10

years of performance

BANK ONE

annual report 2018

10 years are only









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the **beginning**...

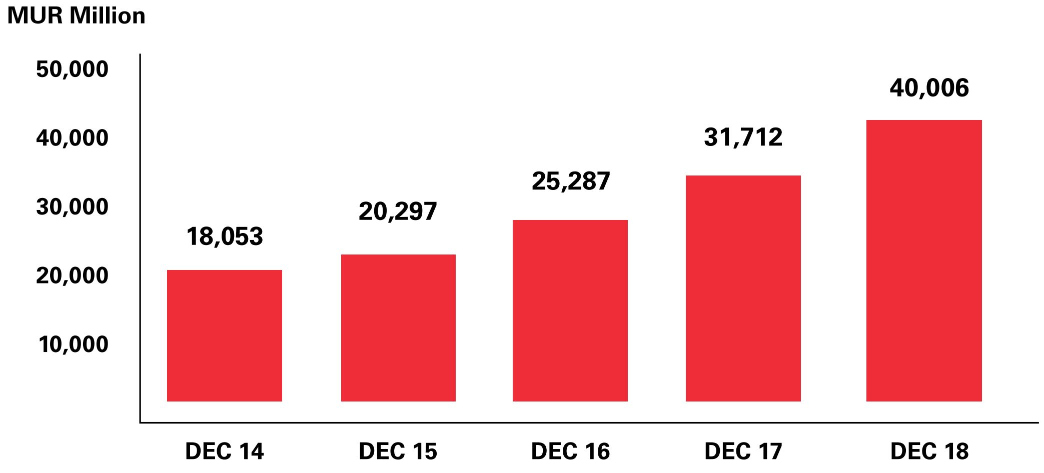




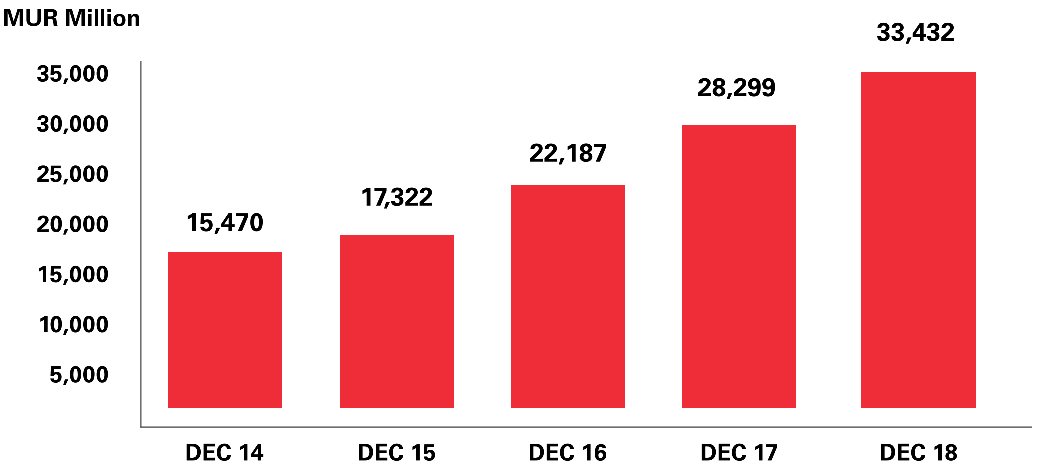




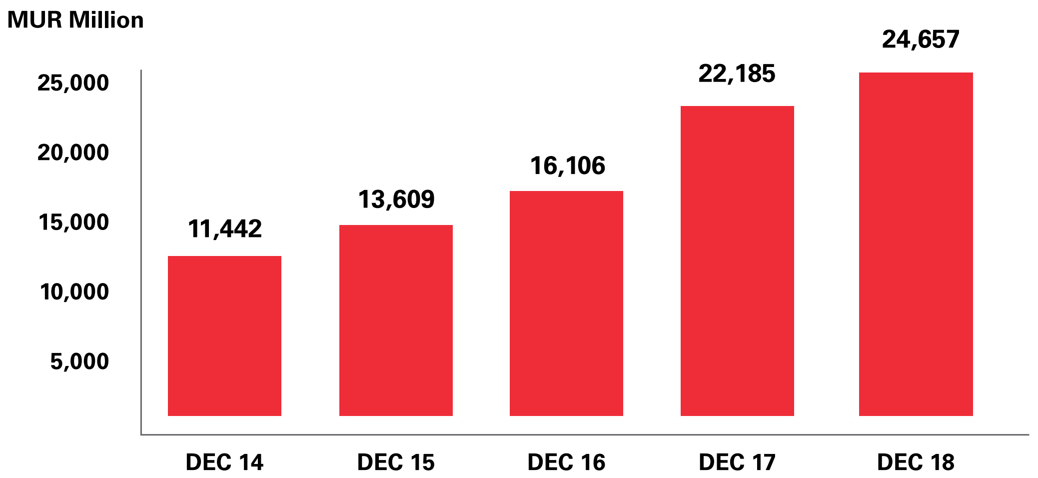
Financial Highlights



Total Assets

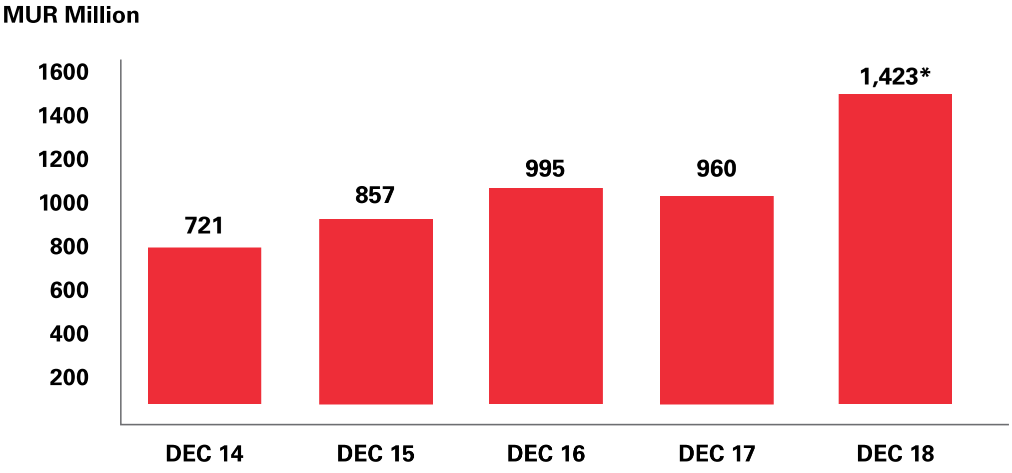


Total Deposits



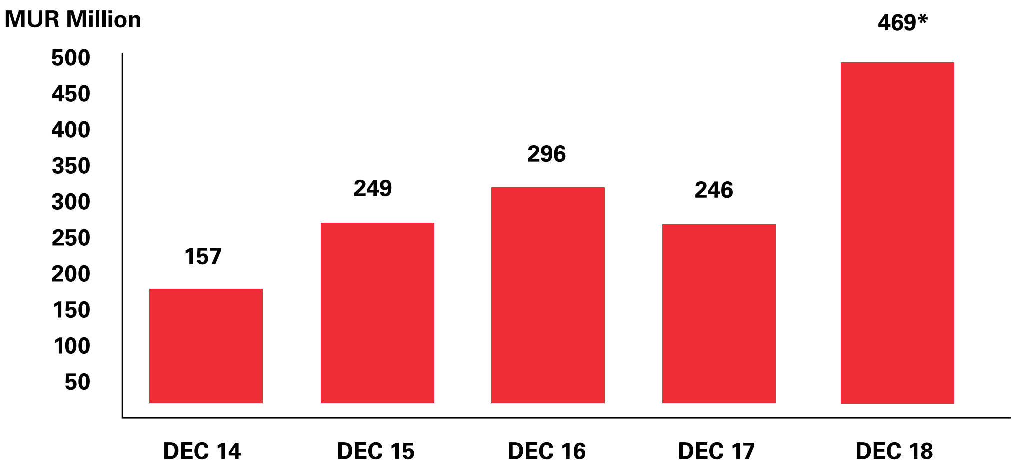
Gross Advances

Financial Highlights



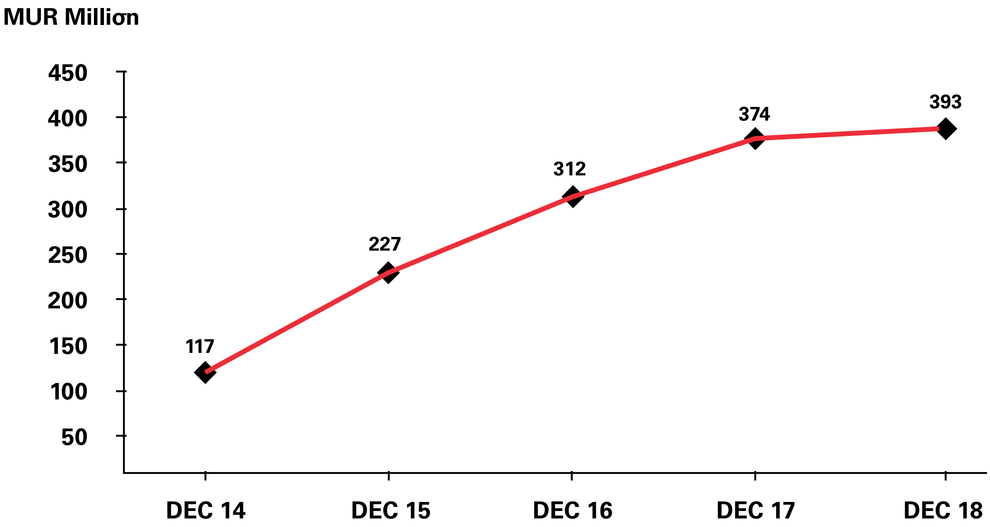
Operating Income

*Operating income includes a one-off recovery of MUR141m.



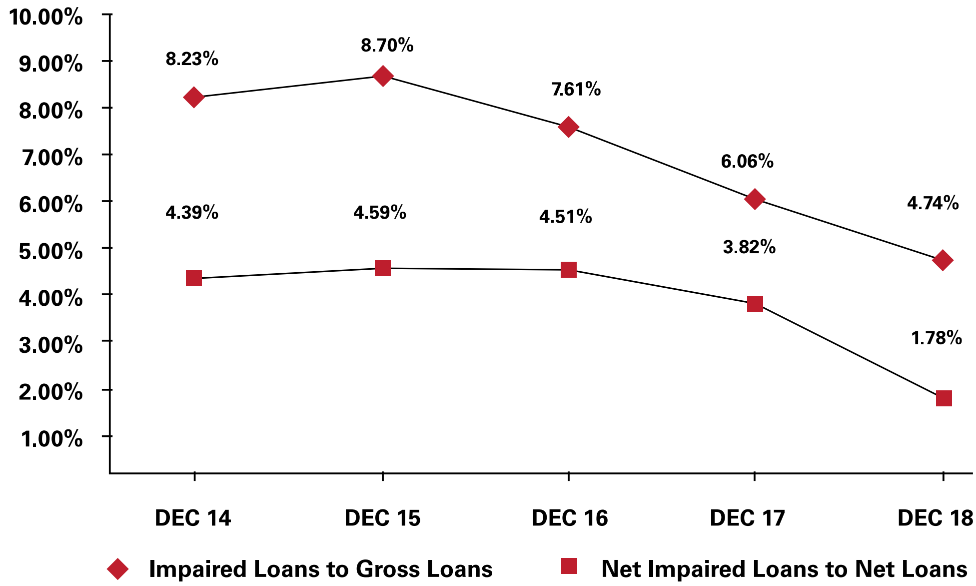
Non Interest Income

*Non interest income includes a one-off recovery of MUR141m.

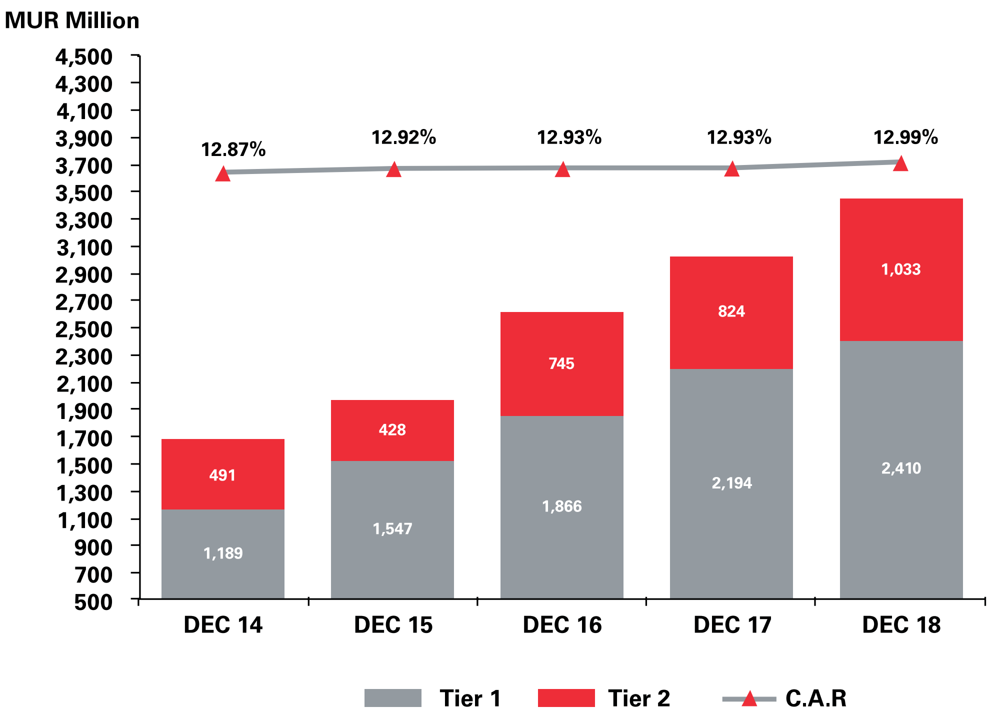


Profit after tax

Financial Highlights



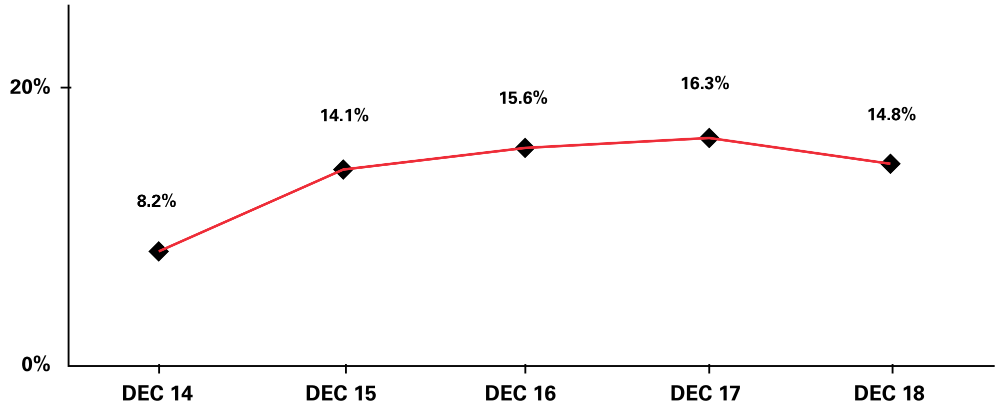
Impaired and Net Impaired Loans Ratios



Capital Adequacy Assessment

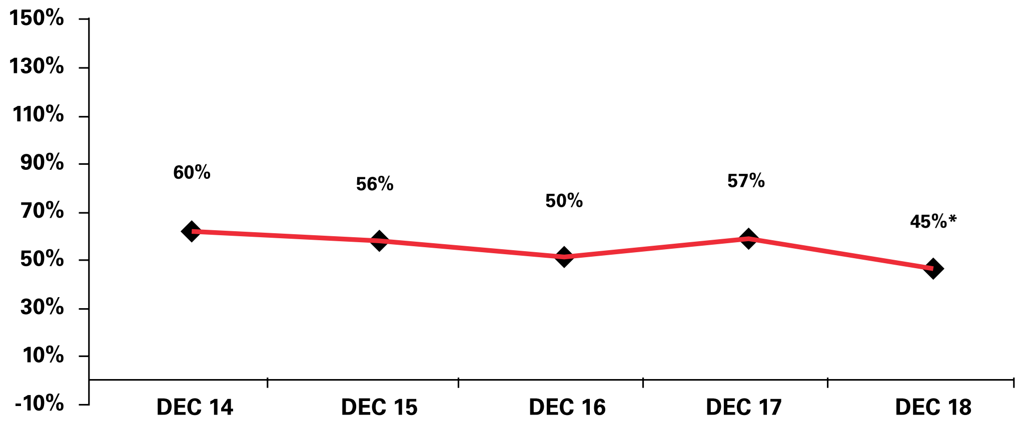
Financial Highlights

Return on Equity



Cost to Income Ratio

*Excluding MUR141m one-off income, the cost-to-income ratio would be 49%.



Corporate Profile

Bank One Limited (hereinafter referred to as "Bank One" or the "Bank") is a Mauritian bank incorporated as a private company. It is a Public Interest Entity as defined by the Financial Reporting Act 2004.

Born out of the joint venture between CIEL Limited and I&M Holdings PLC in 2008, Bank One Limited chose, right from the start, to serve the four main banking segments, namely retail, corporate, private and international banking. It is, today, recognised as a fast-growing bank with solid fundamentals and was ranked as the 28th most profitable company in Mauritius by "Top 100 Companies" publication in 2018, based on its 2017 performance.

Over the past 10 years, Bank One has built a client base of over 50,000, serviced by a dedicated team of 375 well-trained staff and an asset base of MUR40bn.

Bank One provides a wide range of banking products and services to its clients through a geographic footprint spread across the island of Mauritius comprising of 12 branches and a well-distributed ATM network.

It has also acquired a solid reputation for its treasury services and has built a strong E-Commerce value proposition that appeals to customers far and wide. Recognised by Visa for best-in-class E-Commerce risk management practices, Bank One has more recently extended its partner network and on-boarded MasterCard and UnionPay.

Rated by CARE Ratings (Africa) with a 'CARE MAU A+ (Is); Stable' Issuer Rating, Bank One continues to leverage on the strong presence of its two shareholders, I&M Holdings PLC (market capitalisation of USD475m) and CIEL Limited (market capitalisation of USD334m) on the African continent to position itself as a leading Mauritian and regional banking force with global reach.

OUR VISION

The **ONE** bank of choice.

OUR MISSION

Creating value in every relationship through **O**wnership, **N**urturing and **E**xecution.

OUR VALUES

Behave h**ONE**stly and fairly
Treat every**ONE** with respect
Be the **ONE** to delight customers
Work together as **ONE** team
Pi**ONE**er better ways of doing things

BUSINESS REGISTRATION NO:
C07040612

REGISTERED OFFICE:
16, Sir William Newton Street
Port Louis, Mauritius
Telephone: (230) 202 9200
Fax: (230) 212 8883
Website: www.bankone.mu

NATURE OF BUSINESS:
Bank One is licensed by the Bank of Mauritius (BOM) to carry out banking business in Mauritius.

The Bank also holds the following licences:

Licence	Issuer
Licence to act as Insurance Agent in Mauritius	Financial Services Commission of Mauritius
Licence for distribution of financial products in Mauritius	Financial Services Commission of Mauritius
Investment Adviser (Unrestricted) Licence in Mauritius	Financial Services Commission of Mauritius
Custodian Licence	Financial Services Commission of Mauritius
Representative Office in South Africa	South African Reserve Bank

Bank One has a Merchant Acquiring licence with Visa and MasterCard to carry out E-Commerce merchant acquiring.

MAIN CORRESPONDENT BANKS:
MashreqBank PSC, Dubai City
Commonwealth Bank of Australia, Sydney
Citibank NA, London
Banque de Commerce et de Placements SA, Geneva
Bank of China Limited, Johannesburg
BHF-BANK Aktiengesellschaft, 60323 Frankfurt
Banque Commerciale Océan Indien-BFCOI, St. Denis
SBM Bank (Mauritius) Ltd, Mumbai
I&M Bank Limited, Nairobi
BNI Madagascar, Antananarivo
DBS Bank Ltd, Singapore
Citibank NA, New York
Absa Bank Ltd, Johannesburg
FirstRand Bank Ltd, Johannesburg
The Standard Bank of South Africa Limited, Johannesburg

EXTERNAL AUDITORS:
PricewaterhouseCoopers
18, CyberCity,Ebène, Réduit 72201
Republic of Mauritius

DIRECTORS IN OFFICE DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Ms. Sandra Martyres
(Appointed as Independent Chairperson on 07.09.2017)

Mr. Juan Carlos Albizzati (Non-Executive)

Mr. Ravneet Chowdhury (Executive)

Ms. Gauri A. Gupta (Non-Executive)

Mr. Leonard C. Mususa (Independent)

Mr. Jozef Tournel
(Independent; Resigned on 28.11.2018)

Mr. Nikhil Treebhoohun (Independent)

Mr. L.A. Sivaramakrishnan (Non-Executive)

Mr. Marc-Emmanuel Vives (Non-Executive)

SECRETARY TO THE BOARD AND BOARD COMMITTEES

Ms. Kareen Ng Chit Wing *ACIS*

BOARD COMMITTEES COMPOSITION AS AT 31 DECEMBER 2018

Audit Committee

Mr. Leonard C. Mususa (Chairperson)
Ms. Sandra Martyres
Mr. Nikhil Treebhoohun

Risk Management Committee

Mr. Juan Carlos Albizzati (Chairperson)
Mr. Ravneet Chowdhury
Ms. Sandra Martyres
Mr. Leonard C. Mususa
Mr. L.A. Sivaramakrishnan

Conduct Review & Corporate Governance Committee

Mr. Leonard C. Mususa (Chairperson)
Ms. Sandra Martyres
Mr. Nikhil Treebhoohun

Administrative & Staff Compensation Committee

Mr. Marc-Emmanuel Vives (Chairperson)
Mr. Ravneet Chowdhury
Mr. L.A. Sivaramakrishnan

Nomination & Remuneration Committee

Ms. Gauri A. Gupta (Chairperson)
Mr. Nikhil Treebhoohun
Mr. Marc-Emmanuel Vives

Credit Committee

Mr. L.A. Sivaramakrishnan (Chairperson)
Ms. Sandra Martyres
Mr. Marc-Emmanuel Vives

Strategy Committee

Mr. Marc-Emmanuel Vives (Chairperson)
Mr. Ravneet Chowdhury
Ms. Gauri A. Gupta
Ms. Sandra Martyres

EXECUTIVE MANAGEMENT

CHIEF EXECUTIVE OFFICER
Mr. Ravneet Chowdhury

CHIEF OPERATING OFFICER
Mr. Saleem Ulhaq

CHIEF FINANCIAL OFFICER
Mr. Ranjeevesingh Gowreesunkur

CHIEF RISK OFFICER
Mr. Stephen Vlok

HEAD OF CORPORATE BANKING
Mr. Fareed Soobadar

HEAD OF INTERNATIONAL BANKING
Mr. Carl Chirwa

HEAD OF PRIVATE BANKING & WEALTH MANAGEMENT
Mr. Guillaume Passebecq

HEAD OF RETAIL BANKING
Mr. Shehryar Bakht Ali

HEAD OF TREASURY
Mr. Rishyraj Lutchman

HEAD OF HUMAN RESOURCES
Mrs. Priscilla Mutty

HEAD OF LEGAL & CREDIT ADMINISTRATION
Mrs. Valerie Duval

Our Accolades in 2018

Global Finance Magazine
Best Private Bank
Mauritius 2018

CFI.co
Best Corporate Bank
Indian Ocean 2018

PwC Corporate Reporting Awards 2018
Winner in Financial
Institutions category

Africa Best Brand Awards
Mauritius Best Employer
Award 2018

Yes!
This is only
the beginning!

10 years:

Sandra Martyres
Chairperson of the Board of Directors

Chairperson's Report

The year 2018 marked the 10th anniversary of the start of the global financial crisis which had shaken world markets like never before. Although economies across the globe did post robust growth numbers over the past two years, strong threats were posed by the increased polarisation between both economies and societies. Globalisation is no longer perceived as an option. Countries have become more inward looking with rightist governments coming into power across the world.

In the international political arena North Korea's sabre rattling exercises are expected to continue after the failed second historic summit between Donald Trump and Kim Jong Un in Vietnam. A smooth Brexit looks like a distant dream after the British Parliament rejected the long negotiated proposal that Theresa May had worked out with the EU leading to further uncertainty around a no deal situation. The longest economic shut down in the US made headlines, following the House of Representatives refusal to clear the USD5bn Budget proposal by the Trump Administration to build a wall along the Mexican border.

On the economic front, although the US boasted the lowest unemployment numbers in decades, fears of inflation raising its ugly head led the Fed to raise interest rates. This, of course, increased the pain points in the developing world. The Venezuelan crisis, the US opting out of the Iran deal, uncertainty in the Middle East led to a spike in oil prices. Currencies and stock markets in emerging markets took a hit. The situation was further exacerbated by the ongoing trade war between the US and China - another strong deterrent to economic growth and free trade agreements.

a milestONE
constructed with **375** (& counting)
smiles

In the backdrop of this uncertain global environment Mauritius continued to be an island of relative serenity. The country celebrated its 50th Anniversary of Independence in March 2018 amid much pomp and splendour with a lot of pride, given its overall performance both in terms of economic progress and political stability. GDP grew at the rate of 3.7%. The budget deficit stood at 3.3%. Unemployment numbers eased with the Government's huge spending thrust on infrastructure. Tourism showed signs of healthy growth which gave a boost to the economy. The key sectoral drivers of growth continued to perform well with financial services, food processing, retail and wholesale trade, information and communications technology growing at a rate of 5%. Diversification into medical tourism and higher education will further strengthen the country's economic prospects. Mauritius retained its #1 rank in Sub-Saharan Africa on the World Bank's Ease of Doing Business Report.

The Bank of Mauritius pursued a tight money policy in the first half of 2018 sucking out excess liquidity from the economy in an attempt to curb inflation. Consequently liquidity pressures built up in banks and interest rates gradually moved northwards. The Central Bank's Golden Jubilee Bond Issue aimed at individuals and NGOs also attracted significant investment. Other regulatory changes involved tighter implementation of anti-terrorist financing and anti–money laundering laws. On the fiscal front the tax laws changed narrowing the taxation gap between GBCs and domestic companies.

Bank One ushered in the year 2018 with renewed vigour celebrating its 10th Anniversary. Transformational changes were undertaken as part of the decennial goals. Starting with a complete upgrade of the Core Banking Software and IT systems, a serious effort was made to improve our customer experience. Both the Retail and International Banking Divisions welcomed new Heads – also part of the Bank One initiative to grow our business, offer new products and branch into new territories. Substantial success was achieved in both these areas. The refurbishment of branches also gave fillip to the exercise. Our Asset Book grew steadily, but we experienced muted profitability owing to a one-off provisioning exercise. We posted a lower NPA ratio. Some of the major achievements in this past year include a new custody offering which was well received by our High-Net-Worth Individual clientele and earned us the award for the Best Private Bank in Mauritius. Our E-Commerce business focused on new product development and entry into new markets leading to improved business volumes and better visibility. In the Credit Card segment, our enhanced security measures for online shoppers along with other customer friendly measures led to a sharp increase in the number of cards issued.

At the Board Level there was one change, Mr. Jozef Tournel, an Independent Director resigned in November 2018. His replacement is expected to join us once the regulatory approvals are in place. I would like to thank Mr. Tournel for his contribution to the successful running of the Board. I would also like to thank my fellow Directors for their active and animated participation in all matters related to the Board and whose support and advice have been invaluable in successfully overseeing and steering the Bank towards achieving its strategic vision. I would also like to place on record the Board's appreciation of the efforts of Bank One's Management and Staff to make 2018 a successful year for the Company. We have always had the advantage of very supportive and active Shareholders – as a Board we recognise their contribution to the growth of the Bank. Last but not least we are thankful to our External Auditors for keeping a watchful eye on our books and to our Regulators for helping us in our efforts to be compliant.

Sandra Martyres
Chairperson of the Board of Directors


ONE

CEO's Report

10 years of progress

On 22 February 2008, CIEL Investment Limited and I&M Bank Limited, two leading conglomerates in Mauritius and Kenya respectively, came together as a 50:50 joint venture to take over First City Bank. An amazing journey began with the refresh of the brand name from First City Bank to Bank One Limited on 8th August 2008. This partnership brought together local and regional synergies resulting in establishing its presence and expertise to transform the Bank into a strong player on the offshore landscape.

2018 was marked with the celebration of Bank One ten year's anniversary. As we look back on how far we have progressed, we feel proud of what has been achieved during these ten years. We have recorded a substantial turnaround in profit after tax from a loss of over MUR100m to a profit of MUR393m. The Asset book, Deposits and Advances all multiplied more than fivefold, with the workforce growing only by 70% from 225 to 382 headcounts. As a direct consequence, the cost to income ratio improved markedly from 240% in 2008 to 45% in 2018. In the meantime, the client base grew by 30%. On the risk side better management led the gross NPL Ratio to improve from 11% to 4.74%.

10 years: a

mONumEntal

moment

2018 - A year of progress on a clearly defined path

2018 has been a strong year for Bank One in which we continued to develop and build momentum for the future. The balance sheet has grown rapidly with a year-on-year increase in total assets by 25% from MUR32bn to MUR40bn. Total deposits book substantially went up from MUR28bn to MUR33bn representing a growth of 18%. This growth, combined with a good dynamics of fee generating businesses and with a one-off revenue of MUR141m, from a long outstanding litigation, resulted in a strong progression in revenues by MUR463m – a growth of 48%. The profit before impairment reached MUR789m from MUR412m for the preceding year. However, a large impairment provision and a change in tax legislations negatively impacted the final profit figure which closed at MUR393m.

We are working together as ONE team to ensure that all actions within the Bank are aligned towards successfully achieving our strategic vision. A number of new initiatives have been launched and we have created capacity to prepare for future growth anticipated to arise from the momentum that the Bank has created. Bank One has been able to penetrate further the local market and is fast emerging as a Bank where the young as well as experienced people want to work and one that clients want to engage with.

There is still a long way to go. However, we see lots of opportunity in our chosen segments and lines of business. We will continue to create the capacity to manage the opportunities, strengthen our risk culture and ensure we achieve our strategic vision.

Strengthening our Foundations

Even as we pursue growth aspirations, we acknowledge that this needs a strong foundation. In 2018, therefore, we have invested significant time and efforts to strengthen our operating platform so as to deliver better service, enhance controls and create internal capacity to manage expected growth. On the technology side we have upgraded our Core Banking system and our Internet Banking, as well as introduced a new Mobile Banking App. We have increased our investments in cyber security and have started to further fortify and strengthen our channels and access points. On the people side we have concluded some top-quality hires that bring new experience and expertise to the Bank. We have also reinforced our capital base with an additional Tier II Sub Debt issuance of MUR200m. Our funding base has also been augmented, with a senior debt of USD30m from a German development financial institution. All these factors have enabled us to prepare better for the future and to build a more digital, efficient and leaner organization.

Our Achievements over the last 10 years

+487%

ON ASSET BASE

FROM MUR6.817bn TO MUR40.006bn

+445%

ON DEPOSITS

FROM MUR6.134bn TO MUR33.432bn

+417%

ON ADVANCES

FROM MUR4.769bn TO MUR24.657bn

+513%

ON PROFIT AFTER TAX

FROM MUR(120)m TO MUR393m

-195%

COST TO INCOME RATIO

FROM 240% TO 45%

Ravneet Chowdhury
Chief Executive Officer

Re-Engineering and Transformation

We have made good headway on efficiency and re-engineering of our key processes. This effort will pay dividends in 2019 and future years and will enable us to be more innovative and market focused. Our Core Banking upgrade will now enable our digitization journey. This, along with a re-engineering of our key processes, will enable us to achieve a much enhanced customer experience, improve managerial information and cut down transaction costs. A number of agile teams have been formed to tackle individual elements of our transformation. Separately, we have engaged with our shareholder groups to develop longer term value-added propositions which are more in line with what a modern successful bank needs.

Lines of Business Performance

We have had a strong business performance in 2018 across almost all our business lines. Our International Banking business has delivered a good performance and continues to be a driver of growth. It will be critical in the future balance sheet and revenue growth of the Bank.

E-Commerce has had an excellent year driven by increased volumes and a diversification of its income streams. Our partnership with UnionPay International was a key achievement for future business opportunities.

Treasury has also had a strong year with good flows and increase in volumes on both the interbank and client side. New products have been added to the portfolio which will give us an added edge.

Private Banking has emerged as a key provider in the market for External Asset Managers and has grown its portfolio of Assets Under Custody strongly. Volumes and revenues are up and good growth is anticipated in the coming years.

The Corporate Banking business had a difficult year driven by collapsing margins and poor opportunities for growth in a very competitive market. We are already emerging as the Key Bank or the top 3-5 banks for some groups and will continue to build on that positioning.

We have successfully managed to refocus our Retail Banking unit. With a new head of business in office, the entire momentum of the business has gathered pace and we are looking for an exciting 2019 both on the product side and in increasing volumes and improving profitability.

Economic Environment

Whilst general elections are more likely to happen in early 2020, we do not expect much of disruption and the country should continue to grow its GDP at a steady rate of 3.5-4%. The construction sector is doing particularly well and thanks to a number of new projects including the Metro, new flyovers and improved road networks; a positive effect is trickling into the economy. Tourism has also been a bright spot with total tourist numbers up 4.3% in 2018 from 1.34m to 1.39m. The Financial Services sector in Mauritius will continue to consolidate with the impact of CRS, India Double Taxation Treaty, Kenya Amnesty Scheme, and BEPS now being strongly felt. The sector will have to innovate and come up with new services to stay competitive and relevant.

On the international front, there is an expectation of a slower global GDP growth in 2019 and 2020. Coupled with trade tensions between the US and China and a number of flashpoints across the global economy, our international business growth will have to be very prudent. Whilst a complete meltdown is not expected, there will be increased headwinds coming from several directions to navigate through. Africa will continue to be an area of focus for us and we will look for selective opportunities to grow our business there.

Conclusion

I would like to conclude by highlighting that this is an extremely exciting time for Bank One. We have invested in our foundations and controls and created the capacity to handle a much larger business. The business strategies are well articulated and execution will be key to ensuring success. The team is bright and young, and with the right passion and creativity we can seize the various opportunities that come our way. This will enable us to truly outperform and realize our vision of becoming the “One Bank of Choice”.

A huge thank you to my executive team for their belief and efforts in our journey, our staff who are so passionate and involved as well as the Board who constantly guides and advises us.

All this progress would not have been achieved without the unwavering support of our shareholders.

I am also thankful to the regulators for their guidance and advice.

Ravneet
Chowdhury

Chief Executive Officer


10 years


of being
NE

Economic Review

Global Economy

During year 2018, global economic momentum has been more or less maintained but is set to increasingly lose steam through 2019. Risks to the outlook continue to mount, especially stemming from the unfolding US-China trade war. Poor policymaking has already translated to crises in several emerging economies and potential for policy missteps such as trade policy in the US and populist policies in Italy could have global ramifications.

The unfolding trade war between the United States and China creates uncertainty, especially for firms. It negatively impacts the nascent recovery of investments, which is in turn putting pressure on trade growth. Moreover, while the global economy is still supported by favourable financing conditions, the tightening of monetary policy by the US Federal Reserve is starting to be felt, with significant currency depreciation happening for a number of emerging market economies (EMEs), although these depreciations are also driven by country-specific policy issues such as in Turkey and Argentina. Political uncertainty, meanwhile, has continued to grow as well, especially in Europe.

Global GDP growth is estimated to have slightly accelerated to 3.1% in 2018 from 3.0% in 2017, but the world economy is expected to grow only by 2.8% in 2019. The US economy, with strong fundamentals further fuelled by fiscal stimulus, is presumed to have expanded by 2.9% in 2018, before easing to 2.5% in 2019. The eurozone economy continues to cool off as growth decelerates from 2.0% in 2018 to 1.7% in 2019. The UK's economy has been slowing to 1.3% in 2018 but is expected to remain resilient at 1.5% in 2019, should Brexit proceed in an orderly manner. GDP growth across emerging market economies (EMEs) is holding up in 2018 and 2019 at 4.5% and 4.4% respectively. Emerging Asia will remain the growth leader but is losing pace to 5.6% growth in 2019 from 6.0% in 2018. Eastern Europe and MENA are also losing momentum while Sub-Saharan Africa and Latin America are forecast to see moderate accelerations in 2019.

Sub-Saharan African Economy

The weak economic performance of the second largest economy in Sub-Saharan Africa (SSA), Nigeria, is keeping average economic growth in Africa moderate. Average growth for 2018 is expected to reach 2.7%, slightly higher than last year, due to the higher commodity prices. Higher oil prices support economic growth in the oil-exporting countries Nigeria and Angola. Angola is turning to the IMF for the refinancing of its large external funding requirements and to preserve debt sustainability. Across the region, governments have increased their investments in infrastructure. This is meant to address electricity shortages and lack of good roads, railways and ports that are constraining the potential of many African countries. To finance these investments, and taking their already high fiscal deficits into consideration, Ghana and Kenya have borrowed from the international capital markets.

Economic growth in Kenya is expected to accelerate to 5.4% in 2018 from 4.9% in 2017 due to high public investments. Ghana's economic growth has been high for several years now due to increasing oil production and public investments, but due to fiscal consolidation under the IMF programme, growth is expected to decline from 6.7% in 2018 to 5.9% in 2019.

Mauritian Economy

2018 was a very important year in our history as it marked the celebration of the 50th anniversary of Independence of Mauritius. During the year 2018, the growth rate remained stable at 3.7%, and the economy should continue to be supported by the main sectors. The financial and insurance activities are expected to grow by 5.4% in 2018 compared to 5.5% in 2017, mostly due to less monetary intermediation during the year 2018. The construction sector is expected to register buoyant expansion over the medium term with the implementation of major public and private sector projects and is likely to grow by 9.5%, higher than the 7.5% achieved in 2017. Some of the major public sector projects are: the Metro Express, Phoenix-Jumbo Round-About, A1M1 Bridge, water pipes replacement programme, Multi-Sport Complex, Airport Passenger Terminal Expansion Project and social housing units.

Investment is expected to increase by 6.6% in 2018, as against 4.7% in 2017, this being mainly explained by higher public sector investment. While private sector investment is expected to rise by 3.1% in 2018, lower than the 7.3% growth in 2017, public sector investment rebounded by 17.8% in 2018, after a contraction of 2.9% in 2017.

For the private sector, in 2019, there will be major investments in projects such as real estate development under the Smart City Scheme and the Property Development Scheme, construction and renovation of hotels, development projects for renewable energy, modern studio for filmmaking, residential care home projects and university campuses.

Economic Review (continued)

Mauritian Economy (continued)

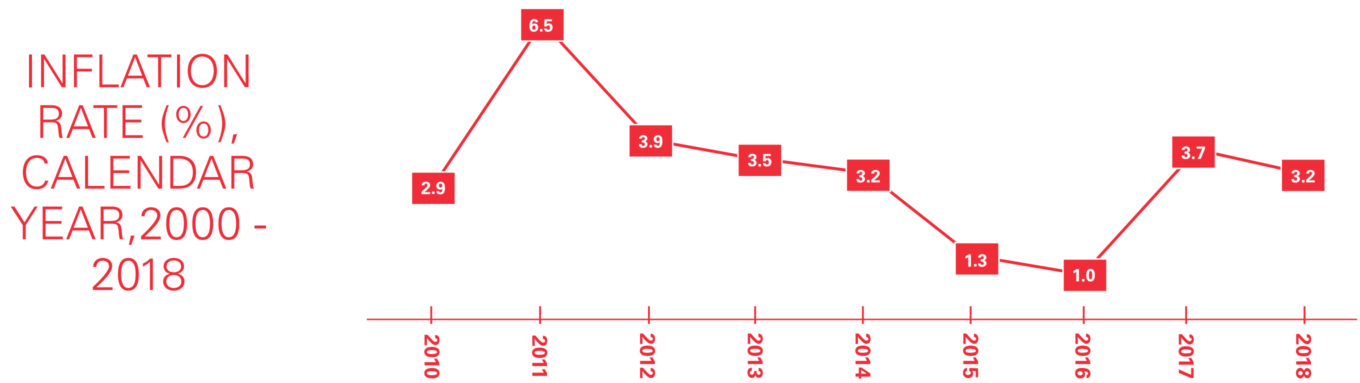
Accommodation and food service activities are expected to grow by 3.7% compared to 4.3% in 2017. The number of tourist arrivals for the year 2018 has reached a total of 1,399,287, higher than expected figure of 1,397,000. The tourism sector is projected to perform better with the market diversification strategy that will be intensified for greater penetration in ASEAN markets as well as Gulf and Nordic countries. Promotion of Mauritius as a year-round tourist destination will be strengthened.

Regarding the ICT sector, the coming into operation of two additional submarine cables in 2019 will increase international bandwidth and boost activities in the sector. In addition, the development of Fintech and Blockchain technology will create new opportunities for exports of financial services and ICT/digital capabilities.

The economy will also benefit from steady growth in activities in emerging sectors such as the film industry, knowledge hub, renewable energy, medical hub and the ocean economy. The re-industrialisation strategy is aiming at broadening the manufacturing base and boost exports. Moreover, the transformation of the port from a destination port into a hub for the region will increase economic activities and trade. The introduction of the national minimum wage and the negative income tax last year is likely to go on giving a boost to consumption expenditure and the retail trade sector.

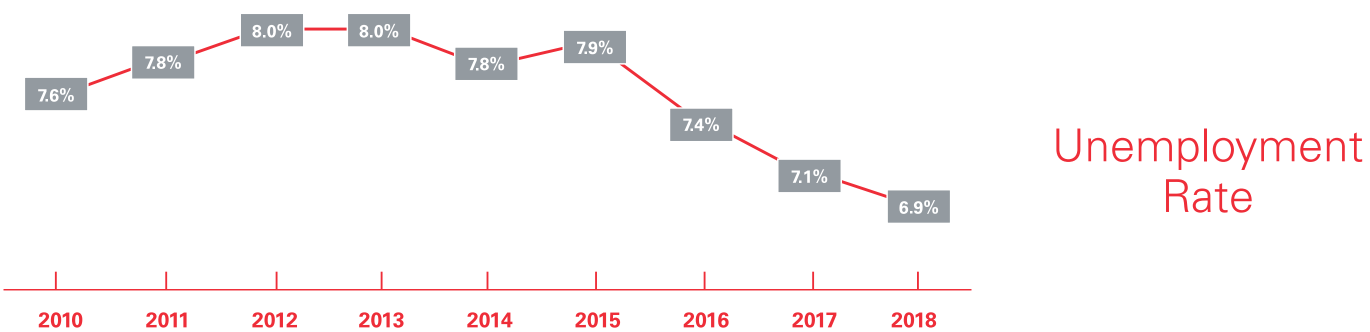
Inflation Rate

The headline inflation rate dropped from 3.7% in year 2017 to 3.2% in year 2018. This was driven by several factors amongst which: lower prices of commodities and changes in interest rate.



Unemployment Rate

Figures from Statistics Mauritius indicate that the unemployment rate would be at 6.9% in Dec 2018 – an improvement from 7.1% in 2017.

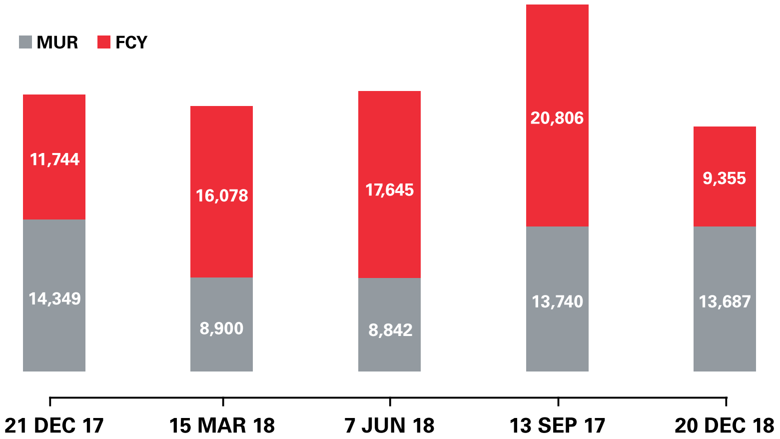


Source: CSO, January 2019

Economic Review (continued)

Banking Industry Update

Excess liquidity in the domestic money market rose substantially to reach a peak of MUR34.5bn in September 2018. The industry experienced a relatively tense first half on the MUR side, with Bank of Mauritius mopping up most of the excess liquidity, while on the FCY side, a significant liquidity reduction appeared in the last quarter.



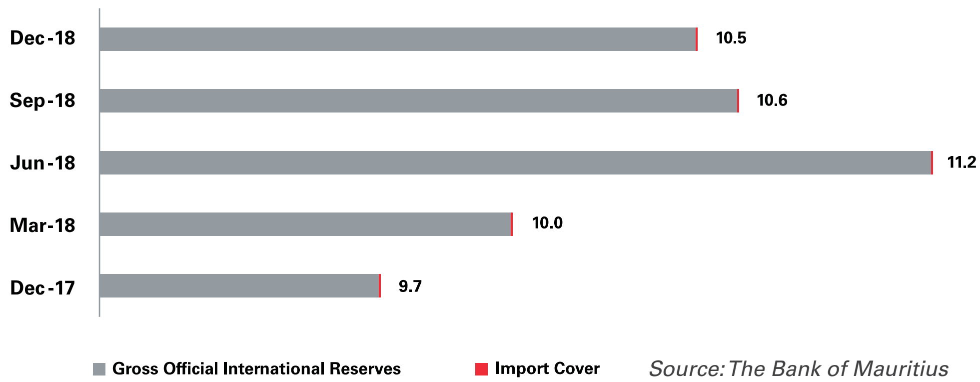
Excess Liquidity in the Mauritian Banking Industry

Source: The Bank of Mauritius

The Monetary Policy Commission (MPC) held four meetings during the year 2018 and the Key Repo Rate was maintained at 3.50% throughout the year.

Foreign Exchange Reserves

Gross Official International Reserves



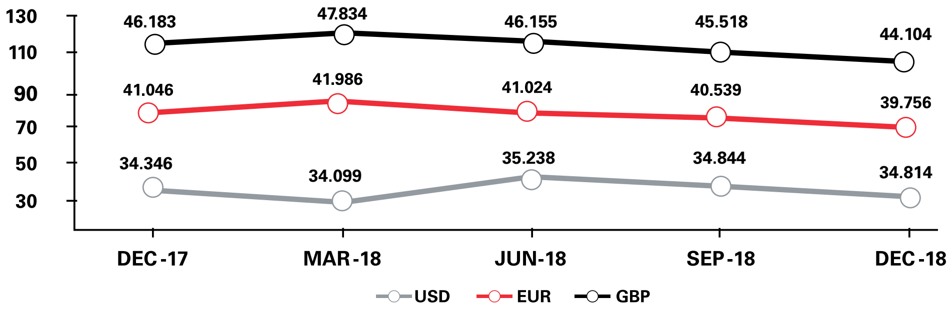
Source: The Bank of Mauritius

The Gross Official International Reserves (GOIR) of the country increased by MUR17.2bn, from MUR200.4bn as at end-December 2017 to MUR217.6bn as at end-December 2018. The GOIR improved to 10.5 months cover of imports as at end-December 2018 compared to 9.7 months as at end-December 2017.

Economic Review (continued)

Exchange Rates

In 2018, Mauritian rupee appreciated slightly against the Euro and Pound sterling but depreciated marginally against the US Dollar.



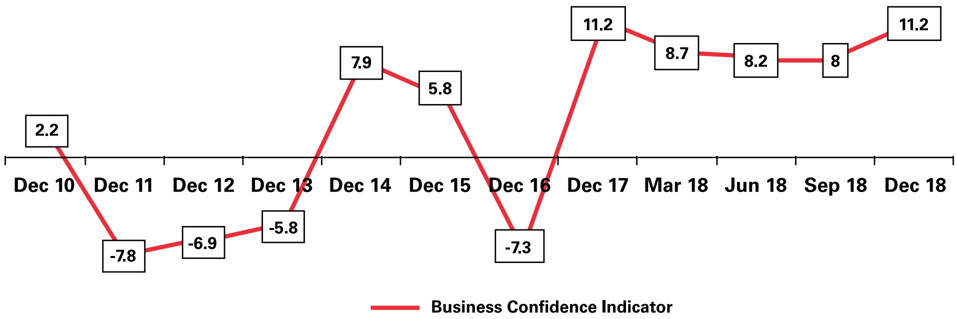
Exchange rate of Mauritian Rupee (Period Average): January 2018 to December 2018

Source: The Bank of Mauritius

Business Confidence

The Mauritius Chamber of Commerce and Industry (MCCI) publishes the Business Confidence Indicator every quarter that measures the business climate in Mauritius. The quarterly business confidence index has improved over the previous quarters to reach 11.2 as at Dec 2018.

Business Confidence Indicator

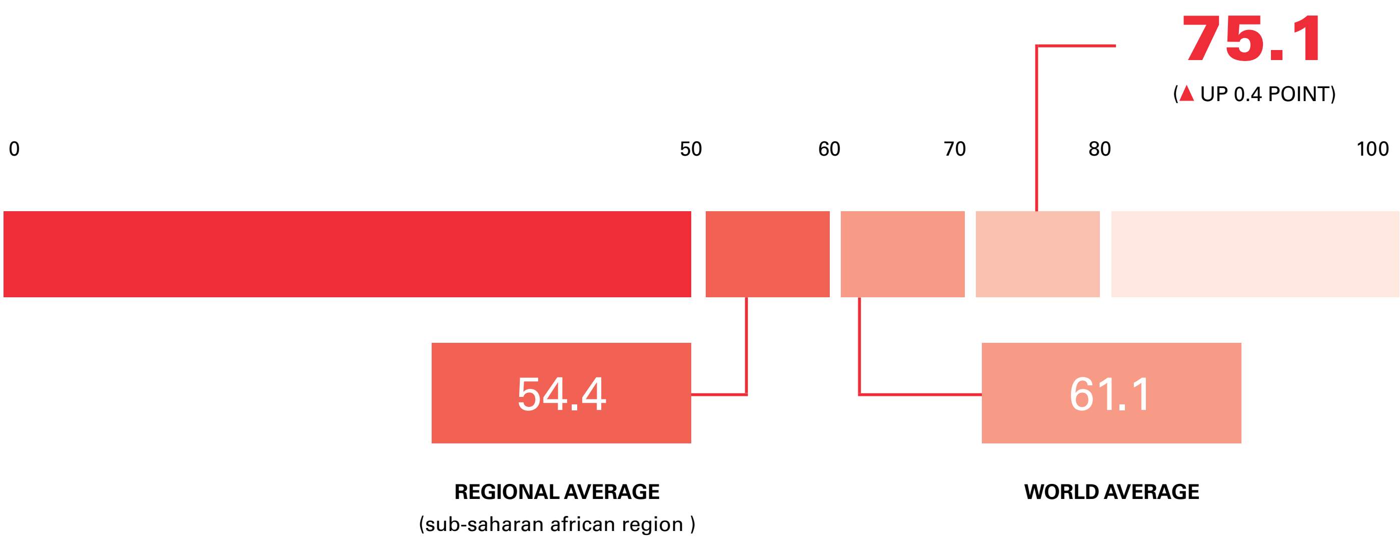


Economic Review (continued)

Economic Freedom Index 2018

The Index of Economic Freedom is an annual index and ranking created in 1995 by The Heritage Foundation and The Wall Street Journal to measure the degree of economic freedom in the World's nations. Mauritius's economic freedom score is 75.1- above the Sub-Saharan African average of 54.4 and World average of 61.1, making its economy the 21st freest in the 2018 Index. Its overall score has improved by 0.4 points, with improvement in scores for the government integrity and property rights indicators offsetting a decline in judicial effectiveness. Mauritius is ranked 1st among 47 countries in the Sub-Saharan Africa region. Solid economic policies and prudent banking practices helped business-friendly Mauritius survive the global financial crisis.

Economic Freedom Score



NOTABLE SUCCESS:	CONCERNS:	OVERALL SCORE CHANGE SINCE 2014:
Open Markets, Monetary Stability and Business Freedom	Government Integrity and Labor Freedom	-1.4

Source: The Heritage Foundation-2018

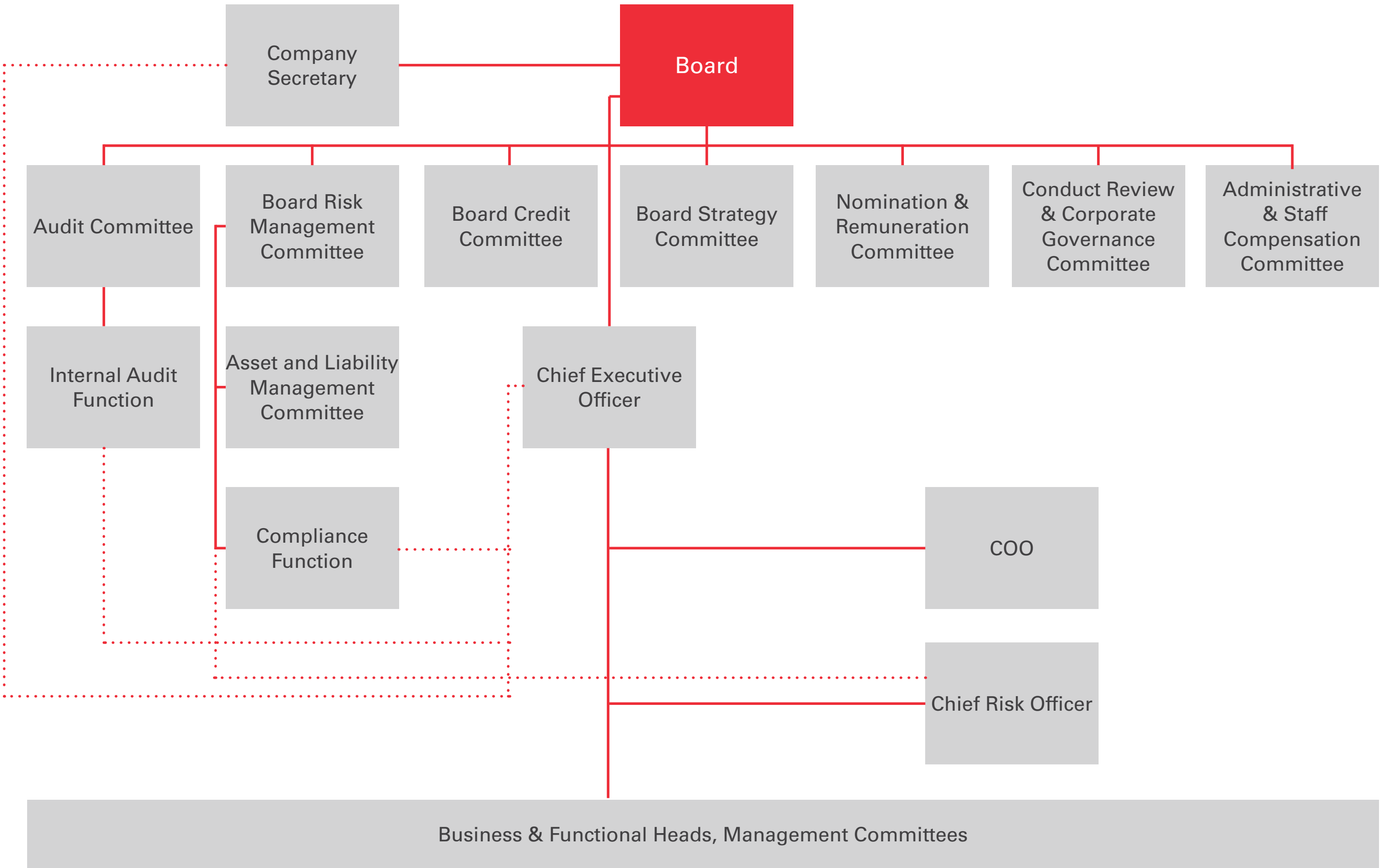
Corporate Governance Report

1. Governance Structure

The Board of Directors of Bank One Limited (the "Bank") is fully committed to maintaining the highest standards of corporate governance and ethical business conduct across all aspects of the Bank's operations and decision-making process with the objective of enhancing shareholders' value whilst having regard to stakeholders at large.

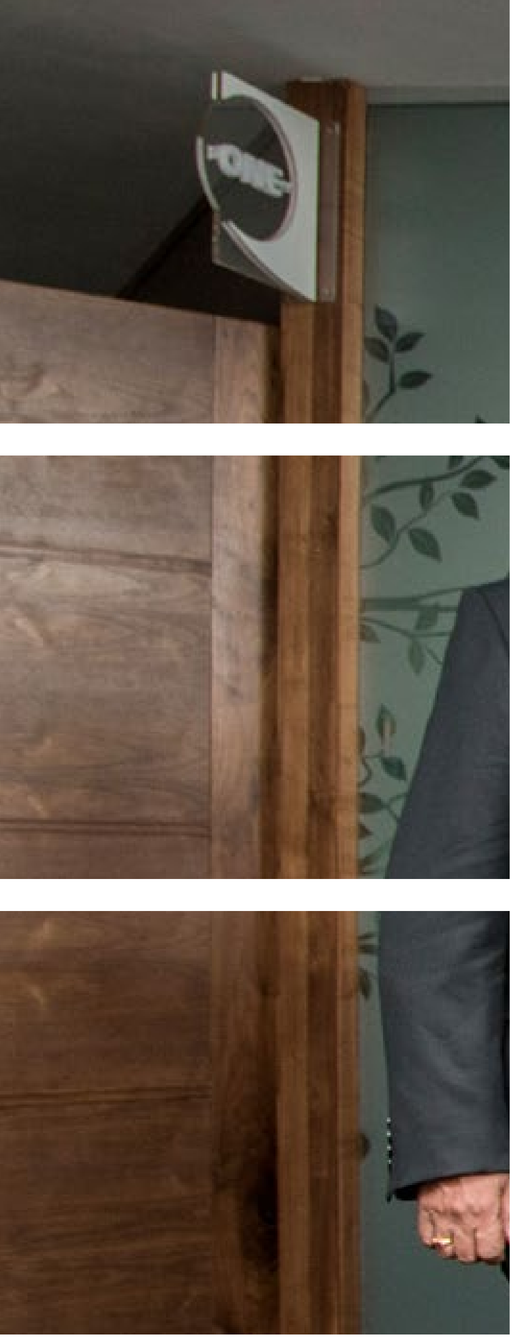
Governance Framework and Accountabilities

The governance framework of the Bank includes a Board of Directors which has been entrusted with the necessary powers to lead, direct and supervise the management of the business and the affairs of the Bank in an ethical and responsible manner as per its Constitution and the shareholders' agreement and to ensure that all legal and regulatory requirements are met. Some of the responsibilities are discharged directly, whilst others are discharged through committees of the Board. The day-to-day management and operation of the Bank's business has been delegated to the Chief Executive Officer. The Chief Executive Officer is responsible for establishing a management structure that promotes accountability and transparency throughout the Bank for the good implementation of business strategies, risk management systems, risk culture, processes and controls.

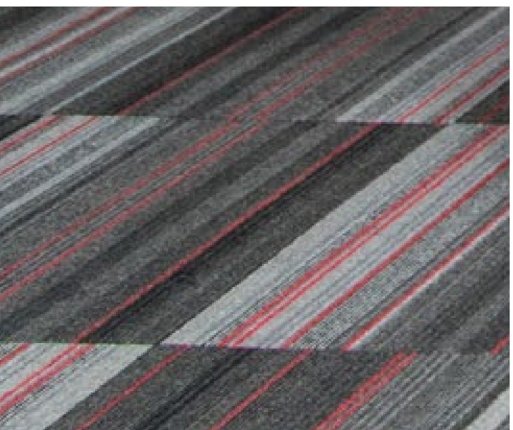


In the process of ensuring compliance with the National Code of Corporate Governance (2016), the Board has, during the year under review, reviewed its Board Charter[1] and its Code of Ethics[1]. It has also defined its key senior governance positions (Chairperson of the Board, Chairpersons of all Board Committees, Chief Executive Officer and Company Secretary) and approved their respective job descriptions[1].

[1] *Available on the Bank's website at www.bankone.mu*



Directors Profile



Directors' Profile

SANDRA MARTYRES
Independent Chairperson
(Appointed as Independent Director on 02.09.13 and Chairperson on 07.09.17)

Sandra Martyres has over 25 years' experience in banking at Senior Management level, overseeing all areas from Front Office (Corporate Banking, Trade Finance, Dealing Room) to support functions (Finance, HR, Admin, IT, Operations).

She retired from Société Générale as Deputy CEO – India. She is currently an Independent Director on the Board of Novartis India Ltd and an Executive Member of the Managing Committee of Alliance Francaise de Bombay. Sandra holds a Master's Degree in Economics from the University of Mumbai.

RAVNEET CHOWDHURY
Chief Executive Officer & Executive Director
(Appointed on 01.01.14)

Ravneet Chowdhury has a long career in the Banking industry, occupying various senior positions within the Standard Chartered Bank prior to his appointment as CEO of Standard Chartered Bank, Oman. He possesses extensive African experience, having worked in Southern and East Africa for a number of years and he has also worked for ABN AMRO and American Express Bank.

Ravneet is a qualified chartered accountant and holds a Bachelor of Commerce from the University of Delhi and an MBA from Henley Management College.

Directors' Profile

JUAN CARLOS ALBIZZATI
Non-Executive Director
(Appointed on 02.03.17)

Juan Carlos Albizzati is currently engaged as the Head of Risk Management, Compliance and Control with Ciel Finance Limited. He is a seasoned banker and risk management expert with more than 40 years' experience within the Société Générale Group. He has occupied various roles as Head of Internal Audit, Deputy Head Trade Finance and as Head of Risk with Société Générale in Romania, Croatia, Argentina and the Russian Federation. He was a Board member in Argentina, Executive member in Romania and Croatia and also sat as Management Board Member in the Russian Federation.

Juan Carlos holds an Academic Diploma in Finance and Administration from Buenos Aires University, Argentina and has undertaken different post-graduate studies in Economics, Finance, Accounting, Risk, Operational and Market Risk Activities, Recovery and Legal, within the SG Group, in Private and State Schools.

GAURI A. GUPTA
Non-Executive Director
(Appointed on 02.03.17)

Gauri Gupta heads I&M Group's Corporate Advisory function. She has over 22 years of experience in Finance, Audit, Corporate Advisory and Banking Operations covering Product Development, Credit, Risk Management, and Strategic Planning. Under Corporate Finance, Gauri's forte lies in M&A transactions including transaction structuring and legal documentation.

Gauri is a Director on the board of several companies under the I&M Bank Group including I&M Burbidge Capital Limited, an East African Corporate Advisory firm. She holds a Bachelor of Commerce degree and is a Chartered Accountant from the Institute of Chartered Accountants of India.

Directors' Profile

LEONARD C. MUSUSA
Independent Director
(Appointed on 02.03.17)

Leonard Mususa is a Private Management Consultant with extensive experience in transaction services including due diligence and business valuations, business recovery and reconstruction services.

Leonard previously worked with PwC for 36 years and developed expertise in corporate governance, financial reporting, risk management and control. He served as Country Senior Partner with PwC (Tanzania) for 14 years prior to his retirement. He also served in other roles as Head of Assurance Risk and Quality in the PwC Africa Central region for three years and Head of Risk, Independence and Quality in the East Africa Market Area for a period of two years.

Leonard also holds directorships in diverse companies in Kenya and Tanzania in financial, manufacturing and media sectors. He is a Fellow of the Association of Chartered Certified Accountants (FCCA) and a Fellow Certified Public Accountant (Tanzania).

L.A. SIVARAMAKRISHNAN
Non-Executive Director
(Appointed 07.03.16)

L. A. Sivaramakrishnan is the Head of Business Development at I&M Bank Limited. He has over 35 years of banking experience and has previously occupied the post of Head of Corporate Banking at I&M Bank Limited and Head of I&M Kenya's Main Branch in Nairobi. He also held senior positions in Bank of Baroda in India and Kenya. He is also a director of I&M Insurance Agency Ltd, a fully owned subsidiary of I&M Bank Ltd.

L. A. Sivaramakrishnan holds an MSc in Agricultural Sciences and is a Certified Associate of the Indian Institute of Bankers (CAIIB).

NIKHIL TREEBHOOHUN
Independent Director
(Appointed on 21.12.17)

Nikhil Treebhoohun is currently a consultant for Oxford International Mauritius, of which he is also the Chairman. He has over 30 years of professional experience in the field of development at both the national level (as the Chief Executive of such intermediary organizations like the Export Processing Zones Development Authority and the National Productivity and Competitiveness Council which were involved in improving competitiveness at both industry and national level), and at international level (as Head of the Trade Section at the Commonwealth Secretariat in London). He was also the CEO of Global Finance Mauritius which is the voice of the financial services industry in Mauritius.

Nikhil holds a BSc (Hons) Econ (Industry and Trade) from the London School of Economics & Political Science, a post graduate diploma in Development Planning Techniques from the Institute of Social Studies, Hague and a post graduate diploma in Financial Management from the University of New England, Australia. He is also a Fellow of the World Academy of Productivity Science and was a Senior Fulbright Fellow at Georgetown University, Washington DC.

Directorship in listed entities in Mauritius: Terra Mauricia Ltd.

MARC-EMMANUEL VIVES
Non-Executive Director
(Appointed on 15.04.15)

Marc-Emmanuel Vives joined CIEL Finance Limited as Chief Executive Officer in September 2014, bringing with him more than 25 years of experience at Société Générale.

After starting within the General Inspection of the Société Générale Group, he spent the next 18 years of his career in various assignments in emerging countries, first in Argentina as Commercial Director, then Chairman & CEO of Société Générale Argentina, later in Russia, as CEO of Bank Société Générale Vostok, before becoming First Deputy Chairman of Rosbank, and finally in India as Country manager.

Marc-Emmanuel holds a Master's degree in Business Administration from HEC Business School France, as well as a degree in History from Sorbonne University in Paris.

Directorship in listed entities in Mauritius: IPRO Growth Fund Ltd, IPRO Funds Ltd

Management Team Profile

Management Team

SALEEM ULHAQ
Chief Operations Officer

Saleem joined the Bank in December 2017 and assumed the office of Chief Operating Officer for Bank One since March 2018. He holds a Bachelor in Business from Karachi University and a Masters in Business Administration from Institute of Business Administration, Karachi, Pakistan.

He is a career banker with in depth exposure and extensive experience at the Senior Management level covering the entire banking operations (Credit, Operational Risk Management, Administration, Information Technology, Payments and Retail Banking).

Most recently, Saleem was Chief Operating Officer for Absa Cards & Payments business, Chief Operating Officer for Barclays Bank Egypt and Regional Head of Operations for Emerging Markets. His career spans over 25 years in over 24 geographies in Asia, Middle East and Africa for Barclays and Citigroup before joining Bank One.

RANJEEVESINGH (RANJEEVE) GOWREESUNKUR
Chief Financial Officer

Ranjeeve joined Bank One in 2008 as Financial Accountant bringing with him more than 20 years of extensive banking experience having worked in various senior positions at Union Bank, Delphis Bank, First City Bank, SBI (Mauritius) and Deutsche Bank (Mauritius). After acting as Head of Finance for six years, he was subsequently promoted as Chief Financial Officer in 2014.

Fellow of the Association of Chartered Certified Accountants and a registered Professional Accountant with the Mauritius Institute of Professional Accountants, Ranjeeve also holds an MBA with Finance from Heriot-Watt University.

STEPHEN VLOK
Chief Risk Officer

Stephen holds a Bachelor of Commerce and a Master of Commerce degree specializing in Financial Management. Stephen is also a certified member of the Institute of Bankers of South Africa and obtained an Associate Diploma from the Institute. Before joining Bank One, Stephen has had twenty years' experience in Risk Management in the South African banking and investment industries. Stephen joined the Bank in November 2014 as Chief Risk Officer.

Management Team

FAREED SOOBADAR
Head of Corporate Banking

Fareed Soobadar is a Fellow of the Chartered Association of Accountants (UK) and an associate (ACIB) of the Institute of Financial Services (UK). He has more than 19 years of work experience in the financial services industry, having worked in auditing, accounting, offshore, HP financing, and including 14 years of banking experience gained at Senior Management level. He held several key positions in various organizations over these years namely KPMG, Deloitte, HSBC, AAMIL, Barclays and before joining Bank One, as Corporate Director at Banque des Mascareignes. He also had international exposures with ABSA, Barclays Dubai, and Barclays Africa, where he worked principally in the credit field. Fareed was appointed Head of Corporate Banking of Bank One Limited in February 2015.

CARL STEPHEN CHIRWA
Head of International Banking

Carl is a seasoned Pan-African banking executive with a special focus on Corporate Banking, Structured Trade and Commodity Finance, Project Finance and Financial Advisory Services. He has developed deep networks on the subcontinent through 20 years of proven track record of origination, structuring and executing of large ticket strategic transactions across a wide variety of sectors in over 26 African countries.

A Fellow Chartered Accountant with a BSc Applied Accounting, Carl was previously Head of Trade Finance at Citi for the Sub-Saharan Africa region. Carl joined Bank One in September 2018.

GUILLAUME PASSEBECQ
Head of Private Banking & Wealth Management

Guillaume is an International School of Management (IDRAC) graduate who has spent his entire career in the banking sector. He started off as a Portfolio Manager at B*capital Paris, the BNP Paribas brokerage house in 1999. In 2007, he was appointed as Head of Sales at BNP Paribas Personal Investors Luxembourg. He joined AfrAsia Bank in 2014 with a strong focus on the European market and was subsequently appointed as Head of Private Banking. Guilllaume joined Bank One in March 2017 and brings with him a wealth of experience in dealing with High-Net-Worth individuals.

Management Team

SHEHRYAR BAKHT ALI
Head of Retail Banking

Shehryar is a seasoned banker with over 16 years of experience at Citibank, Barclays and more recently Mashreq Bank Egypt as Head of Assets and Personal Banking. Shehryar is a graduate of University of Texas at Austin in Computer Sciences. Over his career, Shehryar has successfully led Credit Cards Issuing/Acquiring, E-Commerce, Personal Loans, Personal Banking and SME Business. Shehryar joined Bank One as Head of Retail Banking in May 2018.

RISHYRAJ (RISHY) LUTCHMAN
Head of Treasury

Rishy holds an ACI Diploma and a BBA from Management College of Southern Africa. Before joining Bank One in February 2014, he worked for 26 years in the Treasury division of the State Bank of Mauritius, where he covered different desks such as sales, interbank and fixed income and acquired a comprehensive knowledge of the Mauritian and Malagasy markets. Rishy held the post of Chief Dealer prior to leaving SBM.

VALERIE DUVAL
Head of Legal & Credit Administration

Valerie is a versatile executive with 23 years of diversified experience. She comes with a unique mix of experience in senior leadership positions in the General Insurance sector and as Head of Legal & Credit Administration in the Banking sector. Her expertise ranges from handling high-level claims for key general insurers of the market such as the then La Prudence Mauricienne Assurances Ltd and Swan Insurance Co Ltd to advising Bank One on all legal aspects pertaining to the affairs of the Bank including recovery of assets in foreign jurisdictions in complex matters of significant importance.

Called to the bar in 1995, Valerie joined Bank One's Executive Committee since 2008 and acquired in-depth exposure and expertise in banking operations and legal matters.

Management Team

PRISCILLA MUTTY
Head of Human Resources

With over 20 years of experience in the Human Resources field, Priscilla is a seasoned Human Resources professional who is skilled at partnering with Senior Management teams to develop and execute strategic HR plans aligned with organizational objectives. She brings to the table her expertise in managing the full employee life-cycle and engaging with employees. She holds a Master in 'Administration d'Entreprises' from the University of Poitiers, France.

Prior to joining Bank One, Priscilla has worked across regional and global corporations such as DCDM Consulting (Managed by Accenture) where she was responsible for HR-related consultancy assignments for a portfolio of clients in various industries including banking. Her assignments were conducted both in Mauritius and regionally (i.e. Madagascar, Kenya, Tanzania, Zambia and Djibouti, among others). From 2011 to 2014, she headed the HR department at Bramer Bank before moving to GroFin in January 2015, a development financier specialized in financing and supporting small and growing businesses (SGBs) with 16 offices across Africa and the Middle East, as its Chief HR Officer. Priscilla joined the Bank in December 2017 as Head of HR.

Priscilla received The Women of Wonder Award Mauritius 2018. This patented Award is granted in recognition and appreciation to women who are constantly striving to uplift as well as inspire and empower themselves and other women. She has also been conferred the title for 101 Most Influential Global HR Leaders by the World HR Congress.

Corporate Governance Report (Continued)

2. Structure of the Board and its Committees

The Board

The Bank's Constitution[2] states that the Board of Directors shall consist of not less than seven or more than ten directors. During the year under review, Bank One was headed by a unitary board, comprising nine directors - one executive, four non-executive and four independent directors. In line with the shareholders' agreement, the two shareholders are each entitled to appoint two representatives to represent them on the Board of Bank One. The Chairperson of the Board is an independent director and the role and functions of the Chairperson are separate from that of the CEO. All directors submit themselves to re-election at the Annual Meeting of Shareholders. The Board believes that, given the shareholding structure and size of the Bank, there is a right mix both in terms of the categories (executive, non-executive and independent) and skills of its directors.

Mr. Jozef Tournel resigned from the Board on 28 November 2018 and his replacement is expected to join the Board once the regulatory approvals are in place.

The responsibilities of the Board of Directors are set out in its Board Charter which is reviewed every 2 years or earlier as may be required with the introduction of or amendment to laws, regulations and practices. The responsibilities of the Board include, but are not limited to:

- Approving the objectives, strategies and business plans of the Bank;
- 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;
- Ensuring that policies and systems in place are effective to achieve a prudential balance between risks and returns to shareholders;
- Ensuring compliance with laws and regulations, including Risk Management and Corporate Governance practices and disclosure requirements;
- Exercising leadership, enterprise, integrity and judgment in directing the Bank.

Board Committees

The Board has set up 7 committees to assist in discharging its roles and responsibilities, namely the Board Audit Committee, the Board Risk Management Committee, the Conduct Review & Corporate Governance Committee, the Nomination & Remuneration Committee, the Board Administrative & Staff Compensation Committee, the Board Credit Committee and the Board Strategy Committee. The terms of reference and composition of the Board Committees are summarized on the next page. The full terms of reference of the committees are available on the Bank's website – these are reviewed by the Board every 2 years or earlier as may be required with the introduction of or amendment to laws, regulations and practices.

[2] *Available on the Bank's website at www.bankone.mu*

Board Audit Committee	
Frequency	Quarterly
Main Terms of Reference	The Board Audit Committee assists the Board in fulfilling its Corporate Governance responsibilities in relation to oversight of the quality and integrity of Financial Reporting, Risk Management and Internal Control, Statutory Compliance and Audit functions, including: a) The compliance of the financial statements with all applicable legal, regulatory and professional reporting requirements as well as making informed decisions regarding accounting policies, judgements, practices and disclosures; b) The recommendation for appointment of the company's auditors; c) The scope and results of internal audit reviews and external audits; and d) The effectiveness of systems of Risk Management, Internal Control and Compliance.
Composition	Leonard Mususa – Independent Chairperson Sandra Martyres – Independent Member Nikhil Treebhoohun – Independent Member

Board Risk Management Committee	
Frequency	Quarterly
Main Terms of Reference	a) Identify, review and assess the principal risks, including but not limited to credit, market, liquidity, operational, technological, legal, compliance and reputational risks, and the actions taken to mitigate the risks. b) Formulate and make recommendations to the Board in respect of the overall current and future risk appetite, oversee the Senior Management's implementation of the risk appetite framework and report on the state of the risk culture in the Bank. c) Receive periodic information on risk exposures and Risk Management activities from senior officers. d) Recommend to the Board for approval, a risk appetite framework and ensure that the Board-approved framework is well understood throughout the Bank. e) Determine country exposure/risk tolerance limits, review and ratify breaches. f) Review / Monitoring of the Compliance Function.
Composition	Juan Carlos Albizzati – Non-Executive Chairperson Ravneet Chowdhury – Executive Member Sandra Martyres – Independent Member Leonard Mususa – Independent Member L.A. Sivaramakrishnan – Non-Executive Member

Conduct Review & Corporate Governance Committee	
Frequency	Quarterly
Main Terms of Reference	a) Review and approve credit exposure to related parties, ensure that the same are granted at market terms and conditions; b) Make recommendations to the Board on all Corporate Governance matters; and c) Oversee the CSR activities and projects of the Bank.
Composition	Leonard Mususa – Independent Chairperson Sandra Martyres – Independent Member Nikhil Treebhoohun – Independent Member

Board Credit Committee	
Frequency	Quarterly
Main Terms of Reference	a) Review and approve the overall lending policy of the Bank. b) Deliberate and consider loan applications as well as Internet Payment Service Provider (IPSP) / Merchant applications beyond the discretionary limits of the Management. c) Direct, monitor, review and consider all issues that may materially impact on the present and future quality of the Bank's Credit Risk Management. d) Ensure compliance with guidelines issued by Bank of Mauritius on Credit Risk Management from time to time. e) Conduct loan reviews independent of any person or committee responsible for sanctioning credit.
Composition	L.A. Sivaramakrishnan – Non-Executive Chairperson Sandra Martyres – Independent Member Marc-Emmanuel Vives – Non-Executive Member

Board Strategy Committee	
Frequency	Quarterly
Main Terms of Reference	a) Review the Bank's strategic plan. b) Monitor and measure the progress of the implementation of the strategic plan. c) Review, discuss and, where appropriate, make recommendations to Management on the framework and strategic direction of the Bank for each financial year. d) Review the annual budget as proposed by Management from a strategic perspective.
Composition	Marc-Emmanuel Vives – Non-Executive Chairperson Ravneet Chowdhury – Executive Member Gauri Gupta – Non-Executive Member Sandra Martyres – Independent Member

Nomination & Remuneration Committee

Frequency	Quarterly
Main Terms of Reference	a) Direct the process of appointing, renewing and replacing Executive / Senior Management staff. b) Review, at least annually, the Board and Board Committees' structure, size and composition (including balance between Executive and Non-Executive / Independent Directors), and make recommendations to the Board with regards to any adjustments that are deemed necessary. c) Validate the qualification and suitability of candidates for Board membership (including chairperson of the Board, chairperson of the committees and committee members) and make recommendations as appropriate to the Board. d) Assess the effectiveness and performance of the Directors, Board and Board Committees, as well as the Chairperson of the Board.
Composition	Gauri Gupta – Non-Executive Chairperson Nikhil Treebhoohun – Independent Member Marc-Emmanuel Vives – Non-Executive Member

Board Administrative & Staff Compensation Committee

Frequency	Quarterly
Main Terms of Reference	The Committee assists the Board in fulfilling its responsibilities pertaining to: a) HR Management; b) Expenses related matters; c) Administrative matters including Customer Experience, Transformation, IT and other projects and IT Security.
Composition	Marc-Emmanuel Vives – Non-Executive Chairperson Ravneet Chowdhury – Executive Member L.A. Sivaramakrishnan – Non-Executive Member

Corporate Governance Report (Continued)

Directors' Attendance and Remuneration

Directors	Status	Gender	Country of Residence	Board	BAC	BRMC	CRCGC	NRC	BASCC	BCC	BSC	Total Remuneration FY 2018 (MUR)
Sandra Martyres	IC	F	India	4/4	5/5	5/5	4/4			10/10	5/5	1,627,000
Ravneet Chowdhury	ED	M	Mauritius	4/4		5/5			5/5		5/5	N/A[3]
Juan Carlos Albizzati	NED	M	Mauritius	4/4		5/5						755,000
Gauri Gupta	NED	F	Kenya	4/4				6/6			5/5	820,000
L.A Sivaramakrishnan	NED	M	Kenya	4/4		5/5			5/5	10/10		1,110,000
Marc-Emmanuel Vives	NED	M	Mauritius	4/4				6/6	5/5	9/10	5/5	1,396,000
Leonard Mususa	ID	M	Tanzania	4/4	5/5	4/5	4/4					1,130,000
Jozef Tournel	ID	M	Mauritius	3/4[1]			4/4	4/6[1]			5/5[1]	672,000
Nikhil Treebhoohun	ID	M	Mauritius	4/4	5/5			4/6[2]				984,000
												8,494,000

Note:

1a. Jozef Tournel ceased to be a director on 28 November 2018.

1b. The Bank is in the process of finalizing a fee payable to Mr. Jozef Tournel as per the terms and conditions of an agreement entered into with him in respect of recruitment assistance provided to the Bank during the year under review. Such fee is in line with market terms and conditions.

2. Nikhil Treebhoohun was appointed as a member of the NRC on 15 March 2018.

3. The CEO's remuneration has not been disclosed due to the commercial sensitivity of the information.

IC - Independent Chairperson **ED** - Executive Director **NED** - Non-Executive Director **ID** - Independent Director

3. Director Appointment Procedures

The director nomination and appointment process is guided by the legal and regulatory requirements and the Bank's Constitution and Shareholders' Agreement and is as follows:

Appointment of Non-Executive Directors (Shareholders' Representatives) on the Board

As per the Shareholders' Agreement each Shareholder is entitled to appoint 2 directors on the Board.

Shareholder serves notice to the Board, advising of the Shareholder's nominated representative

Nomination and Remuneration Committee

Screens the proposed profile to satisfy itself that the proposed candidate is able to commit sufficient time and effort to fulfil his/her responsibilities effectively and that he/she meets the test of fit and proper person as set out in the BoM Guideline on the Fit and Proper Person Criteria.

Board

Considers NRC's recommendations, approves if thought fit, the fitness and probity of the proposed candidate and authorizes the seeking of the relevant regulatory approvals.

Approval* of the shareholders at the Annual Meeting of Shareholders (AMS) through Ordinary Resolution

*Subject to regulatory approvals

Appointment of Independent Directors on the Board

As per the Shareholders' Agreement, the Shareholders may appoint a minimum of 2 and a maxium of 4 independent directors.

Shareholders to identify and shortlist candidates for ID positions

In its shortlisting process, the shareholders take into account the balance of skills, experience and knowledge on the Board so as to enable the Board to discharge its functions and duties effectively.

Shareholders to identify and shortlist candidates for ID positions

Screens the proposed profile to satisfy itself that the proposed candidate is able to commit sufficient time and effort to fulfil his/her responsibilities effectively, possesses the appropriate skills, experience and knowledge and that he/she meets the test of fit and proper person as et out in the BoM Guideline on the Fit and Proper Person Criteria.

Board

Considers NRC's recommendations, approves if thought fit, the fitness and probity of the proposed candidate and authorizes the seeking of the relevant regulatory approvals.

Approval* of the shareholders at the Annual Meetingof Shareholders (AMS) through Ordinary Resolution**

*Subject to regulatory approvals
** Should there be a casual vacancy arising during the year, the Board shall appoint a director to hold office until the next AMS, at which meeting the director shall stand for re-election by the Shareholders

Corporate Governance Report (Continued)

The Board, in consultation with the shareholders, is responsible for the succession planning and for the appointment of new directors to the Board. Succession planning of the directors is reviewed on an annual basis by the Nomination and Remuneration Committee. The Board ensures that new directors receive a proper induction so that they are familiarized, as soon as possible, with the Bank's operations, Senior Management, business environment and corporate strategy, as well as their fiduciary duties and responsibilities as directors. Directors' induction is run by the Company Secretary, whereby new directors receive a comprehensive pack, containing a brief presentation on the affairs of the Bank, the governance structure and conduct of meetings, the director's duties and responsibilities, the Bank's Constitution and bylaws, minutes of the last Board Meeting and such other useful documents. The Company Secretary also arranges for introductory meetings with the Chairman and the Senior Management during which the new directors are briefed on the affairs of the Bank. Visits of some branches and the critical departments of the Bank are also arranged as part of the induction process.

Continuous training is essential to cope with the constant changes in the business environment. Whilst directors have a duty to keep up-to-date with industry, legal and regulatory developments, it is also the responsibility of the Board to provide adequate training and development to its directors. In this respect, a training calendar is set on a yearly basis, taking into consideration the training needs of the directors and recent changes in the Banking business environment.

4. Director Duties, Remuneration and Performance

Directors are made aware of their legal duties upon their appointment and during the induction process and are reminded of same annually. Directors are guided by the relevant legislations, Board Charter, Constitution, Code of Ethics and Bank Policies, including the Conflicts of Interests Policy and Related Party Transactions Policy.

The Board has reviewed and approved a revised Code of Ethics during the year under review. This governs the Bank's dealings with the Board of Directors, Senior Management, employees, business partners and other stakeholders. Compliance to the Code of Ethics is acknowledged on an annual basis by the Board, Senior Management and employees. In the same spirit, ethics has been included as a topic in the employee induction course and an annual refresher is also run for all staff members.

Related Party Transactions

Transactions with related parties are guided by the Conflicts of Interests and Related Party Transactions Policies and the Code of Ethics. Any related party transactions by directors and senior officers of the Bank are approved at the level of the Conduct Review and Corporate Governance Committee, which ensures that all such transactions are in line with market terms and conditions. A register of related party transactions is maintained by the Bank.

Information Governance

The Bank's overall strategic direction relating to information governance, information technology and security and related expenditures are overseen by the Board Administrative & Staff Compensation Committee where quarterly reports from the Head of Information Security and Head of Information Technology are discussed. Operational security-related matters are reported to and considered at the Management Operational Risk Committee which meets on a monthly basis. The Bank is currently moving towards internationally recognized information security standards and the Board has, through its Board Risk Management Committee, approved a comprehensive Information Security Policy which in itself contains sub-policies on data protection (Mauritius Data Protection Act and EU General Data Protection Regulation), Internet Banking and Mobile Banking as well as sub-policies directed for end-users and technical teams.

Board Evaluation

In line with the National Code of Corporate Governance (2016) and BoM Guideline on Corporate Governance, the Board has established a mechanism to evaluate the performance of the Board and its members with the process being reviewed and refined periodically. The review and evaluation includes an assessment of the Board's composition and independence, performance and effectiveness of the Board's responsibilities, maintenance and implementation of the Board's governance, relationship with Management as well as an evaluation of its sub-committees. The appraisal exercise also covers the Chairman's performance and a peer assessment, whereby each director rates all his colleagues. Such a process aids the Board to identify and deal with issues that impede on its effectiveness. The fit and proper criteria of Board members are also reviewed periodically to ensure that the same are up-to-date.

The last Board evaluation was carried out in September 2017 and no evaluation has been conducted for 2018. The Board is in the process of reviewing its appraisal questionnaires and such exercise has been outsourced to an external independent party. It is intended that the next Board evaluation will be conducted by end of Q1 2019, once the appraisal questionnaires are finalized. The exercise will comprise evaluation questionnaires pertaining to the Board as a whole, individual peer-to-peer evaluation, evaluation of the Chairperson of the Board and Management's evaluation of the Board. Feedback obtained from such questionnaires are compiled by the Company Secretary and the Board Chairperson also holds individual meeting sessions with each director. The results of the evaluation exercise are then run through the Nomination & Remuneration Committee before being presented to the Board.

Remuneration

Directors' and senior executives' remuneration, are dealt with by the Nomination and Remuneration Committee and approved by the Board of Directors. Independent and non-executive directors are remunerated in the form of a yearly retainer fee and an attendance fee is also paid for each meeting sitting. Such remuneration is commensurate with the size and complexity of the business as well as the workload and responsibilities involved.

The CEO is not remunerated for serving on the Board and Board Committees. In addition to his monthly salary, the CEO is entitled to an annual performance bonus based on the financial results of the Bank as well as on his individual contribution thereto. He is also entitled to a long-term incentive which is based on the Bank's KPI results over the tenure of his employment contract.

5. Risk Governance and Internal Control

The Board is ultimately responsible for the overall Risk Management and Internal Control systems of the Bank and the oversight of the Bank's Risk Management process has been delegated to the Board Audit Committee and the Board Risk Management Committee.

The Board has, upon the recommendation of the Board Risk Management Committee ("BRMC"), approved a Risk Appetite Statement and defined the acceptable Risk Metrics which are monitored by the Risk Department and reported to, discussed and monitored at the BRMC on a quarterly basis. A Risk Culture Statement and Strategy has also been defined and approved by the BRMC and its implementation is led by the CEO, with progress updates presented to the BRMC each quarter.

The Board has also approved the Bank's risk policies and guidelines and the Management has been delegated the responsibility for the effective execution of the same through the implementation of appropriate procedures to ensure that all risks are mitigated to an acceptable level, taking into consideration the Bank's risk appetite, objectives and strategies as approved by the Board.

The Bank's Risk Management Framework also includes Board-approved limits on those risks which can be quantified, while other non-quantifiable risks such as reputational, compliance and strategic risks are monitored and assessed on a qualitative basis. A Risk Escalation Matrix has also been put in place to ensure timely reporting of risk events at various levels, depending on the severity of such events.

To further strengthen the Risk Management Framework, the Board has also put in place a Risk Control Self-Assessment process, the implementation of which has been delegated to the Operational Risk Unit. Progress on the same is reported to the BRMC and the Board on a quarterly basis.

The Risk Report section of this Annual Report provides additional information on the Risk Management Framework and risks that the Bank is exposed to.

Corporate Governance Report (Continued)

6. Reporting with Integrity

The Board of Directors is responsible for the preparation of an annual report and financial statements in accordance with applicable laws and regulations. Financial statements are also be prepared in accordance with the International Financial Reporting Standards. The directors' responsibilities with respect to the preparation of the financial statements is disclosed in the Statement of Directors' Responsibilities section of this Annual Report. The Annual Report is published in full on the Bank's website.

The Bank considers that balancing environmental and social matters with financial objectives is fundamental to effective Risk Management and is a core part of the Bank's corporate responsibility. As such, it has adopted an Environmental and Social Policy which stipulates guiding principles on effective environmental and social management practices in all its activities, products and services.

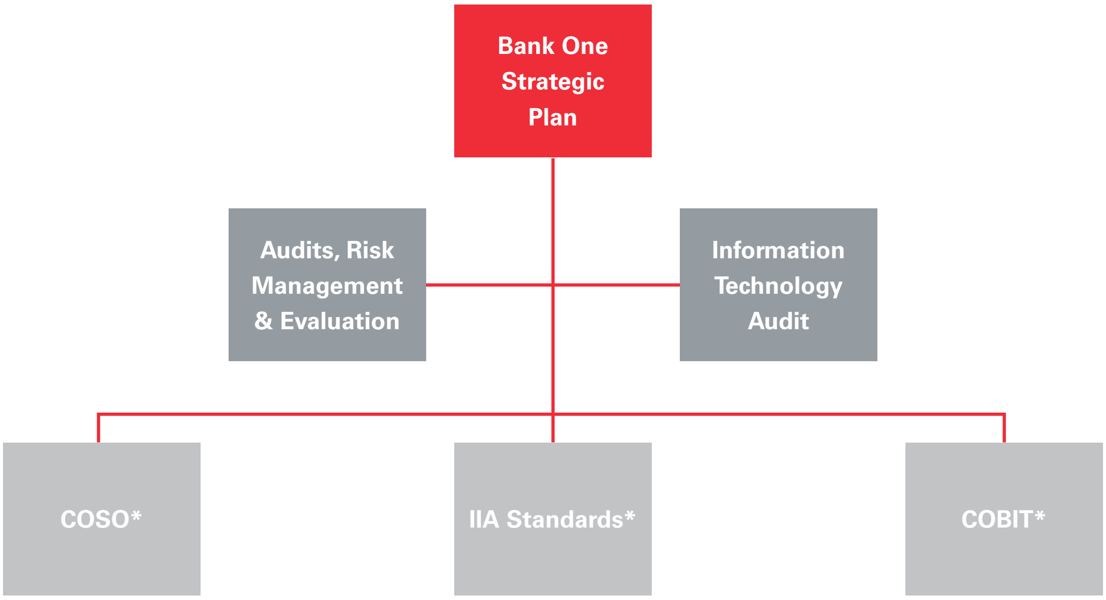
Additional information on the Bank's Corporate Social Responsibility and Human Capital Management is included respectively in the CSR section and Human Capital Management section of this Annual Report.

7. Audit

Internal Audit

The Internal Audit function is responsible for providing assurance to the Board regarding the implementation, operation and effectiveness of Internal Control and Risk Management. Internal Audit reports at all Audit Committee meetings and the Head of Internal Audit has ready and regular access to the Chairman and members of the Audit Committee. The Head of Internal Audit also meets with the Audit Committee at least bi-annually without the Management team being present. The structure, organization and qualifications of the key members of the Internal Audit function are available on the Bank's website.

Internal Audit assignments are conducted in line with the Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (IIA) and per the framework below:

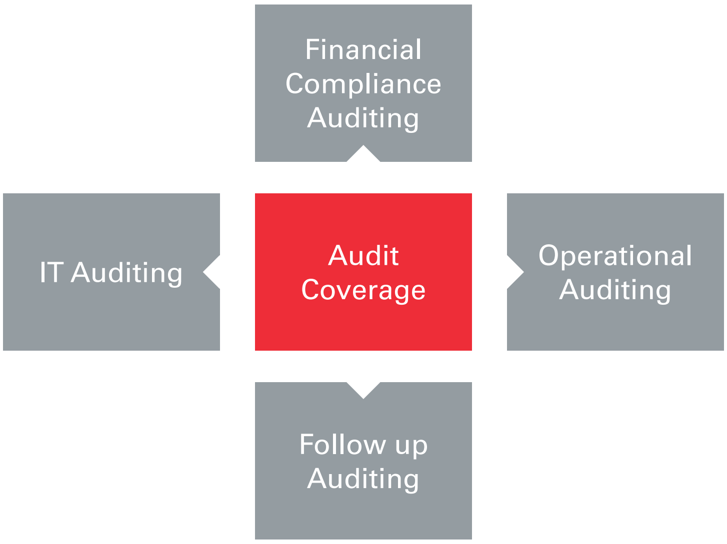


COSO: Committee of Sponsoring Organizations of the Treadway Commission Framework
COBIT: Control Objectives for Information and Related Technology
IIA: International Institute of Auditors

The annual Internal Audit plan is defined by the Internal Audit team using a risk-based approach. Adequate coverage of audit areas is also ensured through discussions with the Risk and Management teams to identify high-risk areas based on the Bank's objectives for the year. The annual Internal Audit plan is validated and approved by the Board Audit Committee.

Corporate Governance Report (Continued)

Internal Audit (continued)



The Internal Audit team has unrestricted access to all the records of the Bank, its Management and employees. Internal Audit regularly meets with the management team to ensure the timely implementation of audit recommendations.

Internal Audit has issued a total of 15 Internal Audit reports during the year, covering all the areas of the Bank, from Compliance, Operations, Credit Administration, HR, IT, Payment Cards, Collections & Recovery, E-Commerce, Branches, Country and Market Risks units.

External Audit

The External Auditors, PwC, report on a quarterly basis to the Audit Committee, on the quarterly financial statements and, at year end, on the yearly audited financial results of the Bank. PwC, represented by the Audit Partner and the Audit Manager, also meets with the Audit Committee at least bi-annually without the Management team being present.

In 2018, PwC completed a five-year term. In line with provisions of the Banking Act a new audit firm, Deloitte, was appointed as External Auditor for the year ending 31 December 2019, having won an audit tender conducted during 2018.

The Audit Committee

All of the Audit Committee members are well-versed in financial matters with the Audit Committee Chairperson holding extensive experience in the financial domain, including over 35 years' experience within PwC, of which 14 years were spent serving as a Country Senior Partner with PwC (Tanzania).

During the year under review, the Audit Committee reviewed Internal Audit reports on assignments carried out as per the approved Internal Audit plan with key findings discussed at Committee meetings. The audited results and quarterly financial results were also looked into by the Committee and particular attention was given to:

- the implementation of IFRS 9;
- the impact of changes in tax regulations on the Bank's financial results;
- the review of accounting policies of the Bank;
- the impact of key non-performing accounts on the Bank's financial results; and
- the review of the external audit plan FY 2018 with PwC.

The Audit Committee ensures that both the Internal and External Auditors' independence and objectivity are maintained. In regards to the External Auditors, any non-audit services provided by PwC are subject to the approval of the Committee which evaluates the terms of the engagement, the progress of execution and the reporting of such services. Non-audit services provided by PwC during the year under review pertain to tax computations, internal control review and an assessment of debt to be qualified as Tier 2.

The fees paid to PwC for audit and other services are detailed in the Other Statutory Disclosures section of this Annual Report.

8. Relations with Shareholders and Other Key Stakeholders

Engaging with Key Stakeholders

Shareholders

Each shareholder has two representatives sitting on the Board of the Bank. The Bank also engages with the shareholders on a regular basis to keep them apprised on the affairs of the Bank and progress against the set KPIs. Given the shareholding structure and close and frequent communication with the two shareholder groups, written resoltuions of the shareholders are passed in lieu of holding an Annual General Meeting.

Financial Partners

Communication is usually around the Bank's financial performance and compliance with the terms and conditions set out by the financial partners, which the Bank's strives to comply to at all times.

Regulators

The Bank, by nature of its activities, is a highly regulated entity. Bank One Limited strives to comply with all regulatory provisions and guidelines in the conduct of its activities.

Employees

An Employee Value Proposition has been defined and communicated. The Bank has also defined a competency framework and is also instilling a recognition culture. Annual engagement surveys are conducted.

Customers

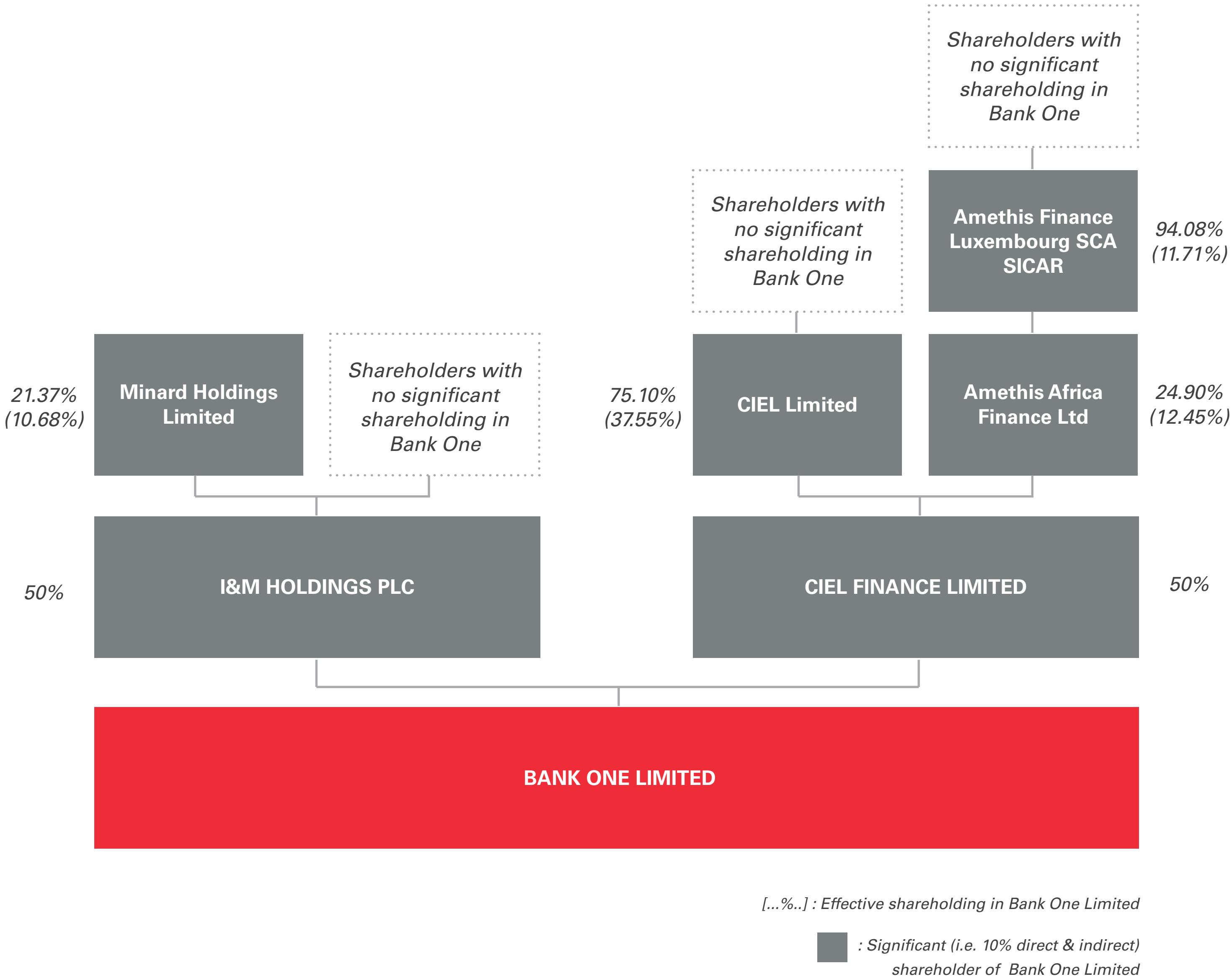
In addition to regular customer satisfaction surveys, each line of business regularly holds forums with their clients, whether in the form of investors' circles, breakfast meetings, etc.

Community

The Bank's focus during the year has been alleviating poverty with the continuing School Feeding Project in collaboration with Caritas, an afternoon with Mam san Baz organized by the CSR Committee in collaboration with Bank One staff, and school materials and uniforms provided to Caritas students.

Shareholding Structure & Shareholders

As at 31 December 2018, Bank One Limited's share capital stood at MUR856,456,000 represented by 8,564,560 ordinary shares of no par value, held equally between CIEL Finance Limited and I&M Holdings PLC. The shareholding structure is illustrated as per below:



Corporate Governance Report (Continued)

CIEL Finance Limited

Ebène Skies, Rue de L'Institut, Ebène, Mauritius

It is the specialized Banking & Financial Services cluster of the CIEL Group, actively involved in 4 sub-sectors namely: Banking, Fiduciary Services and Companies / Funds Administration and Management, Asset Management and Private Equity.

CIEL Limited is a leading diversified investment company in Mauritius, also operating in Africa and Asia, with some 35,000 employees. With a market capitalization of about MUR11.5bn as at 30 June 2018 and a consolidated turnover of MUR22.6bn for the 12 months' period ended 30 June 2018, CIEL is one of the largest listed Mauritian companies. As at 30 September 2018, its portfolio was valued at MUR15.5bn and the group total assets at MUR69.7bn. The activities of the Group are organized under five distinct business segments, namely Agro Industry & Property; Banking & Financial Services; Healthcare; Hotel & Resorts; and Textile.

I&M Holdings PLC

I&M Bank House, 2nd Ngong Avenue, Nairobi, Kenya

I&M Holdings PLC (I&M Holdings) is part of the I&M Group which has interests in Banking, Insurance, Manufacturing and Real Estate. Listed on the Nairobi Securities Exchange (NSE) soon after it was incorporated in August 1950, it has the distinction of being one of the oldest companies to list on the NSE. It is regulated by the Capital Markets Authority, the Central Bank of Kenya as a non-operating bank holding company and the Nairobi Securities Exchange. Following a major corporate restructuring in 2013-2014, I&M Holdings became the parent company of all the regional banking entities of the I&M Bank Group.

I&M Holdings operates in five countries: Kenya, Tanzania, Rwanda, Uganda and Mauritius. As at June 2018, its market capitalization was approx. USD 475 million with Total Assets of over USD 2.8 billion, a branch network of close to 80 branches and a staff complement of over 1,780 spread across the 5 countries.

I&M Bank Limited, Kenya, the flagship entity of I&M Bank Group is a wholly owned subsidiary of I&M Holdings. With a rich history spanning over 40 years and offering a full range of personal, business and alternative banking products, I&M Bank is a dominant player in the East African banking industry.

Leonard Mususa
Chairperson of the
Conduct Review & Corporate
Governance Committee

Kareen Ng
Company Secretary

26th March 2019

Statement of Compliance

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

Name of PIE: Bank One Limited

Reporting Period: FYE December 2018

We, the Directors of Bank One Limited, confirm that to the best of our knowledge, the Bank has complied with the obligations and requirements of the National Code of Corporate Governance for Mauritius (2016), except for the following:

- Principle 4 –Board evaluation and remuneration of directors.

The CEO's remuneration has not been disclosed due to the commercial sensitivity of the information.

Sandra Martyres
Chairperson of the Board

Leonard Mususa
Chairperson of the
Conduct Review & Corporate
Governance Committee

26th March 2019

Other Statutory Disclosures

Under section 221 of the Companies Act 2001

Directors

The following persons held office as directors of the Bank as at 31 December 2018:

Juan Carlos Albizzati
Ravneet Chowdhury
Gauri A. Gupta
Sandra Martyres
Leonard C. Mususa
L.A. Sivaramakrishnan
Nikhil Treebhoohun
Marc-Emmanuel Vives

Jozef Tournel resigned as director on 28 November 2018.

Directors' Fixed-Term Service Contracts

Mr. Ravneet Chowdhury's fixed-term employment contract is for a period of three and a half years, expiring in March 2020. It contains no material clause for compensation on termination of contract.

Directors' and Officers' Liability Insurance

A Directors' and Officers' Liability Insurance Policy has been subscribed by the Bank.

Fees payable to PwC

Type	Description	Fees FY 2018 (MUR 000)
Audit Fees	Yearly and Quarterly Statutory Audits Internal Control Reviews IFRS 9	5,865,000
Other Fees	Tax Advisory	139,000
	Tier 2 Capital Assessment	188,000

Charitable Donations & Political Funding

Apart from contribution to CSR projects as detailed in the Corporate Sustainability Report, no political funding or other charitable donations were made during the year under review.

Company Secretary Certificate

In my capacity as Company Secretary, I confirm that, to the best of my knowledge and belief, the Bank has filed with the Registrar of Companies in respect of the financial year ended 31 December 2018, all such returns as are required under the Companies Act 2001 in terms of section 166(d).

Kareen Ng, *ACIS*
Company Secretary

26th March 2019

10 years: we're one extraOrd





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CSR REPORT








CSR Report

Bank One CSR's strategy and philosophy is underpinned with the commitment to contribute to the economic development of the country and improving the quality of life of the local community, the society and in making social and ecological contributions to build a sustainable society. Various programmes have been launched with a view of improving the quality of life of the local community and the society in general in a sustainable manner. Our partnership with Caritas Ile Maurice in the Vacoas region remained unchanged in 2018; on a need-driven basis together with them, continuous support is given to the underprivileged families in Vacoas and its vicinity to ensure their sustained progress. For the first time this year, all Bank One colleagues came together as ONE to raise funds for the homeless of Port Louis, including a Sunday afternoon spent with them sharing some quality time offering hampers and refreshments.

Our four pillar approach

Taking care of the community	Alleviating Poverty	Becoming a leader in Environment Sustainability	Children's Education and well-being

Key Highlights in 2018:

- A 'Bring and Share' event was organised for the homeless, and MUR55,000 was raised through a "Food Corner" activity. Hampers were then bought and shared to the 300 homeless people of Port Louis with refreshments on a Sunday afternoon.
- Ferney Trail / Inclusion Mauritius Sponsorship - MUR15,000 was given to purchase running shoes for handicapped children participating in the 4km race.
- MUR30,000 was given as a financial aid to the association Ensam (taking care of 30 underprivileged kids in Pointe aux Sables) to meet its day-to-day expenses.
- An Energy Savings Campaign was hosted for our teams, customers and the public at large to promote eco-responsible behaviour in the workplace.
- In 2018, 90 children of Caritas Ile Maurice have been served meals during the whole school year, fully sponsored by Bank One. As a result of which, both attendance and pass rates have improved significantly.
- As for every school year, these children have been provided with school uniforms and materials for their school year 2019.
- An outing to Casela and a Christmas party were organised for the 90 children on the 7th of Dec 2018

CSR allocation

There is a statutory requirement for companies to earmark 2% of their chargeable income derived from local activities during the preceding year for CSR projects, out of which at least 50% should be remitted to the Mauritius Revenue Authority and up to 50% to be spent on approved CSR projects.

Effective January 2019, 75% of the CSR fund is payable to the Mauritius Revenue Authority while 25% is allowed to be spent on such projects. Bank One is committed to participating in improving the quality of life of the community. In this context, though the Segment A chargeable income is negative, an amount of MUR1.5m was approved by the Board of Directors for CSR.

Upcoming Events 2019

The focus of 2019 will be key initiatives that will have a more significant impact at national level.

Be the **ONE** to change the lives of people around us

CSR Key Figures for 2018

MUR 55K
Raised among Bank One colleagues to feed the homeless

300
Homeless people fed and given hamper pack for good hygiene

102
Children served with breakfast and lunch every school day of the year

90
children given school uniforms and stationeries to start the school year 2019

Management Discussions and Analysis

GROWTH

Notwithstanding the challenging local and international economic environment, the Bank managed to grow its asset base by 26% in 2018. With the support of both its local and offshore businesses, total assets increased substantially from MUR32bn in 2017 to cross the MUR40bn mark as at end of December 2018.

The Bank`s core source of funding remains deposits from clients. The deposit base grew by 18% during the year under review to close at MUR33bn compared to MUR28bn one year earlier. The Bank of Mauritius issued some MUR9bn of its Jubilee Bond this year which impacted negatively on the Bank's rupee liabilities during the first semester. With the introduction of the Kenyan Amnesty earlier this year, the Bank also lost some offshore USD deposits. However, the Kenyan market remains a core one for the Bank. The Bank's strategy to raise Rupee and USD deposits initiated during the first quarter worked well as evidenced by the positive movement in the deposit base during the last two quarters. As part of its de-risking strategy, the Bank also acquired some long-term funding in the form of senior debt from an international financial institution.

The Bank continues to attract deposits funding and contracting borrowings to support its growth whilst at the same time containing the cost of funds to an acceptable level for both local and foreign currencies.

Similarly, the gross loans book went up from MUR22bn as at December 2017 to MUR25bn as at December 2018 (a growth of 11%). Despite the existing persisting excess liquidity in the local market, the rupee gross loans figures grew by 22% during the year. The growth was less significant in the offshore segment which grew by 3% from MUR10.6bn to MUR10.9bn as at end of December 2018. In line with its strategy, the Bank concentrated more on investing in lower risk quality assets and remained very selective on offshore lending.

The Bank has been able to curtail its impaired assets by 13% from MUR1.3bn in 2017 to MUR1.2bn as at December 2018, significantly improving the impairment ratio from 6.06% in 2017 to 4.74% as at December 2018. There were substantial recoveries during the year. However, the net impact was not significant with new accounts classified as impaired.

As at December 2018, the Bank maintained a capital adequacy ratio of 12.99% (December 2017: 12.93%) against the regulatory limit of 11.25%.

PERFORMANCE

Bank One achieved a growth of 91% in its profit before impairment which closed at MUR789m, including a non-recurring recovery of MUR141m, which was appearing as a contingent asset in our books for the past years. However, the net profit before tax was impacted by a high MUR340m net impairment charge attributed to both local and offshore clients.

Net interest income went up by 34% with the sustained increase in assets since the beginning of the year, which established the momentum for related income generation.

Non-interest income recorded an increase of 34% (excluding the one-off proceeds of MUR141m). The strategy to diversify further the income sources started in previous years has begun to give good results and will improve further in coming years.

The Bank managed to contain its increase in total costs to 16% compared to last year. The Bank is pursuing its efforts and commitment to invest heavily in its most important asset, its human capital. Alongside heavy investment in technology environment and bank infrastructure, the Bank is simultaneously continuing to invest in initiatives to uplift the skills of its team members.

Management Discussions and Analysis (continued)

With the objective to digitalize further and provide an enhanced customer experience to its clients, the Bank has successfully completed the upgrade of its Core Banking software. Furthermore, the Bank has also finalized the introduction of an enhanced Omni-channel solution which is now operational.

The Bank delivered a return on average equity of 14.8% and of 1.20% on its average assets.

Performance Against Objectives

Objectives for Year 2018	Performance in Year 2018	Objectives for Year 2019
Return on Average Equity (ROAE) Achieve a ROAE of above 19%	Achieved a ROAE of 14.8%	To achieve a ROAE of above 17%
Return on Average Assets (ROAA) Achieve a ROAA of above 1.5%	Achieved a ROAA of 1.20%	To achieve a ROAA of above 1.5%
Growth of 40% in Operating Income	Increase in Operating Income by 34%, excluding one-off income of MUR141m	Growth of above 20% in Operating Income
Cost to Income Ratio Cost to Income ratio of less than 50%	Cost to income ratio of 45% (49% without AMAS proceeds of MUR141m)	Cost to Income ratio of less than 50%
Deposits Growth 20% growth in both Segment A and Segment B	Growth of 22% in Segment A and 15% in Segment B	29% growth in both Segment A and Segment B
Gross Loans & Advances Growth 35% and 50% growth in Segment A and Segment B respectively	Growth of 19% and 3% in Segment A and Segment B respectively	18% and 36% growth in Segment A and Segment B respectively
Gross impaired ratio of below 4%	Gross impaired ratio of 4.74%.	Gross impaired ratio of below 4%
Capital Adequacy Ratio (CAR) CAR above 13%	CAR at 12.99% as at December 2018	CAR above 13.5%

Management Discussions and Analysis (continued)

Discussion by Lines of Business (LOB)

a. Retail Banking & SME (RBD)

Despite being confronted with a very competitive market, the RBD has been able to deliver a good performance in 2018. The BOM Jubilee Bond issued during the first half year resulted in a significant reduction in deposit balances. With an aggressive strategy to raise deposits, the same was recovered in second half of the year to reach MUR7.26bn. Despite a not so conducive domestic economic climate, the RBD has shown good results with positive growth of 18% in its total assets. The principal contributors for this growth have been the consumer and the housing segments. In the second half of 2018, asset products were revamped with enhanced features to be more competitive. Furthermore, the division has grown its credit card acquisition in 2018 by 144%. RBD remains one of the core local deposit raising arm of the Bank contributing 22% of the total Bank deposits.

In May 2018, Shehryar Bakht Ali, joined the Bank as Head of Retail Banking. He brings with him international experience having worked at Citibank, Barclays and Mashreq Bank. The new sales, service and innovation led strategy has been finalized for RBD which includes right-sizing of physical channels and improving the contribution of digital channels (Internet and Mobile). The new Core Banking system has gone live in 2018, which will enable appealing capabilities both in terms of RBD transformation, automation and digitalization in coming years. The division is expected to contribute substantially to the sustainable growth of the Bank. New segments, channels of distribution and products will be launched in 2019 with particular focus on achieving economies of scale and digitalization.

b. Corporate Banking (CBD)

CBD has experienced a difficult year in 2018 as well, on many fronts, with growth being subdued by lack of projects in the market, asset sell-down/opportunity losses due to the change in BOM Guideline regarding Single/Group exposure limits, severe compression still experienced on margins due to competitive pressure and unanticipated payoffs of facilities by other banks. On the liquidity side, we have also seen high level of excess liquidity on the market throughout the year. This has caused further pressure on us to compete on the deposit rates.

Despite all these challenges, CBD managed to grow its assets and liabilities books by 22% and 16% respectively.

For 2019, CBD shall continue to grow aggressively on its assets and liabilities bases. The division shall have a key focus on the property and medium-size companies for the year, on top of its larger corporates penetration strategy. Cash management and new trade financing avenues shall also be priority areas for the year.

c. International Banking (IBD)

The International Banking Division (IBD) contributed 44% of the Bank`s operating income in 2018. The 55% year-on-year revenue growth enabled the division to deliver solid progress towards the strategic vision of the Bank.

Despite the tightening liquidity conditions experienced across the offshore market throughout the first quarter of 2018, largely driven by the Kenyan Amnesty, IBD grew its segment deposits by 15% through a focused effort on liabilities mobilization and tapping into diversified liquidity pools and geographies.

The assets book experienced a relatively modest year with a growth of 3%. Carl Chirwa, a seasoned pan-African Banker joined the team from Citibank in the fourth quarter and we are confident that through his leadership, IBD will continue to diversify its international footprint whilst responding nimbly to the market needs through value-added customer-centric solutions in line with the strategy approved by the Board for the growth of the division.

The strategy for IBD is to restructure the division and continue to support the technology and capacity investments in its people in order to compete in the future and ensure that the business remains flexible and responsive to the dynamic market and economic conditions that may materialise in the short and medium term. Whilst IBD enjoys good success in East Africa, it is also exploring new markets in West Africa and other geographies for growth.

Management Discussions and Analysis (continued)

d. Private Banking & Wealth Management (PBWM)

2018 has proved to be a very successful year for the Private Banking, Wealth Management & Securities Services Department. The implementation of the new strategy had almost immediate positive effects and PBWM has now set solid grounds to progress steadily in 2019 and the years to come. Following the re-engineering of the department and the new Custody offering coupled with the Open Architecture investment environment, the PBWM landscape experienced a major uplift.
The client base keeps on increasing thereby adding to its Asset Under Management portfolio. Bank One has put considerable effort in developing its Custody Application and providing a user-friendly Client Portal to its customers who now have an online access to their portfolio reporting. This has been a major advancement towards uplifting the Private Banking offering to an international standard. Real-time trade execution on the World financial markets can now be performed by the pro-active Trading Desk. The offering now provides our External Asset Managers a full-fledged tool for managing their client's portfolio.

PBWM experienced a substantial increase in its Assets Under Management portfolio by more than 300% and growth of 73% in its assets base.

The Open Architecture environment led to a clear investment strategy for our High-Net-Worth clients. The Bank has judiciously developed solid relationships with External Wealth Managers who are specialists in specific investment strategies, thus providing its clients with a choice of Wealth Managers to guide them through their wealth optimization journey.

Bank One continues to innovate to provide its clients with a pioneering approach to Private Banking. Level of service has been upgraded and new products like the Lombard Lending have been introduced.

Bank One was awarded Best Private Bank Mauritius 2018 by Global Finance Magazine.

e. Treasury Business

The Bank of Mauritius (BOM) has proved to be the main catalyst to market movements on the local market both on foreign exchange and interest rate fronts in 2018.

On the foreign exchange front, BOM moved towards a temporary suspension of the Foreign Exchange Market Maker System, initially set up in March 2017 thus opening the way for all local banks to get access to its USD interventions. Despite several interventions by the Central Bank with a total purchase of USD537m to support the value of the US dollar (USD) against the rupee (MUR), the market has remained liquid keeping a lid on the USD/MUR rate. BOM MERI2 Index, based on the currency distribution of the merchandise trade and tourism earnings, showed an appreciation of the MUR by 1.14% helped mainly by the weakness of both European currencies where GBP lost 4.7% and EUR 4.0% against the local currency. The USD fared slightly better appreciating by 0.90% against the MUR.

The weakening of the GBP and EUR on the international market pushed exporters to offload their holdings against the MUR further accentuating the liquidity surplus. On the back of this challenging situation coupled with fierce competition, Treasury has been able to maintain a prudent approach into managing its foreign currency position and thus contributing 31% of the Bank`s non-interest income.

On the interest rate front, the persistent surplus MUR liquidity remained a matter of concern for BOM as yields on securities swayed far from the reference Key Repo Rate (KRR), which stood at 3.50%. To commemorate the 50th Independence anniversary of the country, BOM came up with a 3-year Jubilee Bond at an attractive rate to try to mop up part of the excess liquidity. Over a span of three months, a total of MUR9bn was absorbed. This pushed the yields on the treasury bills closer to the KRR. To further alleviate the surplus, the Central Bank sterilized MUR16bn during its USD/MUR interventions and maintained the issuance of its own securities. Activities through the Bank of Mauritius Open Market Operations reached MUR95bn as compared to MUR70bn one year ago. Yields on 91-day Treasury Bills ended the year at 3.40% up from 2.41% one year ago. On the international landscape, based on positive economic news and an eighteen year low unemployment rate of below 4%, the US has been very active in hiking rates on four occasions pushing the fed funds rate to 2.50%. We have also witnessed a small hike of 0.25% from the Bank of England on its key repo rate to 0.75%.

f. E-Business

This year has been a year marked by new product development and expansion in new geographical markets for the E-Commerce Acquiring business of the Bank. The E-Commerce team explored the potential for offering online payment acceptance to new industries, including FinTech. This initiative allowed the Bank to benefit from first mover advantage and translated into higher business volumes and enhanced brand visibility.

In mid-2018, the Bank partnered with Union Pay International (UPI), a major card brand headquartered in China, to gain access to the Chinese E-Commerce market – this initiative propelled the Bank's reach into a massive 'online economy'.

In addition, the focus has been on continued efficient service delivery and offering of 'all inclusive' banking service specialised for businesses in the online payment industry – the bundling of the different services of the Bank creates customer loyalty and greater bonding to the '**ONE** Bank of choice'.

The E-Commerce business being highly volatile and dynamic, it can only be successful if the associated risks are proactively managed. As the business grows, new risk processes and monitoring systems are introduced to cater for the peculiarities of the business and ensure compliance to card and banking industry rules and regulations.

For 2019, the E-Commerce team of Bank One is considering collaborating with other payment institutions worldwide to enter untapped geographical markets and emerging customer segments. The E-Commerce team expects significant growth in business and more diversification in its revenue streams from this initiative.

On the cards business, with the new strategy in place, there has been a substantial expansion in the growth rate of credit card issuance by 249% in 2018. The cards features are being reviewed to make them more attractive and the Bank is collaborating with multiple merchants for partnerships and tie-ups.

An important milestone in our card usage environment this year, has been the implementation of the Verified by Visa One Time Password (OTP), which gives enhanced security to our cardholders while shopping online with Bank One prepaid and credit cards.

Business Enablers

a. Transformation and Digitalization

As the digital era crystalizes into more concrete stepping stones for the Banking industry, cognitive technologies, automation and connectivity continue to drive customer experience, operating models and business model transformation. In a global market where products are more and more commoditised, costs are increasing and with an increasing demand for service, the only way to differentiate the Bank is through a better customer experience. The customer journey does not include only external customers but internal as well, represented by our colleagues. The whole transformation strategy is rolled-out in an entirely inclusive way with all stakeholders actively participating. With the customer journey at the core of our strategy, we intend to fix the fundamentals first and start the transformation of the Bank in parallel. We now have a defined strategy focusing on six main areas which have equal importance in an integrated framework.

Data: At Bank One, we firmly believe that data is at the centre of any strategy. Data and design-led thinking is primary to the success and future of our business. Data will drive our strategic thinking, business decisions and operational solutions to better serve our customers and drive profitability. Currently, focus is on the digitisation and generation of most data points so that factual decision-making is supported. Implementation of enterprise reporting with real-time dashboards, customer segmentation, visual management, operational excellence, predictive analytics are becoming a reality for the Bank in a near future.

Architecture: At the very base of any transformation lies the architecture which is to host and support business, process, and technology innovations. With our recent upgrade of the Core Banking platform we now have the ability to define and deliver customer-oriented architecture that opens up opportunities for peripheral systems to interconnect. Moreover, this enables us to drive and use the rapid change happening in our local and international markets, which we believe will completely revamp the regional banking landscape. Building on the strong technological base, we are focusing on Cloud, security, digitalization, mobility, analytics and Robotics Process Automation.

Processes: Process re-engineering is an important milestone in our transformation journey. Simply automating an inefficient process would lead to transferring the same inefficiency to a system with minimal gain. Our approach is to question each and every step of the internal and external customer touchpoints and see how it fits in a holistic operating model. After waste elimination, simplification, centralization stages, the outcome is a lean process to better meet our customer expectations.

Team: Any transformation endeavour would fail without people buy-in. In line with this, we value colleague experience as much as end-customer experience. Therefore, intense communication, competency development, rewards, recognition and change management framework are the fundamental pillars being put in place. We want to drive change from ground level where every colleague thinking is design, data and digital-led which caters for customer needs at every touch point. This is supported through right tools to enable a transformation culture.

Culture: While having the proper team with appropriate background, competencies, synergies in a conducive environment is indeed important, at Bank One we believe that injecting the right culture for change and innovation fulfils the recipe for long-term success. We are promoting the prevalence of behaviors that support controlled risk-taking, disruptive thinking, and the exploration of new ideas. Management is pushing for a data-driven culture by making use of data and analytics to make better business decisions. Creation of cross-functional, inter-departmental teams to optimize the enterprise's skills in a collaborative manner is yet another initiative. We are stimulating the Digital First mindset as the default way forward and ultimately want to imbibe agility and flexibility in the DNA of our people.

b. Service Quality/Customer Experience

The year kicked off with the re-engineering of the Service Quality Department into the Customer Experience (CX) Department. The fundamental change began with shifting our focus from merely meeting the customer's needs to rethinking the way we want to serve them and re-design end-to-end customer journeys.

The Customer Satisfaction Survey (CSS) carried out in 2018 showed an improvement in our Customer Satisfaction Index (CSI) and Net Promoter Score by 7 points and 16 points respectively.

The Bank has created a customer-centric vision for the future and intends to align its products, processes, services and a culture that is designed to support customers. From a CX Strategy perspective, our aim has been to fix the basics prior to transforming the journey across four pillars namely: Process, CX Culture, Communication and Touchpoint experience.

- As part of its process re-engineering plan, which started with Retail customers, the Bank was able to enhance both the customer's onboarding as well as the colleague experiences with the finalization of the new process. Account Opening moved from a formely fully manual exercise to an automated one.
- The touchpoint experience is an invaluable part of the customer journey as it identifies the various ways customers interact with the Bank. Since experiences evolve very quickly it was considered of utmost importance to track and monitor the progress from a customer's lens. Surveys have been carried out across touchpoints on a monthly basis. The touchpoint experience was further enriched with a new Internet Banking platform with enhanced features that gave better opportunities to the customers to transact.
- Communication is yet another cornerstone of CX as it is closely linked to improving customer experience by finding better ways to engage and communicate with customers. While this encompasses a broad spectrum, our focus in this area has been to start with simple actions such as the review of letters and advices that are issued to customers, design more user-friendly automated forms and welcome packs. This also adds to the touchpoint experience across the customer journey that contributes to making the experience a pleasant one.
- Fostering a customer-centric culture starts with the people since they are at the heart of the organization. One of the strengths of the Bank that clearly stands out from the CSS report is the relationship that is maintained and highly valued by customers. In order to strengthen the CX Culture a number of initiatives have been undertaken during the year.

c. Human Capital

At Bank One, we strive to provide an employee-oriented, high-performance culture that emphasizes empowerment, quality, productivity and standards, goal attainment, as well as the recruitment and ongoing development of an advanced workforce. We support Bank One's employees throughout their employment life cycle, starting from the hiring process up to retirement with the running of pensioner benefits processing.

THE STRATEGIC HR AGENDA 2018

The HR agenda translates into a stronger focus on change management and advising the Bank's divisions, helping to reduce complexity, increase efficiencies and build an effective organization. Last and most importantly, Bank One works closely with its social partners in preparing and implementing individual strategic measures.

HR's principles and priorities have sharpened in the face of its long-term strategic vision. The Bank seeks to retain, develop and continuously attract people with the requisite skills to help shape a better Bank One and foster employees' engagement and motivation throughout the implementation process. Investing in our employees remains of paramount importance.

Another year marked by changes across the organization lies ahead for Bank One in 2019.

Being the **ONE** most exciting place to work remains our overarching goal.

A Balanced Approach to Talent Acquisition

Against the backdrop of strategic repositioning and the challenges ahead, Bank One has adopted a balanced approach to talent acquisition. It relies both on leveraging the skills and experience already available within the organization, while bringing in the necessary capabilities that will help position the Bank for long-term sustainable performance.

Business Enablers (Continued)

Building new talent

Another key aspect of Bank One's hiring strategy is to ensure a steady pipeline of talent, including permanent hires and interns, and investment in this area will continue. The year 2018 saw the hiring of 40 graduates, this represents one of the largest classes ever, joining the Bank across all functions and business divisions.

In a joint induction and orientation programme, the new talents were introduced to aspects of the Bank's business and culture, trained in relevant technical skills, and afforded an opportunity to build relationships early on.

In 2018, the Bank continued to strengthen its internal career mobility initiatives to drive greater career development and retention of employees. The current focus is on communicating and informing employees, creating greater visibility of opportunities, enabling managers and setting a suitable framework. A particular focus is placed on facilitating cross-divisional or group moves, which also allows employees to develop and expand their skills and pursue diverse careers.

Access to new skills

Reflecting Bank One's cultural transformation, strategic objectives and changing demands from the employment market, it is continuously developing its employer brand. In view of ongoing digitalization in the Banking industry, the demand for specific skills and digital capabilities is ever-increasing. Furthermore, the ever-greater significance of issues such as regulation and governance has required an increase in corresponding skills. In 2018, a number of targeted campaigns helped the Bank to attract and recruit this new profile of skill requirements in a highly competitive job market. Additionally, Bank One continued to expand its presence and engagement on social media platforms to ensure it is accessing the relevant target groups through the channels they use to explore career and employment opportunities.

As of year-end 2018, it had over 35,000 followers and fans across LinkedIn, Facebook and Twitter. A recent addition to the offering is a career page on LinkedIn, a review-based online channel that further helps candidates to understand the business and the recruitment process.

Creating a stronger bank rooted in a strong culture

A strong corporate culture remains essential for Bank One's long-term success and its stakeholder relationships. Since 2018, the approach to strengthening our corporate culture has been multi-pronged. In addition to a clear tone from the top, the Bank has focused on actively engaging employees, anchored the values and beliefs in all people processes, and embedded the values in business processes, practices and policies. This has gone hand in hand with an increased focus on robust controls and greater personal accountability.

So far, we have shaped the Bank Employee Value Proposition Statement:

BANK ONE's dynamic approach to business is reflected in our passion to create the ONE bank of Choice and the ONE most exciting workplace that helps employees grow and develop as our bank evolves.

As a leading bank, we believe in making a difference in the life of people in creating value through innovation, integrity and respect for others. We invest in our people, helping each employee to leverage their individual strengths. We celebrate outstanding performance by recognizing high performers while promoting work-life balance and prioritizing long-term happiness.

To support the statement, we formulated a slogan as well which will be easier to quote and remember:

ONE most exciting place to work, Our People make the difference!

Engaging with employees

Bank One concluded a series of highly visible internal awareness campaigns and reminders on the values and beliefs as well as various workshops. Focus has now shifted to ensuring employees actively engage with the values and beliefs in day-to-day business.

The internal 'Culture Ambassadors' network, 'ONE Crew' and internal Facebook group launched in 2018, continue to grow to more than 225 employees who are active culture carriers. The network's mission is to connect and engage employees from all divisions, branches and hierarchy levels in championing the values in their immediate teams and areas of influence.

Business Enablers (Continued)

Developing employees and creating future leaders

Bank One's business performance relies, first and foremost, on its employees. The Bank seeks to build the capabilities of managers and staff to help them develop both professionally and personally and to position the organization for future success. Talent and development activities are aligned to three priorities: building leadership capabilities and developing future leaders; fostering an environment that supports sustainable performance; and promoting continual professional and personal development for all employees.

Building leadership capabilities

Bank One takes a holistic approach to leadership development, which encompasses the following elements: a strong focus on corporate culture in the form of its values and beliefs, individual leadership capabilities, personal factors, a growth mindset and scheme-based learning. The Bank is continuously evolving its offering for managers at all levels of the organization.

The HR function made strides in further driving leadership assessment and succession management. The Bank is building on the successful rollout of its leadership diagnostic work, which identified strengths and development areas for our most senior leaders. The next step will include additional customised development.

Opportunities include team effectiveness, coaching skills for senior leaders, ongoing executive coaching, and leadership capability diagnostics using the Bank One leadership model.

Fostering an environment that supports sustainable performance

Bank One is transitioning all performance management and development processes into one fully integrated approach, which aims to increase performance conversations between managers and employees, and will be launched with the objective-setting process in 2019. In a first step towards implementation, talent reviews improved to help managers identify employees' strengths and areas for development through the competency framework. Continuous learning and development are seen as vital to ensuring employees have the skills, knowledge and abilities for their current roles and are prepared for new challenges.

Acknowledging a person's individual performance and development as well as their personal contribution to overall organizational success is key. The performance management process comprises objective setting early in the year, a mid-year review and a year-end review, with employees' self-assessment playing a critical role. In 2018, 99% of employees in scope set their objectives, with 100% of year-end performance reviews completed.

Promoting professional and personal development

To enable employees to maximise their potential and get the most out of their career, Bank One promotes the continuous professional and personal development of its staff. The Bank maintained a broad offering of programmes, with overall attendance increasing by 25% compared to 2017. A significant part of training is now delivered via innovative e-Learning tools. In addition, a new learning management system will enable learning across the organization using innovative formats. A thorough analysis of development needs, conducted in 2018, will ensure new focus areas as part of the planned scope of training measures.

Aligning the reward system to evolving requirements

Compensation plays an integral role in the successful delivery of Bank One's strategic objectives. Attracting and retaining the most capable employees is central to the Bank's compensation strategy. The cornerstone of this is the concept of pay for performance, within a sound Risk Management and Governance Framework, and with due consideration of market factors and societal values. As the organization seeks to align compensation to evolving external and internal expectations, reward structures are regularly reviewed and changed as needed.

Linking compensation with performance and culture

Bank One historically established a close link between employees' compensation and their performance and behavior at all levels and across all divisions of the organization. This takes into consideration a host of factors including, but not limited to, the Bank's performance, divisional performance and the employee's individual performance.

Business Enablers (Continued)

d. Communication – Major Events 2018

Our Private Banking & Wealth Management sponsored the 2018 edition of Crazy Golf alongside other prestigious sponsors including Necker Gestion Privée, Porsche and Koté Vins. The competition regrouped around 60 players who had to lend themselves to hilarious challenges in the magical setting of Ile aux Cerfs Golf Club, a picturesque 18-hole Par 72 championship golf course in Mauritius designed by the two-time Masters Champion Bernhard Langer.

Another event organised by the Private Banking & Wealth Management was the hosting of the first edition of Investor's Circle at our headquarters on 9th November 2018. Intended as a bi-annual event, Bank One Investor's Circle offers a unique platform for private investors, institutions, asset managers and service providers to connect, share ideas and do business together.

Corporate Banking Division launched the first edition of its 'Happy Hour' at Le Courtyard Restaurant in Port Louis on Wednesday 11th July 2018. Designed as a networking cocktail, the event provides the opportunity for Bank One Corporate Banking and their clients to interact outside of the traditional business setting, strengthen relationships, and share ideas in a very relaxed atmosphere. The first edition had a very good turn out and received positive feedback from the clients who attended. The event will now be a yearly recurring one.

Bank One was the first medium sized bank to launch E-Commerce acquiring activities back in 2012. In line with this pioneering spirit and drive to innovate, we signed an agreement with UnionPay International to offer our business clients the ability to accept payments from UnionPay cardholders, representing a market of nearly 6 billion cards worldwide. A launching ceremony was organised on 20th July 2018 in presence of delegates from UnionPay International, Bank One Senior Leadership Team and press officials.

The Bank marked its 10 years of existence on the 8th of August 2018 by gathering 355 staff members at the Trianon Convention Centre for an evening of celebration and team building. It was a time to reminisce about the achievements of the last 10 years and acknowledge the contribution of every employee along this memorable journey.

Bank One has been sponsoring the Ferney Trail 20km race for over a decade now. Ferney Trail, organized by CIEL Group, has built a reputation for being the biggest trail on the island attracting more than 3500 participants and involving more than 150 volunteers for the 2018 edition. We are proud to have been associated with Ferney Trail from its inception and adhere to what it represents in terms of sportsmanship, environment protection, celebrating our Mauritian identity and sharing.

The International Banking Division gathered its main business partners, fund management companies and clients at Hennessy Park Hotel on 14th November 2018 to showcase its capabilities and offerings to different groups of partners, business introducers and customers. The feedback from those who attended were encouraging and the intention is now to host this event on a yearly basis.

Bank One also marked its 10 years of existence by gathering its key customers, directors, leadership team and business partners at Sugar Beach Resort in Flic-en-Flac on 5th December 2018 for an evening of celebration and sharing. It was a time to put on record the achievements of the last 10 years and the contribution of each and every one.

Management Discussions and Analysis (continued)

Financial Performance

Statement of Profit or Loss

	Year Ended	Year Ended	**Year Ended**
	Dec-16	Dec-17	**Dec-18**
	MUR 000	MUR 000	**MUR 000**
Net interest income	699,154	713,557	**953,746**
Net fee and commission income	211,704	148,099	**218,493**
Net trading income	84,015	82,917	**103,049**
Other operating income	397	14,987	**147,827**
Operating Income	995,270	959,560	**1,423,115**
Non-Interest Expense	(492,831)	(547,494)	**(634,220)**
Operating Profit	502,439	412,066	**788,895**
Allowance for credit Impairment	(153,626)	(11,299)	**(340,213)**
Profit before Tax	348,813	400,767	**448,682**
Income Tax Expense	(37,229)	(26,568)	**(55,223)**
Profit for the year	311,584	374,199	**393,459**

Interest Income and Expense

	Year Ended	Year Ended	**Year Ended**
	Dec-16	Dec-17	**Dec-18**
	MUR 000	MUR 000	**MUR 000**
Interest Income			
Loans and Advances to customers and banks	816,153	864,858	**1,155,468**
Investment Securities	88,712	140,509	**171,772**
Placements	117,692	75,307	**68,229**
	1,022,557	1,080,674	**1,395,469**
Interest Expense			
Deposits from customers	288,205	319,579	**368,375**
Borrowings from Banks	5,756	7,108	**33,255**
Other	29,442	40,430	**40,093**
	323,403	367,117	**441,723**
Net Interest Income	699,154	713,557	**953,746**
Average Interest Earning Assets	19,417,145	20,202,714	**28,688,058**
Average Interest Bearing Liabilities	12,952,428	15,509,582	**17,771,645**
Interest Income/Average Interest Earning Assets	5.27%	5.35%	**4.86%**
Interest Expense/Average Interest Earning Liabilities	2.50%	2.37%	**2.49%**
Net Margin	2.77%	2.98%	**2.37%**
Core Revenue *	995,270	959,560	**1,282,295**

**Core revenue is defined as net interest income plus core non-interest revenue after the elimination of the effects of any unusual, non-operational items.*

Management Discussions and Analysis (continued)

Financial Performance (continued)

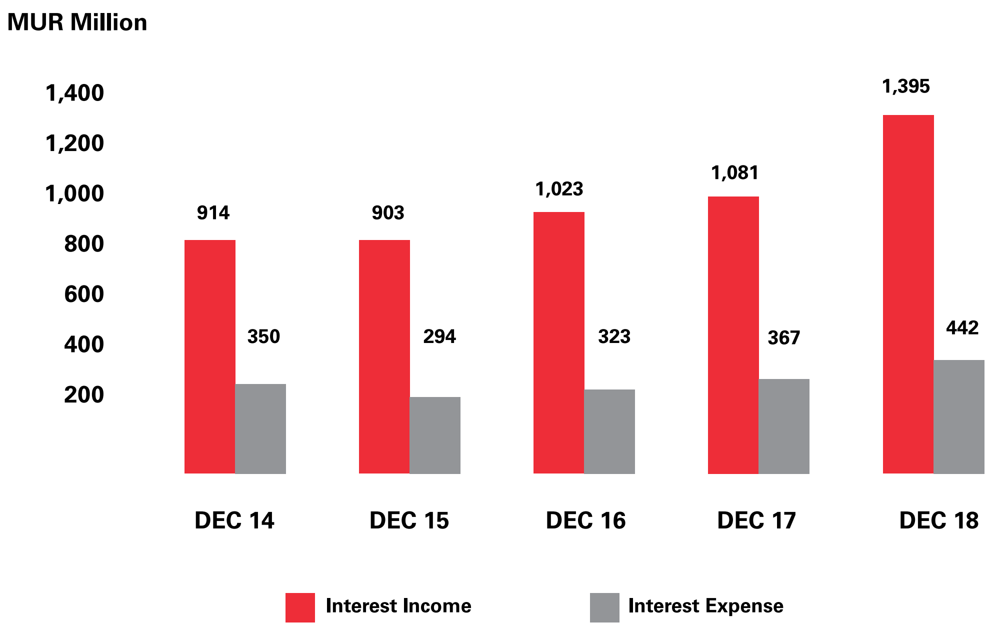
The average interest earning assets increased by 42%. However, the relative increase in interest income was subdued by the compression in rates as well as lower yields on investments qualifying for High-quality Liquid Assets.

On the other hand, the interest expense went up by 20% with the growth in the average interest bearing liabilities as shown on the previous page. The pressure on both interest costs and returns continued pushing the net margin down.

The Bank is continuing its strategy to raise funding from medium and long-term deposits and borrowings in order to have the right balance between the assets and liabilities maturity mismatch, which is adding further to the interest costs.

The above resulted in 33% improvement in the net interest income.

Interest Income & Interest Expense



Non-interest income

	Dec-16	Dec-17	**Dec-18**
	MUR 000	MUR 000	**MUR 000**
Net Fees and Commission	211,704	148,099	**218,493**
Net Trading Income	84,015	82,917	**103,049**
Other Operating Income	397	14,987	**147,827**
	296,116	246,003	**469,369**

Financial Performance (continued)

Other Operating Income includes a one-off foreign recovery of MUR141m which was long outstanding and shown as a contingent asset in previous years. The non-interest income went up by 34% in 2018 (excluding the non-recurring recovery). The Bank's initiatives to improve the share of non-interest income through diversification worked well as we note a commendable pick up in the E-Commerce activities.

Treasury volumes have also increased in 2018 and income from dealings remains one of the main contributors to non-interest income with a contribution of 31%.

The Bank continues to explore new non-interest income streams to further diversify its income sources with key focus on low-risk products.

Non-Interest Expense and Cost Management

	Dec-16	Dec-17	**Dec-18**
	MUR 000	MUR 000	**MUR 000**
Personnel Expenses	313,654	367,600	**406,765**
Depreciation and Amortisation	34,392	43,691	**50,263**
Other Expenses	144,785	136,203	**177,192**
	492,831	547,494	**634,220**

Non-interest expenses increased by 16% compared to a 34% improvement in the Operating Income.

Total Personnel Expenses which include salaries & benefits have gone up by 11% which represent new hires during the year, payment of the yearly compensation related to performance as well as investment in training and other staff welfare programmes.

Increase in the depreciation and amortisation expense is a result of investment in the upgrade in our Core Banking system and Custody solutions.

Other Expenses in 2018 were 30% higher than 2017, on account of enhanced marketing and business promotional activities, maintenance of software and hardware as well as costs related to professional and advisory services.

Allowance for credit impairment

Effective January 2018, the Bank has for the first time adopted IFRS 9, where impairment charge/provision has been calculated based on a new model. Adoption of IFRS 9 and classification of a few large non-performing assets resulted in net impairment charge of MUR340m for the year under review compared to MUR11m for 2017. Efforts towards recovery of impaired accounts continue to bring substantial positive results and further significant recoveries are expected in 2019.

Financial Performance (continued)

Credit Exposure

As shown in the table below, the Bank has a well-diversified credit portfolio without any undue concentration in any one sector as at 31 December 2018.

Sectors	2016	2017	2018		
	Total	Total	**Segment A**	**Segment B**	**Total**
	MUR 000	MUR 000	**MUR 000**	**MUR 000**	**MUR 000**
Lending					
Agriculture & Fishing	829,771	1,108,339	**1,053,106**	**185,310**	**1,238,416**
Manufacturing	822,286	1,309,878	**403,262**	**557,177**	**960,439**
Tourism	954,424	2,012,613	**1,346,832**	**834,731**	**2,181,563**
Transport	551,635	250,143	**222,143**	**821,441**	**1,043,584**
Construction*	3,426,553	3,121,998	**3,103,984**	**394,758**	**3,498,742**
Financial and Business Services	1,033,239	3,478,405	**3,076,961**	**1,756,415**	**4,833,376**
Traders	3,104,646	2,960,160	**2,667,725**	**579,848**	**3,247,573**
Personal	761,309	652,547	**812,677**	**24,411**	**837,088**
Professional	14,130	12,350	**11,628**	**-**	**11,628**
Global Business License Holders	1,090,086	754,550	**-**	**759,991**	**759,991**
Others	1,851,224	2,779,741	**306,270**	**2,788,167**	**3,094,437**
	14,439,303	18,440,724	**13,004,588**	**8,702,249**	**21,706,837**
Lending to Banks	1,667,012	3,744,692	**-**	**2,950,545**	**2,950,545**
Total Credit Exposure	16,106,315	22,185,416	**13,004,588**	**11,652,794**	**24,657,382**
Trading	1,494,704	2,249,806	**2,008,698**	**36,004**	**2,044,702**
Investment	2,296,326	1,968,379	**956,141**	**3,736,653**	**4,692,794**
Off-Balance Sheet	1,692,216	2,985,098	**1,894,016**	**647,828**	**2,541,844**

The highest exposure for the Bank remains in the Financial and Business Services. Exposures to banks represents 12% and that of other financial services sector 20% as compared to 16% and 6%, respectively, for the prior year.

**59% of the exposures in the construction sector relate to retail mortgages*

Management Discussions and Analysis (continued)

Credit Quality

The table below shows the data on impairment and related ratios for the past 3 years.

	Dec-16	Dec-17	Dec-18
	MUR 000	MUR 000	**MUR 000**
Impaired Advances	1,225,584	1,344,783	**1,169,336**
Allowance for Impairment – stage 3	530,876	526,188	**745,492**
Impaired Advances/Gross Advances	7.61%	6.06%	**4.74%**
Net Impaired/Net Advances	4.51%	3.82%	**1.79%**
Provision Coverage Ratio	43.31%	39.13%	**63.75%**

The impaired ratio has considerably improved by 1.32% driven by the solid increase in good quality assets. The Bank holds a high-value of collateral as security for these impaired assets resulting in lower impairment provisions for such accounts.

With additional net provisions of MUR219m during the year, provision coverage ratio has improved substantially to 63.75%.

A breakdown of gross advances, impaired advances and related specific provisions percentage by industry sector split between segment A and B as at 31 December 2018 is shown below.

Loans to customers

Sectors	Gross Amount of Loans		Impaired Loans		Allowance for impairment as a % of Impaired Loans	
	Segment A	Segment B	Segment A	Segment B	Segment A	Segment B
	MUR 000	MUR 000	MUR 000	MUR 000		
Agriculture and fishing	1,053,106	185,310	3,549	-	99%	-
Manufacturing	403,262	557,177	1,112	-	32%	-
Tourism	1,346,832	834,731	89,903	-	32%	-
Transport	222,143	821,441	5,450	96,637	65%	40%
Construction	3,103,984	394,758	371,091	4,787	58%	53%
Financial and Business Services	3,076,961	1,756,415	-	-	-	-
Traders	2,667,725	579,848	190,367	11,487	58%	100%
Personal	812,677	24,411	57,303	-	82%	-
Professional	11,628	-	-	-	-	-
Global Business license holders	-	759,991	-	66,457	-	19%
Others	306,270	2,788,167	6,085	265,108	68%	100%
Total	**13,004,588**	**8,702,249**	**724,860**	**444,476**		
Loans to banks	**-**	**2,950,545**	**-**	**-**	0%	0%

51% for Segment A impairment originates from the construction sector while 55% of the impaired loans for Segment B consist of facilities guaranteed by the central government of a South East African country.

Management Discussions and Analysis (continued)

GENERAL PROVISIONS

In compliance with the `Macro-prudential policy measures for the Banking Sector` issued by the Bank of Mauritius in October 2013, the Bank maintained additional portfolio provisions on certain specific sectors booked as General Reserve as an appropriation of Retained Earnings.

RESTRUCTURED LOANS

Restructured loans are loans that have been renegotiated due to deterioration in the borrower's financial position and cash flow, in such cases, where assessed genuine, the Bank has reviewed the terms and conditions by allowing concessions such as extending the maturity, changing the frequency of interest servicing, review and downward revision of interest rate as well as amendments to other terms of loan covenants.

During the year ended 31 December 2018, 6 accounts have been restructured aggregating MUR353m *(outstanding balance: MUR314m as at December 2018).*

Risk and Management Policies and Control, concentration of risk policies and related party transaction and policies are disclosed on pages 76 to 88.

Statement of Corporate Governance practices is disclosed on pages 25 to 50.

The Management Discussions and Analysis report may contain various forward-looking statements with respect to Bank One's financial position, business strategy, plans and management objectives. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances including, but not limited to, domestic market, global economic and business conditions, market risks such as changes in interest and exchange rates, policies and actions of governmental and regulatory authorities. We caution readers of this report not to place undue reliance on our forward-looking statements as these factors may cause the future results to differ materially from the plans, goals, expectations or interest expressed in the forward-looking statements. Bank One Limited does not undertake to update any forward-looking statement that may be made from time to time by the organization or on its behalf.

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Risk Management Report








Risk Management Report

Risk Management Report Scope

The report focuses on the holistic process involved in integrated risk management of the Bank and its resultant outcomes that assists the Bank in reaching its strategic vision.

Responsibility of the Board

The Bank's Board of Directors (Board) remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The Board has delegated certain supervisory risk functions to relevant Board Sub-Committees.The Board ensures proper governance is in place that allows for healthy risk discussions to take place in a forward-looking manner while also learning lessons from past risk events. The Board approves the risk appetite and ensures that the risks are managed within the set tolerance levels.

The Board and Board Sub-Committees are kept informed of the Bank's risk status through the Chief Risk Officer (CRO). The CRO reports to the Chief Executive Officer (CEO) but has direct and regular access to the Board and its Risk Committees without any impediment.

Risk Defence Model

The Bank currently employs a three level defence model whereby:

1. Business Lines take ownership of the risks from end to end.
2. Independent Risk Oversight is through the various empowered Risk functions.
3. Internal Audit conducts independent reviews and assessments.

The Bank is embedding an objective-centric Enterprise Risk Management approach to ensure that the Risk functions add value to reaching the Bank's objectives.

Risk Management Framework

The Bank's fundamental approach to Risk Management is to ensure that both value preservation and value creation is promoted through the prudent and consistent adoption of the Risk Culture Statement.The Risk Culture journey is complimented by a deliverable Risk Appetite Statement and quarterly monitored via Board approved Risk Appetite Metrics.

The Board of Directors approves the risk policies and guidelines. The Bank's Management has the responsibility for the effective execution of such policies by implementing appropriate principles and procedures.

The Board and its Sub-Committees monitor the risk profile of the Bank on a quarterly basis. Limits on the quantum of Credit Risk, Market Risk, Operational Risk and Country Risk are set within prudent guidelines. Other non-quantifiable risks such as Compliance Risk, Reputational Risk and Strategic Risk are assessed and monitored on a qualitative basis.

The Board's responsibilities include:

a) Approval of the Risk Management strategy and policies to confirm that all the risks are correctly managed at both portfolio and client level;

b) Regular review of the policies and Key Performance Indicators;

c) Analysing the Bank's ongoing financial performance against forecasts and budgets.

The Bank's Management meets on a monthly basis via several Management Committees to make a comprehensive impact assessment of the Bank's various risks.

The Market Risk Team monitors Market Risk on a daily basis and any issues are reported promptly to Senior Management. Similarly, Operational Risk events beyond a predefined threshold are escalated swiftly to the Senior Management for remedial actions in line with the Bank's approved Escalation Matrix.

These risks are subject to oversight and control of the second line of defence of the centralised Risk Teams. The Risk Team's operate as independent units, which are segregated appropriately from the business and front-line functions.

Qualified and experienced team members lead the Risk Teams of the following areas:

a) Compliance;
b) Credit Risk Management;
c) Market Risk (within Finance Team);
d) Operational Risk; and
e) Risk Analytics.

The Bank utilises the Internal Capital Adequacy Assessment Process (ICAAP) to assess its optimal capital requirements. The Bank's Asset and Liability Management Committee (ALCO) is responsible for the management of the Bank-wide portfolio composition, risk-weighted assets measurement and optimal capital allocation. The Bank adopts the Basel Standardised Approach for the calculation of regulatory capital taking into consideration the macro-prudential policy measures introduced by BOM.

Credit Risk Management

Definition	The risk of loss arising from a client or counterparty failing to fulfil its financial obligations. It primarily arises from wholesale and retail loans and advances.
Governance	The Board Credit Committee (BCC) sets the Credit Strategy and approves the Credit Policy. BCC monitors the Credit Risk to be within the Risk Appetite, provisions target and proactively to any operating environment changes. Management credit approval rests with the CEO and a Credit Forum is called to discuss certain deals that require enhanced deliberations. The CRO has a veto right for management credit approval and upon exercising same BCC approval is required. Financial Governance is supplemented by regular reporting to the BCC, regulatory reporting and the ICAAP simulation.
More Information	Various credit management controls are in place such as credit policies, data analytics, models and risk indicators to guide the decision-making process based on agreed principles and risk appetite levels. The impact of the following key aspects are considered – probability of default (PD), exposure at default (EAD), loss given default (LGD), provisions and the return on risk-adjusted capital.

Credit Risk Mitigation

The primary credit risk mitigation comprises accurate data and information together with value-added research to make an informed decision regarding the obligor's repayment ability. The sustainability of the cash flow generation over the contract period is critically assessed to ensure the proper servicing of the debt.

As an additional mitigation for credit risk, collateral and guarantees are taken to render the risk and reward equitable in terms of the Bank's Risk Appetite.

Credit Related Commitments

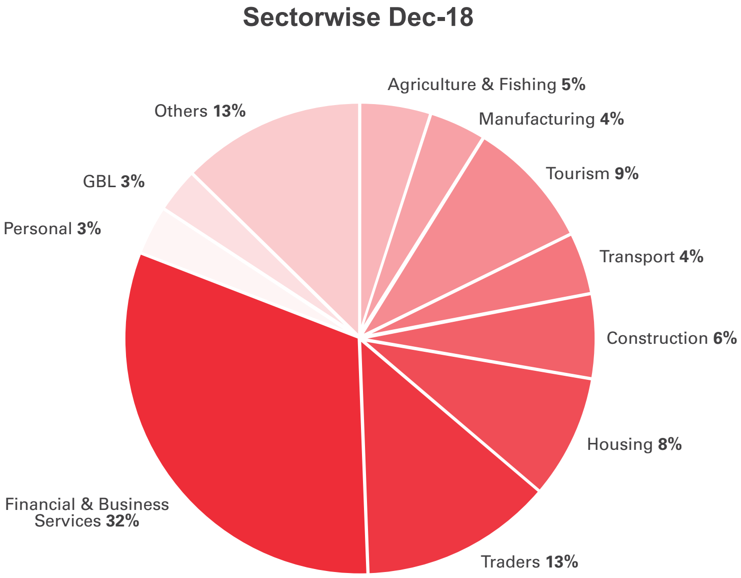
Credit related commitments include bank guarantees, documentary letters of credit, standby letters of credit and undrawn commitments on committed facilities. The relevant capital charges of the various instruments are calculated based on the criteria set in the BOM guideline on Standardised Approach to Credit Risk.

Credit Related Commitments	Year Ended Dec-16	Year Ended Dec-17	**Year Ended Dec-18**
	MUR 000	MUR 000	MUR 000
Bank guarantees and other contingent liabilities	692,453	467,162	**614,037**
Undrawn Credit Related Commitments	969,809	2,336,517	**1,806,382**

Bank Placements and Lending

These instruments are normally of a better credit quality by virtue of the regulated market in which these counterparties operate. External credit rating agencies' reports on the credit quality of rated banks are utilised as an input into the internal credit assessment together with obtaining an internal credit rating for all bank obligors using the Moody's RiskCalc Bank Model.

Sectorwise Distribution



As shown in the chart above, the risk is acceptable and well-managed.The largest concentration is on Financial and Business Services at 32% (2017: 33%) with the bulk of the exposure to other banks.The risks are lower with the regulated nature of the Banking industry.

The combined contribution from Construction & Housing and Traders remained static at 14% and 13% respectively in 2018. Note 15 (c) of the Financial Statements Residual discloses the contractual maturity of the portfolio.

Concentration Risk

The Bank's credit risk portfolio remains adequately diversified. Maximum exposure limits are set for individual counterparties, countries and sectors to maximise any potential diversification benefits while complying with the BOM guideline on Credit Concentration Risk.

The top five groups and single borrower exposures as at 31 December 2018 have shown an improvement over the prior year as shown below:

Group	2018		2017	
	Exposure MUR 000	% of Tier 1 Capital	Exposure MUR 000	% of Tier 1 Capital
1	**1,002,487**	**41.59**	1,017,153	46.4
2	**911,748**	**37.83**	742,720	33.9
3	**760,408**	**31.55**	719,381	32.8
4	**671,190**	**27.85**	675,200	30.8
5	**654,353**	**27.15**	661,578	30.2

Note: Group 1's exposure temporarily went up to 41.59% as at end December 2018 due to the negative impact on Tier 1 Capital following an additional impairment charge on the Bank's largest non-performing asset. This exposure was subsequently brought below 40% during February 2019.

Single Borrower	2018		2017	
	Exposure MUR 000	% of Tier 1 Capital	Exposure MUR 000	% of Tier 1 Capital
1	**584,359**	**24.24**	675,200	30.8
2	**563,081**	**23.36**	661,578	30.2
3	**525,000**	**21.78**	611,581	27.9
4	**516,300**	**21.42**	-	-
5	**512,190**	**21.25**	526,775	24.0

Herfindahl-Hirschman Index (HHI) and Concentration Risk Level

The Bank uses the HHI to assess the concentration of its depositors and borrowers. The following table relates the HHI with the level of risk as at 31 December 2018:

HHI	Risk Level	Top 10 Individuals	Top 10 Groups	Top 10 Industries	Top 10 Depositors
< 1 000	Low-risk	→	→	→	→
1 000 – 1 800	Moderate Risk	-	-	-	-
> 1 800	High Risk	-	-	-	-

As at 31 December 2018, all portfolios remained steady within the Low-risk category.

Related Party Transactions

The Bank complies with the BOM Guideline on Related Party Transactions. The Conduct Review & Corporate Governance Committee (CRCGC) approves every related party transaction and ensures these transactions are at standard market arm's length principle.

The aggregate On-Balance Sheet related party exposure of the Bank amounted to MUR1,021m (2017: MUR988m) which represents 42.4% of Tier I Capital (2017: 45.0%). The facilities range from bank placements, overdrafts and loans. Collateral is taken for the facilities except for bank placements, which are bank senior unsecured risk. Settlement of facilities will be from the underlying obligor's operating cash flow and arm's length terms and conditions apply.

The aggregate related party exposure (Off-Balance Sheet) of the Bank amounted to MUR187m, which represents 7.8% of the Tier I Capital figures (2017: 4.8%).

None of the loans advanced to related parties were classified as non-performing as at 31 December 2018.

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

Related Party	2018		2017	
	Exposure MUR 000	% of Tier 1 Capital	Exposure MUR 000	% of Tier 1 Capital
1	**380,000**	**15.8**	380,000	17.4
2	**257,299**	**10.7**	285,029	13.0
3	**240,940**	**10.0**	236,320	10.8
4	**82,608**	**3.4**	51,568	2.4
5	**5,400**	**0.2**	19,689	0.9

Credit Quality

Impairment and Provisioning Policies

Impairment provisions are recognised for financial reporting purposes under International Accounting Standard IFRS9 and the relevant BOM guidelines. More details on the model used are given in note 1.1(o) part (ii) of the credit risk measurement in the financial statements. The Bank is compliant with the BOM guideline on Credit Impairment Measurement and Income Recognition. An independent valuation from a panel of qualified appraisers validates the net realisable value of collaterals.

Collection and Recovery Process

The Bank's philosophy is to resolve recovery matters through negotiations in the first instance. If no agreement is reached, legal action is pursued with urgency for the timely recovery of all non-performing assets.

For 2018, the non-performing assets portfolio declined by 13% despite the temporary delay in the recovery of a number of high-value accounts that are now expected to be closed within the first quarter of 2019. The Provisions Coverage Ratio has shown an improvement from 39.13% in 2017 to 63.75% in 2018.

Risk Management Report (continued)

Past Due Not Impaired

Loans & Advances Past Due but Not Impaired	As at 31 December 2018			As at 31 December 2017		
	Individual (Retail Banking Customers) Retail & Mortgages	Corporate Entities Loans & Overdraft	Total Loans & Advances to Customers	Individual (Retail Banking Customers) Retail & Mortgages	Corporate Entities Loans & Overdraft	Total Loans & Advances to Customers
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Up to 1 month	**194,682**	**89,650**	**284,332**	222,465	107,602	330,067
More than 1 month and up to 3 months	**85,312**	**16,467**	**101,779**	44,255	11,971	56,226
More than 3 months and up to 6 months	-	-	-	720	-	720
More than 6 months	-	-	-	-	-	-
Total	**279,994**	**106,117**	**386,111**	267,440	119,573	387,013

Appropriate management attention and processes are in place to ensure that Past Due Not Impaired accounts are managed proactively and prudently. The 2018 position has remained static though it is pleasing to note that discipline within Corporate Accounts has shown consistent improvements over the years (2018: 11% improvement).

Loans & Advances Past Due but Not Impaired	As at 31 December 2016		
	Individual (Retail Banking Customers) Retail & Mortgages	Corporate Entities Loans & Overdraft	Total Loans & Advances to Customers
	MUR 000	MUR 000	MUR 000
Up to 1 month	152,154	487,932	640,086
More than 1 month and up to 3 months	54,868	79,539	134,407
More than 3 months and up to 6 months	590	-	590
More than 6 months	-	-	-
Total	207,612	567,471	775,083

Properties in Possession (PIPs)

As at December 2018, the Bank held five PIPs in its books with an assessed total value of MUR9.1 m (2017: MUR9.8 m) included in the 'Other Assets' figure (note 20 of the financial statements). No new properties were added in the year under review. As at December 2018, the carrying cost of these properties did not differ materially from the estimated market price value. The Bank's policy regarding the PIPs is to dispose of them as soon as is practically possible in line with banking legislation.

The Bank Policy is to recognise the assets repossessed at the lower of the carrying value and the fair value less cost to sell.

Market Risk

Definition	The risk of potential adverse changes in market prices and interest rates that negatively affect assets and liabilities.
Governance	Market risk exposure for different types of transactions is managed within risk limits and guidelines approved by the Board and monitored via ALCO which reports to the Board Risk Management Committee (BRMC). Risk Analytics Team monitors and reports on limit governance.
More Information	The Treasury Department monitors the debt securities book on a weekly basis, reporting monthly to ALCO and quarterly to the BRMC.

Market risk arising from the Trading Book

The Bank measures market risk from the trading book using the VaR technique (Historical Approach at a 99% confidence level over a one-day holding period) and controls market risk exposures within prudent risks limits set by the Board in line with the Risk Appetite for the Bank. Risk Analytics Team monitors this on a daily basis.

Market risk arising from the Banking Book

Various management action triggers are established to provide early alerts to Management on the different levels of exposures of the Banking book activities relative to foreign exchange risk, interest rate risk, and liquidity risk. Sensitivity analysis and stress testing covering shocks and shifts in interest rates on the Bank's on and off-balance sheet positions, liquidity drift under institution-specific and general market crisis scenarios are regularly performed to gauge and forecast the market risk inherent in the Banking book portfolio.

(i) Foreign exchange risk

The Bank has limited net foreign exchange exposure as foreign exchange positions and foreign currency balances arising from customer transactions are normally matched against other customer transactions or through cover transactions with the market. The net open exposure positions, both by individual currency and in aggregate, are managed by the Treasury Department within established limits and reported to BOM on a daily basis.

During 2018, the Bank operated well within the regulatory limits regarding Net Open Positions.

The Risk Analytics Team ensures that limits are respected. A daily report goes to Senior Management to notify any underlying breach in limits. A monthly report is submitted to the ALCO and a quarterly report is submitted to BRMC. Any breaches are notified to Senior Management immediately and simultaneously escalated to the relevant sanctioning authority in terms of the Bank's Escalation Matrix.

Accordingly, as at 31 December 2018, the VaR limits against the actual potential loss is disclosed in the table hereunder:

VaR Limit vs Actual Position December 2018	USD	EUR	GBP
Limit	MUR 800k	MUR 500k	MUR 200k
Potential Loss	MUR 518k	MUR 25k	MUR 18k

(ii) Interest rate risk

The Bank considers the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow-risks. The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which are monitored by the Risk Analytics Team. Same is reported monthly to ALCO and quarterly to BRMC.

The framework adopted by the Bank to measure interest rate risk exposures is consistent with the BOM guidelines for reporting interest rate risk exposures, which consists principally of interest rate sensitivity analysis and stress testing.

Interest rate sensitivity analysis

A detailed analysis of the Interest Rate Sensitivity Analysis as at 31 December 2018 is given in note 2(f) of the financial statements.

Earnings at Risk Methodology is used to assess the impact of various interest rate change scenarios on Net Interest Income over a 12-month horizon, as required under the domestic and global regulatory guidelines.

MUR & USD Earnings at Risk Analysis as at 31 December 2018

Interest Rate Movement 2018	Impact on Earnings on account of interest basis (MUR m)	Impact on Earnings on account of interest basis (USD m)
+ 25 bps	0.01	0.47
-25 bps	(0.01)	(0.47)
+ 50 bps	0.03	0.94
- 50 bps	(0.03)	(0.94)
+ 75 bps	0.04	1.41
-75 bps	(0.04)	(1.41)
+ 100 bps	0.07	1.88
-100 bps	(0.07)	(1.88)
+ 200 bps	0.14	3.76
-200 bps	(0.14)	(3.76)

The Bank remains well-positioned to absorb potential interest shocks.

Liquidity Risk

Definition	The risk of losses from not having cash to honour commitments when falling due.
Governance	Treasury Department is responsible for the daily management of liquidity and provides daily reporting to Senior Management. ALCO oversees the activities ofTreasury Department on a monthly basis and reports quarterly to BRMC.
More Information	The Bank manages its liquidity on a prudent basis and ensures that the statutory minimum cash reserve requirements are maintained throughout the year. No statutory limits have been breached during the year, including the Liquidity Coverage Ratio. A Contingent Liquidity Plan is in place to prepare for any extreme liquidity stress scenario.

The ALCO reviews monthly, or on ad hoc basis if required, the Bank’s liquidity position. Appropriate limits on liquidity and maturity mismatch are set and sufficient liquid assets are held to ensure that the Bank can meet all its short-term funding requirements.

The Bank’s funding comprises mainly of customer deposits and borrowings, both short as well as long-term. Short-term interbank deposits are accepted on a limited basis.

The table in note 2(g) of the financial statements analyses the Bank’s assets and liabilities into relevant maturity buckets.

The Bank monitors liquidity gaps on a static, cumulative as well as on a dynamic basis. Under the dynamic scenario, the Bank arranges assets and liabilities into different maturity ranges according to BOM guideline on Liquidity Risk Management, taking into account the historical behavioural pattern of these assets and liabilities. Stress testing and scenario analysis form an important part of the Bank’s liquidity management process.

Risk Management Report (continued)

Liquidity Coverage Ratio (LCR)

The Bank of Mauritius Guideline on Liquidity Risk Management was issued in October 2017 to align with the requirements of Basel III on Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools of January 2017.

LCR is computed as the percentage of share of High-quality Liquid Assets to Total Net Cash Outflows over the next 30 days under a severe stress scenario.

As at December 2018, the Bank was well above the minimum consolidated liquidity requirements as shown in the table below:

	TOTAL UNWEIGHTED VALUE (quarterly average of monthly observations)	TOTAL WEIGHTED VALUE (quarterly average of monthly observations)
	MUR 000	MUR 000
HIGH-QUALITY LIQUID ASSETS		
Total high-quality liquid assets (HQLA)	4,190,074	4,151,224
CASH OUTFLOWS		
Retail deposits and deposits from small business customers, of which:		
Less stable deposits	13,359,849	1,335,985
Unsecured wholesale funding, of which:		
Non-operational deposits (all counterparties)	7,943,942	3,177,577
Unsecured debt	1,634,128	1,634,128
Additional requirements, of which:		
Credit and liquidity facilities	1,065,590	879,119
Other contractual funding obligations	267,710	267,710
Other contingent funding obligations	573,479	28,674
TOTAL CASH OUTFLOWS	**1,906,779**	**1,175,503**
CASH INFLOWS		
Secured funding	4,827,171	4,827,171
Inflows from fully performing exposures	823,548	411,774
Other cash inflows	549,421	549,421
TOTAL CASH INFLOWS	**6,200,139**	**5,788,365**

	TOTAL ADJUSTED VALUE
TOTAL HQLA	**4,151,224**
TOTAL NET CASH OUTFLOWS	**1,447,091**
LIQUIDITY COVERAGE RATIO (%)	**287%**

Operational Risk

Definition	The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.
Governance	The management of operational risk within Bank One is based on the Enterprise Risk Management approach in accordance with the Basel Committee's guidance on 'Sound Practice for the Management and Supervision of Operational Risk' and the Bank of Mauritius Guidelines on Operational Risk Management. The Management Operational Risk Committee monitors the risks on a monthly basis and reports to BRMC quarterly.
More Information	Focus is on sustainably reducing the Bank's material risk exposures consistent with its risk appetite as well as scanning and analysing emerging risks to which the Bank must demonstrate resiliency. Internal Control Framework is being implemented for the key processes of the Bank and focussing on bringing sustainable value for size and complexity of Bank One. The enhancements planned in the new 2019 Operational Risk Strategy will remedy many of the areas not yet comprehensively covered under the Operational Risk sphere of responsibility.

The existing Operational Risk Management Framework enhancements to cater for the underlying risk principles are:

a) Proactive risk management and disciplined risk taking;
b) Risk and control culture with clear ownership and accountability; and
c) Sound and sustainable risk and control environment.

For this purpose, new concepts including Operational Risk appetite, key risk indicators and assessments, incident management, control issues monitoring, and process enhancements are the fundamentals of the enhanced Operational Risk Strategy.

Operational Risk continues to play a second line of defence role with checks and balances on the Operational Risk Management activities undertaken by the Business while ensuring that the Bank embeds and complies with the Operational Risk Framework.

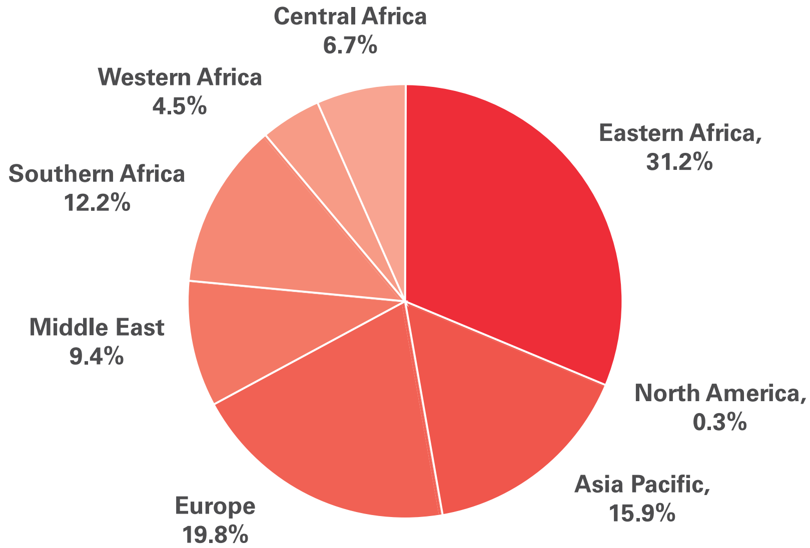
Business Continuity remains a key focus area for the Bank with the existing framework further enhanced to cater for the newly developed scenario-based approach and the expectations of having short, medium and long-term plans to reinforce the Bank's resiliency in contingent situations.

Country Risk

Definition	The risk of investing or lending in a foreign country, arising from possible changes in the business environment that may adversely affect the ability of the obligor in the country to repay the capital and interest.
Governance	Risk Analytics provides weekly information on the limits and headroom to the limits to Senior Management. BRMC has a quarterly oversight on the Country Risk portfolio and approves all country limits.
More Information	Wherever possible, 'on the ground information' is obtained from group or associate companies operating in such jurisdictions.

Country Risk Exposures by region as at 31 December 2018 is disclosed in the chart below:

Country Risk Exposures by Region as at 31 December 2018



Risk Management Report (continued)

Eastern Africa accounts for 31% (2017: 36%) of the Country Risk exposure. The Bank has diversified its country risk with greater exposures towards Southern Africa at 12% (2017: 6%), Europe at 20% (2017: 12%) and Central Africa at 7% (2017: 2%).

Business / Strategic Risk

Definition	The risk of non-attainment of the planned strategic objectives, the consequences of inappropriate strategies or unanticipated changes in business environment such as the decline in sales or prices that affect negatively on profitability.
Governance	The Board Strategic Committee has oversight of the business risk. Exco manages Business Risk operationally.
More Information	The strategic direction of the Bank is reviewed once a year and forms part of the annual business budget and operating plan of the Bank. This is done in conjunction with the ICAAP and Risk Appetite review so that a holistic approach is prudently adopted.

Reputation Risk

Definition	The current or potential risk to earnings and capital driven by the adverse perception of Bank One on the part of clients, counterparties, employees or regulators.
Governance	Exco manages directly the reputational risk.
More Information	The Bank continues to dynamically assess and monitor reputational risk on a qualitative basis through a reputational risk heat map. Overall, Reputation Risk in 2018 remained acceptable and stable from prior years.

Compliance Risk

Definition	The risk of the potential for losses and legal penalties due to failure to comply with laws and/or regulations.
Governance	Compliance Team reports Compliance matters to the Management Operational Risk Committee on a monthly basis. The BRMC has oversight over the Bank's compliance risks.
More Information	The Bank has a whistleblowing policy in place to ensure that any issues can be reported without fear of subsequent victimisation, discrimination or disadvantage.

Risk Capital Management

Bank One's capital management policies and practices support its growth strategy. The Bank strives for continuous enhancement of shareholder value by efficiently using capital in order to maximize the return on equity. The Bank being adequately capitalized to withstand any macroeconomic downturn is a key priority.

Capital Adequacy Assessment

As per Basel III guidelines, the Bank is required to maintain a minimum Capital Adequacy Ratio (CAR) of 11.25%.

The Bank has computed its CAR as at 31 December 2018 in compliance with the requirements of the regulatory guidelines on Basel III as well as the macro-prudential measures introduced by BOM, effective July 2014.

The capital charge for Operational Risk is calculated under the Basic Indicator Approach and the capital charge for credit and market risk under the Standardised Approach.

Risk Management Report (continued)

As at December 2018, the Bank`s CAR stood at 12.99% out of which the Common Equity Tier I (CET I) CAR was 9.09 % *(against minimum regulatory requirement of 6.5%).*

	Basel III	Basel III	Basel III
	Dec-16	Dec-17	Dec-18
	MUR 000	MUR 000	MUR 000
Core Capital (Tier 1 Capital)			
Paid up Capital	856,456	856,456	856,456
Statutory Reserve	191,821	247,950	306,969
Retained Earnings	967,011	1,239,958	1,488,632
Deductions			
Intangibles	(40,693)	(41,580)	(156,539)
Deferred Tax	(71,918)	(71,766)	(46,980)
Investment in other banks	(36,915)	(37,053)	(38,286)
Total Tier 1 Capital	**1,865,762**	**2,193,965**	**2,410,252**
Supplementary Capital (Tier 2 Capital)			
Reserves arising from Revaluation of Assets	34,800	41,520	43,791
Portfolio Provision	175,000	205,656	272,400
General Banking Reserves	54,328	67,803	37,030
Subordinated Debt	474,008	500,567	679,636
Fair Value Gains	6,392	8,537	-
Total Tier 2 Capital	**744,528**	**824,083**	**1,032,855**
Total Capital Base	**2,610,290**	**3,018,048**	**3,443,109**
Risk-weighted Assets for:			
Credit Risk	18,887,265	21,876,694	24,754,303
Market Risk	16,255	60,734	63,498
Operational Risk	1,286,836	1,405,912	1,688,973
Total Risk-weighted Assets	**20,190,356**	**23,343,340**	**26,506,774**
Tier 1 Ratio	9.24%	9.40%	9.09%
Capital Adequacy Ratio	**12.93%**	**12.93%**	**12.99%**

Note: Figures in the above table have been audited.

Risk Management Report (continued)

Risk-weighted On-Balance Sheet Items

			Dec-16	Dec-17	Dec-18
	Risk Weight		Risk-Weighted		
	MUR 000	%	MUR 000	MUR 000	MUR 000
Cash in Hand and with Central Bank	1,713,181	50%	-	-	117,524
Balance and Placements with Banks	8,095,277	20-100%	3,017,890	1,021,408	1,716,609
Balance in Process of Collection	25,400	20%	6,700	11,211	5,080
Treasury Bills and GOM Bills	2,633,864	0%	-	-	-
Other Investments	3,207,982	0-100%	658,526	468,416	468,430
Fixed and Other Assets	478,009	100%	487,995	548,744	478,009
Loans and Advances	23,911,890	0 - 150%	14,169,640	19,596,138	21,726,856
	40,065,603		**18,340,751**	**21,645,917**	**24,512,508**

Risk-Weighted Off-Balance Sheet Items

			Dec-16	Dec-17	Dec-18
	Credit Conversion Factor (%)	Risk Weight (%)	Risk-Weighted		
			MUR 000	MUR 000	MUR 000
Acceptances and Bills of Exchange	100%	100%	520,285	177,603	119,792
Guarantees, Bonds, etc.	50%	100%	13,938	33,187	102,721
Letters of credit	20%	100%	2,415	5,567	9,682
Foreign Exchange Contracts	1% to 7.5%	20-100%	9,876	14,420	9,600
			546,514	**230,777**	**241,795**

Risk-Weighted Exposures

	Dec-16	Dec-17	Dec-18
	MUR 000	MUR 000	MUR 000
Risk-Weighted On-Balance Sheet Assets	18,340,751	21,645,917	24,512,508
Risk-Weighted Off-Balance Sheet Exposures	546,514	230,777	241,795
Risk-Weighted on Market Risk	16,255	60,734	63,498
Risk-Weighted on Operational Risk	1,286,836	1,405,912	1,688,973
Total Risk-Weighted Assets	**20,190,356**	**23,343,340**	**26,506,774**

Risk-Weighted Assets for Market Risk

	Dec-16	Dec-17	Dec-18
	MUR 000	MUR 000	MUR 000
Foreign Exchange Risk	16,255	60,734	63,498
Interest Rate Risk	-	-	-
Equivalent Risk-Weighted Assets	**16,255**	**60,734**	**63,498**

Risk-Weighted Assets for Operational Risk

	Dec-16	Dec-17	Dec-18
	MUR 000	MUR 000	MUR 000
Average Gross Income for last 3 years	857,891	937,275	1,125,982
Capital Charge	128,684	140,591	168,897
Equivalent Risk-Weighted Assets	**1,286,836**	**1,405,912**	**1,688,973**

In line with the recommendations of the Bank of Mauritius guideline on the recognition and use of the External Credit Assessment Institutions (ECAI)[1], the ratings from the agencies listed below have been used in computing the relative risk weights for Balance with Foreign Banks, Lending to Foreign Entities and Banks and Other Foreign Investments.

[1] ECAI includes Moody's, Standard & Poor's, Fitch and CARE Ratings.

Future Capital Requirements

In view of the continuous growth of Bank One's assets portfolio associated with new products, markets and activities, the Bank intends to raise additional capital either through injection by its main shareholders or through other eligible instruments qualifying as Tier I or Tier II.

Internal Capital Adequacy Assessment and Supervisory Review Process

ICAAP is a simulation exercise carried out to inform the Board on the Bank's risks and their impact on the Bank`s business. With this exercise, the Bank is in a better position to prepare mitigating measures to counter the impact in case the conditions relating to the risks materialize.

The Bank's ICAAP is conducted on a bi-annual basis, or earlier if warranted, where the level of capitalisation of Bank One is determined using different types of plausible as well as unexpected stress scenarios.

Stress testing forms an integral part of the ICAAP. Stress testing is performed monthly to assess the impact for market risks and reported to the Assets and Liabilities Committee. The same exercise is carried out more intensively annually including other risks not included in the actual capital computations and reported in ICAAP report.

Assessment of the overall capital adequacy through the ICAAP requires thorough identification of all material risks, measurement of those that can be reliably quantified and systematic assessment for the limitations of minimum risk-based capital requirements so that the Bank is in norm with the regulatory body.

Moreover, the supervisory review and evaluation process is used to evaluate the Bank's risk profile including an assessment of the level of risk and the Risk Management systems for the main risks such as credit, operational, market, liquidity, strategic and reputation risks.

Methodology & Assumptions	
Risk Type	Assessment Methodology
Compliance Risk	Qualitative Assessment
Concentration Risk	HH Index and Stress Testing
Country Risk	Quantitative and Qualitative Assessment
Credit Risk	Moody's Risk Analyst & Risk Calc Models for Institutional Obligors
Interest Rate Risk in Banking Book	Gap Analysis and Stress Testing
Liquidity Risk	Ratio Analysis and Stress Testing
Operational Risk	Risk and Control Self-Assessment / Operational Risk Heat Map
Reputational Risk	Reputational Risk Heat Map
Strategic Risk	Board-subcommittee created to assess the risks and opportunities

Statement of Directors' Responsibilities in respect of the preparation of the Financial Statements

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 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; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The directors are also responsible for the 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.

Approved by the Board of Directors on 26th March 2019 and signed on its behalf by

Sandra Martyres
Independent Chairperson

Leonard C. Mususa
Chairman of the
Board Audit Committee

Ravneet Chowdhury
Chief Executive Officer

Statement of Management Responsibilities in respect of Financial Statements

The Bank's financial statements 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 organization and governance structures providing a well-defined division of responsibilities, authorisation levels and accountability for performance, and the communication of the Bank's policies, procedure manuals and guidelines of the Bank of Mauritius throughout the Bank.

The Bank's Board of Directors, acting in part through the Audit Committee, Conduct Review & Corporate Governance and Risk Management Committee, which comprise 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 programs 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 auditors, PricewaterhouseCoopers ('PwC'), have 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.

Sandra Martyres
Chairperson of the
Board of Directors

Ravneet Chowdhury
Chief Executive Officer

Leonard C. Mususa
Director

Independent Auditor’s Report to the Shareholders of Bank One Limited

Report on the Audit of the Financial Statements

Our Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Bank One Limited (the “Bank”) as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001.

What we have audited

The Bank One Limited’s accompanying financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes, comprising significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These disclosures are cross-referenced from the financial statements and are identified as audited.

Basis for Opinion

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

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

Independence

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

Independent Auditor's Report to the Shareholders of Bank One Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Key Audit Matters

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

Key audit matter	
Impairment of loans and advances	**How our audit addressed the key audit matter**
The Bank has adopted IFRS 9 'Financial instruments', which requires the recognition of expected credit losses ('ECL') rather than incurred credit losses. This represents a fundamentally new and highly judgmental approach to impairment computation, and relies on complex modelling and the use of a number of data points. Some of these data are sourced from a number of systems that have not been used previously for the preparation of the accounting records. This increases the risk around completeness and accuracy of certain data used to create assumptions and operate the models. Management is required to determine the ECL that may occur over either a 12-month period or the remaining life of a financial asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether there has been a significant increase in credit risk ('SICR') of the borrower since loan origination. Management has relied on its in-house model for retail and Moody's for corporate, taking into account data sourced from local systems. Management is also required to make forward-looking assumptions.	Given the complexity of the model used for the ECL calculation, specialist teams assisted us in performing certain procedures. Model performance monitoring was tested, including periodic policy and independent model reviews, back testing of performance, and review of modelling elements, including probability of default (PD) modelling, significant increase in credit risk (SICR) and low credit risk indicators, loss given default (LGD) modelling, balance rundown and ECL (12 month and lifetime) calculation principle. We also performed risk based substantive testing of models, including independently re-building certain assumptions. We tested the review, and assessed the reasonableness of the variables used. We tested the critical data used in the year-end ECL calculation. We performed testing for probability of default (PD) and rating model, significant increase in credit risk (SICR), exposure at default, loss given default (LGD) and expected credit loss (ECL).

Independent Auditor's Report to the Shareholders of Bank One Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Other Information

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

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

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

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

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

Corporate Governance Report

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

Responsibilities of the Directors for the Financial Statements

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

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

The directors are responsible for overseeing the financial reporting process.

Independent Auditor's Report to the Shareholders of Bank One Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

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

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

Independent Auditor's ReportTo the Shareholders of Bank One Limited (Continued)

Report on Other Legal and Regulatory Requirements

Mauritian Companies Act 2001

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

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

Mauritian Banking Act 2004

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

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

Other Matter

This report, including the opinion, has been prepared for and only for the Bank's shareholders, as a body, in accordance with Section 205 of the Mauritian Companies Act 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers | Gilles Beesoo, licensed by FRC

26th March 2019

The notes on pages 104 to 199 form an integral part of these financial statements.

Statement of profit or loss for the year ended 31 December 2018

	Notes	Dec-18	Dec-17	Dec-16
		MUR 000	MUR 000	MUR 000
Interest income		**1,395,469**	1,080,674	1,022,557
Interest expense		**(441,723)**	(367,117)	(323,403)
Net interest income	3	**953,746**	713,557	699,154
Fee and commission income		**500,317**	271,295	411,836
Fee and commission expense		**(281,824)**	(123,196)	(200,132)
Net fee and commission income	4	**218,493**	148,099	211,704
Net gain on dealing in foreign currencies and derivatives	5	**103,049**	82,917	84,015
Other operating income	6	**147,827**	14,987	397
		250,876	97,904	84,412
Operating income		**1,423,115**	959,560	995,270
Personnel expenses	8	**(406,765)**	(367,600)	(313,654)
Depreciation and amortisation	17 & 18	**(50,263)**	(43,691)	(34,392)
Other expenses	9	**(177,192)**	(136,203)	(144,785)
		(634,220)	(547,494)	(492,831)
Profit before impairment		**788,895**	412,066	502,439
Net impairment loss on financial assets	7	**(340,213)**	(11,299)	(153,626)
Total impairment loss		**(340,213)**	(11,299)	(153,626)
Profit before income tax		**448,682**	400,767	348,813
Income tax expense	10	**(55,223)**	(26,568)	(37,229)
Profit for the year		**393,459**	374,199	311,584
Basic earnings per share (MUR)	11	**45.94**	43.69	36.38

The notes on pages 104 to 199 form an integral part of these financial statements.

Statement of Comprehensive Income for the year ended 31 December 2018

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Profit for the year	**393,459**	374,199	311,584
Other Comprehensive Income:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation net of tax	**10,603**	(25,539)	(4,924)
Revaluation on building net of tax	**5,045**	14,934	(1,561)
Items that may be reclassified subsequently to profit or loss:			
Unrealised losses on available-for-sale investment recycled to profit or loss	**1,124**	1,584	-
Net fair value (loss)/gain on FVOCI/available-for-sale investment securities net of tax	**(14,132)**	(7,252)	7,586
Other Comprehensive Income for the year	**2,640**	(16,273)	1,101
Total Comprehensive Income for the year	**396,099**	357,926	312,685

The notes on pages 104 to 199 form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2018

	Notes	Dec-18	Dec-17	Dec-16
		MUR 000	MUR 000	MUR 000
ASSETS				
Cash and cash equivalents	12	**7,685,450**	4,221,988	4,584,789
Derivative assets held for risk management	13	**8,275**	4,824	1,337
Loans and advances to banks	14	**2,943,988**	3,707,245	1,650,343
Loans and advances to customers	15	**20,668,902**	17,746,327	13,750,096
Investment Securities – at FVTOCI/Available-for-sale	16	**2,044,702**	2,249,806	1,494,704
Investment Securities– at amortised cost/Held-to-maturity	16	**4,687,679**	1,968,379	2,296,326
Property and equipment	17	**394,301**	403,161	372,417
Intangible assets	18	**156,539**	41,580	40,693
Deferred tax assets	19	**46,980**	71,766	71,918
Other assets	20	**1,368,775**	1,296,936	1,024,519
Total assets		**40,005,591**	31,712,012	25,287,142
LIABILITIES				
Deposits from customers	21	**33,431,831**	28,299,442	22,187,299
Derivative liabilities held for risk management	13	**1,538**	822	11,423
Other borrowed funds	22	**2,690,235**	123,441	188,431
Subordinated liabilities	23	**699,636**	512,205	524,390
Current tax liabilities	24	**14,616**	11,609	6,959
Other liabilities	25	**433,558**	304,228	240,301
Total liabilities		**37,271,414**	29,251,747	23,158,803
EQUITY				
Stated capital	27	**856,456**	856,456	856,456
Retained earnings		**1,488,632**	1,239,958	967,011
Other reserves		**389,089**	363,851	304,872
Total Equity		**2,734,177**	2,460,265	2,128,339
Total equity and liabilities		**40,005,591**	31,712,012	25,287,142

These financial statements were approved and authorised for issue by the Board of Directors on 26th March 2019.

Sandra Martyres
Chairperson of the
Board of Directors

Ravneet Chowdhury
Chief Executive Officer

Leonard C. Mususa
Director

The notes on pages 104 to 199 form an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2018

	Stated capital	Revaluation surplus	Statutory reserve	General banking reserve	Fair value reserve	Retirement benefit plan reserve	Retained earnings	Total equity
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Balance as at 1 January 2016	856,456	78,895	145,083	49,209	6,619	(27,892)	707,284	1,815,654
Profit for the year	-	-	-	-	-	-	311,584	311,584
Other comprehensive income for the year	-	(1,561)	-	-	7,586	(4,924)	-	1,101
Transfer to general banking reserve	-	-	-	5,119	-	-	(5,119)	-
Transfer to statutory reserve	-	-	46,738	-	-	-	(46,738)	-
Total Comprehensive Income	-	(1,561)	46,738	5,119	7,586	(4,924)	259,727	312,685
Balance as at 31 December 2016	856,456	77,334	191,821	54,328	14,205	(32,816)	967,011	2,128,339
Balance as at 1 January 2017	856,456	77,334	191,821	54,328	14,205	(32,816)	967,011	2,128,339
Profit for the year	-	-	-	-	-	-	374,199	374,199
Other comprehensive income for the year	-	14,934	-	-	(5,668)	(25,539)	-	(16,273)
Transfer to general banking reserve	-	-	-	19,123	-	-	(19,123)	-
Transfer to statutory reserve	-	-	56,129	-	-	-	(56,129)	-
Total Comprehensive Income	-	14,934	56,129	19,123	(5,668)	(25,539)	298,947	357,926
Transaction with owners								
Dividend	-	-	-	-	-	-	(26,000)	(26,000)
Total transactions with owners	-	-	-	-	-	-	(26,000)	(26,000)
Balance as at 31 December 2017	856,456	92,268	247,950	73,451	8,537	(58,355)	1,239,958	2,460,265
Balance as at 1 January 2018	**856,456**	**92,268**	**247,950**	**73,451**	**8,537**	**(58,355)**	**1,239,958**	**2,460,265**
Impact of adopting IFRS 9	**-**	**-**	**-**	**(41,435)**	**-**	**-**	**(1,652)**	**(43,087)**
Restate balance as at 1 January 2018	**856,456**	**92,268**	**247,950**	**32,016**	**8,537**	**(58,355)**	**1,238,306**	**2,417,178**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**393,459**	**393,459**
Other comprehensive income for the year	**-**	**5,045**	**-**	**-**	**(13,008)**	**10,603**	**-**	**2,640**
Transfer to general banking reserve	**-**	**-**	**-**	**5,014**	**-**	**-**	**(5,014)**	**-**
Transfer to statutory reserve	**-**	**-**	**59,019**	**-**	**-**	**-**	**(59,019)**	**-**
Total Other Comprehensive Income	**-**	**5,045**	**59,019**	**5,014**	**(13,008)**	**10,603**	**329,426**	**396,099**
Transaction with owners								
Dividend	**-**	**-**	**-**	**-**	**-**	**-**	**(79,100)**	**(79,100)**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**(79,100)**	**(79,100)**
Balance as at 31 December 2018	**856,456**	**97,313**	**306,969**	**37,030**	**(4,471)**	**(47,752)**	**1,488,632**	**2,734,177**

The notes on pages 104 to 199 form an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2018 (continued)

Revaluation surplus

Revaluation surplus comprises the changes in the carrying amount arising on revaluation of property and equipment.

Statutory reserve

Statutory reserve comprises the accumulated annual transfer of 15% of the net profit for the year in line with Section 21(1) of the Banking Act 2004.

Fair value reserve

Fair value reserve comprises the cumulative net change in the fair value of financial assets classified under fair value through OCI that has been recognised in other comprehensive income until the investments are derecognised or impaired.

General Banking reserve

General Banking reserve comprises provisions in line with the Bank of Mauritius macro-prudential guidelines.

Dividend

During the year 2018 under review, the Directors approved a dividend payment of MUR79.1m (2017- MUR26m and 2016 - Nil) - MUR9.24 per share (2017 - MUR3.04 and 2016 - Nil). The dividend was paid out of retained earnings.

The notes on pages 104 to 199 form an integral part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2018

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Cash flows from operating activities			
Profit before income tax	**448,682**	400,767	348,813
Net change on provision for credit impairment (note 7)	**340,213**	11,299	153,626
Depreciation (note 17)	**36,141**	30,110	21,045
Amortisation (note 18)	**14,122**	13,581	13,347
(Gain)/Loss on disposal of property and equipment	**(6,901)**	643	6,091
Change in provisions and pension obligations	**5,062**	14,817	2,226
Gain on sale of securities	**(103)**	(14,379)	(2,360)
Others	**(619)**	42,805	(4,164)
Net interest income	**(953,746)**	(713,557)	(699,154)
	(117,149)	(213,914)	(160,530)
Changes in operating assets and liabilities			
Movement in derivatives	**(2,735)**	(14,088)	4,671
Decrease/(Increase) in loans and advances			
- to banks	**781,794**	(2,076,646)	(1,127,321)
- to customers	**(3,294,501)**	(3,934,211)	(1,536,400)
Increase in other assets	**(99,249)**	(249,863)	(247,858)
Increase in deposits from customers	**5,133,850**	6,073,781	4,824,760
Increase/(Decrease) in other liabilities	**119,135**	33,070	(43,585)
Interest received	**1,376,556**	1,027,098	1,001,647
Interest paid	**(443,184)**	(328,754)	(282,743)
Income tax paid	**(22,421)**	(14,589)	(9,264)
Net cash from operating activities	**3,432,096**	301,884	2,423,377
Cash flows from investing activities			
Purchase of investment securities	**(6,900,110)**	(9,245,028)	(7,765,000)
Proceeds from sale of investment securities	**4,459,719**	8,296,875	6,967,049
Purchase of property and equipment (note 17)	**(23,434)**	(50,515)	(79,752)
Proceeds from sale of other assets	**6,647**	-	9,809
Proceeds from sale of property and equipment	**889**	197	3,287
Purchase of intangible assets (note 18)	**(129,081)**	(14,468)	(16,623)
Net cash used in investing activities	**(2,585,370)**	(1,012,939)	(881,230)
Cash flows from financing activities			
Repayment of other borrowed funds	**(42,697)**	(41,273)	(34,208)
Proceeds from other borrowed funds	**1,032,600**	-	-
Proceeds from subordinated liabilities	**200,000**	-	119,884
Repayment of subordinated liabilities	**-**	(50,000)	-
Dividend paid	**(79,100)**	(26,000)	-
Net cash from/(used in) financing activities	**1,110,803**	(117,273)	85,676
Cash and cash equivalents at the beginning of the year (note 12)	**4,691,359**	5,519,687	3,891,864
Net cash from operating activities	**3,432,096**	301,884	2,423,377
Net cash used in investing activities	**(2,585,370)**	(1,012,939)	(881,230)
Net cash from/(used in) financing activities	**1,110,803**	(117,273)	85,676
Net increase/(decrease) in cash and cash equivalents	**1,957,529**	(828,328)	1,627,823
Cash and cash equivalents at end of year (note 12)	**6,648,888**	4,691,359	5,519,687

The notes on pages 104 to 199 form an integral part of these financial statements.

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Notes to the Financial Statements








Notes to the Financial Statements for the year ended 31 December 2018

General Information

Bank One Limited (The Bank) is a privately owned entity incorporated on 26 March 2002 in the Republic of Mauritius and licensed with the Bank of Mauritius to carry out banking business. The Bank is owned jointly by Ciel Finance Ltd and I&M Holdings PLC, holding 50% shareholding each. The Bank is domiciled in the Republic of Mauritius with registered address as follows:

Bank One Limited
16, Sir William Newton Street
Port Louis
Mauritius

1.1 Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of Bank One Limited comply with the Mauritian Companies Act 2001 and the Banking Act 2004 and have been prepared in accordance with International Financial Reporting Standards (IFRS), Guidelines and Guidance Notes issued by the Bank of Mauritius, in so far as the operations of the Bank are concerned. Where necessary, comparative figures have been amended to conform with changes in presentation, or in accounting policies in the current year.

The financial statements have been prepared under the historical cost convention, except for the following assets and liabilities that are measured at fair value:

1) Financial assets measured at fair value through other comprehensive income;
2) Financial assets measured at fair value through profit or loss;
3) Certain classes of property and equipment;
4) Defined pension benefits plan; and
5) Derivative assets and liabilities held for risk management purposes.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1.2.

New standards, amendments and interpretations to standards effective 1 January 2018

The adoption of the below amendment for the financial period beginning on 1 January 2018 has resulted in additional disclosures in the financial statements:

IFRS 9, 'Financial instruments'

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for Risk Management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018.

The Bank has applied the new IFRS 9 rules from 1 January 2018; however, comparatives for previous years will not be restated.

Classification and measurement

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at fair value through profit or loss.

With respect to the classification and measurement, the number of financial categories of financial assets under IFRS 9 has been reduced: all recognised financial assets that are currently within the scope of IAS 39 will subsequently be measured at either amortised cost or fair value under IFRS 9. The classification and measurement of financial assets into the categories mentioned above will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics.

Specifically:

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows that are solely payment of principal interest on the principal amount outstanding must be measured at amortised cost (net of any write-down impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- A debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVOCI, unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- All other debt instruments must be measured at FVTPL.
- All equity investments are to be measured in the statement of financial position at fair value, with gains or losses recognised in profit or loss except that if an equity investment is not held for trading, nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, an irrevocable election can be made at initial recognition to measure the investment at FVOCI, with dividend income recognised in profit and loss.
- IFRS 9 retains almost all of the existing requirements from IAS 39 on the classification of financial liabilities, including those relating to embedded derivatives except for financial liabilities classified at FVTPL using the fair value option. The amount of change in fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit and loss. Under IAS 39, the entire amount of the change in fair value of the financial liability designated as fair value through profit and loss is presented in profit and loss.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. In the case of Bank One, the new impairment requirements are applied to debt instruments accounted for at amortized cost or at FVOCI; most loan commitments; and lease receivables under IAS 17 Leases.

At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

Financial assets where 12-month ECL is recognized are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

As a result, an increase in the total level of impairment allowances is expected, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

The following variables are key inputs for measuring expected credit losses, ECL:

- Exposure at default, EAD
- Loss given default, LGD
- Probability of default, PD

EAD is the expected exposure in the event of a default and is derived from the counterparty's current exposure and all potential changes to the current amount allowed under the contract including amortization. These potential changes are estimated using an internally developed EAD-ECL tool which models the range of possible exposure outcomes at multiple points in time using scenario and statistical techniques.

The EAD-ECL tool differentiates the different category of financial assets. Financial assets EAD is its gross carrying amount. Overdrafts and financial guarantees EAD includes the amount drawn and 50% of the undrawn amount as per Basel guidelines.

LGD is the possible loss rate after a default event occurred. For both LGD and PD, the Bank segmented its book into Retail, Corporate, IBD, Banks and Off-balance sheet portfolios. The Bank adopted the LGD figures from Basel guidelines for its portfolios due to insufficient data available to reconcile the history of recovery rates of claims against defaulted counterparties. The Bank is setting up new structures for efficient data keeping and aims to migrate to internally developed

LGD models once adequate data is available to support the relevant LGD models. For Corporate (excluding individuals), IBD (excluding individuals) and banks portfolio, the Bank acquired RiskCalc - Moody's software to obtain estimates of LGD using its emerging markets models and banks models 4.0.

PD is the likelihood that a particular borrower will default. PD are point in time estimates which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. For Retail, Corporate (individual clients only), Private and IBD (individual clients only) portfolio, the Bank developed statistical models (logistic regressions) based on internally compiled data comprising both quantitative and qualitative factors. For Corporate (excluding individuals), IBD (excluding individuals) and banks portfolio, the RiskCalc - Moody's software is used to extract both ratings and PD estimates using the emerging market model and banks model 4.0.

Impact assessment

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, lease receivables, loan commitments and certain financial guarantee contracts.

The Bank's debt instruments that are currently classified as available-for-sale will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the measurement of these assets.

The other financial assets held by the Bank include:

- equity instruments currently classified as available-for-sale for which a FVOCI election is available; and
- debt instruments currently classified as held-to-maturity and measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9.

The Bank has applied the new rules from 1 January 2018. However, comparatives for previous years will not be restated.

IFRS 15 – Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers and associated amendments to various other standards

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. IFRS 15 is not relevant to the Bank's operations and therefore has no impact on its results.

New standards, amendments and interpretations to standards not yet adopted

A number of new standards, amendments, interpretations to standards are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the Bank's financial statements, except the following:

IFRS 16 - Leases

IFRS 16, On 13 January 2016, the IASB published IFRS 16, 'Leases', which replaces the current guidance in IAS 17. The standard applies to annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

The Bank has assessed the impact of IFRS 16 on its operating lease commitment.

Effective 1 January 2019, the Bank will adopt IFRS 16. The Bank carried out an impact assessment in 2018 resulting in no significant impact on the profitability front. As at the reporting date, the Bank has non-cancellable operating lease commitments of MUR29m, see note 29. The Bank expects to recognise right-of-use assets of approximately MUR15m on 1 January 2019, lease liabilities of MUR19m. Overall net assets will be approximately MUR4m lower.

The Bank expects that net profit after tax will increase by approximately MUR2m for 2019 as a result of adopting the new rules.

(b) Foreign currency translation

(i) Functional and presentation currency

These financial statements are prepared in Mauritian Rupees (MUR), which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Mauritian rupees has been rounded to the nearest thousand.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Transactions denominated in foreign currencies are accounted for at the closing rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities expressed in foreign currencies are reported at the closing rate of exchange ruling at the reporting date. Differences arising from reporting monetary items are dealt with in the profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in other comprehensive income.

(c) Interest income and expense

Interest income and expense are recognised in profit or loss for all interest-bearing financial instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate 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. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When a receivable is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

(e) Net gain/(loss) on dealing in foreign currencies and derivatives

Net gain/(loss) on dealing in foreign currencies and derivatives comprise of net gains on foreign exchange transactions, fair value gain/(loss) on derivatives and translation differences.

1.1 Significant Accounting Policies (Continued)

Financial Assets and Liabilities

The Bank classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flow; and
- the contractual terms of the financial asset represent contractual cash flow that are solely payments of principal and interest.

The following summarises the key changes:

- The held-to-maturity (HTM) and available-for-sale (AFS) financial asset categories were removed.
- A new asset category measured at fair value through other comprehensive income (FVOCI) was introduced. This applies to debt instruments with contractual cash flows characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. A significant portion of the Bank's AFS debt instruments were classified in this category.
- A new asset category for non-traded equity investments measured at FVOCI was introduced. An insignificant portion of the Bank's AFS equity instruments were classified in this category.

The following table summarises the impact on classifification and measurement to the Bank's financial assets and financial liabilities on 1 January 2018:

(a) Classification and measurement of financial instruments

The measurement category and carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 01 January 2018 are compared as follows:

Financial Assets	IAS 39 Measurement Category	Carrying amount	IFRS 9 Measurement Category	Carrying amount
		MUR 000		MUR 000
Cash and cash equivalents	Amortised cost (Loans and receivables)	4,221,988	Amortised cost	4,219,560
Loans and advances to banks	Amortised cost (Loans and receivables)	3,707,245	Amortised cost	3,735,158
Loans and advances to customers	Amortised cost (Loans and receivables)	17,746,327	Amortised cost	17,686,831
Derivative financial assets	FVPL (H-F-T)	4,824	FVPL	4,824
Investment securities	FVOCI (A-F-S)	2,249,806	FVOCI	2,247,407
Investment securities	Amortised cost (H-T-M)	1,968,379	Amortised cost	1,964,719

(i) *Debt Instruments that were previously classified as investments – available-for-sale and carried at fair value through other comprehensive income (FVOCI) were assessed to have a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and accordingly, are classified at FVOCI under IFRS 9 and included in 'debt instruments at fair value through other comprehensive income' in the balance sheet as at 1 January 2018.*

(ii) *Comprises of non-traded equity instruments previously classified as AFS equity investments under IAS 39 for which the Bank has elected to apply the FVOCI option under IFRS 9. Accordingly, the assets will remain accounted for at FVOCI with no subsequent recycling of realised gains or losses permitted.*

(iii) Investments that were previously classified as held to maturity (HTM), accounted for at amortised cost under IAS 39, have been assessed as having a business model of holding to collect contractual cash flows which comprise of solely payments of principal and interest. Accordingly, these instruments will be classified at amortised cost under the effective interest method.

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets from the previous measurement category in accordance with IAS 39 to the new measurement categories upon transition to IFRS 9 on 01 January 2018:

	IAS 39 Carrying amount	Reclassifications	Remeasurements	IFRS 9 Carrying amount
	MUR 000	**MUR 000**	**MUR 000**	**MUR 000**
Cash and cash equivalent				
Opening balance under IAS 39	4,221,998			
Remeasurement: ECL allowance			(2,428)	
Closing balance under IFRS 9				4,219,560
Loans and advances to banks				
Opening balance under IAS 39	3,707,245			
Remeasurement: ECL allowance			27,913	
Closing balance under IFRS 9				3,735,158
Loans and advances to customers				
Opening balance under IAS 39	17,746,327			
Remeasurement: ECL allowance		(41,435)	(18,061)	
Closing balance under IFRS 9				17,686,831
Derivative assets held for risk management				
Opening balance under IAS 39 and Closing balance under IFRS 9	4,824			4,824
Investment securities - FVOCI				
Opening balance under IAS 39	2,249,806			
Remeasurement: ECL allowance			(2,399)	
Closing balance under IFRS 9				2,247,407
Investment securities – Amortised cost				
Opening balance under IAS 39	1,968,379			
Remeasurement: ECL allowance			(3,660)	
Closing balance under IFRS 9				1,964,719

The IFRS 9 impairment requirements are based on an expected credit loss model, replacing the incurred loss methodology model under IAS 39. Key changes in the Bank's accounting policy for impairment of financial assets are listed on the next page.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on debt instruments accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

(i) Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

(ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

(iii) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Bank's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Bank uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in credit quality of a financial asset.

The Bank assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Bank and all the cash flows that the Bank expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

The Bank considers its historical loss experience and adjusts this for current observable data. In addition, the Bank uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, unemployment, interest rates, gross domestic product, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

In the case of the new asset category for debt instruments measured at FVOCI, the measurement of ECL is based on the three-stage approach as applied to financial assets at amortised cost. The Bank recognises the provision charge in profit and loss, with the corresponding amount recognised in other comprehensive income, with no reduction in the carrying amount of the asset in the balance sheet.

(f) Cash and cash equivalents

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

For the purposes of statement of cash flows, cash and cash equivalents comprise cash and unrestricted balances with Bank of Mauritius, balances with less than 90 days maturity from the date of acquisition including: borrowings from banks in Mauritius and abroad, balances with other financial institutions, investment securities and trading assets. The mandatory cash balance is included in other assets.

Cash and cash equivalents are carried at amortised cost.

(g) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts and currency swaps. These are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured at fair value. Gains or losses arising from change in fair value of the derivatives are included in the profit or loss as net gain/(loss) on dealing in foreign currencies and derivatives. Fair values of derivatives between two external currencies are based on interest rate differential between the two currencies. Fair values of forwards involving Mauritian Rupees are based on Treasury Bills rate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Transaction costs are charged immediately in profit or loss.

The Bank's derivative transactions, while providing effective economic hedges under the Bank's Risk Management policies, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in profit or loss.

(h) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(i) those that the Bank intends to sell immediately or in the short-term, which are classified as FVTPL, and those that the Bank upon initial recognition designates as at fair value through profit or loss;

(i) those that the Bank upon initial recognition designates as FVTOCI; or

(iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the fair value consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method. Loans and receivables are reported in the statement of financial position as loans to banks and loans to customers. Interest on loans receivable and loans and advances is included in the statement of profit or loss and is reported as interest income on loans. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in profit or loss as 'net impairment loss on financial assets'.

(i) Investment securities

(i) Held-to-maturity

The investments – held-to-maturity category was removed under IFRS 9. This policy is only applicable for the year ended 31 December 2017 and 2016 which were not restated.

(ii) Available-for-sale

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the fair value consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income and cumulated in a separate reserve in equity, fair value reserve, until the financial asset is derecognised.

The fair value of a debt instrument is the present value of the expected future cash flows discounted at the current market rate of interest for a similar financial asset. Changes in the fair value of instruments designated as available-for-sale are recognised in the statement of comprehensive income.

Interest earned while holding investment securities is reported as interest income. Dividends receivable are included separately in 'dividend income' when the entities right to receive payment is established.

(j) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') at a predetermined price are reclassified in the financial statements as trading or investment securities and the counterparty liability is included in 'borrowings from other financial institutions'. Securities purchased under agreements to resell ('reverse repos') are recorded as loans to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of 'repos' agreements using the effective yield method.

(k) Impairment of financial assets

(i) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio; and
(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by the directors for each identified portfolio. In general, the periods used vary between 3 and 12 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized 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.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and 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 that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any difference between loss estimates and actual loss experience.

Additional provisions for certain specific sectors are made in accordance with the BOM macro-prudential measures.

All provisions with regard to macro-prudential measures and country risk are booked as appropriation of earnings and kept in General Banking Reserve.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account in profit or loss for the year.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

(ii) Assets classified as available-for-sale

In the case of equity and debt investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If in a subsequent period, the fair value of an equity or debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or Loss, the impairment loss is reversed through profit or loss.

(l) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The Bank has entered in a master netting agreement (ISDA) with the following correspondent banks:

- The Standard Bank of South Africa Limited
- Citigroup Global Markets Limited
- Barclays Bank (Mauritius) Ltd
- FirstRand Bank Limited
- Citibank, N.A

(m) Recognition and derecognition of financial assets

Regular purchases and sales of financial assets are recognised on trade date, the date on which the Bank commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive the cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(n) Reclassification of financial assets

The Bank may choose to reclassify a non-derivative trading financial asset out of held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term.

Reclassifications are made at fair value as at the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

(o) Classes of financial instruments

(i) The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments.

The classification can be seen in the table below:

Category		Class		Subclasses
Financial Assets	Loans and receivables	Loans and advances to banks		Term Loans
		Loans and advances to customers	Loans to individuals	Credit Cards Mortgages Other Retail Loans
			Loans to corporate entities	Corporate Customers
			Loans to entities outside Mauritius	Offshore Retail and Corporate Loans
	Held-to-maturity/ Amortised cost investment securities	Investment securities Debt Instruments		Unlisted
	Available-for-sale/ FVOCI investment securities	Investment securities Debt Instruments		Unlisted
		Investment securities Equity Instruments		Unlisted
	Derivative assets held for risk management			
Financial Liabilities	Deposits	Deposits from customers		Retail customers Corporate customers International customers Government
	Derivative liabilities held for risk management (FVTPL)			
	Borrowings	Other borrowed funds		Local and foreign banks
	Subordinated liabilities			
Off-Balance Sheet Financial Instruments	Loan commitments			Retail customers Corporate customers International customers Private customers
	Guarantees, acceptances and other financial facilities		Acceptances Guarantees Letters of credit	Retail customers Corporate customers International customers Private customers

(ii) Credit risk measurement

Loans and advances

The estimation of credit exposure for Risk Management purposes is complex and requires the use of models, as the exposures vary with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Expected credit loss measurement (ECL)

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet deemed credit-impaired. Refer to note (iii) for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'stage 3'. Refer to notes (iv) for a description of how the Bank defines credit-impaired and default.
- Financial instruments in stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events within the next 12 months. Instruments in stages 2/3 have their ECL measured on expected credit losses on a lifetime basis. Refer to note (v) for a description of inputs, assumptions and estimation techniques used in measuring ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note (vi) includes an explanation of how the Bank has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (stage 3). Currently the Bank does not have any purchased or originated credit-impaired financial assets on its books.

Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis. (Refer to note (vi))

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

Change in credit quality since initial recognition

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

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

Significant increase in credit risk (SICR)

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

(iii) Qualitative criteria

For Retail portfolios, if the borrower meets one or more of the following criteria:

- In short-term forbearance
- Direct debit cancellation
- Extension to the terms granted
- Previous arrears within the last (12) months

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

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

The assessment of SICR incorporates forward-looking information (refer to note SICR for further information) and is performed on a quarterly basis at a portfolio level for all retail financial instruments held by the Bank. In addition to Corporate and Investment Financial Instruments, where a watchlist is used to monitor credit risk, this assessment is performed at the counterparty level on a quarterly basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

(iv) Backstop

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikeliness to pay criteria which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable than the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Bank expected loss calculations.

The 180 days past due default definition has been aligned with the definition used for regulatory capital purposes.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any default criteria for a consecutive period of six instalments or six months. The period of six months/instalments has been determined based on the definition prescribed by the Central Bank, in its Credit Classification and Provisioning guidelines.

(v) Measuring ECL- Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime ED) of the obligation.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M PD), or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Bank expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

- LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future year and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio, which is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owned by the borrower over a 12M or lifetime basis. This will be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a 'credit conversion factor' (CCF) which allows for the expected drawdown of the remaining limit by adding the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type:

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to limited differentiation in recoveries achieved across different borrowers.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD.

The assumptions under the ECL calculation- such as how the maturity profile of the PDs and how collateral value change are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(vi) Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed a historical analysis and identified the key economic variables impacting credit risk and the expected credit losses for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have historically on default rates and on the components of LGD and EAD.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

Sensitivity Analysis

The most significant assumptions affecting the ECL allowances are as follows:

(i) Unemployment rate, given its impact on secured and unsecured borrower's ability to meet their contractual repayments;
(ii) GDP, given the significant impact on individual and companies' performance and collateral valuations; and
(iii) Inflation rate, given its impact on likelihood of default.

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within the Bank are homogeneous.

In performing this grouping, there must be sufficient information for the Bank to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking against internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Retail - Groupings for collective measurement:

- Product type (e.g. residential loans, overdrafts, etc.)
- Repayment type (e.g. interest only)

Corporate - Groupings for collective measurement

- Industry
- Collateral type

The stage 3 exposures are assessed individually. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

(vii) Maximum exposure to credit risk- Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets overleaf also represents the Bank's maximum exposure to credit risk on these assets:

(a) Loans & advances to banks at amortised cost

Loans & advances to banks at amortised cost	2018			
	Stage 1	**Stage 2**	**Stage 3**	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	MUR 000	MUR 000	MUR 000	MUR 000
Performing	2,950,545	-	-	2,950,545
Special Mention	-	-	-	-
Sub-Standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Gross carrying amount	**2,950,545**	**-**	**-**	**2,950,545**
Loss allowance	(6,557)	-	-	(6,557)
Carrying amount	**2,943,988**	**-**	**-**	**2,943,988**

(b) Loans & advances to customers at amortised cost

Loans & advances to customers at amortised cost	2018			
	Stage 1	**Stage 2**	**Stage 3**	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	MUR 000	MUR 000	MUR 000	MUR 000
Performing	19,016,052	1,521,449	-	20,537,501
Special Mention	-	-	-	-
Sub-Standard	-	-	1,169,336	1,169,336
Doubtful	-	-	-	-
Loss	-	-	-	-
Gross carrying amount	**19,016,052**	**1,521,449**	**1,169,336**	**21,706,837**
Loss allowance	**(236,549)**	**(55,894)**	**(745,492)**	**(1,037,935)**
Carrying amount	**18,779,503**	**1,465,555**	**423,844**	**20,668,902**

(c) Debt investment securities at amortised cost

Debt investment securities at amortised cost	2018			
	Stage 1	**Stage 2**	**Stage 3**	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	MUR 000	MUR 000	MUR 000	MUR 000
Performing	4,648,993	45,800	-	4,694,793
Special Mention	-	-	-	-
Sub-Standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Gross carrying amount	**4,648,993**	**45,800**	**-**	**4,694,793**
Loss allowance	**(6,577)**	**(537)**	**-**	**(7,114)**
Carrying amount	**4,642,416**	**45,263**	**-**	**4,687,679**

(d) Debt investment securities at FVTOCI

Debt investment securities at FVTOCI	2018			
	Stage 1	**Stage 2**	**Stage 3**	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	MUR 000	MUR 000	MUR 000	MUR 000
Performing	2,046,691	-	-	2,046,691
Special Mention	-	-	-	-
Sub-Standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Gross carrying amount	**2,046,691**	**-**	**-**	**2,046,691**
Loss allowance	**(2,089)**	**-**	**-**	**(2,089)**
Carrying amount	**2,044,602**	**-**	**-**	**2,044,602**

(e) Debt investment securities at FVTOCI

Financial guarantees	2018			
	Stage 1	**Stage 2**	**Stage 3**	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	MUR 000	MUR 000	MUR 000	MUR 000
Performing	577,954	19,678	-	597,632
Special Mention	-	-	-	-
Sub-Standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Gross carrying amount	**577,954**	**19,678**	-	**597,632**
Loss allowance	**(12,570)**	**(1,247)**	**-**	**(13,817)**
Carrying amount	**565,384**	**18,431**	**-**	**583,815**

Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Bank prepares a valuation of the collateral obtained as part of the loan origination process. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities or other investments are generally unsecured. The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

(f) Credit impaired assets

Credit-impaired assets	Gross Exposure	Impairment Allowance	Carrying Amount	Fair Value of Collateral held
	MUR 000	MUR 000	MUR 000	MUR 000
Loans to individuals:				
Personal Loans	57,303	(47,217)	10,086	57,303
Housing Loans	128,820	(63,494)	65,326	128,820
Car Loans	100,422	(41,967)	58,455	100,422
Property Loans	9,487	(5,459)	4,028	9,487
Others	124,123	(51,144)	72,979	124,123
Loans to corporate entities:				
Large corporate customers	385,307	(234,809)	150,498	385,307
Small & Medium sized enterprises (SMEs)	20,823	(11,846)	8,977	20,823
Other	343,051	(289,556)	53,495	343,051
Total credit-impaired assets	**1,169,336**	**(745,492)**	**423,844**	**1,169,336**

(g) The table below summarises the distribution of LTV ratios for the Bank's credit-impaired portfolio:

Portfolio- LTV distribution	Credit-impaired (Gross Carrying Amount)		
	Retail	**Corporate**	**International Banking**
	MUR 000	MUR 000	MUR 000
Lower than 50%	206,734	46,956	332,807
50-60%	18,219	15,770	-
60-70%	8,211	95,777	-
70-80%	26,591	189,998	11,414
80-90%	19,487	-	96,638
90-100%	8,251	-	-
Higher than 100%	43,398	45,468	3,617
Total	**330,891**	**393,969**	**444,476**

(h) Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

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

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Loss allowance - *Class of Asset – Retail*	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	MUR 000	MUR 000	MUR 000	MUR 000
Loss allowance as at 01 January 2018	43,280	32,266	194,921	270,467
Movements with P&L impact				
Transfers:				
Transfer from stage 1 to stage 2	(16,220)	16,220	-	-
Transfer from stage 1 to stage 3	(11,794)	-	11,794	-
Transfer from stage 2 to stage 1	1,504	(1,504)	-	-
New financial assets originated or purchased	30,123	1,527	-	31,650
Changes to PDs/LGDs/EADs	22,359	(36,895)	(1,611)	(16,147)
Changes to model assumptions and methodologies	-	-	-	-
Modification of contractual cash flows of financial assets	-	-	-	-
Unwind of discounts (a)	-	-	-	-
FX and other movements	-	-	-	-
Total net P&L charge during the period	**25,972**	**(20,652)**	**10,183**	**15,503**
Other movement with no P&L impact				
Transfers:				
Transfer from stage 2 to stage 3	-	-	-	
Transfer from stage 3 to stage 2	-	-	(17,864)	**(17,864)**
Financial assets derecognised during the period	(530)	(8,943)	(1,432)	**(10,905)**
Write-offs	-	-	(14,416)	**(14,416)**
Loss allowance as at 31 December 2018	**68,722**	**2,671**	**171,392**	**242,785**

Loss allowance- *Class of Asset – Corporate*	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	MUR 000	MUR 000	MUR 000	MUR 000
Loss allowance as at 01 January 2018	44,653	2,324	253,978	300,955
Movements with P&L impact				
Transfers:				
Transfer from stage 1 to stage 2	(517)	517	-	-
Transfer from stage 1 to stage 3	(150,099)	-	150,099	-
Transfer from stage 2 to stage 1	7,803	(7,803)	-	-
New financial assets originated or purchased	43,795	24,721	35,136	103,652
Changes to PDs/LGDs/EADs	135,848	26,888	(291,923)	(129,187)
Changes to model assumptions and methodologies	-	-	-	-
Modification of contractual cash flows of financial assets	-	-	-	-
Unwind of discounts (a)	-	-	-	-
FX and other movements	-	-	-	-
Total net P&L charge during the period	**36,830**	**44,323**	**(106,688)**	**(25,535)**
Other movement with no P&L impact				
Transfers:				
Transfer from stage 2 to stage 3	-	-	-	
Transfer from stage 3 to stage 2	-	-	993	**993**
Financial assets derecognised during the period	(20,747)	(405)	94,784	**73,632**
Write-offs	-	-		
Loss allowance as at 31 December 2018	**60,736**	**46,242**	**243,067**	**350,045**

Loss allowance- *Class of Asset – IBD*	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	MUR 000	MUR 000	MUR 000	MUR 000
Loss allowance as at 01 January 2018	45,419	267	77,288	122,974
Movements with P&L impact				
Transfers:				
Transfer from stage 1 to stage 2	(2,316)	2,316	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	7,803	(7,803)	-	-
New financial assets originated or purchased	75,363	4,903	265,099	345,365
Changes to PDs/LGDs/EADs	(2,292)	8,469	(26,773)	(20,596)
Changes to model assumptions and methodologies	-	-	-	-
Modification of contractual cash flows of financial assets	-	-	-	-
Unwind of discounts (a)	-	-	-	-
FX and other movements	-	-	-	-
Total net P&L charge during the period	**78,558**	**7,885**	**238,326**	**324,769**
Other movement with no P&L impact				
Transfers:				
Transfer from stage 2 to stage 3	-	-	-	
Transfer from stage 3 to stage 2	-	-	16,665	**16,665**
Financial assets derecognised during the period	(10,567)	(933)	(1,246)	**(12,746)**
Write-offs	-	-		
Loss allowance as at 31 December 2018	**113,410**	**7,219**	**331,033**	**451,662**

Write-off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable recovery include: (i) ceasing enforcement activity; and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was MUR120.8m. The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Modification of financial assets

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Such restructuring activities may include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of Management indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original assets. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from stage 3 or Stage 2. This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

(p) Property and equipment

Property and equipment (except land and building) are carried at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land and buildings are stated at revalued amounts. Subsequent costs are included in the assets carrying amount or recognised as a separate asset as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated to write down the cost or amount of the valuation of such assets to their residual values on a straight-line basis over their estimated useful lives as follows:

Buildings	50 years
Computer and Office equipment	5 years
Furniture, fixtures	10 years
Motor Vehicles	5 years

The assets' residual values and useful lives and depreciation methods are reviewed and adjusted prospectively, if appropriate, at the end of each reporting period. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property and equipment are determined by reference to their carrying amount and are recognised as income or expense in profit or loss. On disposal of revalued assets, the corresponding amounts included in the revaluation surplus are transferred to retained earnings.

Revaluation of property

Properties are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to Other Comprehensive Income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in Other Comprehensive Income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

(q) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed five years.

(r) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there is separately identifiable cash flow (cash generating units).

The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(s) Financial Liabilities

The Bank`s holding in financial liabilities represents mainly deposits from customers, subordinated liabilities, other borrowed funds and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

Classification of financial liabilities remained largely unchanged for the Bank. Financial liabilities continue to be measured at either amortised cost or FVTPL. The criteria for designating a financial liability at FVTPL by applying the fair value option also remains unchanged. The Bank elected to revoke the previous fair value option designation for certain financial liabilities and subsequently classified these as deposits and other borrowings accounted for at amortised cost.

For subordinated liabilities and other borrowed funds, the initial fair value equals their proceeds (fair value of consideration received) net of transaction costs incurred.

(t) Provisions for liabilities

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

(u) Employee Benefits

(i) Defined contribution plans

A defined contribution plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Payments to defined contribution plans are recognised as an expense when employees have rendered service that entitle them to the contributions. The Bank has an obligation under the current labour laws to pay a severance allowance on retirement of its employees and is allowed to deduct from this severance allowance up to five times the amount of any annual pension granted at retirement age from the said fund.

The present value of the severance allowance payable under the Employment Rights Act 2008 is calculated annually by independent actuaries using the projected unit credit method. The present value of the severance allowance is determined by the estimated future cash outflows using a discount rate by reference to current interest rates and the yield on bonds and Treasury Bills and recent corporate debenture issues. Where the present value of the severance allowance payable on retirement is greater than five years of pension payable under the pension plan, the additional severance allowance payable is recognised as a liability and disclosed as unfunded obligations under retirement benefits obligations.

(ii) Defined benefit plans

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

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flow using interest rates of high-quality corporate or government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they occur.

The Bank determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate to the net defined benefit liability/(asset) and the fair value of the planned asset.

Net interest expense/(income) is recognised in statement of profit or loss.

Service costs comprising current service cost and past service cost are recognised immediately in the statement of profit or loss. Current service cost reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit charges, curtailments and settlements.

(iii) Preferential loans to employees

The Bank grants loans to its employees at preferential rates. The prepaid employee benefits on these loans is accounted for under 'other assets' and is recognised in profit or loss over the shorter of the life of the loan and the expected service life of the employee. The interest rate on the loan reverts to market rate from the day the employee is no longer employed by the Bank. There may be cases where, following special arrangements, the Bank agrees to keep the loan of the leavers at preferential rates. The prepaid employee benefits are the difference between the present value of future cash flows discounted at commercial rate (which are rates that would be given to similar customers in arm's length transactions), and the carrying amount of the loan. Interest on such loans is then recognised at market rate over the life of the loan.

(iv) Termination Benefits

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

(a) When the Bank can no Longer withdraw the offer of those benefits; or

(b) When the Bank recognises costs for a restructuring that is within the scope of IAS 37 and involves payment of termination benefits.

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

As at 31 December 2018, no provision has been made for termination benefits.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

(v) Income Tax

Tax expense for the period includes current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In such cases, the tax is recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are recoverable or unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The Bank is also liable to pay a special levy on taxable income for Segment A and operating income and profit before tax for Segment B based on the rates enacted at the reporting date.

The Bank also makes a statutory provision for CSR activities at the rate of 2% of chargeable income (Segment A only) as per Income Tax Act 1995 Section 50L.

As per the Mauritian Finance (Miscellaneous Provisions) Act 2018, the tax rate will be amended to 5% (2016-17- 15% less the foreign tax credit of 80%) effective as from 1 July 2020. The directors have agreed to amend the deferred income tax asset rate to 7% (Segment A) and 5% (Segment B) as from 2018.

(ii) Deferred income tax

Deferred tax is provided for, using the liability method, on all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from depreciation of property, plant and equipment, provisions for impairment losses on loans and advances and provisions for employee benefits. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authorities.

(w) Stated Capital

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

(x) Dividend policy

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

(y) Leases

Accounting for leases - where the Bank is the lessor

(i) Finance leases

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable, the amount being equal to the net investment in the leases after specific provision for bad and doubtful debts in respect of all identified impaired leases in the light of periodical reviews.

The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Accounting for leases - where the Bank is the lessee

(ii) Operating leases

Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

(z) Acceptances, letters of credit and financial guarantee contracts

Acceptances and letters of credit

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

Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation calculated to recognise in profit or loss the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management. Any increase in the liability relating to guarantees is taken to profit or loss.

(aa) Repossessed assets

Repossessed assets are accounted at lower of the loan carrying amount and the fair value of property. They are disclosed as part of other assets.

(ab) Segmental reporting

In accordance with the Bank of Mauritius Guidelines, the Bank's business has been split into Segment A and Segment B.

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

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

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.

Neither these guidelines nor IFRS mandate the application of IFRS 8 to the financial statements of the Bank. The financial statements do not purport to comply with the requirements of IFRS 8.

(ac) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where International Accounting Standard 8 on Accounting Policies, changes in accounting estimates and errors apply, comparative figures have been adjusted to conform with changes in presentation in the current year.

1.2 Critical accounting estimates and judgements

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and directors' judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

(a) Impairment losses on loans and advances

The Bank assesses, at each reporting date, whether there is objective evidence that a financial asset or a portfolio of financial assets that are not carried at fair value through profit or loss, is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting date and it is considered that the loss event has had an impact on the estimated future cash flows of the financial asset (or the portfolio) that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.2 Critical accounting estimates and judgements (continued)

For loans and advances and held-to-maturity investments/at amortised cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using a provision.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted based on current observable data. In addition, the Bank uses its experienced judgement to estimate the amount of an impairment loss. The use of such judgements and reasonable estimates is considered by Management to be an essential part of the process and does not impact reliability.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

Following impairment, interest income is recognised on the unwinding of the discount from the initial recognition of impairment.

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement. This did not change under IFRS 9.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the income statement.

If the originally contracted terms of loans and advances are amended, the amounts are classified as restructured. Such amounts accrue interest as long as the loan performs in accordance with the restructured terms.

In the case of equity instruments classified as available-for-sale/FVTOCI, the Bank seeks evidence of a significant or prolonged decline in the fair value of the instrument below its cost to determine whether impairment exists. In the case of debt instruments classified as available-for-sale/FVTOCI, impairment is assessed based on the same criteria as for other financial assets not carried at fair value through profit or loss. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is recognised in the income statement. Reversals of impairment of debt instruments classified as available-for-sale/FVTOCI are recognised in the income statement. Reversals of impairment of equity instruments classified as available-for-sale/FVTOCI are not recognised in the income statement, but rather directly in equity.

As at 31 December 2018, portfolio provisioning/stages 1 & 2 amounted to MUR299m representing above 1% of total performing loan portfolio. Had there been an increase of 0.25% in portfolio provisioning, the additional charge to the 2018 financial statements would amount to MUR75m.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

1.2 Critical accounting estimates and judgements (continued)

(b) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require Management to make estimates.

Refer to note 2 (i) fair value hierarchy for sensitivity analysis.

(c) Held-to-maturity investments/Amortised cost

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that the Bank has the intention and ability to hold to maturity. Held-to-maturity/amortised cost investments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, net of any provision for impairment.

Any sale or reclassification of a more than insignificant amount of held-to-maturity/amortised cost investments would result in a reclassification of all held-to-maturity/amortised cost investments as available-for-sale, other than certain sales or reclassifications, such as those that are close to an asset's maturity or those that are attributable to an isolated event that could not have been reasonably anticipated (for example, a significant deterioration in an issuer's credit worthiness). Following a sale or reclassification of held-to-maturity investments/amortised cost to available-for-sale in circumstances other than those noted above, the Bank would be prevented from classifying financial assets as held-to-maturity/amortised cost in the financial year of the sale or reclassification and the following two financial years.

(d) Retirement benefits

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

The assumptions used in determining the net cost (income) for pensions include the discount rate. The actuarial report determines the appropriate discount rate at the end of each year which is validated by the Bank. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the actuary considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Should there be a 1% increase in the future long-term salary increase assumption, there would be an increase in the defined benefit obligation by **MUR17m** and a 1% increase in discount rate would lead to a decrease of **MUR14m** in the defined benefit obligation.

2. FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

The Bank`s business involves taking risks in a targeted manner and managing them professionally. The core functions of the Bank`s Risk Management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its Risk Management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk Management is carried out by the Risk Department under policies approved by the Board of Directors. The Risk Department identifies, evaluates and monitors financial risk in close collaboration with the operating units including Treasury.

(b) Credit Risk

Credit Risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit Risk arises mainly from commercial and consumer advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities, including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties.

Credit Risk is the single largest risk for the Bank`s business. The directors therefore carefully manage the exposure of the Bank to Credit Risk. The Credit Risk Management and Control is centralised in a Credit Risk Management team, which reports to the Chief Risk Officer who in turn reports to the Chief Executive Officer.

Other disclosures on Credit Risk on pages 77 to 80 of the Risk Management Report.

(b) Credit risk (Continued)

Analysis of loans and advances

	Dec- 18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Neither past due nor impaired	**23,101,935**	20,453,620	14,105,648
Past due but not impaired	**386,111**	387,013	775,083
Impaired	**1,169,336**	1,344,783	1,225,584
Gross	**24,657,382**	22,185,416	16,106,315
Less allowance for credit impairment	**(1,044,492)**	(731,844)	(705,876)
Net	**23,612,890**	21,453,572	15,400,439
Loans and advances renegotiated	**352,831**	205,895	1,167,127
Fair value of collaterals	**352,096**	205,885	1,163,643

Maximum exposure to Credit Risk before collateral and other Credit Risk enhancements:

Credit Risk exposures relating to on-balance sheet assets are as follows:

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Balances with banks in Mauritius, banks abroad and inter-bank loans	**7,495,376**	4,026,734	4,420,263
Derivative assets held for risk management	**8,275**	4,824	1,337
Government of Mauritius/Bank of Mauritius Bills	**2,631,598**	3,400,148	2,238,768
Other Investments	**4,062,887**	780,984	1,515,347
Loans and advances to customers & banks	**23,612,890**	21,453,572	15,400,439
Others	**1,346,263**	1,268,780	1,014,865

Credit risk exposures relating to off-balance sheet assets are as follows:

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Financial guarantees	**614,037**	467,162	692,453
Loan commitments and other credit related liabilities	**1,806,382**	2,336,517	969,809
Total	**41,577,708**	33,738,721	26,253,281

Types of collateral and credit enhancements held at year end:

- Fixed and floating charges on properties and other assets
- Privilege d'Inscription
- Lien on vehicle/equipment/machinery
- Pledge on shares/rent/proceeds of crops
- Lien on deposits
- Assignment of life policy/general insurance policy
- Bank Guarantee/personal guarantee/Government Guarantee
- Nantissement de Parts Sociales dans le capital d'une Société
- Leasing of machinery/equipment/ vehicle with the Bank as a Lessor
- Pledge of deposits from other Financial Institutions/Licensed Deposit Takers

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

(b) Credit risk (Continued)

	Dec-18	Mauritius	Africa	Europe	Others
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
ASSETS					
Cash and cash equivalents	**7,495,376**	273,716	268,792	2,786,897	4,165,971
Derivative assets held for risk management	**8,275**	-	8,170	105	-
Loans and advances to banks	**2,943,988**	-	1,925,595	-	1,018,393
Loans and advances to customers	**20,668,902**	12,724,437	6,564,910	259,800	1,119,755
Government of Mauritius/Bank of Mauritius Bills	**2,631,598**	2,631,598	-	-	-
Other Investments	**4,062,886**	327,770	995,868	-	2,739,248
Other Assets	**1,346,263**	1,346,263	-	-	-
Total Assets	**39,157,288**	**17,303,784**	**9,763,335**	**3,046,802**	**9,043,367**
On-balance sheet country region percentage	**100%**	**44%**	**25%**	**8%**	**23%**

Credit risk exposure relating to off balance sheet items as follows:

	Dec-18	Mauritius	Africa	Europe	Others
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Financial guarantees and other credit related liabilities	**614,038**	**528,008**	**85,980**	**-**	**50**
Off-balance sheet country region percentage	**100%**	**86%**	**14%**	**-**	**-**

	Dec-17	Mauritius	Africa	Europe	Others
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
ASSETS					
Cash and cash equivalents	4,026,734	368,370	120,577	1,275,099	2,262,688
Derivative assets held for risk management	4,824	3,022	342	1,459	-
Loans and advances to banks	3,707,245	-	2,470,049	-	1,237,196
Loans and advances to customers	17,746,327	10,761,726	4,662,863	255,763	2,065,975
Government of Mauritius/Bank of Mauritius Bills	3,400,148	3,400,148	-	-	-
Other Investments	780,984	336,655	444,328	-	-
Other Assets	1,268,780	1,268,780	-	-	-
Total Assets	**30,935,042**	**16,138,701**	**7,698,159**	**1,532,321**	**5,565,859**
On-balance sheet country region percentage	100%	52%	25%	5%	18%
Credit risk exposure relating to off balance sheet items as follows:					
Financial guarantees and other credit related liabilities	467,162	332,110	135,002	-	50
Off-balance sheet country region percentage	100%	71%	29%	-	-

(b) Credit risk (Continued)

	Dec-16	Mauritius	Africa	Europe	Others
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
ASSETS					
Cash and cash equivalents	4,420,263	211,966	2,769,805	1,177,121	261,371
Derivative assets held for risk management	1,337	520	277	540	-
Loans and advances to banks	1,650,343	-	1,292,909	-	357,434
Loans and advances to customers	13,750,096	9,203,729	3,271,164	233,031	1,042,172
Government of Mauritius/Bank of Mauritius Bills	2,238,768	2,238,768	-	-	-
Other Investments	1,515,347	554,325	959,881	1,141	-
Other Assets	1,014,865	1,014,865	-	-	-
Total Assets	**24,591,019**	**13,224,173**	**8,294,036**	**1,411,833**	**1,660,977**
On-balance sheet country region percentage	100%	54%	34%	6%	6%

Credit risk exposure relating to off-balance sheet items as follows:

	Dec-16	Mauritius	Africa	Europe	Others
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Financial guarantees and other credit related liabilities	692,454	650,268	42,186	-	-
Off-balance sheet country region percentage	100%	94%	6%	-	-

The Table below represents an analysis of trading assets and investments securities at 31 December 2018 and comparatives for December 2017 and 2016. Since the Bank does not have any internal rating tool, the ratings (where applicable) are based on assessment effected by Standard & Poor's agency at the end of each financial year.

(b) Credit risk (Continued)

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Cash and cash equivalents			
AAA TO AA	**250,595**	3,098	-
AA- To A	**6,463,761**	3,336,750	1,431,855
BBB+ To BB	**255,748**	215,875	1,698,936
UNRATED	**525,272**	471,011	1,289,472
TOTAL	**7,495,376**	4,026,734	4,420,263
Derivative Assets			
AA- To A	**105**	2,685	540
BBB+	**8,170**	-	277
UNRATED	**-**	2,139	520
TOTAL	**8,275**	4,824	1,337
Government of Mauritius/Bank of Mauritius Bills			
UNRATED	**2,633,864**	3,400,148	2,238,768
Investments and securities			
AA+	**2,739,249**	-	-
B+ to BBB-	**1,065,088**	444,363	225,159
UNRATED	**258,550**	336,621	1,290,188
TOTAL	**4,062,887**	780,984	1,515,347
Loans and advances to banks			
BB-	861,738	862,864	216
B to B+	172,321	-	361,044
BB+	-	668,650	361,044
BBB+	-	501,487	-
BBB	432,797	-	-
UNRATED	**1,477,132**	1,674,244	928,039
TOTAL	**2,943,988**	3,707,245	1,650,343
Loans and advances to customers			
AAA To AA	**1,336,432**	1,378,576	1,232,959
BBB- To B	**5,757,386**	4,484,201	2,558,213
CCC+	**-**	141,994	-
CC	**-**	-	243,294
UNRATED	**13,595,084**	11,741,556	9,715,630
TOTAL	**20,668,902**	17,746,327	13,750,096
Other Assets			
UNRATED	**1,346,263**	1,268,780	1,014,865
TOTAL	**1,346,263**	1,268,780	1,014,865
Off-balance sheet ratings			
AAA To AA	**20**	1,600	20
BBB- To B+	**130**	869,153	137,790
UNRATED	**613,888**	1,932,926	1,524,452
TOTAL	**614,038**	2,803,679	1,662,262

2. FINANCIAL RISK MANAGEMENT (Continued)

(c) Capital structure

The Bank`s objectives when managing capital are:

(i) to comply with the capital requirements set by the Bank of Mauritius;
(ii) to safeguard the Bank`s ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
(iii) to maintain a strong capital base to support the development of its business.

Other disclosures on capital and risk assets are included on pages 85 to 88 of the Risk Management Report.

Details of Tier 1 Capital, Tier 2 Capital, Total Risk-Weighted Assets and Capital Adequacy Ratio are given below:

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Tier 1 Capital	**2,410,252**	2,193,965	1,865,762
Tier 2 Capital	**1,032,855**	824,083	744,528
Total Capital Base	**3,443,107**	3,018,048	2,610,290
Total Risk-Weighted Assets	**26,506,774**	23,343,340	20,190,356
Capital Adequacy Ratio	**12.99%**	12.93%	12.93%

The minimum statutory capital adequacy ratio is fixed at 11.25%.

2. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risk arising from trading and non trading activities are concentrated in the Bank's Treasury and Market Risk teams. Regular reports are submitted to the Management and the Board of Directors. The Board approves the risk strategy, risk policies and prudential limits within which the operations are to be carried out.

Implementation of the policies and business strategies are delegated to Management and the Risk Management Unit.

Other disclosures on Market Risk are found in the Risk Management Report.

(e) Currency Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank`s exposure to foreign exchange risk as at 31 December 2018. Included in the table are the Bank`s financial instruments at carrying amounts, categorised by currency.

Other disclosures on Currency Risk are found in the Risk Management Report.

At 31 December 2018	USD	EUR	GBP	Others	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
ASSETS					
Cash and cash equivalents	4,293,113	981,991	1,382,038	612,799	7,269,941
Derivative assets held for risk management	105	-	-	8,170	8,725
Loans and advances to banks	2,474,886	471,984	-	-	2,946,870
Loans and advances to customers	8,255,726	1,944,114	5,943	-	10,205,783
Investment securities	2,944,961	889,594	-	34,584	3,869,139
Other assets	135,119	41,314	35,369	-	211,802
Total assets	18,103,910	4,328,997	1,423,350	655,553	24,188,810
LIABILITIES					
Deposits	15,015,348	3,626,609	1,424,568	1,080,251	21,146,776
Derivative liabilities held for risk management	280	1,243	-	15	1,538
Other borrowed funds	2,612,423	77,812	-	-	2,690,235
Subordinated liabilities	-	400,709	-	-	400,709
Other liabilities	105,105	3,553	15	33,166	141,839
Total liabilities	17,733,156	4,109,926	1,424,583	1,113,432	24,381,097
Net On-Balance Sheet position	370,754	219,071	(1,233)	(457,879)	130,713
Credit commitments undrawn	344,602	-	-	-	344,602

2. FINANCIAL RISK MANAGEMENT (Continued)

(e) Currency risk (Continued)

At 31 December 2017	USD	EUR	GBP	Others	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
ASSETS					
Cash and cash equivalents	2,358,434	287,425	946,322	104,410	3,696,591
Derivative assets held for risk management	1,797	432	1,225	1,370	4,824
Loans and advances to banks	3,310,137	397,120	-	-	3,707,257
Loans and advances to customers	7,536,743	1,257,939	116,388	-	8,911,070
Investment securities	444,671	103,353	-	33,837	581,861
Other assets	153,136	33,530	5,893	-	192,559
Total assets	13,804,918	2,079,799	1,069,828	139,617	17,094,162
LIABILITIES					
Deposits	13,192,502	1,522,199	1,526,146	151,112	16,391,959
Derivative liabilities held for risk management	362	458	-	2	822
Other borrowed funds	-	122,811	-	630	123,441
Subordinated liabilities	-	412,390	-	-	412,390
Other liabilities	43,268	829	-	-	44,097
Total liabilities	13,236,132	2,058,687	1,526,146	151,744	16,972,709
Net On-Balance Sheet position	568,786	21,112	(456,318)	(12,127)	121,453
Credit commitments undrawn	1,240,973	-	-	-	1,240,973

At 31 December 2016	USD	EUR	GBP	Others	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
ASSETS					
Cash and cash equivalents	3,031,172	1,006,697	103,269	95,287	4,236,425
Derivative assets held for risk management	-	-	539	278	817
Loans and advances to banks	1,650,343	-	-	-	1,650,343
Loans and advances to customers	5,937,851	647,954	168,886	-	6,754,691
Investment securities	962,914	96,606	-	33,882	1,093,402
Other assets	74,819	22,109	4,622	-	101,550
Total assets	11,657,099	1,773,366	277,316	129,447	13,837,228
LIABILITIES					
Deposits	9,822,352	1,079,854	1,399,428	158,423	12,460,057
Derivative liabilities held for risk management	10,406	-	455	2	10,863
Other borrowed funds	25,361	154,825	-	8,245	188,431
Subordinated liabilities	-	374,467	-	-	374,467
Other liabilities	34,459	308	184	-	34,951
Total liabilities	9,892,578	1,609,454	1,400,067	166,670	13,068,769
Net On-Balance Sheet position	1,764,521	163,912	(1,122,751)	(37,223)	768,459
Credit commitments undrawn	495,577	-	-	-	495,577

2. FINANCIAL RISK MANAGEMENT (Continued)

(f) Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow-risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The table below summarises the Bank`s non-trading book fair value exposure to interest rate risks. It includes the Bank`s financial instruments at carrying value categorised by the earlier of contractual maturity and date of repricing.

Other disclosures on Interest Rate Risk are found on pages 81 to 82 of the Risk Management Report.

Interest Sensitivity of Assets and Liabilities - Repricing Analysis

At 31 December 2018	Up to 1 mth	1 to 3 mths	3 to 6 mths	6 to 12 mths	1 to 3 yrs	>3 years	Non interest bearing	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
ASSETS								
Cash and cash equivalents	**3,177,984**	-	-	-	-	-	**4,507,466**	**7,685,450**
Derivative assets held for risk management	-	-	-	-	-	-	**8,275**	**8,275**
Loans and advances to banks	**209,320**	**520,479**	**721,347**	**1,336,187**	**156,655**	-	-	**2,943,988**
Loans and advances to customers	**1,990,579**	**2,382,974**	**2,501,751**	**2,431,411**	**2,896,366**	**8,100,001**	**365,820**	**20,668,902**
Investment securities	**2,728,954**	**950,107**	**602,608**	**776,473**	**991,984**	**644,359**	**37,896**	**6,732,381**
Other assets	-	-	-	-	-	-	**1,345,663**	**1,345,663**
Total assets	**8,106,837**	**3,853,560**	**3,825,706**	**4,544,071**	**4,045,005**	**8,744,360**	**6,265,120**	**39,384,659**
LIABILITIES								
Deposits	**6,228,767**	**9,436,258**	**2,050,312**	**1,778,225**	**1,504,609**	**607,130**	**11,826,530**	**33,431,831**
Derivative liabilities held for risk management	-	-	-	-	-	-	**1,538**	**1,538**
Other borrowed funds	**51,631**	**1,535,842**	**77,812**	-	**256,238**	**768,712**	-	**2,690,235**
Subordinated liabilities	-	-	-	-	-	**699,636**	-	**699,636**
Other liabilities	-	-	-	-	-	-	**330,527**	**330,527**
Total liabilities	**6,280,398**	**10,972,100**	**2,128,124**	**1,778,225**	**1,760,847**	**2,075,478**	**12,158,595**	**37,153,767**
Interest rate sensitivity gap	**1,826,439**	**(7,118,540)**	**1,697,582**	**2,765,846**	**2,284,158**	**6,668,881**	**(5,893,475)**	**2,230,892**

2. FINANCIAL RISK MANAGEMENT (Continued)

(f) Interest rate risk (Continued)

Interest Sensitivity of Assets and Liabilities- Repricing Analysis (Continued)

At 31 December 2017	Up to 1 mth	1 to 3 mths	3 to 6 mths	6 to 12 mths	1 to 3 yrs	>3 years	Non interest bearing	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
ASSETS								
Cash and cash equivalents	2,268,943	-	-	-	-	-	1,953,045	4,221,988
Derivative assets held for risk management	-	-	-	-	-	-	4,824	4,824
Loans and advances to banks	-	-	1,360,406	1,002,967	1,343,872	-	-	3,707,245
Loans and advances to customers	2,436,264	12,757,416	911,603	567	90,378	755,504	794,595	17,746,327
Investment securities	312,123	804,521	1,082,919	170,718	1,397,122	413,729	37,053	4,218,185
Other assets	-	-	-	-	-	-	1,268,780	1,268,780
Total assets	5,017,330	13,561,937	3,354,928	1,174,252	2,831,372	1,169,233	4,058,297	31,167,349
LIABILITIES								
Deposits	3,206,448	10,888,582	1,403,550	1,196,304	1,061,796	204,310	10,338,451	28,299,441
Derivative liabilities held for risk management	-	-	-	-	-	-	822	822
Other borrowed funds	-	-	42,663	-	80,148	-	630	123,441
Subordinated liabilities	-	512,205	-	-	-	-	-	512,205
Other liabilities	-	-	-	-	-	-	178,770	178,770
Total liabilities	3,206,448	11,400,787	1,446,213	1,196,304	1,141,944	204,310	10,518,673	29,114,679
Interest rate sensitivity gap	1,810,882	2,161,150	1,908,715	(22,052)	1,689,428	964,923	(6,460,376)	2,052,670

2. FINANCIAL RISK MANAGEMENT (Continued)

(f) Interest rate risk (Continued)

Interest Sensitivity of Assets and Liabilities- Repricing Analysis (Continued)

At 31 December 2016	Up to 1 mth	1 to 3 mths	3 to 6 mths	6 to 12 mths	1 to 3 yrs	>3 years	Non interest bearing	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
ASSETS								
Cash and cash equivalents	2,900,677	-	-	-	-	-	1,684,112	4,584,789
Derivative assets held for risk management	-	-	-	-	-	-	1,337	1,337
Loans and advances to banks	213	-	220,395	357,434	1,072,301	-	-	1,650,343
Loans and advances to customers	1,088,592	11,436,380	265,521	130	147,819	116,945	694,709	13,750,096
Investment securities	1,022,727	1,199,148	231,598	258,922	785,058	256,662	36,915	3,791,030
Other assets	-	-	-	-	-	-	1,014,865	1,014,865
Total assets	5,012,209	12,635,528	717,514	616,486	2,005,178	373,607	3,431,938	24,792,460
LIABILITIES								
Deposits	1,258,710	8,340,088	1,055,848	995,143	675,420	156,769	9,705,321	22,187,299
Derivative liabilities held for risk management	-	-	-	-	-	-	11,423	11,423
Other borrowed funds	-	-	39,918	-	114,907	-	33,606	188,431
Subordinated liabilities	-	524,390	-	-	-	-	-	524,390
Other liabilities	-	-	-	-	-	-	135,986	135,986
Total liabilities	1,258,710	8,864,478	1,095,766	995,143	790,327	156,769	9,886,336	23,047,529
Interest rate sensitivity gap	3,753,499	3,771,050	(378,252)	(378,657)	1,214,851	216,838	(6,454,398)	1,744,931

2. FINANCIAL RISK MANAGEMENT (Continued)

(g) Liquidity Risk

Liquidity Risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. The Bank`s liquidity management process is carried out by its Treasury team. The Bank uses the maturity gap report for measurement and management of liquidity risk. The maturity gap report slots the inflows and outflows in different maturity buckets as defined by the Bank of Mauritius, according to the expected timing of cash flows.

Other disclosures on liquidity risk and management are included in the Risk Management Report.

Maturities of Assets & Liabilities:

At 31 December 2018	Up to 1 mth	1 to 3 mths	3 to 6 mths	6 to 12 mths	1 to 3 yrs	>3 years	Non-Maturity Items	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
ASSETS								
Cash and cash equivalents	7,685,450	-	-	-	-	-	-	7,685,450
Derivative assets held for risk management	109	-	8,166	-	-	-	-	8,275
Loans and advances to banks	505,256	1,123,508	362,843	1,002,387	-	-	-	2,993,994
Loans and advances to customers	3,469,768	4,683,933	3,856,838	2,096,559	4,479,919	7,363,015	1,169,336	27,119,368
Investment securities	2,783,922	890,457	659,183	794,843	5,089,221	679,673	37,896	10,935,195
Other assets	-	-	-	-	-	-	1,345,663	1,345,663
Total assets	**14,444,505**	**6,697,898**	**4,887,030**	**3,893,789**	**9,569,140**	**8,042,688**	**2,552,895**	**50,087,945**
LIABILITIES								
Deposits	25,387,188	2,045,868	2,086,357	1,905,161	1,515,460	669,997	20,226	33,630,257
Derivative liabilities held for risk management	1,526	-	-	10	2	-	-	1,538
Other borrowed funds	52,378	1,539,170	78,958	-	393,154	952,961	-	3,016,621
Subordinated liabilities	56	11,518	168	11,742	46,296	979,483	-	1,049,263
Other liabilities	-	-	-	-	-	-	330,527	330,527
Total liabilities	**25,441,148**	**3,596,556**	**2,165,483**	**1,916,913**	**1,954,912**	**2,602,441**	**350,753**	**38,028,206**
Net liquidity gap	**(10,996,643)**	**3,101,342**	**2,721,547**	**1,976,876**	**7,614,228**	**5,440,247**	**2,202,142**	**12,059,739**

2. FINANCIAL RISK MANAGEMENT (Continued)

(g) Liquidity risk (Continued)

Maturities of Assets & Liabilities (Continued)

At 31 December 2017	Up to 1 mth	1 to 3 mths	3 to 6 mths	6 to 12 mths	1 to 3 yrs	>3 years	Non-Maturity Items	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
ASSETS								
Cash and cash equivalents	4,221,988	-	-	-	-	-	-	4,221,988
Derivative assets held for risk management	3,599	-	-	1,225	-	-	-	4,824
Loans and advances to banks	-	35,432	2,042,438	1,170,877	513,088	-	-	3,761,835
Loans and advances to customers	3,384,621	2,126,556	2,044,268	2,323,712	6,672,147	6,665,178	1,344,821	24,561,303
Investment securities	440,857	730,295	1,586,171	252,611	1,669,029	536,837	37,053	5,252,853
Other assets	-	-	-	-	-	-	1,268,780	1,268,780
Total assets	8,262,835	2,892,283	5,672,877	3,748,425	8,854,264	7,202,015	2,650,654	39,071,583
LIABILITIES								
Deposits	21,255,818	1,371,170	1,653,206	1,559,114	1,624,601	745,623	274,874	28,484,406
Derivative liabilities held for risk management	822	-	-	-	-	-	-	822
Other borrowed funds	-	-	44,505	-	80,751	-	-	125,256
Subordinated liabilities	671	13,093	2,013	15,777	55,057	662,349	-	748,960
Other liabilities	-	-	-	-	-	-	178,770	178,770
Total liabilities	21,257,311	1,384,263	1,699,724	1,574,891	1,760,409	1,407,972	453,644	29,538,214
Net liquidity gap	(12,994,476)	1,508,020	3,973,153	2,173,534	7,093,855	5,749,043	2,197,010	9,533,369

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

2. FINANCIAL RISK MANAGEMENT (Continued)

(g) Liquidity risk (Continued)

Maturities of Assets & Liabilities (Continued)

At 31 December 2016	Up to 1 mth	1 to 3 mths	3 to 6 mths	6 to 12 mths	1 to 3 yrs	>3 years	Non-Maturity Items	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
ASSETS								
Cash and cash equivalents	4,587,277	-	-	-	-	-	-	4,587,277
Derivative assets held for risk management	1,066	271	-	-	-	-	-	1,337
Loans and advances to banks	2,923	35,499	260,493	434,552	996,947	-	-	1,730,414
Loans and advances to customers	1,338,792	2,591,718	1,719,302	1,999,691	4,338,121	5,799,299	-	17,786,923
Investment securities	1,023,933	1,205,404	253,801	283,825	843,292	181,994	36,915	3,829,164
Other assets	-	-	-	-	-	-	1,014,865	1,014,865
Total assets	6,953,991	3,832,892	2,233,596	2,718,068	6,178,360	5,981,293	1,051,780	28,949,980
LIABILITIES								
Deposits	16,767,323	873,192	1,654,645	1,582,240	1,031,544	411,153	32,851	22,352,948
Derivative liabilities held for risk management	11,301	102	-	-	19	-	-	11,422
Other borrowed funds	33,606	-	40,551	-	115,684	-	-	189,841
Subordinated liabilities	1,115	5,994	3,344	69,029	75,103	720,904	-	875,489
Other liabilities	-	-	-	-	-	-	240,301	240,301
Total liabilities	16,813,345	879,288	1,698,540	1,651,269	1,222,350	1,132,057	273,152	23,670,001
Net liquidity gap	(9,859,354)	2,953,604	535,056	1,066,799	4,956,010	4,849,236	778,628	5,279,979

2. FINANCIAL RISK MANAGEMENT (Continued)

(g) Liquidity risk (Continued)

Derivative Cash Flows

	Up to 1 mth	1 to 3 mths	3 to 6 mths	6 to 12 mths	1 to 3 yrs	>3 years	Maturity Items	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
At 31 December 2018								
Inflows	**301,328**		**501,600**	**146**	**18**	-	-	**803,092**
Outflows	**303,028**		**493,000**	**149**	**18**	-	-	**796,195**
At 31 December 2017								
Inflows	584,271		-	453,808	-	-	-	1,038,079
Outflows	581,405		-	450,696	-	-	-	1,032,101
At 31 December 2016								
Inflows	1,948,581	130,698	-	-	451	-	-	2,079,730
Outflows	1,958,404	130,181	-	-	459	-	-	2,089,044

(h) Financial Instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented at fair value compared to carrying amounts shown in the financial statement.

	Carrying value			Fair Value		
	2018	2017	2016	**2018**	2017	2016
	MUR 000	MUR 000	MUR 000	**MUR 000**	MUR 000	MUR 000
Financial assets						
Cash and cash equivalents	**7,685,450**	4,221,988	4,584,789	**7,685,450**	4,221,988	4,584,789
Loans and advances	**23,612,890**	21,453,572	15,400,439	**23,519,476**	21,452,992	15,339,530
Investment & Securities	**4,687,679**	1,968,379	2,296,326	**4,694,359**	1,962,676	2,259,564
Other assets	**1,345,663**	1,268,780	1,014,865	**1,345,663**	1,268,780	1,014,865
Financial liabilities						
Deposits	**33,431,831**	28,299,442	22,187,299	**33,461,884**	28,258,401	22,142,038
Other borrowed funds	**2,690.235**	123,441	188,431	**2,690,235**	123,441	188,431
Subordinated liabilities	**699,636**	512,205	524,390	**699,636**	512,205	524,390
Other liabilities	**330,527**	178,770	135,986	**330,527**	178,770	135,986
Off-balance sheet						
Loan commitments	**1,806,382**	2,336,517	969,809	**1,806,382**	2,336,517	969,809
Other contingent liabilities	**735,462**	648,581	722,407	**735,462**	648,581	722,407

2. FINANCIAL RISK MANAGEMENT (Continued)

(i) Cash resources

The fair value of cash resources is equal to their carrying amount as these are for short terms only.

(ii) Loans and advances to banks and to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. The fair value is calculated by applying the market rates to the fixed rate term loans.

(iii) Investment securities

Interest-bearing held-to-maturity/amortised cost investments include Treasury Notes whose fair values are based on market prices or broker/dealer price quotations. Available-for-sale/FVTOCI financial assets represent investment in Treasury Bills whose fair value are based on bid price and yield published by the Bank of Mauritius.

(iv) Deposits and subordinated liabilities

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and debt securities issued not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) Other financial assets and liabilities on the statement of financial position

The fair values of other assets, other borrowed funds, provisions and other liabilities at the reporting date approximate their fair values.

(vi) Off-balance sheet financial instruments

Guarantees, acceptances, loan commitments and other financial liabilities are shown at their fair values.

(i) Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the Over-The-Counter derivative contracts, traded loans, issued structured debt and other investment securities.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

2. FINANCIAL RISK MANAGEMENT (Continued)

The Bank's Level 2 instruments consists of derivatives held for risk management and investment securities. The input used in the fair value of these instruments relates to Libor interest rate, as published by Reuters, and yield curve by the Government of Mauritius.

As at 31 December 2018, the Bank holds equity investments with significant unobservable components falling under the Level 3 fair value hierarchy. The equity investment has been fair valued based on the market approach. Derivatives held for risk management falling under category Level 2, uses Quoted prices from Reuters platform. Level 3 fair values of land and building have been derived using the services of a chartered valuer.

The hierarchy requires the use of observable market data when applicable.

At 31 December 2018	Level 1	Level 2	Level 3	Total
	MUR 000	MUR 000	MUR 000	MUR 000
Non-equity investments				
Derivative assets held for risk management	**-**	**8,275**	-	**8,275**
Investment securities	**-**	**2,006,806**	-	**2,006,806**
Property and equipment	**-**	**-**	**240,001**	**240,001**
Equity investments				
Investment securities	**-**	**-**	**37,896**	**37,896**
Total assets	**-**	**2,015,081**	**277,897**	**2,292,978**
Derivative liabilities held for risk management	**-**	**1,538**	**-**	**1,538**
Total liabilities	**-**	**1,538**	**-**	**1,538**

At 31 December 2017	Level 1	Level 2	Level 3	Total
	MUR 000	MUR 000	MUR 000	MUR 000
Non-equity investments				
Derivative assets held for risk management	-	4,824	-	4,824
Investment securities	-	2,212,753	-	2,212,753
Property and equipment	-	-	239,656	239,656
Equity investments				
Investment securities	-	-	37,053	37,053
Total assets	-	2,217,577	276,709	2,494,286
Derivative liabilities held for risk management	-	822	-	822
Total liabilities	-	822	-	822

At 31 December 2016	Level 1	Level 2	Level 3	Total
	MUR 000	MUR 000	MUR 000	MUR 000
Non-equity investments				
Derivative assets held for risk management	-	1,337	-	1,337
Investment securities	-	1,457,789	-	1,457,789
Property and equipment	-	-	232,330	232,330
Equity investments				
Investment securities	-	-	36,915	36,915
Total assets	-	1,459,126	269,245	1,728,371
Derivative liabilities held for risk management	-	11,423	-	11,423
Total liabilities	-	11,423	-	11,423

2. FINANCIAL RISK MANAGEMENT (Continued)

(i) Fair value hierarchy (Continued)

The valuation techniques used in determining the fair value of financial assets and liabilities classified within Level 3.

Financial instrument	Fair value	Unobservable input	Rate	Relationship of unobservable inputs to fair value
	MUR 000			
Available-for-sale/FVTOCI investment: Oriental Commercial Bank Ltd	34,584	illiquidity discount	25%	A decrease of 5% in the discount rate from 25% to 20% would increase the fair value of the investment by MUR2m and an increase of 5% would decrease the fair value by MUR2.4m.
Available-for-sale/FVTOCI investment: Private Equity Fund Ltd	1,892	Net asset	N/A	N/A
Available-for-sale/FVTOCI investment: S.W.I.F.T. SCRL	1,421	Net asset	N/A	N/A

Reconciliation of level 3 fair value measurement

	MUR 000
Balance as at 1 January 2016	265,246
Fair value	3,899
Balance as at 31 December 2016	269,145
Fair value	7,464
Balance as at 31 December 2017	276,609
Fair value	1,188
Balance as at 31 December 2018	**277,797**

Transfer between levels

No transfer arose between levels during the year.

Valuation process

The valuations of non-property items required for financial reporting purposes, including level 3 fair values are performed at Finance Department led by the Chief Financial Officer (CFO).

(j) Financial instruments by category

At 31 December 2018	Amortised cost	Financial assets at fair value through profit or loss	FVTOCI	Total
	MUR 000	MUR 000	MUR 000	MUR 000
Financial assets				
Cash and cash equivalents	**7,685,450**		**-**	**7,685,450**
Derivative assets held for risk management		**8,275**	**-**	**8,275**
Loan and advances to banks	**2,943,988**	**-**	**-**	**2,943,988**
Loan and advances to customers	**20,668,902**	**-**	**-**	**20,668,902**
Investment securities	**4,687,679**	**-**	**2,044,702**	**6,732,381**
Other assets	**1,345,663**	**-**	**-**	**1,345,663**
	37,331,682	**8,275**	**2,044,702**	**39,384,659**

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	MUR 000	MUR 000	MUR 000
Financial liabilities			
Deposits from customers	**-**	**33,431,831**	**33,431,831**
Derivative liabilities held for risk management	**1,538**	**-**	**1,538**
Other borrowed funds	**-**	**2,690,235**	**2,690,235**
Subordinated liabilities	**-**	**699,636**	**699,636**
Other liabilities	**-**	**330,527**	**330,527**
	1,538	**37,152,229**	**37,153,767**

At 31 December 2017	Loans & receivables	Financial assets at fair value through profit or loss	Held to maturity	Available-for-sale	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Financial assets					
Cash and cash equivalents	4,221,988	-	-	-	4,221,988
Derivative assets held for risk management	-	4,824	-	-	4,824
Loan and advances to banks	3,707,245	-	-	-	3,707,245
Loan and advances to customers	17,746,327	-	-	-	17,746,327
Investment securities	-	-	1,968,379	2,249,806	4,218,185
Other assets	1,268,780	-	-	-	1,268,780
	26,944,340	4,824	1,968,379	2,249,806	31,167,349
Financial liabilities					
Deposits from customers			-	28,299,442	28,299,442
Derivative liabilities held for risk management			822	-	822
Other borrowed funds			-	123,441	123,441
Subordinated liabilities			-	512,205	512,205
Other liabilities			-	178,770	178,770
			822	29,113,858	29,114,680

At 31 December 2016	Loans & receivables	Financial assets at fair value through profit or loss	Held to maturity	Available-for-sale	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Financial assets					
Cash and cash equivalents	4,584,789	-	-	-	4,584,789
Derivative assets held for risk management	-	1,337	-	-	1,337
Loan and advances to banks	1,650,343	-	-	-	1,650,343
Loan and advances to customers	13,750,096	-	-	-	13,750,096
Investment securities	-	-	2,296,326	1,494,704	3,791,030
Other assets	1,014,865	-	-	-	1,014,865
	21,000,093	1,337	2,296,326	1,494,704	24,792,460

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	MUR 000	MUR 000	MUR 000
Financial liabilities			
Deposits from customers	-	22,187,299	22,187,299
Derivative liabilities held for risk management	11,423	-	11,423
Other borrowed funds	-	188,431	188,431
Subordinated liabilities	-	524,390	524,390
Other liabilities	-	135,986	135,986
	11,423	23,036,106	23,047,529

3. NET INTEREST INCOME

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Interest income			
Loans and advances to banks	**77,214**	34,020	26,192
Loans and advances to customers	**1,078,254**	830,838	789,961
Investment securities	**171,772**	140,509	88,712
Placements with other banks	**68,229**	75,307	117,692
Total interest income	**1,395,469**	1,080,674	1,022,557
Interest expense			
Deposits from customers	**(368,375)**	(319,579)	(288,205)
Borrowings from banks	**(33,255)**	(7,108)	(5,756)
Subordinated liabilities	**(40,093)**	(40,430)	(29,442)
Total interest expense	**(441,723)**	(367,117)	(323,403)
Net interest income	**953,746**	713,557	699,154

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Segment A			
Interest income			
Loans and advances to customers	**536,177**	496,245	508,649
Investments securities	**151,636**	130,834	85,790
Placements with other banks	**6,870**	3,101	2,884
Total interest income	**694,683**	630,180	597,323
Interest expense			
Deposits from customers	**(294,072)**	(270,462)	(259,011)
Borrowings from banks	**(4,907)**	(2,590)	(5,335)
Subordinated liabilities	**(9,118)**	(10,583)	(19,427)
Total interest expense	**(308,097)**	(283,635)	(283,773)
Net interest income	**386,586**	346,545	313,550
Segment B			
Interest income			
Loans and advances to banks	**77,214**	34,020	26,192
Loans and advances to customers	**542,077**	334,593	281,312
Investments securities	**20,136**	9,675	2,922
Placements with other banks	**61,359**	72,206	114,808
Total interest income	**700,786**	450,494	425,234
Interest expense			
Deposits from customers	**(74,303)**	(49,117)	(29,194)
Borrowings from banks	**(28,348)**	(4,518)	(421)
Subordinated liabilities	**(30,975)**	(29,847)	(10,015)
Total interest expense	**(133,626)**	(83,482)	(39,630)
Net interest income	**567,160**	367,012	385,604

Recognised on financial assets measured at amortised cost	Dec-18
	MUR 000
Interest Income	
Cash and cash equivalents	**68,229**
Loans and advances to banks	**77,214**
Loans and advances to customers	**1,078,254**
Other	**117,740**
Recognised on financial assets measured at FVTOCI/(2017&2016: AFS)	
Investment securities	**54,032**
Total interest income	**1,395,469**
Interest expense	
Recognised on financial liabilities measured at amortised cost	
Deposits from customers	**(368,375)**
Borrowings from banks	**(33,255)**
Subordinated liabilities	**(40,093)**
Total interest expense	**(441,723)**
Net interest income	**953,746**

Recognised on financial assets measured at amortised cost	Dec-18
	MUR 000
Segment A	
Interest Income	
Cash and cash equivalents	6,870
Loans and advances to customers	536,177
Other	97,604
Recognised on financial assets measured at FVTOCI/(2017&2016: AFS)	
Investment securities	54,032
Total interest income	694,683
Interest expense	
Recognised on financial liabilities measured at amortised cost	
Deposits from customers	(294,072)
Borrowings from banks	(4,907)
Subordinated liabilities	(9,118)
Total interest expense	(308,097)
Net interest income	386,586

Segment B

Interest Income	
Cash and cash equivalents	61,359
Loans and advances to banks	77,214
Loans and advances to customers	542,077
Other	20,136
Total interest income	700,786
Interest expense	
Recognised on financial liabilities measured at amortised cost	
Deposits from customers	(74,303)
Borrowings from banks	(28,348)
Subordinated liabilities	(30,975)
Total interest expense	(133,626)
Net interest income	567,160

4. NET FEE AND COMMISSION INCOME

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Fee and commission income			
Retail Banking customer fees	**34,137**	41,107	40,458
Corporate Banking credit related fees	**36,700**	13,571	8,143
International Banking customer fees	**81,950**	64,731	88,016
Guarantees	**9,182**	7,882	7,994
Credit Cards and E-Commerce related fees	**287,810**	111,099	236,767
Other	**50,538**	32,905	30,458
Total fee and commission income	**500,317**	271,295	411,836
Fee and commission expense			
Interbank transaction fees	**(13,244)**	(7,394)	(7,834)
Credit Cards and E-Commerce related fees	**(208,578)**	(84,995)	(167,685)
Other	**(60,002)**	(30,807)	(24,613)
Total fee and commission expense	**(281,824)**	(123,196)	(200,132)
Net fee and commission income	**218,493**	148,099	211,704

Segment A

Fee and commission income			
Retail Banking customer fees	**34,137**	41,107	40,458
Corporate Banking credit related fees	**36,700**	13,571	8,143
Guarantees	**3,802**	2,528	2,791
Credit Cards	**10,162**	8,844	9,784
Other	**25,976**	14,282	14,931
Total fee and commission income	**110,777**	80,332	76,107
Fee and commission expense			
Interbank transaction fees	**(2,736)**	(2,943)	(3,925)
Credit Cards	**(9,320)**	(7,891)	(7,098)
Other	**(43,804)**	(24,785)	(23,462)
Total fee and commission expense	**(55,860)**	(35,619)	(34,485)
Net fee and commission income	**54,917**	44,713	41,622

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

4. NET FEE AND COMMISSION INCOME (Continued)

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Segment B			
Fee and commission income			
International Banking customer fees	**81,950**	64,731	88,016
Guarantees	**5,380**	5,354	5,203
Credit Cards and E-Commerce related fees	**277,648**	102,255	226,983
Other	**24,562**	18,623	15,527
Total fee and commission income	**389,540**	190,963	335,729
Fee and commission expense			
Interbank transaction fees	**(10,508)**	(4,451)	(3,909)
Credit Cards and E-Commerce related fees	**(199,258)**	(77,104)	(160,587)
Other	**(16,198)**	(6,022)	(1,151)
Total fee and commission expense	**(225,964)**	(87,577)	(165,647)
Net fee and commission income	**163,576**	103,386	170,082

5. NET GAIN ON DEALING IN FOREIGN CURRENCIES AND DERIVATIVES

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Profit arising from dealing in foreign currencies	**88,574**	78,915	94,100
Net profit/(loss) from derivatives	**14,475**	4,002	(10,085)
	103,049	82,917	84,015
Segment A			
Profit arising from dealing in foreign currencies	**24,554**	27,424	31,498
Net profit/(loss) from derivatives	**6,265**	2,607	(3,566)
	30,819	30,031	27,932
Segment B			
Profit arising from dealing in foreign currencies	**64,020**	51,491	62,602
Net profit/(loss) from derivatives	**8,210**	1,395	(6,519)
	72,230	52,886	56,083

6. OTHER OPERATING INCOME

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Gain on sale of available-for-sale and held-for-trading securities	**105**	14,379	3,301
Gain on sale of land through compulsory acquisition	**6,648**	-	3,187
Other*	**141,074**	608	(6,091)
	147,827	14,987	397

** Other income includes a one-off gross proceed of MUR141m, which was an unaccounted contingent asset for the past years.*

Segment A

Gain on sale of available-for-sale and held-for-trading securities	**105**	14,379	3,301
Gain on sale of land through compulsory acquisition	**6,648**	-	3,187
Other	**254**	381	(6,091)
	7,007	14,760	397

Segment B

Gain on sale of available-for-sale and held-for-trading securities	-	-	-
Other	**140,820**	227	-
	140,820	227	-

7. NET IMPAIRMENT (LOSS)/REVERSAL ON FINANCIAL ASSETS

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Provision for bad and doubtful debts	**(422,576)**	(170,059)	(304,762)
Bad debts written off for which no provisions were made	-	(35)	(8,842)
Provisions released during the year	**75,442**	146,517	154,848
Recoveries of advances written off	**6,921**	12,278	5,130
Net impairment loss on financial assets	**(340,213)**	(11,299)	(153,626)

Segment A

Provision for bad and doubtful debts	**(151,458)**	(136,799)	(209,821)
Bad debts written off for which no provisions were made		(35)	(8,842)
Provisions released during the year	**75,442**	146,517	146,763
Recoveries of advances written off	**6,921**	12,278	5,130
Net impairment (loss)/reversal on financial assets	**(69,095)**	21,961	(66,770)

Segment B

Provision for bad and doubtful debts	**(271,118)**	(33,260)	(94,941)
Provisions released during the year		-	8,085
Net impairment loss on financial assets	**(271,118)**	(33,260)	(86,856)

8. PERSONNEL EXPENSES

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Wages and salaries	**(208,013)**	(193,202)	(172,108)
Compulsory social security obligations	**(9,372)**	(8,494)	(7,583)
Funded pension costs (note 26)	**(7,579)**	(8,098)	(6,330)
Unfunded pension costs (note 26)	**(1,767)**	(10,979)	-
Deferred contribution plan	**(18,123)**	(16,339)	(14,098)
Other personnel expenses	**(161,911)**	(130,488)	(113,535)
	(406,765)	(367,600)	(313,654)

Segment A

Wages and salaries	**(150,774)**	(142,432)	(127,190)
Compulsory social security obligations	**(6,823)**	(6,368)	(5,636)
Funded pension costs (note 26)	**(7,579)**	(7,086)	(6,330)
Unfunded pension costs (note 26)	**(1,290)**	(7,988)	-
Deferred contribution plan	**(13,230)**	(11,888)	(10,325)
Other personnel expenses	**(119,136)**	(97,813)	(82,294)
	(298,832)	(273,575)	(231,775)

Segment B

Wages and salaries	**(57,239)**	(50,770)	(44,918)
Compulsory social security obligations	**(2,549)**	(2,126)	(1,947)
Funded pension costs (note 26)	**-**	(1,012)	-
Unfunded pension costs (note 26)	**(477)**	(2,991)	-
Deferred contribution plan	**(4,893)**	(4,451)	(3,773)
Other personnel expenses	**(42,775)**	(32,675)	(31,241)
	(107,933)	(94,025)	(81,879)

9. OTHER EXPENSES

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Software licensing & other information technology costs	**(55,381)**	(43,015)	(37,389)
Premises related expenses	**(57,318)**	(57,579)	(64,128)
Legal and professional expenses	**(17,991)**	(5,358)	(19,935)
Others	**(46,502)**	(30,251)	(23,333)
	(177,192)	(136,203)	(144,785)

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 0 00
Segment A			
Software licensing & other information technology costs	**(45,801)**	(36,032)	(32,470)
Premises related expenses	**(48,835)**	(49,452)	(56,906)
Legal and professional expenses	**(10,437)**	(4,429)	(13,797)
Others	**(33,005)**	(21,056)	(18,705)
	(138,078)	(110,969)	(121,878)
Segment B			
Software licensing & other information technology costs	**(9,580)**	(6,983)	(4,919)
Premises related expenses	**(8,483)**	(8,127)	(7,222)
Legal and professional expenses	**(7,554)**	(929)	(6,138)
Others	**(13,497)**	(9,195)	(4,628)
	(39,114)	(25,234)	(22,907)

10. INCOME TAX EXPENSE/(CREDIT)

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Recognised in the statement of profit or loss			
(a) Current tax expense			
Current period	**25,433**	19,239	14,343
(b) Deferred tax expense			
Originated and reversal of temporary differences (note 19)	**29,790**	7,329	22,886
	55,223	26,568	37,229
(c) Reconciliation of effective tax rate			
Profit before income tax	**448,682**	400,767	348,813
Income tax at a rate of **5% & 7%**	**20,964**	19,177	(6,096)
(2017: 3% & 25% - 2016: 3% & 27%)			
Non-deductible expenses	**1,860**	1,306	4,669
Income not subject to tax	**(1,730)**	(3,070)	(1,462)
Special levy on banks	**5,438**	4,936	4,065
Corporate social responsibility fund	**280**	-	-
Other permanent differences – write-off of loans	**474**	3,136	7,779
Differences in rates	**(42)**	(3,021)	5,685
Losses utilised against segment B profit		-	22,555
Impact of change in rate on opening balance	**31,376**		
Under provision of deferred tax in prior years	**(3,397)**	4,104	34
Total income tax in income statement	**55,223**	26,568	37,229

10. INCOME TAX EXPENSE/(CREDIT) (Continued)

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Segment A			
Current tax expense			
Current period	**285**	3,462	-
Deferred tax expense			
Originated and reversal of temporary differences	**46,005**	7,953	25,537
Segment B			
Current tax expense			
Current period	**25,148**	15,777	14,343
Deferred tax credit			
Originated and reversal of temporary differences	**(16,215)**	(624)	(2,651)

The Bank has used an effective tax rate of 4% under segment B activities in 2018 while incurring taxable loss Seg A. (2017: 25% Seg A & 4% Seg B). As per the Mauritian Finance (Miscellaneous Provisions) Act 2018, the tax rate will be amended to 5% (2016-17: 15% less the foreign tax credit of 80%) effective as from 1 July 2020. The directors have agreed to amend the deferred income tax asset rate to 7% (Segment A) and 5% (Segment B) as from 2018.

11. BASIC EARNINGS PER SHARE

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Profit for the year	**393,459**	**374,199**	311,584
Weighted average number of ordinary shares	**8,564,560**	**8,564,560**	8,564,560
Earnings per share- Basic (MUR.)	**45.94**	**43.69**	36.38

One-off exceptional income of MUR141m has been excluded in calculation of basic earnings per share.

12. CASH AND CASH EQUIVALENTS

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Cash in hand	**171,707**	184,974	149,143
Foreign currency notes and coins	**18,367**	10,280	15,383
Unrestricted balances with central banks (note i)	**258,227**	368,370	211,966
Money market placements (note ii)	**493,495**	51,699	2,730,694
Balances with banks abroad	**6,746,484**	3,606,665	1,477,603
	7,688,280	4,221,988	4,584,789
Less: allowance for expected credit loss	**(2,830)**	-	-
	7,685,450	4,221,988	4,584,789
Current	**7,685,450**	4,221,988	4,584,789

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Segment A			
Cash in hand	**171,707**	184,974	149,143
Foreign currency notes and coins	**18,367**	10,280	15,383
Unrestricted balances with Central Bank (note i)	**258,227**	368,370	211,966
	448,301	563,624	376,492
Segment B			
Money market placements (note ii)	**493,495**	51,699	2,730,694
Balance with banks abroad	**6,744,078**	3,606,665	1,477,603
	7,237,573	3,658,364	4,208,297
Less: allowance for expected credit loss	**(424)**	-	-
	7,237,149	3,658,364	4,208,297

(i) Balances with Central Bank over and above the minimum Cash Reserve Requirement (CRR) as disclosed in note 20.
(ii) Money market placements are investments maturing within three months.

For the purpose of statement of cash flows, cash and cash equivalents include:

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Cash and cash equivalents	**7,685,450**	4,221,988	4,584,789
Securities maturing within 3 months	**524,800**	413,946	935,003
Borrowings from banks	**(1,586,762)**	(630)	(33,606)
Balance due in clearing	**25,400**	56,055	33,501
	6,648,888	4,691,359	5,519,687

Net debt reconciliation

This section sets out an analysis of net debt and the movement in net debt for the year.

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Cash and cash equivalents	**7,685,450**	4,221,988	4,584,789
Short-term borrowings from banks	**(1,586,762)**	(630)	(33,606)
Liquid investments	**524,800**	413,946	935,003
Balance due in clearing	**25,400**	56,055	33,501
Cash and cash equivalents for cash flow purposes	**6,648,888**	4,691,359	5,519,687
Borrowings - repayable within one year	**(1,102,763)**	(42,664)	(89,982)
Borrowings - repayable after one year	**(699,636)**	(592,352)	(589,233)
	4,846,489	4,056,343	4,840,472
Cash and cash equivalents for cash flow purposes	**6,648,888**	4,691,359	5,519,687
Gross debt - variable interest rates	**(1,802,399)**	(635,016)	(679,215)
	4,846,489	4,056,343	4,840,472

CASH AND CASH EQUIVALENTS (continued)

	Cash and cash equivalent for cash flow purposes	Other borrowed funds within 1 year	Other borrowed funds after 1 year	Subordinated liabilities within 1 year	Subordinated liabilities after 1 year	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Net debt as at 1 January 2018	**4,691,359**	**(42,664)**	**(80,147)**	**-**	**(512,205)**	**4,056,343**
Cash flows	**1,957,529**	**42,697**	**(1,024,951)**		**(200,000)**	**775,275**
Foreign exchange adjustments	-	**(33)**	**2,335**		**11,909**	**14,211**
Other non-cash movements	-	-	-	-	**660**	**660**
Net debt as at 31 December 2018	**6,648,888**	**-**	**(1,102,763)**	**-**	**(699,636)**	**4,846,489**

13. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT

	Nominal	Assets fair value	Liabilities fair value
	MUR 000	MUR 000	MUR 000
As at 31 December 2018			
Currency forwards	**-**	**109**	**129**
Currency swaps	**730,813**	**8,166**	**1,409**
	730,813	**8,275**	**1,538**
Segment A	**229,213**	**-**	**1,409**
Segment B	**501,600**	**8,275**	**129**
Current	**730,813**	**8,275**	**1,538**
As at 31 December 2017			
Currency forwards	281,241	560	822
Currency swaps	756,837	4,264	-
	1,038,078	4,824	822
Segment A	783,279	3,022	414
Segment B	254,799	1,802	408
Current	1,038,078	4,824	822
As at 31 December 2016			
Currency forwards	21,840	7	590
Currency swaps	2,067,203	1,330	10,833
	2,089,043	1,337	11,423
Segment A	812,656	520	4,086
Segment B	1,276,387	817	7,337
Current	2,089,043	1,337	11,423

14. LOANS AND ADVANCES TO BANKS

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Outside Mauritius	**2,950,545**	3,744,692	1,667,012
	2,950,545	3,744,692	1,667,012
Less: allowance for expected credit loss	**(6,557)**	(37,447)	(16,669)
	2,943,988	3,707,245	1,650,343
Current	**2,943,988**	2,363,376	578,043
Non-current	**-**	1,343,869	1,072,300
Segment B			
(a) Outside Mauritius	**2,950,545**	3,744,692	1,667,012
	2,950,545	3,744,692	1,667,012
Less: allowance for expected credit loss	**(6,557)**	(37,447)	(16,669)
	2,943,988	3,707,245	1,650,343
(b) Remaining Term to Maturity			
Up to 3 months	**382,490**	-	216
Over 3 months and up to 6 months	**1,348,215**	1,374,143	222,620
Over 6 months and up to 12 months	**1,219,840**	1,013,106	361,044
Over 1 year and up to 5 years	**-**	1,357,443	1,083,132
	2,950,545	3,744,692	1,667,012

(c) Allowance for expected credit loss

	Specific allowances for impairment	Portfolio allowance for impairment	Total
	MUR 000	MUR 000	MUR 000
Balance as at 1 January 2016	-	5,396	5,396
Provision during the year	-	11,273	11,273
Balance as at 31 December 2016	-	16,669	16,669
Provision during the year	-	20,778	20,778
Balance as at 31 December 2017	-	37,447	37,447
Provision released during the year	-	(30,890)	(30,890)
Balance as at 31 December 2018	**-**	**6,557**	**6,557**

15. LOANS AND ADVANCES TO CUSTOMERS

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Retail customers			
- Credit Cards	**48,755**	41,554	50,016
- Mortgages	**2,057,907**	1,868,029	1,822,641
- Other Retail Loans	**2,202,998**	1,687,305	1,784,782
Corporate customers	**9,892,504**	8,297,807	6,557,866
Entities outside Mauritius	**7,504,673**	6,546,029	4,223,998
	21,706,837	18,440,724	14,439,303
Less: Allowance for expected credit loss	**(1,037,935)**	(694,397)	(689,207)
	20,668,902	17,746,327	13,750,096
Current	**9,298,333**	6,629,205	5,277,768
Non-current	**11,370,569**	11,117,122	8,472,328
Net finance lease receivables included in loans and advances to customers are as follows:	**255,386**	157,171	171,147

(a) Segment A

	Dec-18	Dec-17	Dec-16
Retail customers			
- Credit Cards	**48,755**	41,554	50,016
- Mortgages	**2,048,422**	1,852,915	1,784,785
- Other Retail Loans	**2,079,996**	1,658,366	1,506,260
Corporate customers	**8,827,415**	7,339,087	5,427,043
	13,004,588	10,891,922	8,768,104
Less: Allowance for expected credit loss	**(588,163)**	(549,518)	(553,879)
	12,416,425	10,342,404	8,214,225

(b) Segment B

	Dec-18	Dec-17	Dec-16
Retail customers			
- Mortgages	**9,485**	15,114	37,856
- Other Retail Loans	**123,002**	28,939	278,522
Corporate customers	**1,065,089**	958,720	1,130,823
Entities outside Mauritius	**7,504,673**	6,546,029	4,223,998
	8,702,249	7,548,802	5,671,199
Less: Allowance for expected credit loss	**(449,772)**	(144,879)	(135,328)
	8,252,477	7,403,923	5,535,871

15. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Remaining term to maturity

	Dec-18	Dec 17	Dec 16
	MUR 000	MUR 000	MUR 000
Up to 3 months	**4,379,854**	4,799,214	4,136,619
Over 3 months and up to 6 months	**3,663,648**	1,543,229	761,562
Over 6 months and up to 12 months	**1,389,147**	352,635	443,594
Over 1 year and up to 5 years	**9,278,647**	7,349,642	6,157,599
Over 5 years	**2,995,541**	4,396,004	2,939,929
	21,706,837	18,440,724	14,439,303

(d) Credit concentration of risk by industry sectors

Agriculture and fishing	**1,238,416**	1,108,339	829,771
Manufacturing	**960,439**	1,309,878	822,286
of which Export Processing Zone license holders	**141,243**	153,010	96,963
Tourism	**2,181,563**	2,012,613	954,424
Transport	**1,043,584**	250,143	551,635
Construction	**3,498,742**	3,121,998	3,426,553
of which Residential Mortgages	**2,077,792**	1,868,029	1,822,641
Other constructions	**1,420,950**	1,253,969	1,603,912
Financial and business services	**4,833,376**	3,478,405	1,033,239
Traders	**3,247,573**	2,960,160	3,104,646
Personal	**837,088**	652,547	761,309
of which credit cards	**48,712**	41,554	50,016
Professional	**11,628**	12,350	14,130
Global Business license holders	**759,991**	754,550	1,090,086
Others	**3,094,437**	2,779,741	1,851,224
of which Central Government	***1,559,429***	1,705,452	1,127,749
	21,706,837	18,440,724	14,439,303

(i) Segment A

Agriculture and Fishing	**1,053,106**	1,093,756	715,933
Manufacturing	**403,262**	439,096	375,889
of which Export Processing Zone license holders	***139,095***	*150,457*	*95,163*
Tourism	**1,346,832**	1,329,185	945,214
Transport	**222,143**	168,728	160,308
Construction	**3,103,984**	2,715,008	2,721,318
of which Residential Mortgages	***2,068,228***	*1,852,915*	*1,784,785*
Other constructions	***1,035,756***	*862,093*	*936,533*
Financial and business services	**3,076,961**	1,990,914	775,156
Traders	**2,667,725**	2,171,143	2,026,452
Personal	**812,677**	645,592	705,079
of which credit cards	***48,712***	*41,554*	*50,016*
Professional	**11,628**	12,350	14,130
Others	**306,270**	326,150	328,625
	13,004,588	10,891,922	8,768,104

15. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(d) Credit concentration of risk by industry sectors (Continued)

(ii) Segment B

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Agriculture	**185,310**	14,583	113,838
Manufacturing	**557,177**	870,782	446,397
of which Export Processing Zone license holders	***2,148***	*2,553*	*1,800*
Tourism	**834,731**	683,428	9,210
Transport	**821,441**	81,415	391,327
Construction	**394,758**	406,990	705,235
of which Residential Mortgages	***9,564***	*15,114*	*37,856*
Other constructions	***385,194***	*391,876*	*667,379*
Financial and business services	**1,756,415**	1,487,491	258,083
Traders	**579,848**	789,017	1,078,194
Personal	**24,411**	6,955	56,230
Global Business license holders	**759,991**	754,550	1,090,086
Others	**2,788,167**	2,453,591	1,522,599
of which Central Government	***1,559,429***	*1,705,452*	*1,127,749*
	8,702,249	7,548,802	5,671,199

Others include the following sectors: Media, Entertainment & Recreational Activities, Education, Modernisation & Expansion Enterprise Certificate Holders, Health Development Certificate Holders, Public Non-Financial Corporations, State and Local Government, Infrastructure, ICT, Freeport Certificate Holders and others.

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Off-balance sheet by industry sector			
Agriculture and Fishing	**2,183**	407	13,614
Manufacturing	**41,295**	34,583	81,789
Tourism	**208,802**	70,050	52,892
Transport	**15,701**	6,400	17,746
Construction	**667,984**	290,407	336,192
Financial and business services	**188,624**	986,079	283,993
Traders	**915,293**	566,702	401,601
Personal	**210,088**	482,630	235,107
Global Business license holders	**59,608**	11,189	31,371
Others	**110,841**	355,232	207,958
	2,420,419	2,803,679	1,662,263

15. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(e) Allowance for expected credit loss

	Specific allowances for impairment/ Stage 3	Portfolio allowance for impairment/ Stage 1&2	Total
	MUR 000	MUR 000	MUR 000
Balance as at 1 January 2016	593,919	140,604	734,523
Provision for credit impairment for the year	351,114	17,727	368,841
Loans written off out of allowance	(246,726)	-	(246,726)
Provisions released	(167,431)	-	(167,431)
Balance as at 31 December 2016	530,876	158,331	689,207
Provision for credit impairment for the year	217,444	9,878	227,322
Loans written off out of allowance	(55,834)	-	(55,834)
Provisions released	(166,298)	-	(166,298)
Balance as at 31 December 2017	526,188	168,209	694,397
Provision for credit impairment for the year	**438,887**	**124,234**	**563,121**
Loans written off out of allowance	**(120,847)**	**-**	**(120,847)**
Provisions released	**(98,736)**	**-**	**(98,736)**
Balance as at 31 December 2018	**745,492**	**292,443**	**1,037,935**

(f) Allowance for expected credit loss by sectors

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Retail customers			
- Credit Cards	**2,342**	3,771	5,892
- Mortgages	**90,985**	91,116	93,644
- Other Retail Loans	**149,600**	143,505	143,340
Corporate customers	**388,563**	351,371	340,716
Entities outside Mauritius	**406,445**	104,634	105,615
	1,037,935	694,397	689,207

Segment A

Retail customers			
- Credit Cards	**2,342**	3,771	5,892
- Mortgages	**88,326**	88,809	89,429
- Other Retail Loans	**136,328**	135,629	136,991
Corporate customers	**361,167**	321,309	321,567
	588,163	549,518	553,879

Segment B

Retail customers			
- Mortgages	**2,659**	2,307	4,216
- Other Retail Loans	**13,272**	7,876	6,348
Corporate customers	**27,396**	30,061	19,150
Entities outside Mauritius	**406,445**	104,635	105,614
	449,772	144,879	135,328

15. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Investment in finance leases

The amount of investments in finance leases included in the loans and advances to customers is outlined below:

	Up to 1 Year	1 to 5 Years	Over 5 years	Dec-18 Total	Dec-17 Total	Dec-16 Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Gross investment in finance leases	10,738	170,848	309,246	**490,832**	390,125	411,870
Unearned finance income	(9,175)	(116,952)	(106,739)	**(232,866)**	(231,366)	(238,994)
Present value of minimum lease payments	1,563	53,896	202,507	**257,966**	158,759	172,876
Less: Allowance for expected credit loss				**(2,580)**	(1,588)	(1,729)
				255,386	157,171	171,147

Under finance leases, all the risks and rewards of ownership of the asset are transferred to the lessee. The finance lease agreement gives the lessee an option to buy the asset at a discounted price to the fair market value at the end of the lease term. The term of the lease contract generally ranges from five to seven years. All finance lease receivables are secured over the asset leased and, in some cases, additional guarantees are taken from the lessee.

Amount due from lessees under finance leases are recorded under loans and receivables. Finance lease income is allocated to the accounting period so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

(h) Allowance for expected credit loss by industry sectors

	Dec-18					Dec-17	Dec-16
	Gross amount of loans	Impaired loans	Specific allowances for credit impairment	Portfolio allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Agriculture and fishing	**1,238,416**	**3,549**	**3,516**	**17,708**	**21,224**	14,351	14,890
Manufacturing	**960,439**	**1,112**	**356**	**13,848**	**14,204**	46,872	32,408
of which Export Processing Zone license holders	***141,243***	-	-	***2,045***	***2,045***	*1,533*	*1,315*
Tourism	**2,181,563**	**89,903**	**28,645**	**29,658**	**58,303**	44,583	29,638
Transport	**1,043,585**	**102,087**	**42,621**	**13,474**	**56,095**	19,865	10,953
Construction	**3,498,742**	**375,878**	**218,504**	**44,763**	**263,267**	266,939	333,989
of which Residential Mortgages	***2,077,792***	***128,820***	***63,494***	***28,106***	***91,600***	*90,922*	*101,632*
Other constructions	***1,420,950***	***247,058***	***155,010***	***16,657***	***171,667***	*176,017*	*232,358*
Financial and business services	**4,833,376**	-	-	**69,600**	**69,600**	33,410	12,280
Traders	**3,247,573**	**201,854**	**122,545**	**43,634**	**166,179**	98,725	119,829
Personal	**837,088**	**57,303**	**47,217**	**9,460**	**56,677**	69,877	68,457
of which credit cards	***48,712***	***1,624***	***1,624***	***682***	***2,306***	*3,766*	*6,099*
Professional	**11,628**	-	-	**168**	**168**	604	1,175
Global Business license holders	**759,991**	**66,457**	**12,864**	**9,852**	**22,716**	28,210	19,236
Others	**3,094,436**	**271,193**	**269,224**	**40,278**	**309,502**	70,962	46,352
	21,706,837	**1,169,336**	**745,492**	**292,443**	**1,037,935**	694,398	689,207

15. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(h) Allowance for expected credit loss by industry sectors (Continued)

Segment A

	Dec-18					Dec-17	Dec-16
	Gross amount of loans	Impaired loans	Specific allowances for credit impairment	Portfolio allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Agriculture and fishing	**1,053,106**	**3,549**	**3,516**	**15,027**	**18,543**	14,205	14,841
Manufacturing	**403,262**	**1,112**	**356**	**5,788**	**6,144**	38,456	28,276
of which Export Processing Zone license holders	***139,095***	-		***2,014***	***2,014***	1,507	*1,297*
Tourism	**1,346,832**	**89,903**	**28,645**	**17,584**	**46,229**	37,833	29,638
Transport	**222,143**	**5,450**	**3,567**	**2,990**	**6,557**	5,221	8,120
Construction	**3,103,984**	**371,091**	**215,975**	**39,123**	**255,098**	244,131	253,742
of which Residential Mortgages	***2,068,228***	***124,033***	***60,965***	***28,037***	***89,002***	88,643	97,550
Other constructions	***1,035,756***	***247,058***	***155,010***	***11,086***	***166,096***	155,488	156,193
Financial and business services	**3,076,961**	-	-	**44,517**	**44,517**	19,897	10,081
Traders	**2,667,725**	**190,367**	**111,058**	**35,413**	**146,471**	87,082	108,582
Personal	**812,677**	**57,303**	**47,217**	**9,121**	**56,338**	69,807	67,898
of which credit cards	***48,712***	***1,624***	***1,624***	***682***	***2,306***	*3,766*	*6,099*
Professional	**11,629**	-	-	**168**	**168**	604	1,175
Others	**306,269**	**6,085**	**4,125**	**3,973**	**8,098**	32,282	31,526
	13,004,588	**724,860**	**414,459**	**173,704**	**588,163**	549,518	553,879

15. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(h) Allowance for expected credit loss by industry sectors (Continued)

Segment B

	Dec-18					Dec-17	Dec-16
	Gross amount of loans	Impaired loans	Specific allowances for credit impairment	Portfolio allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Agriculture and fishing	**185,310**	-	-	**2,681**	**2,681**	146	49
Manufacturing	**557,177**	-	-	**8,060**	**8,060**	8,415	4,132
of which Export Processing Zone license holders	***2,148***	-	-	***31***	***31***	26	18
Tourism	**834,731**	-	-	**12,074**	**12,074**	6,750	-
Transport	**821,442**	**96,637**	**39,054**	**10,484**	**49,538**	14,644	2,833
Construction	**394,758**	**4,787**	**2,529**	**5,640**	**8,169**	22,808	80,247
of which Residential Mortgages	***9,564***	**4,787**	***2,529***	***69***	***2,598***	2,279	*4,082*
Other constructions	***385,194***	-	-	***5,571***	***5,571***	20,529	*76,165*
Financial and business services	**1,756,415**	-	-	**25,083**	**25,083**	13,513	2,199
Traders	**579,848**	**11,487**	**11,487**	**8,221**	**19,708**	11,643	11,247
Personal	**24,411**	-	-	**339**	**339**	70	559
Global Business license holders	**759,991**	**66,457**	**12,864**	**9,852**	**22,716**	28,210	19,236
Others	**2,788,166**	**265,108**	**265,099**	**36,305**	**301,404**	38,680	14,826
	8,702,249	**444,476**	**331,033**	**118,739**	**449,772**	144,879	135,328

16. INVESTMENT SECURITIES

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Investment securities at fair value through OCI	**2,046,791**	-	-
Investment securities at amortised cost	**4,692,794**	-	-
Available-for-sale investment securities	-	2,249,806	1,494,704
Held-to-maturity investment securities	-	1,968,379	2,296,326
	6,739,585	4,218,185	3,791,030
Less: Allowance for expected loss	**(7,203)**	-	-
	6,732,382	4,218,185	3,791,030
Current	**5,032,888**	2,213,821	2,487,922
Non-current	**1,699,494**	2,004,364	1,303,108

Investment securities at FVTOCI/ Available-for-sale investment securities

Equity shares in Oriental Commercial Bank Ltd (Kenya)	**34,973**	33,838	33,882
Bank/Government of Mauritius securities and other corporate bonds	**2,008,505**	2,212,753	1,457,789
Equity	**3,313**	3,215	3,033
	2,046,791	2,249,806	1,494,704
Less: Allowance for expected loss	**(2,089)**	-	-
	2,044,702	2,249,806	1,494,704

Segment A

Bank/Government of Mauritius securities	**2,008,505**	2,212,753	1,457,789
Others	**1,892**	1,892	1,892
	2,010,397	2,214,645	1,459,681
Less: Allowance for expected loss	**(1,699)**	-	-
	2,008,698	2,214,645	1,459,681

Segment B

Equity shares in Oriental Commercial Bank Ltd (Kenya)	**34,973**	33,838	33,882
Others	**1,421**	1,323	1,141
	36,394	35,161	35,023
Less: Allowance for expected loss	**(390)**	-	-
	36,004	35,161	35,023

The Bank holds 4,597,210 shares, representing 3.69% shareholding of Oriental Commercial Bank Ltd, incorporated and operating in Kenya. The investment has been fair valued based on the market approach using financial information for similar banks listed in Kenya.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

Investment securities at amortised cost/Held-to-Maturity investment securities

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Government of Mauritius Bonds	**194,318**	49,988	145,503
Bank of Mauritius Bills	**-**	99,921	-
Treasury Bills/Notes issued by Government of Mauritius	**431,042**	1,037,485	635,476
Corporate Bonds/Other Bank Placements	**4,067,435**	780,985	1,515,347
	4,692,795	1,968,379	2,296,326
Less: Allowance for expected loss	**(5,115)**	-	-
	4,687,680	1,968,379	2,296,326

Segment A

	Dec-18	Dec-17	Dec-16
Government of Mauritius Bonds	**194,318**	49,988	145,503
Bank of Mauritius Bills	**-**	99,921	-
Treasury Bills/Notes issued by Government of Mauritius	**431,042**	1,037,485	635,476
Corporate Bonds/Other Bank Placements	**330,782**	337,155	433,367
	956,142	1,524,549	1,214,346
Less: Allowance for expected loss	**(2,428)**	-	-
	953,714	1,524,549	1,214,346

Segment B

	Dec-18	Dec-17	Dec-16
Corporate Bonds/Other Bank Placements	**3,736,653**	443,830	1,081,980
Less: Allowance for expected loss	**(2,687)**	-	-
	3,733,966	443,830	1,081,980

16. INVESTMENT SECURITIES (Continued)

	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Remaining term to maturity-2018						
Government of Mauritius Bonds	**-**	**-**	**-**	**194,150**	**-**	**194,150**
Government of Mauritius Bills						
Treasury Bills / Notes issued by Government of Mauritius			**228,307**	**202,335**		**430,642**
Corporate Bonds / Other Bank Placements	**3,022,569**	**278,078**	**504,741**	**245,261**	**12,238**	**4,062,887**
	3,022,569	**278,078**	**733,048**	**641,746**	**12,238**	**4,687,679**
Remaining term to maturity- 2017						
Government of Mauritius Bonds	-	-	49,988	-	-	49,988
Government of Mauritius Bills	99,921	-	-	-	-	99,921
Treasury Bills / Notes issued by Government of Mauritius	175,976	431,235	-	430,274	-	1,037,485
Corporate Bonds / Other Bank Placements	73,330	237,076	-	375,495	95,084	780,985
	349,227	668,311	49,988	805,769	95,084	1,968,379
Remaining term to Maturity-2016						
Government of Mauritius Bonds	-	80,938	15,150	49,415	-	145,503
Government of Mauritius Bills	-	49,578	-	-	-	49,578
Treasury Bills / Notes issued by Government of Mauritius	26,327	-	50,255	509,317	-	585,899
Corporate Bonds / Other Bank Placements	737,756	101,200	193,447	338,055	144,888	1,515,346
	764,083	231,716	258,852	896,787	144,888	2,296,326

17. PROPERTY AND EQUIPMENT

Cost or Valuation	Land and buildings	Computer and office equipment	Motor Vehicles and furniture & fittings	Work in Progress	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Balance as at 1 January 2016	288,464	171,185	138,858	16,160	614,667
Acquisitions	-	8,092	3,412	68,248	79,752
Transfer to property and equipment	-	8,546	-	(8,546)	-
Disposal	-	-	(11,275)	-	(11,275)
Write off/scrapped	-	(6,723)	(18,496)	-	(25,219)
Balance as at 31 December 2016	288,464	181,100	112,499	75,862	657,925
Acquisitions	-	9,597	22,731	18,187	50,515
Transfer to property and equipment	-	19,191	70,561	(89,752)	-
Disposal	-	(395)	(822)	-	(1,217)
Write-off/scrapped	-	(4,035)	(1,887)	-	(5,922)
Revaluation gain	11,179				11,179
Balance as at 31 December 2017	299,643	205,458	203,082	4,297	712,480
Acquisitions	-	7,569	2,993	12,887	23,449
Transfer to property and equipment	-	2,213	3,155	(5,383)	(15)
Disposal	-	-	(403)	-	(403)
Write-off/scrapped	-	(2,540)	(1,986)	-	(4,526)
Revaluation gain	4,485	-	-	-	4,485
Balance as at 31 December 2018	**304,128**	**212,700**	**206,841**	**11,801**	**735,470**
Accumulated depreciation					
Balance as at 1 January 2016	52,305	150,956	88,753	-	292,014
Depreciation for the year	3,829	7,565	9,651	-	21,045
Disposal	-	-	(9,898)	-	(9,898)
Write-off/scrapped		(6,290)	(11,363)		(17,653)
Balance as at 31 December 2016	56,134	152,231	77,143	-	285,508
Depreciation for the year	3,853	11,124	15,133	-	30,110
Disposal	-	(388)	(764)	-	(1,152)
Write-off/scrapped	-	(3,881)	(1,266)	-	(5,147)
Balance as at 31 December 2017	59,987	159,086	90,246	-	309,319
Depreciation for the year	4,140	14,547	17,454	-	36,141
Disposal	-	-	(1,412)	-	(1,412)
Write-off/scrapped	-	(2,517)	(362)	-	(2,879)
Balance as at 31 December 2018	**64,127**	**171,116**	**105,926**	**-**	**341,169**

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

17. PROPERTY AND EQUIPMENT (Continued)

Cost or Valuation	Land and buildings	Computer and office equipment	Motor Vehicles and furniture & fittings	Work in Progress	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Net book value as at 31 December 2018	**240,001**	**41,584**	**100,915**	**11,801**	**394,301**
Net book value as at 31 December 2017	239,656	46,372	112,836	4,297	403,161
Net book value as at 31 December 2016	232,330	28,869	35,356	75,862	372,417
Net book value as at 31 December 2018 by segments					
Segment A	**240,001**	**35,614**	**99,021**	**11,801**	**386,437**
Segment B	**-**	**5,970**	**1,894**	**-**	**7,864**
	240,001	**41,584**	**100,915**	**11,801**	**394,301**
Net book value as at 31 December 2017 by segments					
Segment A	239,656	45,471	112,818	4,297	402,242
Segment B	-	901	18	-	919
	239,656	46,372	112,836	4,297	403,161
Net book value as at 31 December 2016 by segments					
Segment A	232,330	28,817	34,049	75,862	371,058
Segment B	-	52	1,307	-	1,359
	232,330	28,869	35,356	75,862	372,417

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

17. PROPERTY AND EQUIPMENT (Continued)

Assets disposed/scrapped/written-off during the year (cost)

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Computer and equipment	**2,540**	4,430	6,723
Other assets	**2,389**	2,709	29,771
	4,929	7,139	36,494

Work in progress included in tangible assets as at 31.12.2018 were incurred for:

	MUR 000
Renovation of branch	**10,825**
Others	**976**
	11,801

The Bank's land and building were revalued in 2018 by V. Ramjee & Associates Ltd (chartered valuer). The basis of valuation is based on market value, defined in accordance with the International Valuation Standard Committee and the accounts were amended to reflect the fair value.

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Land & buildings excluding revaluation			
Cost	**201,000**	201,000	201,000
Accumulated depreciation	**(66,489)**	(62,469)	(58,449)
Net	**134,511**	138,531	142,551

18. INTANGIBLE ASSETS

	Computer software	Work in Progress	Total
	MUR 000	MUR 000	MUR 000
Balance as at 1 January 2016	146,671	4,357	151,028
Additions	6,922	9,701	16,623
Transfer to intangibles	11,611	(11,611)	-
Scrapped	(85)	-	(85)
Balance as at 31 December 2016	165,119	2,447	167,566
Additions	1,223	13,245	14,468
Transfer to intangibles	810	(810)	-
Balance as at 31 December 2017	167,152	14,882	182,034
Additions	63,588	65,493	129,081
Transfer to intangibles	74,844	(74,844)	-
Balance as at 31 December 2018	**305,584**	**5,531**	**311,115**

18. INTANGIBLE ASSETS (Continued)

	Computer software	Work in Progress	Total
	MUR 000	MUR 000	MUR 000
Amortization			
Balance as at 1 January 2016	113,604	-	113,604
Charge for the year	13,347	-	13,347
Scrapped	(78)		(78)
Balance as at 31 December 2016	126,873	-	126,873
Charge for the year	13,581	-	13,581
Balance as at 31 December 2017	140,454	-	140,454
Charge for the year	14,122	-	14,122
Balance as at 31 December 2018	**154,576**	**-**	**154,576**
Net book value as at 31 December 2018	**151,008**	**5,531**	**156,539**
Net book value as at 31 December 2017	26,698	14,882	41,580
Net book value as at 31 December 2016	38,246	2,447	40,693
Net book value as at 31 December 2018 by segments			
Segment A	**143,603**	**5,531**	**149,134**
Segment B	**7,405**	**-**	**7,405**
	151,008	**5,531**	**156,539**
Net book value as at 31 December 2017 by segments			
Segment A	25,938	14,882	40,820
Segment B	760	-	760
	26,698	14,882	41,580
Net book value as at 31 December 2016 by segments			
Segment A	35,793	2,447	38,240
Segment B	2,453	-	2,463
	38,246	2,447	40,693

19. DEFERRED TAX ASSETS

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
At start of year	**71,766**	71,918	95,399
Statement of profit or loss charge (note 10)	**(29,790)**	(7,329)	(22,886)
Amount recognised directly in Other Comprehensive Income:			
Deferred income tax on fair value adjustments	**85**	1,177	(42)
Under/(over) provision of deferred tax in previous years	**-**	4,199	(1,561)
Deferred income tax on actual losses on retirement benefit obligations	**(5,662)**	3,701	1,008
Deferred tax on revaluation of building	**562**	(1,900)	-
Deferred tax Impact on adoption of IFRS 9 – Impairment provision	**10,019**	-	-
At end of year	**46,980**	71,766	71,918

19. DEFERRED TAX ASSETS (Continued)

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Deferred tax assets			
Allowances for loan losses	**47,648**	63,833	69,274
Available-for-sale securities	**1,648**	1,562	386
Revaluation on building	**-**	-	8,029
Retirement Benefit Obligation	**195**	945	3,620
Deferred tax through OCI	**3,307**	8,968	6,722
	52,798	75,308	88,031
Deferred tax liabilities			
Accelerated capital allowances	**4,892**	2,054	2,841
Revaluation reserve	**926**	1,488	13,272
	5,818	3,542	16,113
Non-current	**46,980**	71,766	71,918

Deferred income tax is calculated on all temporary differences under the liability method using an effective tax rate of **7%** (2017 and 2016-17%) for segment A and an effective tax rate of **5%** (2017 and 2016 - 3%) for segment B. The Board of directors considered that the deferred tax is recoverable based on the forecasted taxable profit.

20. OTHER ASSETS

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Mandatory balances with Central Bank*	**1,264,880**	1,179,779	948,551
Balance due in clearing	**25,400**	56,055	33,501
Non-banking assets acquired in satisfaction of debts **	**9,104**	9,760	8,789
Other receivables	**70,449**	51,342	33,678
	1,369,833	1,296,936	1,024,519
Less: Allowance for expected loss	**(1,058)**	-	-
	1,368,775	1,296,936	1,024,519
Current	**58,325**	90,576	70,960
Non-current	**1,310,450**	1,206,360	953,559

** Balances to be maintained with Central Bank as Cash Reserve Requirement.*
*** The Bank`s policy is to dispose of such assets as soon as possible depending on market availability.*

20. OTHER ASSETS (continued)

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Segment A			
Mandatory balances with Central Bank*	**1,264,880**	1,179,779	948,551
Balance due in clearing	**25,400**	56,055	33,501
Non-banking assets acquired in satisfaction of debts	**9,104**	9,760	8,789
Other receivables	**60,581**	39,692	28,744
	1,359,965	1,285,286	1,019,585
Less: Allowance for expected loss	**(1,058)**	-	-
	1,358,907	1,285,286	1,019,585

Segment B

Other receivables	9,868	11,650	4,934
	9,868	11,650	4,934

21. DEPOSITS FROM CUSTOMERS

(a) Deposits comprise of the following:

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Retail customers	**8,478,040**	8,176,022	7,217,618
Corporate customers	**5,568,050**	4,789,811	3,477,120
International customers	**19,268,076**	15,171,622	11,125,380
Government	**117,665**	161,987	367,181
	33,431,831	28,299,442	22,187,299
Current	**31,320,092**	26,073,424	20,479,157
Non-current	**2,111,739**	2,226,018	1,708,142

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

21. DEPOSITS FROM CUSTOMERS (Continued)

(b) The table below shows the remaining term to maturity for deposits by the type of customer:

			Time deposits with remaining term to maturity					
	Current account	Savings account	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months	Over 1 year and up to 5 years	Over 5 years	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
At 31 December 2018								
Retail customers	**1,109,530**	**6,105,446**	**217,457**	**106,130**	**361,195**	**565,120**	**13,161**	**8,478,039**
Corporate customers	**1,151,905**	**175,752**	**863,438**	**1,071,818**	**1,063,737**	**1,241,400**	**-**	**5,568,050**
International customers	**13,384,714**	**1,093,590**	**3,358,086**	**872,363**	**353,293**	**206,030**	**-**	**19,268,076**
Government	**27,000**	**4,638**	**-**	**-**	**-**	**86,028**	**-**	**117,666**
Total	**15,673,149**	**7,379,426**	**4,438,981**	**2,050,311**	**1,778,225**	**2,098,578**	**13,161**	**33,431,831**
At 31 December 2017								
Retail customers	747,661	5,977,028	307,045	179,686	396,249	556,206	12,147	8,176,022
Corporate customers	806,816	435,372	731,219	910,517	467,127	1,438,760	-	4,789,811
International customers	9,752,900	1,083,396	2,939,259	543,795	633,367	218,906	-	15,171,622
Government	-	30,402	101,219	-	30,366	-	-	161,987
Total	11,307,377	7,526,198	4,078,742	1,633,998	1,527,109	2,213,871	12,147	28,299,442
At 31 December 2016								
Retail customers	772,455	5,284,040	271,593	153,126	301,258	431,758	12,046	7,226,276
Corporate customers	807,550	438,341	616,489	499,037	551,180	537,809	-	3,450,406
International customers	7,171,260	1,121,806	1,152,860	448,504	600,751	656,257	-	11,151,438
Government	-	2,805	-	200,774	85,329	70,271	-	359,179
Total	8,751,265	6,846,992	2,040,942	1,301,441	1,538,518	1,696,095	12,046	22,187,299

21. DEPOSITS FROM CUSTOMERS (Continued)

(c) Deposits by segments

	Current account	Savings account	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12months	Over 1 year and up to 5 years	Over 5 years	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
At 31 December 2018								
Segment A	**4,533,673**	**6,713,815**	**444,226**	**1,011,698**	**1,393,267**	**1,872,597**	**13,161**	**15,982,437**
Segment B	**11,139,476**	**665,611**	**3,994,755**	**1,038,613**	**384,958**	**225,981**	**-**	**17,449,394**
At 31 December 2017								
Segment A	1,554,477	6,442,802	1,139,483	1,090,203	893,742	1,994,966	12,147	13,127,820
Segment B	9,752,900	1,083,396	2,939,259	543,795	633,367	218,905	-	15,171,622
At 31 December 2016								
Segment A	1,580,005	5,725,186	888,082	852,937	937,767	1,039,838	12,046	11,035,861
Segment B	7,171,260	1,121,806	1,152,860	448,504	600,751	656,257	-	11,151,438

22. OTHER BORROWED FUNDS

	Dec 18	Dec 17	Dec 16
	MUR 000	MUR 000	MUR 000
Borrowings from Bank of Mauritius	**77,812**	122,811	154,825
Short term borrowings from banks abroad	**1,587,472**	630	33,606
Long-term borrowings from other financial institutions	**1,024,951**	-	-
	2,690,235	123,441	188,431
Current	**1,665,284**	43,294	73,524
Non-current	**1,024,951**	80,147	114,907
Segment A			
Borrowings from Bank of Mauritius	**77,812**	122,811	154,825
	77,812	122,811	154,825

Borrowings from Bank of Mauritius relates to the special foreign currency line of credit availed to lend to export operators. Interest rates on the other borrowings are on average below 1%.

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Segment B			
Short term borrowings from banks abroad *(at market rates)*	**1,587,472**	630	33,606
Long-term borrowings from other financial institutions	**1,024,951**	-	-
	2,612,423	630	33,606

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Above 5 years	Total
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
2018							
Remaining term to maturity							
Borrowings from Bank of Mauritius	**77,812**	-	-	-	-	-	**77,812**
	77,812	-	-	-	-	-	**77,812**
2017							
Remaining term to maturity							
Borrowings from Bank of Mauritius	42,665	80,146	-	-	-	-	122,811
	42,665	80,146	-	-	-	-	122,811
2016							
Remaining term to maturity							
Borrowings from Bank of Mauritius	39,917	39,918	74,990	-	-	-	154,825
	39,917	39,918	74,990	-	-	-	154,825

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

23. SUBORDINATED LIABILITIES

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Remaining term to maturity:			
Within 1 year	**12,434**	-	50,064
Over 2 years and up to 3 years	**-**	-	-
Over 3 years and up to 4 years	**35,398**	-	-
Over 4 years and up to 5 years	**35,398**	99,815	-
Over 5 years	**616,406**	412,390	474,326
	699,636	512,205	524,390
Current	**12,434**	-	50,064
Non-current	**687,202**	512,205	474,326
Segment A			
Within 1 year	**1,110**	-	50,064
Over 4 years and up to 5 years		99,815	-
Over 5 years	**297,817**	-	99,700
	298,927	99,815	149,764
Segment B			
Within 1 year	**11,324**	-	-
Over 1 year and up to 2 years	**-**	-	-
Over 2 years and up to 3 years	**-**	-	-
Over 3 years and up to 4 years	**35,398**	-	-
Over 4 years and up to 5 years	**35,398**	-	-
Over 5 years	**318,589**	412,390	374,626
	400,709	412,390	374,626

Interest rates on the subordinated debts range between 7.56% and 7.90%. *(between 7.56% and 8.05% in 2017 and between 7.55% and 8.75% in 2016).*

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Movement in subordinated liabilities			
Opening balance	**512,205**	524,390	410,635
Additions	**200,000**	-	374,626
Redemptions/amortizations	**(12,569)**	(12,185)	(260,871)
Closing balance	**699,636**	512,205	524,390

24. CURRENT TAX LIABILITIES

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Special levy on banks	**5,438**	4,936	4,065
Corporate Social Responsibility Fund	**280**	-	170
Income tax	**8,898**	6,673	2,724
	14,616	11,609	6,959
Current	**14,616**	11,609	6,959

25. OTHER LIABILITIES

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Liability for defined benefit pension plan (note 26)	**21,257**	24,944	21,913
Liability for unfunded pension plan (note 26)	**11,055**	18,571	-
Bills payable	**45,581**	28,164	20,152
Other payables	**341,368**	232,069	197,756
Allowance for expected loss	**13,817**	-	-
Allowances for off-balance sheet exposures	**480**	480	480
	433,558	304,228	240,301
Current	**345,666**	210,521	166,090
Non-current	**87,892**	93,707	74,211
Segment A			
Liability for defined benefit pension plan (note 26)	**21,257**	18,389	21,913
Liability for defined contribution pension plan (note 26)	**8,070**	13,691	
Bills payable	**45,581**	28,164	20,152
Other payables	**141,660**	175,989	134,640
Allowance for expected loss	**13,817**	-	-
Allowances for off-balance sheet exposures	**480**	480	480
	230,865	236,713	177,185
Segment B			
Liability for defined benefit pension plan (note 26)	**-**	6,555	-
Liability for defined contribution pension plan (note 26)	**2,985**	4,880	-
Other payables	**199,708**	56,080	63,116
	202,693	67,515	63,116

26. PENSION OBLIGATIONS

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Pension obligations under defined benefit plan:			
Amounts recognised in the statement of financial position (note 25):	**21,257**	24,944	21,913
Amounts charged to profit or loss statement (note 8)	**7,579**	8,098	6,330
Amount credited to other comprehensive income net of deferred tax	**(6,530)**	19,237	4,924
Pension obligations under unfunded pension plan:			
Amounts recognised in the statement of financial position (note 25):	**11,055**	18,571	-
Amounts charged to profit or loss statement (note 8)	**1,767**	10,979	-
Amount credited to other comprehensive income net of deferred tax	**(8,633)**	6,302	-

(a) Defined pension benefits (Funded)

The Bank operates a defined benefit pension plan for all its employees in employment before the financial year 2008. The employees in the scheme are entitled to 10% of their basic salary as pension benefit. The assets of the funded plan are held and independently administered by Swan Life Ltd.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

26. PENSION OBLIGATIONS (Continued)

(a) Defined pension benefits (Funded) (Continued)

The following information is based on actuarial valuation report dated 31 December 2018 by Swan Life Ltd.

(i) The amounts recognised in the statement of financial position are as follows:

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Present value of funded obligations	**142,063**	150,513	118,511
Fair value of plan assets	**(120,806)**	(125,569)	(96,598)
Liability in the statement of financial position	**21,257**	24,944	21,913

(ii) The movement in the defined benefit obligations over the year is as follows:

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
At 1 January	**24,944**	21,913	13,755
Amount recognised in profit or loss	**7,579**	8,098	6,330
Amount recognised in other comprehensive income (gross)	**(6,982)**	20,192	5,932
Contributions by the employer	**(4,284)**	(25,259)	(4,104)
At 31 December	**21,257**	24,944	21,913
Non-current	**21,257**	24,944	21,913

(iii) The movement in the defined benefit obligations of the year is as follows:

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
At 1 January	**150,514**	118,511	124,896
Included in profit or loss			
Current service cost	**5,866**	5,818	4,168
Interest cost	**7,109**	7,435	8,186
Included in other comprehensive income			
Experience losses/(gains) on the liabilities	**(40)**	2,875	(7,189)
Changes in assumptions underlying the present value of the scheme	**(4,531)**	16,687	12,090
Other			
Benefits paid	**(16,855)**	(813)	(23,640)
At 31 December	**142,063**	150,513	118,511

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

26. PENSION OBLIGATIONS (Continued)

(a) Defined pension benefits (Funded) (Continued)

(iv) The movement in the fair value of plan assets of the year is as follows:

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
At 1 January	**125,569**	96,598	111,141
Included in other comprehensive income			
Return on plan assets	**5,954**	6,495	6,526
Other			
Employer's contribution	**4,284**	25,259	4,104
Scheme expenses	**(180)**	(991)	(160)
Cost of insuring risk benefits	**(377)**	(349)	(343)
Actuarial gain/(loss)	**2,411**	(630)	(1,030)
Benefits paid	**(16,855)**	(813)	(23,640)
At 31 December	**120,806**	125,569	96,598

(v) The amounts recognised in profit or loss are as follows:

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
Current service cost	**5,866**	5,818	4,168
Scheme expenses	**180**	991	160
Cost of insuring risk benefits	**377**	349	343
Net interest cost	**1,156**	940	1,659
Total included in employee benefit expense	**7,579**	8,098	6,330
Actual return on plan assets	**8,365**	5,865	5,497

(vi) The amounts recognised in other comprehensive income are as follows:

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
(Gain)/Losses on pension scheme assets	**(2,411)**	630	1,030
Experience (gains)/losses on the liabilities	**(40)**	2,875	(7,189)
Changes in assumptions underlying the present value of the scheme	**(4,531)**	16,687	12,090
	(6,982)	20,192	5,931

(vii) Plan assets

The assets of the plan are invested in the Deposit Administration Policy underwritten by Swan Life Ltd. The Deposit Administration Policy is a pooled insurance product for Group Pension Schemes. It is a long-term investment policy which aims to provide a smooth progression of returns from one year to the next without regular fluctuations associated with asset-linked investments such as Equity Funds. Moreover, the Deposit Administration Policy offers a minimum guaranteed return of 4% p.a.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

26. PENSION OBLIGATIONS (Continued)

(a) Defined pension benefits (Funded) (Continued)

(vii) Plan assets (continued)

As the pension fund is expected to produce a smooth return, a fairly reasonable indication of future returns can be obtained by looking at historical ones. Therefore, the long-term expected return on asset assumption has been based on historical performance of the pension fund.

In terms of the individual expected returns, the expected return on equities has been based on an equity risk premium above a risk-free rate. The risk-free rate has been measured in accordance to the yields on government bonds at the measurement date.

The fixed interest portfolio includes government bonds, debentures, mortgages and cash. The expected return for this asset class has been based on yields of government bonds at the measurement date.

(viii) Average duration

The weighted average duration of the defined benefit obligation is 12 years at the end of the reporting period.

(ix) Future cash flows

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

The Bank expects to pay MUR5.3m in contributions to its post-employment benefit plans for the year ending 31 December 2018.

(b) Liability for unfunded pension plan

This relates to Retirement Gratuities payable under the Employment Rights Act which stipulate that all companies shall provide a lump sum to their employees at retirement based on final salary and years of service. All employees joining after 2008 will be entitled to receive the gratuity payment under the Employment Rights Act.

The movement in the obligation of the unfunded pension plan of the year is as follows:

	Dec-18	Dec-17	Dec-16
	MUR 000	MUR 000	MUR 000
At 1 January	**18,571**	-	-
Amount recognised in profit or loss:			
Current service cost	**839**	10,357	-
Net interest cost	**928**	622	-
Amount recognised in profit or loss	**1,767**	10,979	-
Amount recognised in other comprehensive income	**(9,283)**	7,592	-
At 31 December	**11,055**	18,571	-

During the year there was no payment or benefit paid for the unfunded scheme. The Bank does not anticipate to make any payment in the coming 12 months to employees in the unfunded plan.

26. PENSION OBLIGATIONS (Continued)

(c) Key assumptions used in funded and unfunded pension liability

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

	Dec-18	Dec 17	Dec 16
	%	%	%
Discount rate	**6.10**	5.0	6.0
Future salary growth rate	**4.50**	4.0	4.0

(d) Sensitivity analysis

Sensitivity analysis on both funded and unfunded benefit obligations to changes in the weighted principal assumptions is outlined below:

	31-Dec-18 Inc/(Dec)	31-Dec-17 Inc/(Dec)	31-Dec-16 Inc/(Dec)
	MUR 000	MUR 000	MUR 000
Defined pension benefit funded scheme:			
Discount rate (1% movement)	**(14,268)**	(12,410)	(9,918)
Future salary growth rate (1% movement)	**17,465**	18,635	13,383
Defined pension benefit unfunded scheme:			
Discount rate (1% movement)	**(2,815)**	(3,710)	-
Future salary growth rate (1% movement)	**2,879**	2,553	-

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

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

There was no change in the methods used in preparing the sensitivity analysis from prior years.

(e) Risk exposure

Through its defined pension benefit and unfunded plan, the Bank is exposed to a number of risks, the most significant of which are detailed below:

(i) Funded plan

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

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

26. PENSION OBLIGATIONS (Continued)

(e) Risk exposure (continued)

(i) Funded plan (continued)

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

The Bank ensures that the investment positions are managed by Swan Life on a regularly basis and also monitors the assets and liabilities of the scheme.

(ii) Unfunded plan

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

27. SHARE CAPITAL

	Dec-18	Dec 17	Dec 16
	MUR 000	MUR 000	MUR 000
Shares at no par value			
Stated capital	**856,456**	856,456	856,456
At start of year	**856,456**	856,456	856,456
At end of year	**856,456**	856,456	856,456
No of ordinary shares in issue (no par value)	**8,564,560**	8,564,560	8,564,560

28. CONTINGENT LIABILITIES

	Dec-18	Dec 17	Dec 16
	MUR 000	MUR 000	MUR 000
Acceptances on account of customers	**30,222**	6,203	72,785
Guarantees on account of customers	**525,347**	423,388	601,492
Letters of credit and other obligations on account of customers	**58,468**	37,571	18,176
Other contingent items	**121,425**	181,419	29,954
	735,462	648,581	722,407
Segment A			
Acceptances on account of customers	**3,540**	5,401	61,109
Guarantees on account of customers	**429,147**	289,554	292,631
Letters of credit and other obligations on account of customers	**26,139**	25,866	9,298
Other contingent items	**62,582**	129,332	17,448
	521,408	450,153	380,486
Segment B			
Acceptances on account of customers	**26,682**	802	11,676
Guarantees on account of customers	**96,200**	133,834	308,861
Letters of credit and other obligations on account of customers	**32,329**	11,705	8,878
Other contingent items	**58,843**	52,087	12,506
	214,054	198,428	341,921

29. COMMITMENTS

	Dec-18	Dec 17	Dec 16
	MUR 000	MUR 000	MUR 000
(a) Undrawn credit facilities	**1,806,382**	2,336,517	969,809
Segment A	**1,372,608**	1,095,543	777,781
Segment B	**433,774**	1,240,974	192,028

(b) Operating lease commitments - where Bank One is the lessee

The Bank leases various branches under non-cancellable operating lease agreements. These leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Dec-18	Dec 17	Dec 16
	MUR 000	MUR 000	MUR 000
Not later than one year	**6,978**	**11,171**	11,732
Later than one year and not later than five years	**16,437**	**12,461**	19,240
Later than five years	**5,250**	**-**	-
	28,665	**23,632**	30,972

(c) Securities pledged

GOM bonds as collateral for the purpose of overnight facility from the Bank of Mauritius when required.

Treasury notes and GOM bonds as collateral for facilities availed under the Special Foreign Currency line of credit.

	Dec-18	Dec 17	Dec 16
	MUR 000	MUR 000	MUR 000
GOM bonds	**100,000**	50,000	70,000
Treasury notes/bills	**468,300**	490,000	370,000
	568,300	540,000	440,000

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

30. RELATED PARTIES

Related parties	Name of relationship	Dec-18	Dec-17	Dec 16
		MUR 000	MUR 000	MUR 000
Loans and advances and placements	Related Companies	**1,002,973**	952,917	811,161
	Directors	**23**	186	367
	Key Management Personnel	**18,005**	34,835	25,854
Deposits & borrowings	Related Companies	**2,045,545**	315,638	78,087
	Directors	**10,914**	8,671	47,469
	Key Management Personnel	**22,665**	32,778	27,082
Interest income	Related Companies	**32,958**	13,305	16,878
	Directors	**-**	-	-
	Key Management Personnel	**551**	4,931	1,344
Interest expense	Related Companies	**28,246**	10,005	3,411
	Directors	**43**	210	755
	Key Management Personnel	**317**	3,621	4,245
Fees	Directors	**8,494**	7,222	6,422

Related companies relate to enterprises in which Shareholders, Directors, Key Management Personnel have significant interest as defined in the guideline issued by BoM.

Credit commitments for Directors/Key Management Personnel equal to MUR1.2m.

Bank guarantees for related companies amount to MUR186m.

Other disclosures on page 79 of the Risk Management Report.

(a) Key Management Personnel compensation

	Dec-18	Dec 17	Dec 16
	MUR 000	MUR 000	MUR 000
Salaries and short-term employee benefits	**71,785**	66,597	66,790
Post-employment benefits	**4,699**	4,654	4,429

31. SEGMENTAL STATEMENT OF FINANCIAL POSITION

	Dec-18			Dec-17			Dec-16		
	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Statement of financial position									
ASSETS									
Cash and cash equivalents	**7,685,450**	**448,301**	**7,237,149**	4,221,988	563,624	3,658,364	4,584,789	376,492	4,208,297
Derivative assets held for risk management	**8,275**	**-**	**8,275**	4,824	3,022	1,802	1,337	520	817
Loans and advances to banks	**2,943,988**	**-**	**2,943,988**	3,707,245	-	3,707,245	1,650,343	-	1,650,343
Loans and advances to customers	**20,668,902**	**12,416,425**	**8,252,477**	17,746,327	10,342,404	7,403,923	13,750,096	8,214,225	5,535,871
Investment securities-AFS	**2,044,702**	**2,008,698**	**36,004**	2,249,806	2,214,645	35,161	1,494,704	1,459,681	35,023
Investment securities-HTM	**4,687,679**	**953,713**	**3,733,966**	1,968,379	1,524,549	443,830	2,296,326	1,214,346	1,081,980
Property and equipment	**394,301**	**386,437**	**7,864**	403,161	402,242	919	372,417	371,058	1,359
Intangible asset	**156,539**	**149,134**	**7,405**	41,580	40,820	760	40,693	38,240	2,453
Deferred tax asset	**46,980**	**25,909**	**21,071**	71,766	66,836	4,930	71,918	68,143	3,775
Other assets	**1,368,775**	**1,358,907**	**9,868**	1,296,936	1,285,286	11,650	1,024,519	1,019,585	4,934
Total assets	**40,005,591**	**17,747,524**	**22,258,067**	31,712,012	16,443,428	15,268,584	25,287,142	12,762,290	12,524,852
LIABILITIES									
Deposits from customers	**33,431,831**	**15,982,437**	**17,449,394**	28,299,442	13,127,820	15,171,622	22,187,299	11,035,861	11,151,438
Derivative liabilities held for risk management	**1,538**	**1,409**	**129**	822	414	408	11,423	4,086	7,337
Other borrowed funds	**2,690,235**	**77,812**	**2,612,423**	123,441	122,811	630	188,431	154,825	33,606
Subordinated liabilities	**699,636**	**298,927**	**400,709**	512,205	99,815	412,390	524,390	149,764	374,626
Current tax liabilities	**14,616**	**14,616**	**-**	11,609	11,609	-	6,959	6,959	-
Other liabilities	**433,558**	**230,865**	**202,693**	304,228	236,713	67,515	240,301	177,185	63,116
	37,271,414	**16,606,066**	**20,665,348**	29,251,747	13,599,182	15,652,565	23,158,803	11,528,680	11,630,123
Shareholders equity									
Stated capital	**856,456**			856,456	-	-	856,456	-	-
Retained earnings	**1,488,632**			1,239,958	-	-	967,011	-	-
Other reserves	**389,089**			363,851	-	-	304,872	-	-
	2,734,177			2,460,265	-	-	2,128,339	-	-
Total equity and liabilities	**40,005,591**			31,712,012	-	-	25,287,142	-	-

32. SEGMENTAL STATEMENT OF PROFIT OR LOSS

	Dec-18			Dec-17			Dec-16		
	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Statement of profit or loss									
Interest income	**1,395,469**	**694,683**	**700,786**	1,080,674	630,180	450,494	1,022,557	597,323	425,234
Interest expense	**(441,723)**	**(308,097)**	**(133,626)**	(367,117)	(283,635)	(83,482)	(323,403)	(283,773)	(39,630)
Net interest income	**953,746**	**386,586**	**567,160**	713,557	346,545	367,012	699,154	313,550	385,604
Fee and commission income	**500,317**	**110,777**	**389,540**	271,295	80,332	190,963	411,836	76,107	335,729
Fee and commission expense	**(281,824)**	**(55,860)**	**(225,964)**	(123,196)	(35,619)	(87,577)	(200,132)	(34,485)	(165,647)
Net fee and commission income	**218,493**	**54,917**	**163,576**	148,099	44,713	103,386	211,704	41,622	170,082
Net gain in dealing in foreign currencies and derivatives	**103,049**	**30,819**	**72,230**	82,917	30,031	52,886	84,015	27,932	56,083
Other operating income	**147,827**	**7,007**	**140,820**	14,987	14,760	227	397	397	-
	250,876	**37,826**	**213,050**	97,904	44,791	53,113	84,412	28,329	56,083
Operating income	**1,423,115**	**479,329**	**943,786**	959,560	436,049	523,511	995,270	383,501	611,769
Non-interest expenses									
Personnel expenses	**(406,765)**	**(298,832)**	**(107,933)**	(367,600)	(273,575)	(94,025)	(313,654)	(231,775)	(81,879)
Depreciation & amortization	**(50,263)**	**(46,815)**	**(3,448)**	(43,691)	(40,951)	(2,740)	(34,392)	(32,080)	(2,312)
Other expenses	**(177,192)**	**(138,078)**	**(39,114)**	(136,203)	(110,969)	(25,234)	(144,785)	(121,878)	(22,907)
	(634,220)	**(483,725)**	**(150,495)**	(547,494)	(425,495)	(121,999)	(492,831)	(385,733)	(107,098)
Profit before impairment	**788,895**	**(4,396)**	**793,291**	412,066	10,554	401,512	502,439	(2,232)	504,671
Net impairment loss on financial assets	**(340,213)**	**(69,095)**	**(271,118)**	(11,299)	21,961	(33,260)	(153,626)	(66,770)	(86,856)
Profit before tax	**448,682**	**(73,491)**	**522,173**	400,767	32,515	368,252	348,813	(69,002)	417,815
Income tax expense	**(55,223)**	**(46,290)**	**(8,933)**	(26,568)	(11,415)	(15,153)	(37,229)	(25,537)	(11,692)
Profit/(loss) after tax	**393,459**	**(119,781)**	**513,240**	374,199	21,100	353,099	311,584	(94,539)	406,123

Branch Network

Branch Network

Main Branch
16, Sir William Newton street, Port Louis

Triolet
Royal Road, Triolet

Goodlands
Royal Road, Goodlands

Rivière du Rempart
Royal Road, Rivière du Rempart

Flacq
Charles de Gaulle Street, Central Flacq

Rose Hill
342, Royal Road, Rose Hill

t: + 230 202 9200
f:+230 212 8883
e:contactcentre@bankone.mu

Quatre Bornes
74, St Jean Road, Quatre Bornes

Vacoas
John Kennedy Avenue, Vacoas

Curepipe
Royal Road, Curepipe

Rose Belle
G-29, Centre Commercial du Vieux Moulin
Rose Belle

Mahébourg
Royal Road, Mahébourg

L'Escalier
Royal Road, L'Escalier*

*L'Escalier branch has ceased operations effective 28.02.2019

Chemin Grenier
B10 Chemin Grenier Road, Chemin Grenier

ENVIRONMENTAL DECLARATION

Bank One is committed to create economic value whilst contributing to healthy ecosystems and strong communities where it operates. As part of our engagement towards sustainable development, we favour digital reporting as our preferred means of communicating with our stakeholders on the financial performance of our operations.

Only 50 printed copies of the present Annual Report have been produced on Cocoon Offset and Cocoon Preprint, 100% recycled papers, to limit the environmental impact. If you are the recipient of a printed copy, please handle with care and consider recycling when you are ready to dispose of it. A soft copy of the Annual Report will remain available on our website **www.bankone.mu.**

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Inspired by Green Technology, the Cocoon range preserves the environment, turns office waste paper into premium quality bright white recycled paper using a unique and innovative environmental process.

Made from 100% genuine, recovered waste paper, Cocoon production requires around 1.5 times less energy and 2.5 times less water than a paper made with virgin pulp. It reduces CO^2 emissions by 23% compared to virgin fibre papers and avoids paper being sent to landfill and releasing methane gas, which is 23 times more harmful to the environment than CO^2.

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By using Cocoon Offset and Cocoon Preprint rather than a non-recycled paper, the environmental impact was reduced by:

51KG
OF LANDFILL

7KG
CO_2 AND GREENHOUSE GASES

75KM
TRAVEL IN THE AVERAGE EUROPEAN CAR

1,476
LITRES OF WATER

82kWh
OF ENERGY

82KG
OF WOOD

Sources: Water and energy savings are based on a comparison between a recycled paper manufactured at Arjowiggins Graphic mills versus an equivalent virgin fibre paper (BREF data for the non-integrated production of a wood-free paper). CO^2 emission savings correspond to the difference between the emissions generated by a specific recycled paper and an equivalent virgin fibre paper, both produced in an Arjowiggins Graphic mill. Carbon footprint is determined by Labelia Conseil in accordance with the Bilan Carbone® methodology.

Bank One Limited
Registered Office: 16, Sir William Newton Street, Port Louis, Mauritius
T: + 230 202 9200 | F: +230 212 8883 | E: info@bankone.mu | www.bankone.mu
BRN: C07040612