BANK ONE

ANNUAL REPORT 2019

CONTENTS

BEING MORE **ACCESSIBLE**

OVERVIEW

AT A GLANCE

OUR VISION

The ONE bank of choice.

OUR MISSION

Creating value in every relationship through Ownership, Nurturing and Execution.

OUR VALUES

- Behave hONEstly and fairly
- Treat everyONE with respect
- Be the ONE to delight customers
- Work together as ONE team
- PiONEer better ways of doing things

+50,000
CLIENTS

+411
COLLABORATORS

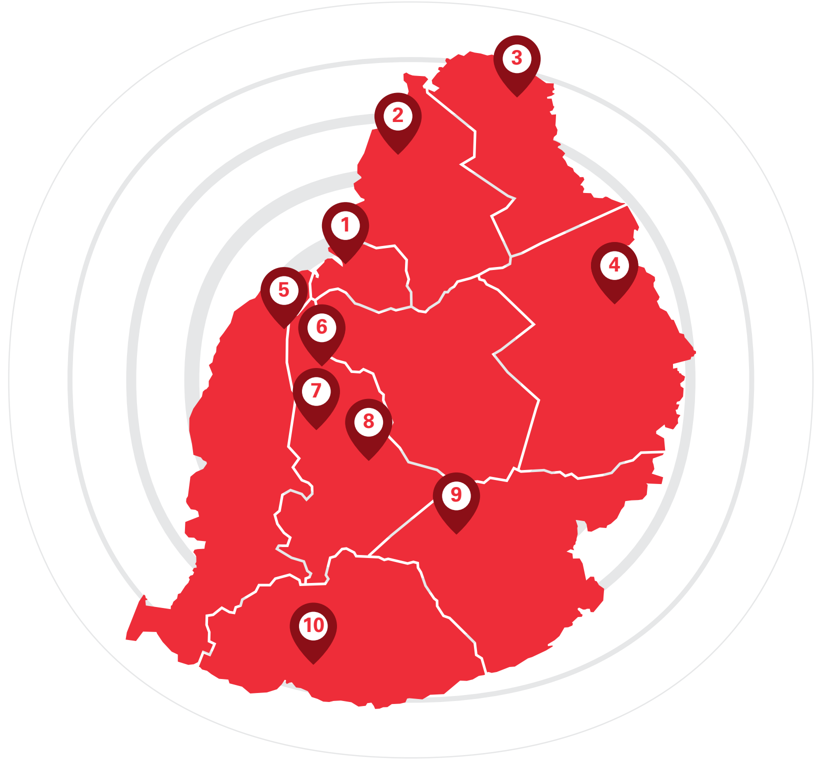
OUR 6 REVENUE GENERATORS

- Retail Banking
- Corporate Banking
- International Banking
- Private Banking
- Treasury Operations
- E-commerce

OUR 4 MAIN BUSINESS ENABLERS

- Human Capital
- Customer Experience
- Transformation
- Communication

OUR BRANCH NETWORK



1. **Main Branch**
   16, Sir William Newton street, Port Louis
2. **Triolet**
   Royal Road, Triolet
3. **Goodlands**
   Royal Road, Goodlands
4. **Flacq**
   Charles de Gaulle Street, Central Flacq
5. **Rose Hill**
   342, Royal Road, Rose Hill
6. **Quatre Bornes**
   74, St Jean Road, Quatre Bornes
7. **Vacoas**
   John Kennedy Avenue, Vacoas
8. **Curepipe**
   Royal Road, Curepipe
9. **Rose Belle**
   G-29, Centre Commercial du Vieux Moulin, Rose Belle
10. **Chemin Grenier**
    B10 Chemin Grenier Road, Chemin Grenier

OUR ACCOLADES IN 2019

Global Finance Magazine
Best Private Bank Mauritius 2019

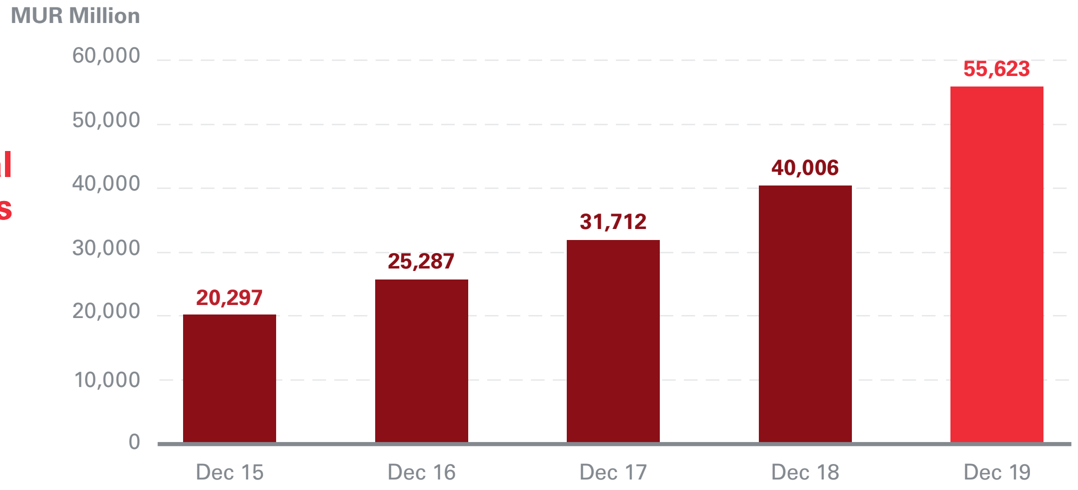
LinkedIn Talent Awards 2019
Best Employer Brand Sub-Saharan Africa Below 500 employees category

PwC Corporate Reporting Awards 2019
Runner-up in Financial Institutions category

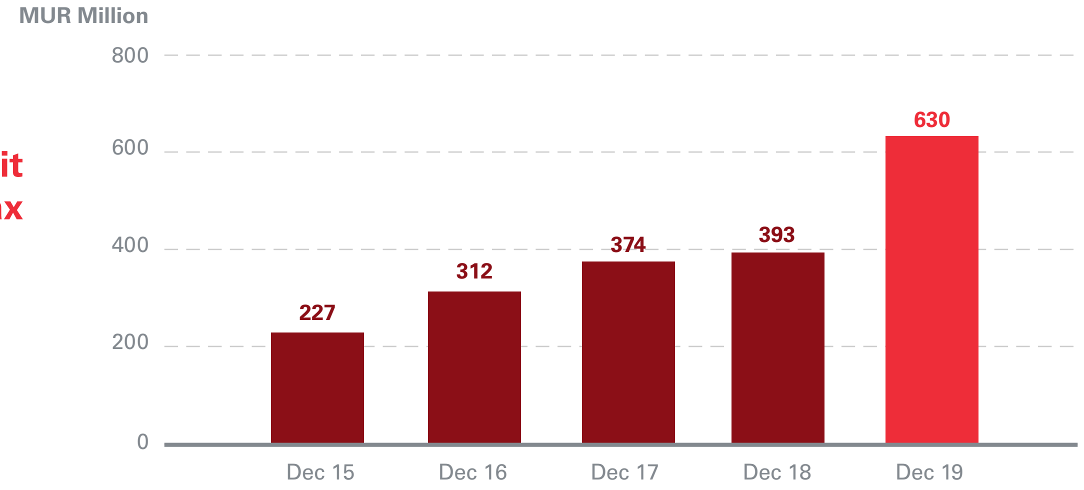
OVERVIEW

FINANCIAL HIGHLIGHTS

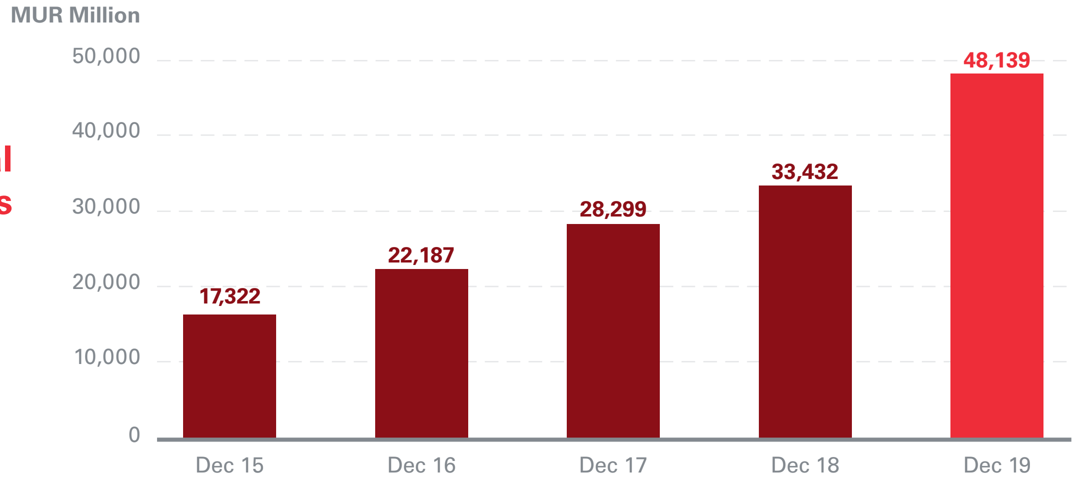
Total Assets



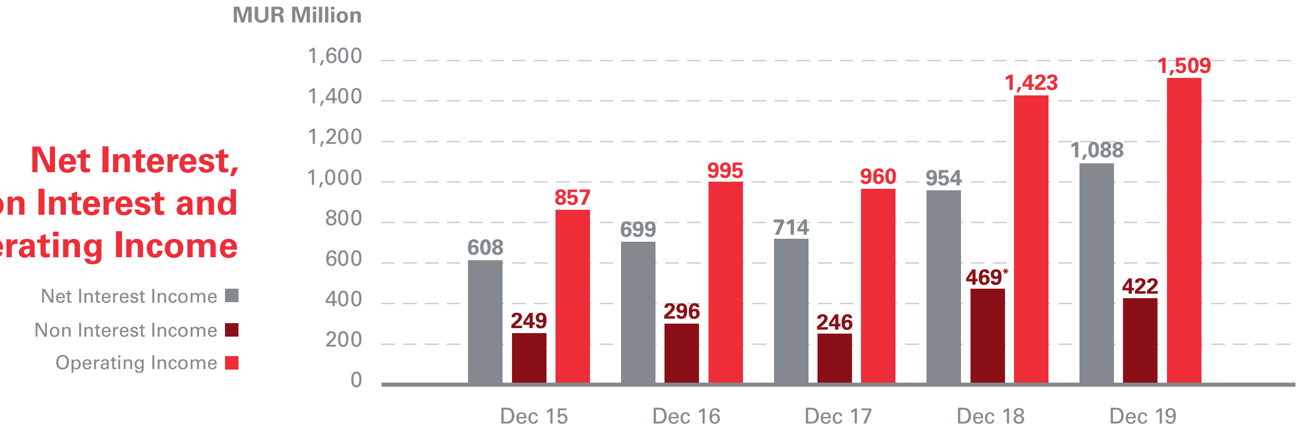
Profit After Tax



Total Deposits

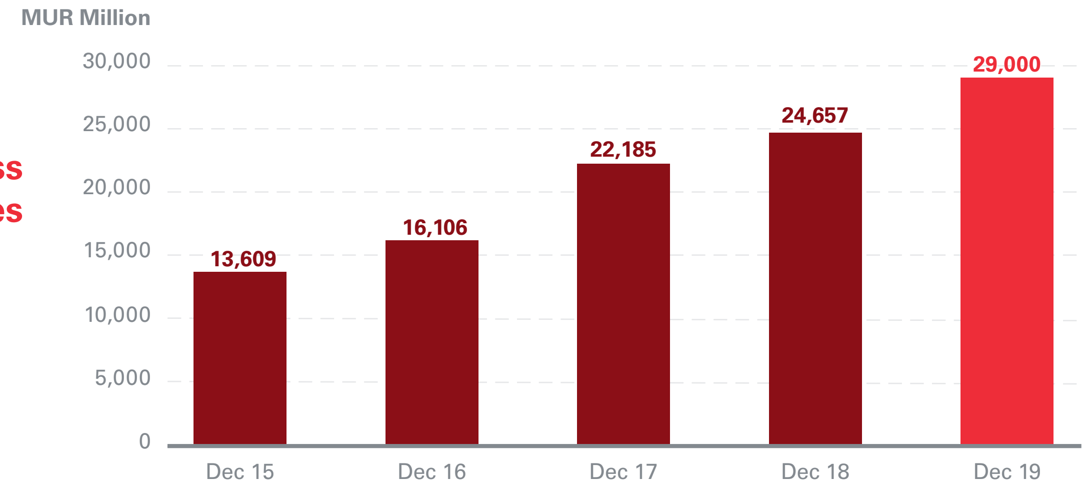


Net Interest, Non Interest and Operating Income

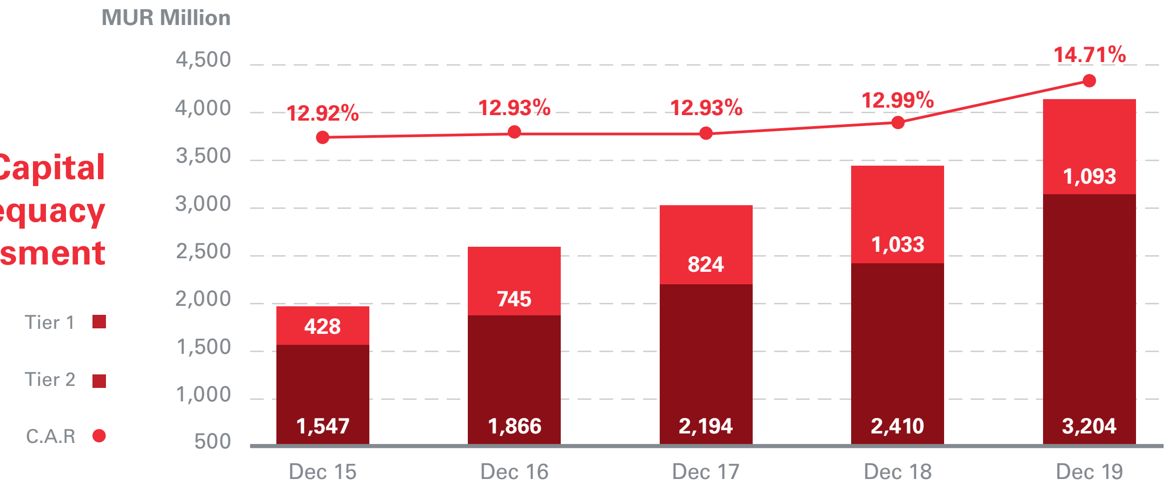


*Non interest income for 2018 includes a one off recovery of MUR 141 million

Gross Advances

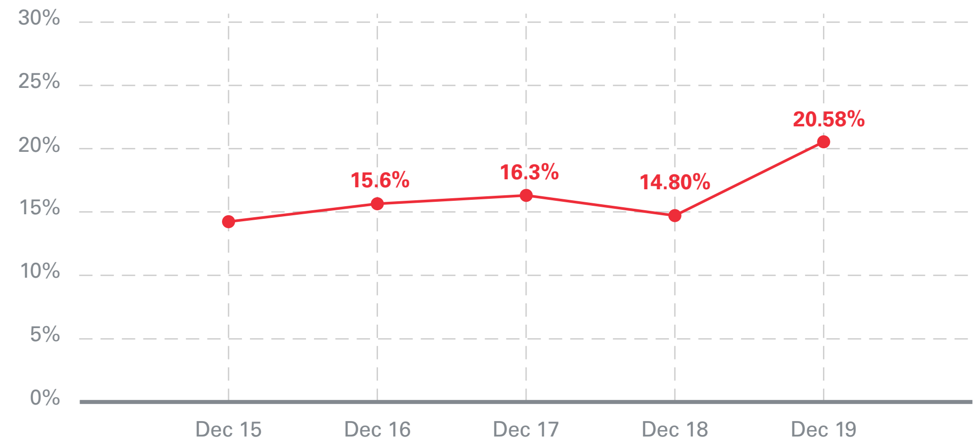


Capital Adequacy Assessment

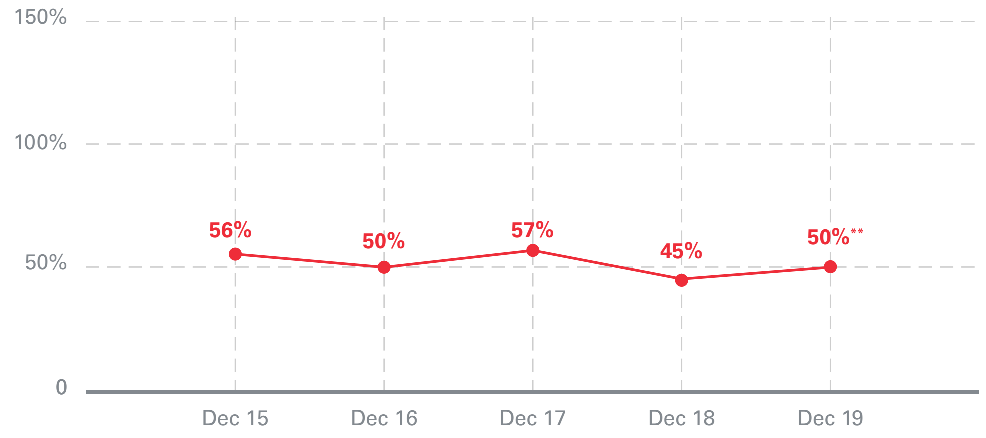


FINANCIAL HIGHLIGHTS

Return on Equity



Cost to Income Ratio

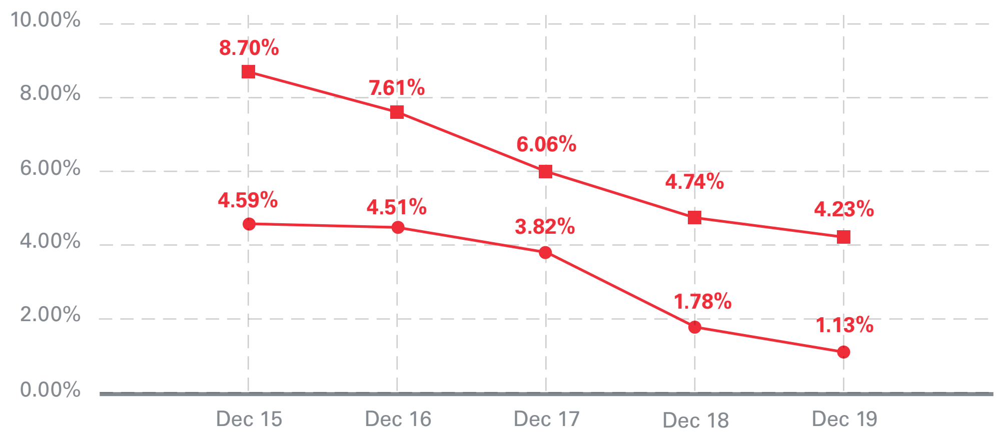


** Excluding the special levy on banks (treated as expense), the cost to income ratio would be 47%

Impaired and Net Impaired Loans Ratios

Impaired Loans to Gross Loans ■

Net impaired Loans to Net Loans ●



ALLOWING YOU TO **DREAM BIGGER**

OUR LEADERSHIP

OUR LEADERSHIP

CHAIRPERSON'S REPORT

Dear shareholders,

The year 2019 has been yet another eventful one, marked by controversies and a seemingly unending parade of crises, natural calamities, protests and - more recently - the deadly corona virus that made its appearance in Wuhan, China and spread rapidly across the world taking the proportions of a pandemic.

Unsurprisingly, America continued to be at the forefront of the global political scenario. Donald Trump kept grabbing the headlines with his unprecedented visit to North Korea to work out a nuclear solution with President Kim Jong-Un, which unfortunately did not go very far. The failed impeachment bid on President Trump proved to be another distractor on the political front

Moving on to the United Kingdom (UK), Prime Minister Boris Johnson received a strong mandate to push forward the country's Brexit agenda. After prolonged negotiations on both sides of the Channel, he managed to get a clearance for the UK to cease being a member of the European Union (EU) after 23:00 GMT on 31 January 2020.

Another issue that generated a lot of heat was the trade war between the United States of America (USA) and China. Globally, stock markets yo-yoed as each round of negotiations took place, until a tentative agreement was reached in October on a "Phase 1" deal. It took a further two months for the modalities to be worked out. The agreement, however, failed to settle the major differences between the two economic superpowers, suggesting that there could be more turbulence on the trade front in the coming year.

In the Middle East, tensions continued to mount and a war in the Persian Gulf seemed imminent at various points in time in 2019. Following the destruction of two major Saudi oil refineries, the USA announced its intention to deploy 3,000 additional troops and several missile defense systems to the region, in order to protect Saudi Arabia. Thereafter, the assassination of Iranian General Qasem Soleimani further exacerbated the situation. Fortunately, things appear to have calmed down for the time being.

On the environmental front, concerted global action appeared very limited despite the mounting evidence that the planet is warming. There was massive destruction of forests through deforestation and wildfires in Brazil, Australia and other countries, causing enormous damage to the global ecosystem.

World economic growth decelerated markedly in 2019, with a continued decline in global trade and investment. This weak trend was widespread, affecting both advanced economies as well as emerging markets and developing economies. The global growth in 2019 is estimated to be 2.9%. More recently, the outbreak of COVID-19 referred to above has exacerbated the situation spooking stock exchanges. Indices across the globe have declined sharply indicating extreme risk aversion.

All of the above, including the anti-government protests in Hong Kong, India's new citizenship laws and unrest in many other parts of the world, are indications that the global economy is still fragile and fraught with uncertainty.

On the domestic front, performance in the major Mauritian economic sectors has been largely in line with the 3.8% GDP growth estimate. While construction, financial services and retail business sectors have been doing relatively well, both tourism and agro-based industries appeared more vulnerable in reacting to international trends. The first phase of the much-awaited Mauritian metro project was completed and has proven to be a real success, having positively impacted the lifestyle of a large segment of the population. The second phase has already kick started and is expected to be ready by December 2020. The completion of the entire project will be a landmark achievement, expected to bring about substantial improvements in local productivity.

The Mauritian banking system has remained resilient in spite of the increased regulatory supervision and reporting requirements imposed on the GBC sector. This sector will face tougher competition from other international financial centres and continued pressure from regulators.

Bank One has posted impressive numbers in 2019 despite all the local and offshore challenges. Our year on year 39% asset growth remains among the highest on the Mauritian market, contributed to a large extent by our offshore business. The Bank also closed some long-term deals with renowned international financial corporations during the last quarter. Efforts were made to hone up our risk management systems and de-risk our portfolio, by penetrating new markets and offering new products. The focus on our retail franchise during the year has paid off – the Bank is now a recognised player in this segment of the local market. We are confident that after this year's stellar performance, resulting in a return on equity of over 20%, the Bank is on a firm footing to face future challenges. The additional equity injection of MUR 300 million by CIEL and I&M reaffirms our shareholders' unconditional support towards sustainably growing the Bank.

On the Personnel side, our CEO, Ravneet Chowdhury, will be leaving in March 2020 to pursue opportunities outside the Bank. I wish to place on record the excellent job he has done to steer Bank One in the right direction. He has been instrumental in building a strong people-centric culture, offering innovative products and delivering customer satisfaction at all times. On behalf of the Board of Directors, I would like to thank Ravneet for his strong commitment and valuable contribution to the substantive improvements made in the Bank over the last six years. We wish him all the best in his future endeavours, both professionally and personally. Ravneet will be succeeded by Mark Watkinson, a career banker from HSBC who holds over 33 years' experience in various worldwide locations.

The changes in the Board's composition during the year under review include the departure of Juan Carlos Albizzati, who resigned on 12 June 2019. We thank him for his valued contribution to the Board and his effectiveness as Chairman of the Board Risk Management Committee. We also welcome our new members, Ignacio Serrahima Arbestain and Paul E. Leech, who joined the Board of Bank One on 16 April 2019 and 26 June 2019 respectively. They come with a wealth of experience in their individual fields and we look forward to their active participation in Board-related matters.

I would also like thank my fellow directors for their contribution to the smooth and effective functioning of the Board; the management and the staff of the Bank for their hard work and dedication; and our business partners and shareholders for their unwavering support. Last but not least, I acknowledge the guidance and support received from our Regulators and External Auditors, whose inputs are very valuable to us.

Sandra Martyres
Chairperson

OUR LEADERSHIP

CEO'S REPORT

Dear shareholders,

It is my privilege as outgoing CEO to share Bank One's strategy and performance for the year 2019. I am delighted to report record numbers for the Bank for the period under review, with total operating income growing by 18% and crossing the MUR 1.5 billion mark for the first time ever. Additionally, the Bank reported profits after tax of MUR 630 million for the year under review, which represent a 60% momentum as compared to 2018. This growth was fueled by strong momentum on the balance sheet with deposits growing by 44%.

The Bank's deliberate strategy to review its asset mix resulted in an 18% increase in gross loans and advances, while the investment book experienced a 181% rise. With a balance sheet size of above MUR 55 billion, the Bank is better equipped to face future challenges.

In order to support the Bank's growth and improve its capitalisation, our shareholders injected another MUR 300 million in the form of ordinary shares, strengthening our capital base. The Bank delivered a return on equity of above 20%, which is among the best in the industry.

In parallel, risk has been well managed, with the NPL ratio going from 4.7% in 2018 to 4.2% in 2019. The coverage ratio has also improved from 64% in 2018 to 74% as at December 2019, on account of more provisions. And to cap a very successful year, we drew down on a significant amount of senior debt tranche from a renowned international financial institution, to strengthen our medium- to long-term liability base.

All our revenue generators, namely retail banking, corporate banking, international banking, private banking, treasury operations as well as e-commerce, had a very good year, with strong performances contributing significantly to the growth of the Bank, well backed by our support teams.

We continue focusing on our four main business enablers – human capital, customer experience, transformation and communication – while adjusting our strategy to the economic context in which we are currently operating.

ENGAGING OUR PEOPLE

We know our People continue to be our most important assets and the cornerstone of our strategy, and we are lucky to count such a dedicated team of professionals, working together to reach a common goal. We aim to become a great employer and have made good progress in 2019 towards becoming the "Best place to work", investing in a new e-learning platform that provides for specialist training, as well as management and leadership development training.

Our employee engagement efforts continue to bear fruit with regular surveys giving us feedback for areas of improvement. For instance, recognition awards were launched to promote excellence and thank great performers. We also refreshed our grading structure and aligned our remuneration to market. Last but not least, we reviewed our performance management system to promote and encourage a high-performance culture.

BUILDING A TRANSFORMATION ARCHITECTURE

We obtained approval from our Board for a significant investment in a new IT systems architecture that would enable our digital journey, improve customer experience, enhance efficiency and reduce transaction costs. This involved a deep dive into our current processes and systems, as well as a mapping exercise as to what the future state of our architecture should look like. We engaged with external consultants and top tier global vendors to arrive at a clear roadmap, and have started executing on same. This will be backed by a strong change management process, which also involves culture change programmes.

We have also set up an innovation lab called "One Lab", to help incubate innovative ideas and attract talent, enabling us to pursue a disruptive journey on the market. Once implemented, our architecture should be second to none, enabling a top end digital experience and placing us right at the forefront to deal with the disruption which will transform the world as we know it today.

NAVIGATING THE ECONOMIC ENVIRONMENT

A lot is said about the global and local economic environments, and the impact both will have on businesses. There have been long debates on when the United States of America (USA) - China trade war will abate and what shape global trade will end up in, what impact will Brexit have, and how will the Middle East tensions get resolved.

We recently held elections in Mauritius. With every elections comes speculation on who will win and what changes in policy or thought processes this will bring. Over the last few years, we have learnt that – irrespective of the economic or political situation – there are always opportunities in pockets. We have been very successful in identifying these safe pockets and engaging in them, but also prudent in withdrawing from pockets that showed promise but then exceeded our risk appetite.

In Mauritius, we are blessed to be an International Financial Services Centre. The world is our oyster, we will carry on exploiting this unique positioning and engage in geographies, products and businesses that match our risk appetite, backed by the right returns. We will keep following a similar selective strategy on the local market, so as to engage in segments of opportunity to provide our chosen clients with the right support and our shareholders with the right returns.

CEO'S REPORT

STRONG FOUNDATION FOR THE FUTURE

In October 2019, Bank One was once again recognised as the Best Private Bank Mauritius 2020 by the Global Finance Magazine, so for the fourth year running. We also won the LinkedIn Talent Awards in the Best Employer Brand Category in Sub-Saharan Africa in 2019. These accolades highlight the efforts of our dedicated team, which we are very proud of.

Bank One is in a great place, having emerged from its past and established itself as a young, dynamic Bank envied by its competitors. We have witnessed strong balance sheet growth and have today become one of the top 20 most profitable companies in Mauritius. Our risk is well-managed and we have strong positive head winds to propel us faster and further. Investments in technology is going to further spur this growth and I have no doubt that Bank One will emerge as one of the top 5 Banks in Mauritius in the near future.

After six and a half years at the helm of Bank One, the time has come for me to move on to new opportunities. It has been a most fulfilling experience and I am very grateful for the contribution of my team, the support of our Regulators, the guidance of the Board and the trust of our shareholders.

I hand over the baton to Mark Watkinson, who takes over from me as the new CEO. Mark is a solid banker with vast experience and I wish him good luck in his new role.

Ravneet Chowdhury
Chief Executive Officer

OUR LEADERSHIP

BOARD OF DIRECTORS

SANDRA MARTYRES

Independent Chairperson, Non Resident
(Appointed as Independent Director on 02.09.13 and Chairperson on 07.09.17)

Sandra Martyres has over 25 years of experience in banking at Senior Management level, overseeing all areas from front office (corporate banking, trade finance, treasury & foreign exchange trading) 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 Boards of Novartis India Ltd, Franklin Templeton Trustee Services India P. Ltd, HNI India Office Ltd and an Executive Member of the Managing Committee of Alliance Française de Bombay. Sandra holds a Master's Degree in Economics from the University of Mumbai.

RAVNEET CHOWDHURY

Chief Executive Officer & Executive Director, Resident
(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.

JUAN CARLOS ALBIZZATI

Non-Executive Director, Resident
(Appointed on 02.03.17, resigned on 12.06.19)

Juan Carlos Albizzati was 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 Department and as Head of Risk Division with Société Générale in Romania, Croatia, Argentina and Russian Federation. He was a Board member in Argentina, Executive member in Romania and Croatia and also sat as Management Board Member in Russian Federation.

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

GAURI A. GUPTA

Non-Executive Director, Non Resident
(Appointed on 02.03.17)

Gauri Gupta heads I&M Group's Corporate Advisory function. Under Corporate Finance, Gauri's forte lies in M&A transactions including transaction structuring and negotiation of legal documentation. She holds a B.Com degree and is a Chartered Accountant from the Institute of Chartered Accountants of India. Her experience of over 20 years in Banking covers Credit, Risk Management, Product Development, Finance, and Strategic Planning.

She has been instrumental in enhancement of the corporate governance framework at I&M for over 15 years and oversees governance matters for I&M Holdings Plc, the parent entity for I&M Bank Group, listed on the Nairobi Securities Exchange.

She is a Director on the board for several companies under the I&M Bank Group including I&M Burbidge Capital Limited, an East African Corporate Advisory firm.

BOARD OF DIRECTORS

PAUL E. LEECH

Non-Executive Director, Resident
(Appointed on 26.06.19)

Paul Leech is currently the Non-Executive Chairman of CIEL Finance Limited, the Chairman of the Strategy Committee and a Member of the Audit and Risk Committee of CIEL Finance Limited. He is also the Non-Executive Chairman of the IQEQ group companies in Mauritius. Prior to these roles, he was Group CEO of Cim Financial Services Ltd from 2014 to 2017 and worked for 33 years with the HSBC Group in Asia, Africa and Europe. He held the position of Head of International at HSBC in Asia-Pacific prior to retirement from HSBC in 2011.

Paul holds a bachelor's degree from the University of Birmingham.

LEONARD C. MUSUSA

Independent Director, Non Resident
(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, consumer industry and media sectors. He is a Fellow of the Association of Chartered Certified Accountants (FCCA) and Fellow Certified Public Accountant (Tanzania).

IGNACIO SERRAHIMA ARBESTAIN

Independent Director, Non Resident
(Appointed on 16.04.19)

Ignacio Serrahima A. has been a freelance consultant since March 2014, advising various entities in Madrid, Barcelona, Dubai, Riyadh, Nairobi and Mumbai in areas of strategic development and human resources. Prior to launching his consultancy business, Mr. Serrahima occupied various M&A roles at Banco Popular Espanol, S.A (Madrid) and Bankinter, S.A. (Madrid) between September 2000 to March 2014.

He holds a degree in Business Administration and an MBA at ESADE, Spain, as well as a Master in International Management from the Thunderbird School of Global Management, USA.

L. A. SIVARAMAKRISHNAN

Non-Executive Director, Non Resident
(Appointed 07.03.16)

L. A. Sivaramakrishnan is the Head of Business Development at I&M Bank Limited. He has over 38 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).

BOARD OF DIRECTORS

NIKHIL TREEBHOOHUN

Independent Director, Resident
(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, Resident
(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.

SENIOR MANAGEMENT TEAM'S PROFILES

SALEEM UL HAQ

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 and 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 & Africa for Barclays and Citigroup before joining Bank One.

RANJEEVE GOWREESUNKUR

Chief Financial Officer

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

He started his career in 1998 at the Union International Bank and has since held various senior positions and gained extensive banking experience in his different roles at Delphis Bank, First City Bank, SBI (Mauritius) and Deutsche Bank (Mauritius). Ranjeeve joined Bank One in 2008 as Financial Accountant and was appointed as CFO since 2014.

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.

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 organisations, namely KPMG, Deloitte, HSBC, AAMIL, Barclays over these years and was a corporate director at Banque des Mascareignes before joining Bank One. 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.

OUR LEADERSHIP

SENIOR MANAGEMENT TEAM'S PROFILES

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 in Applied Accounting, Carl was previously Head of Trade Finance at Citi for the Sub Sahara 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 and was subsequently appointed as Head of Private Banking.

Guillaume joined Bank One as the new Head of Private Banking in March 2017. He brought along the needed expertise to uplift the Private Banking offer. Following the setting up of the International Custody Platform, Securities Services and the External Wealth Managers Desk, our clients, both high-net-worth and institutional now have the tools for their wealth management experience. The Bank's array of clients has also been widened to accommodate Asset Managers, Investment Funds, Pension Funds and Family Offices through a one stop shop and open architecture model.

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. Over his career, Shehryar has successfully led Payments, Credit Cards Issuing/Acquiring, E-commerce, Personal Loans, Personal Banking and SME Business.

Shehryar is a graduate of University of Texas at Austin in Computer Sciences and has joined Bank One as Head of Retail Banking in May 2018.

RISHYRAJ LUTCHMAN

Head of Treasury

Rishy holds an ACI Diploma, a PGCE in derivatives and financial products 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.

SENIOR MANAGEMENT TEAM'S PROFILES

VALERIE DUVAL

Head of Legal and Regulatory Affairs

Called to the bar in 1995, Valerie joined Bank One in 2008 and acquired in depth exposure and expertise in banking operations and legal matters.

Valerie is a versatile executive with 23 years of diversified experience. She comes with a unique mix of experience in a senior leadership position in matters pertaining to the general insurance sector and the banking sector. Her expertise ranges from handling high level claims for key general insurers of the market and advising Bank One on all legal aspects relating to the affairs of the Bank including complex recovery of assets in foreign jurisdictions. After having headed the Credit Administration Department of the Bank for 11 years, she was appointed as Head of Legal and Regulatory Affairs since September 2019.

PRISCILLA MUTTY

Head of Human Resources

With over 20 years of experience in the human resource 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, 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 101 Most Influential Global HR Leaders by the World HR Congress and more recently led the Bank to win the LinkedIn Best Employer Brand Award for Sub-Saharan Africa below 500 employees category.

GUIDING YOU **EVERY STEP OF THE WAY**

OUR PERFORMANCE

ECONOMIC OUTLOOK

GLOBAL ECONOMY

In 2019, the Global Economy was blemished by the intensity of trade tensions, uncertainty, Brexit and geopolitical tensions. Ambiguities surrounding these developments not only led to elevated volatility but also resulted in successive downward revisions of global growth projections. Weaker manufacturing activity and sluggish trade in advanced economies, combined with subdued investment and lower external demand in emerging economies, have weighed on global economic activity.

As the trade war between the US and China rumbled on from 2018, the year began with relative optimism as the two sides hammered out a deal in January 2019 talks in Beijing. Negotiations continued throughout the following months with mixed signs of progress until an abrupt deterioration in May 2019.

The market disruption arose upon the announcement by US President Trump that the US would increase tariffs on $200 billion worth of goods from 10% to 25%.

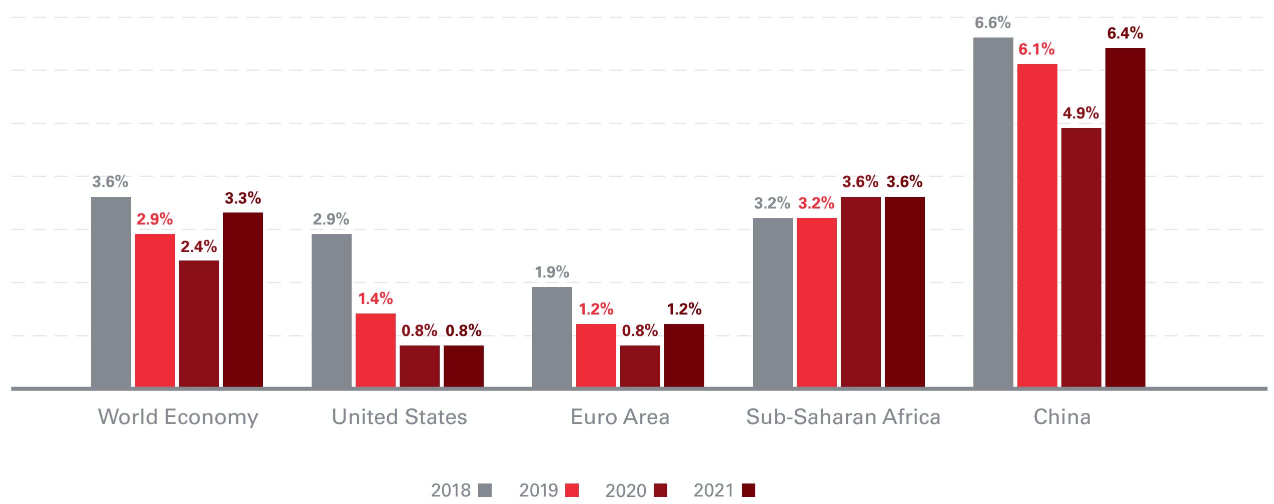
Brexit-related political uncertainty weighed heavily on the UK economy in 2019. Business investment shrank through most of the year amid concerns over the risk of disruption to trade, while even households curbed their spending. With Brexit now becoming a reality as from end of January 2020, the related implications seem to be more and more blurred.

For Sub-Saharan Africa, stronger price pressures in Angola- stoked by a depreciating kwanza, and quicker food inflation in Nigeria and South Africa, were largely behind the acceleration. Inflationary pressures are seen subsiding overall 2019, partly owing to still-tight monetary policy.

Adding to all these is the new dilemma, Coronavirus, which originated in the Wuhan in China in late 2019. Since its outburst, close to 125,000 people have been infected from 118 countries and territories world-wide. The outbreak has the potential to cause severe economic and market dislocation. The immediate impact of the closure of industries in and outside China has already been felt with the drop in oil prices. Drastic measures were taken by other countries such as the USA, several European countries, India and other Asian governments as well as middle east, include suspension of flights, closure of schools, and suspension of VISAs amongst others. The stock markets throughout the globe plunged in early March 2020, after the World Health Organization officially declared the spread of COVID-19 a pandemic. The level of uncertainty keeps on increasing.

As a result, major international organisations scaled down their global growth projections for 2019 while expressing caution for 2020. Following the issuance of the OECD Interim Economic Outlook in March 2020, Global growth is now revised downwards from an initial forecast of 2.9% to 2.4% for 2020.

OECD Interim Economic Outlook Growth Projections



Source: OECD Interim Economic Outlook, March 2020

In the US, growth is expected to moderate from 2.3% in 2019 to 1.9% in 2020 and 2.1% in 2021 (0.1% percentage point lower for 2020 compared to the OECD Economic Outlook November 2019) according to OECD Interim Economic Outlook in March 2020. The moderation reflects a return to a neutral fiscal stance and anticipated waning support from further loosening of financial conditions.

Growth for the UK is expected to stabilize at 0.8% in 2020 and 2021. The growth forecast assumes an orderly exit from the European Union at the end of January followed by a gradual transition to a new economic relationship.

Most of the major central banks in the region revised downwards their policy rates, starting from the FED as well as the Bank of England cutting down the rates by 50 basis points.. All other central banks are expected to follow this trend. In Sub Saharan Africa, growth is expected to go down from 3.2% in 2019 to 3% in 2020 and 2021. This reflects downward revisions for South Africa (where structural constraints and deteriorating public finances are holding back business confidence and private investment) and Ethiopia (where public sector consolidation, needed to contain debt vulnerabilities, is expected to weigh on growth).

The balance of risks to the global outlook remains on the downside. Rising geopolitical tensions, especially between the US and Iran, could disrupt global oil supply, hurt sentiment and weaken already tentative business investment. Moreover, intensifying social unrest across many countries, the erosion of trust in established institutions and lack of representation in governance structures, could lead to disruption of activities and weaken sentiment, thereby dragging growth lower than forecasted.

Weather-related disasters such as tropical storms, floods, heatwaves, droughts, and wildfires have imposed severe humanitarian costs and livelihood loss across multiple regions in recent years. Climate change, the driver of the increased frequency and intensity of weather-related disasters, already endangers health and economic outcomes, and not only in the directly affected regions. A continuation of the trends could inflict bigger losses across more countries.

MAURITIAN ECONOMY

On the domestic economy, there was a weaker-than-expected performance mainly on the Manufacturing, Accommodation and Food Service Activities in 2019. As a result, the growth rate is expected to decline from 3.8% in 2018 to 3.6% in 2019. On a more positive note, the other sectors such as 'Information and Communication', 'financial and insurance activities' which are pillars of our economy, seem to be doing well.

Budget deficit

With increasing investments in infrastructure, introduction of minimum wage and substantial increase in pensions, public debt is on the rise, the budget deficit is expanding, the current account deficit has widened and the country remains exposed to risks including vulnerability to external shocks and natural disasters such as cyclones and floods.

Added to that is the continuing decline in exports—mainly of textiles and agricultural products—which is adversely affecting the balance of payments. Last year, the current account deficit soared to 6.2% of GDP from 5.6% in 2017. For the 2019-20 fiscal year, the deficit is forecast to hit 7%.

Public debt

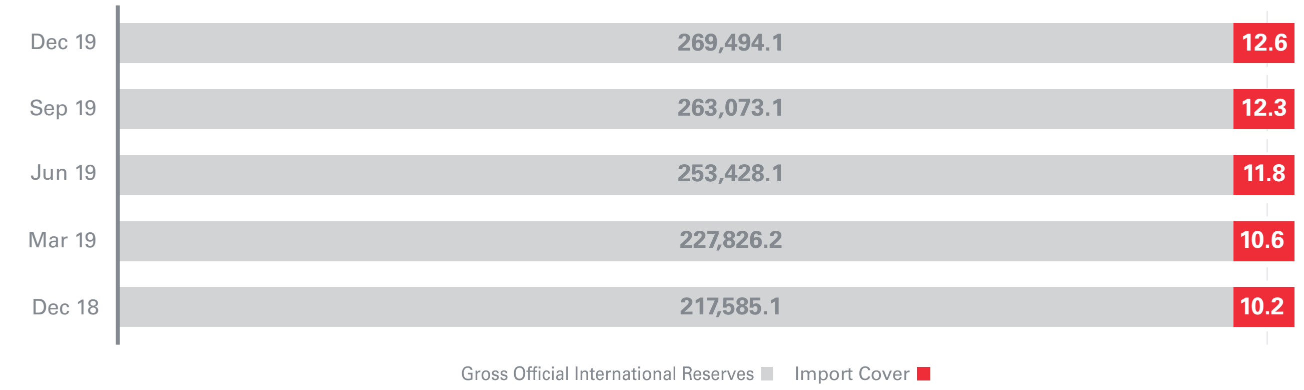
At the end of December 2019, gross public debt stood at USD 8.9 billion, accounting for 64.9% of GDP. While still at sustainable levels, the government has admitted that achieving targets of 60% of GDP by the end of the 2020-21 fiscal year is not feasible, yet it holds out hope for 2022-23. IMF warns that lowering public debt is critical to safeguarding macroeconomic stability and creating room to respond to shocks.

ECONOMIC OUTLOOK

FOREIGN EXCHANGE RESERVES

The Gross Official International Reserves (GOIR) represented a historic high level of 12.6 months cover of imports as at end of December 2019, compared to 10.2 months for the same period the previous year.

Gross Official International Reserves (MUR million)



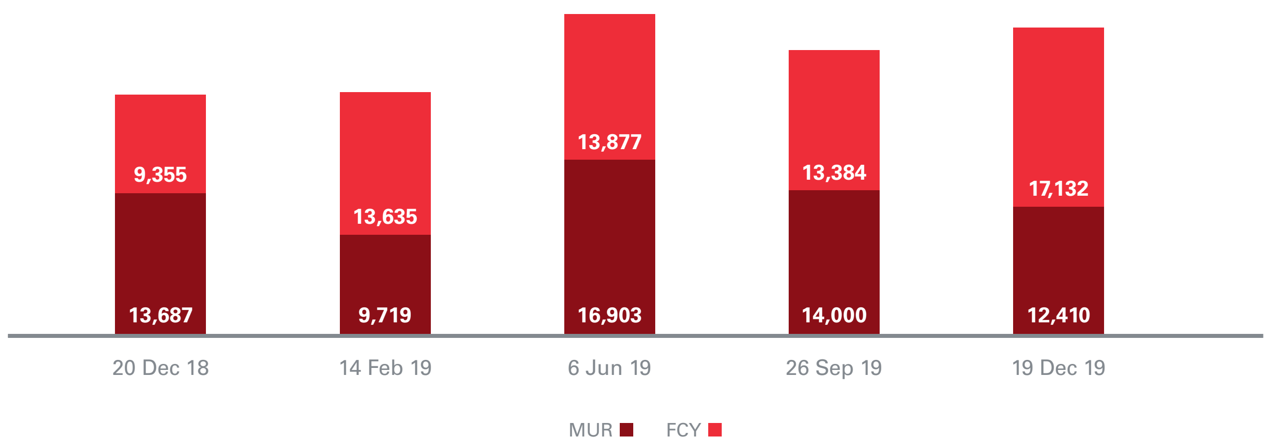
The Bank of Mauritius (BOM) continued to intervene on the foreign exchange market to contain excessive volatility of the exchange rate and ensure it reflects macroeconomic fundamentals. Currency pressures emanated largely from external factors, in particular the volatility of major international currencies. The exchange rate broadly evolved, in line with macroeconomic fundamentals. As recommended by the International Monetary Fund, the intervention policy also aimed at growing the country's foreign exchange reserves to further build its resilience against shocks.

The country's level of GOIR rose by USD 1 billion, to stand at USD 7.3 billion (equivalent to MUR 269 billion) as at end of December 2019. The one-year level of import cover represents a solid insulation against adverse external shocks.

MONETARY POLICY

Excess liquidity in the local domestic money market rose substantially, to reach a peak of MUR 30.8 billion in June 2019.

Excess liquidity in the mauritian banking industry



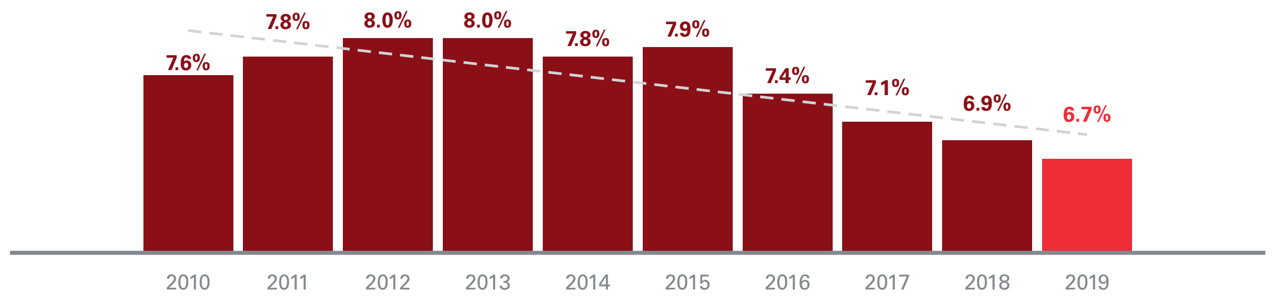
Source: The Bank of Mauritius

Monetary policy remained supportive of growth amid the low inflation environment. The Monetary Policy Committee (MPC) convened four times in 2019. At its August 2019 meeting, the MPC decided by majority vote to cut the Key Repo Rate (KRR) by 15 basis points, to 3.35% per annum, as a pre-emptive measure against the risks associated with weakening global growth. Inflation stayed on a downward course, reaching 0.5% at the end of 2019. In view of low inflation risks, accommodative monetary conditions were maintained via low interest rates. These are expected to assist credit expansion for both the household and corporate sectors, as well as support overall economic activity.

UNEMPLOYMENT

The unemployment rate is at a historic low level. With the resilient performance of the economy, the unemployment rate maintained its downward trend and was estimated by Statistics Mauritius at around 6.7% during the third quarter of 2019, representing 15,500 males (39%) and 23,800 females (61%).

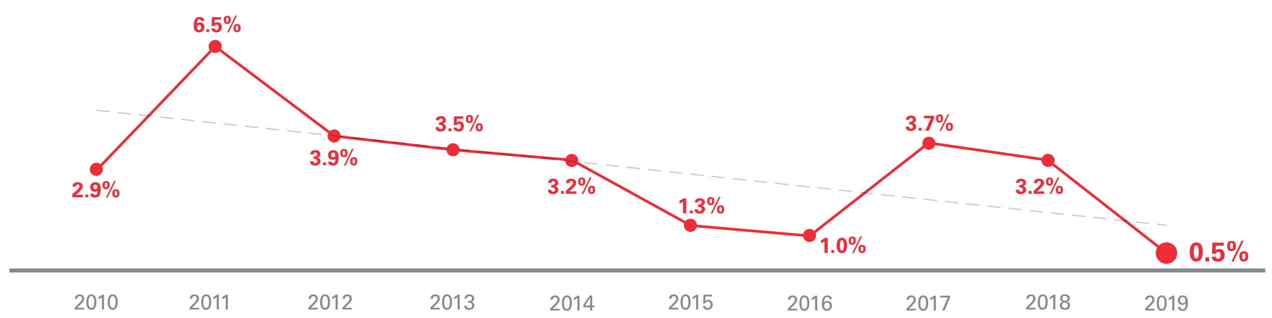
Unemployment rate



MAURITIAN INFLATION TREND

The headline inflation rate excluding alcoholic beverages and tobacco dropped from 3.2% in 2018 to 0.5% in 2019. This was driven by several factors, namely lower prices of commodities and other goods and services.

Inflation rate (%), calendar year 2010 - 2019



Source: CSO, January 2020

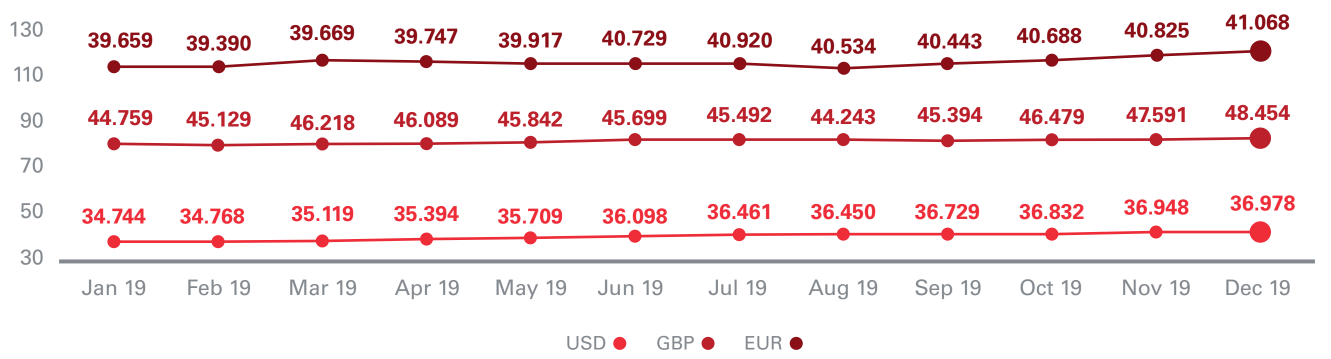
The inflation is expected to increase further in 2020 as a result of Covid-19.

ECONOMIC OUTLOOK

FOREIGN EXCHANGE RATES

The rupee, on average, depreciated against the three major currencies - USD, EUR and GBP - in 2019. Further depreciation of the rupee vis-à-vis these currencies in expected in 2020.

Exchange rate of rupee (period average): January 2019 to December 2019



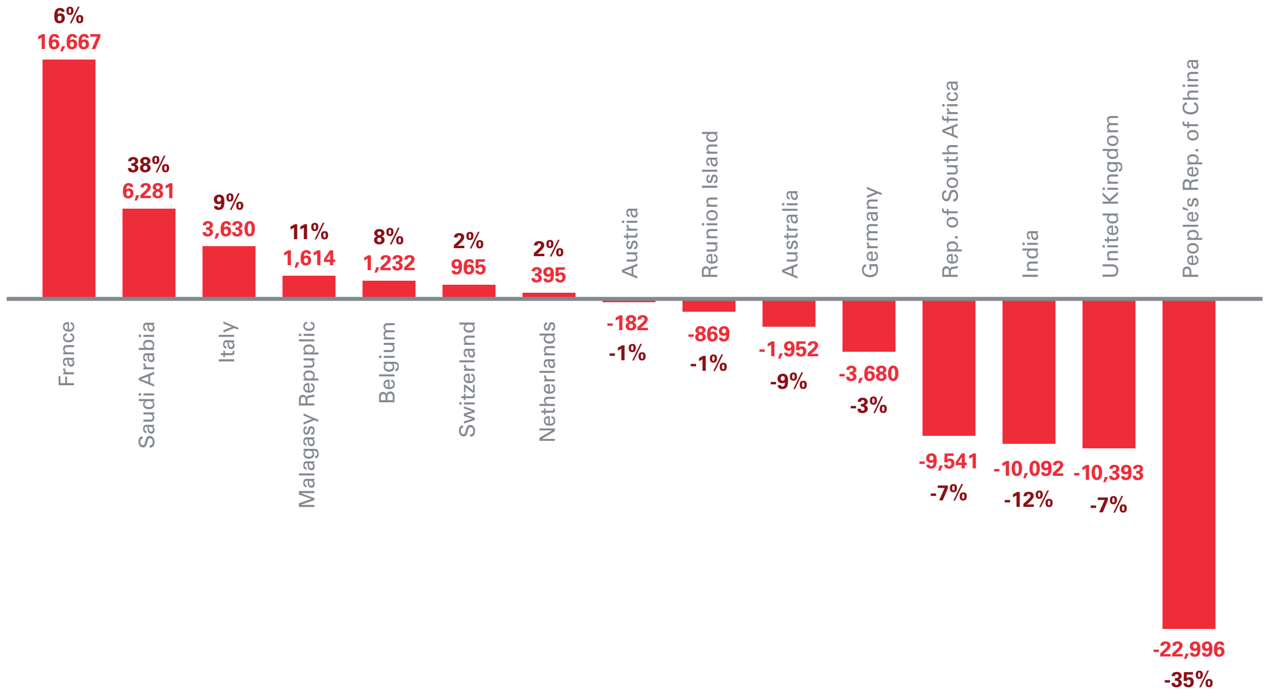
Source: The Bank of Mauritius

Tourism

Tourist arrivals dropped by 1.1% in 2019, due to the underperformance of some key source markets, namely, Europe and Africa. The European market receded by 1.4%, with lower arrivals from UK, Germany and Finland, while arrivals from France increased by 6%. Arrivals from Africa dropped by 0.5%, driven mainly by South Africa and Reunion Island. The Asian continent registered a decline of 11% in arrivals, which are mainly driven by the Indian market. Gross tourism earnings stood at MUR 56.5 billion for November 2019, compared to MUR 57.3 billion in 2018. The Bank of Mauritius has revised the 2019 forecast of tourism earnings downwards from MUR 66.0 billion to MUR 64.7 billion, representing an increase of 1% compared to MUR 64.0 billion recorded in 2018.

Many countries which promote Mauritius as a tourist destination have suspended their flights and not encouraging people to travel. This will eventually have a negative impact on the industry in 2020.

Growth in tourist arrivals in Mauritius 2019 versus 2018



Risk factors

The growth outlook in the short- to medium-term is subject to downside risks, arising mainly from the escalation of trade tensions, the risks of a currency war, Brexit and heightened volatility in international financial markets. These factors could have a negative impact on external demands for the export of our goods and services. Given that Mauritius is an open economy with strong foreign ties, susceptibility to external shocks looms large, especially with disputes with the UK and the USA over the Chagos Islands and Diego Garcia still unresolved.

On a brighter side, the country has, in recent months, deepened security ties with India and signed Africa's first free trade deal with China, while also joining Beijing's maritime Silk Road initiative. The elections held on 7 November 2019 also cemented Mauritius' position as a haven of political stability and democratic process, especially compared with its neighbours in Sub-Saharan Africa.

An assessment of the impact of coronavirus was made by the Ministry of Finance on the Mauritian economy. It is expected that the GDP growth will be negatively impacted by 1%. The most affected sectors are expected to be tourism industry, trade and manufacturing including SME as well as other related sectors. As a measure to support the local industries and following the international trend, Monetary Policy Committee (MPC) held on Wednesday 11th March 2020 has reduced the MUR Key Repo Rate (KRR) by 50 basis points from 3.35% to 2.85% per annum and the Government has announced a financial support plan of about Rs 9 billion to all sectors that are affected by economic slowdown.

FINANCIAL ANALYSIS

STATEMENT OF FINANCIAL POSITION

Despite the profound uncertainty prevailing in the local and international economic environments, the Bank has been successful in growing its assets base from MUR 40 billion in 2018 to reach MUR 55.6 billion as at 31 December 2019, representing an increase of 39%. This growth was largely fuelled by the Bank's international business activities. Deposits, which still represent the Bank's core source of funding, experienced a commendable 44% increase in 2019, to close at MUR 48 billion as at year end. The strategy the Bank had adopted in earlier years to raise foreign currency deposits has started paying off, with substantial acquisition of US dollar denominated funding during the year. Following the raising of a first part of long-term debt from an international financial institution in 2018, the Bank partnered with another renowned institution for the raising of a substantial amount of dollar-based long-term funding in 2019, at an attractive rate.

Similarly, the gross loans book went up from MUR 25 billion as at December 2018 to MUR 29 billion as at December 2019, representing an 18% year on year growth. Retail and corporate banking stimulated the growth on the local business. Investments in corporate bonds and other securities and loans to offshore corporates, including banks, drove the growth in the segment B business. As part of the Bank's de-risking strategy, a substantial portion of the funding raised through deposits and long-term funds were invested in good rated bonds, zero risk United States of America treasuries and guilt-edge securities, as at December 2019.

During the year under review, shareholders have injected an additional MUR 300 million in the form of tier 1 capital, to support the planned growth and further strengthen further the Bank's core capital.

With the considerable increase in the balance sheet size, the impaired assets slightly went up by 5%, representing an increase of MUR 57 million. On the other hand, the impairment ratio improved from 4.74% as at December 2018 to 4.23% as at December 2019. Provisions for some new accounts classified as impaired during the year somewhat moderated the impact of the recoveries during the period.

As at December 2019, the Bank maintained a capital adequacy ratio of 14.71% (December 2018: 12.99%), against the regulatory limit of 11.875%. The Bank intends to further improve its capitalisation and gradually edge up its capital adequacy ratio.

STATEMENT OF COMPREHENSIVE INCOME

The year under review has been an exceptional one for the Bank, crossing a record MUR 1.5 billion on total revenue. Excluding the non-recurring recovery of MUR 141 million in 2018, the growth would represent 18% for the year under review. After taking a hit of MUR 95 million on impairment and a MUR 38 million impact on the newly introduced special levy, the Bank managed to close the year with a total profit after tax of MUR 630 million.

Net interest income went up by 14% as the growth in the Bank's interest earning assets was more significant during the second semester. Non-interest income recorded a 28% increase (excluding the one-off proceed of MUR 141 million). The income contribution of our private banking segment and treasury operations to the non-interest income have substantially improved in 2019.The strategy to further diversify income sources, started in previous years, will continue and is expected to further improve in coming years.

Excluding the provisions for special levy, the non-interest expenses show a 13% increase over 2018. The Bank is pursuing its efforts and commitment to invest heavily in its most important asset, human capital. Alongside heavy investment in the technological environment and bank infrastructure, the Bank also continues to invest in initiatives to uplift its team members' skills.

With this best-ever profit for the year, the Bank delivered a return on average equity (ROAE) of 20.58% and a return on average assets (ROAA) of 1.46% to its shareholders.

ACHIEVEMENTS VERSUS OBJECTIVES

Objectives for 2019	Performance in 2019	Objectives for 2020
ROAE To achieve a ROAE of above 17%	Achieved a ROAE of 20.58%	To achieve a ROAE of above 18%
ROAA To achieve a ROAA of above 1.5%	Achieved a ROAA of 1.46%	To achieve a ROAA of above 1.4%
Growth of 20% in operating income	18% increase in operating income, excluding one-off income of MUR 141 million in 2018	Growth of above 20% in operating income
Cost to income ratio Cost to income ratio of less than 50%	Cost to income ratio of 47% (excluding special levy)	Cost to income ratio of less than 50%
Deposits growth 29% growth in both segment A and segment B	Growth of 8% in segment A and 77% in segment B	15% growth contributed by both segment A and segment B
Gross loans & advances growth 18% and 36% growth in segment A and segment B respectively	Growth of 20% and 15% in segment A and segment B respectively	20% growth to be contributed by both segment A and segment B
Gross impaired ratio of below 4%	Gross impaired ratio of 4.23%.	Gross impaired ratio of below 3%
Capital Adequacy Ratio (CAR) CAR above 13.5%	CAR at 14.71% as at December 2019	CAR above 14.5%

STATEMENT OF PROFIT OR LOSS

	Year ended Dec-17 MUR 000	Year ended Dec-18 MUR 000	**Year ended Dec-19 MUR 000**
Net interest income	713,557	953,746	**1,087,656**
Net fee and commission income	148,099	218,493	**276,724**
Net trading income	97,296	103,154	**144,925**
Other operating income	608	147,722	**139**
Operating income	959,560	1,423,115	**1,509,444**
Non-interest expense	(547,494)	(634,220)	**(753,237)**
Operating profit	412,066	788,895	**756,207**
Allowance for credit impairment	(11,299)	(340,213)	**(95,369)**
Profit before tax	400,767	448,682	**660,838**
Income tax expense	(26,568)	(55,223)	**(30,380)**
Profit for the year	374,199	393,459	**630,458**

FINANCIAL ANALYSIS

INTEREST INCOME AND EXPENSE

	Year ended Dec-17	Year ended Dec-18	Year ended Dec-19
	MUR 000	MUR 000	MUR 000
Interest income			
Loans and advances to customers and banks	864,858	1,155,468	1,236,442
Investment securities and bonds	140,509	171,772	316,174
Placements	75,307	68,229	132,519
	1,080,674	1,395,469	1,685,135
Interest expense			
Deposits from customers	319,579	368,375	488,146
Borrowings from banks	7,108	33,255	55,409
Other	40,430	40,093	53,924
	367,117	441,723	597,479
Net interest income	713,557	953,746	1,087,656
Average interest earning assets	20,202,714	28,688,058	38,126,119
Average interest bearing liabilities	15,509,582	17,771,645	21,583,802
Interest income/average interest earning assets	5.35%	4.86%	4.4%
Interest expense/average interest earning liabilities	2.37%	2.49%	2.77%
Net margin	2.98%	2.37%	1.63%
Core revenue*	959,560	1,282,295	1,509,444

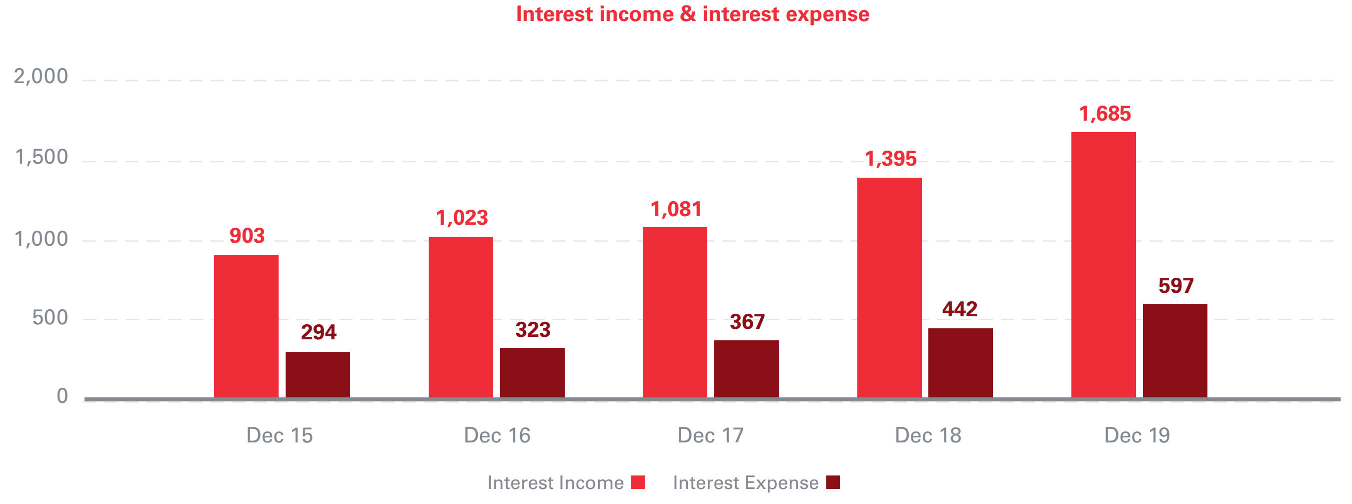
**Core revenue is defined as net interest income plus core non-interest revenue elimination of the effects of any unusual, non-operational items.*

The average interest earning assets increased by 33%. However, the relative increase in interest income was subdued by the compression in returns, as well as lower yields on investments qualifying for high quality liquid assets. As a deliberate strategy to de-risk the balance sheet, the Bank invested a significant portion of its funds in good rated liquid bonds, yielding lower coupons.

On the other hand, the interest-bearing liabilities grew by 21% as compared to the 35% growth in interest expense. The Bank contracted some long-term borrowings from an international financial institution in late 2018, and the related interest costs have affected the 2019 interest figures pushing the net margin down.

The Bank is pursuing 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 and to reduce its liquidity risk, which is adding further to the interest costs.

The above resulted in a 14% improvement in net interest income.



NON-INTEREST INCOME

	Dec-17	Dec-18	Dec-19
	MUR 000	MUR 000	MUR 000
Net fees and commission	148,099	218,493	276,724
Net trading income	97,296	103,154	144,925
Other operating income*	608	147,722	139
	246,003	469,369	421,788

**Other operating income for 2018 includes a one-off recovery of MUR 141 million.*

The non-interest income went up by 28% in 2019 (excluding the non-recurring recovery of MUR 141 million in 2018). 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 treasury, private banking-related fees and e-commerce activities.

Treasury volumes have also increased in 2019, and the related income increased by 34% contributing 33% to the Bank's total non-interest income. 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-17	Dec-18	Dec-19
	MUR 000	MUR 000	MUR 000
Personnel expenses	367,600	406,765	447,389
Depreciation and amortisation	43,691	50,263	78,828
Special levy	-	-	38,303
Other expenses	136,203	177,192	188,717
	547,494	634,220	753,237

FINANCIAL ANALYSIS

Excluding the special levy provisions, the non-interest expenses increased by 13%, giving a cost to income ratio of 47% for the year.

Total personnel expenses, which include salaries and benefits, have gone up by 10% with the new hires during the year, payment of the yearly compensation related to performance and investment in training and other staff welfare programmes.

The depreciation and amortisation expense has seen a significant 57% increase in 2019. As per the new IFRS 16, the depreciation amount for 2019 includes a significant amount relating to lease, while the increase in amortisation results from the capitalisation of the costs related to the upgrade of our core banking system in late 2018.

In line with business growth, other expenses increased by 7% during the year under review.

CREDIT EXPOSURE

As shown in the table below, the Bank had a well-diversified credit portfolio without any undue concentration in any one sector as at 31 December 2019.

Sectors	2017	2018	2019		
	Total	Total	Segment A	Segment B	Total
Lending	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Agriculture and fishing	1,108,339	1,238,416	1,097,613	9,811	1,107,424
Manufacturing	1,309,878	960,439	60,925	73,257	134,182
Tourism	2,012,613	2,181,563	1,389,644	1,177,550	2,567,194
Transport	250,143	1,043,584	283,709	842,772	1,126,481
Construction*	3,121,998	3,498,742	4,964,061	327,848	5,291,909
Financial and business services	3,478,405	4,833,376	2,801,709	1,398,428	4,200,137
Traders	2,960,160	3,247,573	2,672,302	737,726	3,410,028
Personal	652,547	837,088	1,466,444	8,485	1,474,929
Professional	12,350	11,628	12,357	-	12,357
Global business license holders	754,550	759,991	-	808,228	808,228
Others	2,779,741	3,094,437	355,675	3,594,259	3,949,934
	18,440,724	21,706,837	15,104,439	8,978,364	24,082,803
Lending to banks	3,744,692	2,950,545	547,032	4,369,695	4,916,727
Total credit exposure	22,185,416	24,657,382	15,651,471	13,348,059	28,999,530
Trading	2,249,806	2,046,791	2,532,346	38,735	2,571,081
Investment	1,968,379	4,692,795	4,956,876	11,429,742	16,386,618
Off balance sheet	2,985,098	2,541,844	2,040,276	3,048,954	5,089,230

Exposures to the construction sector carries the highest weightage, followed by loans to banks. This shift from the previous year is an indication of the Bank's strategy to review its portfolio mix.

**51% of the exposures in the construction sector relate to retail mortgages.*

OUR PERFORMANCE

CREDIT QUALITY

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

	Dec-17	Dec-18	Dec-19
	MUR 000	MUR 000	MUR 000
Impaired advances	1,344,783	1,169,336	1,226,770
Allowance for impairment – stage 3	526,188	745,492	912,583
Impaired advances/gross advances	6.06%	4.74%	4.23%
Net impaired/net advances	3.82%	1.79%	1.13%
Provision coverage ratio	39.13%	63.75%	74.4%

The impaired ratio has considerably improved by 0.51%, 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 MUR 167 million during the year, provision coverage ratio has improved substantially to 74.4%.

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 2019, is shown below.

LOANS TO CUSTOMERS

Sectors	Gross amount of loans		Impaired loans		Impairment cover on impaired loans	
	Segment A	Segment B	Segment A	Segment B	Segment A	Segment B
Agriculture and fishing	1,097,613	9,811	37	-	100%	-
Manufacturing	60,925	73,257	1,118	-	56%	-
Tourism	1,389,644	1,177,550	106,784	-	39%	-
Transport	283,709	842,772	5,682	223,318	75%	59%
Construction	4,964,061	327,848	353,306	4,758	77%	60%
Financial and business services	2,801,709	1,398,428	-	-	-	
Traders	2,672,302	737,726	181,969	-	63%	
Personal	1,466,444	8,485	50,470	-	89%	
Professional	12,357	-	3,752	-	51%	
Global business license holders	-	808,228	-	-	-	
Others	355,675	3,594,259	4,132	291,444	86%	100%
Total	15,104,439	8,978,364	707,250	519,520		
Sectors						
Loans to banks	547,032	4,369,695	-	-	0%	0%

50% for segment A impairment originates from the construction sector, while 56% of the impaired loans for segment B consist of facilities guaranteed by the central government of a South Eastern African country.

GENERAL PROVISIONS

In compliance with the macro-prudential policy measures for the banking sector, issued by the Bank of Mauritius (BOM) in October 2013, the Bank maintained additional portfolio provisions on certain specific sectors, booked as general reserve as an appropriation of retained earnings. The Bank has already assessed the impact of the requirements of the new guidelines on Credit Impairment Measurement and Income Recognition – issued by the BOM in 2019 and effective as from January 2020 – and is ready for its implementation.

More details regarding credit quality are given in note 15 (h) of the Financial Statements, which can be found on pages 174 and 175.

STRETCHING YOUR **POSSIBILITIES**

OUR STRATEGY

OUR REVENUE GENERATORS

RETAIL BANKING (RBD)

The year 2019 was pivotal for the RBD segment. The implementation of the revamped sales, service and innovation led strategy, which started in late 2018 and which is still ongoing, has started to bring interesting results. RBD assets book grew by a strong 43% during the year. The funding base has grown organically by 17% in its deposit base. The division has undergone some changes and fully re-engineered itself to segregate its operations into three distinct sub-segments: elite, mass retail and SME banking.

The principal contributors for RBD's asset growth has been the consumer and housing segments, for both the elite and mass sub-segments, as a result of the new offers, improved service quality and short turnaround time demarking RBD on the competitive edge. On the SME side, with the revamp of the product suites and reinforcement of the team, a commendable growth of 50% has been achieved. The impetus on deposits came from the elite banking proposition launch, which provides customised and value loaded offering to the elite banking sub-segment, with unmatched prioritised service. Deposits from local individuals as well as SMEs also contributed to this growth.

Innovation at the heart of our retail banking strategy

Our cards offerings have been revisited and enhanced with more attractive features. A new state of the art and first of its kind cashback credit card that is free for life, based on spend, was launched. Furthermore, Bank One cards have been contactless enabled, providing customers with the best card payment technology.

In addition to cashback credit card and elite banking launch, RBD further set its foundations for growth by launching its new ONE alliance club, direct sales and telesales, as well as re-invigorating its SME channels. The internet and mobile banking platforms were also enhanced, with digital desks made accessible in every branch, thereby promoting digital as opposed to paper-based transactions.

Overcoming challenges to successfully grow

The year 2019 came with its own set of external challenges, the major of which relates to the Bank of Mauritius' silver bond, issued during the second semester of 2019. Despite this bond resulting in a significant transfer of funds from the Bank, our retail business model has remained resilient and even experienced a commendable growth.

For the year to come, RBD will continue this transformation journey through the review of its distribution channels as well as the improvement of its digital offerings. With the team now in place under the leadership of Shehryar Bakht Ali, RBD will be a serious challenging force for the other segments in terms of percentage contribution to the Bank's bottom line.

CORPORATE BANKING (CBD)

Similar to the previous year, the local business environment has remained rather uncertain in 2019, with challenges for several sectors remaining unaddressed. Overall, the difficult economic conditions across our major markets and the heightened competitive environment internationally, have had a direct impact on our key GDP contributing sectors.

Despite the modest growth reflected in several key sectors and the many challenges identified on the local economic market, CBD managed to grow its deposits book by 31% year on year. CBD has been able to further diversify its deposit sources, with several new names added to its client base this year. CBD deposits today represent 15% of the Bank's total deposits. The corporate liabilities market experienced a major change with the introduction of the Government of Mauritius Treasury Certificates (GMTC) product, targeted to parastatal bodies for deposit placements. The GMTC introduction resulted in a decrease in placement of term deposits from government-owned institutions into commercial banks, thereby creating higher competition for remaining market-fixed placements at higher deposit rates.

On the other hand, given the lacklustre and unclear business environment with the elections held in November 2019, the assets growth for the segment has been moderate, at 6%. CBD has been very selective in building its assets book, keeping a very close eye on the assets being onboarded. With a diversified sectorial assets portfolio, CBD today contributes 32% to the bank's gross loans and advances book. The excess liquidity has been persisting in the local market, putting pressure on yields as never before. Furthermore, the change in BOM guidelines, pertaining to single/group exposure limits, remains a challenge to asset growth on Top 100 Corporates, at the risk of facing buyout from competitor banks.

The global economy is facing increased risk of stagnation in 2020. The events happening internationally will definitely have an impact on the local business environment and its pace of growth. The strategy for CBD will remain the consolidation of its assets base, while at the same time exploring opportunities to reduce the risk sitting on its balance sheet.

INTERNATIONAL BANKING (IBD)

IBD remains the mainstay of the Bank, representing 46% of its total deposits. In pursuance of its diversification strategy, IBD has been able to acquire new geographies under its portfolio. Moreover, the division reviewed its portfolio mix to strike the appropriate balance between short-term liquid and longer term less liquid assets.

Through various initiatives to diversify its sources of funding, IBD targeted new jurisdictions and streamlined the client onboarding process to extract fresh liquidity pools. These twin efforts enabled the liabilities side of the business to grow by 27% in 2019. The fresh deposits were a combination of low tenor/low cost and longer tenor/higher cost funds.

One of the key priorities of IBD remains further de-risking its assets portfolio. To this end, a risk defeasance strategy was deployed, combining more investment grade assets and introducing capital light structures like credit insurance-backed transactions, which started well and yielded positive results. IBD also introduced several new value-added products into its suite, in response to clients' demands and the requirements of a dynamic market environment.

This business line is actively pursuing other mandates with several business partners, to work jointly for calculated risk sharing. Our origination capabilities on the sub-continent have created a lot of positive attention among peer banks on the Mauritian market, who are indicating keen interest to participate alongside Bank One, as we have clearly carved out a niche for ourselves in this space

The setting up of a desk to deal with financial institutions forms part of IBD's strategy and is now a reality. During the second semester of 2019, IBD onboarded an experienced professional to head this section. We look forward to leveraging on his vast experience and deep networks across Sub Saharan Africa, in order to build a robust financial institutions proposition to better serve our mid-tier African financial institutions with an intermediary correspondent banking solution.

PRIVATE BANKING AND WEALTH MANAGEMENT AND SECURITIES SERVICES (PBWM)

The year 2019 has been another eventful and successful year for the PBWM segment, with the implementation of the strategy adopted in 2017-18 carrying on delivering prosperous results. PBWM assets book has more than doubled during the year under review. Its deposits book – comprising mainly foreign currencies –, has grown by an impressive +200%, while its customer base has experienced a 35% increase. During the year 2019, the assets under custody portfolio have grown by 119%, significantly contributing to its non-interest income.

Going the technological route

The enhancement of the custody application with value-add features and new offerings demarked this segment from its competitors on the local market. The online portal has also helped grasping a significant part of the market share of assets under custody. This tool sends automatic and secured valuation reports to clients (External Asset Managers) over an IP address in .csv/.txt format. Today, the portfolio under PBWM comprises not only High Net Worth Individuals (HNWI) and External Asset Managers, but also Collective Investment Scheme (CIS) funds, pension funds, family offices and Business Introducers.

On another note, the Bank's internal approval and documentation processes have been enhanced to ensure efficient service to our customers, with quicker turnaround and more flexibility. The PBWM team has been beefed up with experienced and qualified resources to meet clients' quality expectations. Members have made considerable efforts to place the team on the frontline during 2019, in order to help Bank One become more and more visible as a brand.

Despite the increasingly competitive business environment, PBWM and its new team and tools now in place is set to achieve remarkable results in 2020.

TREASURY OPERATIONS

Treasury remains one of the core contributors to the Bank's non-interest income, with a share of 33% for the year ended December 2019. Despite the tough competition and the pressure on margins, the segment managed to show a 34% growth on its trade-related income, closing at MUR 138 million for the year under review.

On the local front, conditions remained challenging with acute competition putting pressure on margins. The surplus of foreign currency on the market persisted till the third quarter of 2019, during which the market witnessed a sudden squeeze that pushed the Bank of Mauritius to sell US dollars to the market. The Bank of Mauritius sold USD 76.8 million during that intervention, as opposed to purchases of USD 490 million made during the year. The BOM MERI2 Index, based on the currency distribution of the merchandise trade and tourism earnings, showed a depreciation of the Mauritian rupee by 5.65%. The Mauritian rupee depreciated against the three major currencies, with a 5.5% drop against the US dollars, 4.0% against the European euro and 10.33% against the British pound sterling. Fortunately, treasury has been able to achieve a good performance through the proper management of its position, backed by decent flows from the segment B business.

Regarding the interest rate, we have seen the central bank reducing the Key Repo Rate (KRR) by 15 basis points to 3.35% in August. Liquidity remained a prevalent issue throughout the year, because of both the government and the central bank. The government came up with the issuance of the silver savings and retirement bonds, which absorbed MUR 6.4 billion, and treasury certificates aimed at non-financial public sector bodies, which locked in MUR 5.35 billion from the market. On the other hand, the central bank continued to issue its own securities to mop up the excess liquidity. The Bank of Mauritius also issued for the first time short-term 28-day BOM bills, available to all banks. Activities through the BOM open market operations reached MUR 118 billion, as opposed to MUR 95 billion a year ago. Yields on treasury bills hovered in the range of 1.92%-3.68% throughout the year.

On the international front, with a slowdown in global economy, many countries resorted to reducing their key interest rates. Treasury, thanks to a good pool of liquidity from the Bank's liabilities book, has been able to book decent returns on its investments through proper liquidity management.

E-BUSINESS

The year 2019 has been a positive year overall, with e-commerce's operating income growing by 8% compared to the previous year. While major e-commerce markets in East Asia demonstrated growth, the United States of America (USA)-China trade war affected business volumes in general, resulting is slower growth than projected.

Re-engineering our e-commerce strategy

With the dynamic environment in international trade and the payments and fintech industry, Bank One's e-commerce team re-engineered its strategy to respond to changes in the business environment and capture the opportunities arising with such change.

The diversification strategy continued to further expand major business markets, targeting emerging African and Asian countries experiencing growth in business over the internet. Possibilities of partnerships with high-end fintechs are currently being explored to offer alternative payment methods other than credit cards. The Bank has also extended its services to international electronic payment providers, in order to facilitate global settlements, cross-currency conversions and worldwide remittances. The vision for this segment is to become a multi-faceted value addition partner to payments companies and e-commerce businesses worldwide.

The e-commerce team is ready for the forthcoming challenges that are expected in 2020, tapping into the opportunities arising from advances in technology, evolving consumer behaviour and internet penetration in emerging markets, to succeed.

OUR MAIN BUSINESS ENABLERS

HUMAN CAPITAL

Understanding and responding to the trends shaping the future of work enables us to create the best possible environment for our workforce. In 2019, Bank One built on a number of initiatives to improve existing HR systems and processes, as well as develop new tools to enhance employee's experience. These efforts, detailed below, spanned from recruitment and employer brand, talent development, engagement, performance and recognition, leadership and succession.

RECRUITMENT AND EMPLOYER BRAND

Ensuring Bank One attracts and retains the best talent.

Fostering career mobility

Career mobility continues to play a vital role for Bank One in retaining talents and providing attractive career opportunities. At the same time, it helps us develop leaders who have experience in multiple areas. This contributes to operational stability by retaining expertise, providing business performance continuity, reducing costs and helping to mitigate succession risk.

In accordance with our Hiring Policy, all open positions are advertised to internal employees first and exclusively, for at least one week before any external candidates are sought. We enable our employees to change roles both within and across divisions.

Employer brand

In the context of rapid change taking place both within our organisation and among our clients and society, we created a new Employee Value Proposition (EVP) in 2018, outlining what current and future employees may expect from the Bank in terms of career opportunities, culture and people aspects. In 2019, the new EVP was reflected on our refreshed careers portal and social media channels, as well as in our recruitment campaigns, pivoting around authentic storytelling. Our employees shared their experiences and career stories, helping attract new talent to Bank One.

As we seek to reach and engage with potential employees via their preferred platforms and channels – and build on our existing social media strategy –, the Yammer channel was launched to further encourage internal information sharing. By December 2019, our LinkedIn careers page had surpassed the 12-month growth projection, amassing 20% new followers and earning us the title of winner of the 2019 LinkedIn Talent Awards in the Best Employer Brand Category in Sub-Saharan Africa, among companies having less than 500 employees on LinkedIn.

DEVELOPMENT

Enabling our people to reach their potential.

Digital Learning | LearnzONE

As part of our wider commitment to digitalisation, we have taken significant steps to ensure our employees have a more engaging learning experience. While we have established an extensive training offering for many years, our new learning platform, LearnzONE, has enabled us to completely transform our employees' experience. It delivers learning in line with modern accessibility standards, making learning available to all employees across several behavioural and management topics, and comprises over 13,500 learning courses guiding employees to articles, audiobooks, TED Talks, podcasts, videos and book abstracts, as well as virtual training sessions.

Additionally, the Bank runs two mandatory management fundamentals programmes for managers and aspiring talents: the management development programme and the leadership development programme. Both programmes are built around three key areas, namely managing self, managing people and managing the business.

ENGAGEMENT

Promoting two-way communication with our people.

As we strive to improve our employees' experience at work and to support an open culture in which people feel confident to speak up, we regularly run our bank-wide "Pulse Survey". This allows us to measure workforce commitment and enablement, identify trends and develop relevant actions to address gaps.

In July 2019, all Bank One employees were invited to participate in the survey, which was conducted in July of the same year. With a 93% response rate, the survey helped us measure our team members' perception regarding the implemented initiatives and their impact on employee experience.

PERFORMANCE AND RECOGNITION

Creating an environment of sustainable delivery.

COMPREHENSIVE PERFORMANCE MANAGEMENT

To achieve a sustainable performance culture, our employees need to know what is expected of them and understand what the desired standards of delivery, behaviour and conduct are. Essential ingredients to succeed in an environment where people can do their best work and speak up include trust, accountability and collaboration.

Strong and open relationships are key in this regard, which is why regular manager-employee conversations are at the heart of the Bank's approach to managing and developing performance (i.e. total performance). Furthermore, we rolled out a balanced scorecard with bank-wide measures of success for the Bank and collective objectives for management, which aims to provide clarity around expectations as well as closer collaboration across different areas of the organisation.

WORKFORCE

REWARDING EMPLOYEES

Our compensation strategy is focused on supporting a client-centric banking model, reinforced by safe and sound compensation practices that operate within the Bank's capital, liquidity and risk-bearing capacity. Our compensation framework aims to promote and reward sustainable performance and contributions at all organisational levels. It provides a clear structure of compensation composition across the Bank.

In 2019, we continued to embed the compensation framework and have created increased transparency with the grading structure, market alignment and individual letter, with a total remuneration view.

OUR STRATEGY

OUR MAIN BUSINESS ENABLERS

CUSTOMER EXPERIENCE

The Bank's ambition is to make customer experience a competitive differentiator that will contribute to helping us become the "one bank of choice" for all customers. In 2019, great efforts were made on fixing the basics before setting out to transform the customer's journey. The focus was especially on integrating the Voice of the Customer (VoC) in the Bank's various activities, to create and enforce a customer-centric culture across the Bank. As such, we maintained progress on our customer experience strategy and its four pillars of process, touchpoint experience, customer experience culture and communication.

In continuation to the process re-engineering exercise that kicked off in 2018 with the onboarding journey of individual customers, the exercise was extended to corporate customers in 2019. Three other key processes have also been reviewed, namely payments, loan and branch operations. Our customers' needs were assessed based on feedback sought, which was subsequently used to design the journeys from a customer perspective. Our efforts converged towards the elimination of non-value adding activities and the simplification of existing ones, before moving on to a digital journey.

Another effort to enhance customer journey was the definition of key touchpoints across those journeys and their monitoring on a periodical basis, through distinct indicators that allowed us to take the relevant remedial actions. A crucial ingredient in keeping this formula working was through continuous surveys and encouraging feedback from customers, which helped defining the standards of service determined by customers themselves, thereby making customer insights actionable.

To build up the customer-centric culture across the Bank, specific actions like customer experience awareness and training sessions were delivered to enhance the capability of our people to better engage with customers and keep pace with their expectations. Sensitisation also took the form of a gamification campaign to build up interest around the customer. A monthly forum was set up to track and monitor the priority actions defined by business to improve customer experience. This forum allowed decisions to be taken promptly, based on customers' requirements.

The way we choose to communicate with our customers is of utmost importance and we adopted a number of initiatives upfront to improve their experience. Bank forms have been reviewed, simplified and made user-friendly. Similarly, alerts triggered to customers have also been reassessed to ensure they can stay connected on-the-go with their repayment notifications. A detailed user-guide was also created, catering for the needs of individual customers and helping them navigate the internet banking platform independently. Additionally, a help centre was set up on the Bank's website, comprising a range of items like tutorial videos, FAQs and general banking information, to facilitate the experience of customers who favour the digital platform.

Year-on-year, our performance in customer experience is measured through the Customer Satisfaction Index (CSI) and Net Promoter Score (NPS). We note that, over the past few years, the Bank sustained a relatively stable CSI and NPS. The initiatives enumerated earlier are expected to improve these metrics in the forthcoming surveys.

TRANSFORMATION

The Bank embarked on a transformation journey during the course of 2018, aiming to drive customer experience and transform the business and its operating models. Customer journeys being at the core of Bank One's strategy, focus in 2019 was geared towards fixing the fundamentals parallel to kick starting the transformation exercise, built around data, architecture, processes and team. Significant progress was made as we evolved on the various pillars and efficiency brought to processes. We also recorded an increase in customer satisfaction and have noted a decrease in service time.

In our quest to standardise exchanges, provide a consistent service level and ultimately create a delightful experience, the journey towards implementing the enabling technology capabilities is now underway. We aim at providing seamless interaction with customers and partners, allowing the workforce to make better and quicker decisions, as well as improving visibility and efficiency across departments. At the same time, emphasis is geared towards data analytics and self-service tools, as we aim at embedding the use of data in the day-to-day operations paving the way towards a data-driven organisation.

As we progress in this journey, communication and interaction with colleagues remain key to a proper embedment, while engaging more and simplifying and revolutionising the way we communicate with colleagues at the Bank. We have, in this respect, launched a number of tools such as an enterprise social network, enabling easy access and opportunity for all to share news, participate in polls and events, and chat with colleagues.

At the same time, the transformation office was set up while both the innovation programme and innovation lab were launched. The innovation programme encourages collaboration between colleagues to come up with new ideas and participate in the implementation phase of same, using design thinking and agile methodologies. On the other hand, the innovation lab offers a physical platform where teams and customers are welcomed in a pleasant and conducive environment, facilitating co-creation amongst customers, colleagues and partners. Lab visits and roadshows are ongoing, constituting a first step towards a culture of change and transformation.

Pivotal to "Life at Bank One", these initiatives are proving to be key factors in creating a more productive and enjoyable working environment for our colleagues.

COMMUNICATION

Banking is a relationship business and nothing helps building stronger relations than face-to-face interactions. To that end, Bank One hosted and sponsored a selection of events in 2019, both new and in continuation of previous years.

ONE RECOGNITION AWARDS

On 4 July 2019, we launched the first edition of the One Recognition Awards. Aimed at recognising exceptional team members who are role models when it comes to living our corporate values, the awards covered four categories: One team, customer delight, innovation and employee excellence.

BUDGET BREAKFAST

Under the aegis of Bank One International Banking, we sponsored the 2019 Budget Breakfast panel discussion, hosted by the Association of Trust and Management Companies (ATMC) and Global Finance Mauritius (GFM). Held on 14 June 2019 at the Hennessy Park Hotel in Ebène, the event welcomed over a hundred stakeholders from the financial services sector, including banks, management companies, accounting firms, law firms, institutional investors and government agencies.

FERNEY TRAIL

It is now customary for Bank One to sponsor the Ferney Trail 20-Km race. Ferney Trail, organised by CIEL group, is one of the oldest and most favoured trails in Mauritius, regrouping over 3,500 participants each year at Ferney La Vallée. 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 and celebration of our Mauritian identity.

BANK ONE LEADERSHIP DISCUSSIONS (BOLD)

Bank One organised the inaugural edition of BOLD on 10 September 2019 at the Hennessy Park Hotel in Ebène, in front of an audience consisting of thought leaders from various economic sectors. Our aim is to establish BOLD as a platform to stimulate quality discussions on key areas affecting the Mauritian economy. BOLD's first edition saw the participation of Pratibha Thaker, editorial and regional director Middle East and Africa at the Economist Intelligence Unit, as the keynote speaker on global economy. Also present was Ben Lim, CEO of Intercontinental Trust Ltd, and François Eynaud, CEO of Sun Resorts, as local speakers covering global business and tourism sectors respectively.

INVESTOR CIRCLE

Investor's circle, which is a bi-annual event hosted by Bank One private banking and wealth management & securities services, took place on 23 May and 30 October 2019. This initiative offers private investors, institutions, asset managers and financial service providers, with a unique platform to connect, exchange ideas and do business together.

DRIVER CUP

Our private banking and wealth management & securities department, alongside other prestigious sponsors, including Necker Gestion Privée, also sponsored the first edition of the Driver Cup, the very first amateur team golf championship in Mauritius. At the end of 10 qualifying tournaments played on different golf courses across the island, 72 players were qualified to play against each other for 3 days, based on the format of the famous Ryder Cup – i.e. in doubles, singles and match play. The very first edition in 2019 saw a win for the Mauritian team, against the rest of the world, in an exciting finale at Mont Choisy Le Golf, an 18-hole course designed by Peter Matkovich.

MAURITIUS U20 NATIONAL FOOTBALL TEAM

The Bank proudly supports the Mauritius U20 National Football team. A one-year partnership was signed between Bank One and the Mauritius Football Association at a ceremony held at Bank One's headquarters in Port Louis on 18 November 2019. Soon after, the team flew to Zambia to take part in the COSAFA U20 2019 Championship. Our aim is to support talented young players, giving them a chance to succeed on and off the field.

RISK MANAGEMENT

The report focusses on the holistic process involved in integrated risk management of the Bank and its resultant outcomes, contributing to the Bank reaching its strategic objectives in a sound and controlled risk environment.

RESPONSIBILITY OF THE BOARD

The Bank's Board of Directors (the Board) remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored. The Board ensures proper governance is in place to allow for healthy risk discussions to take place in a forward-looking manner, while also learning from past risk events. The Board approves the Bank's risk appetite statement and ensures risks are managed within the set tolerance levels.

The Board and its Committees are kept informed of the Bank's risk status through the Chief Risk Officer (CRO). The CRO reports both to the Chief Executive Officer (CEO) and to the Board Risk Management Committee (BRMC), and as such, he has direct access to the Board and its risk committees without any impediment.

RISK DEFENCE MODEL

The Bank currently employs a three-level defence model whereby:

- Business lines and functional units take ownership of the risks from end-to-end within their respective domain.
- Independent risk oversight is obtained through permanent action of the various empowered risk functions.
- Internal audit periodically reviews and assesses risks and controls.

The Bank continues to embed an objective-centric enterprise risk management approach to ensure the risk and control functions add value in reaching the Bank's strategic objectives.

RISK MANAGEMENT FRAMEWORK

The Bank's fundamental approach to risk management ensures both value preservation and value creation are promoted through the consistent implementation of the risk culture statement, as adopted by the Board. The risk culture journey is complemented by a measurable risk appetite statement and quarterly monitored via Board-approved risk appetite and risk culture metrics.

The Board approves the risk policies and guidelines, while the Bank's management has the responsibility of the effective execution of these policies through the implementation of appropriate procedures.

The Board and its relevant Committees monitor the risk profile of the Bank on a quarterly basis. Limits on the quantum of compliance risk, credit risk, market risk, liquidity risk operational risk and country risk, are set within prudent guidelines. Other non-quantifiable risks such reputational risk and strategic risk are assessed and monitored on a qualitative basis.

The Board's responsibilities include:

- Approval of the risk management strategy and policies to confirm that all risks are correctly managed at both portfolio and client level.
- Regular reviews of the policies and key performance indicators.
- Analysis of the Bank's ongoing financial performance against forecasts and budgets.

In 2019, the Bank has implemented a Management Integrated Risk Committee (MIRC) that meets quarterly, and holistically assesses and manages the Bank's risks, in complementarity with various management committees dedicated to specific subjects (ALCO, EXCO, Special Assets Committee). The various risk functions escalate any issues and/or limit breaches to the relevant approval authorities, in line with the Bank's escalation matrix.

These risk functions operate as independent units, which are segregated appropriately from the business supported functions. Qualified and experienced team members lead the following areas:

- Compliance
- Credit risk management
- Information Security and Cyber resilience
- Market risk
- Operational risk and sustainability

The Bank uses 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 liquidity, 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 the Bank of Mauritius.

CREDIT RISK MANAGEMENT

DEFINITION	The risk of loss arising from a client or counterparty failing to fulfil its financial obligations primarily arises from wholesale and retail loans & advances. Counterparty risk stems mainly from derivative contracts.
GOVERNANCE	The Board Credit Committee (BCC) sets the credit strategy and approves the Credit Policy. The BCC monitors the credit risk to be within the risk appetite and provisions target, and is proactive 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, the BCC's approval is required. Credit portfolio risks are further discussed on a regular basis at the quarterly MIRC and at the BCC. Proper governance is achieved through an independent credit risk assessment and the oversight by internal audit is further supplemented by regular reporting to the BCC, as well as 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 (RORAC).

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 proper servicing of the debt.

As an additional mitigation for credit risk, collateral and guarantees are taken to make the risk and reward equitable in line with the Bank's risk appetite.

Off-balance sheet Credit-related commitments

Off-balance sheet 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 guidelines on the standardised approach to credit risk.

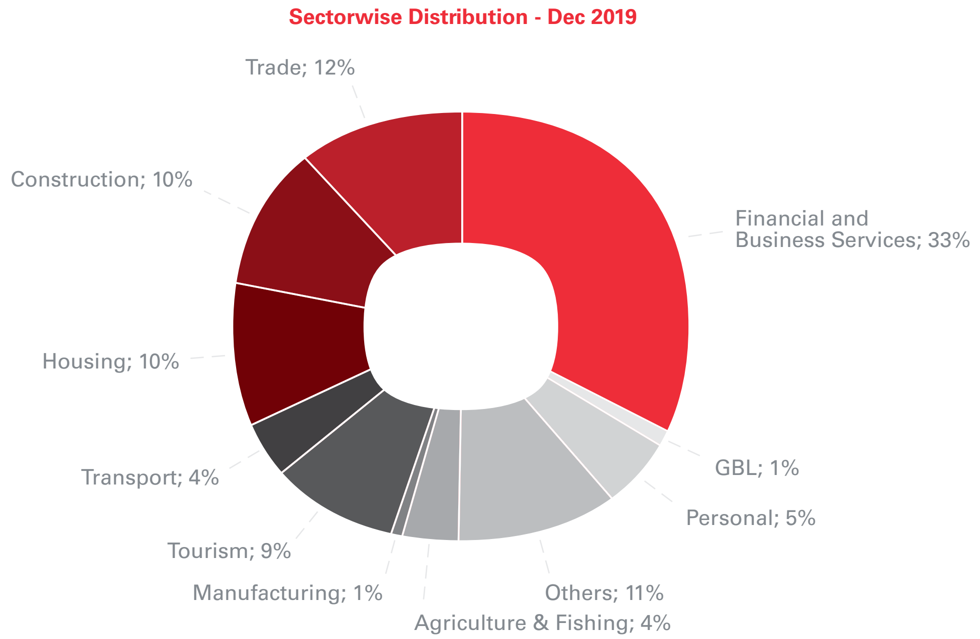
Credit-related commitments	Year ended Dec-17 MUR 000	Year ended Dec-18 MUR 000	**Year ended Dec-19 MUR 000**
Bank guarantees and other contingent liabilities	467,162	614,037	**760,284**
Undrawn credit-related commitments	2,336,517	1,806,382	**4,018,557**

Bank placements and lending

These instruments are normally of a better credit quality, by the 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 additional input to the Bank's independent internal credit assessment, together with obtaining an internal credit rating for all bank obligors using the Moody's RiskCalc Bank model.

RISK MANAGEMENT

SECTORWISE DISTRIBUTION



As shown in the chart above, the risk is well spread and acceptable in terms of the Bank's exposure to riskier sectors. The largest concentration is on financial and business services at 33% (2018: 32%), where the bulk of the exposure is in reality to other banks. This reflects the continued strategy to decrease the level of risk, by taking exposures on well-regulated entities within the banking sector. No major variance in the other sectors occurred during the financial year 2019.

Note 15 (c) of the Financial Statements, which can be found on page 170, 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 in compliance with the BOM guidelines on credit concentration risk.

The top five groups and single borrower exposures as at 31 December 2019 have shown an improvement over the prior year:

Group	2019		2018	
	Exposure MUR 000	% of tier 1 capital	Exposure MUR 000	% of tier 1 capital
1	**960,158**	**29.97**	1,002,487	41.59
2	**939,333**	**29.31**	911,748	37.83
3	**789,707**	**24.65**	760,408	31.55
4	**705,000**	**22.00**	671,190	27.85
5	**651,708**	**20.34**	654,353	27.15

Borrower	2019		2018	
	Exposure MUR 000	% of tier 1 capital	Exposure MUR 000	% of tier 1 capital
1	**579,700**	**18.09**	584,359	24.24
2	**575,000**	**17.95**	563,081	23.36
3	**550,228**	**17.17**	525,000	21.78
4	**546,450**	**17.06**	516,300	21.42
5	**546,450**	**17.06**	512,190	21.25

OUR STRATEGY

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 2019:

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 2019, all portfolios remained in the low risk category.

RELATED PARTY TRANSACTIONS

The Bank complies with the BOM guidelines on related party transactions. The Conduct Review and Corporate Governance Committee (CRCGC) approves every related party transaction and ensures they are at standard market conditions, by application of the arm's length principle.

The aggregate on balance sheet-related party exposure of the Bank amounted to MUR 1,048 million (2018: MUR 1,021 million), which represents 33% of tier 1 capital (2018: 42.4%). The facilities range from bank placements to 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 off-balance sheet aggregate related party exposure of the Bank was zero as at year-end (2018: MUR 187 million).

None of the loans advanced to related parties were classified as non-performing as at 31 December 2019.

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

Related party	2019		2018	
	Exposure MUR 000	% of tier 1 capital	Exposure MUR 000	% of tier 1 capital
1	**380,000**	**11.86**	380,000	15.8
2	**201,853**	**6.30**	257,299	10.7
3	**100,156**	**3.13**	240,940	10.0
4	**87,432**	**2.73**	82,608	3.4
5	**400**	**0.01**	5,400	0.2

CREDIT QUALITY

Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes under international accounting standard IFRS 9 international accounting standard and the relevant BOM guidelines. The Bank is compliant with the BOM guidelines on credit impairment measurement and income recognition. An independent valuation from a qualified appraiser validates the net realisable value of collateral.

IFRS 9

The IFRS 9 standard requires the Bank to utilise the best estimates of three components, namely Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to arrive at an Expected Credit Loss (ECL). These components are estimated using both internal and external models, together with respecting the relevant guidelines. External auditors have validated the internal models and tools for the purpose of IFRS 9.

The Bank is well prepared to adopt the new guidelines on credit impairment measurement and income recognition, issued by the Bank of Mauritius and effective as from January 2020.

RISK MANAGEMENT

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 2019, the non-performing assets portfolio increased marginally by 5%. The driver was the impairment of an offshore account, though all indications are that this would be repaid in 2020. The provisions coverage ratio continues improving from 64% in 2018 to 74% in 2019.

Restructured facilities

Restructured loans are loans that have been renegotiated due to deterioration in the borrower's financial position and cash flow. In such cases, where the request for amendments is assessed genuine, the Bank reviews the terms and conditions by allowing concessions viz extending the maturity, changing the frequency of interest servicing, revising downwards the interest rate, or amending some of the loan covenants. In all cases, the Bank observes the BoM's' guidelines on credit impairment and income recognition on restructured facilities.

For the year under review, three credit facilities were restructured for an amount of MUR 3.9 million. These loans are being regularly repaid and the balance reduced to MUR 3.4 million as at 31 December 2019.

Stage 1 and 2 outstanding balance contribution

Loan and advances stage 1 and stage 2	As at 31 December 2019			As at 31 December 2018		
	Individual retail and mortgages	Corporate entities	Total loan and advances to customers	Individual retail and mortgages	Corporate entities	Total loan and advances to customers
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Stage 1	97%	98%	98%	96%	93%	94%
Stage 2	3%	2%	2%	4%	7%	6%

The proactive and effective monitoring of the loans & advances portfolio continues to yield benefits as 98% of the performing book remains within the stage 1 bucket (2018: 94%). Through effective engagement within the Bank as well as client education, stage 2 now only contributes 2% to the overall performing portfolio. The flow rate from stage 2 to stage 3 is then effectively well controlled and kept to the minimum.

Properties in Possession (PIPs)

As at December 2019, the Bank held five PIPs in its books, with an assessed total value of MUR 9.1 million (2018: MUR 9.1 million), included in the "Other Assets" figure *(please consult note 21 of the Financial Statements, which can be found on page 184).* No new properties were added in the year under review. As at December 2019, the carrying value of these properties did not differ materially from the estimated market value. The Bank's policy regarding the PIPs is to dispose of them as soon as practically possible, in line with banking legislation.

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

MARKET RISK

DEFINITION	The risk of a potential decrease in value, resulting from adverse changes in market prices and FX rates 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 monthly monitored via the ALCO, which reports quarterly to MIRC and the Board Risk Management Committee (BRMC). The risk analytics team monitors and reports daily on limit compliance.
MORE INFORMATION	The treasury department monitors the debt securities book on a weekly basis, reporting monthly to ALCO and quarterly to the BRMC.

OUR STRATEGY

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 Bank's risk appetite. The Market risk unit monitors the respect of limits on a daily basis.

Market risk arising from the banking book

Various thresholds 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 the impact of shocks and shifts in interest rates may have on the Bank's on-and-off balance sheet positions , as well as 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 (both internal and regulatory) and reported to BOM on a daily basis.

A daily report goes to senior management to notify any underlying breach in limits. A similar report is submitted monthly to ALCO and to BRMC. Any breaches has to be notified to senior management and simultaneously escalated to the relevant sanctioning authority as per the Bank's escalation matrix.

<u>During 2019, the Bank operated well within the regulatory limits regarding Net Open Positions.</u>

Accordingly, as at 31 December 2019, the VaR limits against the actual potential loss have decreased since the prior year:

VaR limit vs actual position December 2019	USD	EUR	GBP
Limit	MUR 800,000	MUR 500,000	MUR 200,000
Potential loss	MUR 291,000	MUR 86,000	MUR 20,000

(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 (implying the relative vulnerability of the Bank's books to re-pricing) that may be accepted. Exposure against these limits is reported monthly report 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 assessing and reporting the same, 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 2019 is given in note 2 (f) of the Financial Statements, which can be found on page 142.

The 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.

RISK MANAGEMENT

MUR and USD earnings at risk analysis as at 31 December 2019

Interest rate movement 2019	Impact on earnings on account of interest basis (MUR million)	Impact on earnings on account of interest basis (USD million)
+ 25 bps	0.00	0.57
-25 bps	0.00	(0.57)
+ 50 bps	0.01	1.14
- 50 bps	-0.01	(1.14)
+ 75 bps	0.01	1.70
-75 bps	-0.01	(1.70)
+ 100 bps	0.02	2.27
-100 bps	-0.02	(2.27)
+ 200 bps	0.03	4.55
-200 bps	-0.03	(4.55)

The Bank is able to absorb potential interest shocks. A negative 200bps shock on both the MUR and the USD. The USD impact would amount to about 25% of the Bank's yearly profit

LIQUIDITY RISK

DEFINITION	The risk of not having cash to honour commitments when falling due.
GOVERNANCE	Treasury is responsible for the daily management of liquidity and provides daily reporting to senior management. The ALCO oversees the activities of treasury on a monthly basis and reports quarterly to the MIRC and the BRMC.
MORE INFORMATION	The Bank manages its liquidity on a prudent and proactive basis, and ensures 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 (LCR). A Liquidity Contingency 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 the Bank can meet all its short-term funding requirements.

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

The table in note 2(g) of the Financial Statements, which can be found on pages 145 to 149, analyses the Bank's assets and liabilities into relevant maturity buckets.

The Bank monitors liquidity gaps on static, cumulative and dynamic bases. Under the dynamic scenario, the Bank arranges assets and liabilities into different maturity ranges, according to BOM guidelines 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. The Bank has set up a liquidity contingency plan, which is regularly updated to ensure that it can be executed seamlessly if so required.

Liquidity Coverage Ratio (LCR)

The LCR is computed as the percentage of high-quality liquid assets to total net cash outflows, over the next 30 days under a severe stress scenario. As at December 2019, the Bank was well above the minimum consolidated liquidity requirements, as shown in the table below:

LIQUIDITY COVERAGE RATIO - QUARTER ENDING DECEMBER 2019

(Consolidated in MUR 000)	TOTAL UNWEIGHTED VALUE (quarterly average of monthly observations)	TOTAL WEIGHTED VALUE (quarterly average of monthly observations)
HIGH-QUALITY LIQUID ASSETS		
Total High-Quality Liquid Assets (HQLA)	7,299,517	7,299,517
CASH OUTFLOWS		
Retail deposits and deposits from small business customers, of which:		
Less stable deposits	15,874,166	1,587,417
Unsecured wholesale funding, of which:		
Non-operational deposits (all counterparties)	14,959,251	5,987,700
Unsecured debt	1,738,483	1,738,483
Additional requirements, of which:		
Credit and liquidity facilities	1,412,254	1,087,632
Other contractual funding obligations	1,118,228	1,118,228
Other contingent funding obligations	775,169	38,758
TOTAL CASH OUTFLOWS	3,305,650	2,244,618
CASH INFLOWS		
Secured funding	7,080,847	7,080,847
Inflows from fully performing exposures	2,635,818	1,317,909
Other cash inflows	1,492,254	1,492,254
TOTAL CASH INFLOWS	11,208,918	9,891,009
		TOTAL ADJUSTED VALUE
TOTAL HQLA		7,299,517
TOTAL NET CASH OUTFLOWS		2,472,752
LIQUIDITY COVERAGE RATIO (%)		295%
QUARTERLY AVERAGE OF DAILY HQLA		6,419,239

Notes: The reported values for "quarterly average of monthly observations" are based on October, November and December 2019 month end figures. The reporting values for "quarterly average of daily HQLA" are based on business days figures over the 1 October 2019 to 31 December 2019 period.

Comments: As at end of December 2019, the Bank's quarterly average LCR stood at 295%, indicating a healthy liquidity position significantly above the 100% minimum, and similar to December 2018 (287%). The Bank is proactively managing the ratio through an ongoing monitoring of the stock of HQLA, in order to meet future liquidity requirements through repos or outright sale. The actual and forecasted ratios are reviewed and deliberated at the monthly ALCO.

RISK MANAGEMENT

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 operational risk function monitors risks on a monthly basis and reports to the MIRC and BRMC quarterly.
MORE INFORMATION	Focus is on sustainably reducing the Bank's material risks exposures consistent with its risk appetite, as well as on scanning and analysing emerging risks to which the Bank must demonstrate resiliency.

In line with the Bank's vision, the operational risk management framework has been further enhanced to cater for the underlying risk principles, which are:

- Disciplined risk taking and proactive risk management
- Risk and control culture with clear ownership and accountability.
- Sound and sustainable risk and control environment.

For this purpose, risk management concepts including operational risk appetite, three lines of defence model, key risk indicators, risk and control self-assessments, control issues monitoring and internal control programme, are the fundamentals of the operational risk strategy. Focus is on sustainably reducing the Bank's material risk exposures in consistency with its risk appetite, as well as scanning and analyzing emerging risks to which the Bank must demonstrate resiliency.

The Risk and Control Self-Assessment (RCSA) programme is an integral part of the operational risk strategy, which aims at enhancing the roles and responsibilities of the first line of defence in identifying and managing key risks in their respective activities. Fraud preventative and detective controls have also been identified as part of this exercise, to support the internal control programme from a fraud monitoring perspective. The RCSA programme ultimately targets to cover all key processes across the Bank from an end-to-end perspective, by adopting a risk-based approach.

The operational risk incident management process has shifted from mere reporting to in-depth incidents analysis, with appropriate response and monitoring. Resulting impacts, both financial and non-financial, are now assessed against the newly developed operational loss appetite, which caters for quantitative and qualitative measurements.

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, whichever the length of the latter. Criteria and underlying assumptions for determining the Bank's critical activities and expected resources are now well defined with the business impact analysis having been refreshed to re-prioritise the rapid resumption of critical activities, while optimising the use of the recovery site. Testing of contingency plans, comprising both scenario-based simulation exercises on a surprise basis and planned testing of the disaster recovery servers, are undertaken twice yearly to assess the Bank's readiness and ability to resume operations of its critical activities within the set recovery time objectives.

The Operational risk unit continues to play a second line of defence role, with checks and challenges on the operational risk management activities undertaken by the first line of defence, while ensuring that the operational risk framework is embedded and complied with across the Bank. Training and awareness remain vital in reinforcing the risk and control culture, with emphasis on the first line of defence responsibilities when it comes to identifying and managing risks with appropriate controls for a sustainable business environment.

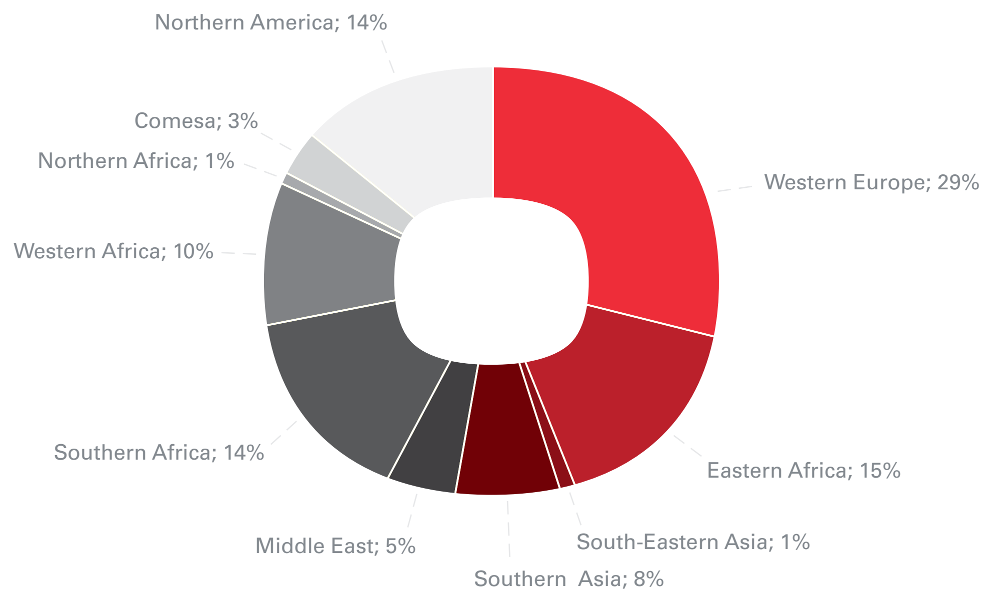
Combined assurance is now a reality, with close collaboration among operational risk, compliance and internal audit. This approach aims at maximising oversight, minimising duplication and optimising overall assurance to management and the Board, without jeopardising the independence of internal audit to carry out its audit activities in an unbiased manner.

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 due to the Bank.
GOVERNANCE	Risk analytics provides weekly information on the limits and headroom to the limits, to senior management. The MIRC and the BRMC have a quarterly oversight on the country risk portfolio, and the BRMC approves all country limits. The frequency of country limit reviews is on a risk-based approach.
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 2019 are disclosed in the chart below:

Exposure by Region (%)



The historical reliance on Eastern Africa has been significantly de-risked and now accounts for 15% of the country risk exposure (2018: 31%). The Bank has diversified its country risk portfolio in a deliberate strategy to have a more balanced portfolio between investment grade and non-investment grade countries. As a result, North America's exposure increased from 0.3% in 2018 to 14% in 2019, while Western Europe's has increased from 20% to 29% throughout the same period.

BUSINESS/STRATEGIC RISK

DEFINITION	The risk of non-attainment of the planned strategic and business objectives, due to the consequences of inappropriate strategies, their inappropriate execution or the decline in sales or prices that negatively affect profitability.
GOVERNANCE	The Board Strategy Committee has oversight of the business risk. Exco manages business risk operationally and strategic risk is debated quarterly at the MIRC.
MORE INFORMATION	All business units have defined a 3-year strategy and business plan, which is revised from time to time. The strategic direction of the Bank is reviewed once a year and forms part of the Bank's annual business budget and operating plan.

RISK MANAGEMENT

CYBER RESILIENCE

DEFINITION	The ability of a firm to avoid, detect or manage cyber or data breaches whilst continuing to conduct its business activities as usual.
GOVERNANCE	The policies and procedures have been set up to ensure global best practices are in place to cater for governance progress, projects progress, prevention capability, detection capability and response capability. The corresponding cyber resilience KPI are reported quarterly to the MIRC and the BRMC.
MORE INFORMATION	A dedicated team of IT security specialists are employed, and various cyber resilience testing and trainings are carried out regularly.

REPUTATION RISK

DEFINITION	The current or potential risk to earnings and capital driven by the adverse perception of Bank One on the part of the market clients, counterparties, employees or regulators.
GOVERNANCE	The Exco directly manages the reputational risk and reports quarterly to the MIRC and BRMC.
MORE INFORMATION	The Bank continues to dynamically assess and monitor reputational risk on a qualitative basis. Overall, reputation risk in 2019 remained acceptable and stable from prior years.

COMPLIANCE RISK

DEFINITION	The risk of potential for losses and legal penalties due to failure to comply with laws and/or regulations.
GOVERNANCE	The compliance team reports compliance matters to the MIRC on a quarterly basis. The BRMC has oversight over the Bank's compliance risks.
MORE INFORMATION	The Bank has a Whistleblowing Policy in place to ensure 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 ensures it is adequately capitalised to withstand any macroeconomic downturns, including a significant buffer over regulatory thresholds. The Bank strives for continual enhancement of shareholder value by efficiently using capital in order to maximise the return on equity.

CAPITAL ADEQUACY ASSESSMENT

As per Basel III guidelines, the Bank is required to maintain a minimum Capital Adequacy Ratio (CAR) of 11.875%.

The Bank has computed its CAR as on 31 December 2019, in compliance with the requirements of the regulatory guidelines under Basel III as well as the macro-prudential measures introduced by BOM, effective since July 2014.

The capital charge for operational risk is calculated under the basic indicator approach, whereas the capital charge for credit and market risk is calculated under the standardised approach.

As at December 2019, the Bank's CAR stood at 14.71% (against a regulatory requirement of 11.875%), out of which the Common Equity Tier 1 (CET 1) CAR was 10.97% (against minimum regulatory requirement of 6.5%).

UNDER BASEL III

	Dec-17	Dec-18	Dec-19
	MUR 000	MUR 000	MUR 000
CORE CAPITAL (TIER 1 CAPITAL)			
Paid up capital	856,456	856,456	**1,156,456**
Statutory reserve	247,950	306,969	**401,538**
Retained earnings	1,239,958	1,488,632	**1,875,669**
Deductions			
Intangibles	(41,580)	(156,539)	**(138,466)**
Deferred tax	(71,766)	(46,980)	**(51,277)**
Investment in other bank	(37,053)	(38,286)	**(40,395)**
Total tier 1 capital	2,193,965	2,410,252	**3,203,526**
SUPPLEMENTARY CAPITAL (TIER 2 CAPITAL)			
Reserves arising from revaluation of assets	41,520	43,791	**43,791**
Portfolio provision	206,656	272,400	**284,954**
General banking reserves	67,803	37,030	**47,882**
Subordinated debt	500,567	679,636	**673,831**
Fair value gains	8,537	-	**42,534**
Total tier 2 capital	824,083	1,032,855	**1,092,991**
Total capital base	3,018,048	3,443,109	**4,296,517**
RISK-WEIGHTED ASSETS FOR:			
Credit risk	21,876,694	24,754,303	**27,280,266**
Market risk	60,734	63,498	**46,133**
Operational risk	1,405,912	1,688,973	**1,876,059**
Total risk-weighted assets	23,343,340	26,506,774	**29,202,458**
Tier 1 ratio	9.40%	9.09%	**10.97%**
Capital adequacy ratio	12.93%	12.99%	**14.71%**

RISK MANAGEMENT

RISK WEIGHTED ON BALANCE SHEET ITEMS

			Dec-17	Dec-18	Dec-19
		Risk weight	Risk weighted		
	MUR 000	%	MUR 000	MUR 000	MUR 000
Cash in hand & with central bank	1,892,410	0-50%	-	117,524	**54,068**
Balance and placements with banks	8,488,431	20-100%	1,021,408	1,716,609	**2,427,330**
Balance in process of collection	30,494	20%	11,211	5,080	**6,099**
Treasury bills and GOM bills	5,351,989	0%	-	-	**-**
Other investment	12,102,402	0-100%	468,416	468,430	**1,725,469**
Fixed and other assets	581,025	100%	548,744	478,009	**581,025**
Loans and advances	27,211,785	0 - 100%	19,596,138	21,726,856	**22,197,502**
	55,658,536		21,645,917	24,512,508	**26,991,494**

RISK WEIGHTED OFF BALANCE SHEET ITEMS

			Dec-17	Dec-18	Dec-19
	Credit conversion factor (%)	**Risk weight**	**Risk weighted**		
		%	MUR 000	MUR 000	MUR 000
Acceptances and bill of exchange	100%	100%	177,603	119,792	**209,860**
Guarantees, bonds etc.	50%	100%	33,187	102,721	**61,451**
Letter of credit	20%	100%	5,567	9,682	**2,493**
Foreign exchange contracts	1% to 7.5%	20-100%	14,420	9,600	**14,968**
			230,777	241,795	**288,772**

RISK-WEIGHTED EXPOSURES

	Dec-17	Dec-18	Dec-19
	MUR 000	MUR 000	MUR 000
Risk weighted on balance sheet assets	21,645,917	24,512,508	**26,991,494**
Risk weighted off balance sheet exposures	230,777	241,795	**288,771**
Risk weighted on market risk	60,734	63,498	**46,133**
Risk weighted on operational risk	1,405,912	1,688,973	**1,876,059**
Total risk weighted assets	23,343,340	26,506,774	**29,202,458**

RISK-WEIGHTED ASSETS FOR MARKET RISK

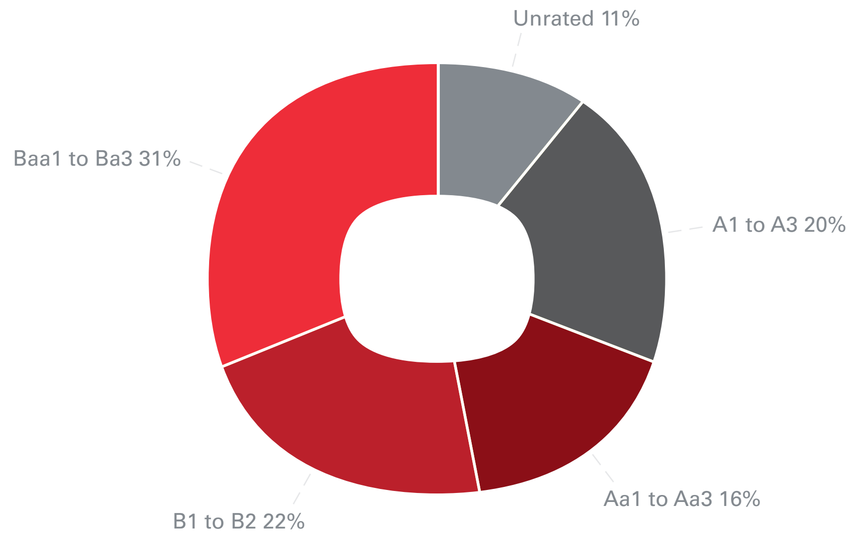
	Dec-17	Dec-18	Dec-19
	MUR 000	MUR 000	MUR 000
Foreign exchange risk	60,734	63,498	**46,133**
Interest rate risk	-	-	**-**
Equivalent risk-weighted assets	60,734	63,498	**46,133**

RISK-WEIGHTED ASSETS FOR OPERATIONAL RISK

	Dec-17	Dec-18	Dec-19
	MUR 000	MUR 000	MUR 000
Average gross income for last 3 years	937,275	1,125,982	**1,250,706**
Capital charge	140,591	168,897	**187,606**
Equivalent risk-weighted assets	1,405,912	1,688,973	**1,876,059**

In line with the Bank of Mauritius' guidelines on the recognition and use of the External Credit Assessment Institutions (ECAI)[1], the ratings from the 4 following agencies: Moody's, Standard & Poor's, Fitch and CARE Ratings have been used in computing the relative risk weights for balance with foreign banks, lending to foreign entities, and banks and other foreign investments.

EXPOSURES BY RISK GRADE

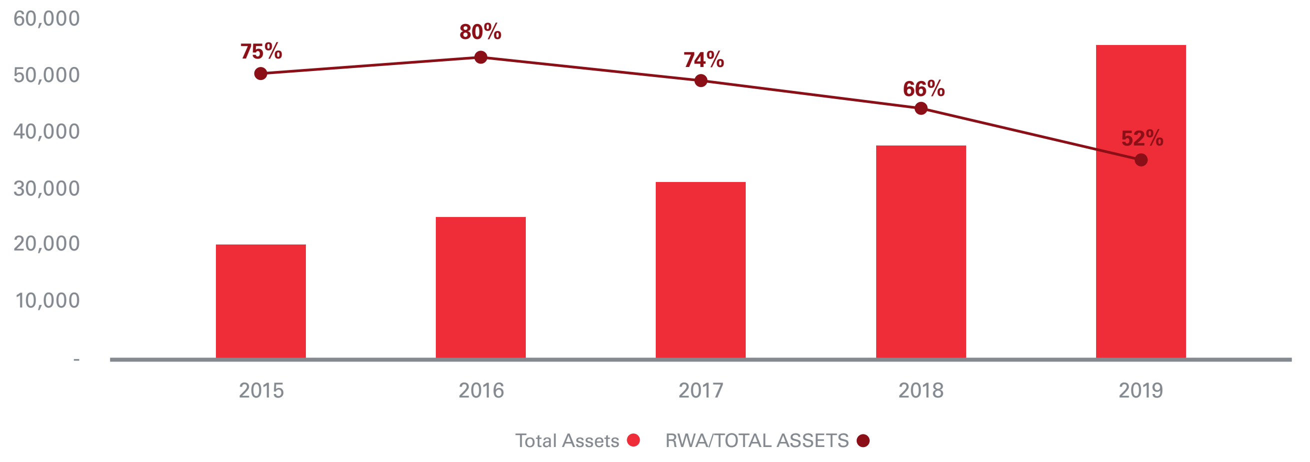


Note: For each exposure, we have selected Moody's assignment for the different ratings.

The Bank has reviewed its portfolio to ensure that a proper mix of assets classes is maintained from a risk and tenor point of view.

RISK MANAGEMENT

RISK-WEIGHTED ASSETS/TOTAL ASSETS



The above graph reflects the success in the strategy of the Bank to reduce the level of risks sitting in its balance sheet.

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 in the years to come.

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 and capital position. It consists of numerous business and risk processes that assess and ensure that the Bank has adequate resilience in terms of capital. With this exercise, the Bank is in a better position to prepare mitigating measures to counter the negative impact that may arise in case the conditions relating to the risks materialise.

The Bank's ICAAP is conducted on an annual basis, or more frequently if warranted, where the level of capitalisation of Bank One is determined using different types of plausible and unexpected stress scenarios.

Stress testing forms an integral part of the ICAAP. It is performed monthly to assess the impact for market risks, and reported to ALCO. The process involves various techniques which are used to evaluate the potential negative impact on the available capital, impact caused by specific event or movement in risk factors and ranging from plausible to extreme conditions. The same exercise is carried out more intensively on an annual basis, including other risks not included in the actual capital computations and reported in the ICAAP report.

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 risk like credit, operational, market, liquidity, strategic and reputation risks.

Methodology and assumptions	
Risk type	**Assessment methodology**
Compliance risk	Quantitative and qualitative assessment
Concentration risk	HH index and stress testing
Country risk	Quantitative and qualitative assessments
Credit risk	Moody's Risk Analyst & Risk Calc models for institutional obligors and banks
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
Reputational risk	Qualitative assessment
Strategic risk	MIRC and Board Committee created to assess risks and opportunities

SUSTAINABILITY

Bank One acknowledges the necessity of integrating sustainability into its business strategies, with the ever-increasing impact of environmental and social factors across businesses. The integration of sustainability into the bank's decision-making process will take two key directions:

- Ensuring environmental and social responsibility in Bank One's own operations, through environmental (such as reduction of operations waste and improvements in energy footprint) and socially responsible initiatives (such as improved human resources practices and Corporate Social Responsibility (CSR) initiatives of the Bank); and

- Integrating sustainability into the Bank's core business decisions, through the integration of environmental and social criteria (E&S) into its clients- and other stakeholders-related decision-making processes.

The second category described above has the potential to influence Bank One's clients on a much larger scale. Integrating E&S criteria into the Bank's risk decision-making process means the latter's support to environmentally and socially responsible projects and sustainable companies.

Although Bank One does not have a large direct environmental and social impact through its own operations, it is evident that providing funding to companies that have significant environmental and social impacts indirectly affects the environment. Bank One will therefore address all its efforts by having a robust Environmental and Social Management System (ESMS) to ensure greater environmental and social efficacy among its customers, especially for its medium- to high-risks clients.

In this context, a dedicated sustainability manager has been onboarded. Bank One has also embarked into a sustainability journey with the support of an expert in the subject matter, as recommended by one of our partners. The objective is to attain the best global environmental and social practices, and bring Bank One's ESMS to a world class level. The project has kick started late last year and more details will be made available on progress going forward.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Bank One provides support to both community and environmental projects that help in removing social, environmental and economic barriers. The Bank encourages its team members to fully participate in such activities and support their efforts to make a difference. Over the past years, the Bank has remained committed towards improving the life of local communities for a more sustainable society. It has also provided continued financial and non-financial support to those in need. Our 2019 key initiatives are listed below.

EMPOWERING YOUNG PEOPLE AT NATIONAL LEVEL

In collaboration with NGO Junior Africa Mascareignes (JAM) and the Mauritius Institute of Training and Development (MITD), trainings were provided to 202 students (aged 16 to25) across eight MITD Centres, in order to upskill and improve their employability rate.

WOMEN EMPOWERMENT PROGRAMME AT SOLITUDE

With the support of La Caz Lespwar (Caritas Solitude), a workshop was organised to help women lacking adequate financial support and technical guidance in achieving their entrepreneurial project.

BANK ONE'S IN-HOUSE DONATION DRIVE

In association with NGO The Good Shop, Bank One held its first-ever in-house donation drive across all its operations, between 9 and 13 December 2019. A total of 234 items, with an estimated weight of 22.134 lbs., were collected and distributed to the children of Ami De Don Bosco Orphanage, situated in Baie du Tombeau, on 24 December.

HELPING YOU **GROW**

CORPORATE GOVERNANCE

CORPORATE PROFILE

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

Born from a joint venture between CIEL Limited and I&M Holdings PLC in 2008, Bank One chose, from the onset, to serve four main segments: Retail, Corporate, Private and International Banking. Today, it is recognised as a fast-growing bank with solid fundamentals, ranked 30th most profitable company in Mauritius by the 2019 Top 100 Companies publication.

Over the last decade, Bank One has built itself a client base of over 50,000, a dedicated team of 411 experienced collaborators and an asset base of MUR 55.6 billion. It provides a wide range of banking products and services to its clients, through a geographic footprint spread across the island of Mauritius, comprising 12 branches and a well-distributed ATM network. It has also acquired a solid reputation for its Treasury Services and an innovative e-commerce value proposition that appeals to customers far and wide. Recognised by Visa for its best-in-class e-commerce risk management practices, Bank One has extended its partner network by on-boarding MasterCard and UnionPay in recent years.

Innovation is a core tenet of Bank One's DNA and has driven us to accomplish many firsts on the Mauritian market over the years, including best-in-class Retail Banking offers, an Open Architecture investment solution for Private Banking clients, and a state-of-the-art Custody Platform. These initiatives and many more, coupled with a clear vision and a team of accomplished professionals, have allowed Bank One to remain true to its commitment to customer delight, which underpins the strength of its operations.

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

DIRECTORS IN OFFICE DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Ms. Sandra Martyres (Appointed as Independent Chairperson on 07.09.2017)
Mr. Juan Carlos Albizzati (Non-Executive, resigned on 12.06.2019)
Mr. Ravneet Chowdhury (Executive)
Ms. Gauri A. Gupta (Non-Executive)
Mr. Paul E. Leech (Non-Executive, appointed on 26.06.2019)
Mr. Leonard C. Mususa (Independent)
Mr. Ignacio Serrahima Arbestain (Independent, appointed on 16.04.2019)
Mr. L.A. Sivaramakrishnan (Non-Executive)
Mr. Nikhil Treebhoohun (Independent)
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 2019

AUDIT COMMITTEE

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

RISK MANAGEMENT COMMITTEE

Mr. Marc-Emmanuel Vives (Chairperson)
Mr. Ravneet Chowdhury
Ms. Sandra Martyres
Mr. Leonard C. Mususa
Mr. L.A. Sivaramakrishnan

CONDUCT REVIEW & CORPORATE GOVERNANCE COMMITTEE

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

INVESTMENT & TRANSFORMATION COMMITTEE

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

NOMINATION & REMUNERATION COMMITTEE

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

CREDIT COMMITTEE

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

STRATEGY COMMITTEE

Ms. Gauri A. Gupta (Chairperson)
Mr. Ravneet Chowdhury
Ms. Sandra Martyres
Mr. Paul E. Leech

EXECUTIVE MANAGEMENT TEAM

Chief Executive Officer: Mr. Ravneet Chowdhury
Chief Operating Officer: Mr. Saleem Ul Haq
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 and Wealth Management: Mr. Guillaume Passebecq
Head of Retail Banking: Mr. Shehryar Ali
Head of Treasury: Mr. Rishyraj Lutchman
Head of Human Resources: Ms. Priscilla Mutty
Head of Legal and Regulatory Affairs: Ms. Valérie Duval

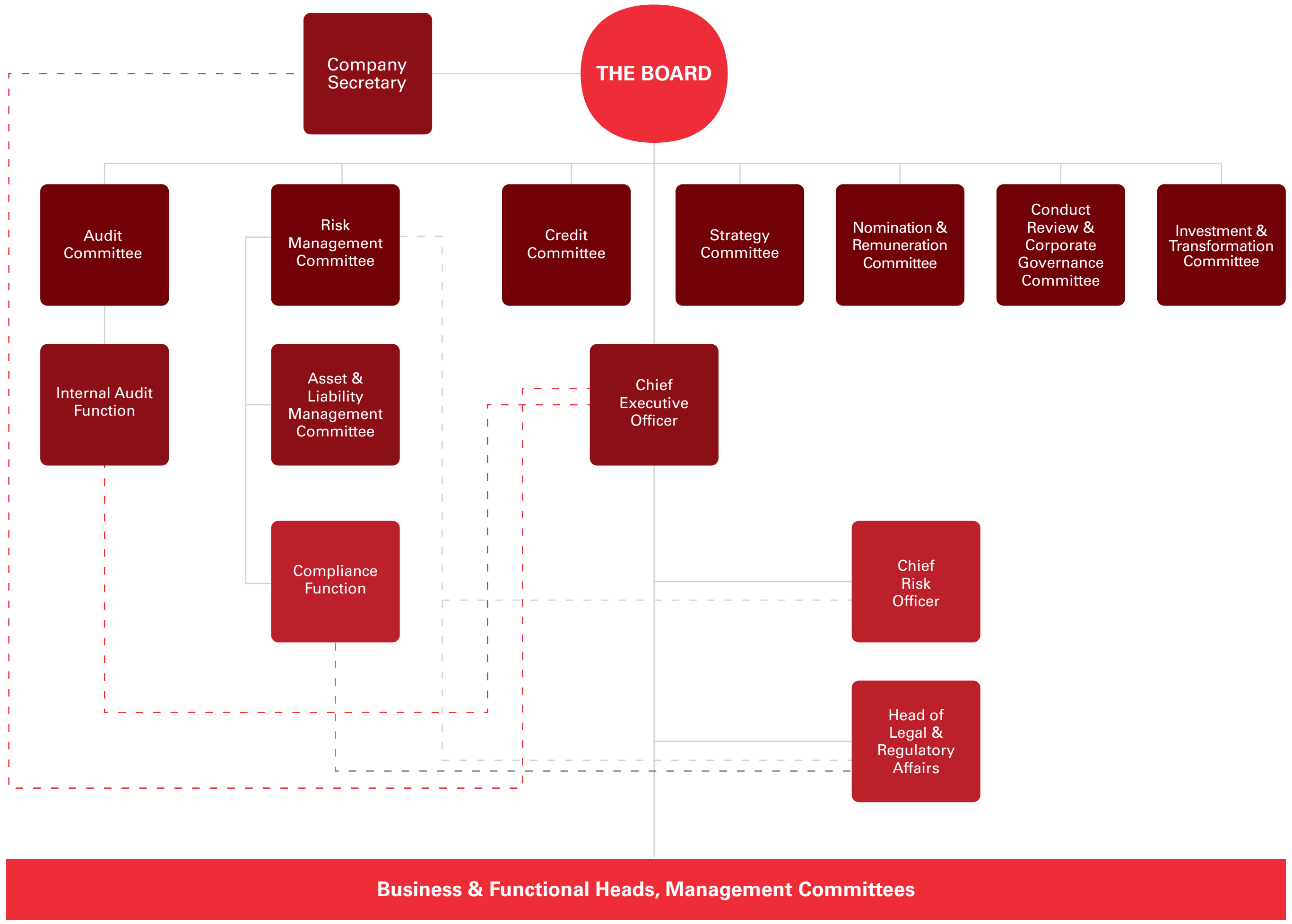
CORPORATE GOVERNANCE REPORT

GOVERNANCE STRUCTURE

The Board of Directors of Bank One Limited (the "Bank") is responsible for the overall stewardship of the Bank, within a sound corporate governance framework which ensures ethical business conduct across all aspects of the Bank's operations and decision-making processes, with the objective of enhancing shareholders' value while having regard to stakeholders at large. As a Public Interest Entity, the Bank has applied the principles and provisions of the National Code of Corporate Governance for Mauritius (2016) in all material aspects.

GOVERNANCE FRAMEWORK AND ACCOUNTABILITIES

The Board of Directors sets the strategic direction of the Bank. It is also responsible for leading, directing and supervising 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 for ensuring all legal and regulatory requirements are met. Some of the responsibilities are discharged directly, while others are discharged through board committees for a more in-depth focus on specific areas. The day-to-day management and operation of the Bank's business have been delegated to the Chief Executive Officer, who 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.



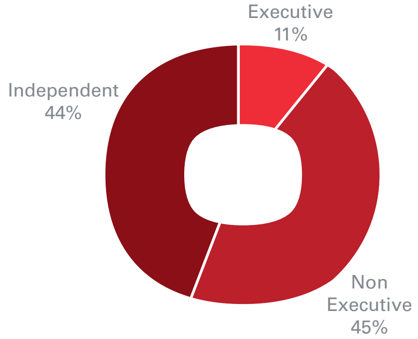
Position statements for the Chairperson of the Board, the Chairpersons of all board committees, the CEO and the Company Secretary, were defined and approved by the Board during the financial year 2018. These have been incorporated in the Board Charter[1], which is reviewed by the Board every 2 years.

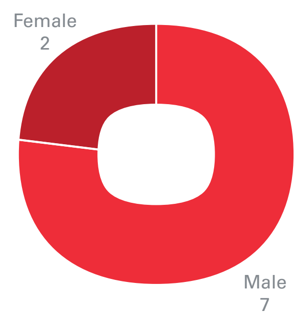
[1]Available on the Bank's website: http://www.bankone.mu

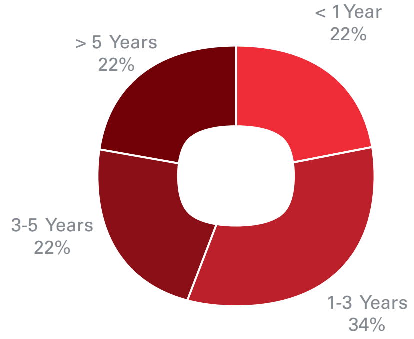
STRUCTURE OF THE BOARD AND ITS COMMITTEES

THE BOARD

The Bank's constitution[1] provides 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 (AMS). 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.







In line with the shareholders' agreement which provides that the Chairperson of the Board shall be elected by the Shareholders, Ms. Sandra Martyres was re-appointed as Chairperson of the Board by the shareholders on 18 April 2019, to hold office until the conclusion of the next AMS.

Mr. Ignacio Serrahima Arbestain was appointed as Independent Director on 16 April 2019. Mr. Paul E. Leech was appointed as non-executive Director on 26 June 2019, in replacement of Mr. Juan Carlos Albizzati, who resigned from the Board on 12 June 2019.

The responsibilities of the Board of Directors are set out in its Board Charter[1], 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 being 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.

[1]Available on the Bank's website: http://www.bankone.mu

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

Seven board committees, as set out on page 72, were set up by the Board to assist its members in the discharge of their duties and responsibilities. With a view to improve the different committees' effectiveness, all human resources-related matters previously under the Board Administrative and Staff Compensation Committee's (BASCC) purview were shifted under the responsibility of the Nominations and Remuneration Committee, such that the BASCC could focus more on the oversight of the Bank's investment and transformation initiatives. The BASCC was accordingly renamed as the Board Investment and Transformation Committee.

The terms of reference and composition of board committees are summarised below. 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.

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: • 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; • The recommendation for the appointment of auditors; • The scope and results of internal audit reviews and external audits; and • The effectiveness of risk management, internal control and compliance systems.
COMPOSITION	Leonard Mususa, Independent Chairperson Sandra Martyres, Independent member Nikhil Treebhoohun, Independent member

Board Risk Management Committee

FREQUENCY	Quarterly
MAIN TERMS OF REFERENCE	• Identifying, reviewing and assessing the principal risks, including but not limited to, credit, market, liquidity, operational, technological, legal, compliance and reputational risks, and the actions taken to mitigate these risks. • Formulating and making recommendations to the Board in respect of the overall current and future risk appetite, overseeing senior management's implementation of the risk appetite framework, and reporting on the state of the risk culture in the Bank. • Receiving periodic information on risk exposures and risk management activities from Senior Officers. • Recommending to the Board for approval, a risk appetite framework, and ensuring the Board-approved framework is well understood throughout the Bank. • Determining country exposure/risk tolerance limits, reviewing and ratifying breaches. • Reviewing/monitoring the compliance function.
COMPOSITION	• Juan Carlos Albizzati, Non-executive Chairperson until 12 June 2019 • Marc-Emmanuel Vives, Non-executive Chairperson as from 13 June 2019 • 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	• Reviewing and approving credit exposure to related parties, ensuring that the same are granted at market terms and conditions. • Making recommendations to the Board on all corporate governance matters. • Overseeing the CSR activities and projects of the Bank.
COMPOSITION	Leonard Mususa, Independent Chairperson until 17 April 2019 Nikhil Treebhoohun, Independent Chairperson as from 18 April 2019 Sandra Martyres, Independent member Leonard Mususa, Independent member as from 18 April 2019

Board Credit Committee

FREQUENCY	At least 8 times per annum
MAIN TERMS OF REFERENCE	• Reviewing and approving the overall lending policy of the Bank. • Deliberating and considering loan applications as well as Internet Payment Service Provider (IPSP)/Merchant applications, beyond the discretionary limits of the management. • Directing, monitoring, reviewing and considering all issues that may materially impact on the present and future quality of the Bank's credit risk management. • Ensuring compliance with guidelines issued by the Bank of Mauritius on credit risk management from time to time. • Conducting 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

CORPORATE GOVERNANCE REPORT

Board Strategy Committee

FREQUENCY	Quarterly
MAIN TERMS OF REFERENCE	• Reviewing the Bank's strategic plan. • Monitoring and measuring the progress of the implementation of the strategic plan. • Reviewing, discussing and, where appropriate, making recommendations to management on the framework and strategic direction of the Bank for each financial year. • Reviewing the annual budget as proposed by management from a strategic perspective.
COMPOSITION	Marc-Emmanuel Vives, Non-executive Chairperson until 17 April 2019 Gauri Gupta, Non-executive Chairperson as from 18 April 2019 Ravneet Chowdhury, Executive member Paul E. Leech, Non-executive member as from 13 June 2019 Sandra Martyres, Independent member Ignasi Serrahima A., Independent member as from 18 April 2019 Marc-Emmanuel Vives, Non-executive member from 18 April to 12 June 2019

Nomination & Remuneration Committee

FREQUENCY	Quarterly
MAIN TERMS OF REFERENCE	• Directing the process of appointing, renewing and replacing executive/senior management staff. • Reviewing, at least annually, the Board and board committees' structure, size and composition (including balance between Executive and Non-executive/Independent Directors), and making recommendations to the Board with regards to any adjustments that are deemed necessary. • Approving the qualification and suitability of candidates for Board membership (including Chairperson of the Board, Chairpersons of the committees, and committee members) and making recommendations as appropriate to the Board. • Assessing the effectiveness and performance of the directors, Board and board committees, as well as the Chairperson of the Board. • Overseeing key human resources strategic initiatives.
COMPOSITION	Gauri Gupta, Non-executive Chairperson Ignasi Serrahima A., Independent member as from 18 April 2019 Nikhil Treebhoohun, Independent member Marc-Emmanuel Vives, Non-executive member

Board Investment & Transformation Committee

FREQUENCY	Quarterly
MAIN TERMS OF REFERENCE	The Committee assists the Board in fulfilling its responsibilities, pertaining to: • Investment- and expenses-related matters; • The transformation roadmap of the Bank, in line with operational excellence principles (including but not limited to service quality, customer experience, innovation, operational efficiency and productivity, data management, cyber-security, among others).
COMPOSITION	Marc-Emmanuel Vives, Non-executive Chairperson Ravneet Chowdhury, Executive member Ignasi Serrahima Arbestain, Independent member as from 11 September 2019 L.A. Sivaramakrishnan, Non-executive member

DIRECTORS' ATTENDANCE AND REMUNERATION

Directors	Status	Board	BAC	BRMC	CRCGC	NRC	BITC	BCC	BSC	Total Remuneration FY 2019 (Rs)
Sandra Martyres	IC	4/4	4/4	4/4	4/4	-	-	9/9	5/5	1,581,335
Ravneet Chowdhury	ED	4/4	-	4/4	-	-	6/6	-	5/5	N/A[7]
Juan Carlos Albizzati[1]	NED	2/4	-	2/4	-	-	-	-	-	307,500
Gauri A.Gupta	NED	4/4	-	-	-	4/4	-	-	5/5	783,540
Paul E. Leech	NED	2/4[2]	-	-	-	-	-	-	3/5[6]	280,875
L.A. Sivaramakrishnan	NED	4/4	-	4/4	-	-	4/6[5]	9/9	-	989,540
Marc-Emmanuel Vives	NED	4/4	-	2/4[4]	-	4/4	6/6	8/9	2/5[6]	1,245,000
Leonard Mususa	ID	4/4	4/4	4/4	4/4	-	-	-	-	1,065,940
Ignacio Serrahima Arbestain	ID	3/4[3]	-	-	-	3/4[3]	1/6[3]	-	4/5[3]	596,565
Nikhil Treebhoohun	ID	4/4	4/4	-	4/4	3/4	-	-	-	899,000
										7,749,295

1. Mr. Juan Carlos Albizzati resigned as Non-Executive Director on 12 June 2019.
2. Mr. Paul E. Leech was appointed as Non-Executive Director on 26 June 2019.
3. Mr. Ignacio Serrahima Arbestain was appointed as Independent Director on 16 April 2019.
4. Mr. Marc-Emmanuel Vives' membership on the BRMC was effective as from 13 June 2019.
5. Ms. Gauri Gupta was co-opted to replace Mr. L.A. Sivaramakrishnan at the 2 BITC sessions which he did not attend.
6. Mr. Marc-Emmanuel Vives ceased to be a member of the BSC as at 12 June 2019. Mr. Paul E. Leech was appointed on the BSC in his stead.

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

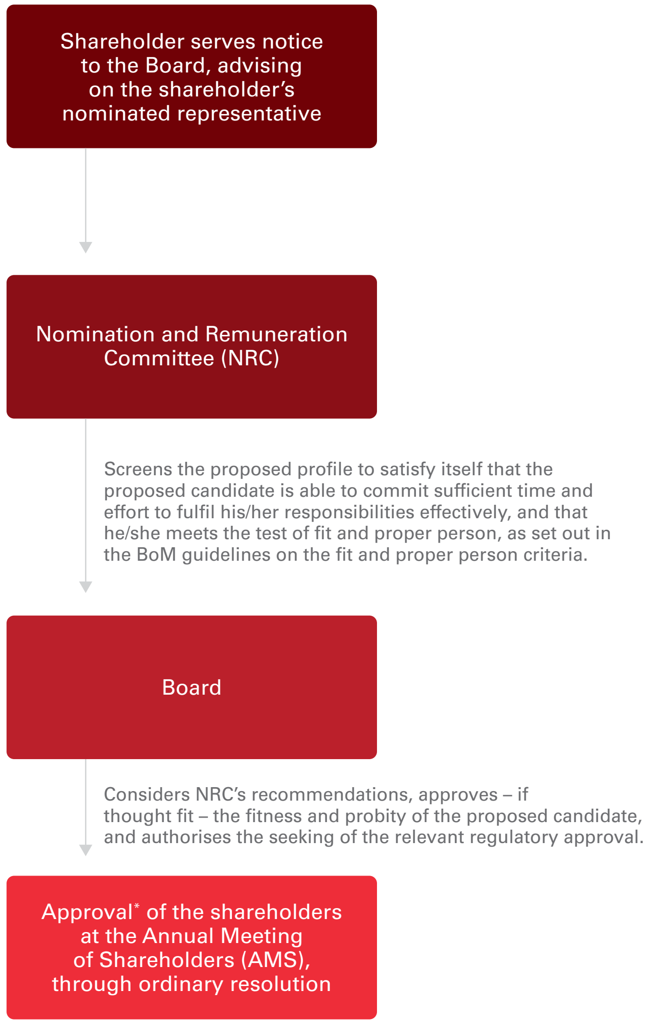
CORPORATE GOVERNANCE REPORT

DIRECTORS' APPOINTMENT PROCEDURES

The directors' 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

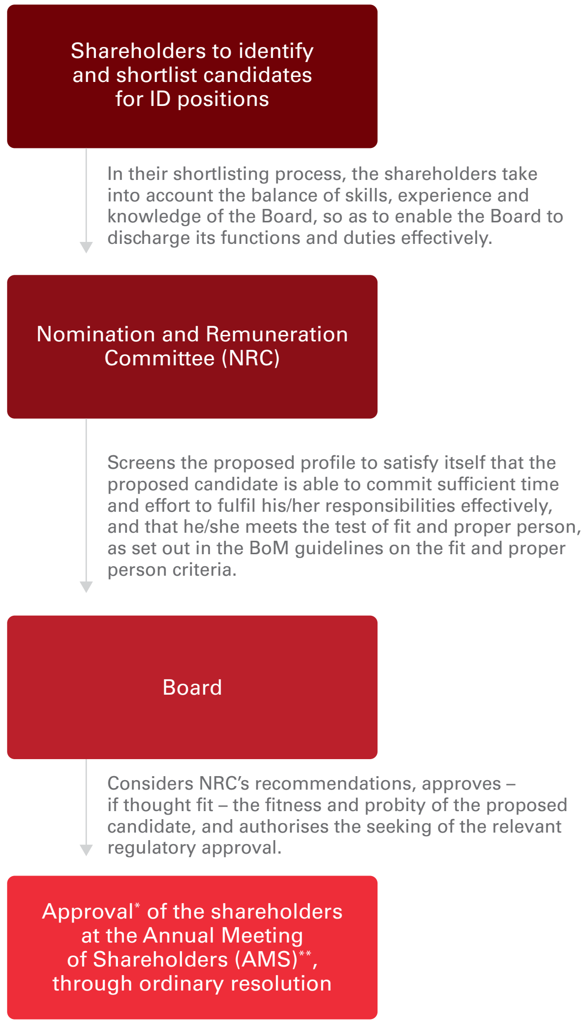
As per the shareholders' agreement, each shareholder is entitled to appoint 2 directors on the Board



*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 maximum of 4 Independent Directors



*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.

The Board, in consultation with the shareholders, is responsible for the succession planning and 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 familiarised, as soon as possible, with the Bank's operations, senior management, business environment and corporate strategy, as well as their fiduciary duties and responsibilities as directors. 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, the minutes of the last Board meeting, and such other useful documents. The Company Secretary also arranges for one-to-one meetings with the Chairperson and for presentation sessions, where the new directors are briefed by the senior management and Executives 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. While 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 them with adequate training and development. In this respect, a training calendar is set on a yearly basis, taking into consideration the training needs of the directors and the recent changes in the banking business environment. During the year under review, the directors attended a workshop on Alternative Digital Assets and participated in an interactive session on Strategy Definition and Execution. The directors also visited the Bank's OneLab in December 2019, for an on-the-ground experience of the transformation programme execution.

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.

CODE OF ETHICS AND WHISTLEBLOWING POLICY

The Bank's Code of Ethics lays out the values, standards of behaviour and ethical practices expected in all the Bank's dealings. The Conduct Review and Corporate Governance Committee has oversight on all matters relating to ethical standards within the Bank. The Code of Ethics is reviewed on an annual basis. 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.

The Board has also approved a Whistleblowing Policy, which defines the whistleblowing framework, including the escalation and investigation process as well as the confidentiality assurance, to ensure that employees feel free to voice out any concerns, with respect to the Bank or its people, without fear of reprisal.

RELATED PARTY TRANSACTIONS

Transactions with related parties are guided by the Conflicts of Interests and Related Party Transactions Policies, as well as 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, is overseen by the Board Investment and Transformation Committee (BITC). During the year under review, the Board, upon the recommendation of the BITC, approved the Bank's digital transformation roadmap, aimed at re-engineering the Bank's operations with a view to provide innovative propositions to its customers and reinforce their experience.

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, mobile banking, among others, as well as sub-policies directed at end-users and technical teams. Such policies are reviewed on an annual basis. Operational security-related matters are reported to, and considered at, the Management Integrated Risk Committee. Any risks areas are escalated to the Board Risk Management Committee for further discussion and mitigation.

BOARD EVALUATION

In line with the National Code of Corporate Governance (2016) and BoM guidelines on corporate governance, the Board has established a mechanism to evaluate its performance and that of 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 and relationship with management, as well as an evaluation of its sub committees. The appraisal exercise also covers the Chairperson'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 on an annual basis, to ensure same are up to date.

A Board evaluation was conducted in 2019 based on a revised questionnaire, the design of which was outsourced to an independent third party. The exercise comprised 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. The Board Chairperson also held individual one-to-one sessions with each director. Feedback obtained from the evaluation questionnaires were compiled by the Company Secretary and presented to the Board. Actions to be taken as a result of the evaluation were also discussed and agreed upon.

REMUNERATION

Directors' and senior executives' remuneration are dealt with by the Nominations 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. 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.

CORPORATE GOVERNANCE REPORT

The CEO is not remunerated for serving on the Board and Board Risk Management Committee. 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.

RISK GOVERNANCE AND INTERNAL CONTROL

The Board is responsible for maintaining a robust risk management and internal control system. It ensures the necessary framework, processes and systems are in place to identify, measure, monitor and mitigate risks within the overall strategic direction of the Bank. The oversight of the Bank's risk management system has been delegated to the Board Risk Management Committee, whose Chairperson regularly reports to the Board to provide the latter with the necessary assurance that risks are effectively managed.

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. The risk culture implementation is driven by the CEO, with progress updates presented to the BRMC on a quarterly basis.

The Board has also approved the Bank's risk policies and guidelines, and management has been delegated the responsibility of 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. A risk escalation matrix ensures timely reporting of risk events at various levels, depending on the severity of such events. Compliance with internal established policies and procedures, as well as with laws, regulations and codes in order to protect the Bank's assets and reputation, are also monitored and reported to the BRMC on a quarterly basis.

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 on a quarterly basis.

Moreover, the Bank's internal control framework ensures the reliability of financial reporting, operations and systems. The Board is assisted in its responsibilities in this regard by the Board Audit Committee, which ensures that processes are in place to monitor the effectiveness of internal controls. In carrying out its duties, the committee receives regular reports from internal audit. The committee also regularly meets with the Head of Internal Audit and the External Auditors, without management being present to ensure that there are no unresolved material issues of concern.

The risk management section of this Annual Report, available on pages 52 to 66, provides additional information on the risk management framework and risks that the Bank is exposed to.

REPORTING WITH INTEGRITY

The Board of Directors is responsible for the preparation of an Annual Report, including financial statements, in accordance with applicable laws and regulations. Financial statements are also prepared in accordance with the International Financial Reporting Standards. Directors' responsibilities in respect of the preparation of financial statements are disclosed in the statement of directors' responsibilities section of this Annual Report, which can be found on page 88. The full Annual Report is available on the Bank's website: http://www.bankone.mu.

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 stipulating some 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 are included in the Corporate Social Responsibility and Human Capital Management sections of this Annual Report.

AUDIT

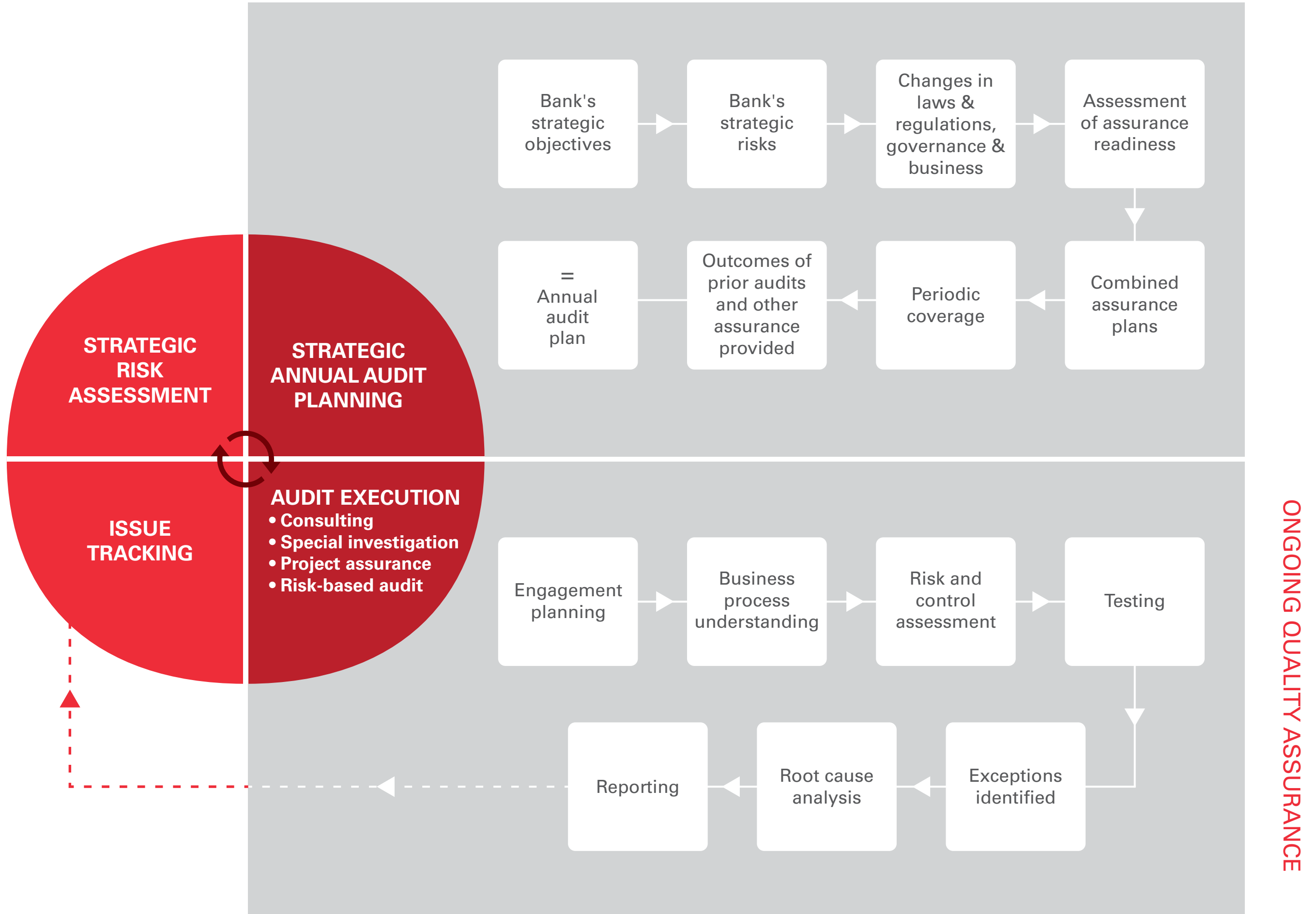
INTERNAL AUDIT

In line with the Mauritian Code of Corporate Governance, Bank One's Internal Audit function is established as "…an independent and objective assurance and consulting activity, designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of risk management, control and governance processes."

Bank One's Internal Audit reports functionally to the Board's Audit Committee. The Head of Internal Audit is a standing invitee to all Board Audit Committee meetings, as well as the Board Risk Management Committee. She has regular and unrestricted access to the Board Audit Committee's Chairman and members, and meets with the Board Audit Committee at least twice a year, without management being present.

The structure, organisation and qualifications of the key members of the internal audit function are available on the Bank's website: http://www.bankone.mu.

In 2019, the Bank's internal audit function refreshed its strategy and methodology to ensure continued alignment to the Bank's strategic objectives and risks. The department's methodology complies with the Standards for the Professional Practice of Internal Auditing, as prescribed by the Institute of Internal Auditors (IIA), and is summarised on a high level in the diagram below:



The department's internal audit plan is approved annually by the Board Audit Committee, and progress is reviewed on a quarterly basis. The approved plan caters for adjustments to enable agile response to ad-hoc requests from management.

To deliver value to the Bank and all stakeholders, the internal audit function provides multi-faceted assurance over risks, portfolios, laws and regulations and project activities, as well as over the Bank's risk management and compliance activities.

The internal audit team has unrestricted access to all the records of the Bank, its management and employees. Internal audit tracks and reports on the timeliness and effectiveness of the implementation of audit recommendations.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDIT

Following the completion of their five-year term as External Auditors of the Bank, PwC retired during the financial year ended 31 December 2018. Four audit firms were invited to submit their proposals to the Bank and were also invited to make a presentation to the Board Audit Committee. Tenderers were assessed based on their profiles, the quality of the proposed audit team and their banking experience, the audit and quality assurance approach, amongst others. Upon the recommendation of the Board Audit Committee, Deloitte was appointed as External Auditor for the year ended 31 December 2019. External auditors report on a quarterly basis to the Board Audit Committee on the quarterly financial statements, and at year end on the yearly audited financial results of the Bank. The Board Audit Committee also regularly meets with External Auditors, without management being present.

THE AUDIT COMMITTEE

All of the Audit Committee's members are well versed in financial matters, with the Chairman holding extensive experience in the financial field, 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 has reviewed internal audit reports on assignments carried out as per the approved internal audit plan. The key findings were discussed. The audited results and quarterly financial results were also looked into by the committee, with particular attention given to:

- the review of credit impairments to ensure compliance with the new guidelines on credit impairment measurement and income recognition, which came into effect as from 1 January 2020;
- the implementation and impact of IFRS 9 and IFRS 16;
- the impact of changes in tax regulations and the special levy on the Bank's financial results;
- the impact of key NPA accounts on the Bank's financial results;
- the review of the external audit plan for financial year 2019 with Deloitte.

The Audit Committee ensures that both Internal and External Auditors' independence and objectivity are maintained. With regards to External Auditors, any non-audit services provided by Deloitte is 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 Deloitte during the year under review pertain to assistance regarding senior debt and tax advisory services.

The fees paid to Deloitte for audit and other services are detailed in the other statutory disclosures section of this Annual Report, which can be found on page 86.

RELATIONSHIPS 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 shareholders on a regular basis, to keep them apprised on its affairs and the progress against the set KPIs. Given the shareholding structure and close and frequent communication with the two shareholder groups, written resolutions of the shareholdersare 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 strives to comply with at all times.

Regulators
The Bank, by the 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.

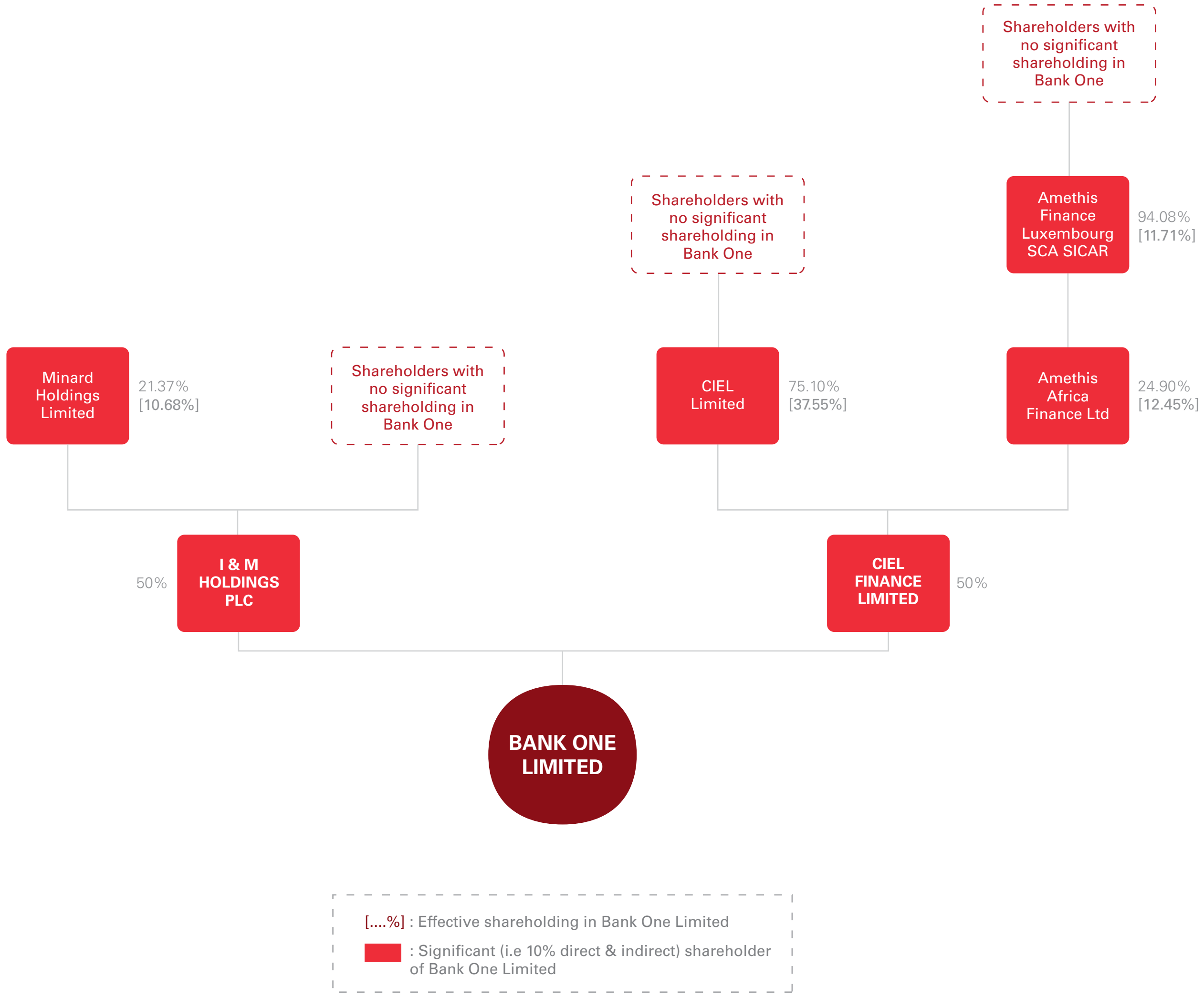
Employees
An e-learning platform was rolled out to support the upskilling of the Bank's employees. A number of initiatives were brought on the pay and benefits front, and the Performance Management System (PMS) was reviewed to promote and support a high-performance culture.

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

Community
The Bank's focus during the year has been on empowering young people through an immersion training strategy targeting young entrepreneurs. This was done through the support of a group of women having entrepreneurial projects but lacking financial support and ethical and technical guidance, as well as through an in-house donation drive association with The Good Shop NGO.

SHAREHOLDING STRUCTURE AND SHAREHOLDERS

Following a rights issue of shares made during the year, Bank One Limited's share capital stood at MUR 1,156,456,000, represented by 11,564,560 ordinary shares of no par value, held equally between CIEL Finance Limited and I&M Holdings PLC. The shareholding structure is illustrated below:



CORPORATE GOVERNANCE REPORT

CIEL FINANCE LIMITED

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

It is the specialised Banking and Financial Services cluster of the CIEL group, actively involved in four sub-sectors: 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 33,000 employees. With a market capitalisation of about MUR 10.5 billion as at 30 June 2019 and a consolidated turnover of MUR 24.21 billion for the 12 months' period ended 30 June 2019, CIEL is one of the largest listed Mauritian companies. As at 30 September 2019, its portfolio was valued at MUR 13.81 billion, and the group total assets at MUR 72.58 billion. The group's activities are organised under five distinct business segments, including Agro and Property, Banking and Financial Services, Healthcare, Hotel and 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 this index. 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 regional banking entities of the I&M Bank group.

I&M Holdings operates in five countries: Kenya, Tanzania, Rwanda, Uganda and Mauritius. As at September 2019, its total assets were approximately USD 2.6 billion, it had a branch network of 79 branches and a staff complement of over 2,030 spread across the five countries. Based on the share price as at December 2019, the company's market capitalisation was approximately USD 446 million.

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 45 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.

Nikhil Treebhoohun
Chairperson of the Conduct Review &
Corporate Governance Committee

Kareen Ng
Company secretary

13 March 2020

STATEMENT OF COMPLIANCE

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

NAME OF PIE: BANK ONE LIMITED

REPORTING PERIOD: FINANCIAL YEAR ENDED DECEMBER 2019

We, the Directors of Bank One Limited, confirm that, to the best of our knowledge, the Bank has complied with all of its obligations and requirements under the National Code of Corporate Governance for Mauritius (2016), in all material aspects, save for Principle 4 – 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

Nikhil Treebhoohun
Chairperson of the Conduct Review and
Corporate Governance Committee

13 March 2020

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 2019:

- Ravneet Chowdhury
- Gauri A. Gupta
- Paul E. Leech (appointed on 26 June 2019)
- Sandra Martyres
- Leonard C. Mususa
- Ignacio Serrahima Arbestain (appointed on 16 April 2019)
- L.A. Sivaramakrishnan
- Nikhil Treebhoohun
- Marc-Emmanuel Vives

Juan Carlos Albizzati resigned as director on 12 June 2019.

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 to by the Bank.

FEES PAYABLE TO DELOITTE

Type	Description	Fees FY 2019 (MUR 000)
Audit fees	Yearly, half-yearly and quarterly statutory audits	4,468,000
Other fees	Tax advisory	115,000
	Senior debt assessment	86,250
	Increase in share capital assessment	86,250

CHARITABLE DONATIONS AND POLITICAL FUNDING

Apart from contribution to CSR projects as detailed in the Corporate Sustainability Report, found on page 67, no political funding or other charitable donations were made during the year under review.

COMPANY SECRETARY'S 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 2019, all such returns as are required under the Companies Act 2001, in terms of section 166(d).

Kareen Ng, ***ACIS***
Company secretary

13 March 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF 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.
- 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 safeguarding 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 to ensure the maintenance of adequate accounting records and an effective system of internal controls and risk management.

Approved by the Board of Directors on 13 March 2020 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'S RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Bank's financial statements, presented in this Annual Report, have been prepared by management, who 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. Management has exercised its judgement and made the 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 organisational and governance structures providing a well-defined division of responsibilities, authorisation levels and accountability for performance, and the communication of the Bank's policies, procedures manuals and guidelines of the Bank of Mauritius throughout the Bank.

The Bank's Board of Directors, acting in part through the Audit Committee, Conduct Review and Corporate Governance Committee, and Risk Management Committee, 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 programme of internal audits in coordination with the Bank's External Auditors. In addition, the Bank's compliance function maintains policies, procedures and programmes directed at ensuring compliance with regulatory requirements.

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

The Bank's External Auditors, Deloitte, 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** Chairman of the Board Audit Committee

GETTING **CLOSER** TO YOU

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Bank One Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Bank One Limited (the "Bank" and the "Public Interest Entity") set out on pages 96 to 199, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements of the Mauritius Companies Act 2001 and the Financial Reporting Act 2004.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER MATTER

The financial statements of Bank One Limited for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on 26 March 2019.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Bank One Limited

Key audit matter	How our audit addressed by the key audit matter
Impairment of loans and advances IFRS 9 requires recognition of expected credit losses ('ECL') on financial instruments, which involves significant judgement and estimates. The key areas where we identified greater levels of management judgements and estimates and therefore increased levels of audit focus in the ECL computation are: • Model estimations – Statistical modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The PD and LGD models used in the loans portfolios are the key drivers of the ECL results and are therefore the most significant areas of judgements and estimates used in the ECL modelling approach. • Macro-Economic Forecasts – IFRS 9 requires to measure ECLs on a forward-looking basis using the most appropriate macro-economic forecasts. The macro-economic forecasts are estimates of future economic conditions. • Stage 3 provisioning – The most significant judgments in respect of provision for credit loss are: - Valuation of collateral and future cash flows - Management assumptions used The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements, as a whole.	Our procedures included the following amongst others: • Involved specialist team in validating the statistical model; • Evaluated the appropriateness of the IFRS 9 impairment methodologies; • Tested the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions into the IFRS 9 impairment models; • Assessed the appropriateness of the macro-economic forecasts used. • Independently assessed probability of default, loss given default and exposure at default assumptions; • Assessed the reasonableness of the model predictions by comparing them against actual results; • Sample tested over key inputs and assumptions including economic forecasts, PD, LGD assumptions and qualitative adjustments impacting ECL calculations; • Inspected the minutes of Credit Committee, Special Asset Committee, Risk Committee and Board to ensure that there are governance controls in place in relation to assessment of allowance for credit impairment; • Assessed the methodologies applied by using our industry knowledge and experience; • Obtained audit evidence of management judgments and assumptions, especially focusing on the consistency of the approach; and • Performed substantive tests of details on Stage 3 provisioning including validation of valuation of collateral securities and future cash flows. We found the assumptions used in determining the expected credit loss to be appropriate.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Bank One Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

MAURITIUS COMPANIES ACT 2001

In accordance with the requirements of the Mauritius Companies Act 2001, we report as follows:

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

BANKING ACT 2004

- 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 provisions of the Banking Act 2004 and the regulations and guidelines of the Bank of Mauritius; and
- the explanations or information called for or given to us by the officers or agents of the Bank were satisfactory.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the sections on the Overview, Leadership, Performance, Strategy, Corporate Governance Report, Statement of Compliance, Other statutory disclosures, Company Secretary's certificate, statement of directors' responsibilities in respect of financial statements and Statement of management's responsibilities in respect of financial statements. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

CORPORATE GOVERNANCE REPORT

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

RESPONSIBILITIES OF 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 requirements of the Mauritius Companies Act 2001, the Banking Act 2004, and the Financial Reporting Act 2004 and they are also responsible for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate 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 Bank's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Bank One Limited

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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 those charged with governance 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.

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

Deloitte

Deloitte
Chartered Accountants

13 March 2020

Pradeep Malik
Licensed by FRC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Dec-19	Dec-18	Dec-17
		Rs 000	Rs 000	Rs 000
Interest income		1,685,135	1,395,469	1,080,674
Interest expense		(597,479)	(441,723)	(367,117)
Net interest income	3	1,087,656	953,746	713,557
Fee and commission income		671,250	500,317	271,295
Fee and commission expense		(394,526)	(281,824)	(123,196)
Net fee and commission income	4	276,724	218,493	148,099
Net gain on dealing in foreign currencies and derivatives	5	138,099	103,049	82,917
Net gain from derecognition of financial assets measured at fair value through other comprehensive income		6,826	105	14,379
Other operating income	6	139	147,722	608
		145,064	250,876	97,904
Operating income		1,509,444	1,423,115	959,560
Personnel expenses	8	(447,389)	(406,765)	(367,600)
Depreciation and amortisation	17, 18 and 19	(78,828)	(50,263)	(43,691)
Other expenses	9	(227,020)	(177,192)	(136,203)
		(753,237)	(634,220)	(547,494)
Profit before impairment		756,207	788,895	412,066
Net impairment loss on financial assets	7	(95,369)	(340,213)	(11,299)
Total impairment loss		(95,369)	(340,213)	(11,299)
Profit before income tax		660,838	448,682	400,767
Income tax expense	10	(30,380)	(55,223)	(26,568)
Profit for the year		630,458	393,459	374,199
Earnings per share (Rs)	11	69.55	45.94	43.69

The notes on pages 102 to 199 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Profit for the year	630,458	393,459	374,199
Other Comprehensive Income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation, net of tax	(22,133)	10,603	(25,539)
Revaluation on building, net of tax	-	5,045	14,934
Movement in investment revaluation reserve for equity instruments at FVTOCI	2,077	1,260	77
Items that may be reclassified subsequently to profit or loss:			
Movement in investment revaluation reserve for debt instruments at FVTOCI/AFS investments securities, net of tax:			
Reclassification of (losses)/gains during the period	(18,755)	1,124	1,584
Gains/(losses) arising during the period	63,683	(15,392)	(7,329)
Other Comprehensive Income for the year	24,872	2,640	(16,273)
Total Comprehensive Income for the year	655,330	396,099	357,926

The notes on pages 102 to 199 form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	Dec-19	Dec-18	Dec-17
		Rs 000	Rs 000	Rs 000
ASSETS				
Cash and cash equivalents	12	**6,646,989**	7,685,450	4,221,988
Derivative assets held for risk management	13	**3,770**	8,275	4,824
Loans and advances to banks	14(a)	**4,912,421**	2,943,988	3,707,245
Securities purchased under agreement to resell	14(b)	**2,035,393**	-	-
Loans and advances to customers	15	**22,928,271**	20,668,902	17,746,327
Investment in financial instruments measured at fair value	16(a)	**2,568,506**	2,044,702	2,249,806
Investment in financial instruments measured at amortised cost	16(b)	**14,334,293**	4,687,679	1,968,379
Right-Of-Use assets	17	**55,096**	-	-
Property and equipment	18	**371,821**	394,301	403,161
Intangible assets	19	**138,466**	156,539	41,580
Deferred tax assets	20	**51,277**	46,980	71,766
Other assets	21	**1,577,192**	1,368,775	1,296,936
Total assets		**55,623,495**	40,005,591	31,712,012
LIABILITIES				
Deposits from customers	22	**48,138,611**	33,431,831	28,299,442
Derivative liabilities held for risk management	13	**33,348**	1,538	822
Other borrowed funds	23	**2,449,494**	2,690,235	123,441
Subordinated liabilities	24	**713,831**	699,636	512,205
Current tax liabilities	25	**20,734**	14,616	11,609
Other liabilities	26	**658,247**	433,558	304,228
Leased liabilities	27	**57,723**	-	-
Total liabilities		**52,071,988**	37,271,414	29,251,747
EQUITY				
Stated capital	29	**1,156,456**	856,456	856,456
Retained earnings		**1,875,669**	1,488,632	1,239,958
Other reserves		**519,382**	389,089	363,851
Total Equity		**3,551,507**	2,734,177	2,460,265
Total equity and liabilities		**55,623,495**	40,005,591	31,712,012

These financial statements were approved and authorised for issue by the Board of Directors on 13 March 2020.

Sandra Martyres
Chairperson of the Board of Directors

Ravneet Chowdhurry
Chief Executive Officer

Leonard Clement Mususa
Director

The notes on pages 102 to 199 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Stated capital	Revaluation surplus	Statutory reserve	General Banking reserve	Fair value reserve	Retirement Benefit Plan reserve	Retained earnings	Total equity
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
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
Transactions 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)
Restated 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 comprehensive income	-	5,045	59,019	5,014	(13,008)	10,603	329,426	396,099
Transactions 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**
Balance as at 1 January 2019	**856,456**	**97,313**	**306,969**	**37,030**	**(4,471)**	**(47,752)**	**1,488,632**	**2,734,177**
Profit for the year	-	-	-	-	-	-	630,458	630,458
Other comprehensive income for the year	-	-	-	-	47,005	(22,133)	-	24,872
Transfer to general banking reserve	-	-	-	10,852	-	-	(10,852)	-
Transfer to statutory reserve	-	-	94,569	-	-	-	(94,569)	-
Total comprehensive income	-	-	94,569	10,852	47,005	(22,133)	525,037	655,330
Transactions with owners								
Issue of shares	300,000	-	-	-	-	-	-	300,000
Dividend	-	-	-	-	-	-	(138,000)	(138,000)
Total transactions with owners	300,000	-	-	-	-	-	(138,000)	162,000
Balance as at 31 December 2019	**1,156,456**	**97,313**	**401,538**	**47,882**	**42,534**	**(69,885)**	**1,875,669**	**3,551,507**

The notes on pages 102 to 199 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

Revaluation surplus

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

Statutory reserve

Statutory reserve, which 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, which comprises the cummulative 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 of portfolio provisions in line with the Bank of Mauritius credit impairment measurement and income recognition guideline.

Dividend

During the year 2019 under review, the Directors approved a dividend payment of Rs 138m (2018 - Rs 79.1m and 2017 - Rs 26m) - Rs 16.11 per share (2018 - Rs 9.24 and 2017 - Rs 3.04). The dividend was paid out of retained earnings.

The notes on pages 102 to 199 form an integral part of these financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Cash flows from operating activities			
Profit before income tax	**660,838**	448,682	400,767
Net change on provision for credit impairment (note 7)	**95,369**	340,213	11,299
Depreciation (note 17 and 18)	**43,748**	36,141	30,110
Amortisation (note 19)	**35,080**	14,122	13,581
(Gain)/loss on disposal of property and equipment	**(139)**	(6,901)	643
Change in provisions and pensions obligations	**5,064**	5,062	14,817
Gain on sale of securities	**(6,826)**	(103)	(14,379)
Exchange gain/(loss) and others	**59,378**	(619)	42,805
Net interest income	**(1,087,656)**	(953,746)	(713,557)
	(195,144)	(117,149)	(213,914)
Changes in operating assets and liabilities			
Movement in Derivatives	**36,315**	(2,735)	(14,088)
(Increase)/decrease in loans and advances			
-to banks	**(1,938,625)**	781,794	(2,076,646)
-to customers	**(2,073,391)**	(3,294,501)	(3,934,211)
Increase in securities purchased under agreement to resell	**(2,035,393)**	-	-
Increase in other assets	**(482,225)**	(99,249)	(249,863)
Increase in deposits from customers	**14,643,385**	5,133,850	6,073,781
Increase in other liabilities	**206,919**	119,135	33,070
Interest received	**1,616,357**	1,376,556	1,027,098
Interest paid	**(534,084)**	(443,184)	(328,754)
Income tax paid	**(30,050)**	(22,421)	(14,589)
Net cash from operating activities	**9,214,064**	3,432,096	301,884
Cash flows used in investing activities			
Purchase of investment securities	**(29,553,832)**	(6,900,110)	(9,245,028)
Proceeds from sale of investment securities	**20,225,868**	4,459,719	8,296,875
Purchase of property and equipment (note 18)	**(18,746)**	(23,434)	(50,515)
Proceeds from sale of other assets	**180**	6,647	-
Proceeds from sale of property and equipment	**-**	889	197
Purchase of intangible assets (note 19)	**(12,469)**	(129,081)	(14,468)
Net cash used in investing activities	**(9,358,999)**	(2,585,370)	(1,012,939)
Cash flows from financing activities			
Issue of shares	**300,000**	-	-
Repayment of other borrowed funds	**(79,866)**	(42,697)	(41,273)
Proceeds from other borrowed funds	**1,366,125**	1,032,600	-
Proceeds from subordinated liabilities	**-**	200,000	-
Repayment of subordinated liabilities	**-**	-	(50,000)
Dividend paid	**(138,000)**	(79,100)	(26,000)
Repayment of the lease liabilities	**(6,551)**	-	-
Net cash from/(used in) financing activities	**1,441,708**	1,110,803	(117,273)
Cash and cash equivalents at the beginning of the year (note 12)	**6,648,888**	4,691,359	5,519,687
Net cash from operating activities	**9,214,064**	3,432,096	301,884
Net cash used in investing activities	**(9,358,999)**	(2,585,370)	(1,012,939)
Net cash from/(used in) financing activities	**1,441,708**	1,110,803	(117,273)
Net increase/(decrease) in cash and cash equivalents	**1,296,773**	1,957,529	(828,328)
Cash and cash equivalents at end of year (note 12)	**7,945,661**	6,648,888	4,691,359

The notes on pages 102 to 199 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. 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 Limited, with 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 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

In the current year, the Bank has applied all of the new and revised standard and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2019.

NEW AND REVISED IFRSS THAT ARE EFFECTIVE FOR THE CURRENT YEAR

The following relevant revised Standards have been applied in these financial statements. Except for IFRS16 Leases, their application has not had any significant impact on the amounts reported for the current and prior periods but may affect the accounting treatment for future transactions or arrangements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation	The Bank has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.
Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IAS 12 Income Taxes and IAS 23 Borrowing Costs	"The Bank has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. **IAS 12 Income Taxes** The amendments clarify that the Bank should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Bank originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement	The Bank has adopted the amendments of IAS 19 for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income. The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Bank will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).
IFRIC 23 Uncertainty over Income Tax Treatments	The Bank has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Bank to: • determine whether uncertain tax positions are assessed separately or as a group; and • assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings: - If yes, the Bank should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. - If no, the Bank should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

IMPACT OF INITIAL APPLICATION OF IFRS 16 LEASES

In the current year, the Bank has applied IFRS 16 Leases (as issued by the IASB in January 2016) which is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Notes 17 and 27. The impact of the adoption of IFRS 16 on the Bank's financial information is as follows:

The Bank leases various branches and one office under non-cancellable lease agreements. These leases have varying terms, escalation clauses and renewal rights.

The date of initial application of IFRS 16 for the Bank is 1 January 2019.

The Bank has opted for the cumulative catch up approach (i.e. no restatement of comparatives) and has chosen to measure the right of use asset at amount equal to lease liability on the date of initial recognition.

Impact of the new definition of a lease

The Bank has made use of the practical expedient available on transition to IFRS16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Bank applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). The new definition in IFRS 16 has not significantly changed the scope of contracts that meet the definition of a lease for the Bank.

Impact on Lessee Accounting (Former operating leases)

IFRS 16 changes how the Bank accounts for lease previously classified as operating leases under IAS 17, which were off balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Bank:

a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments

b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss and other comprehensive income; and

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right of use assets are tested for impairment in accordance with IAS 36 Impairment of Assets.

For short term leases (lease term of 12 months or less) and leases of low value assets (such as personal computers and office furniture), the Bank has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expenses in the statement of profit or loss and other comprehensive income.

The Bank has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

The Bank has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease terms end within 12 months of the date of initial application.

The Bank has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

No adjustment was required in respect of lessor accounting since the accounting requirements under IFRS 16 are substantially unchanged from those in IAS 17.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.1 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS) (CONT'D)

IMPACT OF INITIAL APPLICATION OF IFRS 16 LEASES (CONT'D)

Financial impact of initial application of IFRS 16

The table below shows the amount of adjustment for each line item in the statement of financial position affected by the application of IFRS 16 for the current year.

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 8.24%.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

	Rs'000
Operating lease commitments at 31 December 2018	28,665
Less Short-term leases and leases of low-value assets (Note 17)	(3,261)
Less Effect of discounting the above amounts	(7,931)
Add Present value of the lease payments due in periods covered by extension options that are included in the lease term and not previously included in operating lease commitments	40,287
Lease liabilities recognised at 1 January 2019	57,760

In the statement of cash flows of the Bank, cash payments for the principal portion for lease liability have been presented as part of financing activities.

The adoption of IFRS 16 had no impact on net cash flows of the Bank.

NEW AND REVISED STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

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

IAS 1	Presentation of Financial Statements – Amendments regarding the definition of material (effective 01 January 2020)
IAS 1	Presentation of Financial Statements – Amendments regarding the classification of liabilities (effective 01 January 2022)
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors – Amendments regarding the definition of material (effective 01 January 2020)
IFRS 7	Financial Instruments: Disclosures - Amendments regarding pre-replacement issues in the context of the IBOR reform (effective 01 January 2020)
IFRS 9	Financial Instruments - Amendments regarding pre-replacement issues in the context of the IBOR reform (effective 01 January 2020)

The directors anticipate that these standards and interpretation will be applied in the Bank's financial statements at the above effective dates in future periods and have not yet assessed the potential impact of the application of these amendments.

1.2 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 Mauritius 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, comparatives figures have been amended to conform with changes in presentation, or in accounting policies in the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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) Certain classes of property and equipment;
3) Defined pensions benefits plan;
4) Derivative assets and liabilities held for risk management purposes (FVTPL).

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 1.3.

(b) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

These financial statements are prepared in Mauritian Rupees (Rs), 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, COMMISSIONS AND DIVIDEND INCOME

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.

Dividend income is recognised when the Bank's right to receive the dividend is established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

(f) FINANCIAL INSTRUMENTS

Policy applicable prior to 01 January 2018

Financial instruments - initial recognition and subsequent measurement

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and characteristics and management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, being expensed in the statements of profit or loss and other comprehensive income except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

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.

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.

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 held- for-trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;

(ii) those that the Bank upon initial recognition designates as available-for-sale; 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 loan 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'.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Investment securities

(i) Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and have fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest method less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the statements of profit or loss and other comprehensive income. The losses arising from impairment of such assets are recognised in profit or loss.

(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 profit or loss and other 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 profit or loss and other 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.

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 securities purchased under agreement to resell or loans to other banks, 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.

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.

Derecognition of financial assets and financial liabilities

(i) Financial Assets

A financial asset (or, where applicable a part of a financial asset) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

a. the Bank has transferred substantially all the risks and rewards of the asset, or

b. the Bank has neither transferred nor retained substantially all the risks and rewards on the asset, but has transferred control of the asset.

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

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

(ii) Financial Liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) FINANCIAL INSTRUMENTS (CONT'D)

Policy applicable prior to 01 January 2018 (Cont'd)

Financial instruments - initial recognition and subsequent measurement (Cont'd)

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 reorganisation;

(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:

- (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 collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related

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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 differences between loss estimates and actual loss experience.

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.

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.

Financial assets and financial liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Financial Assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets the amount presented on the statement of financial position represent all amounts receivable including interest accruals.

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For the year ended 31 December 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) FINANCIAL INSTRUMENTS (CONT'D)

Policy applicable prior to 01 January 2018 (Cont'd)

Financial instruments - initial recognition and subsequent measurement (Cont'd)

Financial Assets (Cont'd)

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

- the entity may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- the entity may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The entity determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The entity's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments which reflect how the entity manages its financial assets in order to generate cash flows. The entity's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

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The Bank considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Group and the Bank does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassesses its business models each reporting period to determine whether the business models have changed since the preceding period.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Equity instruments designated at FVTOCI

On initial recognition, the Bank may make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the entity manages together and has evidence of a recent actual pattern of short term profit taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss is not be reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Reclassifications

If the business model under which the entity holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. For financial assets measured at amortised cost, debt instruments measured at FVTOCI and derivatives, exchange differences are recognised in profit or loss in the 'Net gain/(loss) on dealing in foreign currencies and derivatives' line item.

Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) FINANCIAL INSTRUMENTS (CONT'D)

Policy applicable prior to 01 January 2018 (Cont'd)

Debt instruments at amortised cost or at FVTOCI (Cont'd)

Financial liabilities

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. For all financial liabilities the amount presented on the statement of financial position represent all amounts payable including interest accruals.

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

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.

Impairment of financial assets

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 has remained 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

(g) 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 advances at amortised cost	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
	Investments at amortised cost	Investment securities Debt instruments		Unlisted
	Investments at FVTOCI	Investment securities Debt instruments		Unlisted
		Investment securities Equity instruments		Unlisted
	Derivative financial assets (FVTPL)	Derivatives assets held for risk management		
Financial Liabilities	Deposits from customers at amortised cost	Deposits from customers		Retail Corporate International
	Derivatives financial liabilities (FVTPL)			
	Financial liabilities at amortised cost	Other borrowed funds		Local and foreign banks
		Subordinated liabilities		
Off balance sheet financial Instruments	Loans commitments			Retail Corporate International Private
	Guarantees, acceptances and other financial facilities	Acceptances Guarantees Letter of credit		Retail Corporate International Private

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) CLASSES OF FINANCIAL INSTRUMENTS (CONT'D)

(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. Refer to notes (vii) (f) (impairment) for more details.

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 (viii) (a) 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 (viii) (a) 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 notes (viii) (a) 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 (viii) (a) 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 (vi) (Grouping of instruments for lossess measured on a collective basis)).

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

Change in credit quality since initial recognition

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

The key judgements and assumptions adopted by the Bank is 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.

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(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 definition prescribed by Central Bank, in its Credit Classification and Provisioning guidelines.

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1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) CLASSES OF FINANCIAL INSTRUMENTS (CONT'D)

(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 amortising 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, etc.- 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.

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.

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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 loan, overdraft, 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 below 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	2019			
	Stage 1	Stage 2	Stage 3	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	Rs'000	Rs'000	Rs'000	Rs'000
Performing	4,916,727	-	-	4,916,727
Special Mention	-	-	-	-
Sub-Standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Gross carrying amount	**4,916,727**	**-**	**-**	**4,916,727**
Loss allowance	(4,306)	-	-	(4,306)
Carrying amount	**4,912,421**	**-**	**-**	**4,912,421**

Loans & advances to banks at amortised cost	2018			
	Stage 1	Stage 2	Stage 3	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	Rs'000	Rs'000	Rs'000	Rs'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**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) CLASSES OF FINANCIAL INSTRUMENTS (CONT'D)

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

(b) Loans & advances to customers at amortised cost

Loans & advances to customers at amortised cost	2019			
	Stage 1	Stage 2	Stage 3	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	Rs'000	Rs'000	Rs'000	Rs'000
Performing	22,348,632	-	-	22,348,632
Special Mention	-	507,401	-	507,401
Sub-Standard	-	-	286,971	286,971
Doubtful	-	-	699,362	699,362
Loss	-	-	240,437	240,437
Gross carrying amount	**22,348,632**	**507,401**	**1,226,770**	**24,082,803**
Loss allowance	(226,404)	(15,545)	(912,583)	(1,154,532)
Carrying amount	**22,122,228**	**491,856**	**314,187**	**22,928,271**

Loans & advances to customers at amortised cost	2018			
	Stage 1	Stage 2	Stage 3	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	Rs'000	Rs'000	Rs'000	Rs'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**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(c) Securities purchased under agreement to resell

Securities purchased under agreement to resell	2019			
	Stage 1	Stage 2	Stage 3	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	Rs'000	Rs'000	Rs'000	Rs'000
Performing	2,037,873	-	-	2,037,873
Gross carrying amount	**2,037,873**	**-**	**-**	**2,037,873**
Loss allowance	(2,480)	-	-	(2,480)
Carrying amount	**2,035,393**	**-**	**-**	**2,035,393**

(d) Investments in debt instruments at amortised cost

Investments in debt instruments at amortised cost	2019			
	Stage 1	Stage 2	Stage 3	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	Rs'000	Rs'000	Rs'000	Rs'000
Performing	14,348,745	-	-	14,348,745
Special Mention	-	-	-	-
Sub-Standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Gross carrying amount	**14,348,745**	**-**	**-**	**14,348,745**
Loss allowance	(14,452)	-	-	(14,452)
Carrying amount	**14,334,293**	**-**	**-**	**14,334,293**

Investments in debt instruments at amortised cost	2018			
	Stage 1	Stage 2	Stage 3	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	Rs'000	Rs'000	Rs'000	Rs'000
Performing	4,646,994	45,800	-	4,694,794
Special Mention	-	-	-	-
Sub-Standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Gross carrying amount	**4,646,994**	**45,800**	**-**	**4,694,794**
Loss allowance	(4,578)	(537)	-	(5,115)
Carrying amount	**4,642,416**	**45,263**	**-**	**4,687,679**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) CLASSES OF FINANCIAL INSTRUMENTS (CONT'D)

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

(e) Investments in debt instruments at FVTOCI

Investments in debt instruments at FVTOCI	2019			
	Stage 1	Stage 2	Stage 3	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	Rs'000	Rs'000	Rs'000	Rs'000
Performing	2,571,081	-	-	2,571,081
Special Mention	-	-	-	-
Sub-Standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Gross carrying amount	**2,571,081**	**-**	**-**	**2,571,081**
Loss allowance	**(2,575)**	-	-	(2,575)
Carrying amount	**2,568,506**	**-**	**-**	**2,568,506**

Investments in debt instruments at FVTOCI	2018			
	Stage 1	Stage 2	Stage 3	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	Rs'000	Rs'000	Rs'000	Rs'000
Performing	2,046,691	-	-	2,046,691
Special Mention	-	-	-	-
Sub-Standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Gross carrying amount	**2,046,791**	**-**	**-**	**2,046,791**
Loss allowance	**(2,089)**	-	-	**(2,089)**
Carrying amount	**2,044,702**	**-**	**-**	**2,044,702**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(e) Financial guarantees

Financial guarantees	2019			
	Stage 1	Stage 2	Stage 3	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	Rs'000	Rs'000	Rs'000	Rs'000
Performing	760,284	-	-	760,284
Special Mention	-	-	-	-
Sub-Standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Gross carrying amount	**760,284**	**-**	**-**	**760,284**
Loss allowance	(16,054)	-	-	(16,054)
Carrying amount	**744,230**	**-**	**-**	**744,230**

Financial guarantees	2018			
	Stage 1	Stage 2	Stage 3	Total
	12M ECL	Lifetime ECL	Lifetime ECL	
	Rs'000	Rs'000	Rs'000	Rs'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 instruments and equity securities.

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 instruments 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 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) CLASSES OF FINANCIAL INSTRUMENTS (CONT'D)

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

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

	2019			
Credit-impaired assets	**Gross Exposure**	**Impairment Allowance**	**Carrying Amount**	**Fair Value of collateral held**
	Rs'000	Rs'000	Rs'000	Rs'000
Loans to individuals:				
Personal Loan	47,629	(41,653)	5,976	47,629
Housing Loan	125,006	(57,179)	67,827	125,006
Car Loan	1,725	(1,514)	211	1,725
Property Loan	7,083	(3,871)	3,212	7,083
Other	120,096	(50,691)	69,405	120,096
Loans to corporate entities:				
Large corporate customers	393,022	(315,708)	77,314	393,022
Small and Medium sized enterprises (SMEs)	17,448	(12,171)	5,277	17,448
Other	514,761	(429,796)	84,965	514,761
Total credit-impaired assets	**1,226,770**	**(912,583)**	**314,187**	**1,226,770**

	2018			
Credit-impaired assets	**Gross Exposure**	**Impairment Allowance**	**Carrying Amount**	**Fair Value of collateral held**
	Rs'000	Rs'000	Rs'000	Rs'000
Loans to individuals:				
Personal Loan	57,303	(47,217)	10,086	57,303
Housing Loan	128,820	(63,494)	65,326	128,820
Car Loan	100,422	(41,967)	58,455	100,422
Property Loan	9,487	(5,459)	4,028	9,487
Other	124,123	(51,144)	72,979	124,123
Loans to corporate entities:				
Large corporate customers	385,307	(234,809)	150,498	385,307
Small and 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**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

	2019		
Portfolio-LTV distribution	**Credit-impaired (Gross carrying amount)**		
	Retail	**Corporate**	**International Banking**
	Rs'000	Rs'000	Rs'000
Lower than 50%	263,439	105,242	292,285
50-60%	11,447	-	-
60-70%	7,792	185,067	-
70-80%	10,263	-	-
80-90%	10,146	-	112,207
90-100%	9,398	76,356	-
Higher than 100%	18,487	9,615	115,026
Total	**330,972**	**376,280**	**519,518**

	2018		
Portfolio-LTV distribution	**Credit-impaired (Gross carrying amount)**		
	Retail	**Corporate**	**International Banking**
	Rs'000	Rs'000	Rs'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**

(viii) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) CLASSES OF FINANCIAL INSTRUMENTS (CONT'D)

(viii) Loss allowance (Cont'd)

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

	Stage 1	Stage 2	Stage 3	
Loss allowance- *Class of Asset – Retail*	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	Rs'000	Rs'000	Rs'000	Rs'000
Loss allowance as at 01 January 2019	68,722	2,671	171,392	242,785
Movements with P&L impact				
Transfers:				
Transfer from stage 1 to stage 2	(2,294)	2,294	-	-
Transfer from stage 1 to stage 3	(2,519)	-	2,519	-
Transfer from stage 2 to stage 1	408	(408)	-	-
New financial assets originated or purchased	19,059	5,406	726	25,191
Changes to PDs/LGDs/EADs	(33,082)	(429)	4,806	(28,705)
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 year	**(18,428)**	**6,863**	**8,051**	**(3,514)**
Other movement with no P&L impact				
Transfers				
Transfer from stage 2 to stage 3	-	(971)	971	-
Transfer from stage 3 to stage 2				-
Financial assets derecognised during the year	(7,594)	(633)	-	(8,227)
Write-offs				-
Loss allowance as at 31 December 2019	**42,700**	**7,930**	**180,414**	**231,044**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

	Stage 1	Stage 2	Stage 3	
Loss allowance- *Class of Asset – Retail*	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	Rs'000	Rs'000	Rs'000	Rs'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**

	Stage 1	Stage 2	Stage 3	
Loss allowance- Class of Asset – *Corporate*	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	Rs'000	Rs'000	Rs'000	Rs'000
Loss allowance as at 01 January 2019	60,736	46,242	243,067	350,045
Movements with P&L impact				
Transfers:				
Transfer from stage 1 to stage 2	(29)	29	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	7,270	(7,270)	-	-
New financial assets originated or purchased	68,172	1,773	-	69,945
Changes to PDs/LGDs/EADs	26,400	(6,855)	60,175	79,720
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	**101,813**	**(12,323)**	**60,175**	**149,665**
Other movement with no P&L impact				
Transfers				
Transfer from stage 2 to stage 3	-	(1,872)	1,872	-
Transfer from stage 3 to stage 2	-	-	-	-
Financial assets derecognised during the period	(36,295)	(27,690)	-	(63,985)
Write-offs	-	-	-	-
Loss allowance as at 31 December 2019	**126,254**	**4,357**	**305,114**	**435,725**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) CLASSES OF FINANCIAL INSTRUMENTS (CONT'D)

(viii) Loss allowance (Cont'd)

Loss allowance- Class of Asset – *Corporate*	Stage 1 12-month ECL Rs'000	Stage 2 Lifetime ECL Rs'000	Stage 3 Lifetime ECL Rs'000	Total Rs'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 year	**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 year	(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 Rs'000	Stage 2 Lifetime ECL Rs'000	Stage 3 Lifetime ECL Rs'000	Total Rs'000
Loss allowance as at 01 January 2019	113,410	7,219	331,033	451,662
Movements with P&L impact				
Transfers:				
Transfer from stage 1 to stage 2	(3,167)	3,167	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
New financial assets originated or purchased	37,909	1,393	-	39,302
Changes to PDs/LGDs/EADs	(19,537)	88,906	4,664	74,033
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 year	**15,205**	**93,466**	**4,664**	**113,335**
Other movement with no P&L impact	-	-	-	-
Transfers	-	-	-	-
Transfer from stage 2 to stage 3	-	(91,335)	91,335	-
Transfer from stage 3 to stage 2	-	-	-	-
Financial assets derecognised during the year	(30,210)	(6,092)	-	(36,302)
Write-offs	-	-		-
Loss allowance as at 31 December 2019	**98,405**	**3,258**	**427,032**	**528,695**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Loss allowance- Class of Asset – *IBD*	Stage 1 12-month ECL Rs'000	Stage 2 Lifetime ECL Rs'000	Stage 3 Lifetime ECL Rs'000	Total Rs'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 year	**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 year	(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 2019 was Rs 42.4m (2018: Rs 120.8m). 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.

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.

Thia is not generally the case with master netting agreements. The Bank has entered into such agreements with few correspondent banks.The related assets and liabilities are therefore presented gross in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) 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 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 other equipment	5 years
Furniture and fittings	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.

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(j) 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.

(k) 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.

(l) 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 results of the Bank are the basis for profit distribution and other appropriations.

(m) 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.

(n) EMPLOYEE BENEFITS

(i) Defined contribution pension plan

The Bank operates a defined contribution pension plan. The contribution payable to the defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

(ii) Retirement and other benefit obligations

The present value of retirement gratuity as provided under the Employment Rights Act 2008 is recognised in the statement of financial position as a liability.

Re-measurement, comprising actuarial gains and losses, is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Re-measurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorised as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)
- Net interest expense or income
- Remeasurement

The Bank presents the first two components of defined benefit costs in profit or loss in the line item administrative expenses as part of staff costs. Curtailment gains and losses are accounted for as past service costs.

State plan

Contributions to the National Pension Scheme are expensed to profit or loss in the period in which they fall due.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) EMPLOYEE BENEFITS (CONT'D)

(ii) Retirement and other benefit obligations (Cont'd)

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;

(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 2019, no provision has been made for termination benefits.

(o) 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 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.

(ii) Special Levy

Special levy on banks having leviable income not exceeding Rs 1.2 billion are calculated at the rate of 5.5% of net interest income and other income before deduction of expenses. Special levy is not applicable on income derived from transactions with Global Business Licence holders and Mauritian companies to the extent of their banking transactions carried out through a foreign permanent establishment.

As from 2019, Special Levy is accounted as a non-interest expense and is non-deductible for computation of taxable income for corporate income tax purposes.

(iii) Corporate Social Responsibility

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

The required CSR fund for the year is recognised in tax expense in the statement of profit or loss and other comprehensive income. The net amount of CSR fund payable to the taxation authority is included in current tax liabilities in the statement of financial position.

(iv) 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.

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.

(p) LEASES

Policies applicable prior to 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as a lessor - Finance leases

When assets are leased out under finance leases, 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.

The Bank as a lessee - Operating leases

Where the Bank is a lessee 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.

Policies applicable from 1 January 2019

The Bank as a lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) LEASES (CONT'D)

Policies applicable from 1 January 2019 (Cont'd)

The Bank as a lessee (Cont'd)

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments in the current year.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line item in the statement of financial position.

The Bank applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Other expenses' in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(q) SEGMENT 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 Operating Segments to the financial statements of the Bank. The financial statements do not purport to comply with the requirements of IFRS 8.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(r) COMPARATIVES

Where necessary, comparative figures are reclassified to conform to the current year's presentation and to the changes in accounting policies.

1.3 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) GOING CONCERN

Directors have made an assessment of the the Bank's ability to continue as a going concern and are satisfied that the Bank have the resources to continue in business for the foreseeable future. Furthermore, directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Hence, the financial statements continue to be prepared on the going concern basis.

(b) DETERMINATION OF FUNCTIONAL CURRENCY

The determination of the functional currency of the Bank is critical since the way in which every transaction is recorded and whether exchange differences arise are dependent on the functional currency selected. The directors have considered those factors therein and have determined the functional currency of the Bank as Mauritian Rupees (MUR).

(c) BUSINESS MODEL ASSESSMENT

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of Note 1.1 (g). The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

(d) CALCULATION OF ECL ALLOWANCE

Significant increase of credit risk: As explained in note 1.1(g), ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 1.1(h) for details of the characteristics considered in this judgement. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differs.

Models and assumptions used: The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

- When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical information, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Refer to Note 1.1(g) for more details.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

(d) CALCULATION OF ECL ALLOWANCE (CONT'D)

Actual loss experience may differ from changes in estimated forward looking information and economic drivers.

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgements about the borrower's financial situation and the net realisable value of collaterals. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

(e) FAIR VALUE OF FINANCIAL INSTRUMENTS

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where observable data is not available, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives. Further details on the fair valuation of financial instruments are included in Note 2(i) to the financial statements.

(f) IMPAIRMENT OF INTANGIBLE ASSETS

An impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

(g) USEFUL LIVES OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

The Bank reviews the estimated useful lives of property and equipment and intangible assets at the end of each reporting period. The cost of the property and equipment and intangible assets are depreciated and amortised respectively over the estimated useful life of the asset. The estimated life is based on expected usage of the asset and expected physical wear and tear which depends on operational factors.

(h) 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 and 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.

(i) LEASES

The application of IFRS 16 requires significant judgements and certain key estimations. Critical judgements include determination of whether it is reasonably certain that an extension or termination option will be exercised. Key sources of estimation uncertainty in the application of IFRS 16 include estimation of the lease terms, determination of the appropriate rate to discount the lease payments and assessment of whether a right-of-use asset is impaired.

(j) PROVISIONS AND OTHER CONTINGENT LIABILITIES

Provision is recognised in the financial statements when the Bank has met the recognition criterion. The directors measure the provision at the best estimate of the amount required to settle the obligation at the reporting date. Actual results may be different from their estimates.

In specific circumstances, significant judgment is required from directors to identify the financial effects to be disclosed attributable to the uncertainties inherent in contingent liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 are 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 page 42 to 43 of the Risk Management Report

Analysis of loans and advances

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Neither past due nor impaired	**-**	23,101,935	20,453,620
Stage 1	**27,265,359**	-	-
Stage 2	**507,401**	-	-
Past due but not impaired	**-**	386,111	387,013
Impaired	**1,226,770**	1,169,336	1,344,783
Gross	**28,999,530**	24,657,382	22,185,416
Less allowance for credit impairment	**(1,158,838)**	(1,044,492)	(731,844)
Net	**27,840,692**	23,612,890	21,453,572
Loans and advances renegotiated	**3,861**	352,831	205,895
Fair value of collaterals	**3,438**	352,096	205,885

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) CREDIT RISK (CONT'D)

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-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Balances with banks in Mauritius, banks abroad and inter bank loans	6,445,252	7,495,376	4,026,734
Derivative assets held for risk management	3,770	8,275	4,824
Government of Mauritius/Bank of Mauritius securities	5,347,089	2,631,598	3,400,148
Other Investments	11,555,710	4,062,887	780,984
Loans and advances to customers and banks	27,840,692	23,612,890	21,453,572
Securities purchased under agreement to resell	2,035,393	-	-
Others	2,108,819	1,346,263	1,268,780
Credit risk exposures relating to off balance sheet assets are as follows:			
Financial guarantees	760,284	614,037	467,162
Loans commitments and other credit related liabilities	4,018,557	1,806,382	2,336,517
Total	**60,115,566**	41,577,708	33,738,721

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 Institution/Licensed Deposit Taker

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Concentration of risk of financial assets with credit risk exposure by Geography:

	Dec-19	Mauritius	Africa	Europe	Others
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
ASSETS					
Cash and cash equivalents	6,445,252	778,664	984,650	2,276,696	2,405,242
Derivative assets held for risk management	3,770	1	-	3,769	-
Loans and advances to banks	4,912,421	1,275,930	2,236,089	566,569	833,833
Securities purchased under agreement to resell	2,035,393	2,035,393	-	-	-
Loans and advances to customers	22,928,271	15,608,883	5,361,332	122,668	1,835,388
Government of Mauritius/Bank of Mauritius securities	5,347,089	5,347,089	-	-	-
Other Investments	11,555,710	97,961	1,434,862	6,379,528	3,643,359
Other assets	2,108,819	2,108,819	-	-	-
Total assets	**55,336,725**	**22,252,740**	**10,016,933**	**9,349,230**	**8,717,822**
On balance sheet country region percentage	**100%**	**49%**	**18%**	**17%**	**16%**
Credit risk exposure relating to off balance sheet items as follows:					
Financial guarantees and other credit related liabilities	760,284	428,380	294,209	-	37,695
Off balance sheet country region percentage	**100%**	**56%**	**39%**	**0%**	**5%**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) CREDIT RISK (CONT'D)

	Dec-17	Mauritius	Africa	Europe	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 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 securities	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%**	**-**	**-**

The Table below represents an analysis of trading assets and investments securities at 31 December 2019 and comparatives for December 2018 and 2017. 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 end of each financial year.

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Cash and cash equivalents			
AAA TO AA	-	250,595	3,098
AA- To A	4,444,029	6,463,761	3,336,750
BBB+ To BB	1,453,956	255,748	215,875
UNRATED	547,267	525,272	471,011
Total	**6,445,252**	**7,495,376**	**4,026,734**
Derivatives Assets			
AA- To A	3,769	105	2,685
BBB+	1	8,170	-
UNRATED	-	-	2,139
Total	**3,770**	**8,275**	**4,824**
Government of Mauritius/Bank of Mauritius securities			
UNRATED	5,347,089	2,633,864	3,400,148
	5,347,089	**2,633,864**	**3,400,148**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Investments and securities			
AA+	-	2,739,249	-
AAA to A+	9,183,175	-	-
B+ to BBB-	2,017,295	1,065,087	444,363
UNRATED	335,240	258,550	336,621
Total	**11,555,710**	**4,062,886**	**780,984**
Loans and advances to banks			
A	546,553	-	-
BB-	-	861,738	862,864
B to B+	-	172,321	-
BB+	-	-	668,650
BBB+	3,421,423	-	501,487
BBB	-	432,797	-
UNRATED	944,445	1,477,132	1,674,244
Total	**4,912,421**	**2,943,988**	**3,707,245**
Securities purchased under agreement to resell			
UNRATED	2,035,393	-	-
Total	**2,035,393**	**-**	**-**
Loans and advances to customers			
AAA To AA	1,362,257	1,336,432	1,378,576
BBB- To B	4,648,719	5,757,386	4,484,201
CCC+	277,472	-	141,994
CC	-	-	-
UNRATED	16,639,823	13,595,084	11,741,556
Total	**22,928,271**	**20,668,902**	**17,746,327**
Other Assets			
UNRATED	2,108,819	1,346,263	1,268,780
Total	**2,108,819**	**1,346,263**	**1,268,780**
Off balance sheet ratings			
AAA To AA	-	20	1,600
BBB- To B+	150	130	50
UNRATED	760,134	613,888	465,512
Total	**760,284**	**614,038**	**467,162**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(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 included on page 62 to 66 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-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Tier 1 Capital	3,203,525	2,410,252	2,193,965
Tier 2 Capital	1,092,991	1,032,855	824,083
Total Capital Base	4,296,516	3,443,107	3,018,048
Total Risk Weighted Assets	29,202,458	26,506,774	23,343,340
Capital Adequacy Ratio	14.71%	12.99%	12.93%

The minimum statutory capital adequacy ratio is fixed at 11.875%.

(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 Bank Treasury and Market risk teams. Regular reports are submitted to the Management and the Board of Directors.

The Board of Directors 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 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 2019. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Other disclosures on currency risk in the Risk Management Report.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

At 31 December 2019	USD	EURO	GBP	OTHERS	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
ASSETS					
Cash and cash equivalents	2,436,966	1,836,215	187,444	1,740,582	6,201,207
Derivative assets held for risk management	-	45	747	2,978	3,770
Loans and advances to banks	4,403,441	488,267	-	-	4,891,708
Securities purchased under agreement to resell	-	2,035,393	-	-	2,035,393
Loans and advances to customers	8,840,716	2,929,162	385	-	11,770,263
Investment Securities	6,208,657	817,016	3,575,261	841,801	11,442,735
Other assets	328,775	22,150	4,378	253	355,556
Total assets	22,218,555	8,128,248	3,768,215	2,585,614	36,700,632
LIABILITIES					
Deposits	21,047,692	7,598,925	948,808	2,498,185	32,093,610
Derivative liabilities held for risk management	-	-	32,503	846	33,349
Other borrowed funds	2,449,494	-	-	-	2,449,494
Subordinated liabilities	-	415,597	-	-	415,597
Other liabilities	138,813	102,089	3,936	4,949.00	249,787
Total liabilities	23,635,999	8,116,611	985,247	2,503,980	35,241,837
Net on balance sheet position	(1,417,444)	11,637	2,782,968	81,634	1,458,795
Credit commitments undrawn	656,253	61,505	-	-	717,758

AT 31 DECEMBER 2018	USD	EURO	GBP	OTHERS	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 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	8,275
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	24,511,810
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) CURRENCY RISK (CONT'D)

At 31 December 2017	USD	EURO	GBP	OTHERS	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 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**

(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 page 57 of the Risk Management Report.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Interest Sensitivity of Assets and Liabilities- Repricing Analysis

At 31 December 2019	Up to 1 mth	1-3 mths	3-6 mths	6-12 mths	1-3 Yrs	> 3 Yrs	Non Interest Bearing	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
ASSETS								
Cash and cash equivalents	6,155,481	-	-	-	-	-	491,508	**6,646,989**
Derivative assets held for risk management	-	-	-	-	-	-	3,770	**3,770**
Loans and advances to banks	-	4,439,246	473,175	-	-	-	-	**4,912,421**
Securities purchased under agreement to resell	2,035,393	-	-	-	-	-	-	**2,035,393**
Loans and advances to customers	1,864,675	17,075,407	1,956,558	183,745	51,464	569,652	1,226,770	**22,928,271**
Investment securities	8,293,633	2,652,789	1,717,706	534,885	851,679	2,811,748	40,359	**16,902,799**
Other assets	-	-	-	-	-	-	1,543,436	**1,543,436**
Total Assets	**18,349,182**	**24,167,442**	**4,147,439**	**718,630**	**903,143**	**3,381,400**	**3,305,843**	**54,973,079**
LIABILITIES								
Deposits	28,450,055	11,490,913	1,821,726	2,875,290	2,005,704	448,185	1,046,738	**48,138,611**
Derivative liabilities held for risk management	-	-	-	-	-	-	33,348	**33,348**
Other borrowed funds	-	-	-	-	-	2,449,494	-	**2,449,494**
Subordinated liabilities	-	-	-	-	298,234	415,597	-	**713,831**
Other liabilities	-	-	-	-	-	-	563,976	**563,976**
Total liabilities	**28,450,055**	**11,490,913**	**1,821,726**	**2,875,290**	**2,303,938**	**3,313,276**	**1,644,062**	**51,899,260**
Interest rate sensitivity gap	**(10,100,873)**	**12,676,529**	**2,325,713**	**(2,156,660)**	**(1,400,795)**	**68,124**	**1,661,781**	**3,073,819**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(f) INTEREST RATE RISK (CONT'D)

Interest Sensitivity of Assets and Liabilities- Repricing Analysis (cont'd)

At 31 December 2018	Up to 1 mth	1-3 mths	3-6 mths	6-12 mths	1-3 Yrs	> 3 Yrs	Non Interest Bearing	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 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**	**6,668,882**	**(5,893,475)**	**2,230,892**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

At 31 December 2017	Up to 1 mth	1-3 mths	3-6 mths	6-12 mths	1-3 Yrs	> 3 Yrs	Non Interest Bearing	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 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**

(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 the Bank 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 and management are included in the Risk Management Report.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(g) LIQUIDITY RISK (CONT'D)

Maturities of Assets and Liabilities

At 31 December 2019	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 Years	> 3 Years	Non Maturity Items	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
ASSETS								
Cash and cash equivalents	6,647,476	-	-	-	-	-	(527)	**6,646,949**
Derivative assets held for risk management	3,769	-	-	1	-	-	-	**3,770**
Loans and advances to banks	221,990	730,240	1,394,429	2,088,709	805,990	-	(4,306)	**5,237,052**
Securities purchased under agreement to resell	2,037,279	-	-	-	-	-	(2,400)	**2,034,879**
Loans and advances to customers	1,057,627	1,633,895	2,506,082	4,653,392	11,652,815	7,076,886	72,238	**28,652,935**
Investment Securities	8,265,894	2,875,962	3,000,925	679,820	4,039,305	2,708,747	23,252	**21,593,905**
Other assets	-	-	-	-	-	-	1,543,436	**1,543,436**
Total Assets	**18,234,035**	**5,240,097**	**6,901,436**	**7,421,922**	**16,498,110**	**9,785,633**	**1,631,693**	**65,712,926**
LIABILITIES								
Deposits	32,324,104	10,135,869	1,630,744	4,240,800	2,962,491	1,375,867	1,109,919	**53,779,794**
Derivative liabilities held for risk management	32,892	456	-	-	-	-	-	**33,348**
Other borrowed funds	-	-	-	344,547	1,279,206	1,419,249	-	**3,043,002**
Subordinated liabilities	1,971	17,627	11,825	35,365	117,808	891,512	-	**1,076,108**
Other liabilities	-	-	-	-	-	-	623,528	**623,528**
Total liabilities	**32,358,967**	**10,153,952**	**1,642,569**	**4,620,712**	**4,359,505**	**3,686,628**	**1,733,447**	**58,555,780**
Net liquidity gap	**(14,124,932)**	**(4,913,855)**	**5,258,867**	**2,801,210**	**12,138,605**	**6,099,005**	**(101,754)**	**7,157,146**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

At 31 December 2018	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 Years	> 3 Years	Non Maturity Items	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 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**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(g) LIQUIDITY RISK (CONT`D)

Maturities of Assets and Liabilities

At 31 December 2017	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 Years	> 3 Years	Non Maturity Items	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 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	**8,051,065**	**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	**(13,206,246)**	**1,508,020**	**3,973,153**	**2,173,534**	**7,093,855**	**5,794,043**	**2,197,010**	**9,533,369**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Derivative Cash Flows

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 Years	> 3 Years	Non Maturity Items	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
As at 31 December 2019								
Inflows	**3,461,994**	**335,833**	**-**	**39**	**-**	**-**	**-**	**3,797,866**
Outflows	**3,490,677**	**335,270**	**-**	**39**	**-**	**-**	**-**	**3,825,986**
As at 31 December 2018								
Inflows	301,328	-	501,600	146	18	-	-	803,092
Outflows	303,028	-	493,000	149	18	-	-	796,195
As at 31 December 2017								
Inflows	584,271	-	-	453,808	-	-	-	1,038,079
Outflows	581,405	-	-	450,696	-	-	-	1,032,101

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(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		
	2019	2018	2017	2019	2018	2017
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial assets						
Cash and cash equivalents	**6,646,989**	7,685,450	4,221,988	**6,646,989**	7,685,450	4,221,988
Loans and advances	**27,840,692**	23,612,890	21,453,572	**28,728,900**	23,519,476	21,452,992
Securities purchased under agreement to resell	**2,035,393**	-	-	**2,035,393**	-	-
Investment securities	**14,334,293**	4,687,679	1,968,379	**12,080,152**	4,694,359	1,962,676
Other Assets	**1,526,351**	1,345,663	1,268,780	**1,526,351**	1,345,663	1,268,780
Financial liabilities						
Deposits	**48,138,611**	33,431,831	28,299,442	**48,063,321**	33,461,884	28,258,401
Other borrowed funds	**2,449,494**	2,690,235	123,441	**2,449,494**	2,690,235	123,441
Subordinated liabilities	**713,831**	699,636	512,205	**713,831**	699,636	512,205
Other liabilities	**307,431**	330,527	178,770	**307,431**	330,527	178,770
Off-balance sheet						
Loan commitments	**4,017,652**	1,806,382	2,336,517	**4,017,652**	1,806,382	2,336,517
Other contingent liabilities	**1,071,578**	735,462	648,581	**1,071,578**	735,462	648,581

(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) Securities purchased under agreement to resell

The fair value of securities purchased under agreement to resell is equal to their carrying amount as these are for short terms only.

(iv) 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.

(v) 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.

(vi) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(vii) Off-balance sheet financial instruments

Guarantees, acceptances, loans commitments and other financial liabilities are shown at their fair values.

The fair value of all the above instruments would be classified as level 3 in the fair value hierarchy.

(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.

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 2019, 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 using 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 2019	Level 1	Level 2	Level 3	Total
	Rs 000	Rs 000	Rs 000	Rs 000
NON-EQUITY INVESTMENTS				
Derivative assets held for risk management	-	3,770	-	3,770
Investment securities	-	2,528,145	-	2,528,145
Property and equipment	-	-	235,765	235,765
EQUITY INVESTMENTS				
Investment securities	-	-	40,359	40,359
Total assets	**-**	**2,531,915**	**276,124**	**2,808,039**
Derivative liabilities held for risk management	-	33,348	-	33,348
Total liabilities	**-**	**33,348**	**-**	**33,348**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(i) FAIR VALUE HIERARCHY (CONT'D)

At 31 December 2018	Level 1	Level 2	Level 3	Total
	Rs 000	Rs 000	Rs 000	Rs 000
NON-EQUITY INVESTMENTS				
Derivative assets held for risk management	-	8,275	-	8,275
Investment securities	-	2,006,806	-	2,006,806
Property	-	-	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
	Rs 000	Rs 000	Rs 000	Rs 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**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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
	Rs 000			
Available-for-sale/FVTOCI investment: Oriental Commercial Bank Ltd	37,174	Illiquidity discount	25%	A decrease of 5% in the discount rate from 25% to 20% would increase the fair value of the investment by MUR 2.5m and an increase of 5% would decrease the fair value by MUR 2.5m.
Available-for-sale/FVTOCI investment: SME Equity Fund (Mauritius) Ltd	1,659	Net asset	N/A	N/A
Available-for-sale/FVTOCI investment: S.W.I.F.T SCRL	1,526	Net asset	N/A	N/A

Reconciliation of level 3 fair value measurement

	Rs 000
Balance as at 1 January 2017	269,145
Fair value	7,464
Balance as at 31 December 2017	276,609
Fair value	1,288
Balance as at 31 December 2018	277,897
Fair value	(1,773)
Balance as at 31 December 2019	**276,124**

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).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(j) FINANCIAL INSTRUMENTS BY CATEGORY

At 31 December 2019	Amortised cost	Financial assets at fair value through profit or loss	FVTOCI	Total
	Rs 000	Rs 000	Rs 000	Rs 000
Financial assets				
Cash and cash equivalents	6,646,989			6,646,989
Derivative assets held for risk management	-	3,770	-	3,770
Loan and advances to banks	4,912,421	-	-	4,912,421
Securities purchased under agreement to resell	2,035,393	-	-	2,035,393
Loan and advances to customers	22,928,271	-	-	22,928,271
Investment securities	14,334,293	-	2,568,506	16,902,799
Other assets	1,543,436	-	-	1,543,436
	52,400,803	**3,770**	**2,568,506**	**54,973,079**

	Financial liabilities at fair value profit or loss	Financial liabilities at amortised cost	Total
	Rs 000	Rs 000	Rs 000
Financial liabilities			
Deposits from customers	-	48,138,611	48,138,611
Derivative liabilities held for risk management	33,348	-	33,348
Other borrowed funds	-	2,449,494	2,449,494
Subordinated liabilities	-	713,831	713,831
Other liabilities	-	563,976	563,976
	33,348	**51,865,912**	**51,899,260**

At 31 December 2018	Amortised cost	Financial assets at fair value through profit or loss	FVTOCI	Total
	Rs 000	Rs 000	Rs 000	Rs 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**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

At 31 December 2018	Financial liabilities at fair value profit or loss	Financial liabilities at amortised cost	Total
	Rs 000	Rs 000	Rs 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 and Receivables	Financial assets at fair value through profit or loss	Held to Maturity	Available for sale	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 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 at fair value profit or loss	Financial liabilities at amortised cost	Total
	Rs 000	Rs 000	Rs 000
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**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. NET INTEREST INCOME

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Interest income			
Loans and advances to banks	93,479	77,214	34,020
Loans and advances to customers	1,142,963	1,078,254	830,838
Investments securities	316,174	171,772	140,509
Cash and cash equivalents	131,243	68,229	75,307
Securities purchased under agreement to resell	1,276	-	-
Total interest income	1,685,135	1,395,469	1,080,674
Interest expense			
Deposits from customers	(488,146)	(368,375)	(319,579)
Borrowings from banks	(55,409)	(33,255)	(7,108)
Subordinated liabilities	(53,924)	(40,093)	(40,430)
Total interest expense	(597,479)	(441,723)	(367,117)
Net interest income	1,087,656	953,746	713,557
(a) Segment A			
Interest income			
Loans and advances to customers	636,792	536,177	496,245
Investments securities	256,435	151,636	130,834
Cash and cash equivalents	6,340	6,870	3,101
Securities purchased under agreement to resell	1,276	-	-
Total interest income	900,843	694,683	630,180
Interest expense			
Deposits from customers	(348,447)	(294,072)	(270,462)
Borrowings from banks	(693)	(4,907)	(2,590)
Subordinated liabilities	(23,525)	(9,118)	(10,583)
Total interest expense	(372,665)	(308,097)	(283,635)
Net interest income	528,178	386,586	346,545
(b) Segment B			
Interest income			
Loans and advances to banks	93,479	77,214	34,020
Loans and advances to customers	506,171	542,077	334,593
Investments securities	59,739	20,136	9,675
Cash and cash equivalents	124,903	61,359	72,206
Total interest income	784,292	700,786	450,494
Interest expense			
Deposits from customers	(139,699)	(74,303)	(49,117)
Borrowings from banks	(54,716)	(28,348)	(4,518)
Subordinated liabilities	(30,399)	(30,975)	(29,847)
Total interest expense	(224,814)	(133,626)	(83,482)
Net interest income	559,478	567,160	367,012

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Recognised on financial assets measured at amortised cost	Dec-19	Dec-18
	Rs 000	Rs 000
Interest Income		
Cash and cash equivalents	131,243	68,229
Securities purchased under agreement to resell	1,276	-
Loans and advances to banks	93,479	77,214
Loans and advances to customers	1,142,963	1,078,254
Other	186,315	117,740
Recognised on financial assets measured at FVTOCI		
Investment securities	129,859	54,032
Total interest income	1,685,135	1,395,469
Interest expense		
Recognised on financial liabilities measured at amortised cost		
Deposits from customers	(488,146)	(368,375)
Borrowings from banks	(55,409)	(33,255)
Subordinated liabilities	(53,924)	(40,093)
Total interest expense	(597,479)	(441,723)
Net interest income	1,087,656	953,746

Segment A

Recognised on financial liabilities measured at amortised cost	Dec-19	Dec-18
	Rs 000	Rs 000
Interest Income		
Cash and cash equivalents	6,340	6,870
Subordinated liabilities	1,276	
Loans and advances to customers	636,792	536,177
Other	126,576	97,604
Recognised on financial assets measured at FVTOCI		
Investment securities	129,859	54,032
Total interest income	900,843	694,683
Interest expense		
Recognised on financial liabilities measured at amortised cost		
Deposits from customers	(348,447)	(294,072)
Borrowings from banks	(693)	(4,907)
Subordinated liabilities	(23,525)	(9,118)
Total interest expense	(372,665)	(308,097)
Net interest income	528,178	386,586

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. NET INTEREST INCOME (CONTINUED)

Segment B

Recognised on financial assets measured at amortised cost	Dec-19	Dec-18
	Rs 000	Rs 000
Interest Income		
Cash and cash equivalents	124,903	61,359
Loans and advances to banks	93,479	77,214
Loans and advances to customers	506,171	542,077
Others	59,739	20,136
Total interest income	784,292	700,786
Interest expense		
Recognised on financial liabilities measured at amortised cost		
Deposits from customers	(139,699)	(74,303)
Borrowings from banks	(54,716)	(28,348)
Subordinated liabilities	(30,399)	(30,975)
Total interest expense	(224,814)	(133,626)
Net interest income	559,478	567,160

4. NET FEE AND COMMISSION INCOME

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Fee and commission income			
Retail banking customer fees	49,492	34,137	41,107
Corporate banking credit related fees	26,408	36,700	13,571
International banking customer fees	125,757	81,950	64,731
Guarantees	7,659	9,182	7,882
Credit cards and e-commerce related fees	399,065	287,810	111,099
Others	62,869	50,538	32,905
Total fee and commission income	671,250	500,317	271,295
Fee and commission expense			
Interbank transaction fees	(15,553)	(13,244)	(7,394)
Credit cards and e-commerce related fees	(309,392)	(208,578)	(84,995)
Others	(69,581)	(60,002)	(30,807)
Total fee and commission expense	(394,526)	(281,824)	(123,196)
Net fee and commission income	276,724	218,493	148,099

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
(a) Segment A			
Fee and commission income			
Retail banking customer fees	49,492	34,137	41,107
Corporate banking credit related fees	26,408	36,700	13,571
Guarantees	3,934	3,802	2,528
Credit cards	22,084	10,162	8,844
Others	18,236	25,976	14,282
Total fee and commission income	120,154	110,777	80,332
Fee and commission expense			
Interbank transaction fees	(2,568)	(2,736)	(2,943)
Credit cards	(13,629)	(9,320)	(7,891)
Others	(45,565)	(43,804)	(24,785)
Total fee and commission expense	(61,762)	(55,860)	(35,619)
Net fee and commission income	58,392	54,917	44,713
(b) Segment B			
Fee and commission income			
International banking customer fees	125,757	81,950	64,731
Guarantees	3,725	5,380	5,354
Credit cards and e-commerce related fees	376,981	277,648	102,255
Others	44,633	24,562	18,623
Total fee and commission income	551,096	389,540	190,963
Fee and commission expense			
Interbank transaction fees	(12,985)	(10,508)	(4,451)
Credit cards and e-commerce related fees	(295,763)	(199,258)	(77,104)
Others	(24,016)	(16,198)	(6,022)
Total fee and commission expense	(332,764)	(225,964)	(87,577)
Net fee and commission income	218,332	163,576	103,386

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. NET GAIN ON DEALING IN FOREIGN CURRENCIES AND DERIVATIVES

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Profit arising from dealing in foreign currencies	167,678	88,574	78,915
Net (loss)/gain from derivatives	(29,579)	14,475	4,002
	138,099	103,049	82,917
(a) Segment A			
Profit arising from dealing in foreign currencies	58,753	24,554	27,424
Net (loss)/gain from derivatives	(17,495)	6,265	2,607
	41,258	30,819	30,031
(b) Segment B			
Profit arising from dealing in foreign currencies	108,925	64,020	51,491
Net (loss)/gain from derivatives	(12,084)	8,210	1,395
	96,841	72,230	52,886

6. OTHER OPERATING INCOME

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Gain on sale of land through compulsory acquisition	-	6,648	-
Gain/(loss) on disposal of property and equipment	139	253	(643)
Others	-	140,821	1,251
	139	147,722	608
(a) Segment A			
Gain on sale of land through compulsory acquisition	-	6,648	-
Gain/(loss) on disposal of property and equipment	139	253	(643)
Others	-	1	1,024
	139	6,902	381
(b) Segment B			
Others	-	140,820	227
	-	140,820	227

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Provision for bad and doubtful debts	(228,695)	(422,576)	(170,059)
Bad debts written off for which no provisions were made	-	-	(35)
Provisions released during the year	117,988	75,442	146,517
Recoveries of advances written off	15,338	6,921	12,278
Net impairment loss on financial assets	(95,369)	(340,213)	(11,299)
(a) Segment A			
Provision for bad and doubtful debts	(216,081)	(151,458)	(136,799)
Bad debts written off for which no provisions were made	-	-	(35)
Provisions released during the year	117,988	75,442	146,517
Recoveries of advances written off	15,338	6,921	12,278
Net impairment (loss)/reversal on financial assets	(82,755)	(69,095)	21,961
(b) Segment B			
Provision for bad and doubtful debts	(12,614)	(271,118)	(33,260)
Net impairment loss on financial assets	(12,614)	(271,118)	(33,260)

8. PERSONNEL EXPENSES

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Wages and salaries	(245,678)	(208,013)	(193,202)
Compulsory social security obligations	(10,684)	(9,372)	(8,494)
Funded pension costs (note 28)	(9,041)	(7,579)	(8,098)
Unfunded pension costs (note 28)	(1,991)	(1,767)	(10,979)
Deferred contribution plan	(22,021)	(18,123)	(16,339)
Other personnel expenses	(157,974)	(161,911)	(130,488)
	(447,389)	(406,765)	(367,600)
(a) Segment A			
Wages and salaries	(179,270)	(150,774)	(142,432)
Compulsory social security obligations	(7,880)	(6,823)	(6,368)
Funded pension costs (note 28)	(7,896)	(7,579)	(7,086)
Unfunded pension costs (note 28)	(1,454)	(1,290)	(7,988)
Deferred contribution plan	(16,005)	(13,230)	(11,888)
Other personnel expenses	(114,282)	(119,136)	(97,813)
	(326,787)	(298,832)	(273,575)
(b) Segment B			
Wages and salaries	(66,408)	(57,239)	(50,770)
Compulsory social security obligations	(2,804)	(2,549)	(2,126)
Funded pension costs (note 28)	(1,145)	-	(1,012)
Unfunded pension costs (note 28)	(537)	(477)	(2,991)
Deferred contribution plan	(6,016)	(4,893)	(4,451)
Other personnel expenses	(43,692)	(42,775)	(32,675)
	(120,602)	(107,933)	(94,025)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. OTHER EXPENSES

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Software licensing and other information technology cost	(67,552)	(55,381)	(43,015)
Premises related expenses	(52,745)	(57,318)	(57,579)
Legal and professional expenses	(20,653)	(17,991)	(5,358)
Others	(47,767)	(46,502)	(30,251)
Special levy on banks	(38,303)	-	-
	(227,020)	(177,192)	(136,203)
(a) Segment A			
Software licensing and other information technology cost	(55,874)	(45,801)	(36,032)
Premises related expenses	(43,332)	(48,835)	(49,452)
Legal and professional expenses	(8,252)	(10,437)	(4,429)
Others	(33,914)	(33,005)	(21,056)
Special levy on banks	(38,303)	-	-
	(179,675)	(138,078)	(110,969)
(b) Segment B			
Software licensing and other information technology cost	(11,678)	(9,580)	(6,983)
Premises related expenses	(9,413)	(8,483)	(8,127)
Legal and professional expenses	(12,401)	(7,554)	(929)
Others	(13,853)	(13,497)	(9,195)
	(47,345)	(39,114)	(25,234)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. INCOME TAX EXPENSE

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
(a) Current tax expense			
Current year	36,347	25,433	19,239
(b) Deferred tax expense			
Originated and reversal of temporary differences (note 20)	(5,967)	29,790	7,329
	30,380	55,223	26,568
(c) Reconciliation of effective tax rate			
Profit before income tax	660,838	448,682	400,767
Income tax at a rate of 5% and 7%	34,117	20,964	19,177
(2018: 5% and 7% - 2017: 3% and 25%)			
Non-deductible expenses	8,628	1,860	1,306
Income not subject to tax	(1,371)	(1,730)	(3,070)
Special levy on banks	-	5,438	4,936
Corporate social responsibility fund	-	280	-
Other permanent differences – write off of loans	-	474	3,136
Differences in rates	(9,922)	(42)	(3,021)
Impact of change in rate on opening balance	-	31,376	-
Under provision of deferred tax in prior years	(1,072)	(3,397)	4,104
Total income tax in income statement	30,380	55,223	26,568
Segment A			
Current tax expense			
Current year	15,489	285	3,462
Deferred tax expense			
Originated and reversal of temporary differences	(4,076)	46,005	7,953
Segment B			
Current tax expense			
Current year	20,858	25,148	15,777
Deferred tax credit			
Originated and reversal of temporary differences	(1,891)	(16,215)	(624)

The Bank has used an effective tax rate of 15% under segment A activities and 3% under segment B in 2019 (2018-4% Seg B; 2017 - 25% for segment A and 4% for segment B).

As per the Mauritian Finance (Miscellaneous Provisions) Act 2018, the tax rate has been amended to 5% (2017-18 15% for Segment A and 15% less the foreign tax credit of 80% for Segment B) effective as from 1 July 2020. The directors have agreed to amend the income tax rate to 7% (Segment A) and 5% (Segment B) as from 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. EARNINGS PER SHARE

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Profit for the year	630,458	393,459	374,199
Weighted average number of ordinary shares	9,064,560	8,564,560	8,564,560
Earnings per share (Rs.)	69.55	45.94	43.69

12. CASH AND CASH EQUIVALENTS

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Cash in hand	174,524	171,707	184,974
Foreign currency notes and coins	27,213	18,367	10,280
Unrestricted balances with central banks (Note i)	289,771	258,227	368,370
Money market placements (Note ii)	1,421,737	493,495	51,699
Balances with banks abroad	4,734,807	6,746,484	3,606,665
	6,648,052	7,688,280	4,221,988
Less: allowance for expected credit loss	(1,063)	(2,830)	-
	6,646,989	7,685,450	4,221,988
Current	6,646,989	7,685,450	4,221,988
Segment A			
Cash in hand	174,524	171,707	184,974
Foreign currency notes and coins	27,213	18,367	10,280
Unrestricted balances with central banks (Note i)	289,771	258,227	368,370
Money market placements (Note ii)	488,917	-	-
	980,425	448,301	563,624
Less: allowance for expected credit loss	(254)	-	-
	980,171	448,301	563,624
Segment B			
Money market placements (Note ii)	932,820	493,495	51,699
Balance with banks abroad	4,734,807	6,746,484	3,606,665
	5,667,627	7,239,979	3,658,364
Less: allowance for expected credit loss	(809)	(2,830)	-
	5,666,818	7,237,149	3,658,364

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

i) Balances with central banks over and above the minimum Cash Reserve Requirement (CRR) as disclosed in Note 21.

ii) Money market placements are investments with a maturity of three months or less.

For the purpose of statement of cash flows, cash and cash equivalents include:

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Cash and cash equivalents	6,646,989	7,685,450	4,221,988
Securities with maturity of three months or less	1,268,230	524,800	413,946
Borrowings from banks	-	(1,586,762)	(630)
Balance due in clearing	30,442	25,400	56,055
	7,945,661	6,648,888	4,691,359

Reconciliation of liabilities arising from financing activities.

The table below details changes in the Bank's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities aring from financing activities are those for which cash flows were, or future cash flows will be, classified in the Bank's statement of cash flows as cash flows from financing activities.

			Non-cash changes		
	Balance as at 01 January 2019	Financing cash flows (i)	New R-O-U	Other Changes (ii)	Balance as at 31 December 2019
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Other borrowed funds	2,690,235	1,286,259	-	(1,527,000)	2,449,494
Subordinated liabilities	699,636	-	-	14,195	713,831
Lease liability	-	(6,551)	64,274	-	57,723
	3,389,871	1,279,708	64,274	(1,512,805)	3,221,048

			Non-cash changes		
	Balance as at 01 January 2018	Financing cash flows (i)	New R-O-U	Other Changes (ii)	Balance as at 31 December 2018
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Other borrowed funds	123,441	989,903	-	1,576,891	2,690,235
Subordinated liabilities	512,205	200,000	-	(12,569)	699,636
	635,646	1,189,903	-	1,564,322	3,389,871

(i) The cash flows from rights of use, subordinated and other borrowed funds make up the net amount of proceeds from borrowing and repayments against borrowing in the statement of cash flows under financing activities.

(ii) Other changes include interest accruals, exchange gains or (losses), amortisation and interest payments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

13. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT

	Contractual/ Nominal Amount	Assets Fair Value	Liabilities Fair Value
	Rs 000	Rs 000	Rs 000
As at 31 December 2019			
Currency forwards	**23,866**	**46**	**35**
Currency Swaps	**3,804,810**	**3,724**	**33,313**
	3,828,676	**3,770**	**33,348**
Segment A	**953,680**	**-**	**17,496**
Segment B	**2,874,996**	**3,770**	**15,852**
Current	**3,828,676**	**3,770**	**33,348**
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

14(A). LOANS AND ADVANCES TO BANKS

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
In and outside Mauritius	**4,916,727**	2,950,545	3,744,692
Less: allowance for expected credit loss	**(4,306)**	(6,557)	(37,447)
	4,912,421	2,943,988	3,707,245
Current	**4,365,517**	2,943,988	2,363,376
Non Current	**546,904**	-	1,343,869
	4,912,421	2,943,988	3,707,245
(i) Segment A			
In Mauritius	**547,032**	-	-
Less: allowance for expected credit loss	**(128)**	-	-
	546,904	-	-
Segment B			
Outside Mauritius	**4,369,695**	2,950,545	3,744,692
Less: allowance for expected credit loss	**(4,178)**	(6,557)	(37,447)
	4,365,517	2,943,988	3,707,245
(ii) Remaining term to maturity			
Up to 3 months	**908,102**	382,490	-
Over 3 months and up to 6 months	**1,385,805**	1,348,215	1,374,143
Over 6 months and up to 12 months	**2,075,792**	1,219,840	1,013,106
Over 1 year and up to 5 years	**547,028**	-	1,357,443
	4,916,727	2,950,545	3,744,692

(iii) Allowance for expected credit loss

	Specific allowances for impairment	Portfolio allowances for impairment	Total
	Rs 000	Rs 000	Rs 000
Balance as at 01 January 2017	-	16,669	16,669
Provision during the year	-	20,778	20,778
Balance as at 31 December 2017	-	37,447	37,447
Provision during the year	-	(30,890)	(30,890)
Balance as at 31 December 2018	-	6,557	6,557
Provision during the year	**-**	**(2,251)**	**(2,251)**
Balance as at 31 December 2019	**-**	**4,306**	**4,306**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

14(B). SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Securities purchased under agreement to resell	2,037,873	-	-
Less: Allowance for expected loss	(2,480)	-	-
	2,035,393	-	-
Current	2,035,393	-	-

(i) Segment A

	Dec-19	Dec-18	Dec-17
Loan to bank on reverse repurchase agreement	2,037,873	-	-
Less: Allowance for expected loss	(2,480)	-	-
	2,035,393	-	-

(ii) Remaining term to maturity

	Dec-19	Dec-18	Dec-17
Up to 3 months	2,037,873	-	-
	2,037,873	-	-

(iii) Allowance for expected credit loss

	Stage 1 ECL impairment	Total
	Rs 000	Rs 000
Balance as at 01 January 2019	-	-
Provision during the year	(2,480)	(2,480)
Balance as at 31 December 2019	(2,480)	(2,480)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. LOANS AND ADVANCES TO CUSTOMERS

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Retail customers			
- Credit cards	57,803	48,755	41,554
- Mortgages	2,680,407	2,057,907	1,868,029
- Other retail loans	3,458,321	2,202,998	1,687,305
Corporate customers	10,743,108	9,892,504	8,297,807
Entities outside Mauritius	7,143,164	7,504,673	6,546,029
	24,082,803	21,706,837	18,440,724
Less: allowance for credit impairment	(1,154,532)	(1,037,935)	(694,397)
	22,928,271	20,668,902	17,746,327
Current	6,549,168	9,298,333	6,629,205
Non current	16,379,103	11,370,569	11,117,122
Net finance lease receivables included in loans and advances to customers are as follows:	342,386	255,386	157,171

(a) Segment A

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Retail customers			
- Credit cards	57,803	48,755	41,554
- Mortgages	2,597,385	2,048,422	1,852,915
- Other retail loans	3,253,044	2,079,996	1,658,366
Corporate customers	9,196,207	8,827,415	7,339,087
	15,104,439	13,004,588	10,891,922
Less allowance for credit impairment	(646,641)	(588,163)	(549,518)
	14,457,798	12,416,425	10,342,404

(b) Segment B

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Retail customers			
- Mortgages	83,022	9,485	15,114
- Other retail loans	205,277	123,002	28,939
Corporate customers	1,546,901	1,065,089	958,720
Entities outside Mauritius	7,143,164	7,504,673	6,546,029
	8,978,364	8,702,249	7,548,802
Less allowance for expected credit loss	(507,891)	(449,772)	(144,879)
	8,470,473	8,252,477	7,403,923

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(c) Remaining term to maturity

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Up to 3 months	4,950,500	4,379,854	4,799,214
Over 3 months and up to 6 months	1,151,281	3,663,648	1,543,229
Over 6 months and up to 12 months	517,457	1,389,147	352,635
Over 1 year and up to 5 years	10,220,748	9,278,647	7,349,642
Over 5 years	7,242,817	2,995,541	4,396,004
	24,082,803	21,706,837	18,440,724

(d) Credit concentration of risk by industry sectors

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Agriculture and fishing	1,107,424	1,238,416	1,108,339
Manufacturing	134,182	960,439	1,309,878
of which Export Processing Zone License holders	*15,767*	*141,243*	*153,010*
Tourism	2,567,194	2,181,563	2,012,613
Transport	1,126,481	1,043,584	250,143
Construction	5,291,909	3,498,742	3,121,998
of which Residential Mortgages	*2,680,408*	*2,077,792*	*1,868,029*
Other constructions	*2,611,501*	*1,420,950*	*1,253,969*
Financial and business services	4,200,137	4,833,376	3,478,405
Traders	3,410,028	3,247,573	2,960,160
Personal	1,474,929	837,088	652,547
of which credit cards	*57,803*	*48,712*	*41,554*
Professional	12,357	11,628	12,350
Global business license holders	808,228	759,991	754,550
Others	3,949,934	3,094,437	2,779,741
of which credit central government	*1,958,656*	*1,559,429*	*1,705,452*
	24,082,803	*21,706,837*	*18,440,724*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
(i) Segment A			
Agriculture and Fishing	1,097,613	1,053,106	1,093,756
Manufacturing	60,925	403,262	439,096
of which Export Processing Zone License holders	*15,767*	*139,095*	*150,457*
Tourism	1,389,644	1,346,832	1,329,185
Transport	283,709	222,143	168,728
Construction	4,964,061	3,103,984	2,715,008
of which Residential Mortgages	*2,597,386*	*2,068,228*	*1,852,915*
Other constructions	*2,366,675*	*1,035,756*	*862,093*
Financial and business services	2,801,709	3,076,961	1,990,914
Traders	2,672,302	2,667,725	2,171,143
Personal	1,466,444	812,677	645,592
of which credit cards	*57,803*	*48,712*	*41,554*
Professional	12,357	11,628	12,350
Others	355,675	306,270	326,150
	15,104,439	13,004,588	10,891,922
(ii) Segment B			
Agriculture and Fishing	9,811	185,310	14,583
Manufacturing	73,257	557,177	870,782
of which Export Processing Zone License holders	-	*2,148*	*2,553*
Tourism	1,177,550	834,731	683,428
Transport	842,772	821,442	81,415
Construction	327,848	394,758	406,990
of which Residential Mortgages	*83,022*	*9,564*	15,142
Other constructions	*244,826*	*385,194*	391,876
Financial and business services	1,398,428	1,756,415	1,487,491
Traders	737,726	579,848	789,017
Personal	8,485	24,411	6,955
Global business license holders	808,228	759,991	754,550
Others	3,594,259	2,788,166	2,453,591
of which credit central government	*1,958,656*	*1,559,429*	*1,705,452*
	8,978,364	8,702,249	7,548,802

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(d) Credit concentration of risk by industry sectors (Cont'd)

Others include the following sectors: Media, Entertainment and Recreational Activities, Education, Modernisation and Expansion Enterprise Certificate Holders, Health Development Certificate Holders, Public Non financial Corporations, State and Local Government, Infrastructure, ICT, Freeport certificate holders and others.

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Off balance sheet by industry sector			
Agriculture and Fishing	521	2,183	407
Manufacturing	53,643	41,295	34,583
Tourism	125,500	208,802	70,050
Transport	7,702	15,701	6,400
Construction	888,616	667,984	290,407
Financial and business services	2,031,473	188,624	986,079
Traders	1,068,368	915,293	566,702
Personal	253,658	210,088	482,630
Global business license holders	183,959	59,608	11,189
Others	165,401	110,841	355,232
	4,778,841	2,420,419	2,803,679

(e) Allowance for expected credit loss

	Specific allowances for impairment	Portfolio for allowances impairment	
	Stage 3	Stage 1 and 2	Total
	Rs 000	Rs 000	Rs 000
Balance as at 01 January 2017	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
Provision for credit impairment for the year	325,708	126,686	452,394
Loans written off out of allowance	(42,417)	-	(42,417)
Provisions released	(116,200)	(177,180)	(293,380)
Balance as at 31 December 2019	912,583	241,949	1,154,532

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(f) Allowance for credit impairment

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Retail customers			
- Credit cards	7,596	2,342	3,771
- Mortgages	71,806	90,985	91,116
- Other retail loans	113,199	149,600	143,505
Corporate customers	463,720	388,563	351,371
Entities outside Mauritius	498,211	406,445	104,634
	1,154,532	1,037,935	694,397
Segment A			
Retail customers			
- Credit cards	7,596	2,342	3,771
- Mortgages	68,625	88,326	88,809
- Other retail loans	111,495	136,328	135,629
Corporate customers	460,389	361,167	321,309
	648,105	588,163	549,518
Segment B			
Retail customers			
- Mortgages	3,181	2,659	2,307
- Other retail loans	1,704	13,272	7,876
Corporate customers	3,331	27,396	30,061
Entities outside Mauritius	498,211	406,445	104,635
	506,427	449,772	144,879

(g) Investment in finance leases

The amount of investments in finance leases included in the loans and advances to customers

	Up to 1 Year	1 to 5 Years	Over 5 years	Dec-19 Total	Dec-18 Total	Dec-17 Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Gross investment in finance leases	8,312	312,443	300,342	621,097	490,832	390,125
Unearned finance income	(7,188)	(174,263)	(93,802)	(275,253)	(232,866)	(231,366)
Present value of minimum lease payments	1,124	138,180	206,540	345,844	257,966	158,759
Allowance for impairment	(11)	(1,382)	(2,065)	(3,458)	(2,580)	(1,588)
				342,386	255,386	157,171

Under finance lease, 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 than 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(h) Allowance for expected credit loss by industry sectors

	Dec-19					Dec-18	Dec-17
	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
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Agriculture and fishing	1,107,424	37	40	11,779	11,819	21,224	14,351
Manufacturing	134,182	1,118	626	1,311	1,937	14,204	46,872
of which Export Processing Zone License holders	*15,767*	*-*	*-*	*662*	*662*	*2,045*	*1,533*
Tourism	2,567,194	106,784	41,239	25,434	66,673	58,303	44,583
Transport	1,126,481	229,000	136,762	10,632	147,394	56,095	19,865
Construction	5,291,909	358,064	276,909	55,831	332,740	263,267	266,939
of which Residential Mortgages	*2,680,408*	*125,006*	*59,124*	*28,414*	*87,538*	*91,600*	*90,922*
Other constructions	*2,611,501*	*233,058*	*217,785*	*27,418*	*245,203*	*171,667*	*176,017*
Financial and business services	4,200,137	-	-	42,469	42,469	69,600	33,410
Traders	3,410,028	181,969	115,248	35,124	150,372	166,179	98,725
Personal	1,474,929	50,470	44,825	15,696	60,521	56,677	69,877
of which credit cards	*57,803*	*2,030*	*2,037*	*616*	*2,653*	*2,306*	*3,766*
Professional	12,357	3,752	1,918	132	2,050	168	604
Global business license holders	808,228	-	-	7,298	7,298	22,716	28,210
Others	3,949,934	295,576	295,016	36,243	331,259	309,502	70,961
	24,082,803	1,226,770	912,583	241,949	1,154,532	1,037,935	694,397

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For the year ended 31 December 2019

	Dec-19					Dec-18	Dec-17
	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
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Segment A							
Agriculture and fishing	1,097,613	37	40	11,690	11,730	18,543	14,205
Manufacturing	60,925	1,118	626	649	1,275	6,144	38,456
of which Export Processing Zone License holders	*15,767*	*-*	*-*	*-*	*-*	*2,014*	*1,507*
Tourism	1,389,644	106,784	41,239	14,801	56,040	46,229	37,833
Transport	283,709	5,682	4,258	3,022	7,280	6,557	5,221
Construction	4,964,061	353,306	274,039	52,871	326,910	255,098	244,131
of which Residential Mortgages	*2,597,386*	*120,248*	*56,254*	*27,664*	*83,918*	*89,002*	*88,643*
Other constructions	*2,366,675*	*233,058*	*217,785*	*25,207*	*242,992*	*166,096*	*155,488*
Financial and business services	2,801,709	-	-	29,841	29,841	44,517	19,897
Traders	2,672,302	181,969	115,248	28,462	143,710	146,471	87,082
Personal	1,466,444	50,470	44,825	15,619	60,444	56,338	69,807
of which credit cards	*57,803*	*2,030*	*2,037*	*616*	*2,653*	*2,306*	*3,766*
Professional	12,357	3,752	1,918	132	2,050	168	604
Others	355,675	4,132	3,572	3,788	7,360	8,098	32,282
	15,104,439	707,250	485,765	160,875	646,640	588,163	549,518
Segment B							
Agriculture and fishing	9,811	-	-	89	89	2,681	146
Manufacturing	73,257	-	-	662	662	8,060	8,415
of which Export Processing Zone License holders	*-*	*-*		*662*	*662*	*31*	*26*
Tourism	1,177,550	-	-	10,633	10,633	12,074	6,750
Transport	842,772	223,318	132,504	7,610	140,114	49,538	14,644
Construction	327,848	4,758	2,870	2,960	5,830	8,169	22,808
of which Residential Mortgages	*83,022*	*4,758*	*2,870*	*750*	*3,620*	*2,598*	*2,279*
Other constructions	*244,826*	*-*	*-*	*2,211*	*2,211*	*5,571*	*20,529*
Financial and business services	1,398,428	-	-	12,628	12,628	25,083	13,513
Traders	737,726	-	-	6,662	6,662	19,708	11,643
Personal	8,485	-	-	77	77	339	70
Global business license holders	808,228	-	-	7,298	7,298	22,716	28,210
Others	3,594,259	291,444	291,444	32,455	323,899	301,404	38,680
	8,978,364	519,520	426,818	81,074	507,892	449,772	144,879

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

16. INVESTMENT SECURITIES

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Investment securities at fair value through OCI	2,571,081	2,046,791	-
Investment securities at amortised cost	14,348,745	4,692,794	-
Available-for-sale investment securities	-	-	2,249,806
Held to maturity investment securities	-	-	1,968,379
	16,919,826	6,739,585	4,218,185
Less: Allowance for expected loss	(17,027)	(7,203)	-
	16,902,799	6,732,382	4,218,185
Current	10,980,821	5,032,888	2,213,821
Non-current	5,921,978	1,699,494	2,004,364

(a) Investments at FVTOCI/Available-for-sale investments

	Dec-19	Dec-18	Dec-17
Equity shares in M Oriental Bank Ltd (Kenya)	37,198	34,973	33,838
Bank/Government of Mauritius securities and other corporate bonds	2,530,686	2,008,505	2,212,753
Other equity investments	3,197	3,313	3,215
	2,571,081	2,046,791	2,249,806
Less: Allowance for expected loss	(2,575)	(2,089)	-
	2,568,506	2,044,702	2,249,806
Segment A			
Bank/Government of Mauritius securities	2,530,686	2,008,505	2,212,753
Others	1,660	1,892	1,892
	2,532,346	2,010,397	2,214,645
Less: Allowance for expected loss	(2,540)	(1,699)	-
	2,529,806	2,008,698	2,214,645
Segment B			
Equity shares in M Oriental Bank Ltd (Kenya)	37,198	34,973	33,838
Others	1,537	1,421	1,323
	38,735	36,394	35,161
Less: Allowance for expected loss	(35)	(390)	-
	38,700	36,004	35,161

The Bank holds 4,597,210 shares, representing 3.69% shareholding of M Oriental Bank Ltd, incorporated and operating in Kenya. The investment securities has been fair valued based on the market approach using precedent transaction price relating to the share buyback by M Oriental Bank. The investment held in SME Equity Fund Mauritius has been valued using net asset value basis and investment in SWIFT has been valued using observable price as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(b) Investments at amortised cost/Held to maturity investments

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Government of Mauritius bonds	206,227	194,318	49,988
Bank of Mauritius Bills	1,588,253	-	99,921
Treasury Bills / Notes issued by Government of Mauritius	1,026,822	431,042	1,037,485
Corporate Bonds/Other Bank Placements	11,527,443	4,067,434	780,985
	14,348,745	4,692,794	1,968,379
Less: Allowance for expected loss	(14,452)	(5,115)	-
	14,334,293	4,687,679	1,968,379
Segment A			
Government of Mauritius bonds	206,227	194,318	49,988
Bank of Mauritius Bills	1,588,253	-	99,921
Treasury Bills / Notes issued by Government of Mauritius	1,026,822	431,042	1,037,485
Corporate Bonds/Other Bank Placements	97,768	330,782	337,155
	2,919,070	956,142	1,524,549
Less: Allowance for expected loss	(2,242)	(2,428)	-
	2,916,828	953,714	1,524,549
Segment B			
Corporate Bonds/Other Bank Placements	11,429,675	3,736,653	443,830
Less: Allowance for expected loss	(12,210)	(2,687)	-
	11,417,465	3,733,966	443,830

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

16. INVESTMENT SECURITIES (CONT'D)

Remaining term to maturity - 2019	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Government of Mauritius bonds	-		-	206,056	-	**206,056**
Treasury Bills / Notes issued by Government of Mauritius	1,483,996	472,909		655,994	-	**2,612,899**
Corporate Bonds/Other Bank Placements	6,781,561	1,400,441	522,796	1,433,813	1,376,727	**11,515,338**
	8,265,557	**1,873,350**	**522,796**	**2,295,863**	**1,376,727**	**14,334,293**

Remaining term to maturity - 2018	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Government of Mauritius bonds	-	-	-	194,150	-	**194,150**
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	245,262	12,237	**4,062,887**
	3,022,569	**278,078**	**733,048**	**641,747**	**12,237**	**4,687,679**

Remaining term to maturity - 2017	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
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**

17. LEASES (The Bank as a lessee)

Right-of-use assets

	Buildings
	Rs 000
Cost	
At 1 January 2019	**57,760**
Additions	**6,514**
At 31 December 2019	**64,274**
Accumulated depreciation	
At 1 January 2019	**(8,581)**
Additions	**(597)**
At 31 December 2019	**(9,178)**
Carrying amount	
At 31 December 2019	**55,096**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

The Bank leases various properties mainly to operate its branches. The average lease term is 7 years.

The Bank does not have an option to purchase the leased assets at the end of the lease term. The Bank's obligations are secured by the lessor's title to the leased assets for such leases.

One of the leases for buildings expired in the current financial year. The expired contract was replaced by a new lease for similar underlying asset. This resulted in additions to right-of-use assets of Rs 6.5 million in 2019. The maturity analysis of lease liabilities is presented in note 27.

Amounts recognised in profit or loss under:

	31 December 2019
	Rs 000
Depreciation and amortisation - depreciation expense on right-of-use assets	**9,178**
Interest expense - interest expense on lease liabilities	**5,068**
Other expenses - expense relating to short-term leases	**645**
Other expenses - expense relating to leases of low value assets	**78**
	14,969

At 31 December 2019, the Bank is committed to Rs 1.2 million for short-term leases.

Right-of-use assets

The total cash outflow for leases amounted to Rs 11.6 million during the year.

On 8 May 2019, the Bank entered into a 10 year lease to rent a building at Caudan. On 5 November 2019, the Bank entered into a 5 year lease to rent a building at Ebene. These leases were not effective by the reporting date and as a result, a lease liability and right-of-use asset has not been recognised at 31 December 2019. The aggregate future cash outflows to which the Bank is exposed in respect of to these contracts are:

Caudan Building

- Fixed monthly payments of Rs 1 million.
- The lease is enforceable for a period of 5 years after which it can be terminated by the bank with a notice period of 12 months.

Ebene Buiding

- Fixed monthly payments of Rs 350,000.
- The lease is enforceable for a period of 9 months.
- The lease can be extended for additional 5 years from expiry date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. PROPERTY AND EQUIPMENT

	Land and buildings	Computer and other equipment	Motor vehicles and furniture and fittings	Work in Progress	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cost or Valuation					
Balance as at 1 January 2017	**288,464**	**181,100**	**112,499**	**75,862**	**657,925**
Acquisitions	-	9,597	22,731	18,187	50,515
Transfer to equipment and furniture	-	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 equipment and furniture	-	2,213	3,155	(5,383)	(15)
Disposal	-	-	(1,986)	-	(1,986)
Write-off/scrapped	-	(2,540)	(403)	-	(2,943)
Revaluation gain	4,485	-	-	-	4,485
Balance as at 31 December 2018	**304,128**	**212,700**	**206,841**	**11,801**	**735,470**
Acquisitions	-	1,095	372	17,279	18,746
Transfer to equipment and furniture	-	7,360	3,915	(11,275)	-
Disposal	-	-	(1,600)		(1,600)
Reclassification to intangible assets	-	-	-	(6,639)	(6,639)
Write-off/scrapped	-	(105,288)	(37,420)	-	(142,708)
Balance as at 31 December 2019	**304,128**	**115,867**	**172,108**	**11,166**	**603,269**
Accumulated depreciation					
Balance as at 1 January 2017	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**
Depreciation for the year	4,236	14,330	16,004	-	34,570
Disposal	-	-	(1,600)	-	(1,600)
Write-off/scrapped	-	(105,287)	(37,404)	-	(142,691)
Balance as at 31 December 2019	**68,363**	**80,159**	**82,926**	**-**	**231,448**
Net book value as at 31 December 2019	**235,765**	**35,708**	**89,182**	**11,166**	**371,821**
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

	Land and buildings	Computer and other equipment	Motor vehicles and furniture and fittings	Work in Progress	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Net book value as at 31 December 2019 by segments					
Segment A	235,765	35,636	87,685	11,166	370,252
Segment B	-	72	1,497		1,569
	235,765	**35,708**	**89,182**	**11,166**	**371,821**
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

	2019	2018	2017
	Rs 000	Rs 000	Rs 000
Assets disposed/scrapped/written-off during the year (cost)			
Computer and equipment	**105,288**	2,540	4,430
Other assets	**39,020**	2,389	2,709
	144,308	4,929	7,139
Work in progress included in property and equipment as at year end were incurred for:			
(i) Renovation of branch	**10,561**	10,825	2,880
(ii) Others	**605**	976	1,417
	11,166	11,801	4,297

The Bank's land and buildings were last revalued in 2018 by V.Ramjee & Associates Ltd (chartered valuer). The basis of valuation is based on market value, defined in accordance with International Valuation Standard Committee and the accounts were amended to reflect the fair value.

The directors have assessed the fair value of the above assets at 31 December 2019 and have estimated the fair value to approximate their carrying value at that date.

Land and Building excluding revaluation	2019	2018	2017
	Rs 000	Rs 000	Rs 000
Cost	**201,000**	201,000	201,000
Accumulated depreciation	**(70,509)**	(66,489)	(62,469)
Net	**130,491**	134,511	138,531

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19. INTANGIBLE ASSETS

	Computer Software	Work in Progress	Total
	Rs 000	Rs 000	Rs 000
Cost			
Balance as at 1 January 2017	165,119	2,447	167,566
Additions	1,223	13,245	15,520
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**
Additions	760	11,709	12,469
Transfer to computer software	5,510	(5,510)	-
Write-off/scrapped	(8,518)	-	(8,518)
Reclassification from property and equipments	-	6,639	6,639
Expensed during the year	-	(2,101)	(2,101)
Balance as at 31 December 2019	**303,336**	**16,268**	**319,604**
Amortisation			
Balance as at 1 January 2017	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**
Charge for the year	35,080	-	35,080
Write-off/scrapped	(8,518)	-	(8,518)
Balance as at 31 December 2019	**181,138**	**-**	**181,138**
Net book value as at 31 December 2019	**122,198**	**16,268**	**138,466**
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 2019 by segments			
Segment A	**116,784**	**16,268**	**133,052**
Segment B	**5,414**	**-**	**5,414**
	122,198	**16,268**	**138,466**
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

20. DEFERRED TAX ASSETS

The movement on the deferred income tax account is as follows:

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
At start of year	**46,980**	71,766	71,918
Profit or loss charge (note 10)	**5,967**	(29,790)	(7,329)
Amount recognised directly in Other Comprehensive Income:			
Deferred income tax on fair value adjustments on FVTOCI investments	**(3,349)**	85	1,177
Under provision of deferred tax in previous years	**-**	-	4,199
Deferred tax on actuarial losses on retirement benefits obligations	**1,679**	(5,662)	3,701
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	**51,277**	46,980	71,766
Deferred tax assets			
Allowances for loan losses	**53,385**	47,648	63,833
FVTOCI/Available for sale-securities	**(1,700)**	1,648	1,562
Retirement Benefit Obligations	**4,819**	3,502	9,913
	56,504	52,798	75,308
Deferred tax liabilities			
Accelerated capital allowances	**4,300**	4,892	2,054
Revaluation reserve	**927**	926	1,488
	5,227	5,818	3,542
Net non current	**51,277**	46,980	71,766

Deferred income tax is calculated on all temporary differences under the liability method using an effective tax rate of 7% (2018- 7% and 2017- 17%) for segment A and an effective tax rate of 5% (2018- 5% and 2017- 3%) for segment B.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. OTHER ASSETS

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Mandatory balances with central bank*	**1,400,901**	1,264,880	1,179,779
Balance due in clearing	**30,442**	25,400	56,055
Non-banking assets acquired in satisfaction of debts**	**9,104**	9,104	9,760
Other receivables	**138,819**	70,449	51,342
	1,579,266	1,369,833	1,296,936
Less: Allowance for expected loss	**(2,074)**	(1,058)	-
	1,577,192	1,368,775	1,296,936
Current	**83,886**	58,325	90,576
Non Current	**1,493,306**	1,310,450	1,206,360

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 the market availability.*

(a) Segment A	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Mandatory balances with central bank	**1,400,901**	1,264,880	1,179,779
Balance due in clearing	**30,442**	25,400	56,055
Non-banking assets acquired in satisfaction of debts	**9,104**	9,104	9,760
Other receivables	**121,605**	60,581	39,692
	1,562,052	1,359,965	1,285,286
Less: Allowance for expected loss	**(2,074)**	(1,058)	-
	1,559,978	1,358,907	1,285,286

Segment B	DEC-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Other receivables	**17,214**	9,868	11,650
	17,214	9,868	11,650

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

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22. DEPOSITS FROM CUSTOMERS

(a) Deposits comprise the following:

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Retail customers	**9,903,419**	8,478,040	8,176,022
Corporate customers	**6,456,769**	5,568,050	4,789,811
International customers	**30,880,472**	19,268,076	15,171,622
Government	**897,951**	117,665	161,987
	48,138,611	33,431,831	28,299,442
Current	**45,664,732**	31,320,092	26,073,424
Non Current	**2,473,879**	2,111,739	2,226,018

(b) The table below shows the remaining term to maturity for deposits by type of customer:

			Time deposits with remaining term to maturity					
	Current accounts	Savings accounts	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	**Totals**
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
At 31 December 2019								
Retail customers	**1,364,305**	**7,133,372**	**184,884**	**132,073**	**266,524**	**805,230**	**17,031**	**9,903,419**
Corporate customers	**1,285,120**	**685,641**	**1,734,863**	**564,097**	**843,264**	**1,343,784**	**-**	**6,456,769**
International Customers	**21,776,184**	**1,766,515**	**4,825,976**	**1,129,802**	**1,184,661**	**197,334**	**-**	**30,880,472**
Government	**36,879**	**35,572**	**135,000**	**-**	**580,000**	**110,500**	**-**	**897,951**
Total	**24,462,488**	**9,621,100**	**6,880,723**	**1,825,972**	**2,874,449**	**2,456,848**	**17,031**	**48,138,611**
At 31 December 2018								
Retail customers	1,109,531	6,105,446	217,457	106,130	361,195	565,120	13,161	8,478,040
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	-	-	-	86,027	-	117,665
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	218,905	-	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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

22. DEPOSITS FROM CUSTOMERS (CONT'D)

(c) Deposits by Segments

	Current accounts	Savings accounts	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
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
At 31 December 2019								
Segment A	**2,669,848**	**7,852,337**	**2,037,925**	**691,285**	**1,685,255**	**2,257,996**	**17,031**	**17,211,677**
Segment B	**21,792,641**	**1,768,761**	**4,842,798**	**1,134,687**	**1,189,194**	**198,853**	**-**	**30,926,934**
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

23. OTHER BORROWED FUNDS

	Dec-19	Dec-18	Dec-17
	Rs 000	RS 000	RS 000
Borrowings from Bank of Mauritius	-	77,812	122,811
Short term Borrowings from banks abroad	-	1,586,762	630
Long term Borrowings from other financial institutions	**2,449,494**	1,025,661	-
	2,449,494	2,690,235	123,441
Current	**209,380**	1,665,284	43,294
Non current	**2,240,114**	1,024,951	80,147
Segment A			
Borrowings from Bank of Mauritius	-	77,812	122,811
	-	77,812	122,811

Borrowings from Bank of Mauritius was in relation to the special foreign currency line of credit availed to lend to export operators. Interest rates on the borrowings from Bank of Mauritius is on average below 1%.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Segment B			
Short term Borrowings from banks abroad *(at market rates)*	-	1,587,472	630
Long term Borrowings from other financial institutions	**2,449,494**	1,024,951	-
	2,449,494	2,612,423	630

Long term foreign borrowings bear interest rates ranging from 3.76% to 3.95%.

2019	**Up to 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**above 5 years**	**Total**
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Remaining term to maturity:							
Long term Borrowings from other financial institutions	**252,856**	**481,315**	**481,315**	**481,315**	**481,315**	**271,378**	**2,449,494**
	252,856	**481,315**	**481,315**	**481,315**	**481,315**	**271,378**	**2,449,494**

2018	**Up to 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**above 5 years**	**Total**
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Remaining term to maturity:							
Borrowings from Bank of Mauritius	77,812	-	-	-	-	-	77,812
Short term borrowings	1,587,472	-	-	-	-	-	1,587,472
Long term borrowings	-	86,050	172,100	172,100	172,100	422,601	1,024,951
	1,665,284	86,050	172,100	172,100	172,100	422,601	2,690,235

2017	**Up to 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**above 5 years**	**Total**
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Remaining term to maturity:							
Borrowings from Bank of Mauritius	42,665	80,146	-		-	-	122,811
Short term borrowings	630	-	-	-	-	-	630
	43,295	80,146	-	-	-	-	123,441

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

24. SUBORDINATED LIABILITIES

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Remaining term to maturity:			
Within 1 year	11,086	12,434	-
Over 2 years and up to 3 years	172,621	-	-
Over 3 years and up to 4 years	73,347	35,398	-
Over 4 years and up to 5 years	73,347	35,398	99,815
Over 5 years	383,430	616,406	412,390
	713,831	699,636	512,205
Current	11,086	12,434	-
Non current	702,745	687,202	512,205
Segment A			
Within 1 year	-	1,110	-
Over 2 years and up to 3 years	99,500	-	-
Over 3 years and up to 4 years	-	-	-
Over 4 years and up to 5 years	-	-	99,815
Over 5 years	199,317	297,817	-
	298,817	298,927	99,815
Segment B			
Within 1 year	11,086	11,324	-
Over 2 years and up to 3 years	73,121	-	-
Over 3 years and up to 4 years	73,347	35,398	-
Over 4 years and up to 5 years	73,347	35,398	-
Over 5 years	184,113	318,589	412,390
	415,014	400,709	412,390

Interest rates on the subordinated debts range between 7.675% and 7.925%. (between 7.56% and 7.90% in 2018 and between 7.56% and 7.90% in 2017).

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Movement in subordinated liabilities			
Opening balance	699,636	512,205	524,390
Additions	-	200,000	-
Redemptions/amortisation/exchange difference	14,195	(12,569)	(12,185)
Closing balance	713,831	699,636	512,205

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. CURRENT TAX LIABILITIES

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Special levy on banks	-	5,438	4,936
Corporate social responsibility fund	-	280	-
Income tax	20,734	8,898	6,673
	20,734	14,616	11,609
Current	20,734	14,616	11,609

26. OTHER LIABILITIES

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Liability for defined pension plan (note 28)	33,160	21,257	24,944
Liability for unfunded pension plan (note 28)	10,731	11,055	18,571
Bills payable	56,549	45,581	28,164
Other payables	541,273	341,368	232,069
Allowances for off balance sheet exposures	16,534	14,297	480
	658,247	433,558	304,228
Current	609,146	345,666	210,521
Non current	49,101	87,892	93,707
Segment A			
Liability for defined pension plan (note 28)	33,160	21,257	18,389
Liability for defined contribution pension plan (note 28)	7,838	8,070	13,691
Bills payable	56,549	45,581	28,164
Other payables	291,545	141,660	175,989
Allowances for off balance sheet exposures	16,534	14,297	480
	405,626	230,865	236,713
Segment B			
Liability for defined pension plan (note 28)	-	-	6,555
Liability for defined contribution pension plan (note 28)	2,893	2,985	4,880
Other payables	249,728	199,708	56,080
	252,621	202,693	67,515

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. LEASE LIABILITIES

	Dec-19
	Rs 000
Analysed as:	
Non-current	51,510
Current	6,213
	57,723

Disclosure required by IFRS 16

Maturity analysis:	
Year 1	11,619
Year 2	10,783
Year 3	9,558
Year 4	9,631
Year 5	8,891
Onwards	42,989
	93,471

The Bank does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Bank's Finance department.

28. PENSION OBLIGATIONS

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Pension obligations under defined benefit plan			
Amounts recognised in the statement of financial position (note 26):	33,160	21,257	24,944
Amounts charged to profit or loss statement (note 8)	9,141	7,579	8,098
Amount charged/(credited) to other comprehensive income net of deferred tax	24,298	(6,530)	19,237
Pension obligations under unfunded obligation			
Amounts recognised in the statement of financial position (note 26):	10,731	11,055	18,571
Amounts charged to profit or loss (note 8)	1,991	1,767	10,979
Amount (credited)/charged to other comprehensive income net of deferred tax	(2,165)	(8,633)	6,302

(a) Defined pension benefits

The Bank operates a defined pension benefit 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 2019

The following information is based on actuarial valuation report dated 31 December 2019 by Swan Life Ltd:

(i) The amounts recognised in the statement of financial position are as follows:

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Present value of funded obligations	161,068	142,063	150,513
Fair value of plan assets	(127,908)	(120,806)	(125,569)
Liability in the statement of financial position	33,160	21,257	24,944

(ii) The movement in the defined benefit obligations over the year is as follows:

	DEC-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
At 1 January	21,257	24,944	21,913
Amount recognised in profit or loss	9,141	7,579	8,098
Amount recognised in other comprehensive income (gross)	26,128	(6,982)	20,192
Contributions by the employer	(23,366)	(4,284)	(25,259)
At 31 December	33,160	21,257	24,944
Non-current	33,160	21,257	24,944

(iii) The movement in the defined benefit obligations for the year is as follows:

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
At 1 January	142,063	150,514	118,511
Included in profit or loss			
Current service cost	7,166	5,866	5,818
Interest cost	8,024	7,109	7,435
Included in other comprehensive income			
Experience losses/(gains) on the liabilities	7,680	(40)	2,875
Changes in assumptions underlying the present value of the scheme	17,511	(4,531)	16,687
Other			
Benefits paid	(21,376)	(16,855)	(813)
At 31 December	161,068	142,063	150,513

(iv) The movement in the fair value of plan assets of the year is as follows:

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
At 1 January	120,806	125,569	96,598
Interest Income	7,389	5,954	6,495
Employer's contribution	23,366	4,284	25,259
Scheme expenses	(927)	(180)	(991)
Cost of insuring risk benefits	(414)	(377)	(349)
Actuarial (loss)/gain	(936)	2,411	(630)
Benefits paid	(21,376)	(16,855)	(813)
At 31 December	127,908	120,806	125,569

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

28. PENSION OBLIGATIONS (CONT'D)

(a) DEFINED PENSION BENEFITS (CONT'D)

(v) The amounts recognised in profit or loss are as follows:

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Current service cost	7,166	5,866	5,818
Scheme expenses	927	180	991
Cost of insuring risk benefits	414	377	349
Net interest cost	634	1,156	940
Total included in employee benefit expense	9,141	7,579	8,098
Actual return on plan assets	6,453	8,365	5,865

(vi) The amounts recognised in other comprehensive income are as follows:

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Losses/(gain) on pension scheme assets	937	(2,411)	630
Experience losses on the liabilities	7,680	(40)	2,875
Changes in assumptions underlying the present value of the scheme	17,511	(4,531)	16,687
	26,128	(6,982)	20,192

(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.

(viii) 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.

(ix) Average duration

The Weighted average duration of the liabilities at 31 December 2019 is 11 years (2018: 12 years) at the end of the reporting period.

(x) 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 Rs 8.79m in contributions to its post-employment benefit plans for the year ending 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(b) LIABILITY FOR UNFUNDED PENSION PLAN

The liability relates to employees who are untitled to Retirement Gratuities payable under the Workers' Right Act (WRA). The latter provides for a lump sum 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 WRA.

The movement in the obligation of the unfunded pension plan of the year is as follows:

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
At 1 January	11,055	18,571	-
Amount recognised in profit or loss:			
Current service cost	1,353	839	10,357
Net interest cost	638	928	622
Amount recognised in profit or loss	1,991	1,767	10,979
Amount recognised in other comprehensive income	(2,314)	(9,283)	7,592
At 31 December	10,732	11,055	18,571

During the year an amount of Rs 1.5m was paid as benefit for the unfunded scheme.

(c) KEY ASSUMPTION

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

	Dec-19	Dec-18	Dec-17
	%	%	%
Funded pension liability			
Discount rate	5.0	6.1	5.0
Future salary growth rate	4.5	4.5	4.0
Unfunded pension liability			
Discount rate	5.2	6.2	5.00
Future salary growth rate	4.5	4.5	4.00

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

28. PENSION OBLIGATIONS (CONT'D)

(d) SENSITIVITY ANALYSIS

Sensitivity analysis on both funded and unfunded benefit obligations to changes in the weighted principal assumptions is:

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Defined benefit funded scheme:			
1% increase in discount rate	**21,668**	-	-
1% decrease in discount rate	**(13,554)**	(14,268)	(12,410)
1% increase in future salary growth rate	**24,584**	17,465	18,635
1% decrease in future salary growth rate	**(16,561)**	-	-
Unfunded obligations			
1% increase in discount rate	**5,091**	2,815	-
1% decrease in discount rate	**(3,952)**	-	-
1% increase in future salary growth rate	**4,662**	2,679	-
1% decrease in future salary growth rate	**(3,547)**	-	-

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

29. STATED CAPITAL

	No of shares	Dec-19	Dec-18	Dec-17
	2019	Rs 000	Rs 000	Rs 000
Shares at no par value				
Stated capital	11,564,560	**1,156,456**	856,456	856,456
At start of year	8,564,560	**856,456**	856,456	856,456
Issue of shares during the year	3,000,000	**300,000**	-	-
At end of year	11,564,560	**1,156,456**	856,456	856,456
No of ordinary shares in issue (no par value)	11,564,560	**11,564,560**	8,564,560	8,564,560

During the year under review, the shareholders have injected additional Rs 300m in the form of Tier 1 capital to support the planned growth and strengthen further the core capital.

30. CONTINGENT LIABILITIES

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Acceptances on account of customers	**38,312**	30,222	6,203
Guarantees on account of customers	**698,484**	525,347	423,388
Letters of credit and other obligations on account of customers	**23,488**	58,468	37,571
Other contingent items	**311,294**	121,425	181,419
	1,071,578	735,462	648,581
Segment A			
Acceptances on account of customers	**3,547**	3,540	5,401
Guarantees on account of customers	**416,019**	429,147	289,554
Letters of credit and other obligations on account of customers	**7,720**	26,139	25,866
Other contingent items	**124,498**	62,582	129,332
	551,784	521,408	450,153
Segment B			
Acceptances on account of customers	**34,765**	26,682	802
Guarantees on account of customers	**282,465**	96,200	133,834
Letters of credit and other obligations on account of customers	**15,768**	32,329	11,705
Other contingent items	**186,796**	58,843	52,087
	519,794	214,054	198,428

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal control and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments for any adverse effects which the claims may have on the financial standing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. COMMITMENTS

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
(a) Undrawn credit facilities	**4,018,557**	1,806,382	2,336,517
Segment A	**1,489,397**	1,372,608	1,095,543
Segment B	**2,529,160**	433,774	1,240,974

(b) Operating lease commitments - where Bank One is the lessee

The bank leases various branches under non-cancellable lease agreements. These leases have varying terms, escallation clauses and renewal rights.

With the application of IFRS 16- Leases on 01 January 2019, the leases are now accounted as right-of-use assets and lease liabilities in notes 17 and 27 respectively.

The aggregate minimum lease payments under non-cancellable operating leases were as follows:

	Dec-18	Dec-17
	Rs 000	Rs 000
Payments recognised as an expense		
Minimum lease payment under operating lease	6,978	11,171
Non-cancellable operating lease commitments		
Not later than one year	6,978	11,171
Later than one year and not later than five years	16,437	12,461
Later than five years	5,250	-
	28,665	23,632

(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-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Treasury/GOM bonds	**200,000**	100,000	50,000
Treasury notes/bills	**108,200**	468,300	490,000
	308,200	568,300	540,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

32. RELATED PARTIES

	Nature of relationship	Dec-19	Dec-18	Dec-17
		Rs 000	Rs 000	Rs 000
Cash and cash equivalent	Related companies	**56,179**	139,170	68,801
Investment in securities	Related companies	**218,580**	-	236,320
Loans and advances	Related companies	**682,008**	879,061	665,029
	Directors	**-**	23	186
	Key management personnel	**14,953**	18,005	34,835
Deposits	Related companies	**1,025,848**	2,045,545	315,638
	Directors	**9,981**	10,914	8,671
	Key management personnel	**44,990**	22,665	32,778
Interest income	Related companies	**9,774**	32,958	13,305
	Key management personnel	**483**	551	4,931
Interest expense	Related companies	**1,262**	28,246	10,005
	Directors	**20**	43	210
	Key management personnel	**320**	317	3,621
Fees and Expenses	Directors	**7,749**	8,494	7,222

Related companies relates to enterprises in which shareholders, key directors/key management personnel have significant interest as defined in the guideline issued by BOM.

Credit commitments for Director/Senior management personnel equals to Rs 1m. Bank guarantees for related companies amounts to Rs 209m.

Terms and conditions of transactions with related parties.

The above related party transactions were carried out under normal business terms and conditions and were subject to interest wherever applicable.

Other disclosures on page 55 of the Risk Management Report.

(a) Key Management personnel compensation

	Dec-19	Dec-18	Dec-17
	Rs 000	Rs 000	Rs 000
Salaries and short term employee benefits	**79,958**	71,785	66,597
Post employment benefits	**5,410**	4,699	4,654

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

33. SEGMENTAL STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION	Dec-19			Dec-18			Dec-17		
	BANK	SEGMENT A	SEGMENT B	BANK	SEGMENT A	SEGMENT B	BANK	SEGMENT A	SEGMENT B
	Rs 000`s	Rs 000`s	Rs 000`s	Rs 000`s	Rs 000`s	Rs 000`s	Rs 000`s	Rs 000`s	Rs 000`s
ASSETS									
Cash and cash equivalents	6,646,989	980,171	5,666,818	7,685,450	448,301	7,237,149	4,221,988	563,624	3,658,364
Derivative assets held for risk management	3,770	-	3,770	8,275	-	8,275	4,824	3,022	1,802
Loan and advances to banks	4,912,421	546,904	4,365,517	2,943,988	-	2,943,988	3,707,245	-	3,707,245
Securities purchased under agreement to resell	2,035,393	2,035,393	-	-	-	-	-	-	-
Loan and advances to customers	22,928,271	14,457,798	8,470,473	20,668,902	12,416,425	8,252,477	17,746,327	10,342,404	7,403,923
Investment securities-FVTOCI/AFS	2,568,506	2,529,806	38,700	2,044,702	2,008,698	36,004	2,249,806	2,214,645	35,161
Investment securities-HTM	14,334,293	2,916,828	11,417,769	4,687,679	953,713	3,733,966	1,968,379	1,524,549	443,830
Right-Of-Use assets	55,096	55,096	-	-	-	-	-	-	-
Property and equipment	371,821	370,252	1,569	394,301	386,437	7,864	403,161	402,242	919
Intangible asset	138,466	133,052	5,414	156,539	149,134	7,405	41,580	40,820	760
Deferred tax asset	51,277	28,347	22,930	46,980	25,909	21,071	71,766	66,836	4,930
Other assets	1,577,192	1,559,978	17,214	1,368,775	1,358,907	9,868	1,296,936	1,285,286	11,650
Total assets	55,623,495	25,613,625	30,009,870	40,005,591	17,747,524	22,258,067	31,712,012	16,443,428	15,268,584
LIABILITIES									
Deposits from customers	48,138,611	17,211,677	30,926,934	33,431,831	15,982,437	17,449,394	28,299,442	13,127,820	15,171,622
Derivative liabilities held for risk management	33,348	17,496	15,852	1,538	1,409	129	822	414	408
Other borrowed funds	2,449,494	-	2,449,494	2,690,235	77,812	2,612,423	123,441	122,811	630
Subordinated liabilities	713,831	298,817	415,014	699,636	298,927	400,709	512,205	99,815	412,390
Current tax liabilities	20,734	20,734	-	14,616	14,616	-	11,609	11,609	-
Other liabilities	658,247	405,626	252,621	433,558	230,865	202,693	304,228	236,713	67,515
Leased liabilities	57,723	57,723	-	-	-	-	-	-	-
	52,071,988	18,012,073	34,059,915	37,271,414	16,606,066	20,665,348	29,251,747	13,599,182	15,652,565
Shareholders' Equity									
Stated Capital	1,156,456	-	-	856,456	-	-	856,456	-	-
Retained earnings	1,875,669	-	-	1,488,632	-	-	1,239,958	-	-
Other reserves	519,382	-	-	389,089	-	-	363,851	-	-
	3,551,507	-	-	2,734,177	-	-	2,460,265		
TOTAL EQUITY AND LIABILITIES	55,623,495	-	-	40,005,591	-	-	31,712,012	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

34. SEGMENTAL STATEMENT OF PROFIT OR LOSS

STATEMENT OF PROFIT OR LOSS	Dec-19			Dec-18			Dec-17		
	BANK	SEGMENT A	SEGMENT B	BANK	SEGMENT A	SEGMENT B	BANK	SEGMENT A	SEGMENT B
	Rs 000`s	Rs 000`s	Rs 000`s	Rs 000`s	Rs 000`s	Rs 000`s	Rs 000`s	Rs 000`s	Rs 000`s
Interest income	1,685,135	900,843	784,292	1,395,469	694,683	700,786	1,080,674	630,180	450,494
Interest expense	(597,479)	(372,665)	(224,814)	(441,723)	(308,097)	(133,626)	(367,117)	(283,635)	(83,482)
Net interest income	1,087,656	528,178	559,478	953,746	386,586	567,160	713,557	346,545	367,012
Fee and commission income	671,250	120,154	551,096	500,317	110,777	389,540	271,295	80,332	190,963
Fee and commission expense	(394,526)	(61,762)	(332,764)	(281,824)	(55,860)	(225,964)	(123,196)	(35,619)	(87,577)
Net fee and commission income	276,724	58,392	218,332	218,493	54,917	163,576	148,099	44,713	103,386
Net gain on dealing in foreign currencies and derivatives	138,099	41,258	96,841	103,049	30,819	72,230	82,917	30,031	52,886
Net gain from derecognition of financial assets measured at fair value through other comprehensive income	6,826	6,826	-	-	-	-	-	-	-
Other operating income	139	139	-	147,827	7,007	140,820	14,987	14,760	227
	145,064	48,223	96,841	250,876	37,826	213,050	97,904	44,791	53,113
Operating income	1,509,444	634,793	874,651	1,423,115	479,329	943,786	959,560	436,049	523,511
Non Interest Expenses									
Personnel expenses	(447,389)	(326,787)	(120,602)	(406,765)	(298,832)	(107,933)	(367,600)	(273,575)	(94,025)
Depreciation and amortisation	(78,828)	(67,069)	(11,759)	(50,263)	(46,815)	(3,448)	(43,691)	(40,951)	(2,740)
Other Expenses	(227,020)	(179,675)	(47,345)	(177,192)	(138,078)	(39,114)	(136,203)	(110,969)	(25,234)
	(753,237)	(573,531)	(179,706)	(634,220)	(483,725)	(150,495)	(547,494)	(425,495)	(121,999)
Profit before Impairment	756,207	61,262	694,945	788,895	(4,396)	793,291	412,066	10,554	401,512
Net impairment loss on financial assets	(95,369)	(82,755)	(12,614)	(340,213)	(69,095)	(271,118)	(11,299)	21,961	(33,260)
Profit before tax	660,838	(21,493)	682,331	448,682	(73,491)	522,173	400,767	32,515	368,252
Income tax expense	(30,380)	(11,413)	(18,967)	(55,223)	(46,290)	(8,933)	(26,568)	(11,415)	(15,153)
Profit / (loss) after tax	630,458	(32,906)	663,364	393,459	(119,781)	513,240	374,199	21,100	353,099

35. SUBSEQUENT EVENT

Dividend

Pursuant to the board meeting held on 13 March 2020, a final dividend of Rs 210 million (Rs 18.16 per share) was approved for distribution as dividend to shareholders.

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 | W: www.bankone.mu

BRN: C07040612