2019 Segment A MUR	2019 Segment B MUR	2018 Bank MUR	2018 Segment A MUR	2018 Segment B MUR
(a) Cash and cash equivalents									
Cash in hand	14,038,021	5,349,235	8,688,786	11,296,564	9,296,675	1,999,889	6,907,102	5,786,392	1,120,710
Unrestricted balances with Central Bank	475,470,513	475,470,513	-	293,415,551	293,415,551	-	371,944,871	371,944,871	-
Balances with banks	509,345,980	14,634,181	494,711,799	823,261,756	26,393,634	796,868,122	1,826,588,270	29,128,387	1,797,459,883
Loans to and placement with banks	281,187,176	281,187,176	-	1,604,157,201	1,137,680,429	466,476,772	1,071,301,343	202,471,225	868,830,118
	1,280,041,690	776,641,105	503,400,585	2,732,131,072	1,466,786,289	1,265,344,783	3,276,741,586	609,330,875	2,667,410,711
(b) Due from banks									
Banks outside Mauritius	-	-	-	-	-	-	422,240,976	-	422,240,976
Banks in Mauritius	-	-	-	-	-	-	-	-	-
Deposits with the Central Bank	14,839,238	14,839,238	-	39,075,842	39,075,842	-	17,315,550	17,315,550	-
Restricted balances with the Central Bank	-	-	-	660,726,000	660,726,000	-	591,254,812	591,254,812	-
Less: Expected credit losses	(20,153)	(20,153)	-	(1,062,375)	(1,062,375)	-	-	-	-
	14,819,085	14,819,085	-	698,739,467	698,739,467	-	1,030,811,338	608,570,362	422,240,976
(c) Loans and advances to customers									
Loans and overdrafts									
Retail	744,930,675	578,951,281	165,979,394	413,226,908	400,187,505	13,039,403	320,596,942	252,758,497	67,838,445
Corporate	7,695,236,365	5,423,311,276	2,271,925,089	5,855,264,879	4,807,334,473	1,047,930,406	4,738,788,744	3,856,917,137	881,871,607
	8,440,167,040	6,002,262,557	2,437,904,483	6,268,491,787	5,207,521,978	1,060,969,809	5,059,385,686	4,109,675,634	949,710,052
Less: Allowance for impairment losses	(379,850,609)	(156,677,472)	(223,173,137)	(90,944,557)	(80,333,711)	(10,610,846)	(78,036,671)	(65,299,382)	(12,737,289)
	8,060,316,431	5,845,585,085	2,214,731,346	6,177,547,230	5,127,188,267	1,050,358,963	4,981,349,015	4,044,376,252	936,972,763
Investment in finance leases									
Retail	756,984,832	756,984,832	-	632,249,977	632,249,977	-	472,472,536	472,472,536	-
Corporate	982,827,435	976,289,025	6,538,410	898,055,843	894,067,792	3,988,051	679,098,611	679,098,611	-
	1,739,812,267	1,733,273,857	6,538,410	1,530,305,820	1,526,317,769	3,988,051	1,151,571,147	1,151,571,147	-
Less: Allowance for impairment losses	(30,753,490)	(30,753,490)	(876)	(71,913,967)	(71,874,086)	(39,881)	(78,431,758)	(78,431,758)	-
	1,709,058,777	1,702,520,367	6,537,534	1,458,391,853	1,454,443,683	3,948,170	1,073,139,389	1,073,139,389	-
	9,769,375,208	7,548,105,452	2,221,268,880	7,635,939,083	6,581,631,950	1,054,307,133	6,054,488,404	5,117,515,641	936,972,763

42. SEGMENTAL REPORTING (CONT'D)

	2020			2019			2018		
	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
(d) Deposits from customers									
Retail customers									
Savings accounts	**3,394,409,759**	**3,294,945,544**	**99,464,215**	3,706,678,411	3,670,296,899	36,381,512	3,452,276,646	3,414,095,797	38,180,849
Other accounts	**1,066,917,821**	**181,567,947**	**885,349,874**	585,452,777	117,917,048	467,535,729	784,229,641	73,228,380	711,001,261
Term deposits with remaining term to maturity:									
Up to 3 months	**335,479,281**	**127,806,271**	**207,673,010**	211,530,574	195,654,336	15,876,238	206,410,255	184,391,969	22,018,286
Over 3 months and up to 6 months	**119,578,500**	**95,358,100**	**24,220,400**	216,167,570	213,845,865	2,321,705	133,243,226	133,214,436	28,790
Over 6 months and up to 12 months	**255,734,790**	**243,891,314**	**11,843,476**	218,694,244	218,639,105	55,139	313,092,006	294,177,599	18,914,407
Over 1 year and up to 5 years	**2,097,778,434**	**2,077,278,063**	**20,500,371**	1,491,774,855	1,484,261,204	7,513,651	1,325,892,658	1,294,127,457	31,765,201
Corporate customers									
Savings accounts	**157,680,717**	**157,680,717**	**-**	320,060,866	320,060,866	-	379,114,526	379,114,526	-
Other accounts	**6,763,218,928**	**808,866,446**	**5,954,352,482**	6,414,327,204	441,275,018	5,973,052,186	6,827,151,929	1,099,069,434	5,728,082,495
Term deposits with remaining term to maturity:									
Up to 3 months	**560,380,144**	**369,944,682**	**190,435,462**	482,545,683	197,682,385	284,863,298	529,391,222	494,521,352	34,869,870
Over 3 months and up to 6 months	**360,735,014**	**203,089,505**	**157,645,509**	634,366,120	338,373,897	295,992,223	257,923,861	65,972,298	191,951,563
Over 6 months and up to 12 months	**550,760,222**	**550,760,222**	**-**	402,522,714	402,522,714	-	208,918,365	201,134,322	7,784,043
Over 1 year and up to 5 years	**1,137,058,184**	**1,137,058,184**	**-**	555,354,780	555,354,780	-	548,549,983	548,549,983	-
	16,799,731,794	**9,248,246,995**	**7,551,484,799**	15,239,475,798	8,155,884,117	7,083,591,681	14,966,194,318	8,181,597,553	6,784,596,765

	2020			2019			2018		
	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
(e) Net interest income									
Interest income using the effective interest method									
Finance leases	**103,448,633**	**102,768,135**	**680,498**	90,354,837	90,058,421	296,416	68,076,752	68,076,752	-
Loans and advances to customers (excluding finance leases)	**381,387,357**	**278,530,218**	**102,857,139**	302,470,846	240,895,109	61,575,737	229,924,450	184,635,642	45,288,808
Loans to and placements with banks	**17,755,453**	**10,334,980**	**7,420,473**	44,921,449	18,362,368	26,559,081	64,236,176	11,429,912	52,806,264
Investment securities	**303,821,682**	**259,315,078**	**44,506,604**	296,261,977	244,624,874	51,637,103	291,059,616	263,924,546	27,135,070
	806,413,125	**650,948,411**	**155,464,714**	734,009,109	593,940,772	140,068,337	653,296,994	528,066,852	125,230,142
Interest expense									
Deposits from customers	**252,948,197**	**238,075,767**	**14,872,430**	237,493,913	227,061,410	10,432,503	252,061,262	246,940,125	5,121,137
Preference shares	**6,240,625**	**6,240,625**	**-**	6,909,000	6,909,000	-	14,320,503	14,320,503	-
Subordinated debts	**27,078,938**	**27,078,938**	**-**	5,070,890	5,070,890	-	-	-	-
Borrowed funds	**3,343,560**	**3,268,011**	**75,549**	2,052,080	1,550,662	501,418	1,076,943	843,782	233,161
Lease liabilities	**402,851**	**378,899**	**23,952**						
	290,014,171	**275,042,240**	**14,971,931**	251,525,883	240,591,962	10,933,921	267,458,708	262,104,410	5,354,298
Net interest income	**516,398,954**	**375,906,171**	**140,492,783**	482,483,226	353,348,810	129,134,416	385,838,286	265,962,442	119,875,844
(f) Net fee and commission income									
Fee and commission income									
Card and related fee income	**36,186,483**	**4,930,766**	**31,255,717**	56,977,576	5,180,654	51,796,922	53,211,817	4,746,367	48,465,450
Processing fees	**11,277,329**	**4,985,850**	**6,291,479**	6,996,216	4,447,376	2,548,840	10,591,725	8,445,370	2,146,355
International banking	**34,405,883**	**-**	**34,405,883**	41,446,135	-	41,446,135	25,062,665	-	25,062,665
Interbank transaction fees	**2,469,049**	**2,469,049**	**-**	5,053,653	5,053,653	-	10,934,052	4,658,418	6,275,634
Others	**15,325,790**	**7,531,444**	**7,794,346**	7,292,296	5,275,716	2,016,580	4,893,033	4,568,818	324,215
	99,664,534	**19,917,109**	**79,747,425**	117,765,876	19,957,399	97,808,477	104,693,292	22,418,973	82,274,319
Fee and commission expense									
Card and related fees	**15,824,905**	**429,030**	**15,395,875**	21,681,969	1,155,445	20,526,524	17,776,682	511,539	17,265,143
Interbank transaction fees	**6,852,335**	**2,215,399**	**4,636,936**	7,381,029	2,600,771	4,780,258	6,433,682	2,350,803	4,082,879
	22,677,240	**2,644,429**	**20,032,811**	29,062,998	3,756,216	25,306,782	24,210,364	2,862,342	21,348,022
Net fee and commission income	**76,987,294**	**17,272,680**	**59,714,614**	88,702,878	16,201,183	72,501,695	80,482,928	19,556,631	60,926,297

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42. SEGMENTAL REPORTING (CONT'D)

	2020			2019			2018		
	Bank MUR	Segment A MUR	Segment B MUR	Bank MUR	Segment A MUR	Segment B MUR	Bank MUR	Segment A MUR	Segment B MUR
(g) Net trading income									
Net foreign exchange gain	64,092,741	39,831,463	24,261,278	77,535,761	40,534,405	37,001,356	85,243,497	28,086,346	57,157,151
(h) Net gain on sale of investment securities									
Net gain on sale of investment securities	104,047,631	73,353,202	30,694,429	2,293,711	2,293,711	-	6,455,327	6,455,327	-
(i) Other operating income									
Dividend income from available-for-sale financial investments	-	-	-	-	-	-	1,237,480	1,237,480	-
Dividend income from equity instruments under FVOCI	1,314,895	1,314,895	-	1,282,397	1,282,397	-	-	-	-
Profit on disposal of property and equipment	-	-	-	-	-	-	187,032	187,032	-
Others	19,591	19,591	-	498	498	-	4,475	4,475	-
	1,334,486	1,334,486	-	1,282,895	1,282,895	-	1,428,987	1,428,987	-
(j) Allowance for credit impairment on financial assets									
Due to banks	(5,253)	19,204	(24,457)	(4,073,538)	952,422	(5,025,960)	-	-	-
Loans and advances to customers	295,016,131	82,492,844	212,523,287	55,174,756	54,477,352	697,404	5,855,717	2,987,812	2,867,905
Provision on guarantee	11,074,266	9,602,527	1,471,739	5,128,587	5,132,546	(3,959)	456,276	456,276	-
Investment in securities	4,622,894	4,689,166	(66,272)	492,152	1,068,948	(576,796)	3,226,428	997,259	2,229,169
	310,708,038	96,803,741	213,904,297	56,721,957	61,631,268	(4,909,311)	9,538,421	4,441,347	5,097,074
(k) Personnel expenses									
Wages and salaries	151,702,057	113,776,543	37,925,514	151,036,137	110,392,901	40,643,236	135,303,828	98,292,748	37,011,080
Employees benefit costs	4,625,465	3,469,099	1,156,366	7,777,144	5,832,858	1,944,286	696,557	522,418	174,139
Others	36,556,951	27,417,713	9,139,238	33,311,187	24,983,390	8,327,797	26,193,847	19,645,385	6,548,462
	192,884,473	144,663,355	48,221,118	192,124,468	141,209,149	50,915,319	162,194,232	118,460,551	43,733,681
(l) Other expenses									
Motor vehicle expenses and insurance	6,020,975	4,515,731	1,505,244	6,233,379	4,675,034	1,558,345	3,742,676	2,807,007	935,669
Rental of office	681,219	510,914	170,305	604,303	453,227	151,076	626,728	470,046	156,682
Advertising and marketing	4,375,406	3,281,554	1,093,852	5,270,456	3,952,842	1,317,614	5,940,039	4,455,029	1,485,010
Information technology costs	19,603,095	14,702,321	4,900,774	14,651,471	10,988,603	3,662,868	11,754,659	8,815,994	2,938,665
Licences	3,182,102	2,386,576	795,526	3,595,763	2,696,822	898,941	3,182,147	2,386,610	795,537
Loss on disposal of property and equipment	-	-	-	63,167	47,375	15,792	-	-	-
Communication costs	9,247,216	6,935,412	2,311,804	9,159,077	6,869,308	2,289,769	8,280,338	6,210,253	2,070,085
Legal and professional fees	12,112,659	9,084,494	3,028,165	17,402,699	13,052,024	4,350,675	11,558,723	8,669,042	2,889,681
Maintenance costs	6,152,958	4,614,718	1,538,240	5,699,720	4,274,790	1,424,930	4,211,061	3,158,296	1,052,765
Special levy	20,078,832	20,078,832	-	20,078,832	20,078,832	-	-	-	-
Others	22,396,391	14,972,666	7,423,725	24,885,914	14,902,154	9,983,760	25,041,312	13,476,256	11,565,056
	103,850,853	81,083,218	22,767,635	107,644,781	81,991,011	25,653,770	74,337,683	50,448,533	23,889,150

43. RISK MANAGEMENT

Introduction

Risk is inherent in the bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the bank's continuing profitability and the bank as an entity is accountable for its risk exposures. The bank is exposed to credit risk, interest rate risk, liquidity risk and market risk. It is also subject to operating risk.

The bank manages its risk exposure through its Risk department which develops methodologies to identify, measure, mitigate and monitor the major risks. The Risk department reports to the Risk Management Committee and ultimately to the Board in a structured manner on credit, market and operational risk matters.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the bank's strategic planning process.

Risk management structure

The Board of Directors recognises that the bank encounters risk in every aspect of its business and ensures that the necessary structures, processes and methods for identifying, measuring and monitoring such risks are in place as advocated by Basel norms and relevant laws and regulations. The Risk Management Committee plays an active role in ensuring that risk-taking activities remain within the boundaries of the appetite approved by the Board. The committee receives regular reports and recommendations following work done by the Risk function, the Supervisory and Monitoring Committee and the Asset and Liability Committee. Through its Chairperson, the committee reports to the Board in a timely manner on all risk issues that could have an impact on the operations and/or reputation of the bank.

Board of Directors

The Board of Directors as well as the bank's senior management are responsible for understanding both the nature and level of risks taken by the institution and how the risk relates to adequate capital levels. The Board is also responsible for the overall risk management approach and for approving the risk strategies and principles.

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For the year ended 30 June 2020

43. RISK MANAGEMENT (CONT'D)

Classification of financial assets and financial liabilities

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the bank's financial assets and financial liabilities:

	Original Classification under IAS 39	New classification under IFRS 9	Original Carrying amount under IAS 39 as at 30 June 2018	New Carrying amount under IFRS 9 as at 1 July 2018	Carrying amount under IFRS 9 as at 30 June 2019
			MUR	MUR	MUR
Financial assets					
Cash and cash equivalents	Loans and receivables	Amortised Cost	3,276,741,586	3,276,741,586	2,732,131,072
Due from banks	Loans and receivables	Amortised Cost	1,030,811,338	1,025,675,425	698,739,467
Derivative financial assets	Loans and receivables	Fair value through P&L	4,289,595	4,289,595	3,763,559
Loans and advances to customers	Loans and receivables	Amortised Cost	6,054,488,404	6,093,369,816	7,635,939,083
Investment securities:					
	Available-for-sale debt investments		2,282,336,382	2,282,336,382	
	Loans and receivables		461,694,090	460,430,986	
	Held to maturity		63,031,958	63,702,352	
		Fair value through OCI	2,807,062,430	2,806,469,720	3,190,321,497
	Available-for-sale equity investments	Fair value through OCI	32,819,759	32,819,759	36,467,145
	Loans and receivables		2,596,899,352	2,597,756,469	
	Held to maturity		786,371,748	792,181,685	
		Amortised Cost	3,383,271,100	3,389,938,154	3,253,203,300
Other assets	Loans and receivables	Amortised Cost	91,605,147	91,605,147	90,911,293
			16,681,089,359	16,720,909,202	17,641,476,416
Financial liabilities					
Due to banks	Amortised Cost	Amortised Cost	110,061,479	110,061,479	-
Derivative financial liabilities	Fair value through P&L	Fair value through P&L	2,774,759	2,774,759	5,812,757
Deposits from customers	Amortised Cost	Amortised Cost	14,966,194,318	14,966,194,318	15,239,475,798
Preference shares	Amortised Cost	Amortised Cost	145,340,753	145,340,753	145,202,573
Subordinated debts	Amortised Cost	Amortised Cost	-	-	505,070,890
Other liabilities	Amortised Cost	Amortised Cost	323,771,923	323,771,923	429,794,283
			15,548,143,232	15,548,143,232	16,325,356,301

(a) Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments held at the reporting date.

	2020		2019		2018	
	Carrying Value MUR	Fair Value MUR	Carrying Value MUR	Fair Value MUR	Carrying Value MUR	Fair Value MUR
Financial assets						
Cash and cash equivalents	1,280,041,690	1,280,041,690	2,732,131,072	2,732,131,072	3,276,741,586	3,276,741,586
Due from banks	14,819,085	14,819,085	698,739,467	698,739,467	1,030,811,338	1,030,811,338
Derivative financial assets	2,183,441	2,183,441	3,763,559	3,763,559	4,289,595	4,289,595
Loans and advances to customers	9,769,375,208	10,021,386,654	7,635,939,083	7,761,603,632	6,054,488,404	6,072,355,382
Investment securities	7,114,456,335	7,399,553,101	6,479,991,942	6,479,991,942	6,223,153,289	6,223,153,289
Other assets	880,404,170	880,404,170	99,997,305	99,997,305	91,605,147	91,605,147
	19,061,279,929	19,598,388,141	17,650,562,428	17,776,226,977	16,681,089,359	16,698,956,337
Financial liabilities						
Due to banks	-	-	-	-	110,061,479	110,061,479
Derivative financial liabilities	9,759,640	9,759,640	5,812,757	5,812,757	2,774,759	2,774,759
Deposits from customers	16,799,731,794	16,915,458,747	15,239,475,798	15,229,762,677	14,966,194,318	14,957,108,074
Preference shares	144,534,198	144,534,198	145,202,573	145,202,573	145,340,753	145,340,753
Subordinated debts	504,762,329	504,762,329	505,070,890	505,070,890	-	-
Other liabilities	329,029,932	329,029,932	429,794,283	429,794,283	323,771,923	323,771,923
	17,787,817,893	17,903,544,846	16,325,356,301	16,315,643,180	15,548,143,232	15,539,056,988

For loans and advances to non-bank customers, all the fixed loans and advances maturing after one year has been fair valued based on the current prevailing lending rate.

For investment securities, all the government bonds and BOM bonds have been fair valued based on the latest weighted yield rate.

For deposits from non-bank customers, all the term deposits maturing after one year has been fair valued based on the current prevailing savings rate.

Except for the levels in which the financial assets and financial liabilities are shown in table on Fair value measurement hierarchy, the fair values of the other financial assets and financial liabilities are categorised in Level 3.

Fair value measurement hierarchy

(i) Valuation principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly (i.e as prices) or indirectly (i.e derived from prices).

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

43. RISK MANAGEMENT (CONT'D)

(a) Fair values (Cont'd)

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

	Level 1	Level 2	Level 3	Total
	MUR	MUR	MUR	MUR
2020				
Financial assets				
Investment securities (debt and equity instruments)				
- Debt securities at FVOCI and FVTPL	**1,250,161,349**	**2,054,293,749**	**526,538,554**	**3,830,993,652**
- Equity securities	**42,157,708**	**-**	**500,063**	**42,657,771**
Derivatives - Foreign exchange contracts	**-**	**2,183,441**	**-**	**2,183,441**
	1,292,319,057	**2,056,477,190**	**527,038,617**	**3,875,834,864**
Financial liabilities				
Derivatives - Foreign exchange contracts	**-**	**9,759,640**	**-**	**9,759,640**
2019				
Financial assets				
Investment securities (debt and equity instruments)				
- Debt securities	2,467,209,260	3,600,528,321	375,787,216	6,443,524,797
- Equity securities	35,967,086	-	500,059	36,467,145
Derivatives - Foreign exchange contracts	-	3,763,559	-	3,763,559
	2,503,176,346	3,604,291,880	376,287,275	6,483,755,501
Financial liabilities				
Derivatives - Foreign exchange contracts	-	5,812,757	-	5,812,757
2018				
Financial assets				
Available-for-sale investment securities	1,690,396,869	624,759,272	-	2,315,156,141
Held for trading investment securities				
- Government of Mauritius treasury bills	-	-	-	-
Derivatives - Foreign exchange contracts	-	4,289,595	-	4,289,595
	1,690,396,869	629,048,867	-	2,319,445,736
Financial liabilities				
Derivatives - Foreign exchange contracts	-	2,774,759	-	2,774,759

Reconciliation of fair value measurement of level 3 investments

	Total
	MUR
As at July 2019	376,287,275
Remeasurement recognised in OCI	9,529,738
Additions	517,946,724
Disposal	(376,725,120)
As at June 2020	**527,038,617**

(ii) Valuation techniques

Debt securities (As from 1 July 2018)

Debts are actively traded on public stock exchanges with readily available active prices on a regular basis. Such instruments are classified as Level 1.

Government of Mauritius, Bank of Mauritius and unquoted securities are valued based on the market yield of similar instruments as made publicly available by the local regulator and are classified as Level 2.

Equity securities (As from 1 July 2018)

Corporate shares are actively traded on public stock exchanges with readily available active prices on a regular basis. Such instruments are classified as Level 1.

Available-for-sale financial investment securities (Before 1 July 2018)

Corporate shares and debts are actively traded on public stock exchanges with readily available active prices on a regular basis. Such instruments are classified as Level 1.

Government of Mauritius, Bank of Mauritius and unquoted securities are valued based on the market yield of similar instruments as made publicly available by the local regulator and are classified as Level 2.

Held for trading investment securities - Government of Mauritius treasury bills (Before 1 July 2018)

Those investments are valued based on the market yield of similar instruments as made publicly available by the local regulator and are classified as Level 2.

Derivatives

Derivatives include foreign exchange contracts and foreign exchange swaps. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points. The bank classifies foreign exchange forward contracts and swaps as Level 2.

(iii) Valuation methodologies

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the financial statements:

Short-term financial assets and liabilities

For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amount approximates their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Loans and advances to customers

The fair values of loans and receivables are estimated by discounted cash flow models that incorporate assumptions for credit risks, foreign exchange risk, probability of default and loss given default estimates. As a result, loans and advances fall under Level 3 of the fair value hierarchy.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost is estimated by comparing market interest rates when they are first recognised with current market rates for similar financial instruments. As a result, these fixed rate financial instruments fall under Level 2 of the fair value hierarchy.

(b) Credit risk

Credit risk is the risk that the bank will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

The bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties.

The maximum exposure to credit risk at the reporting date without taking account of any collateral held and other credit enhancements is as disclosed below:

43. RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

	Maximum exposure to credit risk		
	2020	2019	2018
	MUR	MUR	MUR
Fund based exposures:			
Cash and cash equivalents	1,266,003,669	2,720,834,508	3,269,834,484
Due from banks	14,819,085	698,739,467	1,030,811,338
Derivative financial assets	2,183,441	3,763,559	4,289,595
Loans and advances to customers	9,769,375,208	7,635,939,083	6,054,488,404
Investment securities	7,071,798,564	6,443,524,797	6,190,333,530
Other assets	880,404,170	90,911,293	91,605,147
Total credit risk exposure	19,004,584,137	17,593,712,707	16,641,362,498
Non-fund based exposures:			
Financial guarantees	605,266,761	118,138,466	32,168,218
Letter of credit and other obligations on account of customers	11,000,000	3,373,422	13,459,409
Undrawn credit facilities	1,193,184,899	1,321,902,701	1,300,121,698
Total credit risk exposure	1,809,451,660	1,443,414,589	1,345,749,325

An analysis of the bank's maximum exposure to credit risk per class of financial asset, internal rating and 'stage', at the reporting date, without taking account of any collateral held and other credit enhancements have been disclosed in Notes 10, 12, 13 and 36.

The table below shows the sectorial split by industry sector of the bank's financial assets:

	2020	2019	2018
	MUR	MUR	MUR
Manufacturing	1,227,218,147	1,205,163,806	1,211,262,101
Construction	1,391,528,457	1,137,597,640	538,883,682
Professional	12,924,386	15,645,681	17,654,147
Traders	791,870,738	960,416,790	829,872,676
Tourism	2,704,227,375	1,947,446,148	1,232,895,804
Transport	400,952,800	369,624,804	340,201,190
Financial and Business services	3,998,905,775	5,447,323,198	4,939,523,849
Personal	777,036,811	566,794,660	422,312,624
Agriculture	760,553,391	349,984,773	610,000,251
Global Business Licence Holders	1,003,833,398	681,368,211	743,934,271
Government	5,750,663,068	4,397,323,652	5,581,388,004
Others	184,869,791	515,023,344	173,433,899
	19,004,584,137	17,593,712,707	16,641,362,498

The table below shows the sectorial split by industry sector of financial guarantees and other commitments:

	2020	2019	2018
	MUR	MUR	MUR
Manufacturing	245,234,480	367,325,339	78,356,890
Construction	678,628,342	322,433,774	75,472,503
Traders	329,820,661	245,899,069	421,999,359
Tourism	15,166,089	332,525,593	157,449,261
Transport	11,571,329	30,435,726	49,959,862
Financial and Business services	297,823,707	75,201,235	262,313,589
Personal	92,824,885	47,238,572	130,158,136
Agriculture	303,717	-	15,000,000
Global Business Licence Holders	76,698,560	367,394	125,179,446
Others	61,379,890	21,987,887	29,860,279
	1,809,451,660	1,443,414,589	1,345,749,325

An analysis of credit exposures, including non-fund based facilities, for advances to non-bank customers using the bank's credit grading system is given below:

	2020	2019
	MUR	MUR
Grades:		
Performing		
1 to 3 - Investment Grade	1,259,111,217	1,248,610,149
4 to 7 - Standard Monitoring	5,177,823,967	3,471,559,194
8 - Watchlist	3,720,669,029	608,550,739
Unrated	1,175,887,896	3,842,499,803
Non - performing		
9 - Default	655,938,858	70,992,311
	11,989,430,967	9,242,212,196

Grade 1 includes customers with low credit risk factors, strong financial conditions and excellent repayment capacities whereas grade 9 are customers which have been defaulted on a prudent basis. The bank does not extend credit to clients categorised as Grade 8 or 9.

There was no loan and advances whose terms have been renegotiated during the years 2020 and 2019. (The carrying amounts of loans and advances whose terms have been renegotiated during the financial year 2018 amounted to MUR 43,407,803).

All cash and cash equivalents, loans and placements with banks and loans and receivables – investment securities are held with financial institutions having grades 1 to 6.

Internal credit risk ratings

In order to minimise credit risk, the bank has tasked its Risk Management Committee to develop and maintain the bank's credit risk grading to categorise exposures according to their degree of risk of default. The bank's credit risk grading framework comprises different categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The bank assesses each credit facility request on its own merits by analysing the credit history of the potential client, the latter's cash flow history, future projections of the business or income capacity of the individual, the availability and type of collateral that will secure the facility, the repayment capacity of the business or individual and the character of the individual. The bank will also consider individual factors that would represent strengths in favour of or weaknesses against the approval of credit facilities.

The bank collects performance and default information about its credit risk exposure analysed by type of products and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the bank's internal credit risk grades to external ratings.

External Credit Assessment (ECA) Institutions Ratings	Internal Credit risk grades	Internal Risk Descriptions
Aaa/AAA	1	Investment Grade
Aa1/AA+ to Aa3/AA-	2	Investment Grade
A1/A+ to A3/A-	3	Investment Grade
Baa1/BBB+ to Baa3/BBB-	4	Standard Monitoring
Ba1/BB+ to Ba3/BB-	5	Standard Monitoring
B1/B+ to B3/B-	6	Standard Monitoring
Caa1/CCC+ to Caa3/CCC-	7	Standard Monitoring
Ca/ CC/ C	8	Watchlist
D	9	Default
NR	Unrated	Unrated

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

43. RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

Irrespective of the outcome of the above assessment, the bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the bank has reasonable and supportable information that demonstrate otherwise.

The bank has monitoring procedures in place to ensure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes more than 30 days past due. The bank performs periodic back-testing of its ratings to consider whether the drivers of credit-risk that led to default were accurately reflected in the rating in a timely manner.

Impairment assessment

It is the bank's policy to regularly monitor its loan portfolio.

The main considerations for the impairment assessment of the bank's loans and advances portfolio include whether any payments of principal or interest are overdue by at least 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Furthermore the bank assesses at each reporting date, whether there is any objective evidence that a financial asset, or a group of financial assets, is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The bank's impairment methodology for assets carried at amortised cost comprises individual impairment losses and collective impairment.

Individually assessed allowances (Stage 3)

The bank determines the allowances appropriate for each individually significant loan and advance on an individual basis. Items considered when determining allowance amounts include an assessment of the counterparty's repayment plan, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowance (Stage 1 and Stage 2)

1. **Inputs, assumptions and techniques used in estimating impairment**

   Refer to Note 5.7 Impairment of financial assets

2. **Significant increase in credit risk**

   The bank monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been significant increase in credit risk, the bank will measure the loss allowance based on lifetime rather than 12-month ECL. In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of default that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the bank's historical experience and expert credit assessment including forward-looking information.

   For corporate lending, forward-looking information includes the future prospects of the industries in which the bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail lending, forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly to certain industries, as well as internally generated information of customer payment behaviour. The bank allocated its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk.

   The qualitative factors that indicate a significant increase in credit risk are reflected in PD models on a timely basis. However the bank still considers separately some qualitative factors to assess if credit risk has increased significantly, such as, creditworthiness of counterparty which has deteriorated as unemployment, bankruptcy or death.

   As a back-stop when an asset becomes 30 days past due (rebuttable presumption), the bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

3. **Modified financial asset**

   The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

   When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
   - its remaining lifetime PD at the reporting date based on the modified terms; with
   - the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

   The bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under this policy, renegotiation is performed on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original terms and the debtor is expected to be able to meet the revised terms.

   Generally modification of financial assets is a qualitative indicator of a significant increase in credit risk and may constitute evidence that the exposure is credit impaired/in default. A customer needs to demonstrate consistently good payment behaviour over a period of time, as prescribed by BOM guidelines on Credit Impaired Measurement (see below) before the exposure is no longer considered to be credit-impaired/ in default.

   Where the restructuring occurs prior to the classification of a loan as impaired, the restructured loan is classified as impaired when, in the aggregate, the period of time the loan is in arrears before and after restructuring is 90 days or more.
   Where the restructuring occurs after a loan has been classified as impaired, the restructured loan is continued to be classified as impaired until repayments have been received by the bank, in amount and in such stipulated time, for a continuous period of six months, strictly in accordance with the terms and conditions of the restructured loan.
   Where the loan has been restructured more than once, the restructured loan shall continue to be classified as impaired until repayments have been received by the financial institutions in amount and in such stipulated time, for a continuous period of nine months, at a minimum, strictly in accordance with the terms and conditions of the restructured loan.

4. **Incorporation of forward-looking information**

   The bank incorporates forward looking information that is available without undue cost and effort into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

   The bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses. The following key indicators were considered for year ended 30 June 2019: GDP and Inflation rates.

   Measurement of ECL : The key inputs into the measurement of ECL are the following:
   (i) probability of default (PD);
   (ii) loss given default (LGD);
   (iii) exposure at default (EAD).

   These parameters are derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

43. RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

5. Measurement of ECL

PD estimates are estimated at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties.

LGD is the magnitude of the likely loss if there is a default. The bank estimates LGD parameters based on BASEL prescribed LGD estimates as per following table.

	Minimum LGD
Eligible Financial collateral (such as Cash collateral)	0%
Receivables	35%
Commercial Real Estate/Residential Real Estate	35%
Other collateral	40%
Unsecured	45%

EAD represents the expected exposure in the event of a default. The bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the bank includes the amount drawn based on BASEL prescribed Credit Conversion Factor.

BASEL prescribed Credit Conversion Factor	Credit Conversion Factor
Direct credit substitutes	100%
Sales and repurchase agreements and assets sales with recourse	100%
Lending of banks' securities or the posting of securities as collateral	100%
Forward asset purchases	100%
Placements of forward deposits	100%
Partly-paid shares and securities	100%
Transaction-related contingent items	50%
Note-issuance facilities (NIFs) and revolving underwriting facilities (RUFs)	50%
Trade-related contingent items	
(a) Maturity ≤ 3 months	20%
(b) 3 months < Maturity ≤ 9 months	50%
(c) 9 months < Maturity ≤ 12 months	75%
(d) Maturity > 12 months	100%
Other commitments	
(i) Commitments with an original maturity up to one year	20%
(ii) Commitments with an original maturity over one year	50%
(iii) Commitments that can be unconditionally cancelled at any time by the bank without prior notice, or that effectively provide for automatic cancellation due to the deterioration	0%

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

For investment in finance leases, the assets under lease are registered under ABC Banking Corporation Ltd up until the lessee pays in full the contractual amount due, whereby title is then transferred. Should the lessee default in payment, the bank has the right to undertake legal procedures to recover the asset under lease, which in substance acts as a collateral against defaults.

For loans, management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the bank's policy to dispose of repossessed assets in an orderly fashion. The proceeds are used to reduce or repay the outstanding claims.

	2020	2019	2018	Principal Type of collateral held
	MUR	MUR	MUR	
Fund based exposures:				
Cash and cash equivalents	**1,266,003,669**	2,720,834,508	3,269,834,484	Unsecured
Due from banks	**14,819,085**	698,739,467	1,030,811,338	Unsecured
Derivative financial assets	**2,183,441**	3,763,559	4,289,595	Unsecured
Loans and advances to customers	**9,769,375,208**	7,635,939,083	6,054,488,404	Real Estate
Investment securities	**7,071,798,564**	6,443,524,797	6,190,333,530	Unsecured
Other assets	**880,404,170**	90,911,293	91,605,147	Unsecured
Non-fund based exposures:				
Financial guarantees	**605,266,761**	118,138,466	32,168,218	Unsecured
Letter of credit and other obligations on account of customers	**11,000,000**	3,373,422	13,459,409	Unsecured
Undrawn credit facilities	**1,193,184,899**	1,321,902,701	1,300,121,698	Unsecured

(c) Liquidity risk

In addition to the collateral included in the table above, the bank holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

Credit quality by class of financial assets

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	MUR	**MUR**	**MUR**	**MUR**
2020				
Cash and cash equivalents	**1,266,003,669**	**-**	**-**	**1,266,003,669**
Due from banks	**14,819,085**	**-**	**-**	**14,819,085**
Derivative financial assets	**2,183,441**	**-**	**-**	**2,183,441**
Loans and advances to customers	**5,778,774,285**	**3,720,871,797**	**269,729,132**	**9,769,375,214**
Investment securities	**6,872,454,564**	**-**	**-**	**6,872,454,564**
Other assets	**880,404,170**	**-**	**-**	**880,404,170**
	14,814,639,214	**3,720,871,797**	**269,729,132**	**18,805,240,143**

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	MUR	MUR	MUR	MUR
2019				
Cash and cash equivalents	2,720,834,508	-	-	2,720,834,508
Due from banks	698,739,467	-	-	698,739,467
Derivative financial assets	3,763,559	-	-	3,763,559
Loans and advances to customers	7,197,813,757	435,582,583	2,542,743	7,635,939,083
Investment securities	6,443,524,797	-	-	6,443,524,797
Other assets	90,911,293	-	-	90,911,293
	17,155,587,381	435,582,583	2,542,743	17,593,712,707

43. RISK MANAGEMENT (CONT'D)

(b) Credit risk (cont'd)

Credit quality by class of financial assets (cont'd)

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	MUR	MUR	MUR	MUR
2018				
Cash and cash equivalents	3,269,834,484	-	-	3,269,834,484
Due from banks	1,030,811,338	-	-	1,030,811,338
Derivative financial assets	4,289,595	-	-	4,289,595
Loans and advances to customers	6,037,004,373	10,576,360	6,907,671	6,054,488,404
Investment securities	6,190,333,530	-	-	6,190,333,530
Other assets	91,605,147	-	-	91,605,147
	16,623,878,467	10,576,360	6,907,671	16,641,362,498

Ageing analysis of past due but not classified under Stage 3 loans by class of financial assets

	Amount in arrears			
	Less than 30 days	**31 to 89 days**	**More than or equal to 90 days**	**Total**
	MUR	**MUR**	**MUR**	**MUR**
2020				
Loans and advances to customers				
Loans and overdrafts				
Retail	**233,069**	**141,106**	**-**	**374,175**
Corporate	**41,677,112**	**62,208,315**	**1,589,351**	**105,474,778**
	41,910,181	**62,349,421**	**1,589,351**	**105,848,953**
Investment in finance leases				
Retail	**658,494**	**2,241,698**	**51,477**	**2,951,669**
Corporate	**4,370,075**	**23,017,984**	**3,584,454**	**30,972,513**
	5,028,569	**25,259,682**	**3,635,931**	**33,924,182**
	46,938,750	**87,609,103**	**5,225,282**	**139,773,135**
2019				
Loans and advances to customers				
Loans and overdrafts				
Retail	11,276	64,774	-	76,050
Corporate	3,393,468	-	-	3,393,468
	3,404,744	64,774	-	3,469,518
Investment in finance leases				
Retail	1,781,316	451,658	-	2,232,974
Corporate	2,439,387	473,961	-	2,913,348
	4,220,703	925,619	-	5,146,322
	7,625,447	990,393	-	8,615,840
2018				
Loans and advances to customers				
Loans and overdrafts				
Retail	624,525	278,970	-	903,495
Corporate	1,664,995	387,501	18,392	2,070,888
	2,289,520	666,471	18,392	2,974,383
Investment in finance leases				
Retail	109,436	78,474	-	187,910
Corporate	4,451,863	2,962,204	-	7,414,067
	4,561,299	3,040,678	-	7,601,977
	6,850,819	3,707,149	18,392	10,576,360

Under the bank's monitoring procedures, a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes more than 30 days past due. The table below provides an analysis of the gross carrying amount of receivables by past due status:

	2020	
	Gross Carrying	**Loss Allowance**
	MUR	**MUR**
0 - 30 days (Stage 1)	**5,814,893,339**	**36,119,057**
0 - 30 days (Stage 2)	**2,672,126,495**	**64,607,188**
31 - 89 days (Stage 2)	**1,146,142,931**	**32,790,442**
	9,633,162,765	**133,516,687**

Impaired financial assets

Loans and advances are assessed for impairment when objective evidence, such as default or delinquency in interest or principal payments, significant financial difficulty of the counterparty or evidence that the borrower will enter bankruptcy or financial re-organisation, indicate that the account may be impaired.

The carrying amount of impaired financial assets and stage 3 expected credit losses or specific allowance held are shown below:

	2020	2019	2018
	MUR	MUR	MUR
Loans and advances (Note 12(c))	**546,816,540**	70,992,311	85,034,931
Specific allowance held in respect of impaired advances (Note 12(c))	**-**	-	78,858,332
Expected Credit Losses on loans and advances under Stage 3 (Note 12(c))	**277,087,412**	68,449,568	-
	277,087,412	68,449,568	78,858,332

(c) Liquidity risk

Liquidity risk is the risk that the bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The types of liquidity risk that the bank faces can be categorized into two main types:

- Funding liquidity risk appears when the bank cannot fulfil its payment obligations because of an inability to obtain new funding.
- Market liquidity risk appears when the bank is unable to sell or transform its liquidity buffer into cash without significant losses.

Liquidity risk management encompasses the processes and strategies the bank uses to:

- Assess its ability to meet its cash flow needs (under both normal and stressed conditions) both on a short term and long term horizon.
- Mitigate that risk by developing strategies and taking appropriate actions designed to ensure that necessary funds are available when needed.

As a measure to limit the liquidity risk that the bank faces, the bank maintains a liquidity contingency plan which is tested regularly to ensure its viability. The liquidity contingency plan consists of mainly of a stock of high quality liquid assets that can be easily liquidated in the event of liquidity stress conditions. The bank also runs liquidity stress tests to determine the level of liquidity that should be kept to meet financial obligations under stress conditions.

The liquidity coverage ratio providing an overview of how the bank would behave under stress conditions has been implemented as from the year 2018 and since then, the bank remains highly liquid reflecting an average of 332 % for the year 2020 (2019 : 423%).

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the bank's financial liabilities at end of period based on discounted contractual repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the bank expect that many customers will not request repayment on the earliest date the bank could be required to pay and the table does not reflect the expected cash flows indicated by the bank's deposit retention history.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

43. RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (Cont'd)

Maturity analysis of financial liabilities

	No specific maturity	Less than 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
	MUR	MUR	MUR	MUR	MUR	MUR
2020						
Derivative financial liabilities	**-**	**9,561,965**	**197,675**	**-**	**-**	**9,759,640**
Deposits from customers	**-**	**12,278,086,650**	**1,286,808,526**	**2,709,025,941**	**525,810,677**	**16,799,731,794**
Preference shares	**-**	**6,354,198**	**-**	**138,180,000**	**-**	**144,534,198**
Subordinated debts	**-**	**-**	**4,762,329**	**-**	**500,000,000**	**504,762,329**
Other liabilities	**76,030,528**	**19,379**	**240,357,550**	**-**	**12,622,475**	**329,029,932**
Total financial liabilities	**76,030,528**	**12,294,022,192**	**1,532,126,080**	**2,847,205,941**	**1,038,433,152**	**17,787,817,893**
Contingent liabilities and commitments	**-**	**1,241,298,254**	**-**	**-**	**568,153,406**	**1,809,451,660**
2019						
Due to banks	-	-	-	-	-	-
Derivative financial liabilities	-	5,618,129	194,628	-	-	5,812,757
Deposits from customers	-	11,720,490,114	1,473,305,280	1,461,074,268	588,760,400	15,243,630,062
Preference shares	-	7,022,573	-	138,180,000	-	145,202,573
Subordinated debts	-	-	5,070,890	-	500,000,000	505,070,890
Other liabilities	370,733,819	7,331,474	51,728,989	-	-	429,794,282
Total financial liabilities	370,733,819	11,740,462,290	1,530,299,787	1,599,254,268	1,088,760,400	16,329,510,564
Contingent liabilities and commitments	-	1,350,826,617	53,671,365	38,916,607	-	1,443,414,589
2018						
Due to banks	-	110,061,479	-	-	-	110,061,479
Derivative financial liabilities	-	1,442,153	1,332,606	-	-	2,774,759
Deposits from customers	-	7,319,098,350	912,881,784	950,772,447	5,783,441,737	14,966,194,318
Preference shares	-	-	7,160,753	138,180,000	-	145,340,753
Other liabilities	288,610,248	2,244,675	32,917,000	-	-	323,771,923
Total financial liabilities	288,610,248	7,432,846,657	954,292,143	1,088,952,447	5,783,441,737	15,548,143,232
Contingent liabilities and commitments	-	773,201,314	571,814,809	733,202	-	1,345,749,325

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	Notes	No specific maturity	Less than 3 months	3 to 12 months	Sub total less than 12 months	1 to 3 years	Over 3 years	Sub total more than 12 months	Total
		2020							
Assets		MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Cash and cash equivalents	9	-	1,280,041,690	-	1,280,041,690	-	-	-	1,280,041,690
Due from banks	10	-	14,839,238	-	14,839,238	-	-	-	14,839,238
Derivative financial assets	11	-	1,871,869	311,572	2,183,441	-	-	-	2,183,441
Loans and advances to customers	12	576,502,217	1,903,466,912	2,086,137,872	3,989,604,784	2,554,448,512	3,059,423,794	5,613,872,306	10,179,979,307
Investment securities	13	42,657,771	1,959,456,996	947,553,255	2,907,010,251	1,960,106,607	2,210,174,455	4,170,281,062	7,119,949,084
Other assets	14	891,377,784	-	-	-	-	-	-	891,377,784
Property and equipment	15	600,843,664	-	-	-	-	-	-	600,843,664
Intangible assets	16	8,922,365	-	-	-	-	-	-	8,922,365
Deferred tax assets	17	23,084,417	-	-	-	-	-	-	23,084,417
Total		2,143,388,218	5,159,676,705	3,034,002,699	8,193,679,404	4,514,555,119	5,269,598,249	9,784,153,368	20,121,220,990
Less allowance for credit impairment									(423,107,576)
									19,698,113,414
Liabilities									
Derivative financial liabilities	11	-	9,561,965	197,675	9,759,640	-	-	-	9,759,640
Deposits from customers	19	-	12,278,086,650	1,286,808,526	13,564,895,176	2,709,025,941	525,810,677	3,234,836,618	16,799,731,794
Preference shares	20	-	6,354,198	-	6,354,198	138,180,000	-	138,180,000	144,534,198
Subordinated debts	21	-	-	4,762,329	4,762,329	-	500,000,000	500,000,000	504,762,329
Current tax liabilities		-	-	8,165,603	8,165,603	-	-	-	8,165,603
Other liabilities	23	2,805,057	18,051,491	240,357,550	258,409,041	-	140,179,064	140,179,064	401,393,162
Total		2,805,057	12,312,054,304	1,540,291,683	13,852,345,987	2,847,205,941	1,165,989,741	4,013,195,682	17,868,346,726
Net liquidity gap		2,140,583,161	(7,152,377,599)	1,493,711,016	(5,658,666,583)	1,667,349,178	4,103,608,508	5,770,957,686	2,252,874,264
Less allowance for credit impairment									(423,107,576)
									1,829,766,688
Contingent liabilities and commitments	39								
Contingent liabilities									
Financial guarantees		-	273,436,059	-	273,436,059	-	331,830,702	331,830,702	605,266,761
Letter of credit and other obligations on account of customers		-	11,000,000	-	11,000,000	-	-	-	11,000,000
		-	284,436,059	-	284,436,059	-	331,830,702	331,830,702	616,266,761
Commitments									
Undrawn credit facilities		-	956,862,195	-	956,862,195	-	236,322,704	236,322,704	1,193,184,899
		-	1,241,298,254	-	1,241,298,254	-	568,153,406	568,153,406	1,809,451,660

43. RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (Cont'd)

2019

	Notes	No specific maturity	Less than 3 months	3 to 12 months	Sub total less than 12 months	1 to 3 years	Over 3 years	Sub total more than 12 months	Total
Assets		MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Cash and cash equivalents	9	-	2,732,131,072	-	2,732,131,072	-	-	-	2,732,131,072
Due from banks	10	-	259,602,357	105,176,067	364,778,424	68,493,391	266,530,027	335,023,418	699,801,842
Derivative financial assets	11	-	3,307,688	455,871	3,763,559	-	-	-	3,763,559
Loans and advances to customers	12	86,899,896	1,356,276,288	2,550,655,804	3,906,932,092	1,654,649,678	2,152,079,724	3,806,729,402	7,800,561,390
Investment securities	13	36,467,145	741,452,940	342,562,748	1,084,015,688	2,438,223,101	2,925,456,013	5,363,679,114	6,484,161,947
Other assets	14	99,997,305	-	-	-	-	-	-	99,997,305
Property and equipment	15	512,458,466	-	-	-	-	-	-	512,458,466
Intangible assets	16	2,263,140	-	-	-	-	-	-	2,263,140
Deferred tax assets	17	9,710,148	-	-	-	-	-	-	9,710,148
Total		747,796,100	5,092,770,345	2,998,850,490	8,091,620,835	4,161,366,170	5,344,065,764	9,505,431,934	18,344,848,869
Less allowance for credit impairment									(175,048,750)
									18,169,800,119
Liabilities									
Derivative financial liabilities	11	-	5,618,129	194,628	5,812,757	-	-	-	5,812,757
Deposits from customers	19	-	11,720,490,114	1,473,305,280	13,193,795,394	1,461,074,268	588,760,400	2,049,834,668	15,243,630,062
Preference shares	20	-	7,022,573	-	7,022,573	138,180,000	-	138,180,000	145,202,573
Subordinated debts		-	-	5,070,890	5,070,890	-	500,000,000	500,000,000	505,070,890
Current tax liabilities		-	-	23,979,561	23,979,561	-	-	-	23,979,561
Other liabilities	23	382,217,091	7,452,537	71,807,821	79,260,358	-	15,839,543	15,839,543	477,316,992
Total		382,217,091	11,740,583,353	1,574,358,180	13,314,941,533	1,599,254,268	1,104,599,943	2,703,854,211	16,401,012,835
Net liquidity gap		365,579,009	(6,647,813,008)	1,424,492,310	(5,223,320,698)	2,562,111,902	4,239,465,821	6,801,577,723	1,943,836,034
Less allowance for credit impairment									(175,048,750)
									1,768,787,284
Contingent liabilities and commitments	39								
Contingent liabilities									
Financial guarantees		-	25,550,494	53,671,365	79,221,859	38,916,607	-	38,916,607	118,138,466
Letter of credit and other obligations on account of customers		-	3,373,422	-	3,373,422	-	-	-	3,373,422
		-	28,923,916	53,671,365	82,595,281	38,916,607	-	38,916,607	121,511,888
Commitments									
Undrawn credit facilities		-	1,321,902,701	-	1,321,902,701	-	-	-	1,321,902,701
		-	1,350,826,617	53,671,365	1,404,497,982	38,916,607	-	38,916,607	1,443,414,589

2018

	Notes	No specific maturity	Less than 3 months	3 to 12 months	Sub total less than 12 months	1 to 3 years	Over 3 years	Sub total more than 12 months	Total
Assets		MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Cash and cash equivalents	9	-	3,276,741,586	-	3,276,741,586	-	-	-	3,276,741,586
Due from banks	10	-	536,220,569	228,839,765	765,060,334	35,837,348	229,913,656	265,751,004	1,030,811,338
Derivative financial assets	11	-	522,976	3,766,619	4,289,595	-	-	-	4,289,595
Loans and advances to customers	12	95,225,062	1,958,841,860	1,394,167,847	3,353,009,707	1,284,251,900	1,478,470,164	2,762,722,064	6,210,956,833
Investment securities	13	32,819,759	273,906,488	597,015,969	870,922,457	1,426,262,254	3,904,996,982	5,331,259,236	6,235,001,452
Other assets	14	94,025,588	-	-	-	-	-	-	94,025,588
Property and equipment	15	394,861,578	-	-	-	-	-	-	394,861,578
Intangible assets	16	4,351,872	-	-	-	-	-	-	4,351,872
Deferred tax assets	17	21,307,487	-	-	-	-	-	-	21,307,487
Total		642,591,346	6,046,233,479	2,223,790,200	8,270,023,679	2,746,351,502	5,613,380,802	8,359,732,304	17,272,347,329
Less allowance for credit impairment									(168,316,592)
									17,104,030,737
Liabilities									
Due to banks	18	-	110,061,479	-	110,061,479	-	-	-	110,061,479
Derivative financial liabilities	11	-	1,442,153	1,332,606	2,774,759	-	-	-	2,774,759
Deposits from customers	19	-	7,319,098,350	912,881,784	8,231,980,134	950,772,447	5,783,441,737	6,734,214,184	14,966,194,318
Preference shares	20	-	-	7,160,753	7,160,753	138,180,000	-	138,180,000	145,340,753
Current tax liabilities		-	-	30,924,434	30,924,434	-	-	-	30,924,434
Other liabilities	23	298,227,274	2,295,699	32,917,000	35,212,699	-	4,955,603	4,955,603	338,395,576
Total		298,227,274	7,432,897,681	985,216,577	8,418,114,258	1,088,952,447	5,788,397,340	6,877,349,787	15,593,691,319
Net liquidity gap		344,364,072	(1,386,664,202)	1,238,573,623	(148,090,579)	1,657,399,055	(175,016,538)	1,482,382,517	1,678,656,010
Less allowance for credit impairment									(168,316,592)
									1,510,339,418
Contingent liabilities and commitments	39								
Contingent liabilities									
Financial guarantees		-	7,500,737	23,934,279	31,435,016	733,202	-	733,202	32,168,218
Letter of credit and other obligations on account of customers		-	13,459,409	-	13,459,409	-	-	-	13,459,409
		-	20,960,146	23,934,279	44,894,425	733,202	-	733,202	45,627,627
Commitments									
Undrawn credit facilities		-	752,241,168	547,880,530	1,300,121,698	-	-	-	1,300,121,698
		-	773,201,314	571,814,809	1,345,016,123	733,202	-	733,202	1,345,749,325

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

43. RISK MANAGEMENT (CONT'D)

(d) Market risk

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the bank's statement of profit or loss and other comprehensive income. The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 30 June.

2020

Currency	**Increase(decrease) in basis points**	**Effect on profit before tax and Equity**
		MUR m
EUR	**50**	**14**
USD	**50**	**16.2**
MUR	**50**	**4.2**

	Impact of change in interest rate on profit or loss		
	Assets	Liabilities	Increase/ (decrease)
	MUR	MUR	MUR
2019			
Increase in basis point - 50 bp	20,454,170	(21,643,495)	(1,189,325)
Decrease in basis point - 50 bp	(20,454,170)	21,643,495	1,189,325
2018			
Increase in basis point - 50 bp	11,381,030	(20,507,614)	(9,126,584)
Decrease in basis point - 50 bp	(11,381,030)	20,507,614	9,126,584

(ii) Price risk

Price risk is the risk that the fair values of securities change as the result of changes in the levels of indices and the value of individual securities. The non-trading security price risk exposure arises from the bank's investment portfolio.

The effect on changes in net assets as a result of a change in the fair value of investment instruments held as fair value through other comprehensive income (available-for-sale for equity held before 1 July 2018), due to a reasonably possible change in indices, with all other variables held constant, is as follows:

	Change in price	**2020**	2019	2018
	%	**MUR**	MUR	MUR
Statement of other comprehensive income	+10	**128,352,525**	195,361,405	167,957,014
Statement of other comprehensive income	-10	**(128,352,525)**	(195,361,405)	(167,957,014)

(iii) Foreign exchange risk

Foreign exchange risk is the risk that the bank's foreign currency positions will be negatively affected by movements in exchange rates between one currency and another. The bank uses foreign exchange forward contracts to manage foreign exchange risk and exercises control over its foreign currency exposures through the allocation of trading limits. The Treasury department monitors open positions to measure foreign exchange risk and liquidity gaps. Exposures are reported on an ongoing basis to the Assets and Liabilities Committee.

Value at Risk ('VaR') is a statistical risk measure used to estimate the potential loss from adverse market moves in a normal market environment. The bank has a single VaR framework used as a basis for calculating Risk Management VaR.

The framework is employed across the bank using historical simulation based on data for the previous 12 months. The framework's approach assumes that historical changes in market values are representative of the distribution of potential outcomes in the immediate future. The bank believes the use of Risk Management VaR provides a stable measure of VaR that is closely aligned to risk management decisions made by the lines of business, and provides the appropriate information needed to respond to risk events.

The VaR that the bank measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one-day horizon, losses exceeding the VaR figure should occur, on average under normal market conditions, not more than once every hundred days.

VaR as at 30 June 2020 amounted to MUR 746,565 (2019 : MUR 104,356, 2018 : MUR 116,396).

The increased VaR is a combination of : higher volatility on markets and larger open positions kept when compared to 2019. Both factors are a direct impact of COVID-19 but also represents the growth in FX business. However, the positions remained well within the allocated limits and stop losses. The bank's risk mitigating techniques remain adequate as a control measure. Following the reopening of the local economy and regular interventions by the central bank, the currency shortage has been contained reflecting on reduced volatility.

The following table demonstrate the sensitivity to a reasonable possible change in exchange rate, with all other variables held constant, and the impact on the bank's profit and equity.

Change in currency by:	Impact on profit after tax and equity		
	EUR	GBP	USD
30 June 2020	12,946,843	(1,205,666)	(7,520,660)

The bank's monetary assets and liabilities as at 30 June is as follows:

2020

	EUR	**GBP**	**USD**	**Others**	**Total**
	MUR	**MUR**	**MUR**	**MUR**	**MUR**
Cash and cash equivalents	**151,647,126**	**47,870,395**	**431,882,183**	**383,149,992**	**1,014,549,696**
Due from banks	**54,466,964**	**20,818,935**	**78,943,703**	**-**	**154,229,602**
Derivative financial assets	**392,470**	**188,237**	**1,291,874**	**310,860**	**2,183,441**
Loans and advances to customers	**1,724,288,282**	**-**	**2,281,755,228**	**-**	**4,006,043,510**
Investment securities	**1,016,664,037**	**-**	**1,909,788,507**	**1**	**2,926,452,545**
Other assets	**99,732,631**	**20,789,716**	**211,475,859**	**1,447,540**	**333,445,746**
	3,047,191,510	**89,667,283**	**4,915,137,354**	**384,908,393**	**8,436,904,540**
Derivative financial liabilities	**5,805,142**	**3,587,294**	**248,320**	**118,884**	**9,759,640**
Deposits from customers	**2,191,506,298**	**496,828,966**	**5,231,227,451**	**370,675,151**	**8,290,237,866**
Other liabilities	**34,455,153**	**526,026**	**148,999,006**	**12,119,499**	**196,099,684**
	2,231,766,593	**500,942,286**	**5,380,474,777**	**382,913,534**	**8,496,097,190**
Net position	**815,424,917**	**(411,275,003)**	**(465,337,423)**	**1,994,859**	**(59,192,650)**

43. RISK MANAGEMENT (CONT'D)

(d) Market risk (Cont'd)

(iii) Foreign exchange risk (Cont'd)

2018

	EUR	GBP	USD	Others	Total
	MUR	MUR	MUR	MUR	MUR
Cash and cash equivalents	418,933,550	666,419,342	1,768,064,204	115,128,309	2,968,545,405
Due from banks	43,488,825	6,838,306	501,702,457	-	552,029,588
Derivative financial assets	1,602,678	-	2,570,010	116,907	4,289,595
Loans and advances to customers	698,464,677	-	1,389,884,148	-	2,088,348,825
Investment securities	1,194,328,891	-	1,049,883,658	-	2,244,212,549
Other assets	63,170,952	-	16,506,250	531,396	80,208,598
	2,419,989,573	673,257,648	4,728,610,727	115,776,612	7,937,634,560
Derivative financial liabilities	233,154	1,954,223	526,976	60,407	2,774,760
Deposits from customers	2,385,576,496	711,267,292	4,500,534,159	118,543,941	7,715,921,888
Other liabilities	44,523,420	2,220,764	155,809,213	8,334,527	210,887,924
	2,430,333,070	715,442,279	4,656,870,348	126,938,875	7,929,584,572
Net position	(10,343,497)	(42,184,631)	71,740,379	(11,162,263)	8,049,988

(e) Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the bank is able to manage those risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

CAUTIONARY NOTE

Cautionary Note:

This report contains several forward-looking statements with respect to the financial position and business strategy of ABC Banking Corporation Ltd. By their very nature, forward-looking statements are based on several assumptions and management's current views; thus, subject to inherent risks and uncertainties. Hence, there is a significant risk that the statements contained herein may not prove to be accurate.

Readers of this report are thus cautioned not to place undue reliance on the forward-looking statements as numerous factors could cause future results and actions to differ materially from the declarations of future expectations expressed herein. Several factors ranging from the evolution of the economic and political landscape to technological headway, regulatory developments, interest rate and currency value fluctuations, management actions, level of competition in the local and global industry are bound to influence the future outcomes that relate to forward-looking statements.

ABC Banking Corporation Ltd does not undertake to update any forward-looking statement that may be made from time to time by the organisation or on its behalf.

NOTES

NOTES

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