



ANNUAL REPORT
2019



Stability & Steady Growth

WALL OF FAME



2013

EUROMONEY MAGAZINE:
"BEST PRIVATE BANK
IN MAURITIUS"



2014

EUROMONEY MAGAZINE:
"BEST PRIVATE BANK
IN MAURITIUS"

GLOBAL BANKING &
FINANCE REVIEW:
"BEST BANK FOR
INTERNATIONAL
BANKING SERVICES
MAURITIUS 2014"



2015

CFI:
"BEST INTERNATIONAL
BANK IN
THE INDIAN OCEAN"

GLOBAL BANKING &
FINANCE REVIEW:
"BEST BANK FOR
INTERNATIONAL
BANKING SERVICES
MAURITIUS 2015"



2016

CFI:
"BEST INTERNATIONAL
BANK IN THE
INDIAN OCEAN"

GLOBAL BRANDS
MAGAZINE:
"FASTEST GROWING
BANKING BRAND"



2017

CFI:
"BEST INTERNATIONAL
BANK IN THE
INDIAN OCEAN"



2018

CFI:
"MOST INNOVATIVE
& FASTEST GROWING
INTERNATIONAL BANK
IN THE INDIAN OCEAN"



2019

GLOBAL BANKING &
FINANCE REVIEW:
"BEST BANK FOR
INTERNATIONAL
BANKING SERVICES
MAURITIUS"



CORPORATE INFORMATION

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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
National Australia Bank Limited
Société Générale, Paris
Standard Chartered Bank, Germany
Standard Bank of South Africa Limited
Standard Chartered Bank, London
Standard Chartered Bank, New York
Yes Bank Limited

ABOUT THE REPORT

This Annual Report of ABC Banking Corporation Ltd has been prepared with the aim of providing all of our stakeholders with material information relating to the bank's strategy business model, material risks, stakeholder interests, performance, prospects and governance, for the period spanning from 1 July 2018 to 30 June 2019. Material events after this date and up to 24 September 2019, the date of approval by the Board of Directors of the bank, have also been considered for this report.

This report also lays the foundation for the bank towards the adoption of the principles of the Integrated Reporting Framework (IR) 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.

However, as a bank, ABC Banking Corporation is regulated by the Bank of Mauritius (BOM) and as such is subject to a number of regulatory reporting as part of the annual report. The bank had to therefore find a balance in this report in include the regulatory sections as well as a strategic section which is more in line with IR in terms of providing concise and clear information on the strategic direction of the bank.

The report is therefore split as follows:

1. Strategic section

- Financial highlights
- Board of Directors
- Corporate profile
- Products and services
- Chairman's letter
- Managing Director's report
- Management team
- Strategy report
- Our business model
- Material matters in our operating environment
- Risks for the bank
- Performance report

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
- 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.



Silk Road Economic Belt

21st Century Maritime Silk Road

MAKING THE 21ST CENTURY
MARITIME SILK ROAD A
REALITY

TABLE OF CONTENT

01

STRATEGIC SECTION

FINANCIAL HIGHLIGHTS	8
BOARD OF DIRECTORS	10
CORPORATE PROFILE	12
PRODUCTS AND SERVICES	14
CHAIRMAN'S LETTER	16
MANAGING DIRECTOR'S REPORT	18
MANAGEMENT TEAM	22
STRATEGY REPORT	26
OUR BUSINESS MODEL	28
MATERIAL MATTERS IN OUR OPERATING ENVIRONMENT	30
RISKS FOR THE BANK	32
PERFORMANCE REPORT	34

02

REGULATORY SECTION

CORPORATE GOVERNANCE REPORT	40
STATEMENT OF COMPLIANCE	70
OTHER STATUTORY DISCLOSURES	72
COMPANY SECRETARY'S CERTIFICATE	74
STATEMENT OF DIRECTORS' RESPONSIBILITIES	75
MANAGEMENT DISCUSSION AND ANALYSIS	76
RISK REPORT	84
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING	112
AUDITOR'S REPORT	114
FINANCIAL STATEMENTS	122
NOTICE OF ANNUAL MEETING	218
PROXY FORM	221



**WE CARE FOR
OUR SOCIETY.
WE ARE
COMMITTED TO
IMPROVING THE
LIVES OF THE
COMMUNITIES
WITHIN WHICH
WE OPERATE.**



count on us

FINANCIAL HIGHLIGHTS

INCOME STATEMENT (MUR M)

	2019	2018	2017
Net Interest Income	482.5	385.8	336.0
Operating Income	652.3	559.4	493.0
Profit before impairment	328.0	301.3	273.3
Profit before tax	271.3	291.8	250.3
Profit after tax	223.9	242.4	208.5

STATEMENTS OF FINANCIAL POSITION (MUR M)

	2019	2018	2017
Total assets	18,175.0	17,104.0	15,751.8
Net loans and advances portfolio	7,635.9	6,054.5	5,095.7
Total deposit	15,239.5	14,966.2	13,803.1
Shareholders' fund	1,771.2	1,510.3	1,340.3
Tier 1 Capital	1,759.2	1,484.7	1,309.4
Total net capital	2,358.8	1,574.1	1,415.0
Risk-weighted assets	12,361.9	10,385.8	9,180.6

PERFORMANCE RATIOS (%)

	2019	2018	2017
Return on average total assets*	1.3	1.4	1.3
Return on equity*	12.6	16.1	15.6
Non-interest income to operating income	26.0	31.0	31.8
Loans and advances to deposit ratio	51.2	41.5	38.0
Cost to income ratio	49.7	46.1	44.6

CAPITAL ADEQUACY RATIOS (%)

	2019	2018	2017
Capital & Reserves/Total assets	9.7	8.8	8.5
Capital adequacy ratio	19.1	15.2	15.4
Tier 1 ratio	14.2	14.3	14.3

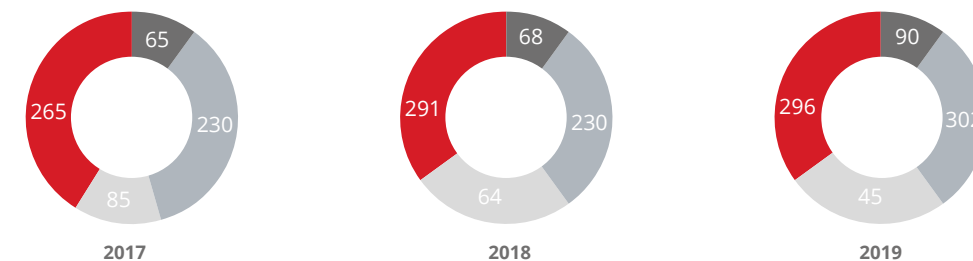
INVESTOR DATA

	2019	2018	2017
Earnings per share (MUR)**	2.9	3.2	2.7

*based on profit after tax

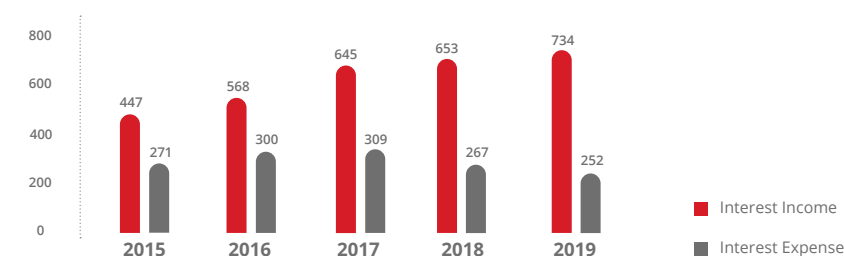
**based on average number of shares

INTEREST INCOME (MUR M)

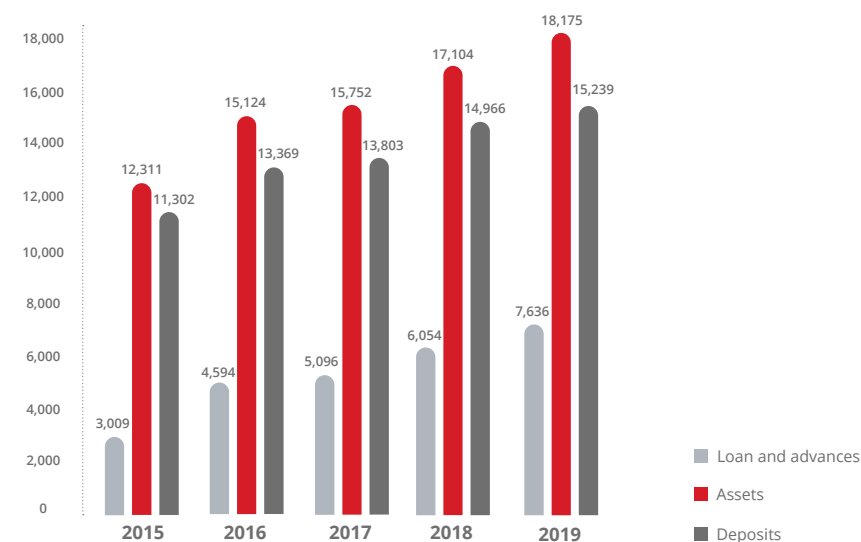


■ Investments securities ■ Finance leases
■ Loan to and placement banks ■ Loans and advanced to customers (excluding finance leases)

INTEREST INCOME & EXPENSE (MUR M)



ASSETS, DEPOSITS AND LOANS (MUR M)



BOARD OF DIRECTORS



From left to right:

- 1. Mr Patrick Andrew Dean Ah-Chuen,**
- 2. Mr David Brian Ah-Chuen,**
- 3. Hon. Ah Foon Chui Yew Cheong,**
- 4. Hon. Yeung Kam John (Bernard) Yeung Sik Yuen,**

From left to right:

- 5. Mr Bhanu Pratabsingh Jadoo,**
- 6. Professor Donald Ah-Chuen,**
- 7. Me. Marie Danielle Low Kwan Sang,**
- 8. Mrs Stephanie Ha Chow,**
- 9. Mr Sydney Ah Yoong.**

Profile of Directors on pages 53-58.

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 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 and services.

The bank is organised on four main pillars being: Domestic Banking, International Banking, E-Business 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, ABC Banking Corporation has the great merit of having built up after eight and a half years of operations as a bank, a Deposit base totalling MUR 15.2 billion while the total of its Shareholders' Equity has moved during that period from MUR 225 million to 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 President of the SEM.

Following its rapid growth, successful performance and steady progress, ABC Banking Corporation 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" and as the "Most Innovative & Fastest Growing International Bank in the Indian Ocean". ABC Banking Corporation also won the "Fastest Growing Banking Brand, Mauritius" for the year 2016 by the Global Brands Magazine. This year, the bank is once again honoured with an award by the Global Banking & Finance Review, with the accolade of "Best Bank for International Banking Services Mauritius", 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

Respect and Integrity

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.

Creativity and Innovation

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.

Customer Care

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

Passion

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

PRODUCTS AND SERVICES



DOMESTIC BANKING



INTERNATIONAL BANKING



TREASURY



E-BUSINESS

CORPORATE BANKING

- Corporate Accounts
- Internet Banking
- Corporate Leasing
- Online Tax Payment
- Trade Finance (Bank guarantees/Letters of Credit & Import Loans)
- Treasury Line
- Invoice discounting
- Revolving Credit Line
- Project Financing
- Multi-currency Line

PRIVATE BANKING

- ABC Premier account
- Diamond Savings account
- Free Union Pay
- Diamond debit card
- 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

- Call deposits: Non-interest bearings
- 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
- Master Card/UnionPay Debit Card
- Payroll services
- Trade Finance services

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

- Issuing Debit Card
- (Mastercard Classic and UnionPay Diamond Card)
- Acquiring services (QR pay)

CHAIRMAN'S LETTER



Dear Shareholder,

I am pleased to present to you our Annual Report for the financial year ended 30 June 2019.

The financial year 2019 has set up another milestone in the bank's steady growth path despite the many challenges which stood before us at the beginning of the year. It has seen the bank achieve a growth of about MUR 100 million in operating income which has also been reflected in the increase in dividend proposed, from MUR 0.73 per share last year to MUR 0.77 per share this year. The Board remains fully aware of our shareholders' economic expectations in terms of capital appreciation and dividend yield while also making sure that there is sufficient capital to support the growth in activities during the next financial year and ensure compliance with the regulatory requirements relating to Capital Adequacy of the bank.

The Capital Adequacy Ratio (CAR) of the bank grew from 15.2% to 19.1% driven by the increase in Retained Earnings following the very positive performance of the bank as well as the successful issuance of MUR 500 million in the form of Tier 2 Unsecured Bonds. This puts the bank in a strong and stable position which is also reflected in the growth in the bank's capital and reserves to MUR 1.8 billion compared to MUR 1.5 billion last year.

Despite record operating income this year, the bank has seen its bottom-line figures strongly impacted by new accounting standards. The Board believes that the impact was singular, and the bank will resume its growth path as from next year with the introduction of new innovative products and the inauguration of the prestigious Plantation House on completion of the renovation works.



**THE BOARD HAS RECENTLY
APPROVED THE BANK'S STRATEGY
AND DIRECTION FOR THE NEXT
THREE YEARS**

In line with the expectations of the bank's stakeholders on the due observance of prudential development and sustainability and our commitment to ensure strict adherence to all the principles of Good Corporate Governance, we have constantly reviewed and improved our bank's Corporate Governance framework to ensure that the best practices are being implemented at all levels for the maximisation of stakeholder value. It will be observed that in view of adopting the principles of Integrated Reporting Framework in our Annual Report of the year 2020, we have included in this year's Annual Report significant information on the bank's use of its governance "capitals" through its business activities for the generation of value for our stakeholders.

Another key pillar of corporate governance is Board Leadership. The Board is the rudder of the Company which enables the latter to steer through waves of challenges to reach the safe harbour of economic growth and sustainability. During the year, the Board has seen the end of tenure of office of Directors John Chu and Henri Fleurot, to whom the bank is thankful for their valuable contribution to the Board. This has been followed by the appointment of new Directors Bhanu Pratabsingh Jaddoo and Patrick Andrew Dean Ah-Chuen both of them having vast management skills, experience and knowledge. We believe that the quality of our Board resides in the balance between the experience and knowledge of its members coming from different professional backgrounds and the professional interactions during debates at the Board and Committee meetings.

The Board has recently approved the bank's Strategy and Direction for the next three years, with greater focus on Regional & International Banking, Private Banking, and the Training & Development of the bank's Human Capital.

Our bank was a significant CSR contributor during the year to the tune of MUR 1,456,419 to the Sir Jean Moilin Foundation for the funding of projects in Health & Sports, Education, Environment and the alleviation of Poverty (Please refer to page 63 for more information).

I am particularly also pleased to state that our Staff Welfare Committee members have played a very valuable role in the organization of various social & sports activities to foster friendship and solidarity among the staff. In addition, they were accompanied by other staff in their free time to visit and engage in proactive exchanges with residents in old-aged institutions.

We are very thankful to our employees who have, through their relentless efforts and unfailing dedication, contributed significantly to the remarkable performance of the bank for the year. We are confident that they will continue in that track to build success on success and create value for the bank and all its stakeholders.

Finally, I wish to place on record the important collaboration and support of my fellow directors and also the efficient and valuable service provided by our Company Secretary and his Unit.

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

MANAGING DIRECTOR'S REPORT



Dear Valued Shareholder,

I am pleased to present to you a review of the local & global economic environment and development which have prevailed during 2018-19 and their impact on our bank's operations and outcome for the year ended 30th June 2019.

OVERVIEW

The global environment continues to be an ever-challenging one, comprising the US-China trade war, the enduring Brexit issue with its dreaded consequences followed by the European slow-down, the conflicts in the Middle East involving USA, Iran & Saudi Arabia, and more recently, the Hong Kong pro-democracy protests, all plunging the whole world into a serious state of uncertainty and possibly into another economic recession.

On the local scene, the year 2019 has seen the present Government entering the final stage of its five-year mandate, with the inevitable slowdown in the economy during the period preceding the General Elections due to the "Wait & See" stance of investors and the public in such circumstance. However, in the last twelve months, we have also witnessed a surge of accelerated progress in the development of several infrastructure projects such as the Mauritius Metro Express, which are contributing significantly towards the forecasted and likely growth of 3.9% in 2019. Furthermore, the organization of the Indian Ocean Island Games, this year, has not only provided a boost in the country's economic activity but has also brought about a much needed feel good factor to the people of Mauritius – a result of the outstanding performance of the Mauritian Athletes which enabled our country to take the highest place in the podium at the final count of gold medals won. We take particular pride at the success and performance of our staff member, Caroline Ramasawmy, who was honoured with a silver medal at the women's team event.

Unfortunately, there are already dark clouds penetrating our environment following the economic slowdown originating from the uncertainties and trade war mentioned above, which severely affected the demand for Mauritian manufactured garments and causing the closure of a few export enterprises in the Textile Industry. On the other hand, the former mother-industry, i.e., the sugar cane industry which is still an important provider of jobs, and also a significant contributor to the generation of renewable energy though the utilization of its cane fibre, continues to be badly hurt on account of the low world price of sugar as well as the continued trend in the abandonment of land previously under cane cultivation.

In regard to the Tourism Industry, there has been a general decline in the rate of growth of tourist arrivals, and the authorities together with the Association of Hotels & Restaurants are taking urgent remedial actions, particularly in respect to the need for greater airline facilities for travel access to Mauritius and the adoption of innovative and diversified tourist promotion campaigns overseas.

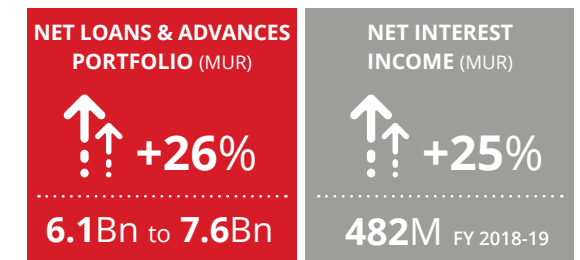
The coming into force of a revised Double Taxation Avoidance Agreement between Mauritius and India has brought about a substantial decrease in the level of Foreign Direct Investment going to India through Mauritius and our country's sector of Offshore Management Services Companies has yet to accelerate its adaptation to the change.

Fortunately, the banking sector has shown great resilience and been able to adapt itself to the required changes, such as the advent of Digitalisation, IFRS & Risk Based Approach to AML/CFT. The Central Bank has recently reduced its Repo Rate from 3.50% to 3.35% in an endeavour to alleviate the burden of financial charges of enterprises, especially those operating in the textile sector. Other good news has been the choice made by AFREXIM Bank of listing its US Bonds in Mauritius, its example being recently followed by the Trade & Development Bank (COMESA).

Earlier in the year following approval by the Bank of Mauritius, our bank inaugurated its UnionPay/QR payments by overseas visitors for their purchases in Mauritius.

PERFORMANCE OF THE BANK IN 2018-19

Net loans and advances portfolio grew by 26% from MUR 6.1 billion to MUR 7.6 billion by June 2019 which resulted in the bank's Net Interest Income growing by about 25% to MUR 482 million for the year 2018-19. The bank has been able to grow its business without having to compromise on the asset quality.



It is worth noting that a number of external factors have affected the reported performance of the bank. A change in tax rule meant that the tax expense under the special levy has to be classified as operating expense instead of the income tax expense line as previously reported. This has had an impact on the bank's cost to income ratio as well as the Profit before impairment, which are key KPI for the bank. Another significantly external factor was the adoption of IFRS 9 which resulted in the allowance for credit impairment to grow significant to MUR 57 million for the year which is contradictory to the sustained improvement in asset quality and the bank's low non-performing loan ratio as mentioned above.

MANAGING DIRECTOR'S REPORT

Nevertheless, amid this complex and volatile environment, our bank has fortunately been able to grow its asset base by 6% to MUR 18.2 billion. The Capital Adequacy Ratio (CAR) of the bank as at 30 June 2019 stood at 19.1% - a clear indication of the capital stability of the bank. Furthermore, in May 2019, the bank successfully raised MUR 500 million in the form of Tier 2 unsecured bonds, which have contributed to the strong CAR figure. We take this opportunity to thank again all our investors for believing in the capacity and resilience of our bank to achieve even better results in the coming years.

IN MAY 2019
THE BANK SUCCESSFULLY RAISED
MUR 500M
IN THE FORM OF
TIER 2 UNSECURED BONDS,
WHICH HAVE CONTRIBUTED TO
THE STRONG CAR FIGURE.

MAURITIUS BEING PART OF THE ONE DIGITAL WORLD

Since the advent of digitalisation a few years ago, globalisation has been increasingly at the reach of every organisation. Nowadays, with the continuing convergence of technology, business strategies can be very ambitious as market penetration is being now discussed in a global context as opposed to only local or regional level previously. In an environment where technologies and trends are changing at such a fast pace, it is paramount for the bank to properly position and adapt itself to these changes.

The relationship between technology and finance is nothing new under the sun, but, for the past few years, digital innovation in finance has accelerated and disrupted markets with the introduction of innovative and sophisticated products and tools, together with the emergence of Fintech and Regtech.

Mauritius, as an international financial hub, is by no means an exception to this trend. To embrace such digital innovation and establish itself as a regional fintech hub, the Mauritian Authorities have introduced in 2018 the Regulatory Sandbox Licences to encourage and regulate technology-driven and sophisticated financial activities such as Peer to Peer Lending, Custodian Services for digital asset as well the Recognition of Digital Assets as an asset-class or investment by Sophisticated and Expert Investor. Our bank is confident that those new activities will push the level of quality and sophistication of products and services for the ultimate benefit of customers. Hence, the bank intends to gradually integrate such applicable technology to its activities during the coming years.

While technologies have opened Mauritian companies to several opportunities, it has also made the country more prone to cyber-attacks. Dealing with cyber threats is a complex challenge to which the bank has put much effort internally to ensure that appropriate procedures and controls are in place and being applied effectively while also externally educating and helping customers to understand their role in protecting their information and data within the banking system.

OUR INTERNATIONAL FOOTPRINT

It has now been over 2 years since the bank has proudly set up its Hong Kong Representation Office. Hong Kong has historically been an integral part in the expansion of the Asian market. Although the current protests in Hong Kong have created international concern through the media, we believe that Hong Kong will continue to play a key role as an important financial sector and a vital link in the One Belt One Road Initiative of China where our office there can provide a significant contribution.

OUTLOOK FOR THE BANK

In the coming year, the Board is confident that with a strong foundation of stability and a culture of steady growth, the bank will be able to pursue its strategy of prudential growth to maximise value creation for all stakeholders. We have embarked on our digital transformation to ensure that the journey forward is as seamless and impactful as it can be. We will continue to expand all our banking business, with greater focus on International Banking and Private Banking and building on our steady success, our values, and our excellent reputation and shining track record.

ACKNOWLEDGEMENTS

Without the trust and support of all our stakeholders, particularly our customers, and without the dedication, loyalty, hard work and relentless effort of our Management Team and Staff, it would have been very difficult for our bank to achieve the good results of 2018-19. We are therefore immensely grateful to them all. We also wish to place on record our sincere thanks to the Bank of Mauritius for their valuable advice and kind guidance throughout the year.

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

24 September 2019

MANAGEMENT TEAM



From left to right:

- 1. Mr Veeramdeve Nem,**
- 2. Mrs M. A. Christine K.L. Ng Cheong Hin,**
- 3. Mr Andy Leong Son,**
- 4. Mr Yashodaren Umanee,**
- 5. Mr Ashees Maunick.**

Profile of management team on pages 44-47.

MANAGEMENT TEAM



From left to right:
6. Mrs Natasha Jade Wong Chung Ki,
7. Mr Abdool Wahab Khadaroo,
8. Mr Abdullah Nurmahomed,
9. Mrs Laura Li Shen Pin,
10. Mr Kushal Bajnathsingh.

Profile of management team on pages 44-47.

STRATEGY REPORT



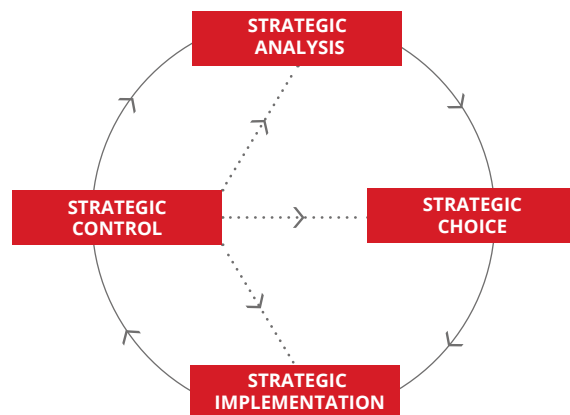
BRIAN AH-CHUEN
STRATEGIC BUSINESS EXECUTIVE & DIRECTOR

Strategy is often defined as a medium long-term plan of action, taking into consideration the integration of all organisational activities with the utilisation and allocation of the scarce resources within the organisation environment to meet a particular set of goals or objectives. Strategic management is also seen as being among the chief responsibilities of the Board. In order to achieve same, the Board has always ensured that there was a proper establishment governance of strategy at the bank.

HAVING A STRATEGIC PLAN AROUND THESE 4 PILLARS IS OUR BLUEPRINT TO SUCCESS

STRATEGIC GOVERNANCE

At ABC Banking Corporation, we believe that strategic management is not a cyclical exercise whereby the strategic plan is reviewed on a yearly basis at the time of budgeting. Rather, at the bank, we believe that the dynamic environment must be continuously scrutinised such that any movement, positive or adverse, may be integrated to the decision-making process. As such, the management and the Board strictly adheres to the following strategic management framework:



- For each strategic management cycle, there is the strategic analysis process where in-depth research on micro and macro-environments of the company is undertaken to identify and assess the key factors which will critically impact the performance of the bank in the short, medium and long-term.
- Based on the results of the analysis, a strategic choice is taken after having discussed extensively both at management and board level after taking into consideration the risk appetite of the bank and the industry macro-prudential boundaries.
- Strategic implementation involves the judicious allocation of resources and more importantly the right execution of the approved plans under the guidance of top management and the Board.
- Strategic control is a critical step to monitor strategic performance. Monitoring is therefore conducted at the three other steps, meaning that control processes must be applied at each of the analysis, choice and implementation stage to ensure that:
 - a. The data identified in the analysis stage is still relevant or whether the environment has moved in a direction that would cause the present strategy to be obsolete.
 - b. The chosen strategies are bringing the expected output and outcome for the bank.
 - c. The chosen strategies are being implemented and executed as directed by management and the Board.

Strict compliance to the above processes ensures that the bank remains ahead of the environment and any challenges that arise therein.

OUR STRATEGY

The Board has, following the recommendation from management, approved in July 2018 a three-year strategic plan developed around the following pillars:

TRANSFORMING THE BANK INTO A FULLY DIGITAL INSTITUTION	In line with the advent of fintech and other technology-enabled financial tools and product, the bank has developed plans to transform the whole institution digitally both from front-end and back-end perspectives to enhance the customer experience while improving operational efficiency.
POSITIONING OF THE BANK AS A TOP MID-TIER BANK	The banking industry in Mauritius is a very competitive one given the size of the market and the number of actors. However, the Board believes that after nearly 9 years of existence and steady growth, the bank is building on its strong foundations to position itself as a mid-tier bank, in terms of size, financial performance and product range within the next 2 years.
SUPPORTING THE INTERNATIONAL EXPANSION	International Business has been one of the bank's key pillars since its inception and the bank expects this segment to perform even better in the future. In fact, the bank has been the first Mauritian bank to set up a representative office in Hong Kong in line of its strategy to become a gateway between Asia and Africa. Expanding our international presence will be key for our strategy
EXTEND THE PRODUCT RANGE	With the new technologies and the sophistication of its clients' needs, the bank has initiated necessary procedures to strengthen its product offering with new innovative products. The bank has already launched its QR Acquiring service through the UnionPay platform. With the culture shift towards e-banking and cashless transactions, the board is confident that the new E-Business segment be a new income driver.

OUR BUSINESS MODEL

OUR CAPITALS



Financial Capital

- Deposit balance
- Share Capital
- Reserves
- Debt Funding



Manufactured

- Buildings strategically located in centre of Port-Louis
- IT infrastructure



Intellectual

- ABC Group brand
- Core banking system
- Awards
- Licenses
- Representative Office in Hong-Kong



Human

- Staff force: 197
- Corporate Values
- Management and technical skills, expertise and experience



Social and Relationship

- Our customers
- The society
- Bank of Mauritius
- MBA
- Correspondent banks
- Service Providers



Natural Resources

- Electricity
- Water
- Paper

RISKS AND OPPORTUNITIES

It is important for the bank to identify all significant risks and have a plan to mitigate them. Please refer to the risk report on page 84.

BUSINESS ACTIVITIES

Business Clusters



- Domestic Banking**
- Corporate
 - Retail
 - Private



International Banking



Treasury



E-Business

Support functions

- Risk
- Finance
- IT
- Marketing
- Human Resources
- Operations
- Internal Audit
- Compliance

PERFORMANCE

The bank achieved a PBT of MUR 271M showing sustained growth. Please refer to the performance report on page 34.

STRATEGY AND RESOURCE ALLOCATION

Having a clear vision has been fundamental for the bank to grow in a sustainable manner. Please refer to the strategy report on page 26.

OUTPUTS

Bank account products

Payment products and services

Lending products

Treasury products and services

Deposit products

Card products

Please refer to page 14.

OUTLOOK

The bank operate in a complex, competitive and volatile environment which is challenging but also full of opportunities. Please refer to the Managing Director's report on page 18.

OUR CAPITAL OUTCOME



Customers

- Loan and advances portfolio grew by 26%
- Opening of private banking lounge
- Launch of QR Pay with UPI
- Card usage rewards campaign



Staff

- Personnel expense grew by 18%
- MUR 2 m invested in training
- Ratio male: female = 1.1:1.0



Shareholders/ Investors

- Dividend yield declared of MUR 0.77 per share
- PAT of MUR 224M
- CAR grew to 19.1%
- Capital and reserves grew to MUR 1.80Bn



Society

- MUR 1.5M CSR contribution (Refer to page 63 for more information)



Regulators

- Compliance for all regulatory requirements
- Open line of communications with the BOM
- Contribute to the importance of the MBA

MATERIAL MATTERS IN OUR OPERATING ENVIRONMENT



MAURITIUS MACRO-ECONOMIC ENVIRONMENT

The local macro-economic environment has a direct impact on our banking activities and performance. Economic fundamentals remain strong with low unemployment and near 4.00% growth. However, although low, inflation might be a longer-term concern. Another major event will be the general elections, with important business ramifications. The economy is over-banked, reflecting the mature state of the banking industry and stiff competition.

Mauritius being an open island economy, we are equally vulnerable to international variations coupled with challenges and opportunities in terms of business. New global economic and geo-political inclinations mean that many more unknown or unthought factors need to be taken into consideration. Brexit, trade wars and protectionism are just a few challenges that the international arena breeds.

Economic slow-down impacting financial intermediation and other fee incomes for the bank. Low yield impacting investment book. Political uncertainty might undermine sentiment. On the other hand, accommodative economic stance and growth might increase lending business and promote banking services.



DISRUPTIVE TECHNOLOGIES AND CHANGING CUSTOMER BEHAVIOUR

The new digital era unlocked by disruptive technologies has enormous impact on how business is done nowadays. Such technological advancements have also changed the way our customers behave. To be able to satisfy the latter, banks need to understand, accommodate to and be as disruptive in their offerings.

The bank might lose customers to competitors who have already embarked on this tech journey. Not understanding the changing behaviours of customers will have an equal dramatic impact on our business. However, by adopting the right solutions, processes and mindset, the bank can unlock enormous business opportunities.



REGULATORY COMPLIANCE IN AN EVOLVING LANDSCAPE

Since the rounds of financial scandals in 2008 in the international scene, with the resulting recessions and social antagonisms, new regulatory rules are being continuously introduced in the banking industry and same are drastically reshaping the compliance regimes and operating frameworks of banks.

More macro prudential requirements results in an industry which is more secure but also more restrictive with significantly higher compliance cost.

The new regulatory environment have resulted in the enhancement of the compliance culture at the bank though at the expense of significant investment in human resources and technology on that side.



TALENT MANAGEMENT & RETENTION

Having the right employees to execute the chosen strategies is as important as the strategies themselves. With the newer generations, it is imperative to be able to motivate, empower, train and retain them so that the bank can deliver on its promise.

The higher labour mobility requires to the bank to ensure that the working environment, corporate culture, career development plans and remuneration packages are motivating enough to encourage our employees to stay with us.



SOCIETY AND THE ENVIRONMENT

The nature and conduct of a company's business is increasingly viewed as a determinant factor by stakeholders when creating and maintaining relationships. Many companies went bankrupt due to failings in this area, not mentioning high reputational repercussions for those who managed to stay operational. Businesses that are qualified as sustainable have a higher chance of success and research have shown that there is a positive correlation between value and going green and ethical.

The bank needs to ensure that nature and conduct of its activities are in line with society's expectations. Efforts are thus continuously made to improve the bank's environmental footprint and ensure the sustainable integration of its activities to the company.

RISKS FOR THE BANK

RISK RATIOS AT A GLANCE



The Liquid Coverage Ratio (LCR) is a ratio that shows the proportion of highly liquid assets held by the bank to ensure the bank's ongoing ability to meet its short-term obligation. As at 30 June 2019, the bank's LCR stood at 335% which shows that the bank is in a healthy liquidity position.

The Capital Adequacy Ratio (CAR) is a measurement of the bank's capital health and is calculated by dividing the bank's capital (including Tier 1 and Tier 2 capital) by the bank's risk-weighted assets. As at 30 June 2019, the bank's CAR stood at 17.2% which will well above the regulatory minimum requirement.

The Non-Performing-Loan (NPL) ratio of the bank stood at 0.9% as at 30 June 2019 and this shows that the bank has a high-quality lending book. The NPL ratio is a ratio that shows the amount of loans that are non-performing compared to the total book.

RISK HIGHLIGHTS

On the next page is a summary of the bank's key risks showing the magnitude of each risk identified in relation to the bank's ongoing operations. For a more detailed analysis on risk, please refer to the Risk Report on page 84.

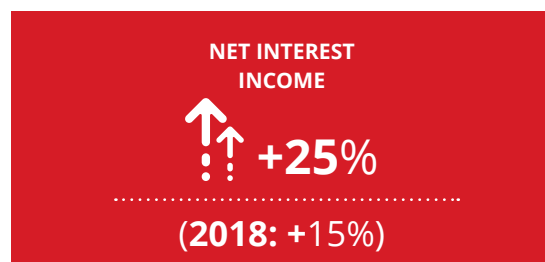
SN.	RISK CATEGORY	RISK DESCRIPTION	RISK LEVEL
FINANCIAL RISK	1	FUNDING AND LIQUIDITY RISK Funding risk refers to the risk that a bank does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient. Liquidity Risk is defined as the potential loss arising from either the inability to meet its obligations when they fall due or to fund increases in assets without incurring unacceptable cost or losses.	High
	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.	Low
	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.	Low
	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.	Low
	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).	Low
NON-FINANCIAL 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.	High
	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.	Low
	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.	High
TRANSVERSAL RISK	9	INFORMATION RISK Information risk are risks associated with regards to data protection, system performance, service delivery and time to market new products.	Low
	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.	Low
	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.	Low

■ High ■ Low

PERFORMANCE REPORT BY THE HEAD OF FINANCE



The bank continued its steady growth with Operating income growing by 17% this year compared to 13% last year and Net interest income increasing by 25% (2018: 15%).

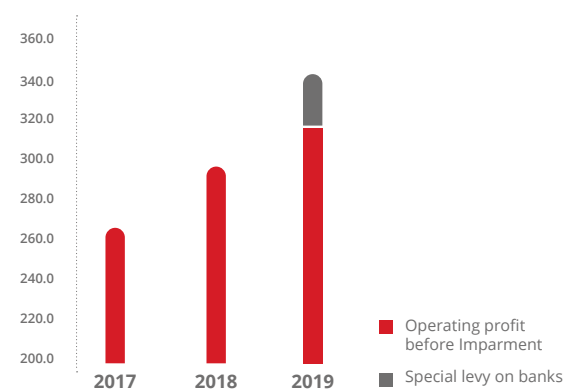


This is in line with the bank's overall expansion strategy to increase its loans and advances portfolio within the bank's acceptable risk-return profile. With 78% of its assets in loans and advances and investment securities in 2019 (2018: 72%), the bank is utilising its resources more efficiently while keeping sufficient buffer for its liquidity purpose. However, in spite of the positive increase in Operating income, the bank's Operating profit before tax for the year decreased by MUR 21 million to MUR 271 million. This paradox is mainly explained by two reporting changes occurring during the year 2019; namely the change in tax legislation concerning the Special Levy on Banks and the application of IFRS 9.

SPECIAL LEVY ON BANKS

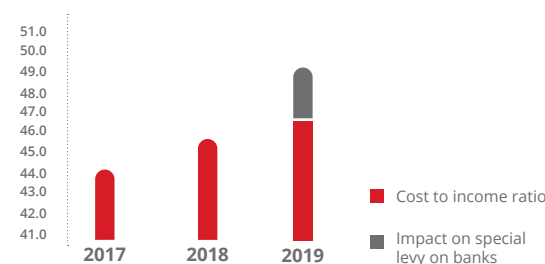
The bank showed consistent growth in its Operating profit before impairment (9% in 2019 vs 10% in 2018) even with the change in tax rule as implemented by the Finance Act 2019 which moved the Special Levy on Banks from the Income Tax Act to the VAT Act. With the new tax rule applicable this year, the bank had to classify the special levy of MUR 20 million as Other operating expense in 2019 compared to 2018, where the bank accounted the special levy of MUR 16 million as a tax charged arriving at the profit figure and not as an operating expense. Comparing like for like, had the MUR 20 million special levy been classified as last year as a profit after tax the Operating profit before impairment would increase by 16% instead of 9% to reach MUR 348 million.

OPERATING PROFIT BEFORE IMPARMENT (MUR M)



With higher Other operating expense due to the special levy, the bank's cost to income ratio increased to 50% this year compared to 46% last year. A like for like comparison would have shown the bank's cost to income ratio to increase slightly to 47%.

COST TO INCOME RATIO (%)



APPLICATION OF IFRS 9

The reporting scene has much changed compared to previous years with the introduction of new accounting standards. For the banking industry, the replacement of "IAS 39 - Financial Instruments: Recognition and measurement" to "IFRS 9 - Financial Instruments" as from 1 January 2018 (effective for ABC Banking Corporation Ltd as from 1 July 2018) had significant impact on its different players. The bank has not been spared of the change in reporting standards with noticeable impacts on 2 main components of its financial statements; Impact of adopting IFRS 9 and Allowance for credit impairment on financial assets for the year ended 2019.

As at 30 June 2018, the bank complied with the Guidelines and Guidance Notes as issued by the Bank of Mauritius on provisioning of its loans and advances portfolio and reported a loan loss provision of MUR 169 million. However, following adoption of IFRS 9, an Expected Credit Loss approach was utilised based on both the bank's historical data and forward going parameters such as Gross Domestic Product and Inflation Rate. Based on the new approach, the bank had to report a lesser amount of MUR 131 million, resulting in a decrease in the opening provision balance of MUR 37 million. The bank had thus to increase its Opening Retained Earnings by MUR 31 million as at 1 July 2018. Despite the improvement in quality of the bank's loan portfolio during the year (non-performing loan ratio decreased from 1.4% last year to 0.9% this year), the bank, at 30 June 2019, had to report a total provision of MUR 175 million (in line with both IFRS and the Bank of Mauritius guidelines), thus contributing in Allowance for credit impairment on financial assets of MUR 57 million (refer to table below). Comparing like for like, had the transition entries of IFRS 9 of MUR 38 million not applied directly on the bank's opening balance of Retained Earnings, the bank's Allowance for credit impairment on financial assets would have been MUR 19 million, thus resulting in Operating profit before impairment of MUR 309 million, an increase of 5.8% compared to last year.

“
**THE BANK CONTINUED ITS
 STEADY GROWTH WITH
 OPERATING PROFIT GROWING
 BY 17% THIS YEAR**

PERFORMANCE REPORT

BY THE HEAD OF FINANCE

Closing Loan Loss Provision 30/06/2018	MUR 169M
IFRS adjustment	(MUR 37M)
Revised Opening ECL balance 01/07/2018	MUR 131M
Amounts Written off, Recoveries & Reserves reclassification	(MUR 13M)
Allowance for credit impairment on financial assets	MUR 57M
Closing ECL 30/06/2019	MUR 175M

It is also worth noting that while the bank pursued its growth strategy, there were a number of measures taken to ensure that credit risks were mitigated.

- Ratio of exposure to segment A and segment B changed from 79:21 to 84:16 showing a prudent approach to direct cross border lending.
- The bank reduced its portion of exposure to certain sectors following to these sectors' reclassification as being riskier due to the macro-economic environment (as described in the Managing Director's Report on page 19). Manufacturing thus reduced from 16% to 13% while Financial & Business Services reduced from 20.1% to 15.4%.
- 65% of exposure was secured against fixed/ floating charges as at June 2019 compared to 63% as at June 2018.

Notwithstanding all the reporting changes, the bank has performed particularly well during the year with shareholders' capital and reserves increasing from MUR 1.5 billion last year to MUR 1.8 billion, a 17.2% growth compared to last year's 12.7%. The bank has also strengthened its capital base, resulting in a capital adequacy ratio (CAR) of 19.1% compared to last year's 15.2%. On top of the significant increase in Retained Earnings, another contributor to the increase in CAR was the successful issuance of MUR 500 million of Tier 2 Unsecured Bonds in the year. This bond issue was important for the strategy of the bank. With an efficient capital structure to ensure a lower cost of capital, the bank has the right foundation to build on for its upcoming projects.



Mr Andy Leong Son
Head of Finance



**WE WORKED
HARD TO GROW
OUR BUSINESS.
IT TOOK TIME,
EFFORT,
COMMITMENT...
BUT WE GOT
THERE.**



count on us

CORPORATE GOVERNANCE REPORT

The Board of Directors of ABC Banking Corporation is fully 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. It believes that good governance is not only concerned with compliance with the legal and regulatory requirements but also encompasses the conduct of the operations of the bank by the management and staff within the highest level of business ethics under its stewardship and supervision.

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

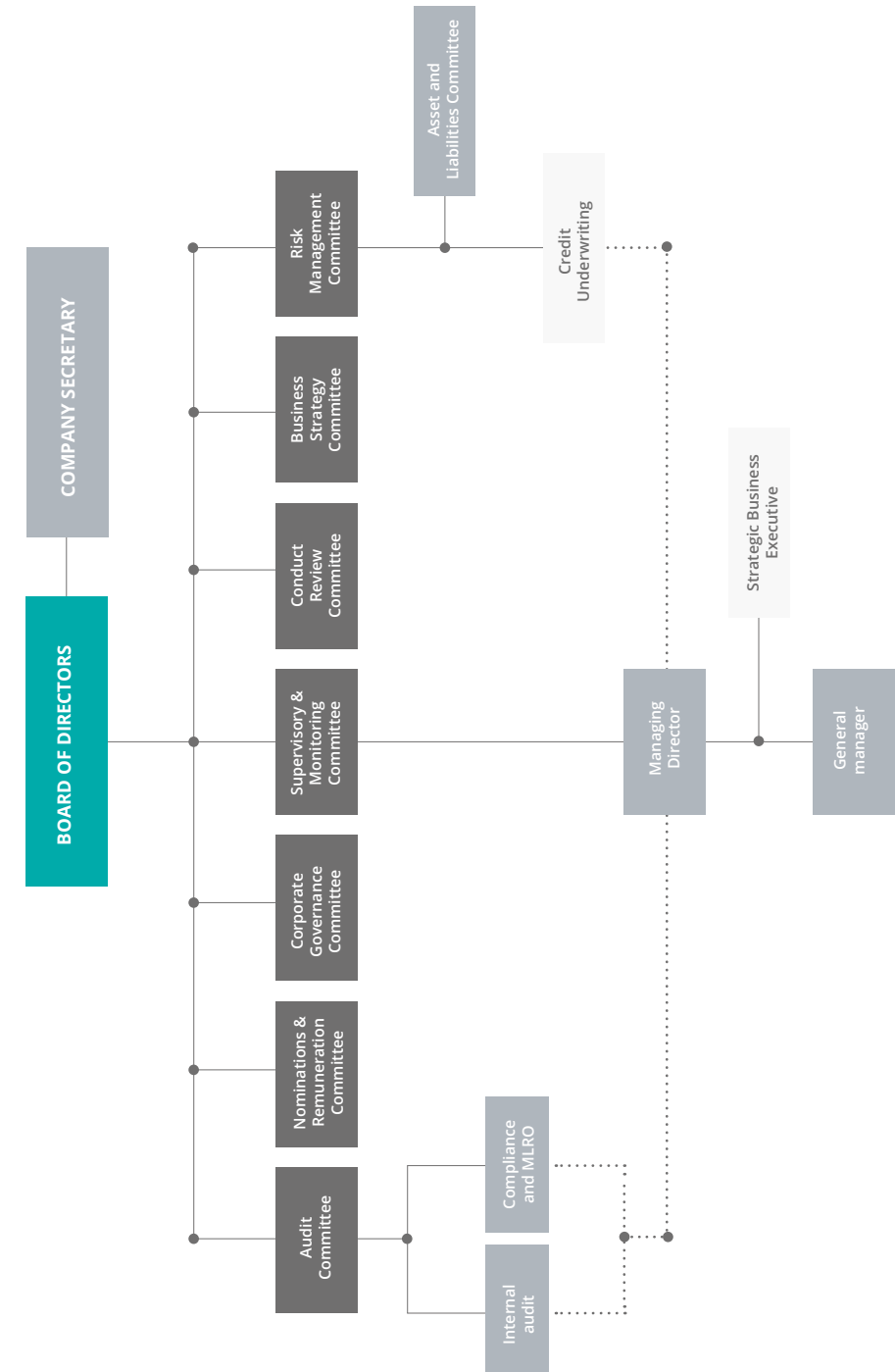
PRINCIPLE ONE – GOVERNANCE STRUCTURE

The corporate governance framework includes a unitary Board of Directors who have been 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. Some of the responsibilities are discharged directly, whilst others are discharged through committees of the Board. 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. Finally, 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.

The governance framework and committee structure as at 30 June 2019 is illustrated below:

ABC BANKING CORPORATION - BOARD STRUCTURE



CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The bank's Constitution provides that the Board of Directors shall consist of not less than 6 or more than 10 directors. The Board is ultimately responsible for the affairs of the bank and the directors are appointed to serve on the Board by the shareholders of the bank at the Annual Meeting of Shareholders. The Secretary to the Board and all Board committees is the Company Secretary.

The Board was comprised of a maximum of 9 members during the year ended 30 June 2019 as follows, and their profiles can be viewed on pages 53-58:

Directors	Category
Hon. Yeung Kam John (Bernard) Yeung Sik Yuen	Independent Chairperson
Prof. Donald Ah-Chuen	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
Hon. Ah Foon Chui Yew Cheong	Independent
Mrs Stephanie Ha Chow	Independent
Mr Bhanu Pratabsingh Jadoo	Independent
Me. Marie Danielle Low Kwan Sang	Independent

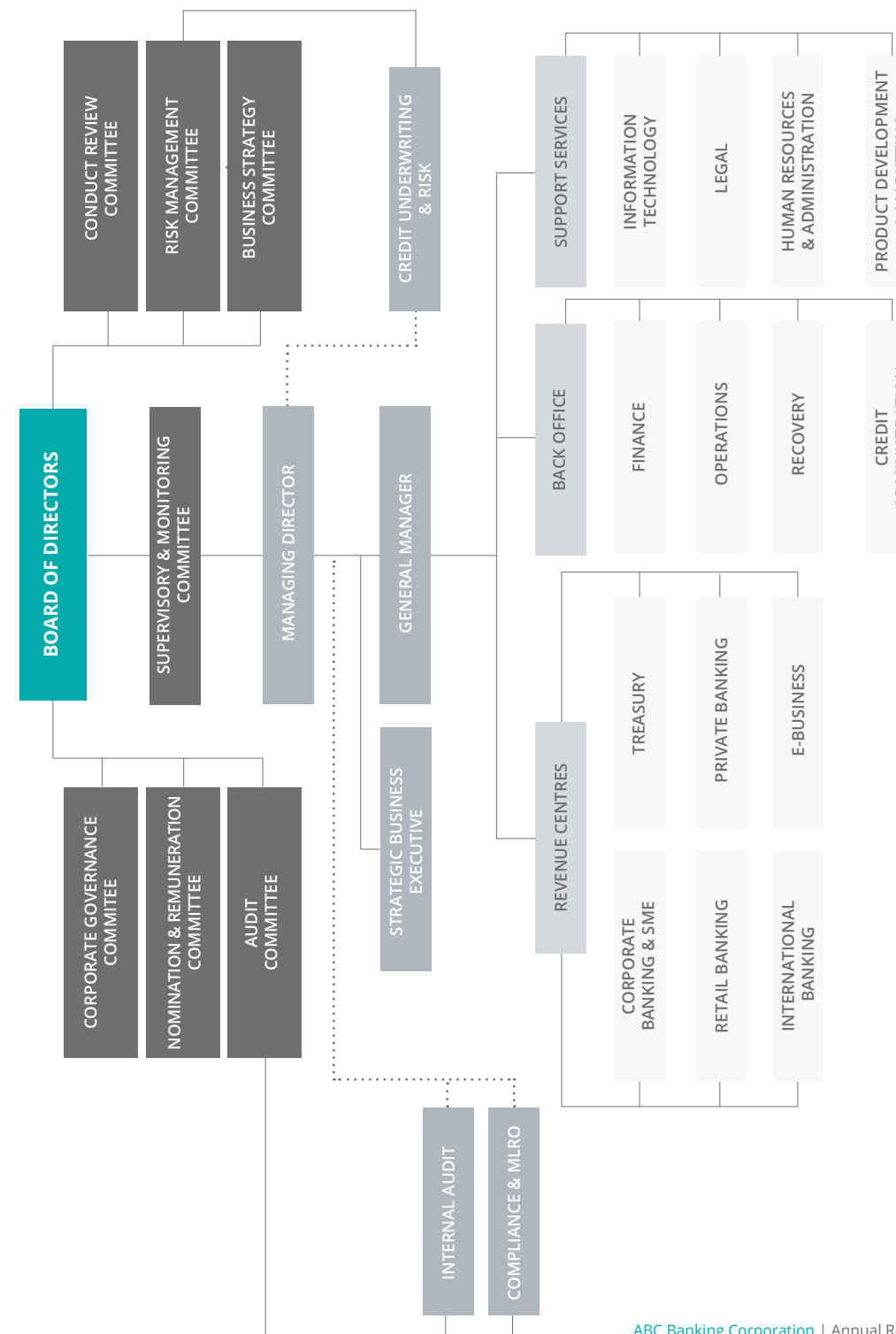
The responsibilities of the Board of Directors are set out in its Board Charter and same is reviewed at least once a year or as may be required by the introduction of or amendment to laws, regulations and practices. The responsibilities of the Board include, but are not limited to:

- 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, business plans and budgets

The Board recognizes the importance of having the required human resources at the key positions and, through the Nominations and Remuneration Committee (NRC), it ensures that all key governance positions are appropriately filled and that such persons are aware of their duties and responsibilities.

It also ensures that the bank is appropriately organised and the Organisational Chart is regularly reviewed by the Supervisory and Monitoring Committee to make sure that the Institution functions in an effective and efficient manner.

ORGANISATIONAL CHART



CORPORATE GOVERNANCE REPORT

PROFILE OF MANAGEMENT TEAM

Senior Management

Prof. Donald Ah-Chuen	Managing Director
Mr David Brian Ah-Chuen	Strategic Business Executive
Mr Yashodaren Umanee	General Manager

Management Team

Mr P. Andrew Leong Son (as from 24 January 2019)	Finance
Mr Abdool Wahab Khadaroo	Credit Underwriting & Risk
Mr Kushal Bajnathsingh	International Banking
Mrs M. A. Christine K.L. Ng Cheong Hin	Internal Audit
Mr Abdullah Nurmahomed	Treasury
Mrs Natasha Jade Wong Chung Ki	Corporate Banking & SME
Mrs Laura Li Shen Pin	Debt Administration & Recovery
Mr Veeramdeve Nem	Compliance
Mr Ashees Maunick (as from 15 February 2019)	Private Banking
Mr Piang Cheong Chin Koon Siw (Until 31 December 2018)	Finance



Mr Yashodaren Umanee
General Manager

Mr Yashodaren Umanee is a banker with over 40 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 ABC Banking Corporation. In July 2011, Mr Umanee joined ABC Banking Corporation Ltd 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 P. Andrew (Andy) Leong Son
Head of Finance

Mr Andy Leong Son has over 10 years of experience in the accountancy and financial sectors both in Mauritius and in the UK. Prior to joining ABC Banking Corporation 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 20 years of experience in the financial services industry. Before joining ABC Banking Corporation 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 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 a Fellow of the Association of Chartered Certified Accountants.



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

Mrs Christine Ng Cheong Hin has more than 15 years of experience acquired on the local & international market. Mrs Ng Cheong Hin was appointed as Head of Internal Audit of ABC Banking Corporation in June 2012. She gained extensive experience in internal audit and consulting whilst working for 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. She was also seconded to the EY Johannesburg office in 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 is also certified in Risk Based Audit from the London School of Business and Finance (UK). Mrs Ng Cheong Hin is also a member of the Institute of Internal Auditors and the Audit Committee Forum in Mauritius.



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 ABC Banking Corporation 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 Limited 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



Mr Abdullah Nurmahomed
Head of Treasury

Mr Abdullah Nurmahomed has 16 years of experience in the financial services industry, out of which 9 years in treasury. Prior to joining ABC Banking Corporation, 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 ABC Banking Corporation 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 Chung Ki has over 10 years of experience in the financial services sector. Mrs Wong Chung Ki joined ABC Banking Corporation in 2015. She was previously an Executive Director for over 10 years at the Mauritian Eagle Leasing (a member of the IBL Group). She also previously held office at DTOS Ltd and Deloitte. She is a Chartered Accountant, a Fellow member of ACCA and holds an MBA in Finance from the University of Leicester, UK. She is also a member of Mauritius Institute of Professional Accountants (MIPA) and Mauritius Institute of Directors (MIoD).



Mrs Laura Li Shen Pin
Head of Debt Administration & Recovery

Mrs Laura Li Shen Pin has more than 10 years of experience in the banking sector. She previously held the position of Accountant at the MCB Group for 7 years where she acquired significant experience in the finance department. Mrs Li Shen Pin joined ABC Banking Corporation 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).



Mr Veeramdeve Nem
Head of Compliance

Mr Veeramdeve Nem has over 30 years of experience in the financial services sector. Prior to joining ABC Banking Corporation, 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 and at Capital Horizons Ltd from 2013 to 2015. From November 2011 to February 2013, he was the Head of Operations and acting MLRO at Bank Internasional Indonesia (Mauritius branch). Mr Nem was also the CFO & COO of the Banque Privée de Fleury Limited from 2015 to 2016 and the Head of Compliance of Seychelles International Mercantile Banking Corporation Ltd (Nouvobanq) before joining ABC Banking Corporation in August 2017. Mr Nem is a member of the Association of Certified Fraud Examiners and of the Association of Certified Anti-Money Laundering Specialists. He holds an MSc in Finance and is also a Fellow member of the Association of Chartered and Certified Accountant (FCCA).



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 Ltee. 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.



Mr Piang Cheong Chin Koon Siw
Head of Finance (until 31 December 2018)

Mr Piang Cheong Chin Koon Siw has more than 10 years of experience acquired on the local & international market. He started his career in the Finance Department of Barclays Capital in Central London. Prior to joining ABC Banking Corporation in March 2012, he was working as Finance Manager in the Investment and Treasury Department of RBS Insurance, UK. He holds a BSc. First Class Honours in Actuarial Science as well as a MSc. in Applied Statistics (Oxon). He is also a member of the Institute of Chartered Accountants (England & Wales).

CORPORATE GOVERNANCE REPORT

PRINCIPLE TWO – THE STRUCTURE OF THE BOARD AND ITS COMMITTEES

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 9 directors in office during the year ended 30 June 2019, out of which, two were executive directors, one was a non-executive director and 6 were independent directors, including the Chairman of the Board. All of them were resident in Mauritius during the financial year ended 30 June 2019. The above composition enables the Board to function effectively and independently under the guidance of the Chairman, Hon. Bernard Sik Yuen. Prof. Donald Ah-Chuen and Brian Ah-Chuen, being the two executive directors, ensure that the policies and strategies approved at Board level are cascaded through the Organization.

Gender Diversity has also been on the forefront of the Board since the setting up of the bank, and, since April 2018, one third of the Board consists of women.

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. Mr 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 (CISI) and the MIOD.

Mr Mahesh Ittoo has 8 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.

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 most recently the Business Strategy Committee. The terms of reference and composition of the Board Committees are summarized below.

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:

- Prof. Donald Ah-Chuen (Chairperson)
- Mr 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 the following:

- reviewing the audited financial statements and quarterly results of the bank before they are approved by the Board
- ensuring that management implements and maintains appropriate accounting, internal control and financial disclosure procedures and review, evaluate and approve such procedures
- reviewing such transactions which can adversely affect the sound financial condition of the bank
- reviewing and approving the scope and frequency of audit exercises
- 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*)
- Mrs Stephanie Ha Chow
- Mr Bhanu Pratabsingh Jadoo (*Appointed as member on 23 November 2018*)
- Mr Marie Jacques Henri Fleurot (*Member until 23 November 2018*)

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 the following:

- 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

CORPORATE GOVERNANCE REPORT

Members of the Risk Management Committee:

- Mr Bhanu Pratabsingh Jaddoo (*Appointed as Chairperson on 13 May 2019*)
- Prof. Donald Ah-Chuen
- Mr Sydney Ah Yoong (*Appointed as member on 7 August 2018*)
- Mrs Stephanie Ha Chow (*Chairperson from 29 November 2018 till 13 May 2019*)
- Mr Marie Jacques Henri Fleurot (*Member until 23 November 2018*)

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 BoM 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 BoM 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:

- Mrs Stephanie Ha Chow (*Chairperson*)
- Hon. Ah Foon Chui Yew Cheong (*Appointed as member on 7 August 2018*)
- Mr Bhanu Pratabsingh Jaddoo (*Appointed as member on 23 November 2018*)
- Mr Sydney Ah Yoong (*Member until 7 August 2018*)
- Mr Marie Jacques Henri Fleurot (*Member until 23 November 2018*)

Nominations and Remuneration Committee

The Nominations and Remuneration Committee has been delegated the responsibility of making recommendations to the Board on all new board appointments. To ensure that the Board remains effective and focused, the Committee will regularly review the balance and effectiveness of the Board, identify the skills needed and those individuals who might best be seen to be providing such skills in a fair and thorough manner.

The Board of Directors, recognizing the need to establish a formal and transparent procedure for developing a fair remuneration policy, has delegated this task to the Nominations and Remuneration Committee. It should be highlighted that, for reasons of self-interest, the Committee's function in relation to the remuneration of non-executives is limited to making recommendations to the full Board.

Members of the Nominations and Remuneration Committee:

- Me. Marie Danielle Low Kwan Sang (Chairperson)
- Hon. Yeung Kam John (Bernard) Yeung Sik Yuen
- Prof. 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 regarding 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 National Code of Corporate Governance.

Members of the Corporate Governance Committee:

- Me. Marie Danielle Low Kwan Sang (Chairperson)
- Hon. Yeung Kam John (Bernard) Yeung Sik Yuen
- Prof. Donald Ah-Chuen

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 a new committee – the Business Strategy Committee to monitor and follow-up on 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:

- The Managing Director – Prof. Donald Ah-Chuen
- The Strategic Business Executive – Mr David Brian Ah-Chuen
- The Chairman of the Audit Committee – Mr Sydney Ah Yoong
- The Chairman of the Risk Management Committee – Mr Bhanu Pratabsingh Jaddoo

CORPORATE GOVERNANCE REPORT

PRINCIPLE THREE – DIRECTORS APPOINTMENT PROCEDURES

SUCCESSION PLANNING

The Board highly rates the importance of a succession plan being in place at the bank as it is a governance framework designed 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 regarding 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

As part of its mandate, the Nomination and Remuneration Committee continuously assesses the balance of skills and experience required at Board level, and whenever the need for an 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 post.
- Prospective directors are identified by the Committee or a consultant.
- Should there be more than one candidate, the profiles of prospective candidates are transparently vetted at the Committee and each shortlisted candidate will be interviewed by the members of the Committee.
- Once a prospective director has been selected, his/her appointment will be put forward to the Board of Directors for appointment until the next Annual Meeting of the Shareholders. Appointment of any director 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.

PROFILE OF DIRECTORS



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

Independent Chairperson

Hon. Bernard Yeung Sik Yuen was appointed as Independent Chairperson of the bank on 20 November 2014 based on his strong leadership skills and vast knowledge of the commercial and banking laws acquired during his enriching career in the Judiciary of Mauritius.

Hon. Bernard Sik Yuen also serves as a Commissioner of the African Commission on Human and Peoples' Rights since 2007 and on the United Nations Committee on the Elimination of Racial Discrimination (CERD) since June 2013.

He 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. Hon. Bernard Yeung Sik Yuen 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.

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. Hon. Bernard Yeung Sik Yuen 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 was appointed as Director of the bank in 2010 and then as Managing Director on 4 January 2012.

Among his other current assignments, Prof. Donald Ah-Chuen holds various directorships in the ABC Group of Companies, among which, ABC MOTORS COMPANY LIMITED a company listed on the Development & Enterprise Market (DEM) of the Stock Exchange of Mauritius (SEM). He is also a director of P.O.L.I.C.Y. Limited, a Company listed on the SEM, and a director of the SEM itself.

He is a former Board Director of the Development Bank of Mauritius (DBM) and the Bank of Mauritius (BoM). His other previous responsibilities include the Presidency of the Mauritius Chamber of Commerce and Industry (MCCI) and the Chairmanship of the Tertiary Education Commission (TEC) of Mauritius. He was also Pro-Vice Chancellor of the University of Mauritius (UOM) and Chairman of the Mauritius Broadcasting Corporation (MBC) during his career.

Professor Donald Ah-Chuen holds an MBA from the University of Strathclyde, UK. He is a Fellow of the Institute of Chartered Accountants in England & Wales, 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 Grand Officer of the Order of the Star and Key of the Indian Ocean (G.O.S.K) in recognition of his valuable contributions in the sectors of Banking & Financial Services and Tertiary Education.

CORPORATE GOVERNANCE REPORT



Mr David Brian Ah-Chuen
Strategic Business Executive

Mr Brian Ah-Chuen was initially appointed as non-executive director of the bank on 8 December 2011 and was later appointed as Strategic Business Executive in 2014. Under his leadership, major projects including the setting up of the Private Banking department in 2016, the opening of the ABC Banking Representative Office in Hong Kong in 2017, and the launching of the ABC Private Banking Lounge in 2018 have been successfully implemented.

Mr David Brian Ah-Chuen previously held various managerial positions within other clusters of ABC Group of Companies. As Executive Director of ABC Autotech Ltd (ABC Automobile Division), he successfully introduced the Alfa Romeo and Fiat brands in Mauritius. Moreover, in a quest for expansion and modernisation, the relocation of Chue Wing & Co. Ltd. (ABC Foods) from Port Louis to Trianon happened during his tenure as Executive Director of the company. He was also the Executive Director of Marina Resort. He is currently Director of ABC MOTORS COMPANY LTD, listed on the DEM.

Mr David Brian Ah-Chuen was a past President of the Chinese Chamber of Commerce and Board Member of the MCCI. He is a Fellow member of the Mauritius Institute of Directors (MIoD) and Alternate Director of the Mauritius Union Group, listed on the SEM.

He holds a BBA Honours from Schulich School of Business, York University, Toronto, Canada.



Mr Patrick Andrew Dean Ah-Chuen
Non-Executive Director

Mr Dean Ah-Chuen was appointed as Non-Executive Director on 13 May 2019. He is currently the Managing Director of ABC MOTORS COMPANY LIMITED, listed on DEM, with overall responsibility for the Automobile Division of the ABC Group of Companies.

He is also an independent director of Harel Mallac & Co Ltd, a company listed on the SEM, and is a Board member of Lovebridge Ltd (a joint private/public project to assist poor income families). Mr Dean Ah-Chuen is a member of the Board of Directors of the Trust Fund for Excellence in Sports and a member of the Board of Directors of Club Maurice, both organisations being set up by the Government of Mauritius.

Previously, he was a director of the Mauritius Post & Cooperative Bank Ltd (MPCB). He also worked in the IT Division of the Westpac Banking Corporation (Australia) and for Toyota Australia before returning to Mauritius in 1994.

Mr Dean Ah-Chuen holds a BA degree in Computer Science, Economics and Mathematics from the University of Sydney (Australia) and an MBA in International Business from the University of Western Sydney.



Mr Sydney Ah Yoong
Independent Director

Mr Sydney Ah Yoong was appointed as Independent Director on 13 September 2016. He is currently also an Independent Director of P.O.L.I.C.Y. Limited, a company listed on the SEM. He holds 38 years of experience at Deloitte, one of Big Four, whereby he rose to the position of Partner before retiring in December 2012. He is a Fellow member of the Association of Chartered Certified Accountants (ACCA) since 1987.



Hon. Ah Foon Chui Yew Cheong
Independent Director

Hon. Ah Foon Chui Yew Cheong was appointed as Independent Director of the bank on 30 April 2018. She is currently the Chairperson of SOS Villages Mauritius, a charitable and non-governmental organisation which was established to promote the alleviation of poverty and to work towards the well-being of children and families in distress.

She retired as a Judge of the Supreme Court in 2017 after having served over 40 years in the legal and judicial service of the country. Hon. Ah Foon Chui Yew Cheong still takes an active interest in the legal and judicial scene of the country. Since 2011, she is 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.

Over the years, she served consecutively as district magistrate, 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. From 2010 to 2014, she was also a mediation Judge.

After studying 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.

CORPORATE GOVERNANCE REPORT



Mrs Stephanie Ha Chow
Independent Director

Mrs Stephanie Ha Chow was appointed as Independent Director on 11 December 2013. Since 2010, she is the Manager of the family business, Ah Koye Ha Chow & Co. Ltd.

She previously worked for more than 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.

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.



Mr Bhanu Pratabsingh Jaddoo
Independent Director

Mr Bhanu Jaddoo was appointed as Independent Director on 23 November 2018. He currently sits on several Private Equity Funds and international boards as Independent Director with a focus on risk management, governance issues and investment management.

During his career, Mr Bhanu Jaddoo has held important executive roles and directorship in entities of the De Chazal Du Mée Group (DCDM) 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).

Mr Bhanu 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.



Me. Marie Danielle Low Kwan Sang
Independent Director

Me. Danielle Low Kwan Sang was appointed as Independent Director on 20 November 2014. She is currently the Notary of many leading local public and private sector companies and of international corporations and she is deeply involved in the application of civil and commercial laws. Me. Danielle Low Kwan Sang has also been closely associated with the legal setup of many innovative projects and has collaborated with eminent jurists, both locally and internationally.

Me. Danielle Low Kwan Sang is also currently the Secretary and Director of the SOS Villages Mauritius. Moreover, she has been with the Association of Notaries of Mauritius since 2008. Previously, she was elected Reporter (1989), Secretary (1990 – 1991) and Chairperson (2006 – 2007) of the then Chamber of Notaries of Mauritius.

Me. Danielle Low Kwan Sang holds a Master's degree in Law with 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.



Mr John Sun Yue Chu
Director (until 20 July 2018)

Mr John Chu (born Jean Ah-Chuen) was appointed as Director on 1 December 2016.

Mr John Chu comes from a strong international accounting and finance background, having previously worked in London, Zambia and Hong Kong for Deloitte and PwC before setting up his own consultancy business.

From 1992-2002, Mr John Chu served as Group Finance Director of ABC Group of Companies. For several years, he also served as an Independent Director of Morgan Stanley India Investment Fund Inc. and India Magnum Fund Ltd., both domiciled in Mauritius.

Mr John Chu holds a Bachelor's Degree in Economics from King's College, University of Durham (UK) and is a Fellow of the Institute of Chartered Accountants in England and Wales. Mr. John Chu was also a member of the Lions Club and the Chinese Chamber of Commerce in Mauritius.

Mr John Chu resigned as Director of ABC Banking Corporation on 20 July 2018 to relocate in Hong Kong.

CORPORATE GOVERNANCE REPORT



Mr Marie Jacques Henri Fleurot

Independent Director (until 23 November 2018)

Mr Henri Fleurot was appointed as Independent Director on 12 December 2012. He is a professional banker with more than 40 years of experience in the banking industry. He joined The Barclays Bank PLC in 1960 and retired in 2001. During his tenure, he occupied the following positions: Manager (Rodrigues Branch), Manager (Foreign Exchange Centre), Internal Auditor, Administration Manager, Corporate Manager, Corporate Director and Deputy Managing Director.

He then joined The Union Commercial Bank Madagascar (now MCB Madagascar) whereby he was appointed Director-General in 2002 until his retirement in 2004.

Mr Henri Fleurot reached the end of his mandate as Independent Director of ABC Banking Corporation on 23 November 2018 following his 6 years of tenure.

PRINCIPLE FOUR – DIRECTORS DUTIES, REMUNERATION AND PERFORMANCE

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.

CODE OF ETHICS

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 characterises 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.

A revised Code of Ethics for Staff and another one for Directors have been adopted by the Board in 2018. 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.

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 ABC Banking Corporation as at 30 June 2019 together with the directors' dealings in shares during the period ended 30 June 2019:

Directors	No. of shares acquired	No. of shares sold	Direct holding	Indirect holding
AH-CHUEN David Brian	-	-	0.37%	0.003%
AH-CHUEN Donald	74,686	-	1.69%	3.45%
AH-CHUEN Patrick Andrew Dean	39,219	-	0.30%	0.005%
AH YOONG Sydney	-	-	NIL	NIL
CHUI YEW CHEONG Ah Foon	-	-	NIL	NIL
HA CHOW Stephanie	-	-	0.14%	0.00%
JADDOO Bhanu Pratabsingh	-	-	NIL	NIL
LOW KWAN SANG Danielle	-	-	NIL	NIL
YEUNG SIK YUEN Bernard	-	-	NIL	NIL

CORPORATE GOVERNANCE REPORT

In accordance with 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 year ended 30 June 2019 have been conducted in accordance with the above guidelines and the code of ethics of the bank.

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 Department 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.

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.

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 was 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.

APPROVAL OF REMUNERATION POLICY

In line 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 MEETING FYE JUNE 2019

	BOARD MEETING	SMC	AUDIT COMMITTEE	RISK MANAGEMENT COMMITTEE	CONDUCT REVIEW COMMITTEE	CORPORATE GOVERNANCE COMMITTEE	NOMINATIONS AND REMUNERATIONS COMMITTEE
AH-CHUEN David Brian	7	36	-	-	-	-	-
AH-CHUEN Donald	8	37	-	3	-	4	4
AH-CHUEN Patrick Andrew Dean	0	-	-	-	-	-	-
AH YOONG Sydney	8	42	5	4	0	-	-
CHU JOHN SUN YUE (Resigned on 20 July 2018)	0	-	-	0	-	-	-
CHUI YEW CHEONG Ah Foon	6	-	-	-	5	-	-
FLEUROT Marie Jacques Henri (Retired on 23 November 2018)	2	-	3	2	2	-	-
HA CHOW Stephanie	7	-	5	4	7	-	-
JADDOO Bhanu Pratabsingh (Appointed on 23 November 2018)	5	-	2	2	5	-	-
LOW KWAN SANG Marie Danielle	8	-	-	-	-	4	4
YEUNG SIK YUEN Bernard (Chairman)	6	-	-	-	-	4	4
Total Number of Meetings	8	42	5	4	7	4	4

CORPORATE GOVERNANCE REPORT

DIRECTORS' REMUNERATION

The Directors' remuneration is annually reviewed by the Nominations and Remuneration Committee (NRC) 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 2019 have been reported on an aggregate basis, due to market sensitivity and confidentiality purposes, on page 72.

PRINCIPLE FIVE – RISK GOVERNANCE AND INTERNAL CONTROL

Risk management refers to the process by which the bank monitors and mitigates its exposure to risk. The objective of risk management is not to eliminate risks altogether but to mitigate them to an acceptable level having regard to the objectives of the bank. For a more detailed analysis of risk, please refer to the Risk Report on page 84.

The bank has established a risk appetite framework where its business objectives are articulated in accordance 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 Audit and Risk Management Committees. Risk reports are presented by the Head of Credit Underwriting and Risk to the Risk Management Committee on a quarterly basis for discussion and material matters are reported to the Board.

The risk management framework, including policies and systems in place to ensure 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.

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 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.

PRINCIPLE SIX – 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 recognises 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

Since 2013, the Corporate Social Responsibility programme of the bank is implemented under the aegis of the Sir Jean Etienne Moilin Ah-Chuen Foundation (referred to as "the Foundation"), which is entrusted to carry out the social mission of ABC Group. The bank has contributed to the tune of MUR 1,456,419 to the Foundation during the financial year ended 30 June 2019.

Named after the founder of ABC Group, the Foundation is a not-for-profit entity that implements CSR projects of companies of the Group under one common programme. Since its inception, the Foundation has earmarked four areas of intervention, namely Community Empowerment, Education, Health & Sports and Environment.

For calendar year 2018, in line with its commitment towards its social partners, the Foundation has disbursed MUR 1.9 million, which was primarily used to support NGOs and the community.

COMMUNITY EMPOWERMENT

The participation of the Company in the empowerment and social development of local communities is one of the Foundation's priorities. In this regard, the Foundation has joined forces with its long-standing partners with the objective of empowering vulnerable communities and promoting inclusive growth.

This year, the Foundation has partnered with Caritas Ile Maurice for the running of the Centre d'Éveil project, which primarily caters for the pre-schooling of children coming from vulnerable families. The Foundation also reiterated its partnership with SAFIRE for the Cycling Academy project, which aims at the rehabilitation and reintegration of street-connected children and youth, using sports as a catalyst.

The Foundation has also supported the Lovebridge Project, an NGO with whom it has been collaborating for the past four years. The latter has for main objective poverty alleviation through the empowerment and support of vulnerable families.

Other NGOs that benefitted from the Foundation's support under Community Empowerment include the SOS Children's Village and the Mouvement Pour le Progrès de Roche Bois for its Club de lecture et écriture project.

CORPORATE GOVERNANCE REPORT

EDUCATION

Education is an enabler of economic and social development. In this context, the Foundation created the Sir Jean Etienne Moilin Ah-Chuen Foundation Scholarship Scheme, to allow full-time students coming from underprivileged backgrounds to pursue tertiary and vocational training in Mauritius.

In 2018, the Foundation has granted 10 scholarships to deserving students enrolled in undergraduate courses at the University of Mauritius and 5 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.

This year, the Foundation, in partnership with the University of Mauritius, has launched the ABC Group Shield of Excellence, a programme that aims at rewarding best performers enrolled in Law & Management and Engineering undergraduate faculties at this tertiary institution. The programme's main objective is to recognise and reward the best deserving students studying at the University of Mauritius and includes a cash prize and an internship opportunity within a company of ABC Group.

The Foundation also reiterated its support towards Terrain for Interactive Pedagogy Through Arts (TIPA) for its interactive pedagogy programme in ZEP schools. Of note, the NGO has been active with ZEP schools since 2007 and has ever since supported the teaching of Arts and the development of skills and values through the conduction of weekly creativity classes with the collaboration of teachers.

HEALTH & SPORTS

Sport is a powerful tool for social integration and has always been a core component of our business. Over the years, the Foundation and the ABC Group have partnered with several athletes that have brought Mauritian sport to new heights and who have garnered international recognition for their outstanding performances.

In 2018, the Foundation reiterated its partnership with the Trust Fund For Excellence in Sport, with the objective of supporting local athletes and contributing to their success in international competitions.

In the same vein, the Foundation partnered with two major sports organisations in Mauritius, namely the Fédération Mauricienne de Kickboxing et Disciplines Assimilées and the Magic Club de Quatre Bornes to support two outstanding high-level athletes; world kick-boxing champion Fabrice Bauluck and para-athlete Noemi Alphonse, who was the 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 in 2018.

ENVIRONMENT

The future of our planet heavily depends on our capacity to protect the environment. 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.

This year also, the Foundation joined forces with the Mauritius Wildlife Foundation for two major projects, namely the Echo Parakeet Conservation Project and the Rare Plant Project. Both projects aim at protecting and restoring critical components of the native flora and fauna.

Concerned by the protection of the environment and sustainable development, the Foundation partnered with 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.

The Foundation also joined hands with 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.

EMPLOYEE INVOLVEMENT

Since its creation in 2013, the Foundation has always encouraged employee involvement in its charitable and social actions.

In December 2018, the Foundation organised a Christmas Day for 120 needy children residing in the vicinity of Roche Bois and Camp Yoloff, with the support and participation of the Group's Staff Welfare Committees.

The event saw the active participation of employees of the Group, who helped with its organisation and who donated gifts, collected during an internal gift donation campaign, to all 120 children.

PRINCIPLE SEVEN – AUDIT

INTERNAL AUDIT

The Board recognises 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 can assess the current state of affairs and provide valuable recommendations to management.

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 41. The Head of Internal Audit also has direct access to the Chairman of the Audit Committee and has regular meetings with him.

Internal Audit is carried at the bank as per the Internal Audit Plan which is approved by the Audit Committee on an annual basis. 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 meetings. The scope of action of the Internal Audit has no restriction to any aspect of the bank.

CORPORATE GOVERNANCE REPORT

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 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 Team. The final proposal of Ernst & Young Mauritius was 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. Ernst & Young has since been reappointed twice by the Shareholders of the bank at the Annual Meeting. The maximum tenure of Ernst & Young will be five years in accordance with the provisions of the Banking Act 2004.

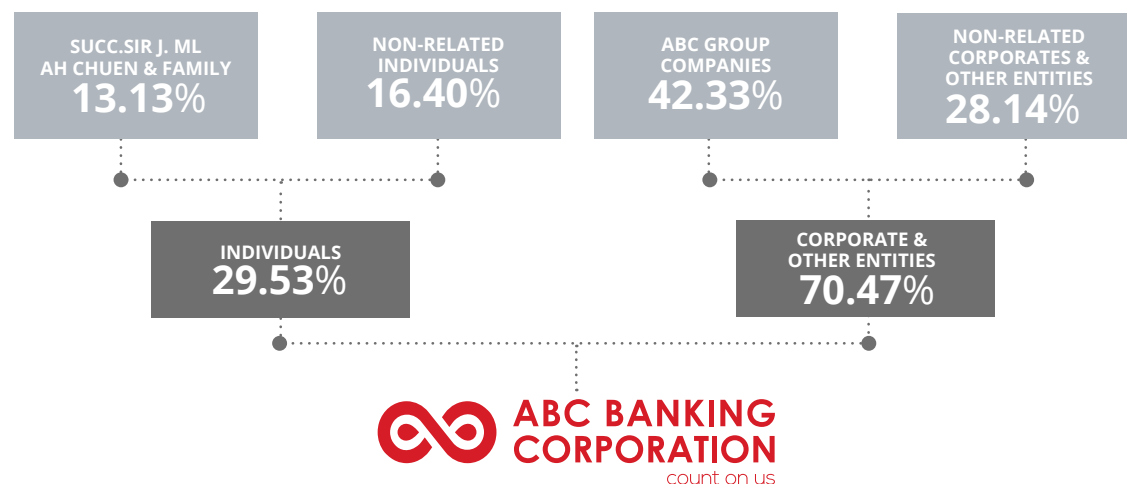
The external auditors meet the Audit Committee at least twice a year to discuss the audit plan prior to the statutory external audit exercise, and to present the audit findings and report at the end of the exercise.

PRINCIPLE EIGHT – 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

ABC Banking Corporation forms part of the ABC Group of Companies and, as at 30 June 2019, the shareholding structure of the bank was as follows:



As of 18 January 2016, all 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 and attend to any query or request which the shareholders may have with respect to the bank.

The Board views the shareholders of the bank as one of the key stakeholders of the bank and much efforts are put to ensure that the bank continuously meets all the expectations of the shareholders. Through various conversations with the shareholders at previous meetings, the following have been identified as being the shareholders' main expectations:

- A steady and sustainable growth in return on equity, dividend yield and share price
- Display of high levels of corporate governance and ethics by the Board and Management
- Effective management of risk, capital and liquidity within a conservative risk appetite approach
- Smooth communication line between the shareholders and bank

Through the implementation of the following frameworks, the Board has ensured that over time, all the expectations of the shareholders were being met:

1. Since the last few years, the bank has been financially managed to generate a constant return on equity of about 16% such that it can maintain a dividend pay-out ratio of about 23% of the profits available for distribution. With respect to the share price, the bank's ordinary shares have experienced an increase of about 56% since its introduction on the DEM.
2. Through strict adherence to the new National Code of Corporate Governance the Board ensures that the bank is properly governed to gear it towards success.
3. The Board has overseen the implementation of rigorous risk management frameworks during the past 9 years to ensure that all keys risks of the bank were properly identified and managed during the course of business to ensure that the shareholders' capital and clients' deposits were being efficiently deployed. The bank's risk management framework is further detailed in the Risk Management Report on page 84.
4. The office of the Company Secretary has always ensured that any query from any shareholder was promptly attended to and communicated to the Board if required. The bank also holds its annual meetings in a well-located building in Port Louis for ease of access of all shareholders of the bank. The shareholders are invited to engage with the members of the Board, senior management and the external auditors at the end of each annual meeting. Since 2016, the bank has also implemented the electronic communication system to considerably reduce the amount of paper involved in the printing of annual reports and accelerate the communication with shareholders.

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	149
1,000 – 9,999	139
10,000 – 19,999	31
20,000 – 49,999	45
50,000 – 99,999	31
100,000 – 499,999	45
500,000 – 999,999	7
1,000,000 – 4,999,999	16
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.

STAKEHOLDER ENGAGEMENT

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 senior officers of the bank also regularly engage in the several forums with the other banks and the BOM to improve the banking industry.

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 its regulators to whom it always assures its cooperation.

Customers

The bank recognizes the vital importance of customers in its activities as, without them, there would be no business. Customers are therefore central to every management decision, and management and staff must endeavour to achieve customer satisfaction.

Regular training sessions are carried internally to ensure that the customers receive the best service from our employees. The bank also engages in the regular review of all its procedures to ensure smooth delivery of service to the customers.

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 1,805 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 193 employees and currently employs approximately 49% of women within the organisation.

Suppliers and other Strategic Partners

During the course of its business, the bank is required to engage with several suppliers and strategic partners to deliver non-core activities. The bank strives to be a fair and reasonable partner in all its contractual engagements.

Community

The bank is fully conscious of the importance of its role as a bank, employer and member of the Mauritian Society. As mentioned on page 63, the bank, through the Sir Jean Etienne Moilin Foundation – the entity of the ABC Group responsible for carrying Corporate Social Responsibility activities, fully engages with the Community to carry programmes around sports, education and alleviation of poverty.

The Board wishes to point out that the new website of the bank was still under construction and hence, certain documents are yet to be published. Assurance has been received from management that publication will be done in the governance section as soon as the new website is up and running.

STATEMENT OF COMPLIANCE

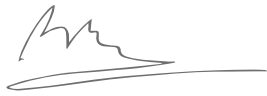
(SECTION 75 (3) OF THE FINANCIAL REPORTING ACT)

NAME OF PUBLIC INTEREST ENTITY: ABC BANKING CORPORATION LTD

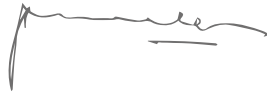
Reporting Period: 30 June 2019

Throughout the year ended 30 June 2019, 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: 24 September 2019



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



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

OTHER STATUTORY DISCLOSURES

(PURSUANT TO SECTION 221 OF THE COMPANIES ACT 2001)

PRINCIPAL ACTIVITY

ABC Banking Corporation Ltd 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 2019 were as follows:

Hon. 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

Mrs Stephanie Ha Chow

Mr Bhanu Pratabsingh Jaddoo

Me. Marie Danielle Low Kwan Sang

Mr Sydney Ah Yoong

Hon. Ah Foon Chui Yew Cheong

Directors' interests in shares of the bank are set out on page 59 of the annual report. No directors have any service contract with the bank.

DIRECTORS' EMOLUMENTS

During the financial year ended 30 June 2019, the executive directors received emoluments amounting to MUR 19,172,558 (2018: MUR 18,655,000) and non-executive directors received MUR 2,853,000 (2018: MUR 2,046,000).

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:

	2019	2018
	MUR	MUR
Donations	51,150	87,672
Political Donations	-	-
	51,150	87,672

AUDITORS

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

	2019	2018
	MUR	MUR
Audit Services	1,850,000	1,900,000
Other Services*	300,000	550,000
	2,150,000	2,450,000

Note: Other services for 2019 include review of tax services and the assessment of capital on issue of medium-term notes.

Approved by the Board of Directors on 24 September 2019 and signed on its behalf by:

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

Professor Donald Ah-Chuen, G.O.S.K.
Managing 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 2019, all such returns as are required of the Company under the Companies Act 2001 in terms of section 166(d).



Mahesh Ittoo, ACIS MCSI
For **ABC Professional & Secretarial Services Ltd**
Company Secretary
24 September 2019

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 2019.

Approved by the Board of Directors on 24 September 2019 and signed on its behalf by:

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

Mr Bhanu Pratabsingh Jaddoo
Member
Audit Committee

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATING ENVIRONMENT

GLOBAL CONTEXT

The International Monetary Fund (IMF) has revised down global growth as financial markets have been suppressed by two major issues over the past few months. In the first place, trade tensions were heightened after the United States further increased tariffs on certain Chinese imports, and in turn, China retaliated by increasing tariffs on US imports. Other pressing issues were uncertainty surrounding trade agreements between the United Kingdom and the European Union, and the Free Trade Area encompassing Canada, Mexico and the United States.

Global growth has been projected down 0.1% lower than the April 2019 forecast, at 3.2%, with an improvement to 3.5% in 2020. The downgrades in forecast were mainly explained by the simulated impact of the trade tensions on China and emerging Asia. Meanwhile, the projected pickup in 2020 would rely on a supportive financial market sentiment, and stabilisation in some stressed emerging economies.

On the back of the sluggish world growth, major Central Banks have adopted a dovish tilt starting with the Fed cutting its rates by 25 basis points for the first time in more than a decade. Markets are now pricing in a 98% chance of another 25-basis points rate cut at the Fed's next September meeting. In turn, chances of the dollar weakening further have risen as most Fed officials have been sending out dovish signals. In the meantime, the inverted US yield curve, which is usually seen as a sign of recession, indicates worrisome days ahead, although this predictive model has lost its accuracy lately.

Brexit developments took a new turn when Prime Minister Theresa May resigned and was replaced by Boris Johnson. The new Prime Minister has offered some relief from uncertainty with an extension to 31 October 2019 Brexit date, explaining the upward revision in growth to 1.3% in 2019 and 1.4% in 2020. The forecast was based on the assumption of an orderly Brexit followed by a gradual transition. However, as of writing, the ultimate regime was still surrounded by uncertainty.

A more cautious approach has been adopted by other Central Banks, as investors are anticipating more monetary policy easing, and this has allowed financial markets environment to regain their poise, in the hope that these stimuli are not blunted by the already escalating trade tensions nor by a disorderly Brexit.

LOCAL CONTEXT

The gross domestic product of Mauritius was at 3.3% (year-on-year), down from a 4.4% reading in the previous quarter while the annual inflation rate grew to 0.8% in July 2019. The main pressure coming from prices of food and non-alcoholic beverages, furnishings, restaurants and hotels, and recreation and culture. The unemployment rate fell to 6.90% in the latest reading as opposed to 7.00% in the second quarter of 2018.

The Key Repo Rate reached an all-time low at 3.35% when the Bank of Mauritius decided to slash its rate by 15 basis points at its monetary policy meeting in August 2019. This cut was prompted by a worsening international economic outlook on heightened trade tensions between the two giants in world trade.

The Central Bank maintains its quest in trying to absorb the excess liquidity which still plagues the domestic rupee market (at MUR 12.8 billion at the latest reading). This year, along with MUR sterilization during FX interventions, the Central Bank has issued Treasury Certificates and Silver Bonds with the dual purpose of trying to mop excess liquidity and offer more interesting terms to retail savers. However, there is little so far that these instruments have done to push yields up.

With the local textile and tourism sectors contracting, we have seen magnified volatility in the local foreign exchange market. Overall FX positions also witnessed contrasted fortunes, moving from an excessively liquid one to a shortage in a small lapse of time.

Domestic economic growth is set to maintain a positive momentum towards the end of 2019, with the main contributors being the construction, financial and insurance activities, real estate, accommodation and food service activities. The real GDP growth rate is expected to be around 3.9% in 2019, and at 4.00% in 2020.

BUSINESS SEGMENTS

DOMESTIC BANKING

For the financial year 2018-2019, domestic banking, made up of Corporate banking, Retail banking and Private Banking continued to grow with an expansion in our loans and advances to reach Mur 7.6 billion as at 30 June 2019. Our gross loan book has known a noticeable increase of 26% as compared to 19% last year, despite competition remaining fierce within such a small domestic market. The bank managed to maintain its progression as a result of its well-defined strategies, the dedication and professionalism of the staff. In its continuous effort to deliver a prime customer experience, the bank invested in its system, people and processes to improve the business efficiency which also contributed to the actual results. The SME sector remains an important cluster to which the bank brings its support on top and above the yearly participation in the SME and Micro Financing scheme. Our retail banking has fared well particularly in the leasing business, which has known a growth of 33% in that sector. After the launch of the private banking lounge in July 2018, the bank has appointed a new Head of Private Banking in the year who with his experience in International Wealth Management in France and La Reunion has laid the foundation for significant expansion. The pipeline is also promising in different product offerings. With focus on fast and quality service coupled with efficient operational process and a strengthening capital base, the bank is optimistic to maintain the growth momentum.

TREASURY OPERATIONS

Profit from trading activities fell 13% to MUR 81 million on the back of a challenging international context, whereby the bank chose quality over quantity. This consolidation phase is expected to lead to more sustained long-term growth prospects. More assets were engaged in higher yielding activities, namely corporate bonds, resulting in higher interest income. Our investment portfolio increased by 4%, reflecting greater activity in this asset class and generating MUR 296 million in interest revenue. The contribution of the department was MUR 380 million.

The department launched its ALM function at the beginning of the financial year aiming to generate efficiencies in capital, asset and liability management. Continuous investment in training, personnel and software will help attain set targets for the desk.

We continue to explore ways to make treasury dealings as convenient as possible for our business partners. We have taken numerous initiatives promoting this effort, leveraging on technology and our skills to benefit our customers. The bank has embarked on an ambitious digital enhancement journey, the first step of which is the implementation of a Treasury and ALM solution. We are confident that the use of technology coupled with our savoir-faire and customer proximity will enable us deliver on our promises.

RISK REPORT

1. HIGHLIGHTS FOR FINANCIAL YEAR ENDING JUNE 2019.

• Asset Quality

The bank recorded a sustained improvement in asset quality with its impairment ratio on a continuous decline. Non-Performing Loans (NPL) ratio of the bank dropped to 0.9% as at 30 June 2019. Non-Performing Loans improved from MUR 85 million as at 30 June 2018 to MUR 71 million as at 30 June 2019.

Gross loans and advances expanded by 26%, from MUR 6.2 billion to MUR 7.8 billion during the financial year ending 30 June 2019, notably driven by lending to large corporates and leasing customers.

• Coverage ratios

Specific provision as a percentage of NPL went up from 93% as at June 2018 to 96% as at June 2019 based on non-performing loan book.

• Sovereign risk

As at end of June 2019, investment in foreign currency securities totaled equivalent to MUR 2.1 billion from equivalent MUR 2.2 billion as at end of June 2018. This is mainly due to the maturity of investment in foreign securities amounting to MUR 203 million as at June 2019.

Total investments in Bank of Mauritius and Government Bonds and Notes has decreased from MUR 3.0 billion as at June 2018 to MUR 2.8 billion as at June 2019, due to maturity of some long term govt papers. However, Investment in local treasury bills expanded from MUR 227 million as at June 2018 to MUR 675 million as at June 2019.

• Country Risk

Exposure in Europe declined from 17% as at June 2018 to 6% as at June 2019 on the back of a decrease in placements and Nostro accounts mainly in United Kingdom (Standard Chartered Bank London). The growth in exposure in Mauritius from 68% to 81% over the same period is on account of increase in placements in SBM Bank (Mauritius) Ltd and Barclays bank Mauritius Ltd, and increase in loans and advances to domestic companies. A decrease in exposure in North America is noted from 5% to 1% over the same period, mainly due to a reduction in nostro account balance with Standard Chartered Bank New York.

• Bank risk

Risk weighted claims on banks remained stable at MUR 1,079.3 million as at June 2019. In terms of bank risk, we note a drop in exposure on A1 – A3 bank credit ratings over the financial year due to a reduction in Nostro accounts with Standard Chartered Bank New York. As for Unrated banks, exposure increased mainly due to placements with Barclays Banks Plc amounting to MUR 532.6 million. Exposure on Baa1-Baa3 rated banks dropped due to a decrease in placement with Standard Chartered London.

• Sector concentration

The top 4 sectors being Manufacturing, Tourism, Construction, and Financial & Business Services made up 62% of total credit exposures. Tourism sector contributed the highest concentration at 20.7%. Credit exposure to Construction and Tourism sector experienced the highest growth during the financial year ending 30 June 2019.

• Funding Mix and Loan to deposit ratio

Deposits expanded to MUR 15.2 billion as at June 2019 (June 2018 MUR 15.0 billion). MUR deposits expanded to 50.8% from 48% as at June 2018, whilst FCY deposits dropped from 52% as at June 2018 to 49.2% of total deposits as at June 2019.

Net Loan to deposit ratio went up from 40.5% as at June 2018 to 50.1% as at June 2019 with the increase in loans and advances book.

• Compliance and Regulatory risk

Compliance and Regulatory risk have become significant in the light of changing Regulatory environment and the setting up of the Risk Based Supervisory framework by the Bank of Mauritius. The compliance department ensures timely identification and impact assessment of regulatory changes. With its fully automated Anti-Money Laundering Software – Oracle Financial Services Analytical Applications (OFSAA), the SWIFT Sanctions Screening and the World Check Risk Screening Solution which are being used by the Compliance Department in its monitoring process, the bank has noted an improved effectiveness in its controls which enables a compliance culture that is driven by strategy, focused on added business values embedded in the bank's governance, planning and day to day operations.

• Capital management

Capital Adequacy Ratio (CAR) stood at 19.1% as at June 2019 (2018 – 15.2%). During the year, the bank's Common Equity Tier 1 (CET1) capital position grew to MUR 1,759 million as at June 2019 from MUR 1,484.7 million as at June 2018. Tier 1 Capital Adequacy Ratio (Tier 1 CAR) decreased to 14.2% as at June 2019 from 14.3% as at June 2018. Risk weighted assets expanded to MUR 12,361.9 million as at June 2019 from MUR 10,385.8 million as at June 2018.

The ratios are above the minimum regulatory limit of 10.5% (Tier 1 CAR) and 12.5% (CAR) effective as from 1 January 2020. The bank ensures that capital levels at all times exceed the minimum capital requirements.

• Operational risk

No operational loss reported for the financial year ended June 2019.

RISK REPORT

2. RISK GOVERNANCE STRUCTURE

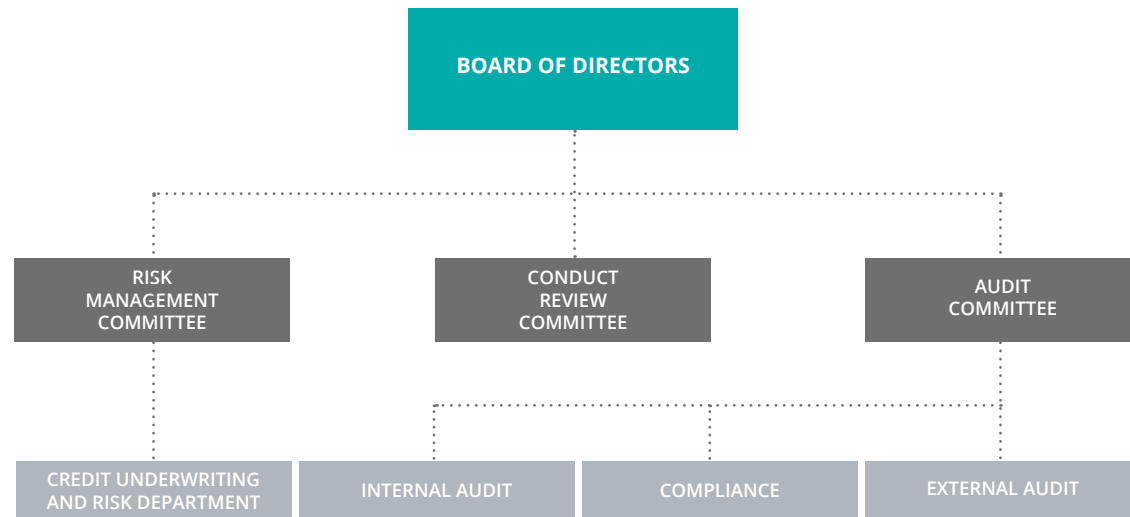
The risk management process comprises of the following steps:



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.

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 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.

RISK REPORT

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 maintaining:

- Appropriate limits on risk taking.
- Adequate systems and standards for measuring risk.
- Standards for valuing positions and measuring performance.
- A comprehensive interest rate risk reporting and interest rate risk management review process.
- Effective internal controls.

ALCO is also responsible for

- Analysing monthly reports of the bank's liquidity exposure and monitoring exposure against the limits.
- Reviewing and monitoring interest rate risk and recommending to the Risk Management Committee for approval alterations in the features, terms, rates or prices of the bank's deposit and loan products in order to reduce market risk.
- Recommending the selling or purchasing of securities with defined features or terms in order to reduce market risk, to the Board or Risk Management Committee for approval.
- Monitoring the bank's use of borrowed funds, as it deems appropriate for the management of risk.

Role of ALCO as regards Internal Capital Adequacy Assessment Process (ICAAP)

- Review and recommend to the Board the capital plan of the bank at annual intervals and lay down capital planning process and responsibilities as well as contingency planning for dealing with deviations and unexpected events like restrictions on business activities.
- Develop an internal strategy for maintaining adequate capital, which reflects desired level of risk coverage, expected balance sheet growth, future sources and applications of fund, acquisitions, new products and services, market image, strategic goals.
- Review and appraise the capital management, targets and planning of the bank.
- Ensure that stress testing and scenario analysis have been carried out to arrive at capital adequacy level.
- Ensure that new risks arising out of events like new product launch, new business, changes in concentration, changes in the quality of portfolio or in overall economic scenario have been properly incorporated in the risk assessment.
- Apprise the Board of Directors on the capital adequacy level.

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 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 summarized 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

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 Bonds and Notes from MUR 3,009 million as at June 2018 to MUR 2,764 million as at June 2019. Investment in local treasury bills increased from MUR 227 million to MUR 675 million as at June 2019.

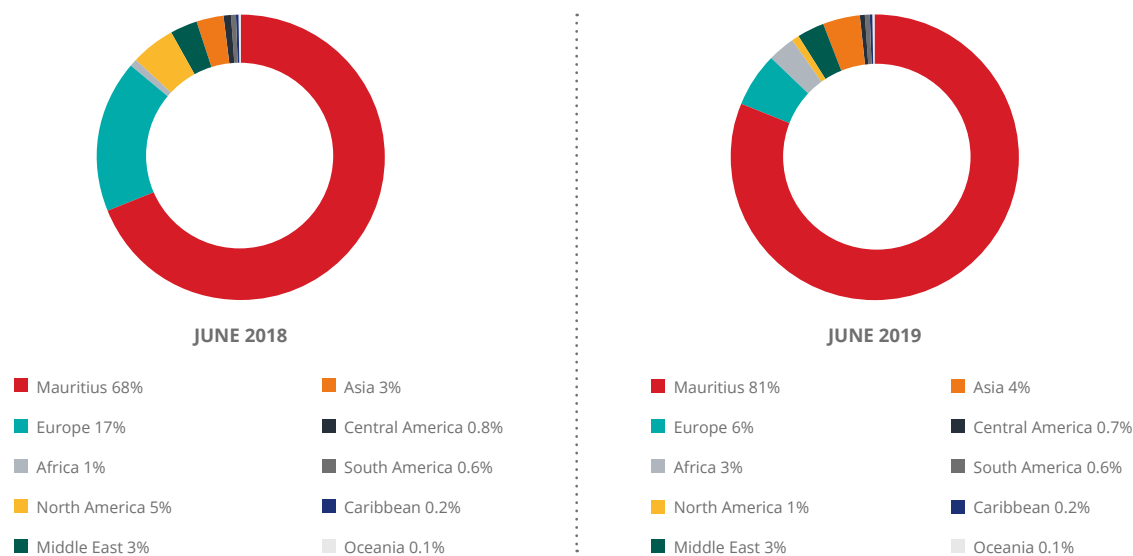
4.3.2 Country Risk

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.



Domestic exposure as a percentage of total exposure increased by 13%, from 68% as at 30 June 2018 to 81% as at 30 June 2019 on account of an increase in placements in SBM Bank (Mauritius) Ltd and Barclays Bank Plc, and increase in loans and advances to domestic companies.

Exposure to Europe went down from 17% of total exposure as at 30 June 2018 to 6% of total exposure as at 30 June 2019 on account of decrease in placements mainly in France and United Kingdom.

As for Africa, exposure increased from 1% as at 30 June 2018 to 3% as at 30 June 2019 due to an increase in placements in Ghana and South Africa. A drop-in exposure in North America is noted from 5% to 1% over the same period, mainly due to a reduction in Nostro account balance with Standard Chartered Bank New York.

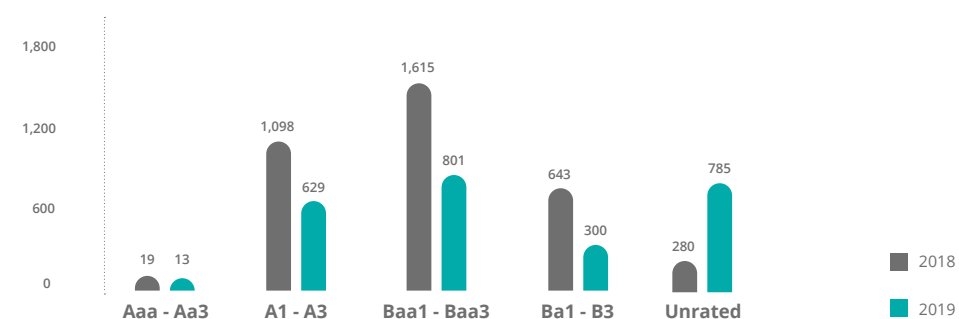
4.3.3 Bank risk

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)



We note a significant decrease in exposure on A1 – A3 bank credit ratings over the quarter due to a decrease in Nostro Accounts with Standard Chartered Bank New York. As for exposure on with Unrated banks, exposure increased mainly due to placements with Barclays Bank Mauritius Ltd amounting to MUR 532.6M. Exposure on Baa1-Baa3 dropped due to decrease in placement with Standard Chartered London. Ba1-B3 declined due to decrease in placement with Zenith Bank and Vakiflar Turkey Bank.

RISK REPORT

4.3.4 Sector Concentration

Table 1: Sectorwise Distribution

SECTOR	Exposure (out bal)						Exposure (out bal)						
	Jun 18			Jun 19			Jun 18			Jun 19			
	Segment A	Segment B	TOTAL	Segment A	Segment B	TOTAL	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	(MUR M Equiv.)	% of Total Exposure
Agriculture and Fishing	616.34	10%	-	0.0%	616.3	7.8%	401.79	5%	-	0.0%	401.8	4.2%	
Manufacturing	1,028.95	16%	221.4	13.5%	1,250.3	15.8%	1,057.60	13%	185.3	12.8%	1,242.9	13.0%	
Tourism	993.24	16%	260.6	15.9%	1,253.9	15.9%	1,454.28	18%	479.4	33.2%	1,983.7	20.7%	
Transport	349.38	6%	2.1	0.1%	351.4	4.5%	379.11	5%	1.3	0.1%	380.5	4.0%	
Construction	527.25	8%	40.8	2.5%	568.1	7.2%	1,234.44	15%	47.5	3.3%	1,282.0	13.4%	
<i>of which</i> <i>Commercial,</i> <i>Residential and</i> <i>Land Parcelling</i>	262.76	4%	-	0.0%	262.8	3.3%	785.47	10%	-	0.0%	785.5	8.2%	
Global Licence Holders	-	0%	751.4	45.8%	751.4	9.5%	-	0%	687.4	47.6%	687.4	7.2%	
Traders	873.73	14%	-	0.0%	873.7	11.1%	996.87	12%	-	0.0%	996.9	10.4%	
ICT	21.60	0%	-	0.0%	21.6	0.27%	69.86	1%	-	0.0%	69.9	0.73%	
Financial & Business Services	1,287.08	21%	295.3	18.0%	1,582.4	20.1%	1,438.11	18%	38.8	2.7%	1,476.9	15.4%	
Infrastructure	7.38	0%	-	0.0%	7.4	0.1%	1.13	0%	-	0.0%	1.1	0.0%	
Professional	17.02	0%	63.2	3.9%	80.3	1.0%	15.75	0%	-	0.0%	15.8	0.2%	
Health Development	0.42	0%	-	0.0%	0.4	0.0%	1.29	0%	-	0.0%	1.3	0.0%	
Education	4.72	0%	-	0.0%	4.7	0.06%	6.26	0%	-	0.0%	6.3	0.07%	
Media entertainment	10.09	0%	-	0.0%	10.1	0.13%	14.80	0%	-	0.0%	14.8	0.15%	
Other services	124.94	2%	4.6	0.3%	129.6	1.6%	419.06	5%	3.1	0.2%	422.2	4.4%	
Personal	389.10	6%	-	0.0%	389.1	4.9%	599.52	7%	-	0.0%	599.5	6.3%	
Total	6,251.2	100.0%	1,639.5	100.0%	7,890.7	100%	8,089.9	100.0%	1,442.9	100.0%	9,582.8	100%	

RISK REPORT

Tourism became the sector with the highest exposure at 20.7%. 62% of total exposures was concentrated in 4 top sectors being Manufacturing, Tourism, Construction, and Financial & Business Services. All sectors are within the respective internal limits approved by the Board.

Exposures to Segment B decreased from MUR 1,640 million (20.8%) as at June 2018 to MUR 1,443 million (15.1%) as at June 2019, due to selective strategy on cross border deals.

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 top credit exposures (group and single).

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

Group and Single Exposure	Net Exposure incl commitments at 30.06.19 (MUR M)	Exposure and Undrawn Commitments as a % of Tier 1
1	549.4	31.2%
2	514.1	29.2%
3	482.8	27.4%
4	477.6	27.1%
5	461.0	26.2%
6	431.2	24.5%
7	429.1	24.4%
8	356.0	20.2%
9	335.8	19.1%
10	306.0	17.4%
11	301.8	17.2%
12	266.4	15.1%
13	226.3	12.9%
14	220.1	12.5%
15	209.4	11.9%
16	200.0	11.4%
17	180.2	10.2%
Total	5,947.3	338.1%

As at 30 June 2019, 13 groups of connected counterparties and 4 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 2019, the bank's exposure to related parties in category 1 and category 2 represented 29.9% 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 525.3 million (29.9% of Tier 1 Capital) as at June 2019, up from MUR 486.5 million (32.8% of Tier 1 Capital) as at June 2018.

Same was within the regulatory limit set by the Bank of Mauritius. The top 5 exposures to related parties aggregated MUR 340.1 million (19.3% of Tier 1 Capital) as at 30 June 2019 from MUR 337 million (22.7% of Tier 1 Capital) as at 30 June 2018.

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

Top 6 Exposure to Related Parties	Exposure as at 30.06.19 (MUR M)	% of Tier 1 Capital
1	101.1	5.7%
2	95.6	5.4%
3	62.4	3.5%
4	41.0	2.3%
5	40.0	2.3%
Total	340.1	19.3%

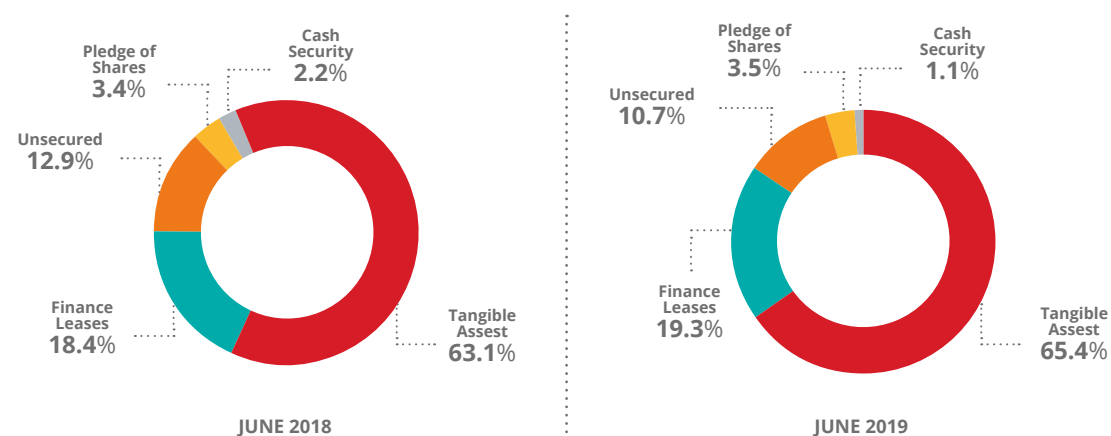
None of the facilities granted to related parties was impaired. The facilities granted to related parties are approved by the Conduct Review Committee.

4.4 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.

RISK REPORT

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



65.4% of exposure was secured against fixed/floating charges as at June 2019 from 63.1% as at June 2018. The proportion of unsecured facilities dropped from 12.9% as at June 2018 to 10.7% as at June 2019.

4.5 ACCOUNT MONITORING AND RECOVERY

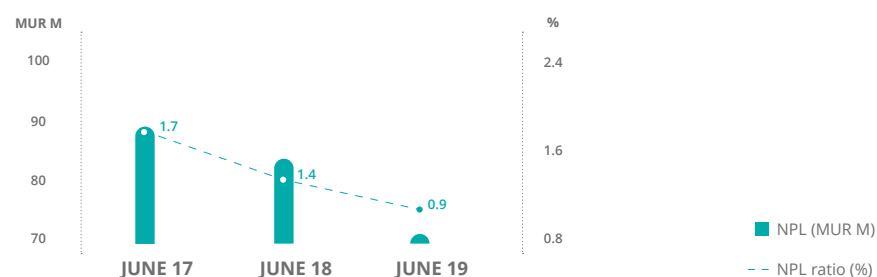
Credit granted and borrowers are monitored on an ongoing basis. Restructuring of facilities is undertaken on a case by case basis, taking into account the repayment capacity of the borrower.

Key Indicators of Credit Quality

Ratio	As at 30 June 2017	As at 30 June 2018	As at 30 June 2019
Non-Performing Loans (NPLs)/ Gross loans and advances	1.7%	1.4%	0.9%
Specific Provision/ Non-Performing Loans	93%	92.7%	96.4%

Table 4: Key Indicators of asset quality

NPLs as a percentage of gross loans and advances decreased from 1.4% as at 30 June 2018 to 0.9% as at 30 June 2019. Specific Provision as a percentage of NPL increased from 92.7% as at 30 June 2018 to 96.4% as at 30 June 2019.



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 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.

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.

RISK REPORT

Liquidity Risk Management

- Manage intra-day liquidity positions
- Monitor Interbank Outstanding Balances
- 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

Contingency Liquidity Risk Management

- Monitor and manage early warning liquidity indicators
- Maintain contingency funding plans

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.

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 remained stable at MUR 15.2 billion as at June 2019. FCY deposits dropped from 52% as at June 2018 to 49% of total deposits as at June 2019, whilst MUR deposits increased from 48% to 51% over the same period.

Net Loan to deposit ratio increased from 40.5% as at June 2018 to 50.1% as at Jun 2019 with the increase in loans and advances book.

42.1% of deposits were consumer deposits as at June 2019. 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 10.74% as at June 2019 (June 2018: 7.30%)

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 2019, 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 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%	

As at June 2018

	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	7,075.5	270.9	805.1	762.4	3,039.7	1,878.3	3,440.4	17,272.3
Liabilities	5,004.5	384.6	399.6	595.3	1,325.5	-	7,884.2	15,593.7
On Balance sheet interest rate repricing gap	2,071.0	(113.7)	405.5	167.1	1,714.3	1,878.3	(4,443.9)	1,678.7
Cumulative repricing gap	2,071.0	1,957.4	2,362.9	2,529.9	4,244.2	6,122.5	1,678.7	
As a % of total assets	12.1%	11.4%	13.8%	14.8%	24.8%	35.8%	9.8%	

RISK REPORT

Repricing Gap - MUR

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	4,971.9	137.2	312.6	578.9	2,225.3	1,059.0	1,276.3	10,561.3
Liabilities	4,576.2	548.5	549.2	749.8	1,384.6	500.0	661.0	8,969.3
On Balance sheet interest rate repricing gap	395.7	(411.3)	(236.6)	(170.9)	840.8	559.0	615.3	1,592.0
Cumulative repricing gap	395.7	(15.6)	(252.2)	(423.1)	417.7	976.7	1,592.0	
As a % of total MUR assets	3.7%	-0.1%	-2.4%	-4.0%	4.0%	9.2%	15.1%	

Repricing Gap - EUR

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	1,410.8	-	156.9	202.0	583.9	264.2	416.8	3,034.6
Liabilities	-	-	-	-	-	-	2,086.4	2,086.4
On Balance sheet interest rate repricing gap	1,410.8	0.0	156.9	202.0	583.9	264.2	(1,669.6)	948.2
Cumulative repricing gap	1,410.8	1,410.8	1,567.6	1,769.6	2,353.6	2,617.8	948.2	
As a % of total EUR assets	46.5%	46.5%	51.7%	58.3%	77.6%	86.3%	31.2%	

Repricing Gap - USD

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	2,604.01	-	109.55	425.10	531.22	-	410.15	4,080.03
Liabilities	826.43	285.07	15.52	-	-	-	3,849.39	4,976.41
On Balance sheet interest rate repricing gap	1,777.57	(285.07)	94.03	425.10	531.22	-	(3,439.24)	(896.38)
Cumulative repricing gap	1,777.57	1,492.51	1,586.54	2,011.64	2,542.86	2,542.86	(896.38)	
As a % of total USD assets	43.6%	36.6%	38.9%	49.3%	62.3%	62.3%	-22.0%	

The risk 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

Management of interest rate risk is measured from 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 static 12 months period assuming a static position.

Analysis of 50 basis points movement up and down on interest earning assets and interest-bearing liabilities has been carried out for respective currencies as below.

The table indicates that a 100 basis points decrease in interest rate for MUR will have a positive impact of MUR 4.1 million as at 30 June 2019 (MUR 11.8 million as at June 2018) on our profit and loss and vice versa in the event of an increase. In the above estimations, the positive impact of re-pricing maturing high cost term deposits at more favorable rates, which will contribute positively to the bottom-line has not been taken into account. In order to reduce the interest rate risk on MUR, the bank's aim is to grow the floating rate assets in line with the growth in floating rate deposits.

Currency	Change in Basis Points	Sensitivity of Profit or Loss and Equity MUR M
EUR	+50	+3.0
	-50	-3.0
USD	+50	+8.0
	-50	-8.0
MUR	+50	-2.0
	-50	+2.0
	+100	-4.1
	-100	+4.1

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 limits, 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.

RISK REPORT

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 6.2 billion as at 30 June 2018 to MUR 6.5 billion as at 30 June 2019.

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 104,356/- as at 30 June 2019 as compared to MUR 116,396/- as at June 2018.

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 operational loss has been reported for the financial year ended June 2019.

7 INFORMATION TECHNOLOGY RISK

IT Risk 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 and resolution. 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.

RISK REPORT

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 recognizes 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 standard in terms of compliance practices.

Regular training is provided to ensure employees are kept informed of regulatory obligations and changes. 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 monitors compliance risks by ensuring that the bank complies with all the relevant banking and anti-money laundering laws and guidelines issued by regulatory bodies. The compliance function has the responsibility to ensure a sound compliance-risk management framework which helps to identify the risks and propose measures to mitigate the compliance issues which may arise at the bank.

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 solution and enables real-time blocking of potential violations thus allowing us to deal with any AML issues in a timely manner. The alerts generated by the AML software are dealt with by the compliance department as part of its monitoring exercise on a daily basis.

To mitigate AML risks, the Compliance Team deals with alerts generated under OFSAA AML software under seven scenarios, including cash transactions, pattern of transactions and large reportable transactions. Where deemed necessary, the nature and purpose of transaction and origin/ source of funds are scrutinized by the Compliance Team. Additionally, for inward and outward remittances, the SWIFT Sanction Screening system carries necessary checks on a daily basis. World Check One software, on the other hand, carries out name checks for other AML risks by cross-checking against the FATF list of high-risk and non-cooperative jurisdictions, UNSC list, PEP lists and internal blacklists, amongst others.

The bank is also putting in place systems and procedures to comply with the new requirements of the Common Reporting Standards (CRS) which is the automatic exchange of information and 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.

Other changes following new rules and Regulations, as the one stated below have also been taken on board when drafting our AML policy.

- 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; and
- The Anti-Money Laundering and Combatting the Financing of Terrorism and Proliferation (Miscellaneous Provisions) Act 2019

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 Audit Plan which is approved by the Audit Committee at the beginning of each financial year.

Internal Audit is defined as an independent, objective assurance and consulting activity designed to add value and improve an entity's operations. It helps an entity accomplish its objectives by bringing a continuing, systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Source: IIA).

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.

Over the last quarter, Internal Audit successfully completed four follow-up reports as per its Audit Plan, including those on EY IT General Controls, review of database SYS logs, and follow-up on internal vulnerability assessments and external penetration testing reports. Further, two standard audits on Nostro Account reconciliations (Treasury Middle Office) and Inward and Outward Remittances (Operations Department) were also completed. Internal Audit team was also present during the year end cash count at Branch.

RISK REPORT

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. As from 01 January 2019, the minimum regulatory Tier 1 CAR is 9.875% and CAR is 11.875%. As from 01 January 2020, the minimum regulatory Tier 1 CAR will be 10.5% and CAR is 12.5%.

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:

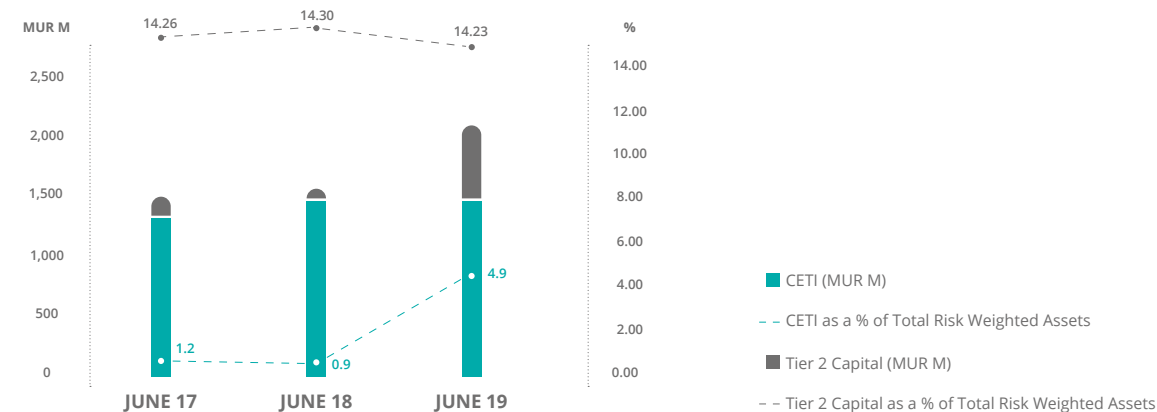
Table 6: Capital Ratios

Capital Ratios (%)	As at June 2017	As at June 2018	As at June 2019
Capital Base	MUR M	MUR M	MUR M
Tier 1 Capital	1,309	1,485	1,759
Tier 2 Capital	106	90	600
Total Capital Base	1,415	1,574	2,359
Total Risk Weighted Assets	9,181	10,386	12,362
CET1 CAR	14.3%	14.3%	14.2%
Tier 1 CAR	14.3%	14.3%	14.2%
CAR	15.4%	15.2%	19.1%

Buffers

	MUR M
Tier 1 Buffer	770
Total Capital Buffer	1,123
Total Capital Buffer with Minimum Capital Conservation Buffer	891

At least 9.875% of risk weighted assets needs to be covered by Tier 1 as from 01 January 2019. Tier 1 CAR and CAR were within the regulatory limits as at end of June 2019.



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.

1. 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;
2. It sets out a forward-looking capital planning and forecasting of capital requirements; and
3. 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.

RISK REPORT

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

	Mgt Acs Jun-19	Audited Jun-18	Audited Jun-17
	MUR '000	MUR '000	MUR '000
Common Equity Tier 1 capital: instruments and reserves			
Ordinary shares capital	762,718.7	762,718.7	762,718.7
Share premium	177,776.8	177,776.8	177,776.8
Retained earnings	644,126.8	478,529.0	322,022.5
Accumulated other comprehensive income and other disclosed reserves	186,555.5	91,315.0	77,762.0
Common Equity Tier 1 capital before regulatory adjustments	1,771,177.8	1,510,339.4	1,340,280.1
Other intangible assets	(2,263.1)	(4,351.9)	(6,819.6)
Deferred tax assets	(9,710.1)	(21,307.5)	(24,025.1)
Total regulatory adjustments to Common Equity Tier 1 capital	(11,973.3)	(25,659.4)	(30,844.7)
Common Equity Tier 1 capital (CET 1) and Tier 1 capital	1,759,204.5	1,484,680.1	1,309,435.4
Tier 2 capital: instruments and provisions			
Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital	500,000.0	-	24,996.2
Provisions or loan-loss reserves	99,641.3	89,458.3	80,597.2
Tier 2 capital before regulatory adjustments	599,641.3	89,458.3	105,593.4
Tier 2 capital (T2)	599,641.3	89,458.3	105,593.4
Total Capital (capital base)	2,358,845.8	1,574,138.3	1,415,028.8
Risk Weighted Assets			
Total on-balance sheet risk-weighted credit exposures	11,132,846.3	9,349,031.5	8,318,055.5
Total non-market-related off-balance sheet risk-weighted credit exposures	343,555.0	280,666.7	215,651.1
Total market-related off-balance sheet risk-weighted credit exposures	13,112.7	-	-
Risk weighted assets for operational risk	852,377.7	744,038.9	625,748.5
Aggregate net open foreign exchange position	19,961.2	12,108.3	21,181.6
Total risk weighted assets	12,361,853.0	10,385,845.4	9,180,636.7
Capital ratios (as a percentage of risk weighted assets)			
CET1 capital ratio	14.2%	14.3%	14.3%
Tier 1 capital ratio	14.2%	14.3%	14.3%
Total capital ratio	19.1%	15.2%	15.4%

The bank has maintained the Tier 1 capital ratio and the Capital Adequacy Ratio above the limits set by the Bank of Mauritius. The bank ensures that capital levels at all times exceed the minimum capital requirements.

	Mgt Acs Jun-19		Audited Jun-18	Audited Jun-17
Risk Weighted Assets	Amount	Weight	Weighted amount	Weighted amount
Risk weighted of On-Balance Sheet assets	MUR M	%	MUR M	MUR M
Cash items	11.3	0-20	-	-
Claims on sovereigns	4,373.8	0-100	317.5	335.4
Claims on central banks	1,484.7	0-100	151.0	101.4
Claims on banks	2,490.3	20-100	1,079.3	1,107.9
Claims on corporates	6,422.0	100	6,250.2	5,371.7
Claims on regulatory retail	583.8	75	437.9	309.3
Claims secured by residential property and commercial estate	942.4	35-125	1,000.4	513.2
Past due claims	0.9	50-150	0.4	3.3
Others	1,896.1	100	1,896.1	1,606.8
Total On-Balance Sheet	18,205.2		11,132.8	9,349.0

	Mgt Acs Jun-19		Audited Jun-18	Audited Jun-17
Risk weighted of Off-Balance Sheet assets	Amount	Credit conversion factor	Credit equivalent amount	Weight
	MUR M	%	MUR M	%
Trade related contingencies	121.5	20%	79.2	20-100
Outstanding commitments	1,321.9	20%	264.4	100
Total Off-Balance Sheet	1,443.4		343.6	

	Jun-19	Jun-18	Jun-17
Risk weighted Assets for Operational risk	MUR M	MUR M	MUR M
Average gross income for last 3 years	568.3	496.0	417.2
Capital Charge	85.2	74.4	62.6
Risk weighted assets for operational risk	852.4	744.0	625.7

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)	4,473	4,379
CASH OUTFLOWS		
2 Retail deposits and deposits from small business customers, of which:		
3 <i>Stable deposits</i>	-	-
4 <i>Less stable deposits</i>	4,431	443
5 <i>Unsecured wholesale funding, of which:</i>	331	33
6 <i>Operational deposits (all counterparties)</i>	6,580	1,645
7 <i>Non-operational deposits (all counterparties)</i>	290	119
8 <i>Unsecured debt</i>	-	-
9 Secured wholesale funding	-	-
10 Additional requirements, of which:		
11 <i>Outflows related to derivative exposures and other collateral requirements</i>	556	556
12 <i>Outflows related to loss of funding on debt products</i>	-	-
13 <i>Credit and liquidity facilities</i>	1,097	183
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	322	16
16 TOTAL CASH OUTFLOWS	13,607	2,994

LCR COMMON DISCLOSURE TEMPLATE

	TOTAL UNWEIGHTED VALUE (quarterly average of monthly observations) (MUR. M)	TOTAL WEIGHTED VALUE (quarterly average of monthly observations) (MUR. M)
CASH INFLOWS		
17 Secured funding (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	1,871	1,732
19 Other cash inflows	559	559
20 TOTAL CASH INFLOWS	2,429	2,291
		TOTAL ADJUSTED VALUE (MUR. M)
21 TOTAL HQLA		4,379
22 TOTAL NET CASH OUTFLOWS		955
23 LIQUIDITY COVERAGE RATIO (%)		458%
24 QUARTERLY AVERAGE OF DAILY HQLA		4,500

Notes:

- The reported values for 'quarterly average of monthly observations' are based on April, May and June 2019 month end figures. The number of data points used for the calculation are 3.
- The reported values for 'quarterly average of daily HQLA' are based on end of daily figures over the 1 April 2019 to 30 June 2019's period. The number of data points used for the calculation are 91.

As at 30 June 2019, the bank's LCR stood at 335% whereas the quarterly average of monthly observations for the Quarter ended 30 June 2019 was 458%, 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 4.4 billion (quarterly average of monthly observations for the Quarter ended 30 June 2019 was at MUR 4.3 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.

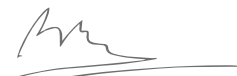
The bank has designed and maintained its accounting systems, related internal controls and supporting procedures, to provide reasonable assurance that financial records are complete and accurate and that assets are safeguarded against loss from unauthorised use or disposal. These supporting procedures 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.



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



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



Mr Bhanu Pratabsingh Jadoo
Member
Audit Committee

24 September 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Domestic macroeconomic conditions remained volatile and much impacted by international ramifications. Inflation prints for many months remained under 1%, a historical low for Mauritius. Subdued import prices explained much of this bleak figure. Excess liquidity persisted, leading to persistent low yields. The government issued another retail savings product, the Silver Bond, this time targeting the aged population. Growth improved to just shy of 4.00% on the back of mushrooming infrastructure projects (Metro, Road Decongestion etc.). The latter abetted in keeping unemployment in check, below 7.00%. The economy is expected to grow by 4.00-4.10% next year. On the monetary front, the BoM cut the repo rates by 0.15%, closely imitating other emerging central banks (e.g. South Africa). The move is expected to insulate the country against possible headwinds.

The international context remained challenging as trade wars continued between the US and China, plaguing markets into uncertainty. The US economy however performed relatively well, as stock markets treaded to recorded new highs. The FED still decided to cut interest rates by 0.25% after waves of hikes. Europe face hard times ahead on mediocre growth and the Brexit weight. Overall market volatility contributed to a subdued international context.

E-BUSINESS

In line with the bank's objective to embrace innovation, the bank continued to further develop the cards and payment businesses. Amongst the different project initiated, 2 main milestones were set in 2018. On the Payment side, ABC Banking Corporation, in partnership with UnionPay International launched "QR Pay" in December 2018. QR Pay is a UnionPay QR Code based payment acceptance solution which we have implemented in a view to provide tourists coming from Mainland China a payment option for their purchases in Mauritius.

The bank launched its first card usage campaign that ended in December 2018. The aim of the campaign was to increase usage on our cards through Point Of Sales terminals and online transactions. Several prizes were awarded to winners of draws effected at the end of the campaign. This campaign resulted into an increased usage/spent of 316%.

The bank has embarked on its digitalisation journey and will come forward with innovative solutions which will definitely lead to an easier and more convenient banking experience. After all, Customer experience is at the centre of all solutions that we are planning to bring on the market.

INTERNATIONAL BANKING

International Banking remains a key cluster for the bank to expand his international reach. With Mauritius positioning itself as an International Financial Centre, the bank is looking on leveraging off the advantages of doing business in Mauritius. The department plays an integral role in the bank's strategy to build up its foreign currency deposit, mainly US dollars and Euros; and is also a key contributor to the Fees and Commission income line. Having set up a Representative Office in Hong Kong for over 2 years now, the bank has strengthen its position in the Asian market and is looking to leverage off Hong Kong's intention to be an integral link in the One Belt One Road initiative of China. With the expansion strategy already in place, the International Banking cluster has an important role to play to leverage off its international network but also make use of new technologies to keep growing the ABC Banking name on an international level.

PERFORMANCE AGAINST OBJECTIVES

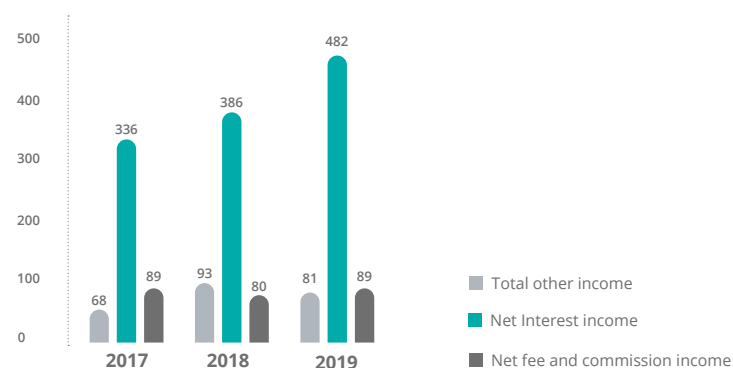
Area of performance	Objectives for FY 2018-19	Actual for FY 2018-19	Objectives for FY 2019-20
Net Interest Income	Net Interest Income to increase by around 15% with the bank's strategy to develop its loans and advances and investments portfolio further.	Net Interest Income of the bank grew by 25% following to an expansion in loans and advances portfolio and due to an efficient management of liquidity.	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.
Non-Interest Expenses	The bank intends to expand its activities in the coming years and the year 2018-19 will act as steppingstone to achieve such objectives. Non-interest expenses are expected to increase significantly with required investment in people, assets and technology.	Non-Interest Expense increased by 26% with the increase primarily due to the change in classification of special levy of MUR 20 million as operating expense as opposed to income tax expense as per last year.	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.
Productivity (Non-interest expense as a % of the sum of Other income and Net interest income before impairment)	With the aim to achieve its strategy in the coming years, the bank expects a higher cost to income ratio of 48% for the year 2018-19.	Cost to income ratio is at 50%, and this is again linked to the change in classification of the special levy.	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.
Return on Equity (Net profit/Equity)	ROE is expected to drop slightly below recent years' results due to expected efforts geared towards the expansion strategy of the bank.	ROE for the year ended was at 13% slightly decrease due to the bank's expansion strategy.	Maintain a ROE of about 15%.
Return on Average Total Assets	Aim to achieve ROA of above 1% whilst embarking on a strategic expansion.	Return on average total assets stood at 1.3%.	The bank aims to keep ROA above 1% for the year 2019/2020.
Portfolio Quality	With well-defined credit underwriting and recovery processes, the bank aims to keep the NPL ratio below industry average.	The NPL ratio decreased from 1.4% to 0.9% as at 30 June 2019.	Following our well-defined strategy set, the bank aim to keep lowering its NPL ratio.
Deposit from Customers	The bank aims to achieve a 15% deposit growth for the year ended 2018-19 with increase in Segment B deposits.	Total deposit portfolio has increased by 2% over the year.	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.
Loans and other Advances portfolio	Expand the loans and advances portfolio by around 15%.	The loans and advances portfolio increased by 26% which is above the set objective.	The bank will target to achieve growth in the loan and advances portfolio at a greater pace than the year before.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF CORE FINANCIAL PERFORMANCE

OPERATING INCOME (MUR)

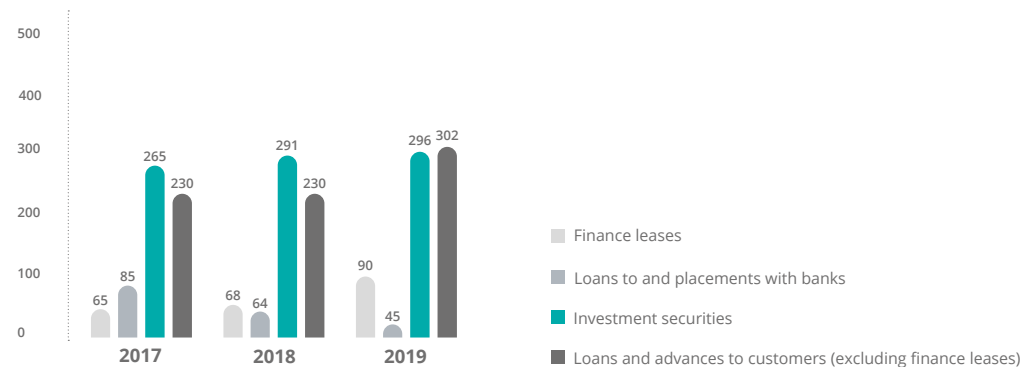
Operating income stood at MUR 652 million for the year ended 30 June 2019 representing an increase of 16.6% compared to last year MUR 559 million. The main drivers of revenues remain Net Interest Income with an increase of 25.0% and Net Fees and Commission income with an increase of 10.2%. Other Income witnessed a drop of 12.9%. The contribution of Net Interest Income towards total Operating Income represents 74.0% for the year ended 30 June 2019 compared to 69.0% last year.



NET INTEREST INCOME (MUR)

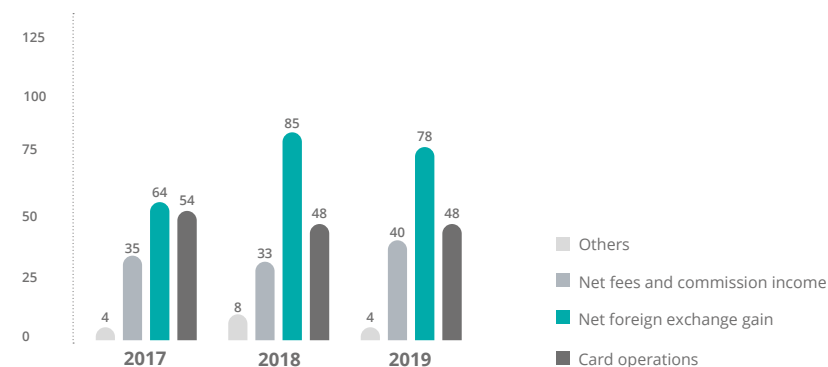
The bank generated an interest income of MUR 734 million for the year compared to previous year figure of MUR 653 million, representing a growth of 12.4%, mainly driven by an increase in the loans and advances portfolio and an efficient management of liquidity whereby excess funds were channelled to short term investment products. Interest Expense has decreased by 6.0% from MUR 267 million to MUR 252 million primarily driven by a decrease in the average balance of term deposits and saving balances over the year. The bank witnessed an increase in Net interest income for the year amounting to MUR 482 million compared to MUR 386 million the previous year.

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



NON-INTEREST INCOME (MUR)

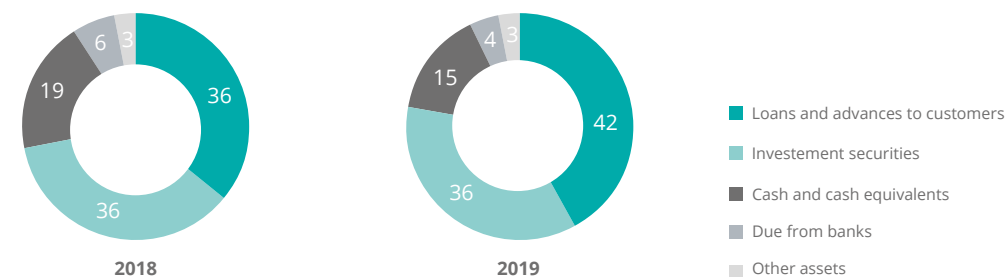
Non-Interest Income witnessed a decrease of 2.2% compared to last year to reach MUR 170 million. Net foreign exchange gain stood at MUR 78 million as at 30 June 2019 compared to 85 million last year, representing a fall of 9.0%. The card operations remain stagnant for the year ended 30 June 2019. Net fees and commission income showed a slight increase to stand at MUR 40 million.



ASSET MIX (%)

The bank's total assets expanded by 6.3% from MUR 17.1 billion at 30 June 2018 to attain MUR 18.2 billion as at 30 June 2019 driven mainly by a significant increase in Loans and advances to customers of MUR 1.6 billion and investment securities of MUR 259 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 42% and 36% respectively of the bank's asset mix for the year ended 30 June 2019.

The following chart represents the Bank's asset mix for the year ended 30 June 2019 and 30 June 2018 respectively:



INVESTMENT SECURITIES

The bank's investment portfolio stood at MUR 6.5 billion as at 30 June 2019, which represents a growth of 4.1% compared to 30 June 2018. The bank also dynamically managed its sovereign holdings to optimize return and minimize interest rate risks. Investment in local securities has seen a growth of 26.3% due to investment in corporate bonds for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

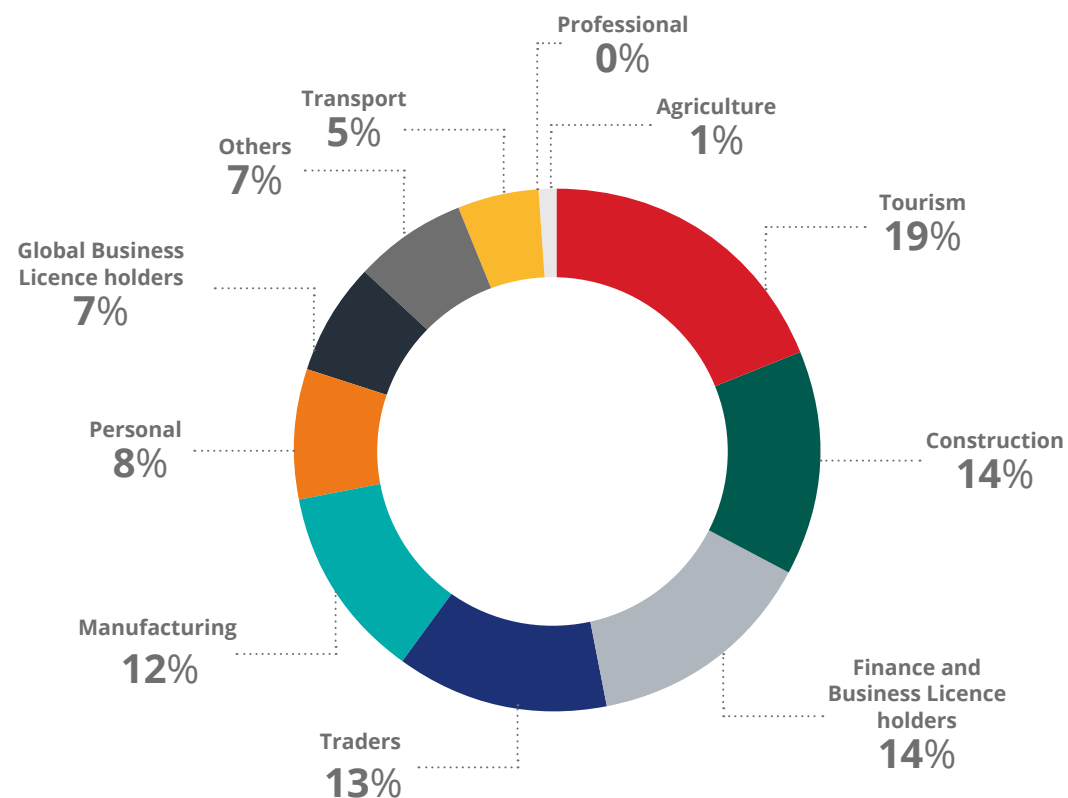
CASH AND CASH EQUIVALENTS

Cash and cash equivalents stood at MUR 2.7 billion compared to last year's MUR 3.3 billion. The bank witnessed a fall of 55.7% in balances with banks abroad compared to 30 June 2018. The decrease in cash and cash equivalents is mainly due to effective use of excess liquidity as driven by the ALM desk.

CREDIT EXPOSURE

The bank's gross loans portfolio increased by 26% to reach MUR 7.6 billion as at 30 June 2019 compared to last year's MUR 6.1 billion. In the financial year 2019 and in line with last year's approach, the bank's primary objective was to mitigate its level of credit concentration risk by maintaining a diversified portfolio across the different economic sectors. By adopting this strategy, the bank was also able to extend its exposure to an emerging sector that is the Energy sector. The largest borrowers of the bank though remain in the sectors of Tourism, Financial & Business Services, Construction, Traders and Manufacturing, with slight variances in the loan portfolio mix.

CREDIT EXPOSURE BY SECTOR AS AT 30 JUNE 2019 (%)



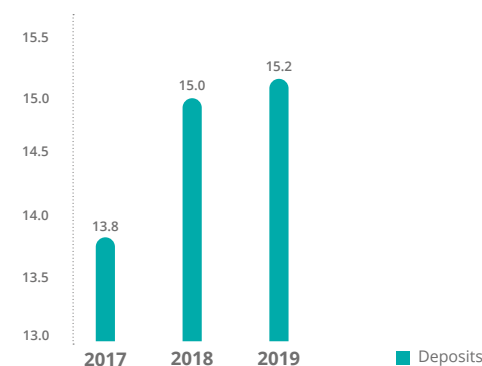
PROVISIONING AND ASSET QUALITY

The bank's allowance for credit impairment on financial assets increased from MUR 10 million last year to MUR 57 million in 2019. This increase is mainly due to the application of IFRS 9 and the fluctuation in the calculation methodology parameters. The new standard applies the concept of Expected credit losses which is based on numerous factors such as GDP and inflation. During the year, the bank noted less favourable forward going indicators, thus resulting in an increase in provision required.

On the other hand, the bank's non-performing loan ratio of 0.9% has witnessed a further decrease compared to last year's 1.4% demonstrating strict compliance to credit underwriting and recovery procedures and risk benefit analysis.

DEPOSITS (MUR BN)

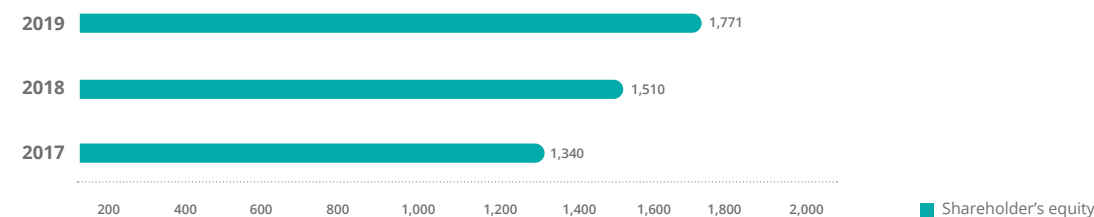
The bank's deposit base experience a slight increase of 2% to reach MUR 15.2 billion as at 30 June 2019 (2018: MUR 15.0 billion). The Current and Savings deposit portfolio, which was accounted for 72.4% of total deposits as at 30 June 2019, suffered a decrease of 3.6 % from 11.4 billion in 2018 to 11.0 billion in 2019. On the other hand, the bank has been able to increase its term deposits portfolio from 3.5 billion in 2018 to 4.2 billion in 2019, representing a growth of 20%.



CAPITAL RESOURCES

As at 30 June 2019, the bank's Shareholders' equity stood at MUR 1,771 million (2018: MUR 1,510 million). The rise in equity was driven by a growth of 46.0% in retained earnings after accounting for a dividend payment of MUR 55.7 million and other reserves. The bank issued a first series of MUR 500 million subordinated Tier 2 bonds under its MUR 2 billion Multicurrency Medium Term Note Programme by way of private placement to further strengthens its capital base and its ability to maintain its steady growth path. In doing so, the Bank was also able to increase the Capital Adequacy Ratio to 19.2% compared to last year's 15.2%.

SHAREHOLDERS' EQUITY (MUR M)



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 122 to 216 which comprise the statement of financial position as at 30 June 2019, 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 2019, 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), 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

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.

The bank has net loans and advances portfolio of MUR 7.6 billion at 30 June 2019. As explained in the accounting policies, these loans and advances are carried at amortised cost, less allowance for credit impairment of MUR 68.4 million for impaired facilities and MUR 94.4 million for non-impaired facilities respectively.

Where exposures were determined to be credit impaired our procedures focused on assessing the reasonability of the estimate of the expected future cash flows used in measuring the ECL. This include testing the following elements:

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.

1. Where exposures are collateralised, we tested the bank's legal right to the collateral, as well as the valuation model assumptions and external market.
2. 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.
3. We independently assessed the provisioning methodologies and policies and formed an independent view on the levels of provisions booked based on the detailed loan and counterparty information contained in the credit files. We also re-performed calculations within a sample of discounted cash flow models and assessed the reasonableness of assumptions used to support the timing and extent of the cash flows.

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.

We also ensured that all credit impaired loans have been properly identified by management by:

1. Reviewing the minutes of the Risk Management Committee, Board Credit 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.

AUDITOR'S REPORT

Key Audit Matter (Cont'd)

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. 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).
3. Use of forward looking information to determine the likelihood of future losses being incurred.
4. Qualitative adjustments made to model driven ECL results raised to address model limitations, emerging risks and trends in underlying portfolios which are inherently judgemental.
5. Accuracy and adequacy of the financial statement disclosures.

How the matter was addressed in the audit (Cont'd)

IFRS 9 was implemented by the bank on 01 July 2018. This new standard requires the bank to recognise expected credit losses (ECL) on financial instruments which involves significant judgement and estimates to be made by the bank.

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;
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;
7. Review of the PD and LGD calculations including the incorporation of forecast macro-economic information by our data modelling specialists;
8. Tested the accuracy and completeness of the ECL model by reperformance and focussing on exception reports.
9. We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards including disclosure of transition from IAS 39.

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.

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.

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.

AUDITOR'S REPORT

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, related safeguards.

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



ANDRE LAI WAN LOONG, F.C.A. Licensed by FRC

Date: 24 September 2019



**WE ATTACH
GREAT VALUE TO
OUR PEOPLE.
OUR EMPLOYEES
ARE OUR
GREATEST
ASSETS, OUR
PURPOSE, OUR
PRIORITY.**



count on us

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	2019 MUR	2018 MUR	2017 MUR
ASSETS				
Cash and cash equivalents	9	2,732,131,072	3,276,741,586	4,317,358,970
Due from banks	10	698,739,467	1,030,811,338	1,183,314,188
Derivative financial assets	11	3,763,559	4,289,595	4,407,594
Loans and advances to customers	12	7,635,939,083	6,054,488,404	5,095,744,575
Investment securities	13	6,479,991,942	6,223,153,289	4,716,445,587
Other assets	14	99,997,305	94,025,588	31,223,839
Property and equipment	15	512,458,466	394,861,578	372,510,402
Intangible assets	16	2,263,140	4,351,872	6,819,610
Deferred tax assets	17	9,710,148	21,307,487	24,025,071
Total assets		18,174,994,182	17,104,030,737	15,751,849,836
LIABILITIES				
Due to banks	18	-	110,061,479	-
Derivative financial liabilities	11	5,812,757	2,774,759	16,531,096
Deposits from customers	19	15,239,475,798	14,966,194,318	13,803,065,697
Preference shares	20	145,202,573	145,340,753	265,749,768
Subordinated debts	21	505,070,890	-	-
Current tax liabilities		23,979,561	30,924,434	23,175,879
Other liabilities	23	484,274,838	338,395,576	303,047,345
Total liabilities		16,403,816,417	15,593,691,319	14,411,569,785
Shareholders' Equity				
Issued capital	24	940,495,472	940,495,472	940,495,472
Retained earnings		640,979,429	478,528,990	322,022,542
Other reserves	25	189,702,864	91,314,956	77,762,037
Capital and reserves		1,771,177,765	1,510,339,418	1,340,280,051
Total liabilities and equity		18,174,994,182	17,104,030,737	15,751,849,836

These financial statements have been approved and authorised for issue by the Board of Directors on 24 September 2019.



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



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



Mr Bhanu Pratabsingh Jaddoo
Member of Audit Committee

The notes set out on pages 127 to 216 form part of these financial statements.
Auditor's report on pages 114 to 119.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

As at 30 June 2019

	Notes	2019 MUR	2018 MUR	2017 MUR
Interest income using the effective interest method		734,009,109	653,296,994	645,237,899
Interest expense		(251,525,883)	(267,458,708)	(309,205,620)
Net interest income	26	482,483,226	385,838,286	336,032,279
Fee and commission income		117,765,876	104,693,292	112,992,592
Fee and commission expense		(29,062,998)	(24,210,364)	(23,853,484)
Net fee and commission income	27	88,702,878	80,482,928	89,139,108
Net trading income	28	77,535,761	85,243,497	63,830,549
Net gain on sale of investment securities	29	2,293,711	6,455,327	2,452,927
Other operating income	29	1,282,895	1,428,987	1,552,999
Total other income		81,112,367	93,127,811	67,836,475
Operating income		652,298,471	559,449,025	493,007,862
Personnel expenses	31	(192,124,468)	(162,194,232)	(127,203,015)
Depreciation and amortisation	15, 16	(24,528,399)	(21,624,665)	(19,358,710)
Other operating expenses	32	(107,644,781)	(74,337,683)	(73,175,640)
Non interest expenses		(324,297,648)	(258,156,580)	(219,737,365)
Operating profit before impairment		328,000,823	301,292,445	273,270,497
Allowance for credit impairment on financial assets	30	(56,721,957)	(9,538,421)	(22,952,713)
Operating profit before tax		271,278,866	291,754,024	250,317,784
Income tax expense	22	(47,390,626)	(49,322,296)	(41,809,819)
Profit for the year		223,888,240	242,431,728	208,507,965
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	3,147,386	-	-
Remeasurement of retirement pension	38	(2,935,360)	(746,523)	(483,394)
		212,026	(746,523)	(483,394)
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	571,457	-	-
Net gain on investments in debt instruments designated at fair value through other comprehensive income	25	60,047,001	-	-
Remeasuring available for sale assets	25	-	(22,811,840)	(82,358)
		60,618,458	(22,811,840)	(82,358)
Other comprehensive income/(loss) for the year		60,830,484	(23,558,363)	(565,752)
Total comprehensive income/(loss) for the year		284,718,724	218,873,365	207,942,213
Earnings per share				
Basic and diluted	33	2.94	3.18	2.73

The notes set out on pages 127 to 216 form part of these financial statements.
Auditor's report on pages 114 to 119.

STATEMENT OF CHANGES IN EQUITY

As at 30 June 2019

Notes	Issued capital	Retained earnings	Statutory reserve	Fair Value reserve	Total
	MUR	MUR	MUR	MUR	MUR
At 1 July 2016	940,495,472	186,460,977	45,280,552	1,287,648	1,173,524,649
Profit for the year	-	208,507,965	-	-	208,507,965
Other comprehensive loss	-	(483,394)	-	(82,358)	(565,752)
Total comprehensive income/(loss) for the year	-	208,024,571	-	(82,358)	207,942,213
Transfer to statutory reserve	-	(31,276,195)	31,276,195	-	-
Equity dividends	34	(41,186,811)	-	-	(41,186,811)
At 30 June 2017	940,495,472	322,022,542	76,556,747	1,205,290	1,340,280,051
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	940,495,472	478,528,990	112,921,506	(21,606,550)	1,510,339,418
Impact of adopting IFRS 9	5.28	30,759,262	-	1,038,828	31,798,090
Restated opening balance under IFRS 9	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/(loss) 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

Following adoption of IFRS 9, Available-for-sale reserve has been changed to Fair value reserve. The notes set out on pages 127 to 216 form part of these financial statements. Auditor's report on pages 114 to 119.

STATEMENT OF CASH FLOWS

As at 30 June 2019

Notes	2019 MUR	2018 MUR	2017 MUR
Cash flows from operating activities			
Profit before taxation	271,278,866	291,754,024	250,317,784
Adjustments for:			
Depreciation	15	22,439,667	19,147,497
Amortisation	16	2,088,732	2,477,168
Provision for credit impairment	30	56,721,957	9,538,421
Employee benefit costs	38	7,777,144	696,557
Exchange difference		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	(2,293,711)	(6,455,327)
		397,219,212	235,578,202
			332,528,073
Net changes in operating assets and liabilities			
Increase in loans and advances to customers	(1,597,744,023)	(964,599,546)	(513,910,440)
Increase in other assets	(5,971,717)	(62,801,749)	(19,686,817)
Decrease/(increase) in derivative financial instruments	3,564,034	(13,638,338)	15,909,181
Decrease in due from banks	326,935,958	152,502,850	273,286,134
Increase in deposits from customers	273,281,480	1,163,128,621	434,203,159
Increase in other liabilities	136,172,428	37,904,351	213,170,903
	(466,542,628)	548,074,391	735,500,193
Income tax paid	(49,215,494)	(38,754,653)	(48,769,519)
Net cash (used in)/generated from operating activities	(515,758,122)	509,319,738	686,730,674
Cash flows from investing activities			
Purchase of investment securities	(6,768,127,756)	(12,765,561,286)	(8,603,643,280)
Proceeds from sale and redemption of investment securities	6,582,928,901	11,271,338,400	8,706,474,179
Purchase of property and equipment	15	(140,099,722)	(41,703,598)
Purchase of intangible assets	16	-	(9,430)
Proceeds from sale of property and equipment		-	391,957
			718,575
Net cash used in investing activities	(325,298,577)	(1,535,543,957)	(63,601,349)

STATEMENT OF CASH FLOWS

As at 30 June 2019

Notes	2019 MUR	2018 MUR	2017 MUR	
Cash flows from financing activities (cont'd)				
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)	-	(140,006,397)
Redemption of preference shares	20	-	(124,981,000)	(53,825,000)
Issue of subordinated debts	21	500,000,000	-	-
Dividend paid	34	(55,678,467)	(48,813,998)	(41,186,811)
Net cash generated from/(used in) financing activities	41	334,260,054	(63,733,519)	(235,018,208)
Net (decrease)/increase in cash and cash equivalents		(506,796,645)	(1,089,957,738)	388,111,117
Net foreign exchange difference		(37,813,869)	49,340,354	(36,820,026)
Net cash and cash equivalents at beginning of year		3,276,741,586	4,317,358,970	3,966,067,879
Net cash and cash equivalents at end of year	9	2,732,131,072	3,276,741,586	4,317,358,970
Operational cashflows from interest and dividends				
Interest paid		234,304,674	236,889,734	329,185,394
Interest received		726,410,754	652,985,611	659,937,021
Dividend received		1,282,397	1,237,480	1,176,385

The changes in liabilities arising from financing activities has been disclosed on Note 41. The notes set out on pages 127 to 216 form part of these financial statements. Auditor's report on pages 114 to 119.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

1. CORPORATE INFORMATION

ABC Finance and Leasing Ltd was incorporated on 21 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 21 April 2010 and was granted a banking licence on 1 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 2019 were authorised for issue in accordance with a resolution of the Directors on 24 September 2019.

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

5.2. Finance Leases

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 customer 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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.

5.4. 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

5.4. Financial assets and liabilities (Cont'd)

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

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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 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. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

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

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

5.4. Financial assets and liabilities (Cont'd)

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

- 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 earned 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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 on in 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

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

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 net gain or loss on financial assets and liabilities designated at FVTPL. Interest earned or incurred 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, while dividend income is recorded in other operating income when the right to the payment has been established.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

As described in Note 5.28, 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).

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

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

5.7.1. Overview of ECL principles (Con'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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%.
- 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

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

5.7.4. 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).

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

As at 30 June 2019

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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 investment

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

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 |

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

5.19. Property and equipment (Cont'd)

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.

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 a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

5.26. Segmental reporting (Cont'd)

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.

5.27. Operating lease

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 2018.

IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 and has an effective date of 1 January 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement, introducing new requirements for the classification and measurement of financial instruments, the recognition and measurement of credit impairment provisions, and providing for a simplified approach to hedge accounting.

The changes in measurement arising on initial application of IFRS 9 has be incorporated through an adjustment to the opening reserves and retained earnings position as at 1 July 2018. Although IFRS 9 has be retrospectively applied, the bank is only permitted to restate comparatives if, and only if, it is possible without the use of hindsight. The bank does not consider it possible to restate comparatives for impairment without the use of hindsight. The bank applied the new rules from 1 July 2018, however, comparatives for previous years has not be restated.

Changes to classification and measurement

To determine the classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the bank's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets fair value through profit or loss (FVTPL), available for-sale (AFS), held-to-maturity (at amortised cost) have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVTOCI), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVTOCI, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets at FVTPL.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on business model and their contractual terms.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed. The bank's accounting policies for embedded derivatives are set out in Note 11.

The bank's classification of its financial assets and liabilities is explained in Note 7. The quantitative impact of applying IFRS 9 as at 1 July 2018 is disclosed in Note 7.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the bank's impairment method are disclosed in Note 42(b). The quantitative impact of applying IFRS 9 as at 1 July 2018 is disclosed in Note 7.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 issued in May 2014, and amended in April 2016 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard supersedes all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The bank adopted the new standard on the required effective date using the modified retrospective approach. No major impact was noted from the adoption of IFRS 15 given that the main revenue streams of the bank do not fall under the scope of IFRS 15.

IFRS 7 - Financial Instruments (Revised)

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated, and the bank has adopted it, together with IFRS 9, for the year beginning 1 July 2018. Changes include transition disclosures as shown in Note 7, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 5.7 and Note 30.

Reconciliations from opening to closing ECL allowances are presented in Notes 10, 12, 13 and 36. IFRS 7R also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

IFRIC 22 - Foreign currency transactions and advance consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or nonmonetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the bank must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the bank's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

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

IFRIC 22 Foreign currency transactions and advance consideration (Cont'd)

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:

IFRS 16	Leases (effective date 1 Jan 2019)
IFRIC Interpretation 23	Uncertainty over income tax treatments (effective date 1 Jan 2019)
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
IFRSs (Amendments)	Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 Jan 2020)
IAS 1 / IAS 8 (Amendments)	Definition of Material (Amendments to IAS 1 and IAS 8) (effective date 1 Jan 2020)

IFRS 16 - Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does not require lessees to recognise most leases on their statement of financial position as lease liabilities, with the corresponding right-of-use of assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short term' leases and leases of 'low-value' assets.

Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The bank, as a lessor, does not expect any major impact from the adoption of IFRS 16.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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 IASB 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 5.14.1, 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

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

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

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

Impairment losses on financial assets is explained on Note 43.

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.

7. TRANSITION DISCLOSURES

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 July 2018 is, as follows:

	IAS 39 Measurement			Re-measurement			IFRS 9		
	Ref	Category	Amount	Reclassification	Expected Credit Losses	Others	Amount	Category	
Financial assets									
Cash and cash equivalents		L & R	3,276,741,586	-	-	-	3,276,741,586	AC	
Due from banks		L & R	1,030,811,338	-	(5,135,913)	-	1,025,675,425	AC	
Derivative financial assets		FVTPL	4,289,595	-	-	-	4,289,595	FVTPL	
Loans and advances to customers		L & R	6,054,488,404	-	38,881,412	-	6,093,369,816	AC	
Investment securities:									
<i>Available-for-sale investments</i>									
To: Debt instruments at FVTOCI	A			(2,282,336,382)	-	-	-		
To: Equity instruments at FVTOCI	B			(32,819,759)	-	-	-		
		AFS	2,315,156,141	(2,315,156,141)	-	-	-	N/A	
<i>Loans and receivables</i>									
To: Debt instruments at FVTOCI	C			(461,989,203)	295,113	-	-		
To: Debt instruments at amortised cost	D			(2,599,872,567)	2,973,215	-	-		
		L & R	3,058,593,442	(3,061,861,770)	3,268,328	-	-	N/A	
<i>Held to maturity investment securities</i>									
To: Debt instruments at FVTOCI	E			(63,668,644)	636,686	-	-		
To: Debt instruments at amortised cost	F			(794,314,897)	7,943,149	-	-		
		HTM	849,403,706	(857,983,541)	8,579,835	-	-	N/A	
<i>Debt instruments at amortised cost</i>									
From: Loans and receivables	D			2,599,872,567	(2,116,098)	-	2,597,756,469		
From: Held to maturity investment securities	F			794,314,897	(2,133,212)	-	792,181,685		
			-	3,394,187,464	(4,249,310)	-	3,389,938,154	AC	
<i>Equity instruments at fair value through OCI</i>									
From: Available-for-sale investments	B			32,819,759	-	-	32,819,759		
			-	32,819,759	-	-	32,819,759	FVTOCI	

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

7. TRANSITION DISCLOSURES (CONT'D)

Ref	IAS 39 Measurement			Re-measurement			IFRS 9		
	Category	Amount	Reclassification	Expected Credit Losses	Others	Amount	Category	Amount	Category
Financial assets									
<i>Debt instruments at fair value through OCI</i>									
	A	2,282,336,382	-	-	-	2,282,336,382			
	C	461,989,203	-	(1,558,217)	-	460,430,986			
	E	63,668,644	-	33,708	-	63,702,352			
		-	2,807,994,229	(1,524,509)	-	2,806,469,720			FVTOCI
	L & R	91,605,147	-	-	-	91,605,147			AC
		16,681,089,359	-	41,344,352	(1,524,509)	16,720,909,202			
Financial liabilities									
	AC	110,061,479	-	-	-	110,061,479			AC
	FVTPL	2,774,759	-	-	-	2,774,759			FVTPL
	AC	14,966,194,318	-	-	-	14,966,194,318			AC
	AC	145,340,753	-	-	-	145,340,753			AC
	AC	323,771,923	-	-	-	323,771,923			AC
		15,548,143,232	-	-	-	15,548,143,232			

L & R : Loans and receivables
AC : At amortised cost
HTM : Held to maturity
FVTOCI : Fair value through OCI
AFS : Available for sale

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

7. TRANSITION DISCLOSURES (CONT'D)

- A As of 1 July 2018, the bank has assessed its liquidity portfolio which had previously been classified as AFS debt instruments. The bank concluded that, apart from a small portion, as described in Section A below, these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the bank has classified these investments as debt instruments measured at FVTOCI.
- B The bank has elected the option to irrevocably designate some of its previous AFS equity instruments as Equity instruments at FVTOCI.
- C The bank assessed the SPPI criterion for its loans and receivables investment securities portfolio. For SPPI compliant investment securities whose business model is Hold to collect or Sell, the bank has elected to classify as Debt instruments at FVTOCI.
- D The bank assessed the SPPI criterion for its loans and receivables investment securities portfolio. For SPPI compliant investment securities whose business model is Hold to collect, the bank has elected to classify as Debt instruments at amortised cost.
- E The bank assessed the SPPI criterion for its held to maturity investment securities portfolio. For SPPI compliant investment securities whose business model is Hold to collect or Sell, the bank has elected to classify as Debt instruments at FVTOCI.
- F The bank assessed the SPPI criterion for its held to maturity investment securities portfolio. For SPPI compliant investment securities whose business model is Hold to collect, the bank has elected to classify as Debt instruments at amortised cost.

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	MUR
Retained earnings	
Closing balance under IAS 39 (30 June 2018)	478,528,990
Recognition of IFRS 9 ECLs including those measured at FVTOCI (see below)	37,408,032
Deferred tax adjustment following adoption of IFRS 9	(6,648,770)
Opening balance under IFRS 9 (1 July 2018)	509,288,252
Fair value reserve	
Closing balance under IAS 39 (30 June 2018)	(21,606,550)
Reclassification of debt securities from loans and receivables investment securities to debt instruments at FVTOCI	(1,558,217)
Reclassification of debt securities from held to maturity investment securities to debt instruments at FVTOCI	33,708
Recognition of IFRS 9 ECLs including those measuring at FVTOCI	2,563,337
Opening balance under IFRS 9 (1 July 2018)	(20,567,722)
Total change in equity due to adopting IFRS 9	31,798,090

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

7. TRANSITION DISCLOSURES (CONT'D)

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9. Further details are disclosed in Notes 10, 12, 13 and 36.

		Loan loss provision under IAS 39 / IAS 37 at 30 June 2018	Re- measurement	ECLs under IFRS 9 at 1 July 2018
		MUR	MUR	MUR
Impairment allowance for due from banks per IAS 39/ financial assets at amortised cost under IFRS 9:		-	5,135,913	5,135,913
Impairment allowance for loans and advances to customers per IAS 39/financial assets at amortised cost under IFRS 9:		156,468,429	(38,881,412)	117,587,017
Available-for-sale debt investment securities per IAS 39/ Debt instruments at amortised cost under IFRS 9:	A	-	1,973,013	1,973,013
Loans and receivables debt investment securities per IAS 39/Debt instruments at FVTOCI under IFRS 9:	C	295,113	33,236	328,349
Loans and receivables debt investment securities per IAS 39/Debt instruments at amortised cost under IFRS 9:	D	2,973,215	(857,117)	2,116,098
Held to maturity debt investment securities per IAS 39/ Debt instruments at FVTOCI under IFRS 9:	E	636,686	(374,711)	261,975
Held to maturity debt investment securities per IAS 39/ Debt instruments at amortised cost under IFRS 9:	F	7,943,149	(5,809,937)	2,133,212
		<u>168,316,592</u>	<u>(38,781,015)</u>	<u>129,535,577</u>
CONTINGENT LIABILITIES				
Instruments				
Financial guarantees		456,276	(345,948)	110,328
Letter of credit and other obligations on account of customers		-	42,433	42,433
Commitments				
Undrawn credit facilities		-	1,676,498	1,676,498
		<u>456,276</u>	<u>1,372,983</u>	<u>1,829,259</u>
		<u>168,772,868</u>	<u>(37,408,032)</u>	<u>131,364,836</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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 2019 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:

	2019	2018	2017
	%	%	%
CET1 capital ratio	14.2	14.3	14.3
Tier 1 capital ratio	14.2	14.3	14.3
Total capital ratio	19.1	15.2	15.4

Minimum capital adequacy ratios under the Guideline on Scope of Application of Basel III and Eligible Capital:

	2019	2018	2017
	%	%	%
CET1 capital ratio	6.5	6.5	6.5
CET1 capital ratio plus Capital Conservation Buffer	8.375	7.75	7.125
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	11.25	10.625

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

9. CASH AND CASH EQUIVALENTS

	2019 MUR	2018 MUR	2017 MUR
Cash in hand	11,296,564	6,907,102	5,255,066
Unrestricted balances with Central Bank	293,415,551	371,944,871	556,935,303
Balances with banks	823,261,756	1,826,588,270	1,526,144,576
Loans to and placements with banks	1,604,157,201	1,071,301,343	2,229,024,025
	2,732,131,072	3,276,741,586	4,317,358,970

Loans to and placements with banks with an original maturity of less than 3 months are included in cash and cash equivalents.

10. DUE FROM BANKS

	2019 MUR	2018 MUR	2017 MUR
Banks outside Mauritius	-	422,240,976	324,647,656
Banks in Mauritius	-	-	279,174,425
Deposits with the Central Bank	39,075,842	17,315,550	28,984,402
Restricted balances with the Central Bank	660,726,000	591,254,812	550,507,705
Less: Expected credit losses	(1,062,375)	-	-
	698,739,467	1,030,811,338	1,183,314,188

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.

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):

	2019 MUR
Performing	
Unrated	699,801,842
Gross carrying amount	699,801,842
Expected Credit Losses	(1,062,375)
	698,739,467

The bank assessed all its due from banks as at 30 June 2019 and classified those financial assets as Stage 1.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

	2019 MUR
Gross carrying amount as at 1 July 2018	1,030,811,338
New assets originated or purchased	108,547,030
Assets derecognised or repaid (excluding write offs)	(439,556,526)
At 30 June 2019	699,801,842
	2019 MUR
ECL allowance as at 1 July 2018	5,135,913
Increase in expected credit losses	1,062,375
Assets derecognised or repaid (excluding write offs)	(5,135,913)
At 30 June 2019	1,062,375

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 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
30 June 2017	Notional amount	Assets	Liabilities
Foreign exchange contracts	787,864,985	4,407,594	16,531,096

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

11. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

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.

	2019	2018	2017
	MUR	MUR	MUR
Level 1	-	-	-
Level 2	3,763,559	4,289,595	4,407,594
Level 3	-	-	-
	3,763,559	4,289,595	4,407,594

12. LOANS AND ADVANCES TO CUSTOMERS

	2019	2018	2017
	MUR	MUR	MUR
Loans and overdrafts			
Retail	413,226,908	320,596,942	196,303,606
Corporate	5,855,264,879	4,738,788,744	4,169,756,527
	6,268,491,787	5,059,385,686	4,366,060,133
Less: Allowance for impairment losses (Note 12(c))	(90,944,557)	(78,036,671)	(68,446,788)
	6,177,547,230	4,981,349,015	4,297,613,345
Investment in finance leases			
Retail	632,249,977	472,472,536	344,441,698
Corporate	898,055,843	679,098,611	540,201,825
	1,530,305,820	1,151,571,147	884,643,523
Less: Allowance for impairment losses (Note 12(c))	(71,913,967)	(78,431,758)	(86,512,293)
	1,458,391,853	1,073,139,389	798,131,230
Net loans and advances to customers	7,635,939,083	6,054,488,404	5,095,744,575

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

(a) Investment in finance leases

	2019	2018	2017
	MUR	MUR	MUR
Gross investment in finance leases:			
Up to 3 months	172,974,560	159,137,605	121,119,598
Over 3 months and up to 6 months	114,321,051	91,485,283	73,870,071
Over 6 months and up to 12 months	216,822,055	170,529,981	138,771,539
Over 1 year and up to 5 years	1,216,349,545	839,094,570	584,948,086
Over 5 years	31,494,593	61,434,313	37,732,620
	1,751,961,804	1,321,681,752	956,441,914
Allocation of unearned finance income	(221,655,984)	(170,110,605)	(71,798,391)
Present value of minimum lease payments	1,530,305,820	1,151,571,147	884,643,523
Analysed as follows:			
Current			
- Not later than 1 year	422,112,382	356,713,924	317,223,284
Non current			
- Later than 1 year and not later than 5 years	1,077,357,508	736,410,052	530,004,324
- Later than 5 years	30,835,930	58,447,171	37,415,915
	1,530,305,820	1,151,571,147	884,643,523

(b) Credit concentration of risk by industry sectors

	2019	2018	2017
	MUR	MUR	MUR
<i>Sectorial concentration of loans and advances (gross of impairment)</i>			
Manufacturing	969,359,285	1,013,659,648	481,291,085
Construction	1,082,781,648	441,396,053	492,224,306
Professional	15,751,150	17,024,777	39,423,252
Traders	975,320,638	844,809,000	940,423,281
Tourism	1,519,765,901	886,884,218	1,012,235,004
Transport	378,466,313	348,280,509	289,511,427
Financial and business services	1,085,495,637	1,047,793,648	693,942,006
Personal	598,632,516	452,331,741	264,127,830
Agriculture	99,820,890	363,767,334	370,793,457
Global Business Licence holders	554,355,809	621,246,607	552,383,130
Others	519,047,820	173,763,298	114,348,878
	7,798,797,607	6,210,956,833	5,250,703,656
Analysed as follows:			
Loans and overdrafts	6,268,491,787	5,059,385,686	4,366,060,133
Investment in finance leases	1,530,305,820	1,151,571,147	884,643,523
	7,798,797,607	6,210,956,833	5,250,703,656

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

12. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(b) Credit concentration of risk by industry sectors

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:

	2019	2018	2017
	MUR	MUR	MUR
Manufacturing	460,855,570	475,014,629	83,599,892
Construction	67,446,459	301,982,379	154,917,141
Traders	286,985,236	258,391,314	507,435,134
Tourism	1,002,116,944	1,045,713,263	721,801,009
Transport	240,898,408	231,835,438	114,007,857
Financial and business services	1,082,764,783	474,310,867	386,195,278
Agriculture	-	288,500,000	286,445,704
Global Business Licence holders	27,580,858	329,915,254	208,182,246
Others	27,384,683	61,004,273	13,858,884
	3,196,032,941	3,466,667,417	2,476,443,145

(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

	2019			
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
	MUR	MUR	MUR	MUR
Performing				
Investment grade	1,137,994,134	-	-	1,137,994,134
Standard Monitoring	2,932,818,790	-	-	2,932,818,790
Watchlist	186,387,206	413,581,324	-	599,968,530
Unrated	2,041,780,018	7,416,884	-	2,049,196,902
Non - performing				
Default	-	-	33,342,367	33,342,367
Total	6,298,980,148	420,998,208	33,342,367	6,753,320,723

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

	2019			
	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual	Total
	MUR	MUR	MUR	MUR
Gross carrying amount as at 1 July 2018	5,074,337,128	301,092,573	43,570,970	5,419,000,671
New assets originated or purchased	3,586,289,529	352,645,229	-	3,938,934,758
Assets derecognised or repaid (excluding write offs)	(2,299,075,532)	(293,325,776)	(1,429,232)	(2,593,830,540)
Transfers to Stage 1	2,275,310	(2,275,310)	-	-
Transfers to Stage 2	(62,874,145)	62,874,145	-	-
Transfers to Stage 3	(1,972,142)	(12,653)	1,984,795	-
Amounts written off	-	-	(10,784,166)	(10,784,166)
At 30 June 2019	6,298,980,148	420,998,208	33,342,367	6,753,320,723

	2019			
	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual	Total
	MUR	MUR	MUR	MUR
ECL allowance as at 1 July 2018	25,829,609	9,942,558	42,210,341	77,982,508
New assets originated or purchased	53,868,771	19,556,990	1,198,925	74,624,686
Assets derecognised or repaid (excluding write offs)	(5,874,144)	(25,993,588)	(68,605)	(31,936,337)
Transfers to Stage 1	59,124	(59,124)	-	-
Transfers to Stage 2	(473,966)	473,966	-	-
Transfers to Stage 3	(8,088)	-	8,088	-
Impact on year end ECL of exposures transferred between stages during the year	(23,220)	228,927	291,912	497,619
Recoveries	-	-	(1,198,925)	(1,198,925)
Amounts written off	-	-	(10,784,166)	(10,784,166)
At 30 June 2019	73,378,086	4,149,729	31,657,570	109,185,385

Retail Lending

	2019			
	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual	Total
	MUR	MUR	MUR	MUR
Performing				
Investment grade	14,751,624	-	-	14,751,624
Standard Monitoring	20,692,984	-	-	20,692,984
Watchlist	-	6,541,544	-	6,541,544
Unrated	953,343,474	12,497,314	-	965,840,788
Non - performing				
Default	-	-	37,649,944	37,649,944
Total	988,788,082	19,038,858	37,649,944	1,045,476,884

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

12. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(c) Impairment allowance for loans and advances (Cont'd) Retail Lending (Cont'd)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

	2019			
	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual	Total
	MUR	MUR	MUR	MUR
Gross carrying amount as at 1 July 2018	746,991,484	7,404,337	39,107,369	793,503,190
New assets originated or purchased	484,984,407	1,971,864	18,881	486,975,152
Assets derecognised or repaid (excluding write offs)	(230,374,284)	(2,844,834)	(853,099)	(234,072,217)
Transfers to Stage 1	2,007,498	(2,007,498)	-	-
Transfers to Stage 2	(14,821,023)	14,821,023	-	-
Transfers to Stage 3	-	(306,034)	306,034	-
Amounts written off	-	-	(929,241)	(929,241)
At 30 June 2019	988,788,082	19,038,858	37,649,944	1,045,476,884

	2019			
	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual	Total
	MUR	MUR	MUR	MUR
ECL allowance as at 1 July 2018	2,903,092	53,427	36,647,990	39,604,509
New assets originated or purchased	14,159,341	30,292	1,918,522	16,108,155
Assets derecognised or repaid (excluding write offs)	(382,836)	(290,135)	(542,325)	(1,215,296)
Transfers to Stage 1	20,349	(20,349)	-	-
Transfers to Stage 2	(113,693)	113,693	-	-
Transfers to Stage 3	-	(3,090)	3,090	-
Impact on year end ECL of exposures transferred between stages during the year	(9,866)	420,916	202,944	613,994
Recoveries	-	-	(508,982)	(508,982)
Amounts written off	-	-	(929,241)	(929,241)
At 30 June 2019	16,576,387	304,754	36,791,998	53,673,139

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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 2016	112,872,043	63,068,808	175,940,851
Allowance for credit impairment for the year (Note 30)	7,374,072	9,062,583	16,436,655
Provision released (Note 30)	(2,005,529)	-	(2,005,529)
Written off	(35,412,896)	-	(35,412,896)
At 30 June 2017	82,827,690	72,131,391	154,959,081
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

(d) Allowance for credit impairment by industry sectors

	2019					
	Gross amount of loans	Non performing loans	Stage 1	Stage 2	Stage 3	Total Expected Credit Losses
	MUR	MUR	MUR	MUR	MUR	MUR
Manufacturing	969,359,285	13,566,173	8,211,102	70,932	13,553,520	21,835,554
Construction	1,082,781,648	14,039,821	17,127,085	166,683	13,939,821	31,233,589
Professional	15,751,150	-	157,513	-	-	157,513
Traders	975,320,638	8,674,537	8,884,459	720,073	7,002,395	16,606,927
Tourism	1,519,765,901	394,016	19,409,005	2,682,231	394,015	22,485,251
Transport	378,466,313	7,867,602	3,481,243	12,763	7,867,602	11,361,608
Financial and business services	1,085,495,637	15,837	10,701,438	4,666	15,837	10,721,941
Personal	598,632,516	22,553,189	11,013,116	174,614	22,553,189	33,740,919
Agriculture	99,820,890	251,147	392,190	598,411	251,146	1,241,747
Global Business Licence holders	554,355,809	-	5,543,728	-	-	5,543,728
Others	519,047,820	3,629,989	5,033,594	24,110	2,872,043	7,929,747
Total	7,798,797,607	70,992,311	89,954,473	4,454,483	68,449,568	162,858,524

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

12. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(d) Allowance for credit impairment by industry sectors (CONT'D)

	2018					2017
	Gross amount of loans	Non performing loans	Individual impairment	Collective impairment	Total impairment	Total impairment
	MUR	MUR	MUR	MUR	MUR	MUR
Manufacturing	1,013,659,648	13,424,888	13,937,818	10,002,901	23,940,719	19,936,676
Construction	441,396,053	25,178,480	21,238,015	7,353,711	28,591,726	28,620,398
Professional	17,024,777	-	-	170,340	170,340	466,950
Traders	844,809,000	9,665,536	8,061,258	8,353,398	16,414,656	21,050,247
Tourism	886,884,218	409,228	409,228	17,732,085	18,141,313	17,805,920
Transport	348,280,509	7,905,375	7,905,376	3,403,904	11,309,280	12,892,104
Financial and business services	1,047,793,648	15,837	15,837	10,478,489	10,494,326	7,480,274
Personal	452,331,741	23,646,447	23,852,084	8,574,329	32,426,413	31,820,191
Agriculture	363,767,334	251,147	251,147	3,635,847	3,886,994	4,003,450
Global Business Licence holders	621,246,607	-	-	6,212,753	6,212,753	5,527,024
Others	173,763,298	4,537,993	3,187,569	1,692,340	4,879,909	5,355,847
Total	6,210,956,833	85,034,931	78,858,332	77,610,097	156,468,429	154,959,081

13. INVESTMENT SECURITIES

		2019	2018	2017
		MUR	MUR	MUR
Available-for-sale investments	13(a)	-	2,315,156,141	78,440,348
Loans and receivables	13(b)	-	3,058,593,442	3,942,060,703
Held to maturity investment securities	13(c)	-	849,403,706	546,065,910
Financial assets held for trading	13(d)	-	-	149,878,626
Debt instruments at FVTOCI	13(e)	3,190,321,497	-	-
Equity instruments at FVTOCI	13(f)	36,467,145	-	-
Debt instruments at amortised cost	13(g)	3,253,203,300	-	-
		6,479,991,942	6,223,153,289	4,716,445,587

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

(a) Available-for-sale financial investments

	Up to 3 months	3-12 months	1 to 3 years	Over 3 years	No specific maturity	2018	2017
	MUR	MUR	MUR	MUR	MUR	Total MUR	Total MUR
Bank of Mauritius treasury bills	101,105,405	24,948,145	-	-	-	126,053,550	-
Bank of Mauritius bonds and notes	-	49,826,608	24,765,500	-	-	74,592,108	-
Government of Mauritius treasury bills	75,520,396	24,946,245	-	-	-	100,466,641	-
Government of Mauritius bonds and notes	469,988	25,327,948	199,938,016	-	-	225,735,952	-
Foreign sovereign bonds	3,397,693	4,039,228	513,459,398	818,099,196	-	1,338,995,515	-
Corporate bonds	1,758,681	1,822,124	101,448,095	311,463,716	-	416,492,616	50,195,222
Corporate shares	-	-	-	-	32,819,759	32,819,759	28,245,126
	182,252,163	130,910,298	839,611,009	1,129,562,912	32,819,759	2,315,156,141	78,440,348
30-Jun-17	387,698	-	-	49,807,524	28,245,126	78,440,348	

(b) Loans and receivables

	2018	2017
	MUR	MUR
(i) Bank of Mauritius bonds and notes	110,696,341	539,267,608
Government of Mauritius treasury bills	-	197,357,729
Government of Mauritius bonds and notes	2,624,332,664	2,911,384,756
Corporate bonds	326,832,765	297,020,818
	3,061,861,770	3,945,030,911
Less collective impairment	(3,268,328)	(2,970,208)
	3,058,593,442	3,942,060,703

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

13. INVESTMENT SECURITIES (CONT'D)

(b) Loans and receivables (Cont'd)

(ii) Analysed as follows:

	Up to 3 months	3-12 months	1 to 3 years	Over 3 years	No specific maturity	2018	2017
	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Bank of Mauritius bonds and notes	739,430	70,005,792	39,951,119	-	-	110,696,341	539,267,608
Government of Mauritius treasury bills	-	-	-	-	-	-	197,357,729
Government of Mauritius bonds and notes	87,464,162	101,023,940	179,710,642	2,256,133,920	-	2,624,332,664	2,911,384,756
Corporate bonds	1,627,442	1,523,839	80,753,984	242,927,500	(3,268,328)	323,564,437	294,050,610
	<u>89,831,034</u>	<u>172,553,571</u>	<u>300,415,745</u>	<u>2,499,061,420</u>	<u>(3,268,328)</u>	<u>3,058,593,442</u>	<u>3,942,060,703</u>

(iii) Impairment allowances on loans and receivables

	Collective impairment
	MUR
At 1 July 2016	1,599,856
Allowance for credit impairment for the year	1,370,352
At 30 June 2017	2,970,208
At 1 July 2017	2,970,208
Allowance for credit impairment for the year	298,120
At 30 June 2018	<u>3,268,328</u>

(c) Held to maturity investment securities

	2018	2017
	MUR	MUR
(i) Corporate bonds	857,983,541	555,744,675
Less individual impairment loss	-	(4,183,140)
Less collective impairment	(8,579,835)	(5,495,625)
	<u>849,403,706</u>	<u>546,065,910</u>

(ii) Analysed as follows:

	Up to 3 months	3-12 months	1 to 3 years	Over 3 years	No specific maturity	2018	2017
	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Corporate bonds	1,823,291	293,552,100	286,235,500	276,372,650	(8,579,835)	849,403,706	546,065,910

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

(iii) Impairment allowances on held to maturity investment securities

	Individual impairment	Collective impairment	Total
	MUR	MUR	MUR
At 1 July 2016	-	2,536,634	2,536,634
Allowance for credit impairment for the year	4,183,140	2,958,991	7,142,131
At 30 June 2017	4,183,140	5,495,625	9,678,765
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	<u>-</u>	<u>8,579,835</u>	<u>8,579,835</u>

(d) Financial assets held for trading

	Up to 3 months	3-12 months	1 to 3 years	Over 3 years	No specific maturity	2018	2017
	MUR	MUR	MUR	MUR	MUR	Total MUR	Total MUR
Government of Mauritius treasury bills	-	-	-	-	-	-	149,878,626

(e) Debt instruments at FVTOCI

	Up to 3 months	3-12 months	1 to 3 years	Over 3 years	2019
	MUR	MUR	MUR	MUR	MUR
Bank of Mauritius treasury bills	425,687,115	-	-	-	425,687,115
Bank of Mauritius bonds and notes	40,770,640	25,040,608	-	-	65,811,248
Government of Mauritius treasury bills	249,719,500	-	-	-	249,719,500
Government of Mauritius bonds and notes	-	206,846,759	177,510,936	-	384,357,695
Foreign sovereign bonds	-	110,675,381	755,986,972	533,454,025	1,400,116,378
Corporate bonds	-	-	311,404,334	353,225,227	664,629,561
	<u>716,177,255</u>	<u>342,562,748</u>	<u>1,244,902,242</u>	<u>886,679,252</u>	<u>3,190,321,497</u>

The bank assessed all its debt instruments at FVTOCI as at 30 June 2019 and classified those financial assets as Stage 1.

	2019 MUR
Performing	
Investment grade	1,273,412,337
Standard Monitoring	1,158,019,609
Unrated	758,889,551
	<u>3,190,321,497</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

13. INVESTMENT SECURITIES (CONT'D)

(f) Equity instruments at FVTOCI

As at 30 June 2019, the bank had corporate shares of MUR 36,467,145 classified as Equity instruments at FVTOCI.

(g) Debt instruments at amortised cost

	Up to 3 months	1 to 3 years	Over 3 years	2019
	MUR	MUR	MUR	MUR
Government of Mauritius bonds and notes	-	712,119,537	1,627,445,222	2,339,564,759
Corporate bonds	25,275,685	481,201,322	411,331,539	917,808,546
Gross carrying amount	25,275,685	1,193,320,859	2,038,776,761	3,257,373,305
Expected Credit Losses	(89,014)	(1,915,316)	(2,165,675)	(4,170,005)
	25,186,671	1,191,405,543	2,036,611,086	3,253,203,300

The bank assessed all its debt instruments at amortised cost as at 30 June 2019 and classified those financial assets as Stage 1.

	2019 MUR
Performing	
Investment grade	175,183,600
Standard Monitoring	2,339,564,759
Unrated	742,624,946
Gross carrying amount	3,257,373,305
Expected Credit Losses	(4,170,005)
	3,253,203,300

	2019 MUR
Gross carrying amount as at 1 July 2018	3,394,187,464
New assets originated or purchased	152,866,631
Assets derecognised or repaid (excluding write offs)	(289,680,790)
At 30 June 2019	3,257,373,305

	2019 MUR
ECL allowance as at 1 July 2018	4,249,310
Increase in expected credit losses	477,102
Assets derecognised or repaid (excluding write offs)	(556,407)
At 30 June 2019	4,170,005

14. OTHER ASSETS

	2019 MUR	2018 MUR	2017 MUR
Deposits	81,673,917	82,431,067	18,601,352
Non banking assets acquired in satisfaction of debts	75,000	1,190,333	2,071,710
Other receivables	18,248,388	10,404,188	10,550,777
	99,997,305	94,025,588	31,223,839

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. Other receivables comprises mainly prepaid expenses.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

15. PROPERTY AND EQUIPMENT

	Freehold land	Buildings	Improvement to buildings	Computer equipment	Motor vehicles	Other fixed assets	Work in Progress	Total
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
COST								
At 1 July 2016	34,846,792	58,077,988	105,954,058	22,637,987	6,587,472	37,240,455	-	265,344,752
Additions	88,589,066	69,794,246	-	6,700,966	850,000	1,201,596	-	167,135,874
Disposals	-	-	-	-	(2,042,471)	-	-	(2,042,471)
At 30 June 2017	123,435,858	127,872,234	105,954,058	29,338,953	5,395,001	38,442,051	-	430,438,155
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
DEPRECIATION								
At 1 July 2016	-	4,065,460	9,194,783	10,485,575	2,527,489	16,869,167	-	43,142,474
Charge for the year	-	1,510,531	5,297,703	4,787,686	1,184,661	3,666,595	-	16,447,176
Disposals	-	-	-	-	(1,661,897)	-	-	(1,661,897)
At 30 June 2017	-	5,575,991	14,492,486	15,273,261	2,050,253	20,535,762	-	57,927,753
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
NET BOOK VALUE								
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
At 30 June 2017	123,435,858	122,296,243	91,461,572	14,065,692	3,344,748	17,906,289	-	372,510,402

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 (2018 and 2017: nil). Following completion of the renovation project of Ex-Merven Building on August 2018, the bank transferred the relevant cost from Work in Progress to Buildings and Other fixed assets.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

16. INTANGIBLE ASSETS

Computer Software

	2019	2018	2017
	MUR	MUR	MUR
COST			
At 1 July	24,881,393	24,871,963	24,857,014
Additions	-	9,430	14,949
At 30 June	24,881,393	24,881,393	24,871,963
AMORTISATION			
At 1 July	20,529,521	18,052,353	15,140,819
Charge for the year	2,088,732	2,477,168	2,911,534
At 30 June	22,618,253	20,529,521	18,052,353
NET BOOK VALUE			
At 30 June	2,263,140	4,351,872	6,819,610

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:

	2019	2018	2017
	MUR	MUR	MUR
As at 1 July	21,307,487	24,025,071	27,044,221
Impact of IFRS 9	(6,648,770)	-	-
	14,658,717	24,025,071	27,044,221
Accelerated tax depreciation	2,401,195	37,738	(373,734)
Impairment allowance	(7,710,328)	(2,965,867)	(2,825,957)
Retirement benefit obligations	360,564	210,545	180,541
As at 30 June	9,710,148	21,307,487	24,025,071

Analysed as:

	Statement of financial position			Statement of profit or loss and other comprehensive income		
	2019	2018	2017	2019	2018	2017
	MUR	MUR	MUR	MUR	MUR	MUR
Accelerated tax depreciation	(3,355,919)	(5,757,114)	(5,794,852)	2,401,195	37,738	(373,734)
Impairment allowance	12,036,496	26,395,594	29,361,461	(7,710,328)	(2,965,867)	(2,825,957)
Retirement benefit obligations	1,029,571	669,007	458,462	360,564	210,545	180,541
	9,710,148	21,307,487	24,025,071	(4,948,569)	(2,717,584)	(3,019,150)

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

Movement of deferred tax to profit or loss and other comprehensive income analysed as follows:

	2019	2018	2017
	MUR	MUR	MUR
Profit or loss (Note 22)	(5,120,005)	(2,834,093)	(3,094,593)
Other comprehensive income	171,436	116,509	75,443
	(4,948,569)	(2,717,584)	(3,019,150)

18. DUE TO BANKS

	2019	2018	2017
	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.

19. DEPOSITS FROM CUSTOMERS

	2019	2018	2017
	MUR	MUR	MUR
Retail customers			
Savings accounts	3,706,678,411	3,452,276,646	3,771,193,347
Current accounts	585,452,777	784,229,641	466,979,523
Term deposits with remaining term to maturity:			
Up to 3 months	211,530,574	206,410,255	188,313,833
Over 3 months and up to 6 months	216,167,570	133,243,226	105,790,767
Over 6 months and up to 12 months	218,694,244	313,092,006	306,878,975
Over 1 year and up to 5 years	1,491,774,855	1,325,892,658	1,333,352,492
Corporate customers			
Savings accounts	320,060,866	379,114,526	371,550,751
Current accounts	6,414,327,204	6,827,151,929	5,393,754,469
Term deposits with remaining term to maturity:			
Up to 3 months	482,545,683	529,391,222	158,796,275
Over 3 months and up to 6 months	634,366,120	257,923,861	449,763,298
Over 6 months and up to 12 months	402,522,714	208,918,365	601,326,040
Over 1 year and up to 5 years	555,354,780	548,549,983	655,365,927
	15,239,475,798	14,966,194,318	13,803,065,697

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

20. PREFERENCE SHARES

	2019	2018	2017
	MUR	MUR	MUR
At 1 July	145,340,753	265,749,768	320,758,971
Shares redeemed at maturity	-	(124,981,000)	(53,825,000)
Interest accrued	6,909,000	14,320,503	20,238,947
Dividend paid	(7,047,180)	(9,748,518)	(21,423,150)
At 30 June	145,202,573	145,340,753	265,749,768

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.

	2019	2018	2017
	MUR	MUR	MUR
Level 1	-	-	-
Level 2	145,202,573	145,340,753	265,749,768
Level 3	-	-	-
	145,202,573	145,340,753	265,749,768

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

	2019
	MUR
Issue of shares	500,000,000
Interest accrued	5,070,890
At 30 June	505,070,890

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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.

	2019
	MUR
Level 1	-
Level 2	505,070,890
Level 3	-
	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 15% (2018 and 2017: 15%) on the profit for the year. The components of income tax expense for the years ended 30 June are:

	2019	2018	2017
	MUR	MUR	MUR
Current income tax	43,712,045	46,488,203	38,559,307
(Over)/underprovision in previous years	(1,441,424)	-	155,919
Deferred tax relating to origination and reversal of temporary differences (Note 17)	5,120,005	2,834,093	3,094,593
Income tax expense	47,390,626	49,322,296	41,809,819

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:

	2019	2018	2017
	MUR	MUR	MUR
Accounting profit before tax	271,278,866	291,754,024	250,317,784
At statutory income tax rate of 15% (2018 and 2017: 15%)	40,691,830	43,763,104	37,547,668
Non-deductible expenses	12,787,697	6,668,630	15,263,915
Exempt income	(192,360)	(3,405,985)	(1,514,386)
Corporate social responsibility	4,388,836	2,956,462	2,607,406
Special levy	-	16,387,790	13,462,997
Income tax (over)/underprovision for the previous year	(1,441,424)	-	155,919
Withholding tax	-	-	385,884
Deemed credit on segment B profits	(18,926,590)	(19,881,947)	(17,179,075)
Deferred tax rate differential arising on corporate social responsibility and special levy	10,082,637	2,834,242	(8,920,509)
Tax expense	47,390,626	49,322,296	41,809,819

Non-deductible expenses consist mainly of provision for impairment and depreciation.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

22. INCOME TAX EXPENSE (CONT'D)

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.

23. OTHER LIABILITIES

	2019	2018	2017
	MUR	MUR	MUR
Unallocated receipts	300,845,767	204,468,564	196,748,425
Employee benefit liability (Note 38)	15,839,543	4,955,603	3,396,014
Bankers' drafts	19,697,396	34,590,654	22,206,569
Special levy payable	20,078,832	-	-
Other payables	127,813,300	94,380,755	80,696,337
	484,274,838	338,395,576	303,047,345

Bankers' drafts are payable upon claim by the beneficiaries, and were previously reported under 'Other payables' in 2017.

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.

24. ISSUED CAPITAL (CONT'D)

	2019	2018	2017
	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
	2019	2018	2017
	MUR	MUR	MUR
<u>Issued and fully paid</u>			
At 30 June	940,495,472	940,495,472	940,495,472
<u>Number of shares</u>			
At 30 June	76,271,872	76,271,872	76,271,872

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

	2019	2018	2017
	MUR	MUR	MUR
Net unrealised investment fair value reserve	43,198,122	(21,606,550)	1,205,290
Statutory reserve	146,504,742	112,921,506	76,556,747
	189,702,864	91,314,956	77,762,037

Net unrealised investment fair value reserve

	2019	2018	2017
	MUR	MUR	MUR
At 1 July	(21,606,550)	1,205,290	1,287,648
Impact of adopting IFRS 9	1,038,828	-	-
Net loss on available-for-sale financial investments	-	(22,811,840)	(82,358)
Expected credit loss allowance relating to debt instruments designated at fair value through other comprehensive income	571,457	-	-
Net gain on investments in equity instruments designated at fair value through other comprehensive income	3,147,386	-	-
Net gain on investments in debt instruments designated at fair value through other comprehensive income	60,047,001	-	-
At 30 June	43,198,122	(21,606,550)	1,205,290

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

25. OTHER RESERVES (CONT'D)

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 2016	45,280,552
Transfer to statutory reserve	31,276,195
At 30 June 2017	76,556,747
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

26. NET INTEREST INCOME

	2019	2018	2017
	MUR	MUR	MUR
Interest income using the effective interest method			
Finance leases	90,354,837	68,076,752	65,129,580
Loans and advances to customers (excluding finance leases)	302,470,846	229,924,450	229,903,554
Loans to and placements with banks	44,921,449	64,236,176	85,049,230
Investment securities	296,261,977	291,059,616	265,155,535
	734,009,109	653,296,994	645,237,899
Interest expense			
Deposits from customers	237,493,913	252,061,262	288,717,476
Preference shares	6,909,000	14,320,503	20,238,947
Subordinated debts	5,070,890	-	-
Borrowed funds	2,052,080	1,076,943	249,197
	251,525,883	267,458,708	309,205,620
Net interest income	482,483,226	385,838,286	336,032,279

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

27. NET FEE AND COMMISSION INCOME

	2019	2018	2017
	MUR	MUR	MUR
Fee and commission income			
Card and related fee income	56,977,576	53,211,817	60,940,790
Processing fees	6,996,216	10,591,725	6,319,307
International banking	41,446,135	25,062,665	25,127,571
Interbank transaction fees	5,053,653	10,934,052	9,080,598
Others	7,292,296	4,893,033	11,524,326
	117,765,876	104,693,292	112,992,592
Fee and commission expense			
Card and related fee expense	21,681,969	17,776,682	17,739,830
Interbank transaction fees	7,381,029	6,433,682	6,113,654
	29,062,998	24,210,364	23,853,484
Net fee and commission income	88,702,878	80,482,928	89,139,108

28. NET TRADING INCOME

	2019	2018	2017
	MUR	MUR	MUR
Net foreign exchange gain	77,535,761	85,243,497	63,830,549

29. OTHER OPERATING INCOME

	2019	2018	2017
	MUR	MUR	MUR
Net gain on sale of investment securities	2,293,711	6,455,327	2,452,927
Dividend income from available-for-sale financial investments	-	1,237,480	1,176,385
Dividend income from equity instruments under FVTOCI	1,282,397	-	-
Profit on disposal of property and equipment	-	187,032	338,001
Others	498	4,475	38,613
	3,576,606	7,884,314	4,005,926

Net gain on sale of investment securities are mainly on Bank of Mauritius and Government of Mauritius securities (Bonds, notes and bills).

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

30. ALLOWANCE FOR CREDIT IMPAIRMENT ON FINANCIAL ASSETS

	2019	2018	2017
	MUR	MUR	MUR
Due from banks	(4,073,538)	-	-
Loans and advances to customers	55,174,756	5,855,717	12,620,454
Investment in securities	492,152	3,226,428	10,332,259
Provision on guarantee	5,128,587	456,276	-
	56,721,957	9,538,421	22,952,713
	2019	2018	2017
	MUR	MUR	MUR
Loans and advances to customers			
Provision for credit impairment	103,448,760	7,854,300	16,436,655
Provision released (Note 12(c))	(46,572,947)	(2,052,771)	(2,005,529)
Bad debts recovered (Note 12(c))	(1,707,907)	(945,711)	(2,552,634)
Bad debts written off for which no provision was made	6,850	999,899	741,962
	55,174,756	5,855,717	12,620,454
	2019	2018	2017
	MUR	MUR	MUR
Investment in securities			
Individual impairment loss - held to maturity securities	-	(155,902)	4,183,140
Impairment loss - available-for-sale investments	-	-	1,819,776
Collective impairment - loan and receivables	-	298,120	1,370,352
Collective impairment - held to maturity investments	-	3,084,210	2,958,991
Expected Credit Losses - Debt instruments at FVTOCI	571,457	-	-
Expected Credit Losses - Debt instruments at amortised cost	(79,305)	-	-
	492,152	3,226,428	10,332,259

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

The table below shows the ECL charges on financial instruments for the year recorded in the profit or loss:

	2019			
	Stage 1	Stage 2	Stage 3	Total
	MUR	MUR	MUR	MUR
Financial assets				
Due from banks	(4,073,538)	-	-	(4,073,538)
Loans and advances to customers	61,119,521	(5,541,502)	(403,263)	55,174,756
Investment securities				
Debt instruments at amortised cost	571,457	-	-	571,457
Debt instruments at fair value through OCI	(79,305)	-	-	(79,305)
	492,152	-	-	492,152
	57,538,135	(5,541,502)	(403,263)	51,593,370
Contingent liabilities	5,128,587	-	-	5,128,587
	62,666,722	(5,541,502)	(403,263)	56,721,957

31. PERSONNEL EXPENSES

	2019	2018	2017
	MUR	MUR	MUR
Wages and salaries	151,036,137	135,303,828	104,246,916
Employees benefit costs (Note 38)	7,777,144	696,557	778,507
Others	33,311,187	26,193,847	22,177,592
	192,124,468	162,194,232	127,203,015

Others consist of medical benefits, training and other allowances.

32. OTHER OPERATING EXPENSES

	2019	2018	2017
	MUR	MUR	MUR
Motor vehicle expenses and insurance	6,233,379	3,742,676	4,411,087
Rental of office	604,303	626,728	547,860
Advertising and marketing	5,270,456	5,940,039	6,164,193
Information technology costs	14,651,471	11,754,659	14,805,926
Licences	3,595,763	3,182,147	3,354,514
Loss on disposal of property and equipment	63,167	-	-
Communication costs	9,159,077	8,280,338	8,333,469
Legal and professional fees	17,402,699	11,558,723	8,914,915
Maintenance costs	5,699,720	4,211,061	3,599,652
Special levy (Note 23)	20,078,832	-	-
Others	24,885,914	25,041,312	23,044,024
	107,644,781	74,337,683	73,175,640

Others consist of postage and stationary, utilities, security, overseas travelling, subscription and other operating costs.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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.

	2019	2018	2017
	MUR	MUR	MUR
Net Profit	223,888,240	242,431,728	208,507,965
Weighted average number of ordinary shares	76,271,872	76,271,872	76,271,872
Earnings per share			
Basic and diluted earnings per share	2.94	3.18	2.73

34. DIVIDENDS PAID AND PROPOSED

Declared and paid during the year

Dividends on ordinary shares:

Final dividend for 2018: MUR 0.73 per share
(2017 : MUR 0.64 per share, 2016 : MUR 0.54 per share)

	2019	2018	2017
	MUR	MUR	MUR
	55,678,467	48,813,998	41,186,811

Proposed for approval at Annual General Meeting (not recognised as a liability as at 30 June 2019)

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)

	2019	2018	2017
	58,729,341	55,678,467	48,813,998

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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 granted	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	2019	5,047,053	394,857	106,263,069	2,625,976	-	5,708,644
personnel	2018	997,863	418,650	114,786,870	2,881,368	-	3,492,530
	2017	981,000	577,413	124,649,450	4,304,797	-	2,785,393
Corporate shareholders	2019	130,818,088	9,459,477	1,141,281	741	-	2,571,154
with significant influence	2018	4,276,328	11,849,705	6,332	1,042	-	11,094,121
	2017	184,355,990	12,516,453	6,332	68	-	1,834,595
Enterprises that have a	2019	7,434,785	7,981,255	11,632,711	50,272	-	10,109,102
number of directors in	2018	64,487,570	8,449,754	16,308,722	43,610	-	4,518,108
common	2017	38,897,000	6,620,792	11,750,534	10,221	-	5,496,096
Total	2019	143,299,926	17,835,589	119,037,061	2,676,989	-	18,388,900
	2018	69,761,761	20,718,109	131,101,924	2,926,020	-	19,104,759
	2017	224,233,990	19,714,658	136,406,316	4,315,086	-	10,116,084

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 2019, the bank has not recorded any impairment of receivables relating to amounts owed by the related parties (2018 and 2017: 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

35. RELATED PARTY DISCLOSURES (CONT'D)

(b) Compensation of key management personnel

	2019	2018	2017
	MUR	MUR	MUR
Short term employee benefits	32,126,275	20,701,000	16,578,500
Long term employee benefits	1,631,836	1,421,733	1,223,214

(c) The bank's top six exposures to related parties amount to MUR 301,195,459 (30 June 2018: MUR 311,549,390 and 30 June 2017: MUR 344,861,393). These represent 17% of Tier 1 Capital. None of these facilities were non-performing (2018 and 2017: Nil).

36. CONTINGENT LIABILITIES

	2019	2018	2017
	MUR	MUR	MUR
(a) Instruments			
Financial guarantees	118,138,466	32,168,218	10,780,105
Letter of credit and other obligations on account of customers	3,373,422	13,459,409	-
(b) Commitments			
Undrawn credit facilities	1,321,902,701	1,300,121,698	1,067,475,535
	1,443,414,589	1,345,749,325	1,078,255,640

	2019
	MUR
Performing	
Investment grade	95,864,391
Standard Monitoring	518,047,420
Watchlist	2,040,665
Unrated	827,462,113
	1,443,414,589

The bank assessed all its contingent liabilities as at 30 June 2019 and classified those as Stage 1.

	2019
	MUR
Gross carrying amount as at 1 July 2018	1,345,749,323
New assets originated or purchased	1,443,414,589
Assets derecognised or repaid (excluding write offs)	(1,345,749,323)
At 30 June 2019	1,443,414,589
	2019
	MUR
ECL allowance as at 1 July 2018	1,829,259
New assets originated or purchased	6,957,846
Assets derecognised or repaid (excluding write offs)	(1,829,259)
At 30 June 2019	6,957,846

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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:

	2019	2018	2017
	MUR	MUR	MUR
Government of Mauritius bonds, notes and bills	235,000,000	285,000,000	385,000,000

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 8,846,042 (2018: MUR 4,874,884; 2017: MUR 3,787,508) 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:

	2019	2018	2017
	MUR	MUR	MUR
Present value of funded defined contribution obligation and liability recognised in the statement of financial position (Note 23)	15,839,543	4,955,603	3,396,014

Amounts recognised in the statement of profit or loss in respect of these defined contribution plans are as follows:

	2019	2018	2017
	MUR	MUR	MUR
Current service cost	1,823,743	874,838	634,400
Net interest cost	641,706	196,387	144,107
Past service costs	5,311,695	-	-
Curtailement gain	-	(374,668)	-
Net cost for the year recognised in profit and loss	7,777,144	696,557	778,507
Remeasurement recognised in other comprehensive income	3,106,796	863,032	558,837
Net cost for the year	10,883,940	1,559,589	1,337,344

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

38. RETIREMENT BENEFIT OBLIGATION (CONT'D)

(b) Gratuity on retirement (Cont'd)

	2019	2018	2017
	MUR	MUR	MUR
Changes in the present value of the obligation			
Present value of obligation at start of period	4,955,603	3,396,014	2,058,670
Interest cost	641,706	196,387	144,107
Current service cost	1,823,743	874,838	634,400
Past service costs	5,311,695	-	-
Curtailment gain	-	(374,668)	-
Expected obligation at end of period	12,732,747	4,092,571	2,837,177
Present value of obligation at end of period	15,839,543	4,955,603	3,396,014
Remeasurement recognised in other comprehensive income at end of period - (loss)/gain	(3,106,796)	(863,032)	(558,837)
Deferred tax	171,436	116,509	75,443
Retirement pension net of deferred tax	(2,935,360)	(746,523)	(483,394)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2019	2018	2017
Normal retirement age	65	65	65
Discount rate	5.20%	6.25%	6.50%
Expected rate of return on plan assets	0.00%	0.00%	0.00%
Future salary increases	5.00%	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:

	2019	2018	2017
	MUR	MUR	MUR
Opening defined contribution obligation	4,955,603	3,396,014	2,058,670
Current service cost	1,823,743	874,838	634,400
Past service cost	5,311,695	-	-
Interest cost	641,706	196,387	144,107
Curtailment gain	-	(374,668)	-
Net actuarial gain recognised in other comprehensive income	3,106,796	863,032	558,837
Present value of obligation at end of year	15,839,543	4,955,603	3,396,014

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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.

	2019	2018
	MUR	MUR
Sensitivity		
Effect on present value of obligations:		
1% increase in discount rate	13,117,799	3,249,119
1% decrease in discount rate	19,483,213	7,453,187
1% increase in salary increase assumption	18,883,461	7,000,974
1% decrease in salary increase assumption	13,542,769	3,515,164
Effect of changing longevity - one year up	15,644,782	4,805,135
Effect of changing longevity - one year down	16,023,523	5,097,584

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

	2019	2018	2017
	MUR	MUR	MUR
Amount contracted for but not yet incurred	121,259,366	18,414,557	-

The above expenditure relates to the renovation costs of Ex-Merven and Plantation buildings.

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 2017	-	-	265,749,768	-	265,749,768
Dividend declared	-	48,813,998	-	-	48,813,998
Cash flows	110,061,479	(48,813,998)	(124,981,000)	-	(63,733,519)
Other	-	-	4,571,985	-	4,571,985
At 30 June 2018	110,061,479	-	145,340,753	-	255,402,232
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

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

42. SEGMENTAL REPORTING (CONTD) Statement of financial position

Notes	2019			2018			2017		
	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	2,732,131,072	1,466,786,289	1,265,344,783	3,276,741,586	609,330,875	2,667,410,711	4,317,358,970	652,487,889	3,664,871,081
Due from banks	698,739,467	698,739,467	-	1,030,811,338	608,570,362	422,240,976	1,183,314,188	858,666,532	324,647,656
Derivative financial assets	3,763,559	502,188	3,261,371	4,289,595	2,718,078	1,571,517	4,407,594	496,485	3,911,109
Loans and advances to customers	7,635,939,083	6,581,631,950	1,054,307,133	6,054,488,404	5,117,515,641	936,972,763	5,095,744,575	4,273,453,278	822,291,297
Investment securities	6,479,991,942	4,680,979,288	1,799,012,654	6,223,153,289	4,198,605,155	2,024,548,134	4,716,445,587	4,532,440,230	184,005,357
Other assets	99,997,305	17,147,338	82,849,967	94,025,588	30,854,636	63,170,952	31,223,839	31,223,839	-
Property and equipment	512,458,466	384,343,849	128,114,617	394,861,578	296,146,183	98,715,395	372,510,402	279,382,801	93,127,601
Intangible assets	2,263,140	2,263,140	-	4,351,872	4,351,872	-	6,819,610	6,819,610	-
Deferred tax assets	9,710,148	9,710,148	-	21,307,487	21,307,487	-	24,025,071	24,025,071	-
Total assets	18,174,994,182	13,842,103,657	4,332,890,525	17,104,030,737	10,889,400,289	6,214,630,448	15,751,849,836	10,658,995,735	5,092,854,101
LIABILITIES									
Due to banks	-	-	-	110,061,479	110,061,479	-	-	-	-
Derivative financial liabilities	5,812,757	1,284,912	4,527,845	2,774,759	587,382	2,187,377	16,531,096	1,058,890	15,472,206
Deposits from customers	15,239,475,798	8,155,884,117	7,083,591,681	14,966,194,318	8,181,597,553	6,784,596,765	13,803,065,697	8,740,050,415	5,063,015,282
Preference shares	145,202,573	145,202,573	-	145,340,753	145,340,753	-	265,749,768	265,749,768	-
Subordinated debts	505,070,890	505,070,890	-	-	-	-	-	-	-
Current tax liabilities	23,979,561	23,979,561	-	30,924,434	30,924,434	-	23,175,879	23,175,879	-
Other liabilities	484,274,838	177,704,018	306,570,820	338,395,576	338,395,576	-	303,047,345	303,047,345	-
Total liabilities	16,403,816,417	9,009,126,071	7,394,690,346	15,593,691,319	8,806,907,177	6,786,784,142	14,411,569,785	9,333,082,297	5,078,487,488
Shareholders' Equity									
Issued capital	940,495,472	-	-	940,495,472	-	-	940,495,472	-	-
Retained earnings	640,979,429	-	-	478,528,990	-	-	322,022,542	-	-
Other reserves	189,702,864	-	-	91,314,956	-	-	77,762,037	-	-
Capital and reserves	1,771,177,765	-	-	1,510,339,418	-	-	1,340,280,051	-	-
Total liabilities and equity	18,174,994,182	-	-	17,104,030,737	-	-	15,751,849,836	-	-

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

42. SEGMENTAL REPORTING (CONT'D) Statement of profit or loss and other comprehensive income

Notes	2019			2018			2017		
	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Interest income using the effective interest method	734,009,109	593,940,772	140,068,337	653,296,994	528,066,852	125,230,142	645,237,899	517,781,732	127,456,167
Interest expense	(251,525,883)	(240,591,962)	(10,933,921)	(267,458,708)	(262,104,410)	(5,354,298)	(309,205,620)	(301,047,757)	(8,157,863)
Net interest income	482,483,226	353,348,810	129,134,416	385,838,286	265,962,442	119,875,844	336,032,279	216,733,975	119,298,304
Fee and commission income	117,765,876	19,957,399	97,808,477	104,693,292	22,418,973	82,274,319	112,992,592	35,951,654	77,040,938
Fee and commission expense	(29,062,998)	(3,756,216)	(25,306,782)	(24,210,364)	(2,862,342)	(21,348,022)	(23,853,484)	(1,192,674)	(22,660,810)
Net fee and commission income	88,702,878	16,201,183	72,501,695	80,482,928	19,556,631	60,926,297	89,139,108	34,758,980	54,380,128
Net trading income	77,535,761	40,534,405	37,001,356	85,243,497	28,086,346	57,157,151	63,830,549	38,354,650	25,475,899
Net gain on sale of investment securities	2,293,711	2,293,711	-	6,455,327	6,455,327	-	2,452,927	2,452,927	-
Other operating income	1,282,895	1,282,895	-	1,428,987	1,428,987	-	1,552,999	1,552,999	-
Total other income	81,112,367	44,111,011	37,001,356	93,127,811	35,970,660	57,157,151	67,836,475	42,360,576	25,475,899
Operating income	652,298,471	413,661,004	238,637,467	559,449,025	321,489,733	237,959,292	493,007,862	293,853,531	199,154,331
Personnel expenses	(192,124,468)	(141,209,149)	(50,915,319)	(162,194,232)	(118,460,551)	(43,733,681)	(127,203,015)	(93,970,698)	(33,232,317)
Depreciation and amortisation	(24,528,399)	(18,396,299)	(6,132,100)	(21,624,665)	(16,218,499)	(5,406,166)	(19,358,710)	(14,519,031)	(4,839,679)
Other operating expenses	(107,644,781)	(81,991,011)	(25,653,770)	(74,337,683)	(50,448,533)	(23,889,150)	(73,175,640)	(53,815,377)	(19,360,263)
Non interest expenses	(324,297,648)	(241,596,459)	(82,701,189)	(258,156,580)	(185,127,583)	(73,028,997)	(219,737,365)	(162,305,106)	(57,432,259)
Operating profit before impairment	328,000,823	172,064,545	155,936,278	301,292,445	136,362,150	164,930,295	273,270,497	131,548,425	141,722,072
Allowance for credit impairment on financial assets	(56,721,957)	(61,631,268)	4,909,311	(9,538,421)	(4,441,347)	(5,097,074)	(22,952,713)	(18,769,573)	(4,183,140)
Operating profit before tax	271,278,866	110,433,277	160,845,589	291,754,024	131,920,803	159,833,221	250,317,784	112,778,852	137,538,932
Income tax expense	(47,390,626)	(38,794,304)	(8,596,322)	(49,322,296)	(42,037,805)	(7,284,491)	(41,809,819)	(35,345,320)	(6,464,499)
Profit for the year	223,888,240	71,638,973	152,249,267	242,431,728	89,882,998	152,548,730	208,507,965	77,433,532	131,074,433
Other comprehensive income	3,147,386	3,147,386	-	-	-	-	-	-	-
Items that will not be reclassified subsequently to profit or loss, net of tax:	(2,935,360)	(2,935,360)	-	(746,523)	(746,523)	-	(483,394)	(483,394)	-
Net gain on investments in equity instruments designated at fair value through other comprehensive income	571,457	787,874	(216,417)	-	-	-	-	-	-
Remeasurement of retirement pension net of deferred tax	60,047,001	942,860	59,104,141	(22,811,840)	805,895	(23,617,735)	(82,358)	(82,358)	-
Other comprehensive income/(loss) for the year	60,830,484	1,942,760	58,887,724	(23,558,363)	59,372	(23,617,735)	(565,752)	(565,752)	-
Total comprehensive income	284,718,724	73,581,733	211,136,991	218,873,365	89,942,370	128,930,995	207,942,213	76,867,780	131,074,433

42. SEGMENTAL REPORTING (CONT'D)

	2019			2018			2017		
	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
(a) Cash and cash equivalents	11,296,564	9,296,675	1,999,889	5,786,392	1,120,710	5,255,066	4,652,459	602,607	-
Cash in hand	11,296,564	9,296,675	1,999,889	5,786,392	1,120,710	5,255,066	4,652,459	602,607	-
Unrestricted balances with Central Bank	293,415,551	-	371,944,871	371,944,871	-	556,935,303	556,935,303	-	-
Balances with banks	823,261,756	26,393,634	796,868,122	29,128,387	1,797,459,883	1,526,144,576	21,326,736	1,504,817,840	-
Loans to and placement with banks	1,604,157,201	1,137,680,429	466,476,772	202,471,225	868,830,118	2,229,024,025	69,573,391	2,159,450,634	-
2,732,131,072	1,466,786,289	1,265,344,783	3,276,741,586	609,330,875	2,667,410,711	4,317,358,970	652,487,889	3,664,871,081	-
(b) Due from banks	-	-	422,240,976	-	422,240,976	324,647,656	-	324,647,656	-
Banks outside Mauritius	-	-	422,240,976	-	422,240,976	324,647,656	-	324,647,656	-
Banks in Mauritius	-	-	-	-	-	279,174,425	279,174,425	-	-
Deposits with the Central Bank	39,075,842	39,075,842	-	17,315,550	-	28,984,402	28,984,402	-	-
Restricted balances with the Central Bank	660,726,000	-	591,254,812	591,254,812	-	550,507,705	550,507,705	-	-
Less: Expected credit losses	(1,062,375)	(1,062,375)	-	-	-	-	-	-	-
698,739,467	698,739,467	-	1,030,811,338	608,570,362	422,240,976	1,183,314,188	858,666,532	324,647,656	-

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

42. SEGMENTAL REPORTING (CONT'D)

	2019		2018		2017	
	Bank MUR	Segment A MUR	Bank MUR	Segment A MUR	Bank MUR	Segment A MUR
(c) Loans and advances to customers						
Loans and overdrafts						
Retail	413,226,908	400,187,505	320,596,942	252,758,497	196,303,606	158,587,180
Corporate	5,855,264,879	4,807,334,473	4,738,788,744	3,856,917,137	4,169,756,527	3,385,181,656
	6,268,491,787	5,207,521,978	5,059,385,686	4,109,675,634	4,366,060,133	3,543,768,836
Less: Allowance for impairment losses	(90,944,557)	(80,333,711)	(78,036,671)	(65,299,382)	(68,446,788)	(68,446,788)
	6,177,547,230	5,127,188,267	4,981,349,015	4,044,376,252	4,297,613,345	3,475,322,048
Investment in finance leases						
Retail	632,249,977	632,249,977	472,472,536	472,472,536	344,441,698	344,441,698
Corporate	898,055,843	894,067,792	679,098,611	679,098,611	540,201,825	540,201,825
	1,530,305,820	1,526,317,769	1,151,571,147	1,151,571,147	884,643,523	884,643,523
Less: Allowance for impairment losses	(71,913,967)	(71,874,086)	(78,431,758)	(78,431,758)	(86,512,293)	(86,512,293)
	1,458,391,853	1,454,443,683	1,073,139,389	1,073,139,389	798,131,230	798,131,230
	7,635,939,083	6,581,631,950	6,054,488,404	5,117,515,641	5,095,744,575	4,273,453,278
(d) Deposits from customers						
Retail customers						
Savings accounts	3,706,678,411	3,670,296,899	3,452,276,646	3,414,095,797	3,771,193,347	3,637,940,707
Other accounts	585,452,777	117,917,048	784,229,641	73,228,380	466,975,523	170,012,800
Term deposits with remaining term to maturity:						
Up to 3 months	211,530,574	195,654,336	206,410,255	184,391,969	188,313,833	180,047,112
Over 3 months and up to 6 months	216,167,570	213,845,865	133,214,436	28,790	105,790,767	105,029,976
Over 6 months and up to 12 months	218,694,244	218,639,105	313,092,006	294,177,599	306,878,975	288,369,574
Over 1 year and up to 5 years	1,491,774,855	1,484,261,204	1,325,892,658	1,294,127,457	1,333,352,492	1,308,382,113
Corporate customers						
Savings accounts	320,060,866	320,060,866	379,114,526	379,114,526	371,550,751	371,550,751
Other accounts	6,414,327,204	441,275,018	6,827,151,929	1,099,069,434	5,393,754,469	948,341,070
Term deposits with remaining term to maturity:						
Up to 3 months	482,545,683	197,682,385	529,391,222	494,521,352	34,869,870	124,150,939
Over 3 months and up to 6 months	634,366,120	338,373,897	257,923,861	65,972,298	191,951,563	361,323,954
Over 6 months and up to 12 months	402,522,714	402,522,714	208,918,365	201,134,322	7,784,043	597,235,492
Over 1 year and up to 5 years	555,354,780	555,354,780	548,549,983	548,549,983	655,365,927	647,665,927
	15,239,475,798	8,155,884,117	14,966,194,318	8,181,597,553	13,803,065,697	8,740,050,415

42. SEGMENTAL REPORTING (CONT'D)

	2019		2018		2017	
	Bank MUR	Segment A MUR	Bank MUR	Segment A MUR	Bank MUR	Segment A MUR
(e) Net interest income						
Interest income using the effective interest method						
Finance leases	90,354,837	90,058,421	68,076,752	68,076,752	65,129,580	65,129,580
Loans and advances to customers (excluding finance leases)	302,470,846	240,895,109	229,924,450	184,635,642	229,903,554	190,479,120
Loans to and placements with banks	44,921,449	18,362,368	64,236,176	11,429,912	85,049,230	9,344,873
Investment securities	296,261,977	244,624,874	291,059,616	263,924,546	265,155,535	252,828,159
	734,009,109	593,940,772	653,296,994	528,066,852	645,237,899	517,781,732
Interest expense						
Deposits from customers	237,493,913	227,061,410	252,061,262	246,940,125	288,717,476	280,559,613
Preference shares	6,909,000	6,909,000	14,320,503	14,320,503	20,238,947	20,238,947
Subordinated debts	5,070,890	5,070,890	-	-	-	-
Borrowed funds	2,052,080	1,550,662	1,076,943	843,782	249,197	249,197
	251,525,883	240,591,962	267,458,708	262,104,410	309,205,620	301,047,757
Net interest income	482,483,226	353,348,810	385,838,286	265,962,442	336,032,279	216,733,975
(f) Net fee and commission income						
Fee and commission income						
Card and related fee income	56,977,576	5,180,654	53,211,817	4,746,367	60,940,790	9,270,164
Processing fees	6,996,216	4,447,376	10,591,725	8,445,370	6,319,307	6,319,307
International banking	41,446,135	-	25,062,665	-	25,127,571	-
Interbank transaction fees	5,053,653	5,053,653	10,934,052	4,658,418	9,080,598	9,080,598
Others	7,292,296	5,275,716	4,893,033	4,568,818	11,524,326	11,281,585
	117,765,876	19,957,399	104,693,292	22,418,973	112,992,592	35,951,654
Fee and commission expense						
Card and related fees	21,681,969	1,155,445	17,776,682	511,539	17,739,830	886,992
Interbank transaction fees	7,381,029	2,600,771	6,433,682	2,350,803	6,113,654	305,682
	29,062,998	3,756,216	24,210,364	2,862,342	23,853,484	1,192,674
Net fee and commission income	88,702,878	16,201,183	80,482,928	19,556,631	89,139,108	34,758,980

	2019		2018		2017	
	Bank	Segment B	Bank	Segment A	Bank	Segment A
	MUR	MUR	MUR	MUR	MUR	MUR
(g) Net trading income	77,535,761	40,534,405	37,001,356	85,243,497	63,830,549	25,475,899
Net foreign exchange gain						
(h) Net gain on sale of investment securities	2,293,711	2,293,711	-	6,455,327	2,452,927	-
Net gain on sale of investment securities						
(i) Other operating income	1,282,397	1,282,397	-	1,237,480	1,176,385	-
Dividend income from available-for-sale financial investments						
Dividend income from equity instruments under FVOCI						
Profit on disposal of property and equipment						
Others	498	498	-	187,032	338,001	-
	1,282,895	1,282,895	-	4,475	38,613	-
				1,428,987	1,552,999	-
(j) Allowance for credit impairment on financial assets	(4,073,538)	952,422	(5,025,960)	-	-	-
Due to banks						
Loans and advances to customers	55,174,756	54,477,352	697,404	5,855,717	12,620,454	-
Provision on guarantee	5,128,587	5,132,546	(3,959)	456,276	-	-
Investment in securities	492,152	1,068,948	(576,796)	3,226,428	2,229,169	6,149,119
	56,721,957	61,631,268	(4,909,311)	9,538,421	22,952,713	4,183,140
(k) Personnel expenses	151,036,137	110,392,901	40,643,236	135,303,828	104,246,916	27,493,292
Wages and salaries	7,777,144	5,832,858	1,944,286	696,557	778,507	583,880
Employees benefit costs	33,311,187	24,983,390	8,327,797	26,193,847	22,177,592	16,633,194
Others	192,124,468	141,209,149	50,915,319	162,194,232	127,203,015	93,970,698
				118,460,551	43,733,681	33,232,317
(l) Other expenses	6,233,379	4,675,034	1,558,345	3,742,676	4,411,087	1,102,772
Motor vehicle expenses and insurance	604,303	453,227	151,076	626,728	547,860	410,895
Rental of office	5,270,456	3,952,842	1,317,614	5,940,039	6,164,193	4,623,145
Advertising and marketing	14,651,471	10,988,603	3,662,868	11,754,659	14,805,926	11,104,444
Information technology costs	3,595,763	2,696,822	898,941	3,182,147	3,354,514	2,515,885
Licences						838,629
Loss on disposal of property and equipment	63,167	47,375	15,792	-	-	-
Communication costs	9,159,077	6,869,308	2,289,769	8,280,338	8,333,469	6,250,102
Legal and professional fees	17,402,699	13,052,024	4,350,675	11,558,723	8,914,915	6,686,186
Maintenance costs	5,699,720	4,274,790	1,424,930	4,211,061	3,599,652	2,699,739
Special levy	20,078,832	20,078,832	-	-	-	-
Others	24,885,914	14,902,154	9,983,760	25,041,312	23,044,024	16,216,666
	107,644,781	81,991,011	25,653,770	74,337,683	73,175,640	19,360,263

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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.

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:

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

(a) Fair values (Cont'd)

Fair value measurement hierarchy (Cont'd)

(i) Valuation principles (Cont'd)

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).

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
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
	<u>2,503,176,346</u>	<u>3,604,291,880</u>	<u>376,287,275</u>	<u>6,483,755,501</u>
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
	<u>1,690,396,869</u>	<u>629,048,867</u>	<u>-</u>	<u>2,319,445,736</u>
Financial liabilities				
Derivatives - Foreign exchange contracts	-	2,774,759	-	2,774,759
2017				
Financial assets				
Available-for-sale investment securities	78,440,348	-	-	78,440,348
Held for trading investment securities				
- Government of Mauritius treasury bills	-	149,878,626	-	149,878,626
Derivatives - Foreign exchange contracts	-	4,407,594	-	4,407,594
	<u>78,440,348</u>	<u>154,286,220</u>	<u>-</u>	<u>232,726,568</u>
Financial liabilities				
Derivatives - Foreign exchange contracts	-	16,531,096	-	16,531,096

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

(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.

Transfers between hierarchy

During the year under review, the bank had its unquoted debt securities (MUR 82,998,217) listed on public stock exchange. This resulted in transfer from Level 2 to Level 1.

(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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

(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:

	Maximum exposure to credit risk		
	2019	2018	2017
	MUR	MUR	MUR
Fund based exposures:			
Cash and cash equivalents	2,720,834,508	3,269,834,484	4,312,103,904
Due from banks	698,739,467	1,030,811,338	1,183,314,188
Derivative financial assets	3,763,559	4,289,595	4,407,594
Loans and advances to customers	7,635,939,083	6,054,488,404	5,095,744,575
Investment securities	6,443,524,797	6,190,333,530	4,688,200,461
Other assets	90,911,293	91,605,147	28,642,236
Total credit risk exposure	17,593,712,707	16,641,362,498	15,312,412,958
Non-fund based exposures:			
Financial guarantees	118,138,466	32,168,218	10,780,105
Letter of credit and other obligations on account of customers	3,373,422	13,459,409	-
Undrawn credit facilities	1,321,902,701	1,300,121,698	1,067,475,535
Total credit risk exposure	1,443,414,589	1,345,749,325	1,078,255,640

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

The table below shows the sectorial split by industry sector of the bank's financial assets:

	2019	2018	2017
	MUR	MUR	MUR
Manufacturing	1,205,163,806	1,211,262,101	461,821,375
Construction	1,137,597,640	538,883,682	548,687,262
Professional	15,645,681	17,654,147	39,769,983
Traders	960,416,790	829,872,676	920,851,595
Tourism	1,947,446,148	1,232,895,804	1,228,326,383
Transport	369,624,804	340,201,190	279,894,191
Financial and Business services	5,447,323,198	4,939,523,849	4,979,390,591
Personal	566,794,660	422,312,624	233,807,037
Agriculture	349,984,773	610,000,251	617,279,649
Global Business Licence Holders	681,368,211	743,934,271	675,200,119
Government	4,397,323,652	5,581,388,004	5,213,490,555
Others	515,023,344	173,433,899	113,894,218
	17,593,712,707	16,641,362,498	15,312,412,958

The table below shows the sectorial split by industry sector of financial guarantees and other commitments:

	2019	2018	2017
	MUR	MUR	MUR
Manufacturing	367,325,339	78,356,890	124,176,351
Construction	322,433,774	75,472,503	145,941,403
Traders	245,899,069	421,999,359	235,266,602
Tourism	332,525,593	157,449,261	117,703,561
Transport	30,435,726	49,959,862	32,036,638
Financial and Business services	75,201,235	262,313,589	304,374,028
Personal	47,238,572	130,158,136	15,964,337
Agriculture	-	15,000,000	30,000,000
Global Business Licence Holders	367,394	125,179,446	34,903,202
Others	21,987,887	29,860,279	37,889,518
	1,443,414,589	1,345,749,325	1,078,255,640

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

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:

	<u>2019</u>
	<u>MUR</u>
Grades:	
Performing	
1 to 3 - Investment Grade	1,248,610,149
4 to 7 - Standard Monitoring	3,471,559,194
8 - Watchlist	608,550,739
Unrated	3,842,499,803
Non - performing	
9 - Default	70,992,311
	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 advance whose terms have been renegotiated during the year. (The carrying amounts of loans and advances whose terms have been renegotiated during the financial year 2018 amounted to MUR 43,407,803; 2017: MUR 133,964,655).

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

External Credit Assessment institutions (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

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

Impairment assessment (Cont'd)

Collectively assessed allowance (Stage 1 and Stage 2) (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%

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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.

	2019	2018	2017	Principal Type of collateral held
	MUR	MUR	MUR	
Fund based exposures:				
Cash and cash equivalents	2,720,834,508	3,269,834,484	4,312,103,904	Unsecured
Due from banks	698,739,467	1,030,811,338	1,183,314,188	Unsecured
Derivative financial assets	3,763,559	4,289,595	4,407,594	Unsecured
Loans and advances to customers	7,635,939,083	6,054,488,404	5,095,744,575	Real Estate
Investment securities	6,443,524,797	6,190,333,530	4,688,200,461	Unsecured
Other assets	90,911,293	91,605,147	28,642,236	Unsecured
Non-fund based exposures:				
Financial guarantees	118,138,466	32,168,218	10,780,105	Unsecured
Letter of credit and other obligations on account of customers	3,373,422	13,459,409	-	Unsecured
Undrawn credit facilities	1,321,902,701	1,300,121,698	1,067,475,535	Unsecured

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

Impairment assessment (Cont'd)

Collectively assessed allowance (Stage 1 and Stage 2) (Cont'd)

5. Measurement of ECL (Cont'd)

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
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
	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
2017				
Cash and cash equivalents	4,312,103,904	-	-	4,312,103,904
Due from banks	1,183,314,188	-	-	1,183,314,188
Derivative financial assets	4,407,594	-	-	4,407,594
Loans and advances to customers	5,086,125,375	3,376,750	6,242,450	5,095,744,575
Investment securities	4,686,201,297	-	1,999,164	4,688,200,461
Other assets	28,642,236	-	-	28,642,236
	15,300,794,594	3,376,750	8,241,614	15,312,412,958

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

Ageing analysis of past due but not classified under Stage 3 loans by class of financial assets

	Amount in arrears			Total
	Less than 30 days	31 to 89 days	More than or equal to 90 days	
	MUR	MUR	MUR	MUR
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
2017				
Loans and advances to customers				
Loans and overdrafts				
Retail	1,574,148	16,623	2,932	1,593,703
Corporate	153,509	233,982	979	388,470
	1,727,657	250,605	3,911	1,982,173
Investment in finance leases				
Retail	184,874	315,248	14,341	514,463
Corporate	570,515	295,868	13,731	880,114
	755,389	611,116	28,072	1,394,577
	2,483,046	861,721	31,983	3,376,750

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

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:

	2019	
	Gross Carrying MUR	Loss Allowance MUR
0 - 30 days (Stage 1)	7,287,768,230	89,954,473
0 - 30 days (Stage 2)	420,122,868	4,168,718
31 - 89 days (Stage 2)	19,914,198	285,765
	<u>7,727,805,296</u>	<u>94,408,956</u>

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:

	2019	2018	2017
	MUR	MUR	MUR
Loans and advances (Note 12(c))	<u>70,992,311</u>	85,034,931	89,070,137
Specific allowance held in respect of impaired advances (Note 12(c))	-	78,858,332	82,827,690
Expected Credit Losses on loans and advances under Stage 3 (Note 12(c))	<u>68,449,568</u>	-	-
	<u>68,449,568</u>	78,858,332	82,827,690

(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. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a weekly basis. This incorporates an assessment of expected cash flows.

Sources of liquidity risk include unforeseen withdrawal of demand deposit, restricted access to new funding with appropriate maturity and interest rate characteristics, inability to liquidate a marketable asset timeously with minimum risk of capital loss, unpredicted non payment of a finance lease obligation and a sudden increased demand for leases.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

c) Liquidity risk (Cont'd)

The bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The bank also has committed lines of credit that it can access to meet liquidity needs. The liquidity position is assessed and managed under a variety of scenarios giving due consideration to stress factors relating to both the market in general and specifically to the bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. The ratio during the year was as follows:

	2019	2018	2017
	%	%	%
Lowest	17	24	31
Highest	45	36	40
Average during the year	25	31	37

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.

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
2019						
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

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (Cont'd)

	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
2017						
Derivative financial liabilities	-	14,803,458	1,727,638	-	-	16,531,096
Deposits from customers	-	10,350,588,198	1,463,759,080	1,211,401,204	777,317,215	13,803,065,697
Preference shares	-	-	127,569,768	-	138,180,000	265,749,768
Other liabilities	264,752,923	3,058,750	26,651,914	-	-	294,463,587
Total financial liabilities	264,752,923	10,368,450,406	1,619,708,400	1,211,401,204	915,497,215	14,379,810,148
Contingent liabilities and commitments	-	898,461,856	178,616,527	1,177,257	-	1,078,255,640

The table on the following page shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (Cont'd)

Assets	Notes	2019							
		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
		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	21	-	-	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								
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
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

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D) (c) Liquidity risk (Cont'd)

Notes	2018							Sub total more than 12 months	Total	
	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										
Cash and cash equivalents	-	3,276,741,586	-	3,276,741,586	-	-	-	3,276,741,586		
Due from banks	-	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	-	522,976	3,766,619	4,289,595	-	-	-	4,289,595		
Loans and advances to customers	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	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	94,025,588	-	-	-	-	-	-	94,025,588		
Property and equipment	394,861,578	-	-	-	-	-	-	394,861,578		
Intangible assets	4,351,872	-	-	-	-	-	-	4,351,872		
Deferred tax assets	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)		
Liabilities										
Due to banks	-	110,061,479	-	110,061,479	-	-	-	110,061,479		
Derivative financial liabilities	-	1,442,153	1,332,606	2,774,759	-	-	-	2,774,759		
Deposits from customers	-	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	-	-	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	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		
Less allowance for credit impairment	-	-	-	-	-	-	-	(168,316,592)		
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)		
Contingent liabilities and commitments	39	-	-	-	-	-	-	1,510,339,418		
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		
Commitments										
Undrawn credit facilities	-	20,960,146	23,934,279	44,894,425	733,202	-	733,202	45,627,627		
Total	-	752,241,168	547,880,530	1,300,121,698	-	-	-	1,300,121,698		
Undrawn credit facilities	-	773,201,314	571,814,809	1,345,016,123	733,202	-	733,202	1,345,749,325		

43. RISK MANAGEMENT (CONT'D) (c) Liquidity risk (Cont'd)

Notes	2017							Sub total more than 12 months	Total	
	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										
Cash and cash equivalents	-	4,317,358,970	-	4,317,358,970	-	-	-	4,317,358,970		
Due from banks	-	322,739,238	711,052,116	1,033,791,354	46,799,153	102,723,681	149,522,834	1,183,314,188		
Derivative financial assets	-	4,108,762	298,832	4,407,594	-	-	-	4,407,594		
Loans and advances to customers	106,192,824	1,557,190,466	1,510,630,156	3,067,820,622	840,802,404	1,235,887,806	2,076,690,210	5,250,703,656		
Investment securities	206,961,570	515,863,821	449,999,800	965,863,621	529,785,935	3,022,801,515	3,552,587,450	4,725,412,641		
Other assets	31,223,839	-	-	-	-	-	-	31,223,839		
Property and equipment	372,510,402	-	-	-	-	-	-	372,510,402		
Intangible assets	6,819,610	-	-	-	-	-	-	6,819,610		
Deferred tax assets	24,025,071	-	-	-	-	-	-	24,025,071		
Total	747,733,316	6,717,261,257	2,671,980,904	9,389,242,161	1,417,387,492	4,361,413,002	5,778,800,494	15,915,775,971		
Less allowance for credit impairment	-	-	-	-	-	-	-	(163,926,135)		
Liabilities										
Derivative financial liabilities	-	14,803,458	1,727,638	16,531,096	-	-	-	16,531,096		
Deposits from customers	-	10,350,588,198	1,463,759,080	11,814,347,278	1,211,401,204	777,317,215	1,988,718,419	13,803,065,697		
Preference shares	-	-	127,569,768	127,569,768	-	138,180,000	138,180,000	265,749,768		
Current tax liabilities	-	-	23,175,879	23,175,879	-	-	-	23,175,879		
Other liabilities	269,785,596	3,213,821	26,651,914	29,865,735	-	3,396,014	3,396,014	303,047,345		
Total	269,785,596	10,368,605,477	1,642,884,279	12,011,489,756	1,211,401,204	918,893,229	2,130,294,433	14,411,569,785		
Less allowance for credit impairment	-	(3,651,344,220)	(1,029,096,625)	(2,622,247,595)	205,986,288	3,442,519,773	3,648,506,061	1,504,206,186		
Net liquidity gap	477,947,720	(3,651,344,220)	1,029,096,625	(2,622,247,595)	205,986,288	3,442,519,773	3,648,506,061	1,504,206,186		
Less allowance for credit impairment	-	-	-	-	-	-	-	(163,926,135)		
Contingent liabilities and commitments	39	-	-	-	-	-	-	1,340,280,051		
Contingent liabilities										
Financial guarantees	-	5,931,782	3,671,066	9,602,848	1,177,257	-	1,177,257	10,780,105		
Commitments										
Undrawn credit facilities	-	5,931,782	3,671,066	9,602,848	1,177,257	-	1,177,257	10,780,105		
Undrawn credit facilities	-	892,530,074	174,945,461	1,067,475,535	-	-	-	1,067,475,535		
Undrawn credit facilities	-	898,461,856	178,616,527	1,077,078,383	1,177,257	-	1,177,257	1,078,255,640		

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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.

	Impact of change in interest rate on profit or loss		
	Assets	Liabilities	Increase/ (decrease) in profit
	MUR	MUR	MUR
2019			
Increase in basis point - 50 bp	<u>20,454,170</u>	<u>(21,643,495)</u>	<u>(1,189,325)</u>
Decrease in basis point - 50 bp	<u>(20,454,170)</u>	<u>21,643,495</u>	<u>1,189,325</u>
2018			
Increase in basis point - 50 bp	<u>11,381,030</u>	<u>(20,507,614)</u>	<u>(9,126,584)</u>
Decrease in basis point - 50 bp	<u>(11,381,030)</u>	<u>20,507,614</u>	<u>9,126,584</u>
2017			
Increase in basis point - 50 bp	<u>11,112,618</u>	<u>(21,623,049)</u>	<u>(10,510,431)</u>
Decrease in basis point - 50 bp	<u>(11,112,618)</u>	<u>21,623,049</u>	<u>10,510,431</u>

(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%	2019	2018	2017
		MUR	MUR	MUR
Statement of other comprehensive income	+10	<u>195,361,405</u>	167,957,014	7,805,265
Statement of other comprehensive income	-10	<u>(195,361,405)</u>	(167,957,014)	(7,805,265)

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

43. RISK MANAGEMENT (CONT'D)

(d) Market risk

(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 2019 amounted to MUR 104,356 (2018 : MUR 116,396, 2017 : MUR 178,303).

The bank's monetary assets and liabilities as at 30 June is as follows:

	EUR	GBP	USD	Others	Total
	MUR	MUR	MUR	MUR	MUR
2019					
Cash and cash equivalents	<u>982,403,939</u>	<u>303,359,626</u>	<u>1,106,225,832</u>	<u>181,024,797</u>	<u>2,573,014,194</u>
Due from banks	<u>46,916,900</u>	<u>13,026,558</u>	<u>96,564,528</u>	-	<u>156,507,986</u>
Derivative financial assets	<u>1,144,715</u>	<u>330,005</u>	<u>976,539</u>	<u>1,312,300</u>	<u>3,763,559</u>
Loans and advances to customers	<u>949,152,486</u>	-	<u>1,808,227,874</u>	-	<u>2,757,380,360</u>
Investment securities	<u>1,054,876,995</u>	-	<u>1,072,025,399</u>	-	<u>2,126,902,394</u>
Other assets	<u>62,922,756</u>	-	<u>16,862,500</u>	<u>554,551</u>	<u>80,339,807</u>
	<u>3,097,417,791</u>	<u>316,716,189</u>	<u>4,100,882,672</u>	<u>182,891,648</u>	<u>7,697,908,300</u>
Derivative financial liabilities	<u>1,588,276</u>	<u>1,040,918</u>	<u>2,184,859</u>	<u>998,705</u>	<u>5,812,758</u>
Deposits from customers	<u>2,084,821,448</u>	<u>713,105,085</u>	<u>4,478,131,353</u>	<u>152,642,666</u>	<u>7,428,700,552</u>
Other liabilities	<u>148,773,556</u>	<u>6,924,951</u>	<u>135,154,558</u>	<u>14,428,957</u>	<u>305,282,022</u>
	<u>2,235,183,280</u>	<u>721,070,954</u>	<u>4,615,470,770</u>	<u>168,070,328</u>	<u>7,739,795,332</u>
Net position	<u>862,234,511</u>	<u>(404,354,765)</u>	<u>(514,588,098)</u>	<u>14,821,320</u>	<u>(41,887,032)</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2019

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
	<u>2,419,989,573</u>	<u>673,257,648</u>	<u>4,728,610,727</u>	<u>115,776,612</u>	<u>7,937,634,560</u>
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
	<u>2,430,333,070</u>	<u>715,442,279</u>	<u>4,656,870,348</u>	<u>126,938,875</u>	<u>7,929,584,572</u>
Net position	<u>(10,343,497)</u>	<u>(42,184,631)</u>	<u>71,740,379</u>	<u>(11,162,263)</u>	<u>8,049,988</u>

2017

	EUR	GBP	USD	Others	Total
	MUR	MUR	MUR	MUR	MUR
Cash and cash equivalents	2,048,354,885	212,680,702	1,400,647,747	123,924,708	3,785,608,042
Due from banks	2,519,190	63,001,163	603,183,905	-	668,704,258
Derivative financial assets	165	4,359,455	15,223	32,751	4,407,594
Loans and advances to customers	753,849,992	-	403,513,972	-	1,157,363,964
Investment securities	99,680,977	-	188,188,497	-	287,869,474
Other assets	-	-	16,435,000	531,972	16,966,972
	<u>2,904,405,209</u>	<u>280,041,320</u>	<u>2,611,984,344</u>	<u>124,489,431</u>	<u>5,920,920,304</u>
Derivative financial liabilities	13,854,458	45,021	2,608,194	23,343	16,531,016
Deposits from customers	2,012,272,825	669,037,634	2,886,461,680	113,652,152	5,681,424,291
Other liabilities	96,218,920	6,045,722	84,163,457	17,292,507	203,720,606
	<u>2,122,346,203</u>	<u>675,128,377</u>	<u>2,973,233,331</u>	<u>130,968,002</u>	<u>5,901,675,913</u>
Net position	<u>782,059,006</u>	<u>(395,087,057)</u>	<u>(361,248,987)</u>	<u>(6,478,571)</u>	<u>19,244,391</u>

(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.

NOTICE OF ANNUAL MEETING

Notice is hereby given that the Annual Meeting of Shareholders of ABC Banking Corporation Ltd (the "bank") will be held at the ABC Banking Private Lounge, Royal Road, Port Louis, on Friday 20 December 2019 at 14.00 to transact the following business:

1. To receive the Annual Report for the financial year ended 30 June 2019.
2. To receive the report of Messrs. Ernst & Young, External Auditors of the bank.
3. To consider and adopt the audited financial statements of the bank for the financial year ended 30 June 2019.
4. To re-elect (by way of separate resolutions) as directors of the bank to hold office until the conclusion of the next Annual Meeting of Shareholders, in accordance with Section 138 (6) of the Companies Act 2001 the following persons² who have been nominated by the Board on the recommendation of the Nominations and Remuneration Committee:
 - (i) Hon. Y. K. J. Yeung Sik Yuen, G.O.S.K
 - (ii) Professor Donald Ah-Chuen, G.O.S.K
5. To re-elect (by way of separate resolutions) as directors of the bank to hold office until the conclusion of the next Annual Meeting of Shareholders, the following persons² who have been nominated by the Board on the recommendation of the Nominations and Remuneration Committee:
 - (i) Mr David Brian Ah-Chuen
 - (ii) Mr Patrick Andrew Dean Ah-Chuen
 - (iii) Mr Sydney Ah Yoong
 - (iv) Hon. Ah Foon Chui Yew Cheong
 - (v) Me. Marie Danielle Low Kwan Sang
 - (vi) Mr Bhanu Pratabsingh Jaddoo
6. Remuneration of directors
 - (i) To ratify the revised fees payable to SMC members for the period from 1 July 2017 – 31 December 2018
 - (ii) To ratify the fees paid to the Directors for the year ended 30 June 2019
 - (iii) To fix the remuneration of the Directors of the bank for the year ending 30 June 2020
7. To ratify the remuneration paid to the External Auditors for the year ended 30 June 2019.
8. To re-appoint Ernst & Young as External Auditors of the bank for the financial year ending 30 June 2020 and to authorize the Board of Directors to fix their remuneration.

By order of the Board.

ABC Professional & Secretarial Services Ltd.
Company Secretary
Per **Mahesh Ittoo, ACIS MCSI**

27 November 2019

- Note 1 A member of the Company entitled to attend and vote at this meeting but who is unable to attend may appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company. The appointment should be made in writing and the instrument (*copy annexed*) must be deposited at with the Secretary, ABC Professional & Secretarial Services Ltd, c/o ABC Banking Corporation Ltd, WEAL HOUSE, Duke of Edinburgh Avenue, Place d'Armes, 11328 Port Louis not less than 24 hours before the meeting.
- Note 2 The profiles and categories of the directors proposed for re-election are set out in the Annual Report 2019.
- Note 3 The fees paid to Messrs. Ernst & Young Mauritius during the year ended 30 June 2019 are set out in the Annual Report 2019.

PROXY FORM

I/We of being a member/members of ABC banking Corporation Ltd, hereby appoint of or failing him/her of as my/our proxy to vote for me/us on my/our behalf at the Annual Meeting of the Company to be held on Friday 20 December 2019 or at any adjournment thereof.

I/We desire my/our vote(s) to be cast on the Ordinary Resolutions as follows:

		For	Against	Abstain
1	To receive the Annual Report for the financial year ended 30 June 2019			
2	To receive the report of Ernst & Young, External Auditors of the bank			
3	To consider and adopt the Audited Financial Statements of the bank for the financial year ended 30 June 2019			
4	To re-appoint (by way of separate resolutions) as directors of the bank to hold office until the conclusion of the next Annual Meeting of Shareholders, in accordance with Section 138 (6) of the Companies Act 2001 the following persons who have been nominated by the Board on the recommendation of the Nominations and Remuneration Committee: (i) Hon. Y. K. J. Yeung Sik Yuen, G.O.S.K (ii) Professor Donald Ah-Chuen, G.O.S.K			
5	To re-appoint (by way of separate resolutions) as directors of the bank to hold office until the conclusion of the next Annual Meeting of Shareholders, the following persons who have been nominated by the Board on the recommendation of the Nominations and Remuneration Committee: (i) Mr Patrick Andrew Dean Ah-Chuen (ii) Mr David Brian Ah-Chuen (iii) Mr Sydney Ah Yoong (iv) Hon. Ah Foon Chui Yew Cheong (v) Me. Marie Danielle Low Kwan Sang (vi) Mr Bhanu Pratabsingh Jaddoo			
6	(i) Remuneration of directors. (ii) To ratify the revised fees payable to SMC members for the period from 1 July 2017 – 31 December 2018 (iii) To ratify the fees paid to the Directors for the year ended 30 June 2019 (iv) To fix the remuneration of the Directors of the bank for the year ending 30 June 2020			
7	To ratify the remuneration paid to the External Auditors for the year ended 30 June 2019			
8	To re-appoint Ernst & Young as External Auditors of the bank for the financial year ending 30 June 2020 and to authorize the Board of Directors to fix their remuneration.			

Signature:

Signed this day of 2019



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