ANNUAL REPORT 2018

Capturing value.
Realising opportunities.

ABC BANKING CORPORATION

WALL OF FAME

2013

Euromoney Award

BEST PRIVATE BANK FOR OFFSHORE SERVICES

2014

Global Banking & Finance Review Award

BEST BANK FOR INTERNATIONAL BANKING SERVICES MAURITIUS

Euromoney Award

BEST PRIVATE BANK FOR OFFSHORE SERVICES

2015

Capital Finance International (CFI.co) Award

BEST INTERNATIONAL BANK INDIAN OCEAN

Global Banking & Finance Review Award

BEST BANK FOR INTERNATIONAL BANKING SERVICES MAURITIUS

2016

Capital Finance International (CFI.co) Award

BEST INTERNATIONAL BANK INDIAN OCEAN

Global Brands Magazine Award

FASTEST GROWING BANKING BRAND MAURITIUS

2017

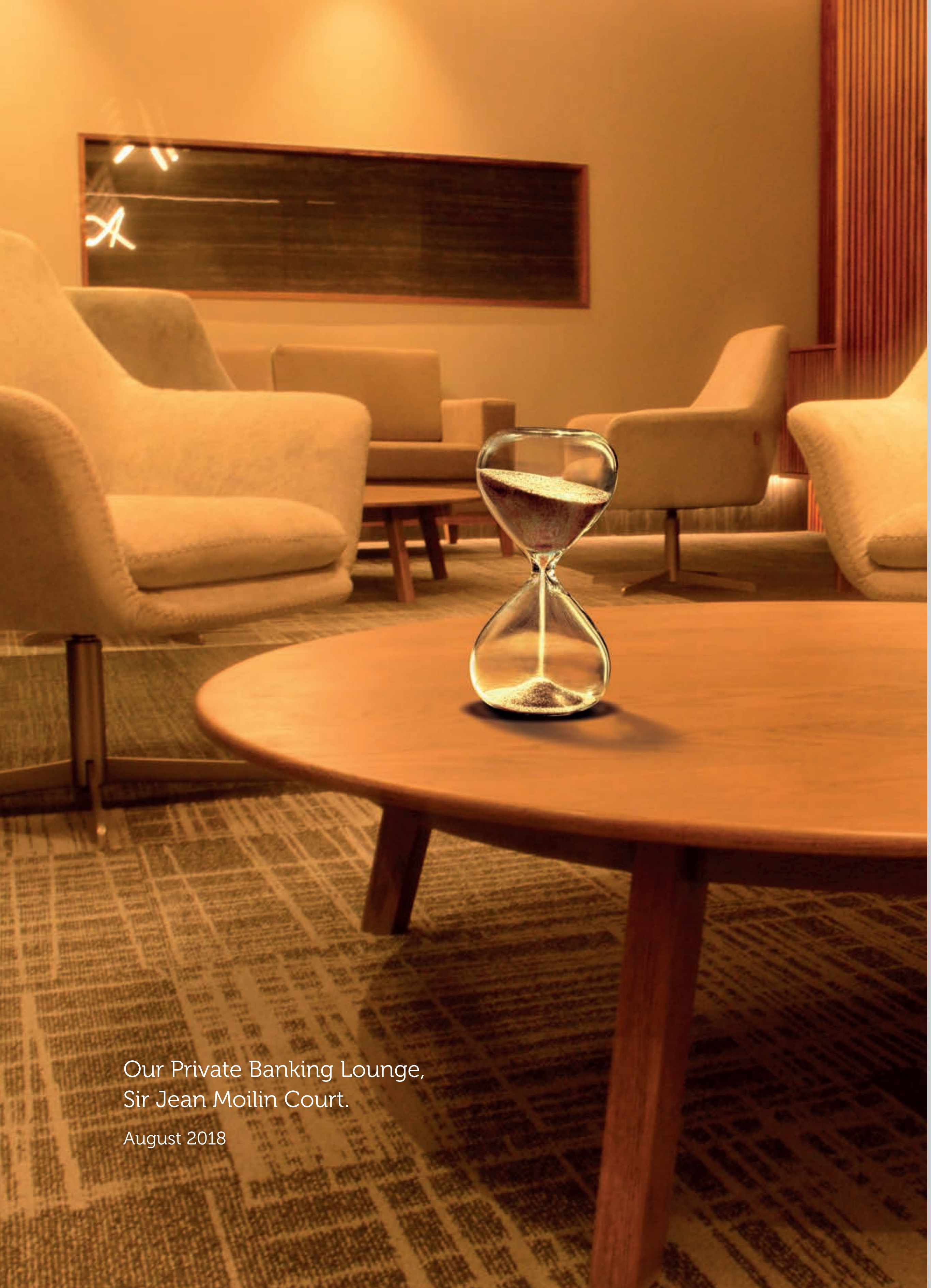
Capital Finance International (CFI.co) Award

BEST INTERNATIONAL BANK INDIAN OCEAN

2018

Capital Finance International (CFI.co) Award

MOST INNOVATIVE & FASTEST GROWING INTERNATIONAL BANK IN THE INDIAN OCEAN 2018



Our Private Banking Lounge,
Sir Jean Moilin Court.

August 2018

Making the 21st century
maritime silk road a reality.

OUR VISION

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

OUR MISSION

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

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

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

OUR VALUES

Respect and Integrity

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

Creativity and Innovation

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

Customer Care

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

Passion

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

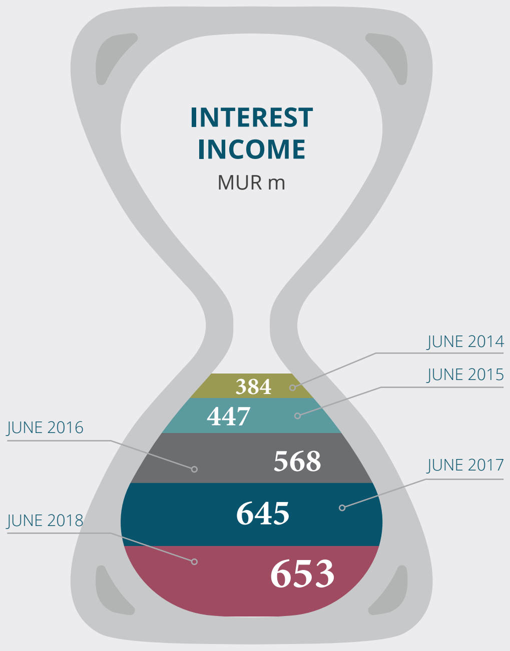
CONTENTS

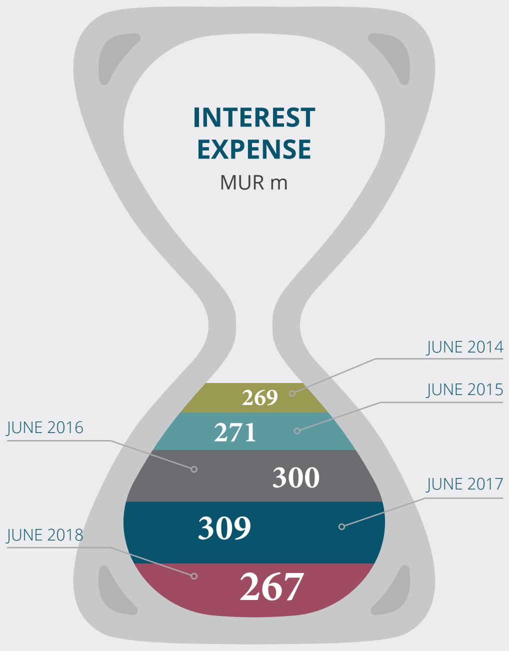
FINANCIAL HIGHLIGHTS

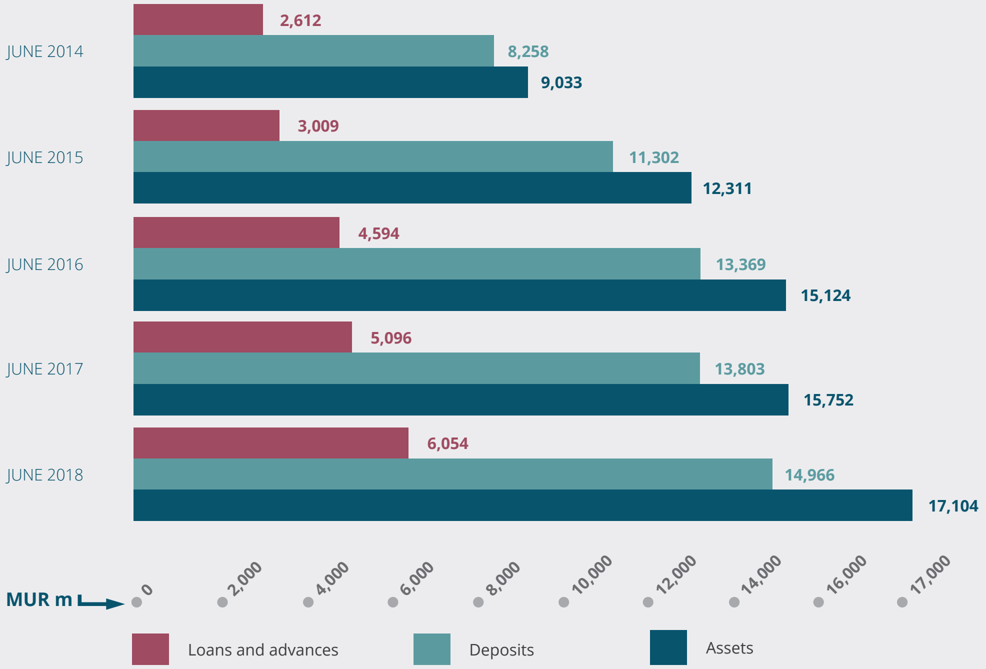
	BANK		
Income Statement (MUR m)	**2018**	**2017**	**2016**
Net Interest Income	**385.8**	336.0	268.0
Operating Income	**559.4**	493.0	435.6
Profit before impairment	**301.3**	273.3	247.6
Profit before tax	**291.8**	250.3	186.2
Profit after tax	**242.4**	208.5	161.6
Statements of Financial Position (MUR m)			
Total assets	**17,104.0**	15,751.8	15,124.4
Net loans and advances portfolio	**6,054.5**	5,095.7	4,594.5
Total deposit	**14,966.2**	13,803.1	13,368.9
Shareholders' fund	**1,510.3**	1,340.3	1,173.5
Tier 1 capital	**1,484.7**	1,309.4	1,136.8
Total net capital	**1,574.1**	1,415.0	1,264.7
Risk-weighted assets	**10,385.8**	9,180.6	8,590.3
Performance Ratios (%)			
Return on average total assets*	**1.4**	1.3	1.1
Return on equity*	**16.1**	15.6	13.8
Non-interest income to operating income	**31.0**	31.8	38.5
Loans and advances to deposit ratio	**41.5**	38.0	35.7
Cost to income ratio	**46.1**	44.6	43.2
Capital Adequacy Ratios (%)			
Capital & Reserves/Total assets	**8.8**	8.5	7.8
Capital adequacy ratio	**15.2**	15.4	14.7
Tier 1 ratio	**14.3**	14.3	13.2
Investor Data			
Earnings per share (MUR)**	**3.2**	2.7	2.9

* based on profit after tax

** based on average number of shares







Dear Valued Shareholder,

The Board of Directors is pleased to present its 8th Annual Report for ABC Banking Corporation Ltd ("the bank"). The Report highlights the global and local economic environment which prevailed in 2017/2018 and the key performance of the bank for the financial year ended 30 June 2018.

Overview

Following a decade of subdued growth and much uncertainty across the world, more recent economic indicators have shown that 2018 has been underpinned by a more positive outlook, with the legacy of the financial crisis potentially behind us. Projections from the IMF (International Monetary Fund) forerun the world economy to be growing by 3.9% in 2018 as well as during the following year. Indeed, on the global front, we noted introduction of fiscal stimulus measures, more accommodating monetary policies, improving employment rates and recovering commodity prices during the year. In the US, the Federal Reserve raised its benchmark interest rate on the back of solid economic expansion and encouraging employment figures while the expected expansion in the EURO area remained moderate. Emerging and developing market economies are showing more resilience as it has been the case for the past few years with a generally solid growth prospect driving the global figure. Nevertheless, the outlook for global growth faces potential downside risks such as growing trade protectionism and the uncertainty surrounding geopolitical tensions. Locally, real GDP growth is projected to be above 4.0% for 2018/19, increasing over the following two financial years. Backed by the recent budgetary announcements, the Mauritian's economic growth will be mainly driven by building construction and public infrastructure development activities, financial services sector, resurging tourism, significant investment in ICT and emerging sectorial activities such as the Blue Economy, film industry and renewal energy.

Our performance in 2017/2018

The bank started its financial year quite modestly, operating in a low interest environment (marked by a 50 basis points' drop in the Repo Rate of the Bank of Mauritius) still flushed with cash, making lending by banks highly competitive, with public and private sector projects slowly kicking in as the months went by.

However, in spite of these obstacles, our management and staff, inspired by the bank's continued successful performance of the past three years and under the guidance of the Board and its sub-committees, pushed on with great determination and delivered a beautiful sprint in the last quarter to close the year with a significant Profit before tax of MUR 292 million, thereby achieving another milestone for the bank. The bottom line represents a 17% growth on the MUR 250 million achieved in the preceding year. As at year end, the bank reported a gross operating income of MUR 559 million attributed to a combined increase of 15% in its net interest income and 37% in other income. During the same period, the total deposit base reached an encouraging MUR 15.0 billion, representing an increase of 8% over 2016/17. Meanwhile, the bank's total assets closed at MUR 17.1 billion, with both our gross loans and advances portfolio and investments securities portfolio reaching MUR 6.2 billion each.

In line with its mission of driving the continuous development of the bank, the management of ABC Banking Corporation Ltd has made it a priority, during the financial year 2017/18, to invest in empowering its staff and to increase its human capital in order to better meet its growing needs arising from business expansion, continuous improvement in customer service, and the rigour of regulatory compliance. In this respect, recruitment, training and development programs, operational effectiveness, employee engagement and enhanced building capacities have been at the core of our activities as we believe that our most valuable assets are our people. Nonetheless, the bank remained diligent in allocating resources and ensured that it kept its cost to income ratio below 50% at 46% for the year ended 30 June 2018.

The bank remains committed to ensuring that its lending and investment books are cautiously selected and well diversified, always stressing on the rigorous assessment of the risks involved. During the year under review, the non-performing loan ratio dropped to a low 1.4% from 1.7% achieved in preceding year, which is quite a remarkable achievement for a commercial bank and which reflects the high standard of our bank's credit assessment of requests for facilities, as well as the excellent work done in respect of debt control by all the different teams concerned.

ABC Private Banking Lounge

The last two financial years have seen the fulfillment of a series of initiatives from the bank for its domestic and international market. Following the acquisition of the ex-Merven building in March 2017, the bank decided to refurbish this historic building to accommodate its Private Banking Lounge and to offer a unique banking experience to its selective clients.

This renovation was completed during the year, with the building now physically connected to WEAL HOUSE, our bank's headquarters. Simultaneously, the bank renamed the building "Sir Jean Moilin Court" as a tribute to the founder of the ABC Group. Strategically located in the heart of Port Louis, only a few yards away from the former ABC Store opened in 1931, the Private Banking team will offer a premium service to its growing portfolio of HNWI clients.

From Asia to Africa

Last year, two other important initiatives undertaken were the opening of the Hong Kong Representative Office in February 2017, and shortly thereafter, the launching in Shanghai of the UnionPay International (UPI) Diamond and Classic Cards for our bank. The first year's activities of the Hong Kong Representative Office have been mostly on field work and collaboration with the locals to promote Mauritius as an International Financial Center (IFC) with the objective of unlocking Chinese investment into African Development Projects. Our country is slowly but surely being perceived as an ideal platform for investment in Africa by virtue of its geographical position as a politically and economically stable island state off the African Continent but fully integrated in the Common Market of Eastern and Southern Africa (COMESA) as well as in the Southern African Development Community (SADC). Besides, Mauritius is already included by China in its "Maritime Silk Road" initiative.

In regard to our bank's close co-operation with UPI, we are currently in discussion with the Bank of Mauritius for the approval of a further mode of collaboration with a view to encouraging and facilitating more business transactions with Chinese visitors.

International Award

Our bank has received, this year again, the coveted recognition by Capital Finance International (CFI.co) Magazine, with recent confirmation to us of the Award of "Most Innovative & Fastest Growing International Bank in Indian Ocean 2018" to ABC BANKING CORPORATION LTD.

The Judges Report mentions inter alia that "the bank considers itself key to opening up Chinese investment opportunities in Mauritius and further afield in the region" and that "the highly innovative management team at ABC BANKING CORPORATION LTD is doing much to promote Mauritius to investors as a gateway to Africa".

Looking forward

The banking sector remains a very dynamic and challenging environment to operate in. The advent of digitalisation and the continuous development in Information Technology are shaping the future of banking in unimaginable ways. At the bank, we recognise this and we are organising ourselves to adapt to the coming changes with the necessary commitment and investment in our system, infrastructure and people.

Overall, we have so far built success on success, and remain confident that we shall be able to achieve the ambitious targets we have set for our bank in consultation with management and staff for the next three years.

Acknowledgements

At ABC Banking Corporation Ltd, we start from the principle that each and every one of our stakeholders is unique and valuable. The Board of Directors would like to thank you for your support and for constantly inspiring the bank to achieve better. The months to come will be even more challenging as the bank expects to bring its activities to a new level and we are proud to embark with you on this journey. The Board remains grateful to the management and staff without whom the result achieved would not have been possible. Last but not least, we would like to convey our thanks to the Bank of Mauritius for their continued valuable advice and guidance throughout the year.

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

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

26 September 2018

CORPORATE PROFILE

With its Headquarters and banking operations all based at its prestigious WEAL HOUSE, strategically located in the heart of the island's capital at Place d'Armes, Port- Louis, ABC Banking Corporation Ltd continues its steady ascending course and stands as a well-established bank, highly respected for its excellent reputation, its strict integrity, and top quality of its products & services.

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

Starting in December 2010 with a portfolio of MUR 2.0 billion of Term Deposits, a legacy of its original status as a Finance & Leasing Company, ABC Banking Corporation has the great merit of having built up after seven and a half years of operations as a bank, a Deposit base totalling MUR 15.0 billion while the total of its Shareholders' Equity has moved during that period from MUR 225 million to MUR 1.5 billion.

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

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

CORPORATE INFORMATION

Registered Office, Head Office & Main Branch

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

External Auditors

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

Legal Services

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

Main Correspondent Banks

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

BOARD OF DIRECTORS – AS AT 30 JUNE 2018

Chairperson

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

Managing Director

Prof. Donald Ah-Chuen, *G.O.S.K.*

Strategic Business Executive

Mr David Brian Ah-Chuen

Members

Mr Marie Jacques Henri Fleurot
Mrs Stephanie Ha Chow
Me. Marie Danielle Low Kwan Sang
Mr Sydney Ah Yoong
Mr John Sun Yue Chu
Hon. Ah Foon Chui Yew Cheong (Appointed on 30 April 2018)
Mr Dick Li Wan Po (Resigned on 30 September 2017)

COMMITTEES OF THE BOARD

Composition as at 30 June 2018

Supervisory & Monitoring Committee

Prof. Donald Ah-Chuen (Chairperson)
Mr Brian Ah-Chuen
Mr Sydney Ah Yoong

Audit Committee

Mr Sydney Ah Yoong (Chairperson)
Mr Henri Fleurot
Mrs Stephanie Ha Chow

Risk Management Committee

Mr Henri Fleurot (Chairperson as from 30 September 2017)
Prof. Donald Ah-Chuen
Mrs Stephanie Ha Chow
Mr John Sun Yue Chu
Mr Dick Li Wan Po (Resigned on 30 September 2017)

Conduct Review Committee

Mrs Stephanie Ha Chow (Chairperson)
Mr Henri Fleurot
Mr Sydney Ah Yoong (Appointed on 30 September 2017)
Mr Dick Li Wan Po (Resigned on 30 September 2017)

Corporate Governance Committee

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

Nominations and Remuneration Committee

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

COMPANY SECRETARY & SHARE REGISTRY

ABC Professional & Secretarial Services Ltd, represented by Mr Mahesh Ittoo, *ACIS.*

The Company Secretary acts as Secretary to the Board and all Board committees.

CORPORATE GOVERNANCE REPORT

The Board of Directors of ABC Banking Corporation Ltd is fully committed to attaining and sustaining high standards of corporate governance with the objective of enhancing shareholders' value while also improving the service and benefits to stakeholders at large. It believes that good governance is not only concerned with complying with the legal and regulatory requirements but also encompasses the conduct of the operations of the bank by the management and staff within the highest level of business ethics under its stewardship and supervision.

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

PRINCIPLE ONE – GOVERNANCE STRUCTURE

The corporate governance framework includes a unitary Board of Directors who have been entrusted with the necessary powers to direct and supervise the management of the business and affairs of the bank in an ethical and responsible manner in line with the Guidelines of the Bank of Mauritius and the National Code of Corporate Governance. Some of the responsibilities are discharged directly, whilst others are discharged through committees of the Board. While the Board has delegated to the Supervisory & Monitoring Committee the responsibility of implementing and realising the policies, strategies and directives of the Board as set out by itself, the day-to-day management and operation of the bank's business has been delegated to the Senior Management Team.

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

The governance framework and committee structure as at 30 June 2018 is illustrated below:

Board of Directors

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

The Board was comprised of a maximum of 9 members during the financial year ended 30 June 2018, as listed below, and their profiles can be viewed on pages 28 – 32.

Directors	Category
Hon. Bernard Yeung Sik Yuen	Independent Chairperson
Prof. Donald Ah-Chuen	Executive (Managing Director)
Mr Brian Ah-Chuen	Executive (Strategic Business Executive)
Mr Sydney Ah Yoong	Independent
Mr Henri Fleurot	Independent
Mrs Stephanie Ha Chow	Independent
Me. Danielle Low Kwan Sang	Independent
Mr John Sun Yue Chu	Non-Executive
Hon. Ah Foon Chui Yew Cheong (As from 30 April 2018)	Independent
Mr Dick Li Wan Po (until 30 September 2017)	Independent

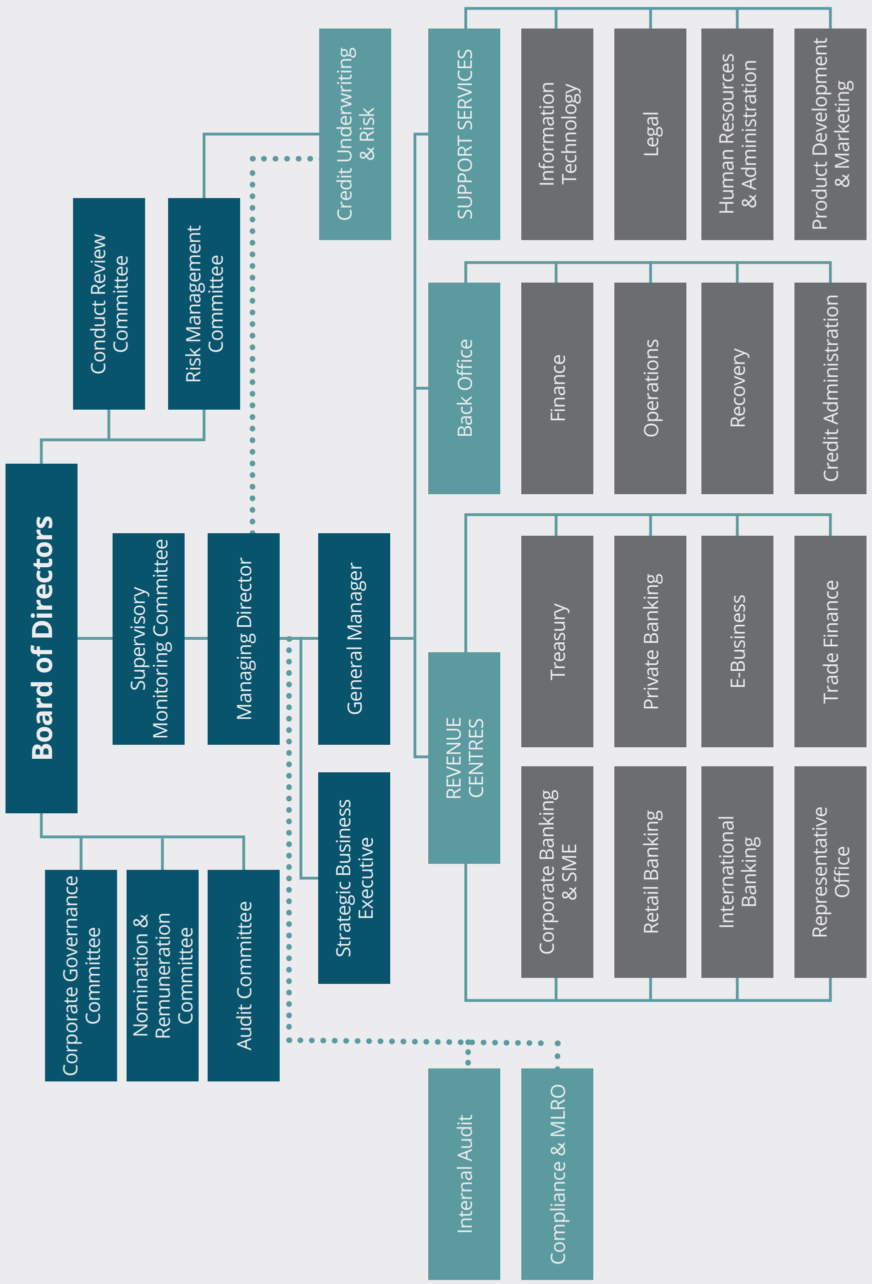
The responsibilities of the Board of Directors are set out in its Board Charter and same is reviewed at least once a year or as may be required by the introduction of, or amendment to laws, regulations and practices. The responsibilities of the Board include, but are not limited to:

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

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

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

ORGANISATIONAL CHART



PROFILE OF MANAGEMENT TEAM

Senior Management

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

Management Team

Mr Piang Cheong Chin (Nick)	Finance
Mr Abdool Wahab Khadaroo	Credit Underwriting & Risk
Mr Kushal Bajnathsingh	International Banking
Mrs M.A. Christine K.L. Ng Cheong Hin	Internal Audit
Mr Abdullah Nurmahomed	Treasury
Mrs Natasha Jade Wong Chung Ki	Corporate Banking & SME
Mrs Laura Li Shen Pin	Debt Administration & Recovery
Mr Veeramdeve Nem	Compliance

Mr Yashodaren Umanee
General Manager

Mr Yashodaren Umanee is a banker with over 40 years of experience. He worked for the Barclays Bank PLC as International Banking Division Director and has also been the Corporate Director in Barclays Seychelles for the last 9 months prior to joining ABC Banking Corporation Ltd. In July 2011, Mr Umanee joined ABC Banking Corporation Ltd as the Head of Banking – Domestic and International and was promoted to the post of General Manager in January 2012. He holds an MBA from Heriot Watt University and is also an Associate of the Chartered Institute of Bankers (ACIB).

Mr Piang Cheong Chin (Nick)
Head of Finance

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

PROFILE OF MANAGEMENT TEAM (CONT'D)

Mr Abdool Wahab Khadaroo

Head of Credit Underwriting and Risk

Mr Abdool Wahab Khadaroo has more than 20 years of experience in the financial services industry. Before joining ABC Banking Corporation Ltd in October 2016 as Head of Credit Underwriting & Risk, he worked for 13 years in different departments (Corporate Credit Risk, Offshore Banking, Internal Audit) across Barclays Bank Mauritius Ltd and acquired international exposure with ABSA Bank South Africa, within the Corporate & Investment Banking space, where he was seconded for duty in 2016. He won the Gold Medal in 2016 for "Net Interest Income performance across Southern Africa countries". Mr Khadaroo also had 6 years exposure in external audit with Deloitte & PwC. He is a Fellow Member of the Association of Chartered Certified Accountants.

Mrs M.A. Christine K.L. Ng Cheong Hin

Head of Internal Audit

Mrs Christine Ng has more than 15 years of experience acquired on the local & international market. Mrs Ng was appointed as Head of Internal Audit of ABC Banking Corporation Ltd in June 2012. She gained extensive experience in internal audit and consulting whilst working for Ernst & Young for 11 years. During her tenure with EY, she led local audit assignments and worked in various African countries to conduct European Union institutional assessments and financial audits. She was also seconded to the EY Johannesburg office in 2006 and 2007. She holds a BSc. (Hons.) in Management Sciences from the University of Warwick (UK) and an MSc. in Human Resource Studies from the University of Mauritius. She is a Certified Internal Auditor from the Institute of Internal Auditors (USA) and is also certified in Risk Based Audit from the London School of Business and Finance (UK). Mrs Ng is also a member of the Institute of Internal Auditors and the Audit Committee Forum in Mauritius.

Mr Kushal Bajnathsingh

Head of International Banking

Mr Kushal Bajnathsingh has more than 15 years of experience in the Global Business and Offshore Banking field. He joined ABC Banking Corporation Ltd in August 2011 and he oversees the bank's International Banking operations. Prior to this assignment, he was a Relationship Manager in the Global Business Department at AfrAsia Bank. He also worked for more than 6 years at Barclays Bank Mauritius as Manager and Head of Department in the International Banking Division. He was assigned several overseas duties in Barclays Bank Ghana, Barclays Bank Seychelles and Banque de Kigali in Rwanda. In 2008, he was awarded the title of Change Champion for the overall of Barclays Bank in Mauritius. Mr Bajnathsingh is a holder of a post-graduation in Business Administration from Wales University in UK.

Mr Abdullah Nurmahomed

Head of Treasury

Mr Abdullah Nurmahomed has 14 years of experience in the financial services industry, out of which 9 years in treasury. Prior to joining ABC Banking Corporation Ltd, he worked for 4 years as Money Market, Fixed Income, and Interbank & Forex Dealer at the State Bank of Mauritius (SBM) and was posted as Treasurer in 2012 and 2013 at SBM Madagascar Branch. He also worked for 4 years as Trader (Shift/Team Leader) at Superfund Asset Management Mauritius and for 3 years at HSBC Mauritius as Credit Support Staff. Mr Nurmahomed joined ABC Banking Corporation Ltd in March 2014 as Head of Treasury. He holds a BSc. First Class Honours in Finance from the University of Mauritius and an ACI Dealing Certificate of the Financial Markets Association. He is currently studying for CFA Level 3.

PROFILE OF MANAGEMENT TEAM (CONT'D)

Mrs Natasha Jade Wong Chung Ki
Head of Corporate Banking

Mrs Natasha Wong has over 10 years of experience in the financial services sector. Mrs Wong Chung Ki joined ABC Banking Corporation Ltd in 2015. She was previously an Executive Director for over 10 years at the Mauritian Eagle Leasing (a former subsidiary of IBL Ltd). She also previously held office at DTOS Ltd and Deloitte. She is a Chartered Accountant, a Fellow Member of Association of Chartered Certified Accountants and also holds an MBA in Finance from the University of Leicester, UK. She is also a member of MIPA and MIoD.

Mrs Laura Li Shen Pin
Head of Debt Administration & Recovery

Mrs Laura Li Shen Pin has more than 10 years of experience in the banking sector. She previously held the post of Accountant at the MCB Group for 7 years where she acquired significant experience in the finance department. Mrs Li Shen Pin joined ABC Banking Corporation Ltd in July 2011 as Accountant and was appointed as Senior Recovery Manager in February 2014. She was promoted to Head of Debt Administration & Recovery in June 2016. Mrs Li Shen Pin is a Fellow Member of the Association of Chartered Certified Accountants.

Mr Veeramdeve Nem
Head of Compliance

Mr Veeramdeve Nem has over 30 years of experience in the financial services sector. Prior to joining ABC Banking Corporation Ltd, Mr Nem held several positions in the banking sector in Mauritius and abroad. He started his career at the Bank of Mauritius in 1983 where he occupied several positions before retiring as Senior Bank Examiner in 2007. Mr Nem was employed as Head of Compliance & MLRO at AfrAsia Bank from 2007 to 2009, a position which he held afterwards at Banque des Mascareignes from 2009 to 2011 and at Capital Horizons Ltd from 2013 to 2015. From November 2011 to February 2013, he was the Head of Operations and acting MLRO at Bank Internasional Indonesia (Mauritius Branch). Mr Nem was also the CFO & COO of the Banque Privée de Fleury Limited from 2015 to 2016 and the Head of Compliance of Seychelles International Mercantile Banking Corporation Ltd (Nouvobanq) before joining ABC Banking Corporation Ltd in August 2017. Mr Nem is a member of the Association of Certified Fraud Examiners and of the Association of Certified Anti-Money Laundering Specialists. He holds an MSc in Finance and is also a Fellow Member of the Association of Chartered and Certified Accountants.

PRINCIPLE TWO – THE STRUCTURE OF THE BOARD AND ITS COMMITTEES

In accordance with the provisions of the Banking Act 2004 and the Bank of Mauritius Guideline on Corporate Governance, the Board of the bank had 9 directors in office during the financial year ended 30 June 2018, out of which, two were executive directors, one was non-executive and 6 were independent directors, including the Chairman of the Board.

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

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

Company Secretary

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

ABC Professional & Secretarial Services Ltd is represented by Mr Mahesh Ittoo, *ACIS MCSI*. Mr Mahesh Ittoo is a holder of a BA (Hons) Law and Management from the University of Mauritius and is an Associate of the Institute of Chartered Secretaries and Administrators (ICSA) since 2014. He is also a Member of the Chartered Institute for Securities and Investment and the MIoD.

Mr Mahesh Ittoo has 7 years' experience in the corporate administration field and was working in the Global Business Industry prior to joining the ABC Group in 2016.

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

Board Committees

The Board has set up 6 committees to assist it in the discharge of its duties and responsibilities, namely the Supervisory & Monitoring Committee, the Audit Committee, the Risk Management Committee, the Conduct Review Committee, the Nominations and Remuneration Committee, and the Corporate Governance Committee. The terms of reference and composition of the Board Committees are summarised below.

Supervisory & Monitoring Committee

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

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

Members of the SMC:

- Prof. Donald Ah-Chuen (Chairperson)
- Mr Brian Ah-Chuen
- Mr Sydney Ah Yoong

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

Audit Committee

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

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

Members of the Audit Committee:

- Mr Sydney Ah Yoong (Chairperson)
- Mr Henri Fleurot
- Mrs Stephanie Ha Chow

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

PRINCIPLE TWO – THE STRUCTURE OF THE BOARD AND ITS COMMITTEES (CONT'D)

Risk Management Committee

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

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

Members of the Risk Management Committee:

- Mr Henri Fleurot (Chairperson as from 30 September 2017)
- Mrs Stephanie Ha Chow (Member as from 30 September 2017)
- Prof. Donald Ah-Chuen
- Mr John Sun Yue Chu
- Mr Dick Li Wan Po (Member until 30 September 2017)

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

Conduct Review Committee

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

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

Members of the Conduct Review Committee:

- Mrs Stephanie Ha Chow (Chairperson)
- Mr Henri Fleurot
- Mr Sydney Ah Yoong (Member as from 30 September 2017)
- Mr Dick Li Wan Po (Member until 30 September 2017)

Nominations and Remuneration Committee

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

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

Members of the Nominations and Remuneration Committee:

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

Corporate Governance Committee

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

Members of the Corporate Governance Committee:

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

PRINCIPLE THREE – DIRECTORS APPOINTMENT PROCEDURES

Succession Planning

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

Appointment

As part of its mandate, the Nominations and Remuneration Committee continuously assesses the balance of skills and experience required at Board level, and whenever the need for an additional member is required, the following process is rigorously followed:

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

PRINCIPLE THREE – DIRECTORS APPOINTMENT PROCEDURES (CONT'D)

Appointment (Cont'd)

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

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

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

PROFILE OF DIRECTORS

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

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

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

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

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

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

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

Mr David Brian Ah-Chuen
Strategic Business Executive

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

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

PROFILE OF DIRECTORS (CONT'D)

Mr John Sun Yue Chu

Non-Executive Director

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

During the period from 1992-2002, Mr John Chu served as Group Finance Director of ABC Group. For several years, he also served as an Independent Director of Morgan Stanley India Investment Fund Inc. and India Magnum Fund Ltd, both domiciled in Mauritius. Mr John Chu is also a director of ABC Capital Ltd and ABC Coach Works Ltd.

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

Mr Sydney Ah Yoong

Independent Director

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

Mrs Stephanie Ha Chow

Independent Director

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

Mr Marie Jacques Henri Fleurot

Independent Director

Mr M.J. Henri Fleurot is a professional banker with more than 40 years of experience in the banking industry. He joined The Barclays Bank PLC in 1960 and occupied the following positions:

- Manager, Rodrigues Branch
- Manager, Foreign Exchange Centre
- Internal Auditor
- Administration Manager
- Corporate Manager
- Corporate Director
- Deputy Managing Director

In 2001, he retired from Barclays and joined The Union Commercial Bank Madagascar (now MCB Madagascar). He was appointed Director-General in 2002 until his retirement in 2004.

Me. Marie Danielle Low Kwan Sang

Independent Director (until 30 September 2017)

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

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

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

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

PROFILE OF DIRECTORS (CONT'D)

Hon. Ah Foon Chui Yew Cheong

Independent Director (Appointed on 30 April 2018)

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

She has been since 2011 the Chairperson of the Institute for Judicial and Legal Studies which was set up by statute in the same year to provide continuing legal and judicial education. She still takes an active interest in the legal and judicial scene of the country. She is also the current Chairperson of SOS Children's Villages (Mauritius).

Mr Dick Li Wan Po

Independent Director (until 30 September 2017)

Mr Dick Li Wan Po is a Fellow Member of the Association of Chartered Certified Accountants and holds a BSc Hons in Business Administration and Computer Science, Queens University, Belfast, UK. He worked as an accountant for the Dian Fossey Gorilla Fund in UK. Thereafter, Mr Li Wan Po worked in the department of audit at De Chazal Du Mée (Representatives of Arthur Andersen Worldwide Organisation in Mauritius).

He is currently the Assistant Managing Director of Food Canners Ltd, Chief Operations Officer of Jacques Li Wan Po Marketing Ltd and Emco Ltd. Mr Li Wan Po was the President of the Mauritius Chinese Chamber of Commerce in 2006 and a council member of the Mauritius Chamber of Commerce and Industry. He was also the Treasurer of the Association of Mauritian Manufacturers between 2009 and 2013.

Mr Li Wan Po resigned as director of ABC Banking Corporation Ltd on 30 September 2017.

PRINCIPLE FOUR – DIRECTORS DUTIES, REMUNERATION AND PERFORMANCE

Legal Duties

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

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

Code of Ethics

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

During the financial year ended 30 June 2018, the Board has revised the Code of Conduct & Ethics for Staff and has adopted a new Code of Ethics for directors. The latter document was reviewed by the Corporate Governance Committee and has been adopted by the Board to ensure that the bank complies with the National Code of Corporate Governance.

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

Directors' Interests and Dealings in Shares

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

The following table shows the interests of the directors in the share capital of ABC Banking Corporation Ltd as at 30 June 2018 together with the directors' dealings in shares during the financial year ended 30 June 2018.

Directors	No. of shares acquired	No. of shares sold	Direct holding	Indirect holding
AH-CHUEN Brian	7,000	-	0.37%	0.04%
AH-CHUEN Donald	-	-	1.59%	3.3%
AH YOONG Sydney	-	-	NIL	NIL
CHU John Sun Yue	-	-	1.34%	0.02%
CHUI YEW CHEONG Ah Foon	-	-	NIL	NIL
FLEUROT Henri	-	-	NIL	NIL
HA CHOW Stephanie	-	-	0.14%	0.00%
LI WAN PO Dick	-	-	NIL	NIL
LOW KWAN SANG Danielle	-	-	NIL	NIL
YEUNG SIK YUEN Bernard	-	-	NIL	NIL

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

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

All situations of conflicts of interest and related party transactions during the financial year ended 30 June 2018 have been conducted in accordance with the above guidelines and the codes of Ethics of the bank.

PRINCIPLE FOUR – DIRECTORS DUTIES, REMUNERATION AND PERFORMANCE (CONT'D)

Information Governance

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

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

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

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

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

Board Evaluation and Remuneration

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

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

Board and Committee Attendance during the financial year ended 30 June 2018

	Board Meeting	Supervisory and Monitoring Committee	Audit Committee	Risk Management Committee	Conduct Review Committee	Corporate Governance Committee	Nominations and Remunerations Committee
AH-CHUEN David Brian	5	38	-	-	-	-	-
AH-CHUEN Donald	5	33	-	5	-	5	4
AH YOONG Sydney	5	37	5	-	3	-	-
CHU John Sun Yue	1	-	-	-	-	-	-
FLEUROT Marie Jacques Henri	4	-	5	5	4	-	-
HA CHOW Stephanie	5	-	5	3	4	-	-
LI WAN PO Dick (Resigned on 30 September 2017)	2	-	-	2	1	-	-
LOW KWAN SANG Marie Danielle	4	-	-	-	-	5	4
YEUNG SIK YUEN Bernard (Chairman)	5	-	-	-	-	5	4
Total Number of Meetings	5	42	5	5	4	5	4

Directors' Remuneration

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

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

With respect to the basis of remuneration, the Board has determined that non-executive directors shall be remunerated based on attendance at Board and Committee meetings during the year. Non-executive directors are not subjected to any other sort of remuneration or long-term incentive plans.

Executive directors are remunerated with monthly emoluments and are subjected to an annual discretionary bonus should the bank achieve or exceed its targets.

Following a 2-years status quo, the Board has recently approved for recommendation to the shareholders an increase in director fees. The matter shall be tabled at the forthcoming annual meeting of shareholders in November 2018.

During the financial year ended 30 June 2018, the executive directors have received remuneration and benefits, including all bonuses and benefits, of MUR 18,655,000 (2017: MUR 15,040,000).

With respect to the financial year ended 30 June 2018, the non-executive directors received emoluments amounting to MUR 2,046,000 (2017: MUR 1,538,500) respectively. Remuneration of directors has been disclosed on an aggregate basis due to the commercial sensitivity of the information.

PRINCIPLE FIVE – RISK GOVERNANCE AND INTERNAL CONTROL

Risk management refers to the process by which the bank monitors and mitigates its exposure to risk. The objective of risk management is not to eliminate risks altogether but to mitigate them to an acceptable level in line with the objectives of the bank.

While the Board is responsible for the overall risk management and internal control systems, oversight of the bank's risk management process and internal control systems have been delegated to the Audit and Risk Management Committees. Risk reports are presented by the Head of Credit Underwriting and Risk to the Risk Management Committee on a quarterly basis for discussion and material matters are reported to the Board.

The risk management framework, including policies and systems in place to ensure a systematic and continuous identification and evaluation of risks and actions to terminate, transfer, accept or mitigate each risk to achieve a prudential balance between the risks and potential returns to shareholders, is explained in the Risk Report section as from page 62 of this report. Identification of key risk areas and internal control systems are also addressed there.

The Internal Audit Section is responsible for providing assurance to the Board regarding the implementation, operation and effectiveness of internal controls and risk management. Internal Audit reports are considered at all Audit Committee meetings and the Head of Internal Audit has ready and regular access to the Chairperson of the Audit Committee. The systems in place are geared towards the implementation, maintenance and monitoring of the internal controls and the processes by which the Board derives assurance that the internal audit systems are effective.

PRINCIPLE SIX – REPORTING WITH INTEGRITY

The Board acknowledges that the banking business is built on trust and same goes in line with the highest degree of integrity. As such, the Board recognises its responsibility to ensure that the accounts are prepared in a way that fairly present the bank's state of affairs.

The accounts are prepared by the Finance Section and are regularly reviewed by management. The Supervisory and Monitoring Committee receives a weekly financial progress report from management. The financial position and income statements are also reviewed monthly by the Committee. Interim financial statements are tabled and discussed at the Audit Committee and Board meetings on a quarterly basis. The bank's external auditors, Ernst & Young Mauritius, ensures that the financial statements adhere to all international accounting standards and any deviation from same is disclosed, explained and quantified in the audit report and financial statements of the bank.

Corporate Social Responsibility

Since 2013, the Corporate Social Responsibility programme of the bank is implemented under the aegis of the Sir Jean Etienne Moilin Ah-Chuen Foundation (referred to as "the Foundation"), which is ABC Group's central body for social welfare projects. The bank has contributed to the tune MUR 1.2 million to the Foundation during the financial year ended 30 June 2018.

Since its establishment, the Foundation has been focusing on four areas of intervention, namely Community Empowerment, Education, Health & Sports, and Environment. For the calendar year 2017, in line with its commitment towards its social partners, the Foundation has disbursed MUR 2.25 million, which was primarily used to support NGOs and the community.

Community Empowerment

In this context, the Foundation gave its support to Caritas Ile Maurice's "Centre d'Eveil", which caters for children from vulnerable families. It also assists the Love Bridge Project; whose main objective is poverty alleviation through empowerment and support of vulnerable families.

In addition to the above, the Foundation reiterated its commitment towards SAFIRE, an NGO that aims to rehabilitate and reintegrate Street Kids, and furthermore continues its support to Atelier Mo'Zar, a music school that aims to help children fight against poverty and exclusion by developing their talent for music.

Education

Education is one of the pillars of the development of our society. In this vein, the Foundation has granted scholarships to students from underprivileged background to help them pursue their university studies. The Foundation also reiterated its support towards College Technique St Gabriel and Terrain for Interactive Pedagogy Through Arts (TIPA).

Health & Sports

Sports encourage social integration and instil life values that are essential to the development of the society. In this context, the Foundation offered its support to the Trust Fund for Excellence in Sports and to Club Maurice in view of its participation in the Indian Ocean Island Games 2019.

The Foundation has supported, amongst others, the Global Rainbow Foundation for the acquisition of a van for the transport of disabled people, and Fondation Georges Charles, an NGO that caters for children with intellectual impairment.

Environment

The bank is fully aware of the impact risk of Climate Change on a vulnerable small developing island state like Mauritius and has therefore supported one of the Foundation's priorities which is the protection of the environment. This year, the Foundation has partnered with the Mauritius Wildlife Foundation in a bid to protect endemic species and restore native forests. Also, as part of the Foundation's Green Initiative, the bank has encouraged its clients to adopt E-statements to reduce the need for paper and allow for instant access to banking information. The initiative has also been adopted at Board level whereby Board papers are now being accessed electronically. The bank has already extended this initiative to its shareholders by encouraging them to adopt the electronic communication channel which considerably reduces the printing of annual reports and other documents.

Furthermore, the bank has embarked on a digitalisation process which aims at reducing the amount of paper used at the bank as well as improving the efficiency and the effectiveness of the organisation.

PRINCIPLE SEVEN – AUDIT

Internal Audit

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

To ensure the independence of the Internal Audit function, the Head of Internal Audit is appointed by the Audit Committee and directly reports to the latter while reporting only administratively to the Managing Director as illustrated in the organisational chart on page 16. The Head of Internal Audit also has direct access to the Chairperson of the Audit Committee and has regular meetings with him.

Internal Audit is carried at the bank as per the Internal Audit Plan which is approved by the Audit Committee on an annual basis. The Head of Internal Audit adopts a systematic and disciplined approach to review all areas of activity of the bank, i.e. operations, internal controls, risk management systems, and governance process, and makes recommendations accordingly to management. The internal audit reports highlighting the methodology, findings, recommendations and management responses are tabled on a quarterly basis at Audit Committee meeting. The scope of action of the Internal Audit has no restriction to any aspect of the bank.

External Audit

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

Following the amendment of the Banking Act in 2016, the bank was required to rotate its external auditors. As such, a tender exercise was launched in late 2016 to three of the big four audit firms in Mauritius, and following submissions of their proposals, Ernst & Young Mauritius was shortlisted by a committee consisting of the members of the Audit Committee and Management. The final proposal of Ernst & Young Mauritius was then recommended to the Board by the Audit Committee. The Board subsequently appointed Ernst & Young Mauritius as external auditors for the year ended 30 June 2017 following the approval by the Bank of Mauritius. Ernst & Young Mauritius was reappointed as external auditors of the bank for the year ended 30 June 2018 by the shareholders at the Annual Meeting held on 15 November 2017.

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

PRINCIPLE EIGHT – RELATIONS WITH SHAREHOLDERS AND OTHER KEY STAKEHOLDERS

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

Shareholders

ABC Banking Corporation Ltd forms part of the ABC Group of Companies and as at 30 June 2018, the shareholding structure of the bank was as follows:

As of 18 January 2016, all of the issued 57,203,904 ordinary shares of the bank were admitted on the Development & Enterprise Market of the Stock Exchange of Mauritius. The 19,067,968 ordinary shares of the bank, issued on 10 June 2016 pursuant to the Rights Issue, were also admitted on the Development & Enterprise Market of the Stock Exchange of Mauritius on 20 June 2016.

The Board encourages communication with shareholders of the bank and the Company Secretary is always available to entertain any query or request which the shareholders may have with respect to the bank.

Moreover, all shareholders are duly notified 14 days in advance of the Annual Meeting of the bank, where the directors and members of management are available for discussion.

List of Shareholders holding more than 5% in the bank

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

PRINCIPLE EIGHT – RELATIONS WITH SHAREHOLDERS AND OTHER KEY STAKEHOLDERS (CONT'D)

Breakdown of Shareholding

No. of shares	No. of shareholders
1 – 999	121
1,000 – 9,999	111
10,000 – 19,999	19
20,000 – 49,999	42
50,000 – 99,999	22
100,000 – 499,999	47
500,000 – 999,999	7
1,000,000 – 4,999,999	14
Above 5,000,000	3

Share Option Plans

The bank has no share option plan.

Shareholders' Agreement

The bank is not aware of any shareholders' agreement.

Management Agreement

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

Dividend Policy

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

Stakeholders

Regulators

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

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

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

Customers

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

Employees

The Human Capital of the bank is one of the most important resources of the bank and the wellbeing of staff is at the heart of the Board and management concerns. The bank ensures that there is an appropriate environment for employees to grow and achieve their full potential.

The bank values the health and safety of its employees and other stakeholders. It abides by the Health and Safety Policy set out by the Board of Directors and necessary steps, arrangements and systems are in place to ensure compliance with health and safety legislation.

As an equal opportunity employer, ABC Banking Corporation Ltd considers individuals for employment or promotion on merit and on the basis of their attitude, skills, abilities and experience, and strives for equal treatment and respect of all employees at the workplace.

Regular meetings with staff are held at all levels to ensure that the Board's vision is cascaded down to employees and that their expectations and grievances are communicated up the ladder.

STATEMENT OF COMPLIANCE

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

Name of Public Interest Entity: ABC BANKING CORPORATION LTD

Reporting Period: 30 June 2018

Throughout the year ended 30 June 2018, to the best of the Board's knowledge, the Organisation has complied with the Corporate Governance Code for Mauritius (2016). The Organisation has applied all of the principles set out in the Code and explained how these principles have been applied.

However, the Board wishes to point out that it has been informed by management that, as the website of the bank is being revamped in line with the digitalisation strategy of the bank, certain documents are yet to be published. Assurance has been received from management that publication will be done in the governance section as soon as the new website is up and running.

Date: 26 September 2018

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

Chairman

Professor Donald Ah-Chuen, *G.O.S.K*

Managing Director

OTHER STATUTORY DISCLOSURES

(Pursuant to section 221 of the Companies Act 2001)

Principal Activity

ABC Banking Corporation Ltd is the holder of a banking licence from the Bank of Mauritius and provides the full range of banking products to the public at large.

Directors & Interests

The directors of the bank as at 30 June 2018 were as follows:

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

Professor Donald Ah-Chuen, *G.O.S.K.*

Mr David Brian Ah-Chuen

Mr Marie Jacques Henri Fleurot

Mrs Stephanie Ha Chow

Mr John Sun Yue Chu

Me. Marie Danielle Low Kwan Sang

Mr Sydney Ah Yoong

Hon. Ah Foon Chui Yew Cheong

Directors' interests in shares of the bank are set out on page 35 of the annual report. No director has any service contract with the bank.

Directors' Emoluments

During the financial year ended 30 June 2018, the executive and non-executive directors received emoluments amounting to MUR 18,655,000 (2017: MUR 15,040,000) and MUR 2,046,000 (2017: MUR 1,538,500) respectively.

Directors' Service Contract

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

Directors and Officers Liability Insurance

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

Donations

Donations made during the year were as follows:

	2018	2017
	MUR	MUR
Donations	87,672	44,533
Political Donations	-	-
	87,672	44,533

OTHER STATUTORY DISCLOSURES (CONT'D)

(Pursuant to section 221 of the Companies Act 2001)

Auditors

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

	2018	2017
	MUR	MUR
Audit Services	1,900,000	1,188,000
Other Services*	550,000	50,000
	2,450,000	1,238,000

Note: Audit services for 2018 include services for the review of the implementation of IFRS 9, following the issuance of the new standard and its application as from 1 July 2018. Other services for 2018 include review of the cyber maturity of the bank and tax services.

Approved by the Board of Directors on 26 September 2018 and signed on its behalf by:

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

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

SECRETARY'S CERTIFICATE

We certify that, to the best of our knowledge and belief, the company has filed with the Registrar of Companies, in respect of the financial year ended 30 June 2018, all such returns as are required of the company under the Companies Act 2001 in terms of section 166(d).

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

26 September 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- Select suitable accounting policies and then apply them consistently
- Make judgments and estimates that are reasonable and prudent
- State whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the bank will continue in business
- Adhere to the provisions of the National Code of Corporate Governance

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

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

The Board of Directors considers that the bank has complied in all material aspects with the provisions of the National Code of Corporate Governance for the year ended 30 June 2018.

Approved by the Board of Directors on 26 September 2018 and signed on its behalf by

....	....
Hon. Y.K.J. Yeung Sik Yuen, *G.O.S.K.*	**Mr Sydney Ah Yoong**
Chairman	*Chairman* *Audit Committee*

London

REVIEW OF OPERATING ENVIRONMENT

The Global Context

As expected, world growth picked up to 3.80% in 2017 as compared to 3.00% in 2016, its strongest show since 2011. The main catalyst being a rebound in global trade (up by 4.9%), as advanced economies, but more notably emerging Asia, emerging Europe and some commodity exporting countries showed improved performance. Higher investment spending in advanced economies and commodity producing countries fueled the uptick. Effectively, the notable pick up in investment among developed markets, from its lows of 2008/2009, was the main contributor to growth.

As commodity prices improved, this contributed to halt the downtrend in investment spending among commodity exporters. Rising oil and natural gas prices were the main drivers while accommodative monetary policies also helped in boosting investment. Inflation picked up across the board, especially in developed economies, although they remain below target, while above potential growth reduced unemployment.

Emerging markets and developing economies witnessed increased private consumption, the main contributor to their improved performance. However, individual components of growth were mixed among emerging countries, with China and India showing strong consumption, while commodity countries showed higher investment. Financial markets remain volatile on trade concerns, expected Brexit outcome and normalisation of rates in the United States.

Outlook

Fiscal policy in developed markets is expected to remain expansionary in 2018 and 2019, while being neutral in emerging and developing economies. The United States is expected to accelerate its monetary policy normalisation process on the back of strong fundamentals, before topping around 3.00%. However, in contrast, Europe and Japan are projected to have a divergent stance, maintaining an accommodative policy.

Global growth is expected to improve to 3.90% in 2018 and 2019, sustained by both emerging and developed markets. Supply and demand dynamics are expected to support a gradual rise in inflation. Risks to the forecasts remain broadly balanced, as strong corporate earnings, increased productivity and output balance out trade war concerns, barriers to global trade and possible financial vulnerabilities coupled with political and environmental shocks.

The Local Context

The Mauritian economy grew by 3.90% in 2017, higher than the 3.80% achieved in 2016. Both private and government consumption spending were the major factors behind this performance. The traditional Financial (5.5%), ICT (5.5%) but also the Construction sectors (7.5%) were the star performers in terms of growth and overall contribution to GDP. Accommodation and Food services (5.6%) and Administrative and Support services (5.8%) were other notable good performers.

Investment kept a positive growth of 5%, with the private sector being the biggest contributor (75% of total investment). Unemployment was at 7.10%, much better than the expected 7.70% rate. Inflation increased to 3.70%, as commodity prices rose, and local demand soared, putting upward pressure on prices.

The Banking sector was still characterised by excess rupee liquidity, albeit to a lesser extent, as the Central Bank's open market operations and sterilisation rounds helped in soaking the excesses. Interest rate on short term securities moved towards the key repo rate at around 3.50% indicating that the monetary transmission mechanism is back on track. Repo rate was reviewed down by 50 basis points in September 2017 as the Monetary Policy Committee of the Central Bank deemed external factors as a potential risk to the domestic economy and chose to support the growth momentum. Rates were kept unchanged at the four subsequent meetings into 2018.

Outlook

Major public infrastructural projects like Metro Express and road decongestion programs coupled with private investments in smart cities are expected to boost the Construction sector with spillovers to other sectors of the economy. An expansionary interest rate environment is also conducive to growth as the economy is expected to grow by 4.0% in 2018. Fiscal incentives to the SME sector and demand-side measures should impact positively on disposable income, thus supporting consumption.

However, downside risks remain, as the country is exposed to international markets caprices. Delays in major public works, rising commodity prices and a strong rupee may have a denting impact on potential growth.

BUSINESS SEGMENT REVIEW

Domestic Banking

For the financial year ended 30 June 2018, the bank has continued its progression to steadily increase its share of the domestic market. Despite highly competitive environment and subdued economic conditions throughout most of the financial year, our gross loans and advances have increased by nearly MUR 1 billion to reach a commendable MUR 6.2 billion as at 30 June 2018. This represents an overall increase of 18% in our lending book which is an improvement from last year's 11% growth, a direct result of our personalised and rapid service provided by our dedicated and qualified personnel who are willing to go the extra mile to deliver quality service to our customers. The bank remains supportive of the SME sector and has once again met its yearly financing quota both for the SME Financing and the Micro Financing scheme. Our Retail Banking has also faced particular challenges during the year but with the strengthening of the retail team and the enhancement of some of the retail products, the retail department achieved its target set for the year.

International Banking

Our International Banking (IB) team's main objective is to offer clients the desired assistance and support in order to allow them to perform their banking activities seamlessly through our panoply of services and facilities. During the year under review, the bank continued to leverage its global footprint through its representative office in Hong Kong and wide network of eligible introducers worldwide.

Being a key contributor to the bank's deposit base, the achievements and incremental growth of the International Banking department for the year 2017/2018 can be highlighted as follows:

- Client database diversification across nearly 100 countries
- Increase in total deposit by 34% to reach approximately MUR 6.8 billion
- Dealings in nearly 15 major currencies

In the years to come, the International Banking department forecasts a growing and positive impact on its global client base with the integration of digitalisation in our core business. The IB team will continue to support the bank's objective of increasing its market share internationally, while ensuring the onboarding of quality clients.

Treasury Operations

Trading activities from the Treasury department generated MUR 92 million in income, a 38% year on year increase. The domestic business improved to post MUR 46 million. These performances are highly commendable when considering the challenging domestic and international business environment. The department improved on various fronts, building its client base and at the same time offering a more diversified product package. As part of our strategic drive, we aim at providing our business partners more personalised and innovative solutions, a select and exclusive offering, distinct from a pure price-based approach. We have already created tailored solutions, engaged our clients and closed deals, opening the door to exciting prospects.

BUSINESS SEGMENT REVIEW (CONT'D)

Treasury Operations (Cont'd)

On the international arena, markets remain volatile as protectionist inclinations, mainly from the United States, created strains among major trading economies putting at risk global trade flows and growth. Economic sentiment also remained subdued. The US dollar depreciated during the first six months into the year end, before reversing its trend. Other major currencies also witnessed volatility. Noticeably, the UK pound saw heavy pressure as odds for a hard Brexit increase. The Turkish Lira also suffered heavy selling on US tariff threats, beckoning the riskiness and volatile nature of Emerging Market currencies.

We are particularly ambitious looking ahead as the bank aims at positioning itself as a major player on the digital front, along with a niche offering. The department is preparing itself to play a pivotal role in this quest and will aim to set the platform to allow us create innovative and premium solutions for our existing and prospective clients.

E-Business

During the year under review, the E-Business department has been building over the previous year's improvement in terms of enhanced internet banking experience and debit card offerings. Through the successful launch of the UnionPay Classic and Diamond debit cards, we have seen an increase in the number of ABC Banking Corporation's cards in circulation as well as the number of online transactions. In its quest of revamping the E-Business cluster and in line with the bank's 3 years vision, an experienced E-Business Manager has been recruited in April 2018 to lead the team with the objective of further enhancing our cards and payment services offering as well as supporting the bank's digital strategy.

Human Resources

Being an Equal Opportunity Employer, the Human Resources (HR) department acts as an enabler and upholds ABC Banking Corporation's goals by fostering a positive and engaging work environment while identifying and responding to the changing needs of our banking environment. The bank is committed to an inclusive culture that respects and embraces the diversity of its employees, clients and communities. Our aim is to equip all employees with appropriate skills and competences to sustain the ABC Banking Corporation's strategic objectives, whilst contributing to the improved operational effectiveness and efficiency of the bank as well as the attainment of customer service excellence.

The HR department has laid emphasis on improving staff engagement levels to create a culture, driven by performance. The goal is to provide a working environment where employees can unlock their potentials, resulting in output that differentiates us positively from our peers. We leverage on the skills and experience already available within the organisation, while bringing in the necessary capabilities that will help position the bank for long term sustainable performance. Continuous learning programme for our employees while ensuring that they fully comply with the requisites of the industry have enabled them to develop the skills necessary to take up new roles within the organisation. In addition, the bank has also put in place an 'Executive Development Programme'. Strengthening internal career movement plays a vital role for the bank to keep expertise, experience and talent within the organisation. The bank is also building a pipeline of young talents.

At ABC Banking Corporation, we believe that our staff's wellbeing and health are very important and therefore, we continuously invest in welfare activities that promote this belief.

Product Development and Marketing

True to its mission and with the aim of promoting ABC Banking Corporation's brand, the Product Development and Marketing department moved the marketing and communication initiatives of the bank to new heights. During the year under review, one of the key activities has been the setting up of a solid strategy for the upcoming opening of the ABC Private Banking Lounge (August 2018 | FY 2018/2019). The objective is to ensure proper visibility for the newest addition of the bank and to provide each Private Banking customer with an unforgettable experience during their visit. Overall, activities including road shows, tournaments, cocktails and fairs, have been organised for all core departments of the bank with the view of strengthening our valuable relationships with different stakeholders. These events have had a positive impact on the set objectives of the bank in terms of sales, positioning and reputation on the local market and the expansion of clients' portfolio.

The department has enhanced its marketing and communication integrated strategy to create better synergy across all its existing channels. During the next financial year, the department intends to increase its digital marketing activities to continually improve its visibility and reach its clients effectively whether they are online or offline. In Hong Kong, a cocktail was oraganised in February 2018 to celebrate our representative office's first year of operation. On this occasion, existing and potential clients were invited. The Mauritian culture as well as the various investment and business opportunities in Africa were presented.

An analysis of ABC Banking Corporation Ltd's (hereafter referred to as "the bank") financial information is given below. It includes forward looking statements and it is important to take into consideration that risks exist and that forecasts, projections and assumptions contained therein may not materialise and that actual results may vary from plans and expectations. The bank has no plan to update any forward-looking statements periodically.

HIGHLIGHTS

A decade after the 2008 financial crisis, much has changed in the banking sector with increasing regulatory requirements from central banks and other regulatory bodies. With all these reforms, the current global economic outlook is positive, despite fears of trade wars and protectionism. Recent progress on NAFTA trade deal and assurance from the US Federal Reserve to increase its interest rates, resulted in confidence boost from the market participants despite significant threats from the US to increase trade barriers with other countries. The significant drop of the Turkish Lira also contributed in the uncertainty of the global economy despite good economic fundamentals. With the world economy being on the upward trend, governments are laying much emphasis on structural economic changes to decrease the impact of the impending cyclical downswing.

Mauritius's economic situation is relatively stable, with projected conservative GDP growths for the next coming years of around 4.0%. With numerous ongoing major projects such as Metro Express or the Road Decongestion programme among others, the local economy is expected to be highly driven by public sector investment and sectors such as construction are expected to benefit. The vision to develop the country into a business centre is ongoing with numerous budgetary measures being taken to align investment with targeted goals. Final consumption expenditure is expected to grow by 3.2% in 2018 while gross national savings shall reach above MUR 60 billion. Trade deficit for the year 2018 is expected to increase by 12% compared to 2017 with increase in imports in natural resources while total exports are expected to further decrease due to lower agricultural product exports. The current local economic environment creates much opportunities as well as challenges for the bank to develop its asset base and contribute to the progress of the country.

Progress in the Banking sector remains challenging with the Top 5 local banks in terms of total assets accounting for more than 60% of the industry's total asset. ABC Banking Corporation, however, achieves a noticeable progress during the year with profit before tax of MUR 292 million compared to last year's MUR 250 million, representing a satisfactory growth of 16.6%. The increase in loans and advances and investment securities portfolio together with the decreasing interest rate on deposit contributed to the increase in Net Interest Income of MUR 50 million while the bank also registered an improvement in its net trading income of MUR 21 million during the year. The bank was able to accomplish a Return on Equity of 16.1% compared to last year's 15.6% despite the current difficult business environment. Earnings per share reached MUR 3.18 as at year end. Cost to income ratio amounted to 46.1% as the bank continues to invest in its employees and infrastructure. With eyes set for the coming years, the bank aims to continue to create value for its shareholders in the most efficient manner while sustaining appreciable growth.

The bank's total asset increased by 8.6%, a higher growth rate compared to last year's rate, to reach MUR 17.1 billion while the deposits from customers attained MUR 15.0 billion, an 8.4% increase compared to last year. Capital Tier 1 and Capital Adequacy Ratio stand at 14.3% and 15.2% respectively and is well above current regulatory requirement.

Following the acquisition of the Ex-Merven building in March 2017, the bank renovated the building to accommodate its Private Banking segment and its lounge opened its doors in August 2018. The bank also intends to refurbish the Plantation House and to invest in major projects in the future to achieve its strategic objectives.

PERFORMANCE AGAINST OBJECTIVES

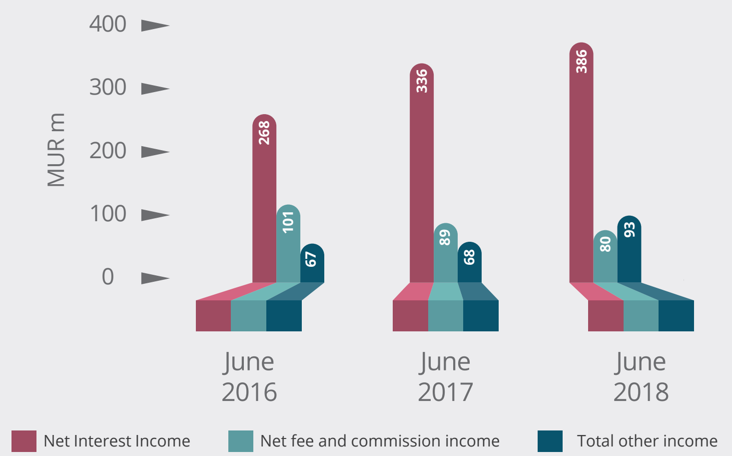
Area of performance	Objectives for FY 2017/18	Actual for FY 2017/18	Objectives for FY 2018/19
Net Interest Income	Net Interest Income to increase by around 15% with further expansion and diversification of the loans and advances portfolio and growth in investment securities and placement with banks	Net Interest Income of the bank rose by 15% driven by the increase in interest from investments while interest expense decreased from deposits to customers	Net Interest Income to increase by around 15% with the bank's strategy to develop its loans and advances and investments portfolio further
Non-Interest Expenses	In line with the bank's expansion strategy and the full operation of its Hong Kong representative office, the bank expects to further invest in both technology and human resource to cope with the business requirements. Non-Interest Expenses are expected to increase by around 15%	Non-Interest Expenses increased by 17% which is slightly above the set objective. The bank aims to reinforce its operations by recruiting higher qualified personnel and investing in new projects	The bank intends to expand its activities in the coming years and the year 2018/19 will act as stepping stone to achieve such objectives Non-Interest Expenses are expected to increase with required investment in people, assets and technology
Productivity (Non-Interest Expenses as a % of Operating Income)	Aim to keep the cost to income ratio around same level as 2017 (45%)	Cost to income ratio is at 46%, which is mainly driven by the slight increase in Non-Interest Expenses	With the aim to achieve its strategy in the coming years, the bank expects a higher cost to income ratio of 48% for the year 2018/19
Return on Equity (Net profit/Equity)	To keep ROE around same level (16%) while increasing the loans and advances portfolio and the bank's capital base	ROE for the year ended was at 16% due to the bank's ability to maximise its profit while maintaining low shareholders' equity	ROE is expected to drop slightly below recent years' results due to expected efforts geared towards the expansion strategy of the bank

Area of performance	Objectives for FY 2017/18	Actual for FY 2017/18	Objectives for FY 2018/19
Return on Average Total Assets	Aim to keep ROA around same level (1.3%)	Return on average total assets stood at 1.4%	Aim to achieve ROA of above 1% whilst embarking on a strategic expansion
Portfolio Quality	Aim to keep NPL ratio to below 2% through close monitoring of clients' repayments	The NPL ratio decreased from 1.7% to 1.4% as at 30 June 2018	With well-defined credit underwriting and recovery processes, the bank aims to keep the NPL ratio below industry average
Deposit from Customers	Deposit base to increase by around 15% following full operations of Hong Kong representative office	Total deposit portfolio increased conservatively by 8% over the year	The bank aims to achieve a 15% deposit growth for the year ended 2018/19 with increase in Segment B deposits
Loans and other Advances portfolio	Expand the loans and advances portfolio by around 15%	The loans and advances portfolio rose by 17% despite high liquidity position in the country	Expand the loans and advances portfolio by around 15%

REVIEW OF CORE FINANCIAL PERFORMANCE

Operating Income

Operating Income increased by 13.5% compared to last year to reach MUR 559 million for the year ended 30 June 2018. The higher result is mainly driven by the increase in Net Interest Income of 14.8% and other income of 37.3% while the bank's net fees and commission income dropped by 9.7%. Net Interest Income accounts for 69% of the bank's Operating Income for the year ended 30 June 2018.



Net Interest Income

With average interest-bearing assets of MUR 15.5 billion, the bank generated the major part of its revenue from interest income which amounted to MUR 653 million for the year ended 30 June 2018 compared to last year's MUR 645 million. The liquidity situation in Mauritius, the competitive banking environment and the emergence of corporate bonds have made the situation even more challenging and the bank has been looking for other venues to generate wealth. High and medium rated international securities, which fit the bank's risk appetite, were invested to counteract the current situation and to obtain appreciable income. Despite the low growth in interest income, the bank increased its Net Interest Income by 14.8% to attain MUR 386 million for the year ended 30 June 2018. The net interest margin was 2.5% compared to last year's 2.3%. The better general performance is driven by the lower interest expense due to lower rates applied during the year and the decrease in Repo Rate from 4.0% to 3.5% in September 2017.

Non-Interest Income

The bank's Non-Interest Income increased by 10.6% compared to last year to stand at MUR 174 million. This growth was mainly driven by foreign exchange gain received from significant deals during the year. Net foreign exchange gain of MUR 85 million accounts to 49.1% of total Non-Interest Income compared to last year's MUR 64 million. Net fees and commission income and card operations continue to show decreasing trends during the year under review. Initiatives to benefit both the bank and the clients are being considered to enhance existing products, develop new ones and increase services and card usage.

REVIEW OF CORE FINANCIAL PERFORMANCE (CONT'D)

Asset Mix

The bank was able to increase its total assets from MUR 15.8 billion to MUR 17.1 billion in 2018, being a growth of 8.6%. In view of maximising profitability, the bank has reassigned its asset mix to increase interest income.

The following chart depicts the bank's assets mix as at 30 June 2018 and 30 June 2017 respectively with clear efforts to reduce risks through diversification:

Investment securities

The bank's investment securities experienced the highest growth (31.9%) during the year compared to the other asset classes moving from a net amount of MUR 4.7 billion in 2017 to MUR 6.3 billion in 2018. With the tight situation in the country, the bank assigned a larger portion of its assets to investment securities to ensure continuous interest income. Also, with the bank's foreign currency deposits increasing, the bank looked for new opportunities in the form of foreign bonds. As at 30 June 2018, 69.5% related to investments made in Mauritius while the remaining 30.5% was invested around the globe. The new foreign bonds are all rated bonds which provide a certain confidence on the bond's credit worthiness. In addition, with the new liquidity guideline effective during the year 2018, the bank placed approximately MUR 913 million in sovereign highly quality liquid assets to ensure its compliance in its major foreign currencies. The bank's total investment securities remain relatively secured with 73.9% invested in sovereigns and central banks.

Cash and cash equivalents

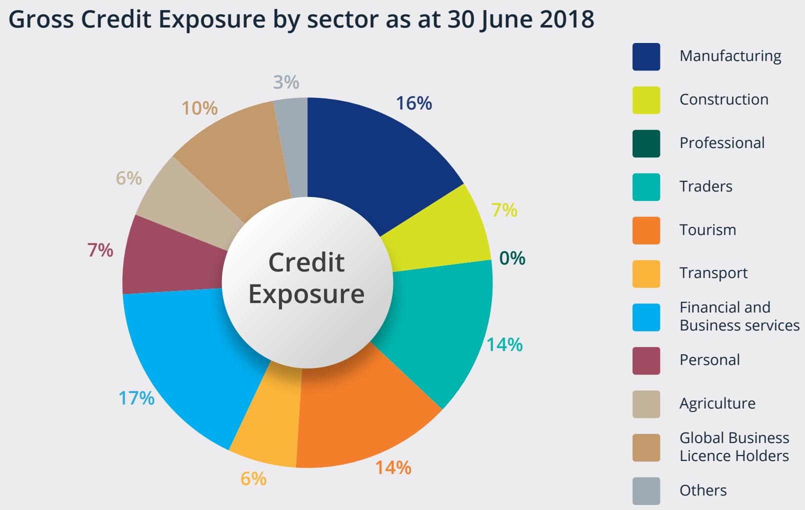
Cash in hand and balances with Central Bank and other financial institutions was at MUR 3.3 billion compared to last year's MUR 4.3 billion. The decrease in cash and cash equivalents is mainly due to the funds being utilised in new loans disbursed and securities invested. Cash equivalents' balances remain well sufficient for the daily operations of the bank.

REVIEW OF CORE FINANCIAL PERFORMANCE (CONT'D)

Credit exposure

The bank was able to further improve its loan portfolio increasing it by 18.8% which resulted in a net loans and advances to customers of MUR 6.1 billion in 2018 compared to MUR 5.1 billion last year. The bank wants to ensure that it is well diversified to avoid specific risk and was able to decrease its highest exposure in one specific sector from 19% in 2017 to 17% in 2018. Industries such as Traders, Tourism, Financial and Business services and Global Business licence holders remain significant borrowers to the bank while Manufacturing companies begin to have significant representation in the bank's loan mix.

The bank continues its quest to balance its exposures to minimise its concentration risks while maximising its results.



Provisioning and asset quality

The bank's low non-performing loan ratio of 1.4% in 2018 compared to last year's 1.7% demonstrates its ability to detect and recover potential non-performing loans. The bank has stringent credit underwriting and recovery processes to ensure that its portfolio remains as sound as possible. The nature of the loan giving business continuously exposes the bank to potential defaults which cannot be fully mitigated. Subject to the impact of such assets, the bank may accept to provide loans as long as the reward justifies the risk taken or simply may not proceed if deemed too risky.

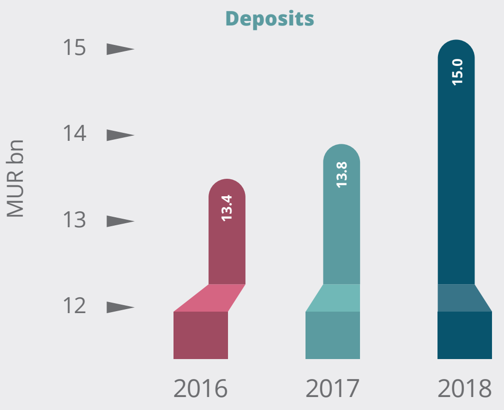
The bank provided a net provision of MUR 10 million during the year 2018. The current loan portfolio remains healthy with few new default counts during the year.

FUNDING

Deposits

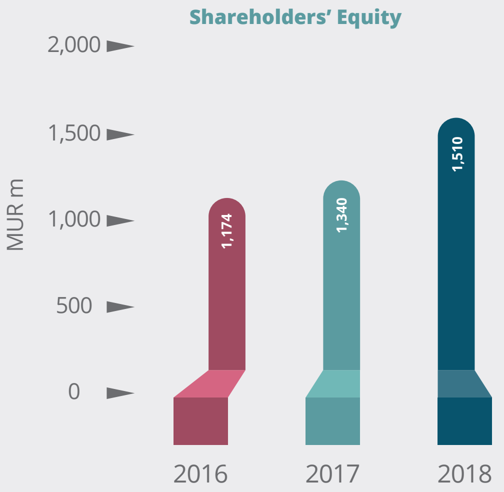
As at 30 June 2018, total deposits increased by 8.4% to reach MUR 15.0 billion. This increase is mainly driven by the growth of current account balances, especially in segment B current deposits which account for 43.0% of the bank's total deposits as at 30 June 2018. Several drivers such as the maturity of some high interest rate term deposits or the opening of the Bank of Mauritius securities to the public have contributed in the decrease of the bank's Savings (7.5%) and Term deposits (7.3%).

This shift in deposit type has improved the bank's net interest spread during the year.



Capital resources

The bank's Capital Adequacy Ratio stands at 15.2% compared to last year's 15.4%. The decrease is mainly due to difference in growth rates between the bank's asset and equity. With minimum Capital Adequacy Ratio including Capital Conservation Buffer at 11.25%, the bank is still within regulatory limits. As at 30 June 2018, shareholders' equity reaches MUR 1.5 billion representing a growth of 12.7% compared to last year and is at 8.8% of total liabilities and equity. With Return on Equity of above 16%, the bank is trying to maximise its equity.



The bank faces the following key risks:

Risk	Definition	Selective Risk Management Metrics	Page Number
Credit risk	Risk of default of a customer	Limit on concentrations (individual and sector)	68
Sovereign risk	Risk of default of a government entity	Limit on country exposure	68
Country risk	Risk of loss resulting from the action of a country affects the affairs of the bank	Limit on country exposure	69
Bank risk	Risk of default of a bank	Limit on bank exposure	69
Market risk	Risk of loss arising from potential changes in the market variables such as interest rates, foreign exchange rates, implied market volatility and prices of real assets	EAR VAR Limit on foreign exchange open position	75
Liquidity risk	Risk of not having the funds to meet immediate needs	Liquidity ratios Limit on liquidity gaps	75
Operational risk	Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events	Key risk indicators	81
Reputation risk	Risk of loss arising in the damage in the reputation of the bank	Key risk indicators	83
Compliance risk	Risk of failure to adhere to relevant laws, regulations and guidelines issued by the Bank of Mauritius	Follow up to ensure timely compliance with regulator	83

1. HIGHLIGHTS FOR YEAR ENDED JUNE 2018

Asset Quality

The bank recorded an improvement in asset quality with a lower impairment ratio compared to last year. Non-Performing Loans (NPL) ratio further slid to 1.4% as at end of June 2018 from 1.7% as at end of June 2017. Non-Performing Loans dropped to MUR 85 million as at 30 June 2018 from MUR 89 million as at 30 June 2017.

An increase of 18.3% is noted in gross loans and advances from MUR 5.3 billion as at 30 June 2017 to MUR 6.2 billion as at 30 June 2018.

Coverage Ratios

Specific provision as a percentage of NPL decreased from 93.0% as at June 2017 to 92.7% as at June 2018 based on non-performing loan book.

Sovereign Risk

As at end of June 2018, investment in foreign currency fixed income securities totalled equivalent to MUR 2.2 billion from equivalent MUR 0.3 billion as at end of June 2017. This is mainly due to investment in foreign sovereign securities amounting to MUR 1.3 billion as at June 2018.

A decrease of 12.8% is noted in total investments in Bank of Mauritius and Government Bonds and Notes whereby, exposure decreased from MUR 3.5 billion as at June 2017 to MUR 3.0 billion as at June 2018. Investment in local treasury bills decreased from MUR 347 million as at June 2017 to MUR 227 million as at June 2018.

Country Risk

Exposure in Europe up 12% as at June 2018 over last year on account of new placements mainly in United Kingdom and Turkey. Drop in exposure in Africa from 14% to 1% over the same period, mainly due to maturity of placements with PTA Bank and Diamond Trust Kenya Bank.

Bank Risk

Risk weighted claims on banks down from MUR 2.0 billion as at June 2017 to MUR 1.1 billion as at June 2018. In terms of bank risk, we note a significant decrease in exposure on Baa1 – Baa3 bank credit ratings over the year. It is worth noting that the term to maturity of most placements in rated and unrated banks is less than three months.

Sector Concentration

63% of total exposures was concentrated in 4 top sectors being Manufacturing, Tourism, Traders, and Financial & Business services. Main increase in exposure noted for Manufacturing and Financial & Business services over the year.

Funding Mix and Loan to Deposit Ratio

Deposits continued to expand from MUR 13.8 billion as at June 2017 to MUR 15.0 billion as at June 2018. FCY deposits picked up to 52% of total deposits from 42% as at June 2017, whilst MUR deposits contracted from 58% to 48% over the same period.

Net Loan to deposit ratio increased from 36.9% as at June 2017 to 40.5% as at June 2018 with the increase in loans and advances book.

1. HIGHLIGHTS FOR YEAR ENDED JUNE 2018 (CONT'D)

Compliance and Regulatory Risk

Compliance and Regulatory Risk has become significant in the heightened regulatory environment in which the bank operates. The Head of Compliance ensures timely identification and impact assessment of regulatory changes. The bank has put in place several automated Anti-Money Laundering Software which are being used by the Compliance Department in its daily monitoring process. This has led to an improved effectiveness in controls and helps build a compliance culture that is driven by strategy, focused on added business value and embedded in the bank's governance, planning and operations.

The compliance team independently reviews all banking transactions by clients of the bank on a daily basis, based on agreed parameters. The alerts generated are then analysed and dealt with by the team who ensures that there has been a proper documentation and control over all identified alerts as per policy and procedures. The screening and anti-money laundering tool also assists in the investigation of suspicious transactions and helps the MLRO in his investigative processes.

Capital Management

During the year, the bank's Common Equity Tier 1 (CET1) capital position increased to MUR 1.5 billion as at June 2018 from MUR 1.3 billion as at June 2017. Tier 1 Capital Adequacy Ratio (Tier 1 CAR) remained stable at 14.3% during the year ending June 2018 due to the increase in risk weighted assets from MUR 9.2 billion as at June 2017 to MUR 10.4 billion as at June 2018. Capital Adequacy Ratio (CAR) stood at 15.2% as at June 2018.

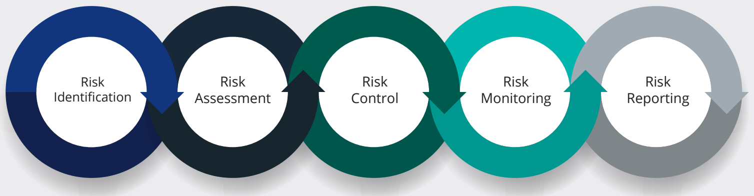
The ratios as at 30 June 2018 are above the minimum regulatory limits inclusive of Capital Conservation Buffer of 9.25% (Tier 1 CAR) and 11.25% (CAR) respectively. These minimum ratios are effective as from 1 January 2018 and shall increase as from beginning of calendar year 2019. The actual ratios are also above the minimum regulatory limit inclusive of Capital Conservation Buffer of 9.875% (Tier 1 CAR) and 11.875% (CAR), which are effective as from 1 January 2019. The bank ensures that capital levels at all times exceed the minimum capital requirements.

Operational Risk

Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk. It is not possible to eliminate all operational risks. The management ensures that measures are taken to mitigate Operational Risk by tracking complaints and by promptly responding to the issues, by managing its capital, by having business continuity plan in case of unexpected technical issues and others.

2. Risk Governance Structure

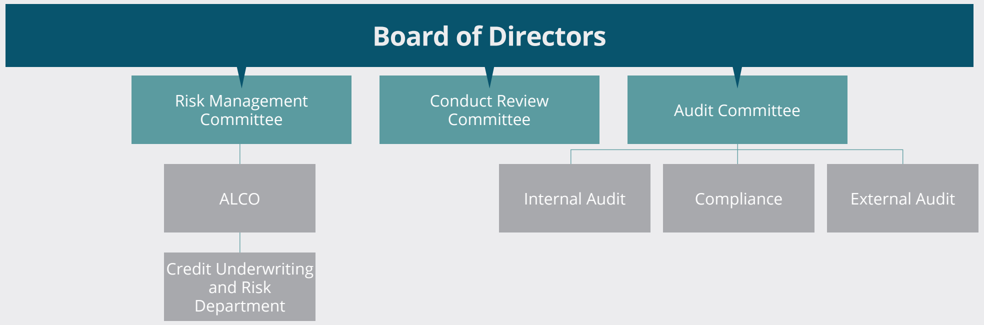
The risk management process comprises of the following steps:



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

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

3. RISK GOVERNANCE FRAMEWORK



3.1 Board Oversight and Management of Risks and Internal Control

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

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

The Board is principally responsible for:

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

3.2 Risk Management Committee

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

Responsibilities include:

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

3.3 Conduct Review Committee

The responsibilities of the Conduct Review Committee include the following:

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

3. RISK GOVERNANCE FRAMEWORK (CONT'D)

3.4 Assets and Liabilities Committee (ALCO)

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

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

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

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

ALCO is responsible for maintaining:

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

ALCO is also responsible for:

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

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

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

3.5 Audit Committee

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

- Overseeing the effectiveness of the bank's Internal Control and Risk Management Systems
- Overseeing the policies and procedures to ensure compliance with legal and regulatory requirements
- Reviewing the scope of internal audit, the annual audit plan and significant matters reported by Internal Audit department

3.6 Risk Department

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

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

4. CREDIT RISK

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

4.1 Credit Risk Management Approach

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

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

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

4.2 Credit Policies

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

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

4.3 Concentration Risk and Credit Risk Profile

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

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

4.3.1 Sovereign Risk

Sovereign Risk is a type of credit risk specific to government debt.

A decrease of 12.8% is noted in total investments in Bank of Mauritius and Government Bonds and Notes whereby, exposure decreased from MUR 3.5 billion as at June 2017 to MUR 3.0 billion as at June 2018. Investment in local treasury bills decreased from MUR 347 million as at June 2017 to MUR 227 million as at June 2018.

4.3.2 Country Risk

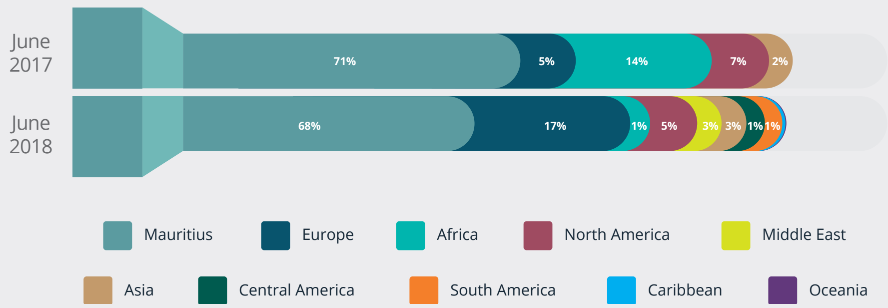
Country Risk refers to the risk attributable to events in a specific country. It is the risk of loss associated with lending, pre-settlement, money market and investment transactions in any given country. The occurrence of a country risk event may result in all counterparties in a country to be unable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

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

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

The following chart shows the distribution of exposure by country.

Country Risk Exposure



The ratio of domestic exposure to total exposure went down by 3%, from 71% as at 30th June 2017 to 68% as at 30th June 2018.

Exposure to Europe up from 5% of total exposure as at 30th June 2017 to 17% of total exposure as at 30th June 2018 on account of new placements mainly in United Kingdom and Turkey.

As for Africa, it dropped from 14% to 1% over the same period, mainly due to maturity of placements with PTA Bank and Diamond Trust Kenya Bank.

4.3.3 Bank Risk

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

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

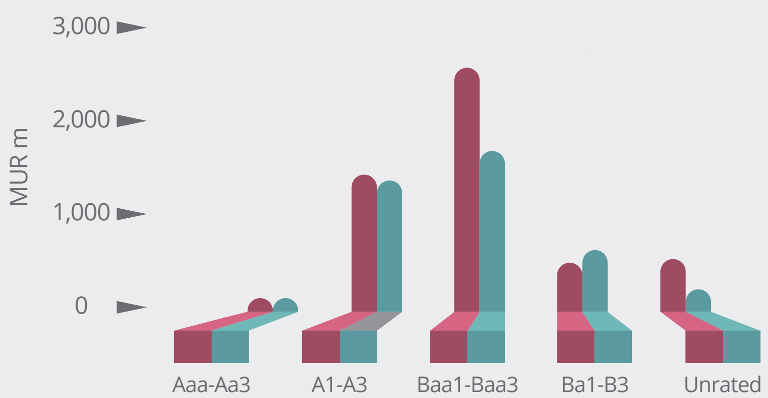
4. CREDIT RISK (CONT'D)

4.3 Concentration Risk and Credit Risk Profile (Cont'd)

4.3.3 Bank Risk (Cont'd)

Exposures to banks by rating are reflected below.

Bank Risk
Classification by Credit Racing



	Aaa-Aa3	A1-A3	Baa1-Baa3	Ba1-B3	Unrated
June 17	19	1,217	2,529	350	377
June 18	19	1,102	1,619	658	255

We note a significant decrease in exposure on Baa1 – Baa3 bank credit ratings which was due mainly to maturity of placements with PTA Bank.

4.3.4 Sector Concentration

Sector	Exposure (out bal)*						Exposure (out bal)*					
	June 2017						June 2018					
	Segment A		Segment B		TOTAL		Segment A		Segment B		TOTAL	
	(MUR m)**	% of Total Exposure	(MUR m Equiv.)	% of Total Exposure	(MUR m Equiv.)	% of Total Exposure	(MUR m)**	% of Total Exposure	(MUR m Equiv.)	% of Total Exposure	(MUR m Equiv.)	% of Total Exposure
Agriculture and Fishing	621.27	12%	-	0.0%	621.3	10.1%	616.34	10%	-	0.0%	616.3	7.8%
Manufacturing	482.83	9%	-	0.0%	482.8	7.8%	1,028.95	16%	221.4	13.5%	1,250.3	15.8%
Tourism	1,013.17	20%	231.8	23.1%	1,245.0	20.2%	993.24	16%	260.6	15.9%	1,253.9	15.9%
Transport	290.08	6%	1.9	0.2%	292.0	4.7%	349.38	6%	2.1	0.1%	351.4	4.5%
Construction	576.35	11%	-	0.0%	576.3	9.3%	527.25	8%	40.8	2.5%	568.1	7.2%
of which Commercial, Residential and Land Parcelling	317.56	6%	-	0.0%	317.6	5.1%	262.76	4%	-	0.0%	262.8	3.3%
Global Licence Holders	-	0%	678.9	67.8%	678.9	11.0%	-	0%	751.4	45.8%	751.4	9.5%
Traders	945.66	18%	-	0.0%	945.7	15.3%	873.73	14%	-	0.0%	873.7	11.1%
ICT	21.29	0%	-	0.0%	21.3	0.34%	21.60	0%	-	0.0%	21.6	0.27%
Financial & Business Services	860.22	17%	51.8	5.2%	912.0	14.8%	1,287.08	21%	295.3	18.0%	1,582.4	20.1%
Infrastructure	0.19	0%	-	0.0%	0.2	0.0%	7.38	0%	-	0.0%	7.4	0.1%
Professional	8.20	0%	31.1	3.1%	39.3	0.6%	17.02	0%	63.2	3.9%	80.3	1.0%
Health Development	0.04	0%	-	0.0%	0.0	0.0%	0.42	0%	-	0.0%	0.4	0.0%
Education	3.15	0%	-	0.0%	3.1	0.05%	4.72	0%	-	0.0%	4.7	0.06%
Media entertainment	7.22	0%	-	0.0%	7.2	0.12%	10.09	0%	-	0.0%	10.1	0.13%
Other services	77.35	1%	5.9	0.6%	83.2	1.3%	124.94	2%	4.6	0.3%	129.6	1.6%
Personal	263.53	5%	-	0.0%	263.5	4.3%	389.10	6%	-	0.0%	389.1	4.9%
Total	**5,170.5**	**100.0%**	**1,001.4**	**100.0%**	**6,172.0**	**100%**	**6,251.2**	**100.0%**	**1,639.5**	**100.0%**	**7,890.7**	**100%**

Table 1: Sector-wise distribution

* Exposure includes investments in corporate bonds, non-fund base exposure

** Includes FCY loans in MUR equivalent

The Financial & Business Services sector became the sector with the highest exposure at 20.1%. 63% of total exposures was concentrated in 4 top sectors being Manufacturing, Tourism, Traders, and Financial & Business Services. All sectors are within the respective internal limits approved by the Board.

While exposures to Segment B increased from MUR 1.0 billion as at June 2017 to MUR 1.6 billion as at June 2018, cross border exposure remained selective. Exposure to segment B increased from 16.2% of total exposure as at June 2017 to 20.8% of total as at 30 June 2018.

4. CREDIT RISK (CONT'D)

4.3 Concentration Risk and Credit Risk Profile (Cont'd)

4.3.5 Credit Concentration Risk for large exposures

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

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

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

Large Exposure (Single & Group)	Net Exposure as at 30.06.18 (MUR m)	% of Tier 1 Capital
1	486.54	32.80%
2	464.95	31.30%
3	458.28	30.90%
4	396.82	26.70%
5	296.77	20.00%
6	291.94	19.70%
7	288.50	19.40%
8	279.78	18.80%
9	260.63	17.60%
10	242.46	16.30%
11	225.32	15.20%
12	220.00	14.80%
13	215.45	14.50%
14	212.37	14.30%
15	200.08	13.50%
16	171.48	11.60%
17	162.61	11.00%
Total	**4,873.97**	**328.30%**

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

As at 30 June 2018, 11 groups of connected counterparties and 6 single customers had exposures exceeding 10% of the bank's Tier 1 Capital. The aggregate of the exposures is within the regulatory limit of 800% of bank's Tier 1 Capital.

4.3.6 Related Party Transactions

The bank adheres to the Bank of Mauritius Guideline on Related Party Transactions. As at 30 June 2018, the bank's exposure to related parties in category 1 and category 2 represented 34.01% of Tier 1 capital, well within the regulatory limits of 150% of Tier 1 Capital. The bank's exposures to non-exempt related parties aggregated to MUR 487 million (32.8% of Tier 1 Capital) as at June 2018, up from MUR 473 million (36.1% of Tier 1 Capital) as at June 2017. Same was within the regulatory limit set by the Bank of Mauritius.

The top 6 exposures to related parties aggregated MUR 337 million (22.7% of Tier 1 Capital) as at 30 June 2018 from MUR 375 million (28.6% of Tier 1 Capital) as at 30 June 2017.

Top 6 Exposure to Related Parties	Exposure as at 30.06.18 (MUR m)	% of Tier 1 Capital
1	82.6	5.60%
2	74.8	5.00%
3	60.3	4.10%
4	48.2	3.20%
5	40.4	2.70%
6	31.0	2.10%
Total	**337.3**	**22.70%**

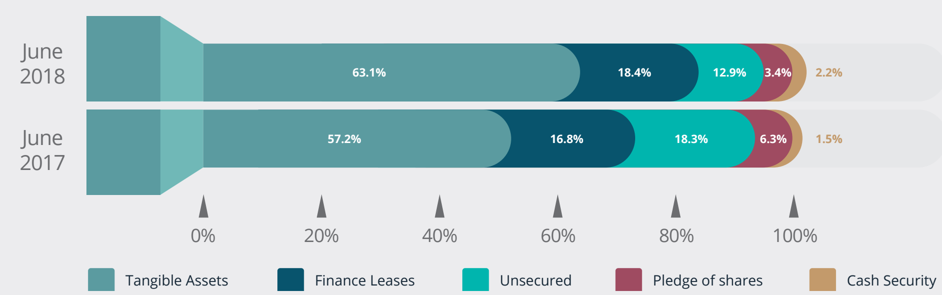
Table 3: Top 6 Exposures to non-exempt related parties

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

4.4 Credit Risk Mitigation

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

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



63.1% of exposure was secured against fixed/floating charges as at June 2018 from 57.2% as at June 2017. The proportion of unsecured facilities decreased from 18.3% as at June 2017 to 12.9% as at June 2018. However, it is worth noting that these pertain mainly to Corporate Money Market lines. These facilities are granted on short term basis to mitigate the risks and rolled over depending on the liquidity position of the bank.

4. CREDIT RISK (CONT'D)

4.5 Account Monitoring and Recovery

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

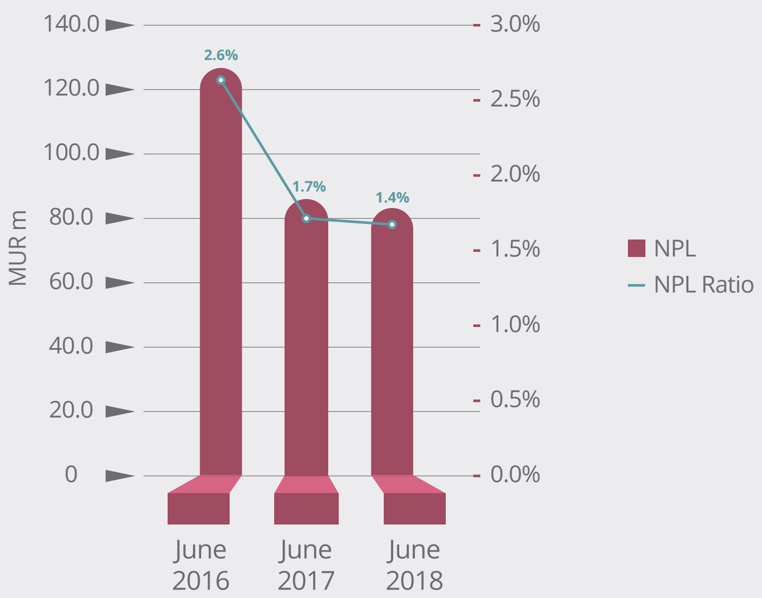
Key Indicators of Credit Quality

Ratio	As at 30 June 2016	As at 30 June 2017	As at 30 June 2018
Non-Performing Loans (NPLs)/ Gross loans and advances	2.6%	1.7%	1.4%
Specific Provision/ Non-Performing Loans	90.4%	93.0%	92.7%

Table 4: Key Indicators of asset quality

NPLs as a percentage of gross loans and advances decreased from 1.7% as at 30 June 2017 to 1.4% as at 30 June 2018. Specific Provision as a percentage of NPL decreased from 93.0% as at June 2017 to 92.7% as at 30 June 2018.

Non-Performing Loans



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

5. MARKET RISK MANAGEMENT

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

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

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

Gap Analysis

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

Value at Risk (VaR)

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

The framework is employed across the bank using historical simulation based on data for the previous 24 months. The framework's approach assumes that historical changes in market values are representative of the distribution of potential outcomes in the immediate future. The Bank believes the use of Risk Management VaR provides a stable measure of VaR that is closely aligned to risk management decisions made by the lines of business, and provides the appropriate information needed to respond to risk events.

Earnings-At-Risk (EAR)

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

5.1 Liquidity Risk

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

5.1.1 Liquidity Risk Management

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

5. MARKET RISK MANAGEMENT (CONT'D)

5.1 Liquidity Risk (Cont'd)

5.1.1 Liquidity Risk Management (Cont'd)

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

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

5.1.2 Funding Risk

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

The primary funding sources are from deposits from retail and corporate clients, comprising of savings, call deposits and term deposits. Deposits continued to expand from MUR 13.8 billion as at June 2017 to MUR 15.0 billion as at June 2018. FCY deposits picked up to 52% of total deposits from 42% as at June 2017, whilst MUR deposits contracted from 58% to 48% over the same period.

Net Loan to deposit ratio increased from 36.9% as at June 2017 to 40.5% as at June 2018 with the increase in loans and advances book.

41.5% of deposits were consumer deposits as at June 2018 (As at June 2017, it was 44.7%). Although savings accounts and call deposits are repayable on demand, these are considered to be fairly stable sources of funding at the bank.

5.1.3 Liquid Asset Ratio

The Liquid Asset Ratio measures the extent to which assets can be readily converted into cash or cash substitutes to meet financial commitments. The Liquid Asset Ratio (MUR) was at 7.3% as at June 2018 (June 2017: 6.7%).

5.1.4 Contingent Liquidity Risk

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

5.1.5 Liquidity Coverage Ratio

In October 2017, the Bank of Mauritius released the revised Guideline on Liquidity Risk Management with emphasis on the adoption of the Basel Committee on Banking Supervision's (BCBS) principles, including the requirement for banks to disclose their Liquidity Coverage Ratio (LCR).

The bank's high-quality liquid assets (HQLA) is primarily made up of sovereign and central bank securities and the value as at end of June was MUR 3.7 billion (quarterly average of monthly observations for the Quarter ended 30 June 2018 was at MUR 4.2 billion). As at 30 June 2018, the bank's LCR stood at 312% whereas the quarterly average of monthly observations for the Quarter ended 30 June 2018 was 458%, mainly due to the significant investment in eligible securities. The bank continues to monitor its liquidity position and will adjust its investment strategy to meet the prescribed requirement.

LCR Common disclosure template			
		Total Unweighted Value (quarterly average of monthly observations) (MUR m)	Total Weighted Value (quarterly average of monthly observations) (MUR m)
High-Quality Liquid Assets			
1	Total high-quality liquid assets (HQLA)	4,276	4,198
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:		
3	*Stable deposits*	-	-
4	*Less stable deposits*	4,430	443
5	Unsecured wholesale funding, of which:	258	26
6	*Operational deposits (all counterparties)*	6,814	1,703
7	*Non-operational deposits (all counterparties)*	389	161
8	*Unsecured debt*	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	-	-
11	*Outflows related to derivative exposures and other collateral requirements*	324	324
12	*Outflows related to loss of funding on debt products*	-	-
13	*Credit and liquidity facilities*	1,163	216
14	Other contractual funding obligations	37	37
15	Other contingent funding obligations	130	6
16	**Total cash outflows**	**13,545**	**2,916**
Cash Inflows			
17	Secured funding (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	2,505	2,275
19	Other cash inflows	326	326
20	**Total cash inflows**	**2,831**	**2,601**
			Total Adjusted Value (MUR m)
21	**Total HQLA**		**4,198**
22	**Total Net Cash Outflows**		**917**
23	**Liquidity Coverage Ratio (%)**		**458%**
24	**Quarterly Average of daily HQLA**		**4,503**

Tables 5: Liquidity Coverage Ratio

5. MARKET RISK MANAGEMENT (CONT'D)

5.2 Interest Rate Risk

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

The tables below provide an analysis of the Interest Rate Risk exposure for the bank. As at 30 June 2018, currencies accounting for 5% or more of total assets or liabilities included MUR, EUR, and USD. The up to 3 months column includes assets and liabilities bearing floating rates of interest that do not reprice at set dates but reprice whenever the underlying interest rate changes.

Repricing Gap - BANK

As at June 2018

	Up to 3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non interest sensitive
	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m
Assets	7,075.5	270.9	805.1	762.4	3,039.7	1,878.3	3,440.4
Liabilities	5,004.5	384.6	399.6	595.3	1,.325.5	-	7,884.2
On Balance sheet interest rate repricing gap	2,071.0	(113.7)	405.5	167.1	1,714.3	1,878.3	(4,443.9)
Cumulative repricing gap	2,071.0	1,957.4	2,362.9	2,529.9	4,244.2	6,122.5	1,678.7

As at June 2017

	Up to 3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non interest sensitive
	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m
Assets	8,854.8	624.6	594.5	456.2	1,760.8	1,861.9	1,762.6
Liabilities	4,696.1	543.0	1,002.9	736.4	1,305.9	-	6,127.4
On Balance sheet interest rate repricing gap	4,158.7	81.6	(408.5)	(280.2)	454.9	1,861.9	(4,364.8)
Cumulative repricing gap	4,158.7	4,240.3	3,831.9	3,551.7	4,006.6	5,868.5	1,503.7

Repricing Gap - MUR

As at June 2018

	Up to 3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non interest sensitive
	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m
Assets	3,753.5	236.2	376.8	489.3	1,758.2	1,415.1	1,250.2
Liabilities	4,941.0	156.4	356.8	594.9	1,325.5	-	500.3
On Balance sheet interest rate repricing gap	(1,187.6)	79.7	20.1	(105.6)	432.7	1,415.1	749.9
Cumulative repricing gap	(1,187.6)	(1,107.8)	(1,087.8)	(1,193.4)	(760.6)	654.5	1,404.4

Repricing Gap - EUR

As at June 2018

	Up to 3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non interest sensitive
	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m
Assets	819.2	-	202.5	162.0	567.0	334.6	258.8
Liabilities	-	-	8.1	-	-	-	2,377.7
On Balance sheet interest rate repricing gap	819.2	0.0	194.4	162.0	567.0	334.6	(2,118.9)
Cumulative repricing gap	819.2	819.2	1,013.6	1,175.6	1,742.5	2,077.2	(41.8)

Repricing Gap - USD

As at June 2018

	Up to 3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non interest sensitive
	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m	MUR m
Assets	2,502.8	34.8	225.8	111.1	714.6	128.6	974.5
Liabilities	63.4	222.4	34.8	0.4	-	-	4,180.1
On Balance sheet interest rate repricing gap	2,439.4	(187.7)	191.0	110.7	714.6	128.6	(3,205.6)
Cumulative repricing gap	2,439.4	2,251.7	2,442.8	2,553.5	3,268.0	3,396.6	191.1

Tables 6: Repricing gap

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

5. MARKET RISK MANAGEMENT (CONT'D)

5.2 Interest Rate Risk (Cont'd)

Interest Rate Sensitivity Analysis

Management of Interest Rate Risk is measured from earnings perspective. Earnings at Risk is used by the bank to measure the sensitivity of net interest income over the next 12 months. The bank assesses the impact of various interest rate shocks on net interest income over a static 12 months period assuming a static position. Analysis of 50 basis points movement up and down on interest earning assets and interest bearing liabilities has been carried out for respective currencies as below.

The table indicates that a 100 basis points decrease in interest rate for MUR will have a positive impact of MUR 11.8 million (MUR 10.6 million as at June 2017) on our profit and loss and vice versa in the event of an increase. In the above estimations, the positive impact of re-pricing maturing high cost term deposits at more favourable rates, which will contribute positively to the bottomline has not been taken into account. In order to reduce the interest rate risk on MUR, the bank's aim is to grow the floating rate assets in line with the growth in floating rate deposits.

Currency	Exposure as at 30.06.18 (MUR m)	% of Tier 1 Capital
EUR	+50	+4.1
	-50	-4.1
USD	+50	+11.3
	-50	-11.3
MUR	+50	-5.9
	-50	+5.9
	+100	-11.8
	-100	+11.8

Table 7: Interest Rate sensitivity

5.3 Foreign Exchange Risk

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

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

5.4 Price Risk

Price risk refers to the risk arising from fluctuations in the market value of trading and non-trading positions, resulting in losses in the value of the portfolios. The bank is exposed to risks associated to both locally and internationally quoted securities. Investment in securities increased from MUR 4.7 billion as at 30 June 2017 to MUR 6.2 billion as at 30 June 2018.

5.5 Value at Risk (VaR)

Another market risk measure used within the bank is Value at Risk (VaR). VaR is used to determine the potential loss from adverse currency movements under normal conditions. VaR is based on historical observation period of 12 months and using a one day holding period and a confidence interval of 99%. VaR is calculated based on exposure at close of business. There is the risk that intraday trading and exposures may vary from close of day level, but given that the volume is low, the risk is mitigated. VaR was MUR 116,396/- as at 30 June 2018 as compared to MUR 178,303/- as at the previous year.

6. TREASURY MANAGEMENT

Treasury manages the different market risks created by dealing in Forex, credit, cash Interest rate instruments. Transactions may originate from the dealing room, but also from banking book activities undertaken by various departments, such as Retail, Corporate and the International Banking divisions. Foreign Exchange Risks arise as a result of Forex dealings with merchant and interbank counterparties, interest rate risks are created by fixed and floating assets and liquidity risks from the differing tenors of assets, typical of a commercial bank's balance sheet structure.

The asset side of the balance sheet comprises of loans and investments, the latter being managed by the dealing room. Investment are made in numerous securities, namely sovereign & corporate bills, notes and bonds and also in different currencies, but mostly the Mauritian rupee and a few hard currencies. The Asset Liability Management (ALM) desk will spread investments across different tenors, rate types and duration to manage the liquidity risks and interest rate risks respectively and the markets section of the dealing room will engage in derivative instruments to manage foreign exchange risks.

As at 30 June 2018, investment in high quality liquid assets amounted to MUR 4.1 billion while the whole investment book was at MUR 6.2 billion. The average rating of the book was predominantly in investment grade issues.

Investment Securities	As at 30 June 2018 (MUR)	As at 30 June 2017 (MUR)
Available-for-sale investments	2,315,156,141	78,440,348
Loans and receivables	3,058,593,442	3,942,060,703
Held to maturity investment securities	849,403,706	546,065,910
Financial assets held for trading	-	149,878,626
Unquoted equity instruments	-	-
Total	**6,223,153,289**	**4,716,445,587**

Table 8: Investment securities

7. OPERATIONAL RISK MANAGEMENT

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

7.1 Key Types of Operational Risk

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

7. OPERATIONAL RISK MANAGEMENT (CONT'D)

7.2 Management of Operational Risk

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

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

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

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

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

8. INFORMATION TECHNOLOGY RISK

IT Risk forms an integral part of operational risk management. An IT Steering Committee comprising of Senior Management meets on a regular basis to discuss on IT matters and resolution. IT KRIs, including system downtime, incidents and virus detection, are tracked, monitored and reported quarterly to the Risk Management Committee.

9. STRATEGIC RISK

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

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

10. REPUTATIONAL RISK

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

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

11. PENSION OBLIGATION RISK

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

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

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

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

12. COMPLIANCE AND ANTI MONEY LAUNDERING

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

Regular trainings are provided to ensure employees are kept informed of regulatory obligations and changes in banking laws and guidelines. The compliance function through the Money Laundering Reporting Officer (MLRO) is also empowered to report any suspicious transactions to the Financial Intelligence Unit (FIU).

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

The bank has implemented a new automated filtering software, being a globally recognised watch list solution providing a robust sanction screening solution and enabling real-time blocking of potential violations. Its highly sophisticated screening engine ensured rapid identification of potential risks which allowed our bank to mitigate financial crime risks in a timely manner.

The compliance team independently reviews all alerts that are generated on a daily, weekly and monthly basis. The alerts generated are analysed by the team who ensures that there has been a proper documentation and control over all identified alerts as per policy and procedures.

The screening and anti-money laundering tools also assist the Compliance department in the investigation of suspicious transactions thereby enabling the MLRO to take appropriate actions on a timely basis.

12. COMPLIANCE AND ANTI MONEY LAUNDERING (CONT'D)

Compliance and Regulatory Risk

Compliance and Regulatory Risk have taken significance in the highly regulatory environment in which the bank operates. The compliance department ensures timely identification and impact assessment of regulatory changes. The fully automated Anti-Money Laundering Solution which is used by the Compliance Department has led to an improved effectiveness in compliance controls at the bank. This has helped in fostering a compliance culture that is driven by strategy, focused on added value for its business lines which is embedded in the bank's governance, planning and operations. With a changing regulatory environment, the role of compliance is subject to change and might include all of the following added challenges:

- Predicting the impact of emerging regulations on strategic direction, business model and compliance/risk management processes and systems
- Determining the right compliance roles and accountabilities between legal, compliance, audit and business functions
- Defining and measuring Compliance value and managing performance expectations
- Managing through crisis and remediation in more complex and diverse environments
- Developing integrated compliance capabilities to better anticipate global trends, increase efficiency, and participate in the evolution of the bank's core strategies

13. INTERNAL AUDIT

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

Internal Audit is defined as an independent, objective assurance and consulting activity designed to add value and improve an entity's operations. It helps an entity accomplish its objectives by bringing a continuing, systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Source: Mauritius Audit Committee Forum, Position Paper 2 - May 2015).

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

Key responsibilities of the Internal Audit function include the following:

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

Over the second quarter of 2018, the Audit Plan for the next financial year was approved by the Audit Committee. Internal Audit also completed the following main audit assignments: review of Bank of Mauritius returns, audit of Credit Administration, follow-up on its prior report on Anti-Money Laundering (AML) systems and follow-up on last year's External Audit recommendations.

Capital Adequacy and Management

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

Regulatory capital adequacy is measured through the Capital Adequacy Ratio (CAR). This ratio measures the capital supply relative to capital demand as measured by Risk Weighted Assets. As from 01 January 2018 to 31 December 2018, the minimum regulatory limits inclusive of Capital Conservation Buffer for Tier 1 CAR is 9.25% and CAR is 11.25%.

Risk Weighted Assets

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

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

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

Capital Ratios

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

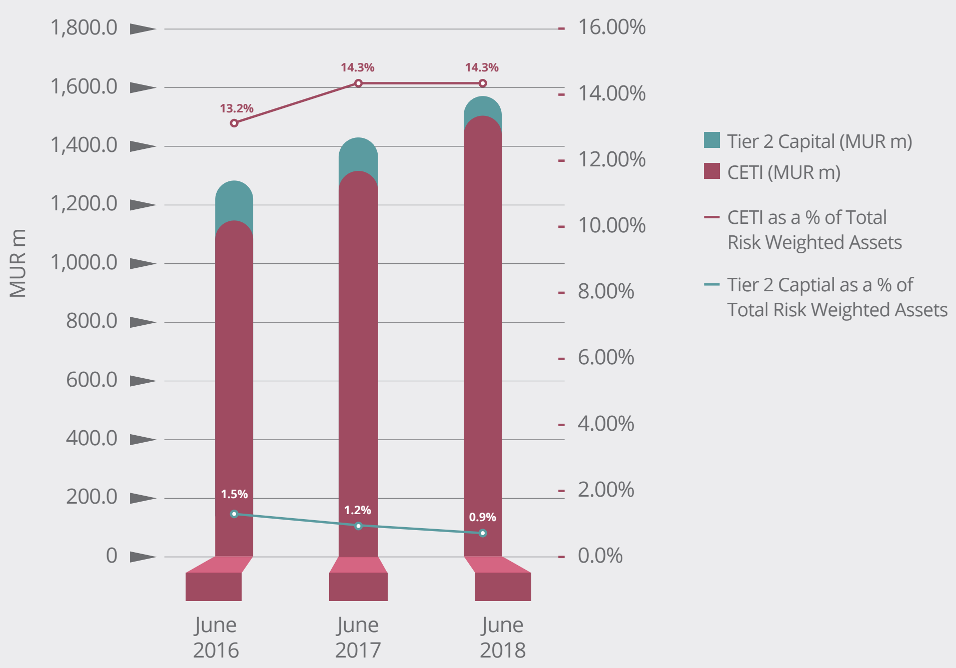
Capital Ratios (%)	As at June 2018	As at June 2017	As at June 2016
Capital Base	**MUR m**	**MUR m**	**MUR m**
Tier 1 Capital	1,484.7	1,309.4	1,136.8
Tier 2 Capital	89.5	105.6	128.0
Total Capital Base	**1,574.1**	**1,415.0**	**1,264.7**
Total Risk Weighted Assets	**10,385.8**	**9,180.6**	**8,590.3**
CET1 CAR	14.3%	14.3%	13.2%
Tier 1 CAR	14.3%	14.3%	13.2%
CAR	15.2%	15.4%	14.7%

Buffers as at 30 June 2018	MUR m
Tier 1 Buffer	653.8
Tier 1 Buffer with Capital Conservation Buffer	524.0
Total Capital Buffer	535.6
Total Capital Buffer with Capital Conservation Buffer	405.7

Table 9: Capital Ratio

At least 9.25% of risk weighted assets needs to be covered by Tier 1 as from 01 January 2018. Tier 1 CAR and CAR were within the regulatory limits as at end of June 2018.

13. INTERNAL AUDIT (CONT'D)



Monitoring

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

The ICAAP report serves the following main purposes:

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

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

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

	Audited		
	June 2018	June 2017	June 2016
	MUR m	MUR m	MUR m
Common Equity Tier 1 capital: instruments and reserves			
Ordinary shares capital	762.7	762.7	762.7
Share premium	177.8	177.8	177.8
Retained earnings	478.5	322.0	186.5
Accumulated other comprehensive income and other disclosed reserves	91.3	77.8	46.6
Common Equity Tier 1 capital before regulatory adjustments	**1,510.3**	**1,340.3**	**1,173.5**
Common Equity Tier 1 capital: regulatory adjustments			
Other intangible assets	(4.4)	(6.8)	(9.7)
Deferred tax assets	(21.3)	(24.0)	(27.0)
Total regulatory adjustments to Common Equity Tier 1 capital	(25.7)	(30.8)	(36.8)
Common Equity Tier 1 capital (CET1) and Tier 1 capital	**1,484.7**	**1,309.4**	**1,136.8**
Tier 1 capital (T1 = CET1 + AT1)	**1,484.7**	**1,309.4**	**1,136.8**
Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital	-	25.0	60.8
Provisions or loan-loss reserves	89.5	80.6	67.2
Tier 2 capital before regulatory adjustments	**89.5**	**105.6**	**128.0**
Tier 2 capital (T2)	89.5	105.6	128.0
Total Capital (capital base)	**1,574.1**	**1,415.0**	**1,264.7**
Risk Weighted Assets			
Total on-balance sheet risk-weighted credit exposures	9,349.0	8,318.1	7,964.4
Total non-market-related off-balance sheet risk-weighted credit exposures	280.7	215.7	138.4
Total market-related off-balance sheet risk-weighted credit exposures	-	-	-
Risk weighted assets for operational risk	744.0	625.7	480.3
Aggregate net open foreign exchange position	12.1	21.2	7.1
Total risk weighted assets	**10,385.8**	**9,180.6**	**8,590.3**
Capital ratios (as a percentage of risk weighted assets)			
CET1 capital ratio	14.3%	14.3%	13.2%
Tier 1 capital ratio	14.3%	14.3%	13.2%
Total capital ratio	15.2%	15.4%	14.7%

Table 10: Detailed Capital Ratio

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

13. INTERNAL AUDIT (CONT'D)

Monitoring (Cont'd)

Risk Weighted Assets	Audited				
	June 2018			June 2017	June 2016
Risk weighted of On-Balance Sheet assets	Amount	Weight	Weighted amount	Weighted amount	Weighted amount
	MUR M	%	MUR m	MUR m	MUR m
Cash items	6.9	0-20	-	-	-
Claims on sovereigns	4,289.5	0-100	335.4	-	-
Claims on central banks	1,291.9	0-100	101.4	49.2	38.3
Claims on banks	3,383.3	20-100	1,107.9	1,965.9	2,588.8
Claims on corporates	5,454.3	100	5,371.7	4,401.6	1,684.9
Claims on regulatory retail	412.5	75	309.3	205.9	290.1
Claims secured by residential property and commercial estate	493.4	35-125	513.2	369.3	2,331.8
Past due claims	3.6	50-150	3.3	7.1	11.3
Others	1,606.8	100	1,606.8	1,319.1	1,019.3
Total On-Balance Sheet	**16,942.2**		**9,349.0**	**8,318.1**	**7,964.4**

Table 11: On-Balance sheet Risk Weighted Assets

	Audited						
	June 2018					June 2017	June 2016
Risk weighted of Off-Balance Sheet assets	Amount	Credit conversion factor	Credit equivalent amount	Weight	Weighted amount	Weighted amount	Weighted amount
	MUR m	%	MUR m	%	MUR m	MUR m	MUR m
Trade related contingencies	45.6	20-100	45.6	100	20.6	2.2	3.3
Outstanding commitments	1,300.1	0-50	1,300.1	100	260.0	213.5	135.1
Total Off Balance Sheet	**1,345.7**		**1,345.7**		**280.7**	**215.7**	**139.0**

Table 12: Off-Balance sheet Risk Weighted Assets

Risk weighted Assets for Operational risk	Audited		
	June 2018	June 2017	June 2016
	MUR m	MUR m	MUR m
Average gross income for last 3 years	496.0	417.2	320.2
Capital Charge	74.4	62.6	48.0
Risk weighted assets for operational risk	**744.0**	**625.7**	**480.3**

Table 13: Operational Risk - Risk Weighted Assets

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements for the bank's operations in Mauritius presented in this annual report have been prepared by management, which is responsible for their integrity, consistency, objectivity and reliability. International Accounting Standards / International Financial Reporting Standards, as well as the requirements of the Banking Act 2004 and the guidelines issued thereunder, have been applied and management has exercised its judgement and made best estimates where deemed necessary.

The bank has designed and maintained its accounting systems, related internal controls and supporting procedures, to provide reasonable assurance that financial records are complete and accurate and that assets are safeguarded against loss from unauthorised use or disposal. These supporting procedures include careful selection and training of qualified staff, the implementation of organisation and governance structures providing a well-defined division of responsibilities, authorisation levels and accountability for performance, and the communication of the bank's policies, procedures manuals and guidelines of the Bank of Mauritius throughout the bank.

The bank's Board of Directors, acting in part through the Audit Committee, Risk Management Committee and Conduct Review Committee, which comprise of independent directors, oversees management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

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

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

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

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

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

Mr Sydney Ah Yoong
Chairperson
Audit Committee

26 September 2018

TO THE MEMBERS OF ABC BANKING CORPORATION LTD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Banking Corporation Ltd (the "bank") set out on pages 96 to 167 which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the financial statements give a true and fair view of, the financial position of the bank as at 30 June 2018, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act 2001, Banking Act 2004 and Financial Report Act 2004.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Impairment of loans and advances The bank has loans and advances portfolio of MUR 6,054m as at 30 June 2018. As explained in the accounting policies, these loans and advances are carried at amortised cost, less allowance for credit impairment (MUR 156m). This provision is accounted for if, at the reporting date, there is objective evidence, for example the existence of payment arrears, that not all the contractually agreed cash flows will be collected. Failure to promptly recognise objective evidence of the risk of uncollectability and/or errors in the provisioning can result in incorrect valuation of the loans and advances portfolio in the financial statements. Refer to Note 5 for accounting policy on loans and advances and allowance for credit impairment. Given the relative size of loans and advances of the bank (35% of total assets), we identified the valuation of loans and advances as a key audit matter.	We assessed and tested the design and operating effectiveness of the controls over specific and collective impairment calculations including the quality of underlying data and systems. Collective impairment allowances are calculated based on the guidelines imposed by the Bank of Mauritius. Such guidelines require the bank to make portfolio provisions of not less than 1% on unimpaired loans and advances. The Bank of Mauritius also imposes additional macro-prudential provisioning of up to 1% on exposures to certain specific sectors of the economy. As this basis represents a departure from IAS 39, the bank also determines what the collective impairment would have been under the standard using the incurred loss model and evaluates the impact of the departure. We reviewed the portfolio provisioning under both bases and assessed the impact of the difference on the overall presentation of the financial statements.

TO THE MEMBERS OF ABC BANKING CORPORATION LTD (CONT'D)

Report on the Audit of the Financial Statements (Cont'd)

Key Audit Matters (Cont'd)

Key Audit Matter	How the matter was addressed in the audit
Impairment of loans and advances (Cont'd)	In particular, we re-performed the calculations of collective impairment under both methods. For collective impairment under IAS 39, we assessed the appropriateness of the model used including the inputs and assumptions. In respect of the provisioning as per the Guidelines of the Bank of Mauritius, we assessed the appropriateness of the calculation made by management and the identification of loans to be included within the calculation. For specific impairment, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows discounted at the original effective interest rate of the loans and advances. Where cash flows for large credits include the realisable value of collateral securing the credit, the value of such collateral is based on the opinion of independent and qualified appraisers. Therefore, we also assessed the independence and the qualification of those appraisers. Areas of focus included the net investment in finance lease and the loans to retail and corporates in Mauritius. We ensured that all loans with objective evidence of impairment have been properly identified by management by: • Obtaining and testing loan arrears reports and ensuring that all arrears exceeding 90 days are included in the specific impairment analysis; • Reviewing the minutes of the Supervisory Monitoring Committee and Risk Management Committee; • Identifying loan facilities meeting certain criteria such as financial difficulties of the borrower, restructured loans, insufficient collaterals and exposures to sectors in decline. For loans showing an indication of impairment, we independently assessed the appropriateness of provisioning methodologies and policies, and formed an independent view on the levels of provisions booked based on the detailed loan and counterparty information in the credit files. We re-performed calculations within a sample of discounted cash flow models and assessed the reasonableness of assumptions used to support the timing and extent of the cash flows.

TO THE MEMBERS OF ABC BANKING CORPORATION LTD (CONT'D)

Report on the Audit of the Financial Statements (Cont'd)

Key Audit Matters (Cont'd)

Key Audit Matter	How the matter was addressed in the audit
Disclosure of IFRS 9 – impact The bank is adopting IFRS 9 as from 1 July 2018 and has included an estimate of the financial impact of the change in accounting standard in accordance with IAS 8 'Changes in Accounting Estimates and Error' as set out in Note 5. The disclosure describes that the bank continues to refine its expected credit loss model and embed its operational processes which may change the actual impact on adoption. Further testing of financial impact will be performed as part of our 2019 financial year audit.	We have performed audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. Specifically we have: • Considered the appropriateness of the key technical decisions, judgements, assumptions and elections made by management; • Considered the key Classification and Measurement decisions, including Business Model Assessments and Sole Payment of Principal and Interest (SPPI) outcomes; • Involved our credit risk modelling team in the consideration of credit risk modelling decisions and macroeconomic variables, including forward looking economic guidance and generation of multiple economic scenarios; • Reviewed the integrity of both the internal and external credit risk data, and the conceptual soundness of usage of such data; • Considered transitional controls and governance processes related to the approval of the estimated transitional impact.

Other Information

The directors are responsible for the other information. The other information comprises the Corporate Governance Report, Secretary's Certificate, Statement of Directors' Responsibilities, Management Discussion and Analysis, Risk Report and the Statement of Management's Responsibility for Financial Reporting, which we obtained prior to the date of this auditor's report. Other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

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

TO THE MEMBERS OF ABC BANKING CORPORATION LTD (CONT'D)

Report on the Audit of the Financial Statements (Cont'd)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONT'D)

TO THE MEMBERS OF ABC BANKING CORPORATION LTD (CONT'D)

Report on the Audit of the Financial Statements (Cont'd)

Use of Our Report

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

Report on Other Legal and Regulatory Requirements

Companies Act 2001

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

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

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

Banking Act 2004

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

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

Financial Reporting Act 2004

The directors are responsible for preparing the Corporate Governance Report. Our responsibility is to report on the extent of compliance with the Code of Corporate Governance as disclosed in the annual report and whether the disclosure is consistent with the requirement of the Code.

In our opinion, the disclosures in the Corporate Governance Report are consistent with the requirements of the Code.

....

ERNST & YOUNG
Ebène, Mauritius

Date: 26 September 2018

....

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Notes	2018	2017	2016
		MUR	MUR	MUR
ASSETS				
Cash and cash equivalents	9	3,276,741,586	4,317,358,970	3,966,067,879
Due from banks	10	1,030,811,338	1,183,314,188	1,456,600,322
Derivative financial assets	11	4,289,595	4,407,594	4,478,577
Loans and advances to customers	12	6,054,488,404	5,095,744,575	4,594,454,589
Investment securities	13	6,223,153,289	4,716,445,587	4,832,329,437
Other assets	14	94,025,588	31,223,839	11,537,022
Property and equipment	15	394,861,578	372,510,402	222,202,278
Intangible assets	16	4,351,872	6,819,610	9,716,195
Deferred tax assets	17	21,307,487	24,025,071	27,044,221
Total assets		17,104,030,737	15,751,849,836	15,124,430,520
LIABILITIES				
Due to banks	18	110,061,479	-	140,006,397
Derivative financial liabilities	11	2,774,759	16,531,096	692,898
Deposits from customers	19	14,966,194,318	13,803,065,697	13,368,862,538
Preference shares	20	145,340,753	265,749,768	320,758,971
Current tax liabilities		30,924,434	23,175,879	33,230,172
Other liabilities	22	338,395,576	303,047,345	87,354,895
Total liabilities		15,593,691,319	14,411,569,785	13,950,905,871
Shareholders' Equity				
Issued capital	23	940,495,472	940,495,472	940,495,472
Retained earnings		478,528,990	322,022,542	186,460,977
Other reserves	24	91,314,956	77,762,037	46,568,200
Capital and reserves		1,510,339,418	1,340,280,051	1,173,524,649
Total liabilities and equity		17,104,030,737	15,751,849,836	15,124,430,520

These financial statements have been approved and authorised for issue by the Board of Directors on 26 September 2018.

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

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

Mr Sydney Ah Yoong
Chairperson of Audit Committee

The notes set out on pages 100 to 167 form part of these financial statements.
Auditor's report on pages 90 to 94.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018	2017	2016
		MUR	MUR	MUR
Interest income		653,296,994	645,237,899	568,364,546
Interest expense		(267,458,708)	(309,205,620)	(300,366,712)
Net interest income	25	385,838,286	336,032,279	267,997,834
Fee and commission income		104,693,292	112,992,592	128,142,987
Fee and commission expense		(24,210,364)	(23,853,484)	(27,486,119)
Net fee and commission income	26	80,482,928	89,139,108	100,656,868
Net trading income	27	85,243,497	63,830,549	65,420,427
Other operating income	28	7,884,314	4,005,926	1,545,861
Total other income		93,127,811	67,836,475	66,966,288
Operating income		559,449,025	493,007,862	435,620,990
Personnel expenses	30	(162,194,232)	(127,203,015)	(100,909,341)
Depreciation and amortisation	15, 16	(21,624,665)	(19,358,710)	(16,846,870)
Other operating expenses	31	(74,337,683)	(73,175,640)	(70,250,415)
Non interest expenses		(258,156,580)	(219,737,365)	(188,006,626)
Operating profit before impairment		301,292,445	273,270,497	247,614,364
Allowance for credit impairment on financial assets	29	(9,538,421)	(22,952,713)	(61,431,636)
Operating profit before tax		291,754,024	250,317,784	186,182,728
Income tax expense	21	(49,322,296)	(41,809,819)	(24,575,042)
Profit for the year		242,431,728	208,507,965	161,607,686
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of retirement pension, net of deferred tax	40	(746,523)	(483,394)	852,957
Items that may be reclassified subsequently to profit or loss, net of tax				
Fair value realised on disposal of available-for-sale financial assets	24	-	-	(389,784)
Net revaluation movement of available-for-sale financial assets	24	(22,811,840)	(82,358)	(84,514)
		(22,811,840)	(82,358)	(474,298)
Other comprehensive (loss)/income for the year		(23,558,363)	(565,752)	378,659
Total comprehensive income for the year		218,873,365	207,942,213	161,986,345
Earnings per share				
Basic and diluted	32	3.18	2.73	2.92

The notes set out on pages 100 to 167 form part of these financial statements.
Auditor's report on pages 90 to 94.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Issued capital	Retained earnings	Statutory reserve	Available-for-sale reserve	Total
		MUR	MUR	MUR	MUR	MUR
At 1 July 2015		506,699,200	56,345,374	21,039,399	1,761,946	585,845,919
Profit for the year		-	161,607,686	-	4,721,828	166,329,514
Other comprehensive income/(loss)		-	852,957	-	(5,196,126)	(4,343,169)
Total comprehensive income/ (loss) for the year		-	162,460,643	-	(474,298)	161,986,345
Right issue	23	433,796,272	-	-	-	433,796,272
Transfer to statutory reserve		-	(24,241,153)	24,241,153	-	-
Equity dividends	33	-	(8,103,887)	-	-	(8,103,887)
At 30 June 2016		**940,495,472**	**186,460,977**	**45,280,552**	**1,287,648**	**1,173,524,649**
At 1 July 2016		940,495,472	186,460,977	45,280,552	1,287,648	1,173,524,649
Profit for the year		-	208,507,965	-	-	208,507,965
Other comprehensive loss		-	(483,394)	-	(82,358)	(565,752)
Total comprehensive income/ (loss) for the year		-	208,024,571	-	(82,358)	207,942,213
Transfer to statutory reserve		-	(31,276,195)	31,276,195	-	-
Equity dividends	33	-	(41,186,811)	-	-	(41,186,811)
At 30 June 2017		**940,495,472**	**322,022,542**	**76,556,747**	**1,205,290**	**1,340,280,051**
At 1 July 2017		**940,495,472**	**322,022,542**	**76,556,747**	**1,205,290**	**1,340,280,051**
Profit for the year		-	**242,431,728**	-	-	**242,431,728**
Other comprehensive loss		-	**(746,523)**	-	**(22,811,840)**	**(23,558,363)**
Total comprehensive income/ (loss) for the year		-	**241,685,205**	-	**(22,811,840)**	**218,873,365**
Transfer to statutory reserve		-	**(36,364,759)**	**36,364,759**	-	-
Equity dividends	33	-	**(48,813,998)**	-	-	**(48,813,998)**
At 30 June 2018		**940,495,472**	**478,528,990**	**112,921,506**	**(21,606,550)**	**1,510,339,418**

The notes set out on pages 100 to 167 form part of these financial statements.

Auditor's report on pages 90 to 94.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018	2017	2016
		MUR	MUR	MUR
Cash flows from operating activities				
Profit before taxation		**291,754,024**	250,317,784	186,182,728
Adjustments for:				
Depreciation	15	**19,147,497**	16,447,176	13,961,195
Amortisation	16	**2,477,168**	2,911,534	2,885,675
Provision for credit impairment	29	**9,538,421**	22,952,713	61,431,636
Employee benefit costs	40	**696,557**	778,507	601,233
Exchange difference		**(81,393,106)**	41,911,287	65,043,015
(Profit)/loss on disposal of property and equipment	28, 31	**(187,032)**	(338,001)	1,084,139
Profit on disposal of investment securities	28	**(6,455,327)**	(2,452,927)	(373,500)
		235,578,202	332,528,073	330,816,121
Net changes in operating assets and liabilities				
Increase in loans and advances to customers		**(964,599,546)**	(513,910,440)	(1,639,444,097)
(Increase)/decrease in other assets		**(62,801,749)**	(19,686,817)	8,725,304
(Increase)/decrease in derivative financial instruments		**(13,638,338)**	15,909,181	(3,762,110)
Decrease in due from banks		**152,502,850**	273,286,134	284,682,202
Increase in deposits from customers		**1,163,128,621**	434,203,159	2,066,529,056
Increase/(decrease) in other liabilities		**37,904,351**	213,170,903	(11,413,679)
		548,074,391	735,500,193	1,036,132,797
Income tax paid		**(38,754,653)**	(48,769,519)	(3,818,844)
Net cash generated from operating activities		**509,319,738**	686,730,674	1,032,313,953
Cash flows from investing activities				
Purchase of investment securities		**(12,765,561,286)**	(8,603,643,280)	(2,889,659,902)
Proceeds from sale and redemption of investment securities		**11,271,338,400**	8,706,474,179	1,129,478,051
Purchase of property and equipment	15	**(41,703,598)**	(167,135,874)	(15,921,768)
Purchase of intangible assets	16	**(9,430)**	(14,949)	(520,622)
Proceeds from sale of property and equipment		**391,957**	718,575	1,594,877
Net cash used in investing activities		**(1,535,543,957)**	(63,601,349)	(1,775,029,364)
Cash flows from financing activities				
Proceeds from debt securities issued and due to banks	18	**110,061,479**	-	140,006,397
Repayment of debt securities issued and due to banks	18	**-**	(140,006,397)	-
Proceeds from issue of ordinary shares	23	**-**	-	433,796,272
Redemption of preference shares	20	**(124,981,000)**	(53,825,000)	-
Dividend paid	33	**(48,813,998)**	(41,186,811)	(8,103,887)
Net cash (used in)/generated from financing activities		**(63,733,519)**	(235,018,208)	565,698,782
Net (decrease)/increase in cash and cash equivalents		**(1,089,957,738)**	388,111,117	(177,016,629)
Net foreign exchange difference		**49,340,354**	(36,820,026)	(66,928,152)
Net cash and cash equivalents at beginning of year		**4,317,358,970**	3,966,067,879	4,210,012,660
Net cash and cash equivalents at end of year	9	**3,276,741,586**	4,317,358,970	3,966,067,879
Operational cashflows from interest and dividends				
Interest paid		**236,889,734**	329,185,394	287,696,180
Interest received		**652,985,611**	659,937,021	568,981,305
Dividend received		**1,237,480**	1,176,385	1,036,164

The notes set out on pages 100 to 167 form part of these financial statements.

Auditor's report on pages 90 to 94.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. CORPORATE INFORMATION

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

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

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

The financial statements for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 26 September 2018.

2. BASIS OF PREPARATION

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

3. STATEMENT OF COMPLIANCE

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

4. PRESENTATION OF FINANCIAL STATEMENTS

The bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 36.

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Foreign currency translation

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

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

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

5.2 Finance leases

5.2.1 Initial recognition

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

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

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

5.2.2 Subsequent measurement

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

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

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

5.3 Financial instruments - initial recognition and subsequent measurement

5.3.1 Date of recognition

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

5.3.2 Initial measurement of financial instruments

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

5.3.3 Derivatives recorded at fair value through profit or loss

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

a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (also known as the 'underlying').

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

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

5.3.3 Derivatives recorded at fair value through profit or loss (Cont'd)

b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

c) It is settled at a future date.

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

5.3.4 Financial assets or financial liabilities held for trading

The bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short term profit taking. Held for trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

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

5.3.5 The effective interest rate method

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

5.3.6 Day 1 profit or loss

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

5.3.7 Available-for-sale financial investments

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

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

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

Unrealised gains and losses are recognised directly in OCI in the available-for-sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss, in other operating income. Where the bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR which takes into account any discount/premium and qualifying transaction costs that are an integral part of the instrument's yield. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of profit or loss as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of profit or loss in 'impairment losses on financial investments' and removed from the available-for-sale reserve. Where the equity instrument does not have a quoted price in an active market and whose fair value cannot be reliably measured, such unquoted equity instrument is measured at cost less impairment.

5.3.8 Held-to-maturity financial investments

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

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

5.3.9 Due from banks and loans and advances

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

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

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

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

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

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

5.3.10 Debt issued and other borrowed funds

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

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

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

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

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis

or

- The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

or

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

5.4 Derecognition of financial assets and financial liabilities

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in net gain or loss on financial assets and liabilities designated at FVPL. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of instrument, while dividend income is recorded in other operating income when the right to the payment has been established.

5.4.1 Financial assets

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

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

- The bank has transferred its contractual rights to receive cash flows from the asset

or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

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

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

A transfer only qualifies for derecognition if either:

- The bank has transferred substantially all the risks and rewards of the asset

or

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

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

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

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

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

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

5.4.2 Financial liabilities

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

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

5.5 Determination of fair value

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

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

5.6 Impairment of financial assets

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

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

5.6.1 Financial assets carried at amortised cost

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

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

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

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

It is the bank's policy to regularly monitor its loan portfolio. A specific assessment is made on an individual basis for loans that are 90 days past due. Impairment indicators include: internal rating of the borrower indicating default or near-default, the borrower requesting emergency funding from the bank; the borrower having past due liabilities to creditors or employees; a material decrease in the underlying collateral value where the sale of the financed asset is required to repay the loan; a material decrease in the borrower's turnover or the loss of a major customer; a material decrease in estimated future cash flows; any material facility at the debtor level falling beyond 90 days past due; a covenant breach not waived by the bank; the debtor (or any legal entity within the debtor's group) filing for bankruptcy application/ protection and/or debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in allowance for credit impairment on financial assets in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income.

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

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

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

5.6 Impairment of financial assets (Cont'd)

5.6.1 Financial assets carried at amortised cost (Cont'd)

B. Collective impairment

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

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

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

5.6.2 Available-for-sale financial investments

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

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

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

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

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

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

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

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

5.6.3 Forborne loans

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

5.6.4 Collateral valuation

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

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

5.6.5 Collateral repossessed

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

5.7 Recognition of income and expenses

Revenue is recognised to the extent that it is possible that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

5.7.1 Interest income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at FVPL, interest income or expense is recorded using the effective interest rate.

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

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

5.7 Recognition of income and expenses (Cont'd)

5.7.1 Interest income and expense (Cont'd)

When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for measuring the impairment loss.

5.7.2 Fee and commission income

Fee income forming an integral part of the corresponding financial instrument

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

5.7.3 Dividend income

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

5.8 Cash and cash equivalents

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

5.9 Property and equipment

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

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

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

5.10 Intangible assets

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

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

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

5.11 Impairment of non-financial assets

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

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

5.12 Financial guarantees

In the ordinary course of business, the bank gives financial guarantees, consisting of letters of credit and financial guarantees. Financial guarantees are initially recognised within 'Other liabilities' at fair value. Subsequent to initial recognition, the bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in profit or loss in 'Allowance for credit impairment'. The premium received is recognised in profit or loss in 'Fees and commission income' on a straight line basis over the life of the guarantee.

5.13 Post-employment benefits

Retirement gratuities

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

Defined contributions plans

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

5.14 Provisions

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

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

5.15 Taxes

5.15.1 Current tax

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

5.15.2 Deferred tax

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

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

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

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

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

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

5.15.3 Value Added Tax

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

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

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

5.16 Dividends on ordinary shares

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

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

5.17 Segmental reporting

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

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

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

5.18 Operating lease

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

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

In the current year, there has been no new and revised Standard and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to the bank's operations and effective for accounting period beginning on or after 1 July 2018.

Amendments to IAS 12 Income Taxes - effective 1 January 2017

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment did not have a material impact on the financial statements.

Amendments to IAS 7 Statement of Cash Flows - effective 1 January 2017

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities were required to disclose changes in their financial liabilities as a result of financial activities such as changes from cash flows and non-cash items (gains and losses due to foreign currency movements).

The bank has provided the information in Note 43.

Amendments to IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12 - effective date 1 January 2017

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendments do not have an impact on the bank.

Relevant new and revised Standards in issue but not yet effective

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

IFRS 9		Financial instruments (effective date 1 Jan 2018)
IFRS 15		Revenue from contracts with customers (effective date 1 Jan 2018)
IFRS 16		Leases (effective date 1 Jan 2019)
IFRIC	Interpretation 22	Foreign currency transactions and advance consideration (effective date 1 Jan 2018)
IFRIC	Interpretation 23	Uncertainty over income tax treatments (effective date 1 Jan 2019)

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

5.20 IFRS 9 - Financial Instruments

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

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

IFRS 9 Implementation Programme

The bank has run a centrally managed IFRS 9 program sponsored by the bank's Head of Finance, in consultation with Deloitte, which has included business functions and subject matter experts on methodology, data sourcing and modelling, IT processing and reporting. The bank's implementation of IFRS 9 has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and developing an impairment methodology to support the calculation of the Expected Credit Loss allowance.

Prior to implementation of IFRS 9, the bank benchmarked its current state to the new standard requirements across several essential parameters such as data, models, accounting and business model to identify the gaps and understand the readiness for adoption of IFRS 9. The bank developed a detailed implementation plan, outlined with target completion dates against each activity and internal stakeholder responsibilities, for the implementation of the requirements of IFRS 9 and is following the plan to meet the stipulated timelines.

The bank commenced with the Design and Implementation phase with the development of an approach for reviewing business models and methodology for testing the Solely Payments of Principal and Interest criteria of IFRS 9. Concurrently, the bank also developed its approach for assessing significant increase in credit risk, incorporating forward looking information, including macro-economic factors, preparing the required IT systems and process architecture, as well as development of a related IFRS 9 governance and control framework. The bank has performed a final parallel run based on 30 June 2018 data.

Overall governance of the program's implementation has been through the bank's IFRS 9 Steering Committee and includes representation from Finance, Risk and IT. Guidance and training on IFRS 9 across the bank have been delivered across businesses and functions as part of the bank's control process and implementation program. The bank enhanced its governance environment to ensure an updated framework for classification and measurement, and impairment by implementing appropriate validations and controls over new key processes and significant areas of judgement. The specific process and business controls under this updated framework are being incorporated and finalised. Governance over the Expected Credit Loss calculation process is shared across Risk and Finance functions.

Classification and measurement

IFRS 9 requires financial assets to be classified on the basis of two criteria:

- The business model within which financial assets are managed, and
- Their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest').

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest.

Business models are determined on initial application and this may differ from the model before 1 July 2018 for certain portfolios. The bank assesses the business model at a portfolio level. Information that is considered in determining the business model includes:

i. policies and objectives for the relevant portfolio,

ii. how the performance and risks of the portfolio are managed, evaluated and reported to management, and

iii. the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

Financial assets managed on a fair value basis and those that are held for trading are held at fair value through profit and loss.

In assessing whether contractual cash flows are solely payments of principal and interest, terms that could change the contractual cash flows so that it would not meet the condition for solely payments of principal and interest are considered, including:

1) contingent and leverage features,

2) non-recourse arrangements, and

3) features that could modify the time value of money.

Other financial assets are measured at fair value through profit or loss. There is an option to make an irrevocable election for non-traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon de-recognition, and impairment is not recognised in the statement of profit or loss.

IFRS 9 retains almost all of the existing requirements from IAS 39 on the classification of financial liabilities, including those relating to embedded derivatives except for financial liabilities classified at FVTPL using the fair value option. The amount of change in fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

Impairment

IFRS 9 introduces a revised impairment model which will require entities to recognise expected credit losses based on unbiased forward looking information. This replaces the existing IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss has already been incurred and would measure the loss at the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

The measurement of expected credit loss will involve increased complexity and judgement including estimation of probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives and estimation of exposures at default and assessing significant increases in credit risk. It is expected to have a material financial impact and impairment charges will tend to be more volatile. Impairment will also be recognised earlier and the amounts will be higher. Unsecured products with longer expected lives, are expected to be most impacted.

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

5.20 IFRS 9 - Financial Instruments (Cont'd)

Impairment (Cont'd)

The impairment requirements are complex and require management judgements, estimates and assumptions.

Key concepts and management judgements include:

- Determining a significant increase in credit risk since initial recognition

IFRS 9 requires the recognition of 12 month expected credit losses (the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3).

The bank will assess when a significant increase in credit risk has occurred based on backstop criteria and qualitative assessments. Exposures are considered to have resulted in a significant increase in credit risk and are moved to stage 2 when:

(i) Backstop criteria

Accounts that are 30 calendar days or more past due. The 30 days past due criteria is a backstop rather than a primary driver of moving exposures into stage 2. Exposures will move back to stage 1 once they no longer meet the criteria for a significant increase in credit risk and when any cure criteria used for credit risk management are met. This is subject to all payments being up to date and the customer evidencing ability and willingness to maintain future payments.

(ii) Qualitative test

Accounts that meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring.

- Forward-looking information

Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate. Expected credit losses are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non-linear relationship between forward-looking economic scenarios and their associated credit losses, a range of forward-looking economic scenarios, will be considered to ensure a sufficient unbiased representative sample of the complete distribution is included in determining the expected loss. Stress testing methodologies will be leveraged within forecasting economic scenarios for IFRS 9 purposes.

- Expected Credit Loss (ECL)

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the bank classifies its loans into Stage 1, Stage 2, Stage 3 as described below:

The calculation of ECLs

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

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

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

When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the bank has the legal right to call it earlier.

The mechanics of the ECL method are summarised below:

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Debt instruments measured at fair value through OCI

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

Expected impact

There will be no impact on the bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the bank does not have any such liabilities. The de-recognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

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

5.20 IFRS 9 - Financial Instruments (Cont'd)

Impairment (Cont'd)

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

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

The other financial assets held by the bank include:

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

Accordingly, the bank does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

We estimate that the changes in measurement arising on the initial adoption of IFRS 9 results in an increase in shareholders' equity of approximately MUR 29.4 million, at 1 July 2018. This will result in a decrease in the bank's loan impairment provisions from MUR 89.9 million under IAS 39 to approximately MUR 52.6 million, an estimated loss of MUR 1.5 million from changes in the classification and measurement of assets and liabilities under IFRS 9 and a decrease in deferred tax of MUR 6.4 million. The impact is tabled below:

	MUR m
Decrease in allowance for credit impairment	37.3
Decrease in deferred tax assets	6.4
Increase in shareholders' equity	29.4

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The bank will apply the new rules from 1 July 2018, however, comparatives for previous years will not be restated.

The probable impact on regulatory capital is set out in the Risk review and Capital management (Note 8). The bank continues to refine its expected credit loss models and embed its operational processes which may change the actual impact on adoption.

5.21 IFRS 15 - Revenue from Contracts with Customers

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

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The bank plans to adopt the new standard on the required effective date using the modified retrospective approach. The bank does not expect a major impact from the adoption of IFRS 15 given that the main revenue streams of the bank do not fall under the scope of IFRS 15.

5.22 IFRS 16 - Leases

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

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

6. USE OF ESTIMATES AND JUDGEMENTS

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

6.1 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 5.5.

6.2 Effective interest rate (EIR) method

The bank's EIR methodology, as explained in Note 5.3.5, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to the country's base rate and other fee income/expense that are integral parts of the instrument.

6.3 Impairment losses on loans and advances

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

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

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

6.4 Impairment of available-for-sale financial investments

The bank reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired as explained in Note 5.6.2.

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

7. FINANCIAL RISK MANAGEMENT

(a) Introduction

Risk is inherent in the bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the bank's continuing profitability and the bank as an entity is accountable for its risk exposures. The bank is exposed to credit risk, interest rate risk, liquidity risk and market risk. It is also subject to operating risk.

The bank manages its risk exposure through its Risk department which develops methodologies to identify, measure, mitigate and monitor the major risks. The Risk department reports to the Risk Management Committee and ultimately to the Board in a structured manner on credit, market and operational risk matters.
The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the bank's strategic planning process.

Risk management structure

The Board of Directors recognises that the bank encounters risk in every aspect of its business and ensures that the necessary structures, processes and methods for identifying, measuring and monitoring such risks are in place as advocated by Basel norms and relevant laws and regulations. The Risk Management Committee plays an active role in ensuring that risk-taking activities remain within the boundaries of the appetite approved by the Board. The committee receives regular reports and recommendations following work done by the Risk function, the Supervisory and Monitoring Committee and the Asset and Liability Committee. Through its Chairperson, the committee reports to the Board in a timely manner on all risk issues that could have an impact on the operations and/or reputation of the bank.

Board of Directors

The Board of Directors as well as the bank's senior management are responsible for understanding both the nature and level of risks taken by the institution and how the risk relates to adequate capital levels. The Board is also responsible for the overall risk management approach and for approving the risk strategies and principles.

(b) Credit risk

Credit risk is the risk that the bank will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

The bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position.

	Maximum exposure to credit risk		
	2018	2017	2016
	MUR	MUR	MUR
Cash and cash equivalents	**3,269,834,484**	4,312,103,904	3,953,287,026
Due from banks	**1,030,811,338**	1,183,314,188	1,456,600,322
Derivative financial assets	**4,289,595**	4,407,594	4,478,577
Loans and advances to customers	**6,054,488,404**	5,095,744,575	4,594,454,589
Investment securities	**6,190,333,530**	4,688,200,461	4,800,190,925
Other assets	**91,605,147**	28,642,236	9,953,113
Total credit risk exposure	**16,641,362,498**	15,312,412,958	14,818,964,552

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

	2018	2017	2016
	MUR	MUR	MUR
Manufacturing	**1,211,262,101**	461,821,375	338,723,290
Construction	**538,883,682**	548,687,262	455,415,105
Professional	**17,654,147**	39,769,983	41,963,193
Traders	**829,872,676**	920,851,595	765,158,434
Tourism	**1,232,895,804**	1,228,326,383	733,065,907
Transport	**340,201,190**	279,894,191	245,189,874
Financial and Business services	**4,939,523,849**	4,979,390,591	5,709,773,482
Personal	**422,312,624**	233,807,037	235,850,144
Agriculture	**610,000,251**	617,279,649	357,486,216
Global Business Licence Holders	**743,934,271**	675,200,119	781,478,428
Government	**5,581,388,004**	5,213,490,555	5,025,872,103
Others	**173,433,899**	113,894,218	128,988,376
	16,641,362,498	15,312,412,958	14,818,964,552

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

	2018	2017	2016
	MUR	MUR	MUR
Manufacturing	**78,356,890**	124,176,351	38,750,735
Construction	**75,472,503**	145,941,403	13,985,666
Traders	**421,999,359**	235,266,602	188,509,234
Tourism	**157,449,261**	117,703,561	318,228,830
Transport	**49,959,862**	32,036,638	25,075,835
Financial and Business services	**262,313,589**	304,374,028	13,816,262
Personal	**130,158,136**	15,964,337	15,035,785
Agriculture	**15,000,000**	30,000,000	-
Global Business Licence Holders	**125,179,446**	34,903,202	66,786,540
Others	**29,860,279**	37,889,518	11,955,535
	1,345,749,325	1,078,255,640	692,144,422

7. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

Credit quality by class of financial assets

The bank assesses each credit facility request on its own merits by analysing the credit history of the potential client, the latter's cash flow history, future projections of the business or income capacity of the individual, the availability and type of collateral that will secure the facility, the repayment capacity of the business or individual and the character of the individual. The bank will also consider individual factors that would represent strengths in favour of or weaknesses against the approval of credit facilities.

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	MUR	MUR	MUR	MUR
2018				
Cash and cash equivalents	3,269,834,484	-	-	3,269,834,484
Due from banks	1,030,811,338	-	-	1,030,811,338
Derivative financial assets	4,289,595	-	-	4,289,595
Loans and advances to customers	6,037,004,373	10,576,360	6,907,671	6,054,488,404
Investment securities	6,190,333,530	-	-	6,190,333,530
Other assets	91,605,147	-	-	91,605,147
	16,623,878,467	10,576,360	6,907,671	16,641,362,498
2017				
Cash and cash equivalents	4,312,103,904	-	-	4,312,103,904
Due from banks	1,183,314,188	-	-	1,183,314,188
Derivative financial assets	4,407,594	-	-	4,407,594
Loans and advances to customers	5,086,125,375	3,376,750	6,242,450	5,095,744,575
Investment securities	4,686,201,297	-	1,999,164	4,688,200,461
Other assets	28,642,236	-	-	28,642,236
	15,300,794,594	3,376,750	8,241,614	15,312,412,958
2016				
Cash and cash equivalents	3,953,287,026	-	-	3,953,287,026
Due from banks	1,456,600,322	-	-	1,456,600,322
Derivative financial assets	4,478,577	-	-	4,478,577
Loans and advances to customers	4,476,911,252	109,855,851	7,687,486	4,594,454,589
Investment securities	4,800,190,925	-	-	4,800,190,925
Other assets	9,953,113	-	-	9,953,113
	14,701,421,215	109,855,851	7,687,486	14,818,964,552

Ageing analysis of past due but not impaired loans by class of financial assets

	Amount in arrears				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
	MUR	MUR	MUR	MUR	MUR
2018					
Loans and advances to customers					
Loans and overdrafts					
Retail	624,525	278,970	-	-	903,495
Corporate	1,664,995	387,501	-	18,392	2,070,888
	2,289,520	666,471	-	18,392	2,974,383
Investment in finance leases					
Retail	109,436	33,390	45,084	-	187,910
Corporate	4,451,863	2,853,123	109,081	-	7,414,067
	4,561,299	2,886,513	154,165	-	7,601,977
	6,850,819	3,552,984	154,165	18,392	10,576,360
2017					
Loans and advances to customers					
Loans and overdrafts					
Retail	1,574,148	16,623	-	2,932	1,593,703
Corporate	153,509	154,710	79,272	979	388,470
	1,727,657	171,333	79,272	3,911	1,982,173
Investment in finance leases					
Retail	184,874	268,264	46,984	14,341	514,463
Corporate	570,515	55,133	240,735	13,731	880,114
	755,389	323,397	287,719	28,072	1,394,577
	2,483,046	494,730	366,991	31,983	3,376,750
2016					
Loans and advances to customers					
Loans and overdrafts					
Retail	12,290	5,809	-	326	18,425
Corporate	106,977,501	98,996	153,885	-	107,230,382
	106,989,791	104,805	153,885	326	107,248,807
Investment in finance leases					
Retail	440,714	601,209	169,925	13,738	1,225,586
Corporate	576,721	366,840	390,830	47,067	1,381,458
	1,017,435	968,049	560,755	60,805	2,607,044
	108,007,226	1,072,854	714,640	61,131	109,855,851

7. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

	2018	2017	2016
	MUR	MUR	MUR
Instruments			
Financial guarantees	32,168,218	10,780,105	10,051,719
Letters of credit and other obligations on account of customers	13,459,409	-	6,639,134
Commitments			
Undrawn credit facilities	1,300,121,698	1,067,475,535	675,453,569
	1,345,749,325	1,078,255,640	692,144,422

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

For investment in finance leases, the assets under lease are registered under ABC Banking Corporation Ltd up until the lessee pays in full the contractual amount due, whereby title is then transferred. Should the lessee default in payment, the bank has the right to undertake legal procedures to recover the asset under lease, which in substance acts as a collateral against defaults.

For loans, management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the bank's policy to dispose of repossessed assets in an orderly fashion. The proceeds are used to reduce or repay the outstanding claims.

Impairment assessment

It is the bank's policy to regularly monitor its loan portfolio.

The main considerations for the impairment assessment of the bank's loans and advances portfolio include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

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

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

The bank's impairment methodology for assets carried at amortised cost comprises individual impairment losses and collective impairment.

Individually assessed allowances

The bank determines the allowances appropriate for each individually significant loan and advance on an individual basis. Items considered when determining allowance amounts include an assessment of the counterparty's repayment plan, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

For the purpose of collective evaluation of impairment, financial assets are grouped based on their credit risk characteristic. Future cashflows on a group of financial assets that are collectively evaluated are estimated on the basis of historical loss experience. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based.

(c) Liquidity risk

Liquidity risk is the risk that the bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a weekly basis. This incorporates an assessment of expected cash flows.

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

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

	2018	2017	2016
	%	%	%
Lowest	24	31	35
Highest	36	40	42
Average during the year	31	37	38

7. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (Cont'd)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the bank's financial liabilities at end of period based on discounted contractual repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the bank expects that many customers will not request repayment on the earliest date the bank could be required to pay and the table does not reflect the expected cash flows indicated by the bank's deposit retention history.

Maturity analysis of financial liabilities

	No specific maturity	Less than 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
	MUR	MUR	MUR	MUR	MUR	MUR
2018						
Due to banks	-	110,061,479	-	-	-	110,061,479
Derivative financial liabilities	-	1,442,153	1,332,606	-	-	2,774,759
Deposits from customers	-	7,319,098,350	912,881,784	950,772,447	5,783,441,737	14,966,194,318
Preference shares	-	-	7,160,753	138,180,000	-	145,340,753
Other liabilities	288,610,248	2,244,675	32,917,000	-	-	323,771,923
Total financial liabilities	288,610,248	7,432,846,657	954,292,143	1,088,952,447	5,783,441,737	15,548,143,232
Contingent liabilities and commitments	-	773,201,314	571,814,809	733,202	-	1,345,749,325
2017						
Derivative financial liabilities	-	14,803,458	1,727,638	-	-	16,531,096
Deposits from customers	-	10,350,588,198	1,463,759,080	1,211,401,204	777,317,215	13,803,065,697
Preference shares	-	-	127,569,768	-	138,180,000	265,749,768
Other liabilities	264,752,923	3,058,750	26,651,914	-	-	294,463,587
Total financial liabilities	264,752,923	10,368,450,406	1,619,708,400	1,211,401,204	915,497,215	14,379,810,148
Contingent liabilities and commitments	-	898,461,856	178,616,527	1,177,257	-	1,078,255,640
2016						
Due to banks	-	140,006,397	-	-	-	140,006,397
Derivative financial liabilities	-	692,898	-	-	-	692,898
Deposits from customers	-	10,997,681,711	1,169,746,860	788,019,791	413,414,176	13,368,862,538
Preference shares	-	-	57,597,971	124,981,000	138,180,000	320,758,971
Other liabilities	60,454,581	944,775	23,853,036	-	-	85,252,392
Total financial liabilities	60,454,581	11,139,325,781	1,251,197,867	913,000,791	551,594,176	13,915,573,196
Contingent liabilities and commitments	793,848	609,129,929	71,134,214	11,086,431	-	692,144,422

(d) Market Risk

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the bank's statement of profit or loss and other comprehensive income. The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 30 June.

	Impact of change in interest rate on profit or loss		
	Assets	Liabilities	Increase / (decrease) in profit
	MUR	MUR	MUR
2018			
Increase in basis point - 50 bp	**11,381,030**	**(20,507,614)**	**(9,126,584)**
Decrease in basis point - 50 bp	**(11,381,030)**	**20,507,614**	**9,126,584**
2017			
Increase in basis point - 50 bp	11,112,618	(21,623,049)	(10,510,431)
Decrease in basis point - 50 bp	(11,112,618)	21,623,049	10,510,431
2016			
Increase in basis point - 50 bp	10,870,056	(19,969,246)	(9,099,190)
Decrease in basis point - 50 bp	(10,870,056)	19,969,246	9,099,190

(ii) Price risk

Equity price risk is the risk that the fair values of equities change as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the bank's investment portfolio.

The effect on changes in net assets as a result of a change in the fair value of equity instruments held as available-for-sale, due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in price	Effect on equity		
		2018	2017	2016
	%	MUR	MUR	MUR
Available-for-sale	+10	167,957,014	7,805,265	7,995,478
Available-for-sale	-10	(167,957,014)	(7,805,265)	(7,995,478)

7. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Market Risk (Cont'd)

(iii) Foreign exchange risk

Foreign exchange risk is the risk that the bank's foreign currency positions will be negatively affected by movements in exchange rates between one currency and another. The bank uses foreign exchange forward contracts to manage foreign exchange risk and exercises control over its foreign currency exposures through the allocation of trading limits. The Treasury department monitors open positions to measure foreign exchange risk and liquidity gaps. Exposures are reported on an ongoing basis to the Assets and Liabilities Committee.

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

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

The VaR that the bank measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one-day horizon, losses exceeding the VaR figure should occur, on average under normal market conditions, not more than once every hundred days.

VaR as at 30 June 2018 amounted to MUR 116,396 (2017 : MUR 178,303, 2016 : MUR 47,429).

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

	EUR	GBP	USD	Others	Total
	MUR	MUR	MUR	MUR	MUR
2018					
Cash and cash equivalents	418,933,550	666,419,342	1,768,064,204	115,128,309	2,968,545,405
Due from banks	43,488,825	6,838,306	501,702,457	-	552,029,588
Derivative financial assets	1,602,678	-	2,570,010	116,907	4,289,595
Loans and advances to customers	698,464,677	-	1,389,884,148	-	2,088,348,825
Investment securities	1,194,328,891	-	1,049,883,658	-	2,244,212,549
Other assets	63,170,952	-	16,506,250	531,396	80,208,598
	2,419,989,573	673,257,648	4,728,610,727	115,776,612	7,937,634,560
Derivative financial liabilities	233,154	1,954,223	526,976	60,407	2,774,760
Deposits from customers	2,385,576,496	711,267,292	4,500,534,159	118,543,941	7,715,921,888
Other liabilities	44,523,420	2,220,764	155,809,213	8,334,527	210,887,924
	2,430,333,070	715,442,279	4,656,870,348	126,938,875	7,929,584,572
Net position	(10,343,497)	(42,184,631)	71,740,379	(11,162,263)	8,049,988

	EUR	GBP	USD	Others	Total
	MUR	MUR	MUR	MUR	MUR
2017					
Cash and cash equivalents	2,048,354,885	212,680,702	1,400,647,747	123,924,708	3,785,608,042
Due from banks	2,519,190	63,001,163	603,183,905	-	668,704,258
Derivative financial assets	165	4,359,455	15,223	32,751	4,407,594
Loans and advances to customers	753,849,992	-	403,513,972	-	1,157,363,964
Investment securities	99,680,977	-	188,188,497	-	287,869,474
Other assets	-	-	16,435,000	531,972	16,966,972
	2,904,405,209	280,041,320	2,611,984,344	124,489,431	5,920,920,304
Derivative financial liabilities	13,854,458	45,021	2,608,194	23,343	16,531,016
Deposits from customers	2,012,272,825	669,037,634	2,886,461,680	113,652,152	5,681,424,291
Other liabilities	96,218,920	6,045,722	84,163,457	17,292,507	203,720,606
	2,122,346,203	675,128,377	2,973,233,331	130,968,002	5,901,675,913
Net position	782,059,006	(395,087,057)	(361,248,987)	(6,478,571)	19,244,391

	EUR	GBP	USD	Others	Total
	MUR	MUR	MUR	MUR	MUR
2016					
Cash and cash equivalents	1,764,831,884	500,399,444	1,388,311,769	145,094,842	3,798,637,939
Due from banks	486,976,436	114,577,648	389,667,068	1,150,832	992,371,984
Derivative financial assets	3,390,406	-	1,053,437	34,734	4,478,577
Loans and advances to customers	914,640,330	-	535,976,966	-	1,450,617,296
Investment securities	-	-	192,706,372	-	192,706,372
Other assets	-	-	1,772,500	-	1,772,500
	3,169,839,056	614,977,092	2,509,488,112	146,280,408	6,440,584,668
Derivative financial liabilities	613,529	10,327	-	69,042	692,898
Deposits from customers	2,747,174,487	675,094,102	2,854,477,787	146,324,081	6,423,070,457
Other liabilities	7,013,979	1,685,194	2,569,355	425,818	11,694,346
	2,754,801,995	676,789,623	2,857,047,142	146,818,941	6,435,457,701
Net position	415,037,061	(61,812,531)	(347,559,030)	(538,533)	5,126,967

(e) Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the bank is able to manage those risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

8. CAPITAL MANAGEMENT

The bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Bank of Mauritius in supervising the bank.

During the past year, the bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the bank's capital management are to ensure that the bank comply with externally imposed capital requirements and that the bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The capital structure of the bank consists of issued capital, reserves and retained earnings. Note on stated capital is disclosed in Note 23. The bank has to comply with the Banking Act 2004 in respect of both its stated capital and reserves which is detailed in the notes. For the year ended 30 June 2018 and at that date, the bank has complied with the regulatory requirement for both share capital and reserves. The bank manages its capital with the aim of maximising the return to the shareholders and other stakeholders.

The bank capital adequacy ratio is analysed as follows:

	2018	2017	2016
	%	%	%
CET1 capital ratio	14.3	14.3	13.2
Tier 1 capital ratio	14.3	14.3	13.2
Total capital ratio	15.2	15.4	14.7

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

	2018	2017	2016
	%	%	%
CET1 capital ratio	6.5	6.5	6.5
CET1 capital ratio plus Capital Conservation Buffer	7.75	7.125	6.5
Tier 1 capital ratio	8.0	8.0	8.0
Total capital ratio	10.0	10.0	10.0
Total capital ratio plus Capital Conservation Buffer	11.25	10.625	10.0

9. CASH AND CASH EQUIVALENTS

	2018	2017	2016
	MUR	MUR	MUR
Cash in hand	6,907,102	5,255,066	12,780,853
Unrestricted balances with Central Bank	371,944,871	556,935,303	187,679,011
Balances with banks	1,826,588,270	1,526,144,576	455,791,054
Loans to and placements with banks	1,071,301,343	2,229,024,025	3,309,816,961
	3,276,741,586	4,317,358,970	3,966,067,879

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

10. DUE FROM BANKS

	2018	2017	2016
	MUR	MUR	MUR
Banks outside Mauritius	422,240,976	324,647,656	948,349,003
Banks in Mauritius	-	279,174,425	1,148,538
Deposits with the Central Bank	17,315,550	28,984,402	32,167,947
Restricted balances with the Central Bank	591,254,812	550,507,705	474,934,834
	1,030,811,338	1,183,314,188	1,456,600,322

Restricted balances with the Central Bank represent the mandatory reserve deposits and are not available for use in the bank's day-to-day operations.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The bank enters into derivatives for the optimal deployment of its liability base in foreign currencies and for liquidity risk management. The bank may also take positions with the expectation of profiting from favourable movements in rates.

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts.

The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument.

The notional amounts indicate the volume of transactions oustanding at the year end and are not indicative of either the market or credit risk.

	MUR	MUR	MUR
30 June 2018			
	Notional amount	**Assets**	**Liabilities**
Foreign exchange contracts	389,745,945	4,289,595	2,774,759
30 June 2017			
	Notional amount	Assets	Liabilities
Foreign exchange contracts	787,864,985	4,407,594	16,531,096
30 June 2016			
	Notional amount	Assets	Liabilities
Foreign exchange contracts	424,863,592	4,478,577	692,898

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the underlying asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the bank.

As at 30 June, the bank has exposures in the following types of derivatives.

Foreign exchange forward contract

A forward exchange forward contract is a derivative instrument used to manage foreign exchange risks. It is an agreement between two counterparties to convert one currency into another at a later date, but at a rate agreed earlier on the deal date.

Foreign exchange swap

A foreign exchange swap is the simultaneous buying and selling of an identical amount of one currency for another but with two different value dates. One value date is a spot and the other one is a forward date.

The following table shows an analysis of derivative financial instruments by level of the fair value hierarchy:

Valuation is done on a daily basis using live market rates, hence providing an up to date mark to market of our exposures.

	2018	2017	2016
	MUR	MUR	MUR
Level 1	-	-	-
Level 2	4,289,595	4,407,594	4,478,577
Level 3	-	-	-
	4,289,595	4,407,594	4,478,577

12. LOANS AND ADVANCES TO CUSTOMERS

	2018 MUR	2017 MUR	2016 MUR
Loans and overdrafts			
Retail	320,596,942	196,303,606	188,164,723
Corporate	4,738,788,744	4,169,756,527	3,650,862,892
	5,059,385,686	4,366,060,133	3,839,027,615
Less: Allowance for impairment losses (Note 12(c))	(78,036,671)	(68,446,788)	(60,146,544)
	4,981,349,015	4,297,613,345	3,778,881,071
Investment in finance leases			
Retail	472,472,536	344,441,698	362,477,297
Corporate	679,098,611	540,201,825	568,890,528
	1,151,571,147	884,643,523	931,367,825
Less: Allowance for impairment losses (Note 12(c))	(78,431,758)	(86,512,293)	(115,794,307)
	1,073,139,389	798,131,230	815,573,518
Net loans and advances to customers	6,054,488,404	5,095,744,575	4,594,454,589

(a) Investment in finance leases

	2018 MUR	2017 MUR	2016 MUR
Gross investment in finance leases:			
Up to 3 months	159,137,605	121,119,598	152,763,878
Over 3 months and up to 6 months	91,485,283	73,870,071	87,388,956
Over 6 months and up to 12 months	170,529,981	138,771,539	146,457,828
Over 1 year and up to 5 years	839,094,570	584,948,086	569,790,871
Over 5 years	61,434,313	37,732,620	41,375,569
	1,321,681,752	956,441,914	997,777,102
Allocation of unearned finance income	(170,110,605)	(71,798,391)	(66,409,277)
Present value of minimum lease payments	1,151,571,147	884,643,523	931,367,825
Analysed as follows:			
Current			
- Not later than 1 year	356,713,924	317,223,284	403,293,128
Non current			
- Later than 1 year and not later than 5 years	736,410,052	530,004,324	490,913,952
- Later than 5 years	58,447,171	37,415,915	37,160,745
	1,151,571,147	884,643,523	931,367,825

(b) Credit concentration of risk by industry sectors

	2018 MUR	2017 MUR	2016 MUR
Sectorial concentration of loans and advances (gross of impairment)			
Manufacturing	1,013,659,648	481,291,085	357,232,515
Construction	441,396,053	492,224,306	482,292,458
Professional	17,024,777	39,423,252	42,415,711
Traders	844,809,000	940,423,281	784,106,780
Tourism	886,884,218	1,012,235,004	767,852,608
Transport	348,280,509	289,511,427	255,953,155
Financial and Business Services	1,047,793,648	693,942,006	861,865,426
Personal	452,331,741	264,127,830	268,227,789
Agriculture	363,767,334	370,793,457	160,517,096
Global Business Licence Holders	621,246,607	552,383,130	656,514,756
Others	173,763,298	114,348,878	133,417,146
	6,210,956,833	5,250,703,656	4,770,395,440
Analysed as follows:			
Loans and overdrafts	5,059,385,686	4,366,060,133	3,839,027,615
Investment in finance leases	1,151,571,147	884,643,523	931,367,825
	6,210,956,833	5,250,703,656	4,770,395,440

Total credit facilities including guarantees, acceptances and other similar commitments extended by the bank to any one customer or group of closely related customers for amounts aggregating more than 15% of its capital base classified by industry sectors:

	2018 MUR	2017 MUR	2016 MUR
Manufacturing	475,014,629	83,599,892	13,816,234
Construction	301,982,379	154,917,141	57,879,655
Traders	258,391,314	507,435,134	353,934,649
Tourism	1,045,713,263	721,801,009	563,095,089
Transport	231,835,438	114,007,857	79,977,645
Financial and Business Services	474,310,867	386,195,278	219,150,114
Agriculture	288,500,000	286,445,704	-
Global Business Licence Holders	329,915,254	208,182,246	288,237,397
Others	61,004,273	13,858,884	14,298,228
	3,466,667,417	2,476,443,145	1,590,389,011

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

(c) Impairment allowance for loans and advances

The following is a reconciliation of the individual and collective allowances for impairment losses on loans and advances to customers:

	Individual impairment	Collective impairment	Total
	MUR	MUR	MUR
At 1 July 2015	90,530,057	38,241,318	128,771,375
Allowance for credit impairment for the year (Note 29)	31,869,291	24,827,490	56,696,781
Provision released (Note 29)	(2,358,423)	-	(2,358,423)
Written off	(7,168,882)	-	(7,168,882)
At 30 June 2016	112,872,043	63,068,808	175,940,851
At 1 July 2016	112,872,043	63,068,808	175,940,851
Allowance for credit impairment for the year (Note 29)	7,374,072	9,062,583	16,436,655
Provision released (Note 29)	(2,005,529)	-	(2,005,529)
Written off	(35,412,896)	-	(35,412,896)
At 30 June 2017	82,827,690	72,131,391	154,959,081
At 1 July 2017	**82,827,690**	**72,131,391**	**154,959,081**
Allowance for credit impairment for the year (Note 29)	**2,375,594**	**5,478,706**	**7,854,300**
Provision released (Note 29)	**(2,052,771)**	**-**	**(2,052,771)**
Written off	**(4,292,181)**	**-**	**(4,292,181)**
At 30 June 2018	**78,858,332**	**77,610,097**	**156,468,429**

Impairment allowance as at 30 June is analysed as follows:

	2018	2017	2016
	MUR	MUR	MUR
Loans and overdrafts	78,036,671	68,446,788	60,146,544
Investment in finance leases	78,431,758	86,512,293	115,794,307
	156,468,429	154,959,081	175,940,851

(d) Allowance for credit impairment by industry sectors

	2018					2017	2016
	Gross amount of loans	Non performing loans	Individual impairment	Collective impairment	Total impairment	Total impairment	Total impairment
	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Manufacturing	1,013,659,648	13,424,888	13,937,818	10,002,901	23,940,719	19,936,676	18,678,985
Construction	441,396,053	25,178,480	21,238,015	7,353,711	28,591,726	28,620,398	27,082,951
Professional	17,024,777	-	-	170,340	170,340	466,950	483,830
Traders	844,809,000	9,665,536	8,061,258	8,353,398	16,414,656	21,050,247	19,506,156
Tourism	886,884,218	409,228	409,228	17,732,085	18,141,313	17,805,920	34,980,889
Transport	348,280,509	7,905,375	7,905,376	3,403,904	11,309,280	12,892,104	17,477,681
Financial and Business Services	1,047,793,648	15,837	15,837	10,478,489	10,494,326	7,480,274	10,048,893
Personal	452,331,741	23,646,447	23,852,084	8,574,329	32,426,413	31,820,191	32,903,239
Agriculture	363,767,334	251,147	251,147	3,635,847	3,886,994	4,003,450	1,917,984
Global Business Licence Holders	621,246,607	-	-	6,212,753	6,212,753	5,527,024	6,565,148
Others	173,763,298	4,537,993	3,187,569	1,692,340	4,879,909	5,355,847	6,295,095
Total	6,210,956,833	85,034,931	78,858,332	77,610,097	156,468,429	154,959,081	175,940,851

13. INVESTMENT SECURITIES

		2018	2017	2016
		MUR	MUR	MUR
Available-for-sale investments	13(a)	2,315,156,141	78,440,348	80,371,343
Loans and receivables	13(b)	3,058,593,442	3,942,060,703	4,491,537,005
Held to maturity investment securities	13(c)	849,403,706	546,065,910	258,151,089
Financial assets held for trading	13(d)	-	149,878,626	-
Unquoted equity instruments		-	-	2,270,000
		6,223,153,289	4,716,445,587	4,832,329,437

(a) Available-for-sale financial investments

	Up to 3 months	3-12 months	1 to 3 years	Over 3 years	No specific maturity	2018 Total	2017 Total	2016 Total
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Bank of Mauritius treasury bills	101,105,405	24,948,145	-	-	-	126,053,550	-	-
Bank of Mauritius bonds and notes	-	49,826,608	24,765,500	-	-	74,592,108	-	-
Government of Mauritius treasury bills	75,520,396	24,946,245	-	-	-	100,466,641	-	-
Government of Mauritius bonds and notes	469,988	25,327,948	199,938,016	-	-	225,735,952	-	-
Foreign sovereign bonds	3,397,693	4,039,228	513,459,398	818,099,196	-	1,338,995,515	-	-
Corporate bonds	1,758,681	1,822,124	101,448,095	311,463,716	-	416,492,616	50,195,222	50,502,831
Corporate shares	-	-	-	-	32,819,759	32,819,759	28,245,126	29,868,512
	182,252,163	130,910,298	839,611,009	1,129,562,912	32,819,759	2,315,156,141	78,440,348	80,371,343
30-Jun-17	387,698	-	-	49,807,524	28,245,126	78,440,348		
30-Jun-16	416,559	-	-	50,086,272	29,868,512	80,371,343		

(b) Loans and receivables

		2018	2017	2016
		MUR	MUR	MUR
(i)	Bank of Mauritius treasury bills	-	-	24,902,724
	Bank of Mauritius bonds and notes	110,696,341	539,267,608	462,271,177
	Government of Mauritius treasury bills	-	197,357,729	1,062,970,658
	Government of Mauritius bonds and notes	2,624,332,664	2,911,384,756	2,779,797,214
	Corporate bonds	326,832,765	297,020,818	163,195,088
		3,061,861,770	3,945,030,911	4,493,136,861
	Less collective impairment	(3,268,328)	(2,970,208)	(1,599,856)
		3,058,593,442	3,942,060,703	4,491,537,005

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONT'D)

13. INVESTMENT SECURITIES (CONT'D)

(b) Loans and receivables (Cont'd)

(ii) Analysed as follows:

	Up to 3 months	3-12 months	1 to 3 years	Over 3 years	No specific maturity	2018 Total	2017 Total	2016 Total
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Bank of Mauritius treasury bills	-	-	-	-	-	-	-	24,902,724
Bank of Mauritius bonds and notes	739,430	70,005,792	39,951,119	-	-	110,696,341	539,267,608	462,271,177
Government of Mauritius treasury bills	-	-	-	-	-	-	197,357,729	1,062,970,658
Government of Mauritius bonds and notes	87,464,162	101,023,940	179,710,642	2,256,133,920	-	2,624,332,664	2,911,384,756	2,779,797,214
Corporate bonds	1,627,442	1,523,839	80,753,984	242,927,500	(3,268,328)	323,564,437	294,050,610	161,595,232
	89,831,034	172,553,571	300,415,745	2,499,061,420	(3,268,328)	3,058,593,442	3,942,060,703	4,491,537,005

(iii) Impairment allowances on loans and receivables

	Individual impairment	Collective impairment	Total
	MUR	MUR	MUR
At 1 July 2015	-	1,296,404	1,296,404
Allowance for credit impairment for the year	-	303,452	303,452
At 30 June 2016	-	1,599,856	1,599,856
At 1 July 2016	-	1,599,856	1,599,856
Allowance for credit impairment for the year	-	1,370,352	1,370,352
At 30 June 2017	-	2,970,208	2,970,208
At 1 July 2017	-	2,970,208	2,970,208
Allowance for credit impairment for the year	-	298,120	298,120
At 30 June 2018	-	3,268,328	3,268,328

(c) Held to maturity investment securities

	2018	2017	2016
	MUR	MUR	MUR
(i) Corporate bonds	857,983,541	555,744,675	260,687,723
Less individual impairment loss	-	(4,183,140)	-
Less collective impairment	(8,579,835)	(5,495,625)	(2,536,634)
	849,403,706	546,065,910	258,151,089

(ii) Analysed as follows:

	Up to 3 months	3-12 months	1 to 3 years	Over 3 years	No specific maturity	2018 Total	2017 Total	2016 Total
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Corporate bonds	1,823,291	293,552,100	286,235,500	276,372,650	(8,579,835)	849,403,706	546,065,910	258,151,089

(iii) Impairment allowances on held to maturity investment securities

	Individual impairment	Collective impairment	Total
	MUR	MUR	MUR
At 1 July 2015	-	523,658	523,658
Allowance for credit impairment for the year	-	2,012,976	2,012,976
At 30 June 2016	-	2,536,634	2,536,634
At 1 July 2016	-	2,536,634	2,536,634
Allowance for credit impairment for the year	4,183,140	2,958,991	7,142,131
At 30 June 2017	4,183,140	5,495,625	9,678,765
At 1 July 2017	4,183,140	5,495,625	9,678,765
Allowance for credit impairment for the year	(4,183,140)	3,084,210	(1,098,930)
At 30 June 2018	-	8,579,835	8,579,835

(d) Financial assets held for trading

	Up to 3 months	3-12 months	1 to 3 years	Over 3 years	No specific maturity	2018 Total	2017 Total	2016 Total
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Government of Mauritius treasury bills	-	-	-	-	-	-	149,878,626	-

14. OTHER ASSETS

	2018	2017	2016
	MUR	MUR	MUR
Deposits	82,431,067	18,601,352	2,016,265
Non banking assets acquired in satisfaction of debts	1,190,333	2,071,710	2,317,666
Other receivables	10,404,188	10,550,777	7,203,091
	94,025,588	31,223,839	11,537,022

Non banking assets acquired in satisfaction of debts relate to repossessed assets and the bank intends to dispose of such assets as soon as the market permits.

Other receivables comprises mainly prepaid expenses.

15. PROPERTY AND EQUIPMENT

	Freehold land	Buildings	Improvement to buildings	Computer equipment	Motor vehicles	Other fixed assets	Work in progress	Total
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
COST								
At 1 July 2015	34,846,792	58,077,988	102,288,675	12,854,976	9,524,242	36,742,384	-	254,335,057
Additions	-	-	3,665,383	10,100,124	1,230,000	926,261	-	15,921,768
Disposals	-	-	-	(317,113)	(4,166,770)	(428,190)	-	(4,912,073)
At 30 June 2016	34,846,792	58,077,988	105,954,058	22,637,987	6,587,472	37,240,455	-	265,344,752
At 1 July 2016	34,846,792	58,077,988	105,954,058	22,637,987	6,587,472	37,240,455	-	265,344,752
Additions	88,589,066	69,794,246	-	6,700,966	850,000	1,201,596	-	167,135,874
Disposals	-	-	-	-	(2,042,471)	-	-	(2,042,471)
At 30 June 2017	123,435,858	127,872,234	105,954,058	29,338,953	5,395,001	38,442,051	-	430,438,155
At 1 July 2017	123,435,858	127,872,234	105,954,058	29,338,953	5,395,001	38,442,051	-	430,438,155
Additions	-	-	-	3,242,736	10,531,756	442,912	27,486,194	41,703,598
Disposals	-	-	-	-	(815,000)	(23,000)	-	(838,000)
At 30 June 2018	123,435,858	127,872,234	105,954,058	32,581,689	15,111,757	38,861,963	27,486,194	471,303,753
DEPRECIATION								
At 1 July 2015	-	2,903,900	3,973,442	8,101,296	3,089,002	13,346,696	-	31,414,336
Charge for the year	-	1,161,560	5,221,341	2,689,356	1,294,759	3,594,179	-	13,961,195
Disposals	-	-	-	(305,077)	(1,856,272)	(71,708)	-	(2,233,057)
At 30 June 2016	-	4,065,460	9,194,783	10,485,575	2,527,489	16,869,167	-	43,142,474
At 1 July 2016	-	4,065,460	9,194,783	10,485,575	2,527,489	16,869,167	-	43,142,474
Charge for the year	-	1,510,531	5,297,703	4,787,686	1,184,661	3,666,595	-	16,447,176
Disposals	-	-	-	-	(1,661,897)	-	-	(1,661,897)
At 30 June 2017	-	5,575,991	14,492,486	15,273,261	2,050,253	20,535,762	-	57,927,753
At 1 July 2017	-	5,575,991	14,492,486	15,273,261	2,050,253	20,535,762	-	57,927,753
Charge for the year	-	2,557,445	5,297,703	5,803,684	1,765,122	3,723,543	-	19,147,497
Disposals	-	-	-	-	(626,750)	(6,325)	-	(633,075)
At 30 June 2018	-	8,133,436	19,790,189	21,076,945	3,188,625	24,252,980	-	76,442,175
NET BOOK VALUE								
At 30 June 2018	123,435,858	119,738,798	86,163,869	11,504,744	11,923,132	14,608,983	27,486,194	394,861,578
At 30 June 2017	123,435,858	122,296,243	91,461,572	14,065,692	3,344,748	17,906,289	-	372,510,402
At 30 June 2016	34,846,792	54,012,528	96,759,275	12,152,412	4,059,983	20,371,288	-	222,202,278

Other fixed assets consist of office furniture, office equipment, fixtures and fittings and security and vault.

There is no restriction on title or asset pledged as securities for liabilities at reporting date (2017 and 2016: nil).

16. INTANGIBLE ASSETS

Computer software

	2018	2017	2016
	MUR	MUR	MUR
COST			
At 1 July	24,871,963	24,857,014	24,336,392
Additions	9,430	14,949	520,622
At 30 June	24,881,393	24,871,963	24,857,014
AMORTISATION			
At 1 July	18,052,353	15,140,819	12,255,144
Charge for the year	2,477,168	2,911,534	2,885,675
At 30 June	20,529,521	18,052,353	15,140,819
NET BOOK VALUE			
At 30 June	4,351,872	6,819,610	9,716,195

17. DEFERRED TAX ASSETS

The deferred tax included in the statements of financial position and changes recorded in the income tax expense are as follows:

	MUR
As at 1 July 2015	16,090,417
Accelerated tax depreciation	259,763
Impairment allowance	9,520,785
Adjustment on provision for credit impairment	1,261,862
Retirement benefit obligations	(88,606)
As at 30 June 2016	27,044,221
As at 1 July 2016	27,044,221
Accelerated tax depreciation	(373,734)
Impairment allowance	(2,825,957)
Retirement benefit obligations	180,541
As at 30 June 2017	24,025,071
As at 1 July 2017	24,025,071
Accelerated tax depreciation	37,738
Impairment allowance	(2,965,867)
Retirement benefit obligations	210,545
As at 30 June 2018	21,307,487

Analysed as:

	Statement of financial position			Statement of profit or loss and other comprehensive income		
	2018	2017	2016	2018	2017	2016
	MUR	MUR	MUR	MUR	MUR	MUR
Accelerated tax depreciation	(5,757,114)	(5,794,852)	(5,421,118)	37,738	(373,734)	259,763
Impairment allowance	26,395,594	29,361,461	32,187,418	(2,965,867)	(2,825,957)	10,782,647
Retirement benefit obligations	669,007	458,462	277,921	210,545	180,541	(88,606)
	21,307,487	24,025,071	27,044,221	(2,717,584)	(3,019,150)	10,953,804

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

	2018	2017	2016
	MUR	MUR	MUR
Profit or loss (Note 21)	(2,834,093)	(3,094,593)	11,086,924
Other comprehensive income	116,509	75,443	(133,120)
	(2,717,584)	(3,019,150)	10,953,804

18. DUE TO BANKS

	2018	2017	2016
	MUR	MUR	MUR
Interbank borrowings	110,061,479	-	140,006,397

The interbank borrowing was unsecured, bore interest rate at 3.40% p.a and was repaid on 02 July 2018.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONT'D)

19. DEPOSITS FROM CUSTOMERS

	2018 MUR	2017 MUR	2016 MUR
Retail customers			
Savings accounts	3,452,276,646	3,771,193,347	3,385,730,382
Current accounts	784,229,641	466,979,523	470,428,665
Term deposits with remaining term to maturity:			
Up to 3 months	206,410,255	188,313,833	120,483,177
Over 3 months and up to 6 months	133,243,226	105,790,767	89,483,176
Over 6 months and up to 12 months	313,092,006	306,878,975	276,148,580
Over 1 year and up to 5 years	1,325,892,658	1,333,352,492	719,450,425
Corporate customers			
Savings accounts	379,114,526	371,550,751	424,991,392
Current accounts	6,827,151,929	5,393,754,469	6,157,289,450
Term deposits with remaining term to maturity:			
Up to 3 months	529,391,222	158,796,275	438,859,316
Over 3 months and up to 6 months	257,923,861	449,763,298	72,906,160
Over 6 months and up to 12 months	208,918,365	601,326,040	731,108,273
Over 1 year and up to 5 years	548,549,983	655,365,927	481,983,542
	14,966,194,318	13,803,065,697	13,368,862,538

20. PREFERENCE SHARES

	2018 MUR	2017 MUR	2016 MUR
At 1 July	265,749,768	320,758,971	320,726,882
Shares redeemed at maturity	(124,981,000)	(53,825,000)	-
Interest accrued	14,320,503	20,238,947	22,122,101
Dividend paid	(9,748,518)	(21,423,150)	(22,090,012)
At 30 June	145,340,753	265,749,768	320,758,971

On 18 March 2011, the bank issued 7.5% cumulative redeemable preference shares amounting to MUR 53,825,000 and were redeemed on 17 March 2017. These shares carry no voting rights and confer preferential rights to distributions of capital and income over ordinary shares.

On 2 April 2012, the bank issued 7.8% cumulative redeemable preference shares amounting to MUR 124,981,000 with a maturity period of six years and were redeemed on April 2018. While the shares carry no voting rights, except upon a resolution purporting to alter any of the acquired rights, they confer to the holders the right to a fixed cumulative dividend of 7.8% per annum and ranking before ordinary share dividend. The said shares also carry the right to a share in the distribution of the surplus assets of the bank ranking before ordinary shareholders, in the event of a winding up of the bank.

On 25 June 2015, the bank issued cumulative redeemable preference shares at floating rate (Repo+1.5%) with a maturity of six years for a total consideration of MUR 138,180,000. The shareholders do not have the option to redeem the preference shares before maturity date.

	2018 MUR	2017 MUR	2016 MUR
Level 1	-	-	-
Level 2	145,340,753	265,749,768	320,758,971
Level 3	-	-	-
	145,340,753	265,749,768	320,758,971

The preference shares are valued based on the market yield of similar instruments as made publicly available by the local regulator and are classified as Level 2.

21. INCOME TAX EXPENSE

Income tax is calculated at the rate of 15% (2017 and 2016: 15%) on the profit for the year.

The components of income tax expense for the years ended 30 June are:

	2018 MUR	2017 MUR	2016 MUR
Current income tax	46,488,203	38,559,307	35,774,038
Prior year adjustment	-	-	307,620
Under/(overprovision) in previous years	-	155,919	(419,692)
Deferred tax			
-Relating to origination and reversal of temporary differences (Note 17)	2,834,093	3,094,593	(11,086,924)
Income tax expense	49,322,296	41,809,819	24,575,042

Reconciliation of the total tax charge

A reconciliation between the tax expense and the accounting profit multiplied by the domestic statutory tax rate for the years ended 30 June is as follows:

	2018 MUR	2017 MUR	2016 MUR
Accounting profit before tax	291,754,024	250,317,784	186,182,728
At statutory income tax rate of 15% (2017 and 2016: 15%)	43,763,104	37,547,668	27,927,409
Non-deductible expenses	6,668,630	15,263,915	6,302,762
Exempt income	(3,405,985)	(1,514,386)	(206,606)
Corporate social responsibility	2,956,462	2,607,406	2,753,288
Special levy	16,387,790	13,462,997	12,206,612
Income tax under/(over)provision for the previous year	-	155,919	(419,692)
Withholding tax	-	385,884	-
Deemed credit on segment B profits	(19,881,947)	(17,179,075)	(18,849,879)
Deferred tax rate differential arising on corporate social responsibility and special levy	2,834,242	(8,920,509)	(5,138,852)
Tax expense	49,322,296	41,809,819	24,575,042

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

Corporate Social Responsibility (CSR) Tax

Corporate Social Reponsibility (CSR) was legislated by the Government of Mauritius in July 2009. The bank is required to allocate 2% of its Segment A chargeable income of the preceding financial year to Government approved CSR Non Governmental Organisations.

Special Levy

The bank is liable to pay a special levy of 10% on its chargeable income of Segment A operations and 3.4% on book profit plus 1% on operating income of Segment B operations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONT'D)

22. OTHER LIABILITIES

	2018	2017	2016
	MUR	MUR	MUR
Unallocated receipts	204,468,564	196,748,425	1,108,131
Employee benefit liability (Note 40)	4,955,603	3,396,014	2,058,670
Bankers' drafts	34,590,654	22,206,569	6,264,451
Other payables	94,380,755	80,696,337	77,923,643
	338,395,576	303,047,345	87,354,895

Refer to Note 40 for more details on employee benefit liability.

Bankers' drafts are payable upon claim by the beneficiaries, and were previously reported under 'Other payables' in 2017 and 2016.

Other payables include provision for expenses, accrued staff related costs, advance fee income and VAT payable.

23. ISSUED CAPITAL

	2018	2017	2016
	MUR	MUR	MUR
Ordinary shares of MUR 10 each			
Issued and fully paid capital	762,718,720	762,718,720	762,718,720
Share premium	177,776,752	177,776,752	177,776,752
At 30 June	940,495,472	940,495,472	940,495,472

	2018	2017	2016
	MUR	MUR	MUR
Issued and fully paid			
At 1 July	940,495,472	940,495,472	506,699,200
New issue	-	-	433,796,272
At 30 June	940,495,472	940,495,472	940,495,472
Number of shares			
At 1 July	76,271,872	76,271,872	47,669,920
New issue	-	-	28,601,952
	76,271,872	76,271,872	76,271,872

Rights conferred to an ordinary share are the following: right to one vote on a poll at a meeting of the bank on any resolution, right to an equal share in dividends authorised by the Board and right to an equal share in the distribution of the surplus assets of the bank.

On 28 November 2014, the bank issued 12,000,000 Ordinary Shares at MUR 12.50 per share for a total consideration of MUR 150,000,000. The new ordinary shares rank pari passu with the existing ordinary shares in the capital of the bank.

On 23 October 2015, the bank issued 9,533,984 Ordinary Shares of par value of MUR 10.00 each of the bank at a price of MUR 13.50 per share for a total consideration of MUR 128,708,784. The new ordinary shares rank pari passu with the existing ordinary shares in the capital of the bank.

On 10 June 2016, the bank issued 19,067,968 Ordinary Shares of par value of MUR 10.00 each of the bank at a price of MUR 16.00 per share for a total consideration of MUR 305,087,488. The new ordinary shares of par value of MUR 10.00 each of the bank rank pari passu with the existing ordinary shares in the capital of the bank.

24. OTHER RESERVES

	2018	2017	2016
	MUR	MUR	MUR
Available-for-sale reserve	(21,606,550)	1,205,290	1,287,648
Statutory reserve	112,921,506	76,556,747	45,280,552
	91,314,956	77,762,037	46,568,200

Available-for-sale reserve

	2018	2017	2016
	MUR	MUR	MUR
At 1 July	1,205,290	1,287,648	1,761,946
Net loss on available-for-sale financial investments	(22,811,840)	(82,358)	(5,196,126)
Fair value adjustment to profit or loss	-	-	4,721,828
At 30 June	(21,606,550)	1,205,290	1,287,648

This reserve records fair value changes on available-for-sale financial investments.

Statutory reserve

The statutory reserve represents transfers from retained earnings in accordance with the Banking Act 2004. A sum equal to not less than 15% of the net profit is transferred each year until the balance is equal to the amount paid as stated capital.

	MUR
At 1 July 2015	21,039,399
Transfer to statutory reserve	24,241,153
At 30 June 2016	45,280,552
At 1 July 2016	45,280,552
Transfer to statutory reserve	31,276,195
At 30 June 2017	76,556,747
At 1 July 2017	76,556,747
Transfer to statutory reserve	36,364,759
At 30 June 2018	112,921,506

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONT'D)

25. NET INTEREST INCOME

	2018 MUR	2017 MUR	2016 MUR
Interest income			
Finance leases	68,076,752	65,129,580	72,525,210
Loans and advances to customers (excluding finance leases)	229,924,450	229,903,554	181,848,992
Loans to and placements with banks	64,236,176	85,049,230	82,757,868
Investment securities	291,059,616	265,155,535	231,232,476
	653,296,994	645,237,899	568,364,546
Interest expense			
Deposits from customers	252,061,262	288,717,476	277,955,314
Preference shares	14,320,503	20,238,947	22,122,101
Borrowed funds	1,076,943	249,197	289,297
	267,458,708	309,205,620	300,366,712
Net interest income	385,838,286	336,032,279	267,997,834

26. NET FEE AND COMMISSION INCOME

	2018 MUR	2017 MUR	2016 MUR
Fee and commission income			
Card and related fee income	53,211,817	60,940,790	71,597,790
Processing fees	10,591,725	6,319,307	8,731,515
International banking	25,062,665	25,127,571	30,106,976
Interbank transaction fees	10,934,052	9,080,598	8,908,546
Others	4,893,033	11,524,326	8,798,160
	104,693,292	112,992,592	128,142,987
Fee and commission expense			
Card and related fee expense	17,776,682	17,739,830	21,093,139
Interbank transaction fees	6,433,682	6,113,654	6,392,980
	24,210,364	23,853,484	27,486,119
Net fee and commission income	80,482,928	89,139,108	100,656,868

27. NET TRADING INCOME

	2018 MUR	2017 MUR	2016 MUR
Net foreign exchange gain	85,243,497	63,830,549	65,420,427

28. OTHER OPERATING INCOME

	2018 MUR	2017 MUR	2016 MUR
Profit on disposal of investment securities	6,455,327	2,452,927	373,500
Dividend income	1,237,480	1,176,385	1,036,164
Profit on disposal of property and equipment	187,032	338,001	-
Others	4,475	38,613	136,197
	7,884,314	4,005,926	1,545,861

Disposal of investment securities are mainly on Bank of Maurtius and Government of Mauritius securities (Bonds, notes and bills).

29. ALLOWANCE FOR CREDIT IMPAIRMENT ON FINANCIAL ASSETS

	2018 MUR	2017 MUR	2016 MUR
Loans and advances to customers	5,855,717	12,620,454	54,393,380
Provision on guarantee	456,276	-	-
Investment in securities	3,226,428	10,332,259	7,038,256
	9,538,421	22,952,713	61,431,636
Loans and advances to customers			
Provision for credit impairment (Note 12(c))	7,854,300	16,436,655	56,696,781
Provision released (Note 12(c))	(2,052,771)	(2,005,529)	(2,358,423)
Bad debts recovered	(945,711)	(2,552,634)	(3,306,037)
Bad debts written off for which no provision was made	999,899	741,962	3,361,059
	5,855,717	12,620,454	54,393,380
Investment in securities			
Individual impairment loss - held to maturity securities	(155,902)	4,183,140	-
Impairment loss - available-for-sale investments	-	1,819,776	4,721,828
Collective impairment - loan and receivables	298,120	1,370,352	303,452
Collective impairment - held to maturity investments	3,084,210	2,958,991	2,012,976
	3,226,428	10,332,259	7,038,256

30. PERSONNEL EXPENSES

	2018	2017	2016
	MUR	MUR	MUR
Wages and salaries	135,303,828	104,246,916	82,936,383
Employees benefit costs (Note 40)	696,557	778,507	601,233
Others	26,193,847	22,177,592	17,371,725
	162,194,232	127,203,015	100,909,341

Others consist of medical benefits, training and other allowances.

31. OTHER OPERATING EXPENSES

	2018	2017	2016
	MUR	MUR	MUR
Motor vehicle expenses and insurance	3,742,676	4,411,087	4,719,073
Rental of office	626,728	547,860	603,015
Advertising and marketing	5,940,039	6,164,193	4,251,090
Information technology costs	11,754,659	14,805,926	20,220,960
Licences	3,182,147	3,354,514	2,862,837
Loss on disposal of property and equipment	-	-	1,084,139
Communication costs	8,280,338	8,333,469	7,693,831
Legal and professional fees	11,558,723	8,914,915	9,631,601
Maintenance costs	4,211,061	3,599,652	3,437,274
Others	25,041,312	23,044,024	15,746,595
	74,337,683	73,175,640	70,250,415

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

32. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit attributable to the ordinary equity holders of the bank by the weighted average number of ordinary shares during the year.

	2018	2017	2016
	MUR	MUR	MUR
Net Profit	242,431,728	208,507,965	161,607,686
Weighted average number of ordinary shares	76,271,872	76,271,872	55,328,366
Earnings per share			
Basic and diluted earnings per share	3.18	2.73	2.92

33. DIVIDENDS PAID AND PROPOSED

	2018	2017	2016
	MUR	MUR	MUR
Declared and paid during the year			
Final dividend for 2017: MUR 0.64 per share (2016 : MUR 0.54 per share, 2015 : MUR 0.17 per share)	48,813,998	41,186,811	8,103,887
Proposed for approval at Annual General Meeting (not recognised as a liability as at 30 June 2018)			
Dividends on ordinary shares:			
Final dividend for 2018: MUR 0.73 per share (2017: MUR 0.64 per share, 2016: MUR 0.54 per share)	55,678,467	48,813,998	41,186,811

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the statement of financial position

(i) Valuation principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly (i.e as prices) or indirectly (i.e derived from prices).

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	MUR	MUR	MUR	MUR
Financial assets				
Available-for-sale investment securities				
2018	1,690,396,869	624,759,272	-	2,315,156,141
2017	78,440,348	-	-	78,440,348
2016	80,371,343	-	-	80,371,343
Held for trading investment securities				
Government of Mauritius treasury bills				
2018	-	-	-	-
2017	-	149,878,626	-	149,878,626
2016	-	-	-	-
Derivatives - Foreign exchange contracts				
2018	-	4,289,595	-	4,289,595
2017	-	4,407,594	-	4,407,594
2016	-	4,478,577	-	4,478,577
Financial liabilities				
Derivatives - Foreign exchange contracts				
2018	-	2,774,759	-	2,774,759
2017	-	16,531,096	-	16,531,096
2016	-	692,898	-	692,898

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

Fair value measurements recognised in the statement of financial position (Cont'd)

(ii) Valuation techniques

Available-for-sale financial investment securities

Corporate shares and debts are actively traded on public stock exchanges with readily available active prices on a regular basis. Such instruments are classified as Level 1.

Government of Mauritius, Bank of Mauritius and unquoted securities are valued based on the market yield of similar instruments as made publicly available by the local regulator and are classified as Level 2.

Held for trading investment securities
Government of Mauritius treasury bills

Those investments are valued based on the market yield of similar instruments as made publicly available by the local regulator and are classified as Level 2.

Derivatives

Derivatives include foreign exchange contracts and foreign exchange swaps. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points. The bank classifies foreign exchange forward contracts and swaps as Level 2.

Transfers between hierarchy

There was no transfer between fair value hierarchy during the year under review.

(iii) Valuation methodologies

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the financial statements:

Short-term financial assets and liabilities

For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amount approximates their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Loans and advances to customers

The fair values of loans and receivables are estimated by discounted cash flow models that incorporate assumptions for credit risks, foreign exchange risk, probability of default and loss given default estimates. As a result, loans and advances fall under Level 3 of the fair value hierarchy.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost is estimated by comparing market interest rates when they are first recognised with current market rates for similar financial instruments. As a result, these fixed rate financial instruments fall under Level 2 of the fair value hierarchy.

35. CATEGORIES OF FINANCIAL INSTRUMENTS

Set out below is a comparison by class of the carrying amounts and fair values of the bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

		2018						
		Classification of carrying amount						Fair Value
	Notes	Fair value through profit or loss	Loans and receivables	Available-for-sale	Held to maturity	Liabilities at amortised cost	Total	Total
		MUR	MUR	MUR	MUR	MUR	MUR	MUR
Financial assets								
Cash and cash equivalents	9	-	3,276,741,586	-	-	-	3,276,741,586	3,276,741,586
Due from banks	10	-	1,030,811,338	-	-	-	1,030,811,338	1,030,811,338
Derivative financial assets	11	4,289,595	-	-	-	-	4,289,595	4,289,595
Loans and advances to customers	12	-	6,054,488,404	-	-	-	6,054,488,404	6,072,355,382
Investment securities	13	-	3,058,593,442	2,315,156,141	849,403,706	-	6,223,153,289	6,223,153,289
Other assets	14	-	91,605,147	-	-		91,605,147	91,605,147
		4,289,595	13,512,239,917	2,315,156,141	849,403,706	-	16,681,089,359	16,698,956,337
Financial liabilities								
Due to banks	18	-	-	-	-	110,061,479	110,061,479	110,061,479
Derivative financial liabilities	11	2,774,759	-	-	-	-	2,774,759	2,774,759
Deposits from customers	19	-	-	-	-	14,966,194,318	14,966,194,318	14,957,108,074
Preference shares	20	-	-	-	-	145,340,753	145,340,753	145,340,753
Other liabilities		-	-	-	-	323,771,923	323,771,923	323,771,923
		2,774,759	-	-	-	15,545,368,473	15,548,143,232	15,539,056,988

35. CATEGORIES OF FINANCIAL INSTRUMENTS (CONT'D)

		2017						
		Classification of carrying amount						Fair Value
	Notes	Fair value through profit or loss	Loans and receivables	Available-for-sale	Held to maturity	Liabilities at amortised cost	Total	Total
		MUR	MUR	MUR	MUR	MUR	MUR	MUR
Financial assets								
Cash and cash equivalents	**9**	-	4,317,358,970	-	-	-	4,317,358,970	4,317,358,970
Due from banks	**10**	-	1,183,314,188	-	-	-	1,183,314,188	1,183,314,188
Derivative financial assets	**11**	4,407,594	-	-	-	-	4,407,594	4,407,594
Loans and advances to customers	**12**	-	5,095,744,575	-	-	-	5,095,744,575	5,066,348,249
Investment securities	**13**	149,878,626	3,942,060,703	78,440,348	546,065,910	-	4,716,445,587	4,716,445,587
Other assets	**14**	-	28,642,236	-	-	-	28,642,236	28,642,236
		154,286,220	14,567,120,672	78,440,348	546,065,910	-	15,345,913,150	15,316,516,824
Financial liabilities								
Derivative financial liabilities	**11**	16,531,096	-	-	-	-	16,531,096	16,531,096
Deposits from customers	**19**	-	-	-	-	13,803,065,697	13,803,065,697	13,786,269,491
Preference shares	**20**	-	-	-	-	265,749,768	265,749,768	265,749,768
Other liabilities	**22**	-	-	-	-	294,463,587	294,463,587	294,463,587
		16,531,096	-	-	-	14,363,279,052	14,379,810,148	14,363,013,942

35. CATEGORIES OF FINANCIAL INSTRUMENTS (CONT'D)

		2016						
		Classification of carrying amount						Fair Value
	Notes	Fair value through profit or loss	Loans and receivables	Available-for-sale	Held to maturity	Liabilities at amortised cost	Total	Total
		MUR	MUR	MUR	MUR	MUR	MUR	MUR
Financial assets								
Cash and cash equivalents	9	-	3,966,067,879	-	-	-	3,966,067,879	3,966,067,879
Due from banks	10	-	1,456,600,322	-	-	-	1,456,600,322	1,456,600,322
Derivative financial assets	11	4,478,577	-	-	-	-	4,478,577	4,478,577
Loans and advances to customers	12	-	4,594,454,589	-	-	-	4,594,454,589	4,594,454,589
Investment securities	13	-	4,491,537,005	82,641,343	258,151,089	-	4,832,329,437	4,832,329,437
Other assets	14	-	9,953,113	-	-	-	9,953,113	9,953,113
		4,478,577	14,518,612,908	82,641,343	258,151,089	-	14,863,883,917	14,863,883,917
Financial liabilities								
Due to banks	18	-	-	-	-	140,006,397	140,006,397	140,006,397
Derivative financial liabilities	11	692,898	-	-	-	-	692,898	692,898
Deposits from customers	19	-	-	-	-	13,368,862,538	13,368,862,538	13,368,862,538
Preference shares	20	-	-	-	-	320,758,971	320,758,971	320,758,971
Other liabilities	22	-	-	-	-	85,252,392	85,252,392	85,252,392
		692,898	-	-	-	13,914,880,298	13,915,573,196	13,915,573,196

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

		2018							
	Notes	No specific maturity	Less than 3 months	3 to 12 months	Sub total less than 12 months	1 to 3 years	Over 3 years	Sub total more than 12 months	Total
		MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Assets									
Cash and cash equivalents	9	-	3,276,741,586	-	3,276,741,586	-	-	-	3,276,741,586
Due from banks	10	-	536,220,569	228,839,765	765,060,334	35,837,348	229,913,656	265,751,004	1,030,811,338
Derivative financial assets	11	-	522,976	3,766,619	4,289,595	-	-	-	4,289,595
Loans and advances to customers	12	95,225,062	1,958,841,860	1,394,167,847	3,353,009,707	1,284,251,900	1,478,470,164	2,762,722,064	6,210,956,833
Investment securities	13	32,819,759	273,906,488	597,015,969	870,922,457	1,426,262,254	3,904,996,982	5,331,259,236	6,235,001,452
Other assets	14	94,025,588	-	-	-	-	-	-	94,025,588
Property and equipment	15	394,861,578	-	-	-	-	-	-	394,861,578
Intangible assets	16	4,351,872	-	-	-	-	-	-	4,351,872
Deferred tax assets	17	21,307,487	-	-	-	-	-	-	21,307,487
Total		642,591,346	6,046,233,479	2,223,790,200	8,270,023,679	2,746,351,502	5,613,380,802	8,359,732,304	17,272,347,329
Less allowance for credit impairment									(168,316,592)
									17,104,030,737
Liabilities									
Due to banks	18	-	110,061,479	-	110,061,479	-	-	-	110,061,479
Derivative financial liabilities	11	-	1,442,153	1,332,606	2,774,759	-	-	-	2,774,759
Deposits from customers	19	-	7,319,098,350	912,881,784	8,231,980,134	950,772,447	5,783,441,737	6,734,214,184	14,966,194,318
Preference shares	20	-	-	7,160,753	7,160,753	138,180,000	-	138,180,000	145,340,753
Current tax liabilities		-	-	30,924,434	30,924,434	-	-	-	30,924,434
Other liabilities	22	298,227,274	2,295,699	32,917,000	35,212,699	-	4,955,603	4,955,603	338,395,576
Total		298,227,274	7,432,897,681	985,216,577	8,418,114,258	1,088,952,447	5,788,397,340	6,877,349,787	15,593,691,319
Net liquidity gap		344,364,072	(1,386,664,202)	1,238,573,623	(148,090,579)	1,657,399,055	(175,016,538)	1,482,382,517	1,678,656,010
Less allowance for credit impairment									(168,316,592)
									1,510,339,418
Contingent liabilities and commitments	38								
Contingent liabilities									
Financial guarantees		-	7,500,737	23,934,279	31,435,016	733,202	-	733,202	32,168,218
Letter of credit and other obligations on account of customers		-	13,459,409	-	13,459,409	-	-	-	13,459,409
		-	20,960,146	23,934,279	44,894,425	733,202	-	733,202	45,627,627
Commitments									
Undrawn credit facilities		-	752,241,168	547,880,530	1,300,121,698	-	-	-	1,300,121,698
		-	773,201,314	571,814,809	1,345,016,123	733,202	-	733,202	1,345,749,325

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONT'D)

		2017							
	Notes	No specific maturity	Less than 3 months	3 to 12 months	Sub total less than 12 months	1 to 3 years	Over 3 years	Sub total more than 12 months	Total
		MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Assets									
Cash and cash equivalents	9	-	4,317,358,970	-	4,317,358,970	-	-	-	4,317,358,970
Due from banks	10	-	322,739,238	711,052,116	1,033,791,354	46,799,153	102,723,681	149,522,834	1,183,314,188
Derivative financial assets	11	-	4,108,762	298,832	4,407,594	-	-	-	4,407,594
Loans and advances to customers	12	106,192,824	1,557,190,466	1,510,630,156	3,067,820,622	840,802,404	1,235,887,806	2,076,690,210	5,250,703,656
Investment securities	13	206,961,570	515,863,821	449,999,800	965,863,621	529,785,935	3,022,801,515	3,552,587,450	4,725,412,641
Other assets	14	31,223,839	-	-	-	-	-	-	31,223,839
Property and equipment	15	372,510,402	-	-	-	-	-	-	372,510,402
Intangible assets	16	6,819,610	-	-	-	-	-	-	6,819,610
Deferred tax assets	17	24,025,071	-	-	-	-	-	-	24,025,071
Total		747,733,316	6,717,261,257	2,671,980,904	9,389,242,161	1,417,387,492	4,361,413,002	5,778,800,494	15,915,775,971
Less allowance for credit impairment									(163,926,135)
									15,751,849,836
Liabilities									
Derivative financial liabilities	11	-	14,803,458	1,727,638	16,531,096	-	-	-	16,531,096
Deposits from customers	19	-	10,350,588,198	1,463,759,080	11,814,347,278	1,211,401,204	777,317,215	1,988,718,419	13,803,065,697
Preference shares	20	-	-	127,569,768	127,569,768	-	138,180,000	138,180,000	265,749,768
Current tax liabilities		-	-	23,175,879	23,175,879	-	-	-	23,175,879
Other liabilities	22	269,785,596	3,213,821	26,651,914	29,865,735	-	3,396,014	3,396,014	303,047,345
Total		269,785,596	10,368,605,477	1,642,884,279	12,011,489,756	1,211,401,204	918,893,229	2,130,294,433	14,411,569,785
Net liquidity gap		477,947,720	(3,651,344,220)	1,029,096,625	(2,622,247,595)	205,986,288	3,442,519,773	3,648,506,061	1,504,206,186
Less allowance for credit impairment									(163,926,135)
									1,340,280,051
Contingent liabilities and commitments	38								
Contingent liabilities									
Financial guarantees		-	5,931,782	3,671,066	9,602,848	1,177,257	-	1,177,257	10,780,105
		-	5,931,782	3,671,066	9,602,848	1,177,257	-	1,177,257	10,780,105
Commitments									
Undrawn credit facilities		-	892,530,074	174,945,461	1,067,475,535	-	-	-	1,067,475,535
		-	898,461,856	178,616,527	1,077,078,383	1,177,257	-	1,177,257	1,078,255,640

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONT'D)

	Notes	2016 No specific maturity	Less than 3 months	3 to 12 months	Sub total less than 12 months	1 to 3 years	Over 3 years	Sub total more than 12 months	Total
		MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Assets									
Cash and cash equivalents	9	-	3,966,067,879	-	3,966,067,879	-	-	-	3,966,067,879
Due from banks	10	-	505,589,927	866,378,696	1,371,968,623	27,376,067	57,255,632	84,631,699	1,456,600,322
Derivative financial assets	11	-	4,478,577	-	4,478,577	-	-	-	4,478,577
Loans and advances to customers	12	124,138,126	1,581,903,051	1,393,055,892	2,974,958,943	837,101,369	834,197,002	1,671,298,371	4,770,395,440
Investment securities	13	82,641,343	989,207,026	411,388,737	1,400,595,763	641,064,418	2,712,164,403	3,353,228,821	4,836,465,927
Other assets	14	11,537,022	-	-	-	-	-	-	11,537,022
Property and equipment	15	222,202,278	-	-	-	-	-	-	222,202,278
Intangible assets	16	9,716,195	-	-	-	-	-	-	9,716,195
Deferred tax assets	17	27,044,221	-	-	-	-	-	-	27,044,221
Total		477,279,185	7,047,246,460	2,670,823,325	9,718,069,785	1,505,541,854	3,603,617,037	5,109,158,891	15,304,507,861
Less allowance for credit impairment									(180,077,341)
									15,124,430,520
Liabilities									
Due to banks	18	-	140,006,397	-	140,006,397	-	-	-	140,006,397
Derivative financial liabilities	11	-	692,898	-	692,898	-	-	-	692,898
Deposits from customers	19	-	10,997,681,711	1,169,746,860	12,167,428,571	788,019,791	413,414,176	1,201,433,967	13,368,862,538
Preference shares	20	-	-	57,597,971	57,597,971	124,981,000	138,180,000	263,161,000	320,758,971
Current tax liabilities		-	-	33,230,172	33,230,172	-	-	-	33,230,172
Other liabilities	22	60,454,582	988,608	23,853,035	24,841,643	-	2,058,670	2,058,670	87,354,895
Total		60,454,582	11,139,369,614	1,284,428,038	12,423,797,652	913,000,791	553,652,846	1,466,653,637	13,950,905,871
Net liquidity gap		416,824,603	(4,092,123,154)	1,386,395,287	(2,705,727,867)	592,541,063	3,049,964,191	3,642,505,254	1,353,601,990
Less allowance for credit impairment									(180,077,341)
									1,173,524,649
Contingent liabilities and commitments	38								
Contingent liabilities									
Financial guarantees		793,848	5,915,000	2,232,835	8,147,835	1,110,036	-	1,110,036	10,051,719
Letter of credit and other obligations on account of customers		-	6,639,134	-	6,639,134	-	-	-	6,639,134
		793,848	12,554,134	2,232,835	14,786,969	1,110,036	-	1,110,036	16,690,853
Commitments									
Undrawn credit facilities		-	596,575,795	68,901,379	665,477,174	9,976,395	-	9,976,395	675,453,569
		793,848	609,129,929	71,134,214	680,264,143	11,086,431	-	11,086,431	692,144,422

37. RELATED PARTY DISCLOSURES

(a) The following table provides the total amount of transactions and balances, which have been entered into with related parties for the relevant financial years.

		LOANS AND ADVANCES			DEPOSITS FROM CUSTOMERS		OTHERS	
		Loans and advances granted	Outstanding amount at year end	Interest receivable for the year	Deposits at year end	Interest payable for the year	Amount owed by related party	Other expenditure
		MUR	MUR	MUR	MUR	MUR	MUR	MUR
Directors and key management personnel	**2018**	**997,863**	**8,783,783**	**418,650**	**114,786,870**	**2,881,368**	-	**3,492,530**
	2017	981,000	5,705,447	577,413	124,649,450	4,304,797	-	2,785,393
	2016	-	12,365,602	515,413	65,372,699	1,254,323	-	212,800
Corporate shareholders with significant influence	**2018**	**4,276,328**	**105,389,797**	**11,849,705**	**6,332**	**1,042**	-	**11,094,121**
	2017	184,355,990	241,077,457	12,516,453	6,332	68	-	1,834,595
	2016	247,826,121	174,945,595	10,744,602	-	2,790	-	3,737,702
Enterprises that have a number of directors in common	**2018**	**64,487,570**	**152,995,502**	**8,449,754**	**16,308,722**	**43,610**	-	**4,518,108**
	2017	38,897,000	105,098,456	6,620,792	11,750,534	10,221	-	5,496,096
	2016	20,771,940	103,388,328	8,635,683	26,644,924	222,471	-	7,216,675
Total	**2018**	**69,761,761**	**267,169,082**	**20,718,109**	**131,101,924**	**2,926,020**	-	**19,104,759**
	2017	224,233,990	351,881,360	19,714,658	136,406,316	4,315,086	-	10,116,084
	2016	268,598,061	290,699,525	19,895,698	92,017,623	1,479,584	-	11,167,177

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. Credit facilities are secured except for short term money market lines, and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2018, the bank has not recorded any impairment of receivables relating to amounts owed by the related parties (2017 and 2016: Nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Equity contribution from shareholders paid in cash is disclosed in Note 23.

(b) **Compensation of key management personnel**

	2018	2017	2016
	MUR	MUR	MUR
Short term employee benefits	**20,701,000**	16,578,500	10,715,500
Long term employee benefits	**1,421,733**	1,223,214	979,144

(c) The bank's top six exposures to related parties amount to MUR 311,549,390 (30 June 2017: MUR 344,861,393 and 30 June 2016: MUR 279,951,476). These represent 21% of Tier 1 Capital. None of these facilities were non-performing (2017 and 2016: Nil).

38. CONTINGENT LIABILITIES

	2018 MUR	2017 MUR	2016 MUR
(a) Instruments			
Financial guarantees	32,168,218	10,780,105	10,051,719
Letter of credit and other obligations on account of customers	13,459,409	-	6,639,134
(b) Commitments			
Undrawn credit facilities	1,300,121,698	1,067,475,535	675,453,569
	1,345,749,325	1,078,255,640	692,144,422

39. PLEDGED ASSETS

The assets that have been pledged to secure the credit facilities with the Bank of Mauritius and other commercial banks are as follows:

	2018 MUR	2017 MUR	2016 MUR
Government of Mauritius bonds, notes and bills	285,000,000	385,000,000	360,000,000

40. RETIREMENT BENEFIT OBLIGATION

(a) Defined contribution plan

As from 1 July 2014, the bank operates a defined contribution plans for all its employees. The assets of the plans are held separately from the bank under the control of ABC Group Pension Fund. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the group are reduced by the amount of forfeited contributions.

The total expenses recognised in profit or loss of MUR 4,874,884 (2017: MUR 3,787,508; 2016: MUR 2,853,900) represents contributions payable to the plan by the bank.

(b) Gratuity on retirement

The bank is required to pay gratuity in accordance with Section 49 of the Employment Rights Act 2008. The bank has engaged Feber Associates to calculate the obligations arising out of the gratuities payable. For members of the bank's defined contribution, the obligation relates to the residual retirement gratuity and as a result 5 times the annual pension, relating to the employer's share of contributions, is offset from the retirement gratuity.

The following table summarises the components of net benefit expense recognised in the statement of profit or loss and the unfunded status and amounts recognised in the statement of financial position.

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined contribution plans is as follows:

	2018 MUR	2017 MUR	2016 MUR
Present value of funded defined contribution obligation and liability recognised in the statement of financial position (Note 22)	4,955,603	3,396,014	2,058,670

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

	2018 MUR	2017 MUR	2016 MUR
Current service cost	874,838	634,400	421,171
Net interest cost	196,387	144,107	180,062
Curtailment gain	(374,668)	-	-
Net cost for the year recognised in profit or loss	696,557	778,507	601,233
Remeasurement recognised in other comprehensive income	863,032	558,837	(986,077)
Net cost for the year	1,559,589	1,337,344	(384,844)

	2018 MUR	2017 MUR	2016 MUR
Changes in the present value of the obligation			
Present value of obligation at start of period	3,396,014	2,058,670	2,443,514
Restatement	-	-	(123,782)
Interest cost	196,387	144,107	180,062
Current service cost	874,838	634,400	544,953
Curtailment gain	(374,668)	-	-
Expected obligation at end of period	4,092,571	2,837,177	3,044,747
Present value of obligation at end of period	4,955,603	3,396,014	2,058,670
Remeasurement recognised in other comprehensive income at end of period - (loss)/gain	(863,032)	(558,837)	986,077
Deferred tax	116,509	75,443	(133,120)
Retirement pension net of deferred tax	(746,523)	(483,394)	852,957

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

	2018 MUR	2017 MUR	2016 MUR
Normal retirement age	65	65	65
Discount rate	6.25%	6.50%	7.00%
Expected rate of return on plan assets	0.00%	0.00%	0.00%
Future salary increases	5.00%	5.00%	5.00%
Annual proportion of employees leaving service	5% up to age 40, decreasing to 0% at 45 & nil thereafter	5% up to age 40, decreasing to 0% at 45 & nil thereafter	5% up to age 40, decreasing to 0% at 45 & nil thereafter
Actuarial table for employee mortality	PMA92_PFA92	PMA92_PFA92	PMA92_PFA92

40. RETIREMENT BENEFIT OBLIGATION (CONT'D)

Movements in the present value of the defined contribution obligation in the current year is as follows:

	2018	2017	2016
	MUR	MUR	MUR
Opening defined contribution obligation	3,396,014	2,058,670	2,443,514
Current service cost	874,838	634,400	421,171
Interest cost	196,387	144,107	180,062
Curtailment gain	(374,668)	-	-
Net actuarial gain recognised in other comprehensive income	863,032	558,837	(986,077)
Present value of obligation at end of year	4,955,603	3,396,014	2,058,670

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and longetivity rates. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occuring at the end of the reporting period, while holding all other assumptions constant.

	2018	2017
	MUR	MUR
Sensitivity		
Effect on present value of obligations:		
1% increase in discount rate	3,249,119	2,281,849
1% decrease in discount rate	7,453,187	5,109,084
1% increase in salary increase assumption	7,000,974	4,787,587
1% decrease in salary increase assumption	3,515,164	2,461,315
Effect of changing longevity - one year up	4,805,135	3,304,541
Effect of changing longevity - one year down	5,097,584	3,487,330

The sensitivity analysis presented above may not be representative of the actual change in the defined contribution obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

41. CAPITAL COMMITMENT

	2018	2017	2016
	MUR	MUR	MUR
Amount contracted for but not yet incurred	18,414,557	-	-

The above expenditure relates to the renovation costs of Ex-Merven building.

42. EVENT AFTER REPORTING DATE

There have been no events subsequent to the reporting date which require adjustment of or disclosure in the financial statements or notes thereto.

43. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Due to banks	Ordinary Dividend	Preference shares	Total
	MUR	MUR	MUR	MUR
At 1 July 2017	-	-	265,749,768	265,749,768
Dividend declared	-	48,813,998	-	48,813,998
Cash flows	110,061,479	(48,813,998)	(124,981,000)	(63,733,519)
Other	-	-	4,571,985	4,571,985
At 30 June 2018	110,061,479	-	145,340,753	255,402,232

44. Segmental reporting

For management purposes, the bank is organised into one main operating segment, which is the conduct of its banking activities. All significant operating decisions are based upon analysis of the bank as one segment. The financial result from this segment is equivalent to the financial statements of the bank as a whole.

In line with the Guideline on Segmental Reporting under a Single Banking Licence Regime and Guideline on Public Disclosure of Information as issued by the Bank of Mauritius, the bank classifies its assets and liabilities into two segments: Segment A and Segment B. Segment B activity is essentially directed to the provision of international financial services that give rise to "foreign source income".

Segment B assets will generally consist of placements with and advances to foreign financial institutions.

Segment B liabilities will normally arise from deposits, borrowings and funds deposited by non-residents and global business companies.

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

Expenditure incurred by the bank but which is not directly attributable to its income derived from Mauritius or its foreign source income is apportioned in a fair and reasonable manner.

44. SEGMENTAL REPORTING (CONT'D)

Statement of financial position

	Notes	2018 Bank	2018 Segment A	2018 Segment B	2017 Bank	2017 Segment A	2017 Segment B	2016 Bank	2016 Segment A	2016 Segment B
		MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
ASSETS										
Cash and cash equivalents	44(a)	3,276,741,586	609,330,875	2,667,410,711	4,317,358,970	652,487,889	3,664,871,081	3,966,067,879	358,610,870	3,607,457,009
Due from banks	44(b)	1,030,811,338	608,570,362	422,240,976	1,183,314,188	858,666,532	324,647,656	1,456,600,322	508,251,319	948,349,003
Derivative financial assets		4,289,595	2,718,078	1,571,517	4,407,594	496,485	3,911,109	4,478,577	7,866	4,470,711
Loans and advances to customers	44(c)	6,054,488,404	5,117,515,641	936,972,763	5,095,744,575	4,273,453,278	822,291,297	4,594,454,589	3,749,137,694	845,316,895
Investment securities		6,223,153,289	4,198,605,155	2,024,548,134	4,716,445,587	4,532,440,230	184,005,357	4,832,329,437	4,639,623,065	192,706,372
Other assets		94,025,588	30,854,636	63,170,952	31,223,839	31,223,839	-	11,537,022	11,537,022	-
Property and equipment		394,861,578	296,146,183	98,715,395	372,510,402	279,382,801	93,127,601	222,202,278	166,651,708	55,550,570
Intangible assets		4,351,872	4,351,872	-	6,819,610	6,819,610	-	9,716,195	9,716,195	-
Deferred tax assets		21,307,487	21,307,487	-	24,025,071	24,025,071	-	27,044,221	27,044,221	-
Total assets		17,104,030,737	10,889,400,289	6,214,630,448	15,751,849,836	10,658,995,735	5,092,854,101	15,124,430,520	9,470,579,960	5,653,850,560
LIABILITIES										
Due to banks		110,061,479	110,061,479	-	-	-	-	140,006,397	140,006,397	-
Derivative financial liabilities		2,774,759	587,382	2,187,377	16,531,096	1,058,890	15,472,206	692,898	317,018	375,880
Deposits from customers	44(d)	14,966,194,318	8,181,597,553	6,784,596,765	13,803,065,697	8,740,050,415	5,063,015,282	13,368,862,538	7,876,378,410	5,492,484,128
Preference shares		145,340,753	145,340,753	-	265,749,768	265,749,768	-	320,758,971	320,758,971	-
Current tax liabilities		30,924,434	30,924,434	-	23,175,879	23,175,879	-	33,230,172	33,230,172	-
Other liabilities		338,395,576	338,395,576	-	303,047,345	303,047,345	-	87,354,895	87,354,895	-
Total liabilities		15,593,691,319	8,806,907,177	6,786,784,142	14,411,569,785	9,333,082,297	5,078,487,488	13,950,905,871	8,458,045,863	5,492,860,008
Shareholders' Equity										
Issued capital		940,495,472			940,495,472			940,495,472		
Retained earnings		478,528,990			322,022,542			186,460,977		
Other reserves		91,314,956			77,762,037			46,568,200		
Capital and reserves		1,510,339,418			1,340,280,051			1,173,524,649		
Total liabilities and equity		17,104,030,737			15,751,849,836			15,124,430,520		

44. SEGMENTAL REPORTING (CONT'D)

Statement of profit or loss and other comprehensive income

	Notes	2018 Bank	2018 Segment A	2018 Segment B	2017 Bank	2017 Segment A	2017 Segment B	2016 Bank	2016 Segment A	2016 Segment B
		MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
Interest income		653,296,994	528,066,852	125,230,142	645,237,899	517,781,732	127,456,167	568,364,546	457,118,944	111,245,602
Interest expense		(267,458,708)	(262,104,410)	(5,354,298)	(309,205,620)	(301,047,757)	(8,157,863)	(300,366,712)	(292,259,513)	(8,107,199)
Net interest income	44(e)	385,838,286	265,962,442	119,875,844	336,032,279	216,733,975	119,298,304	267,997,834	164,859,431	103,138,403
Fee and commission income		104,693,292	22,418,973	82,274,319	112,992,592	35,951,654	77,040,938	128,142,987	39,618,024	88,524,963
Fee and commission expense		(24,210,364)	(2,862,342)	(21,348,022)	(23,853,484)	(1,192,674)	(22,660,810)	(27,486,119)	(2,748,612)	(24,737,507)
Net fee and commission income	44(f)	80,482,928	19,556,631	60,926,297	89,139,108	34,758,980	54,380,128	100,656,868	36,869,412	63,787,456
Net trading income	44(g)	85,243,497	28,086,346	57,157,151	63,830,549	38,354,650	25,475,899	65,420,427	29,103,633	36,316,794
Other operating income	44(h)	7,884,314	7,884,314	-	4,005,926	4,005,926	-	1,545,861	1,545,861	-
Total other income		93,127,811	35,970,660	57,157,151	67,836,475	42,360,576	25,475,899	66,966,288	30,649,494	36,316,794
Operating income		559,449,025	321,489,733	237,959,292	493,007,862	293,853,531	199,154,331	435,620,990	232,378,337	203,242,653
Personnel expenses	44(j)	(162,194,232)	(118,460,551)	(43,733,681)	(127,203,015)	(93,970,698)	(33,232,317)	(100,909,341)	(75,682,006)	(25,227,335)
Depreciation and amortisation		(21,624,665)	(16,218,499)	(5,406,166)	(19,358,710)	(14,519,031)	(4,839,679)	(16,846,870)	(12,635,152)	(4,211,718)
Other operating expenses	44(k)	(74,337,683)	(50,448,533)	(23,889,150)	(73,175,640)	(53,815,377)	(19,360,263)	(70,250,415)	(53,083,947)	(17,166,468)
Non interest expenses		(258,156,580)	(185,127,583)	(73,028,997)	(219,737,365)	(162,305,106)	(57,432,259)	(188,006,626)	(141,401,105)	(46,605,521)
Operating profit before impairment		301,292,445	136,362,150	164,930,295	273,270,497	131,548,425	141,722,072	247,614,364	90,977,232	156,637,132
Allowance for credit impairment on financial assets	44(i)	(9,538,421)	(4,441,347)	(5,097,074)	(22,952,713)	(18,769,573)	(4,183,140)	(61,431,636)	(58,522,374)	(2,909,262)
Operating profit before tax		291,754,024	131,920,803	159,833,221	250,317,784	112,778,852	137,538,932	186,182,728	32,454,858	153,727,870
Income tax expense		(49,322,296)	(42,037,805)	(7,284,491)	(41,809,819)	(35,345,320)	(6,464,499)	(24,575,042)	(19,566,119)	(5,008,923)
Profit for the year		242,431,728	89,882,998	152,548,730	208,507,965	77,433,532	131,074,433	161,607,686	12,888,739	148,718,947
Other comprehensive income										
Items that will not be reclassified subsequently to profit or loss:										
Remeasurement of retirement pension net of deferred tax		(746,523)	(746,523)	-	(483,394)	(483,394)	-	852,957	852,957	-
Items that may be reclassified subsequently to profit or loss:										
Fair value realised on disposal of available-for-sale financial assets		-	-	-	-	-	-	(389,784)	(389,784)	-
Net revaluation movement of available-for-sale financial assets		(22,811,840)	805,895	(23,617,735)	(82,358)	(82,358)	-	(84,514)	(84,514)	-
Other comprehensive (loss)/ income for the year		(23,558,363)	59,372	(23,617,735)	(565,752)	(565,752)	-	378,659	378,659	-
Total comprehensive income		218,873,365	89,942,370	128,930,995	207,942,213	76,867,780	131,074,433	161,986,345	13,267,398	148,718,947

44. SEGMENTAL REPORTING (CONT'D)

	2018			2017			2016		
	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
(a) Cash and cash equivalents									
Cash in hand	6,907,102	5,786,392	1,120,710	5,255,066	4,652,459	602,607	12,780,853	11,168,368	1,612,485
Unrestricted balances with Central Bank	371,944,871	371,944,871	-	556,935,303	556,935,303	-	187,679,011	187,679,011	-
Balances with banks	1,826,588,270	29,128,387	1,797,459,883	1,526,144,576	21,326,736	1,504,817,840	455,791,054	15,807,492	439,983,562
Loans to and placement with banks	1,071,301,343	202,471,225	868,830,118	2,229,024,025	69,573,391	2,159,450,634	3,309,816,961	143,955,999	3,165,860,962
	3,276,741,586	609,330,875	2,667,410,711	4,317,358,970	652,487,889	3,664,871,081	3,966,067,879	358,610,870	3,607,457,009
Balances with banks	3,276,741,586	609,330,875	2,667,410,711	4,317,358,970	652,487,889	3,664,871,081	3,966,067,879	358,610,870	3,607,457,009
Cash and cash equivalents	3,276,741,586	609,330,875	2,667,410,711	4,317,358,970	652,487,889	3,664,871,081	3,966,067,879	358,610,870	3,607,457,009
(b) Due from banks									
Banks outside Mauritius	422,240,976	-	422,240,976	324,647,656	-	324,647,656	948,349,003	-	948,349,003
Banks in Mauritius	-	-	-	279,174,425	279,174,425	-	1,148,538	1,148,538	-
Deposits with the Central Bank	17,315,550	17,315,550	-	28,984,402	28,984,402	-	32,167,947	32,167,947	-
Restricted balances with the Central Bank	591,254,812	591,254,812	-	550,507,705	550,507,705	-	474,934,834	474,934,834	-
	1,030,811,338	608,570,362	422,240,976	1,183,314,188	858,666,532	324,647,656	1,456,600,322	508,251,319	948,349,003

44. SEGMENTAL REPORTING (CONT'D)

	2018			2017			2016		
	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
(c) Loans and advances to customers									
Loans and overdrafts									
Retail	320,596,942	252,758,497	67,838,445	196,303,606	158,587,180	37,716,426	188,164,723	180,993,209	7,171,514
Corporate	4,738,788,744	3,856,917,137	881,871,607	4,169,756,527	3,385,181,656	784,574,871	3,650,862,892	2,812,717,511	838,145,381
	5,059,385,686	4,109,675,634	949,710,052	4,366,060,133	3,543,768,836	822,291,297	3,839,027,615	2,993,710,720	845,316,895
Less: Allowance for impairment losses	(78,036,671)	(65,299,382)	(12,737,289)	(68,446,788)	(68,446,788)	-	(60,146,544)	(60,146,544)	-
	4,981,349,015	4,044,376,252	936,972,763	4,297,613,345	3,475,322,048	822,291,297	3,778,881,071	2,933,564,176	845,316,895
Investment in finance leases									
Retail	472,472,536	472,472,536	-	344,441,698	344,441,698	-	362,477,297	362,477,297	-
Corporate	679,098,611	679,098,611	-	540,201,825	540,201,825	-	568,890,528	568,890,528	-
	1,151,571,147	1,151,571,147	-	884,643,523	884,643,523	-	931,367,825	931,367,825	-
Less: Allowance for impairment losses	(78,431,758)	(78,431,758)	-	(86,512,293)	(86,512,293)	-	(115,794,307)	(115,794,307)	-
	1,073,139,389	1,073,139,389	-	798,131,230	798,131,230	-	815,573,518	815,573,518	-
	6,054,488,404	5,117,515,641	936,972,763	5,095,744,575	4,273,453,278	822,291,297	4,594,454,589	3,749,137,694	845,316,895
(d) Deposits from customers									
Retail customers									
Savings accounts	3,452,276,646	3,414,095,797	38,180,849	3,771,193,347	3,637,940,707	133,252,640	3,385,730,382	3,227,946,406	157,783,976
Other accounts	784,229,641	73,228,380	711,001,261	466,979,523	170,012,800	296,966,723	470,428,665	149,099,446	321,329,219
Term deposits with remaining term to maturity:									
Up to 3 months	206,410,255	184,391,969	22,018,286	188,313,833	180,047,112	8,266,721	120,483,177	117,909,430	2,573,747
Over 3 months and up to 6 months	133,243,226	133,214,436	28,790	105,790,767	105,029,976	760,791	89,483,176	89,096,756	386,420
Over 6 months and up to 12 months	313,092,006	294,177,599	18,914,407	306,878,975	288,369,574	18,509,401	276,148,580	259,588,488	16,560,092
Over 1 year and up to 5 years	1,325,892,658	1,294,127,457	31,765,201	1,333,352,492	1,308,382,113	24,970,379	719,450,425	700,124,709	19,325,716
Corporate customers									
Savings accounts	379,114,526	379,114,526	-	371,550,751	371,550,751	-	424,991,392	424,991,392	-
Other accounts	6,827,151,929	1,099,069,434	5,728,082,495	5,393,754,469	948,341,070	4,445,413,399	6,157,289,450	1,191,739,522	4,965,549,928
Term deposits with remaining term to maturity:									
Up to 3 months	529,391,222	494,521,352	34,869,870	158,796,275	124,150,939	34,645,336	438,859,316	437,584,286	1,275,030
Over 3 months and up to 6 months	257,923,861	65,972,298	191,951,563	449,763,298	361,323,954	88,439,344	72,906,160	72,906,160	-
Over 6 months and up to 12 months	208,918,365	201,134,322	7,784,043	601,326,040	597,235,492	4,090,548	731,108,273	731,108,273	-
Over 1 year and up to 5 years	548,549,983	548,549,983	-	655,365,927	647,665,927	7,700,000	481,983,542	474,283,542	7,700,000
	14,966,194,318	8,181,597,553	6,784,596,765	13,803,065,697	8,740,050,415	5,063,015,282	13,368,862,538	7,876,378,410	5,492,484,128

44. SEGMENTAL REPORTING (CONT'D)

	2018			2017			2016		
	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
(e) Net interest income									
Interest income									
Finance leases	68,076,752	68,076,752	-	65,129,580	65,129,580	-	72,525,210	72,525,210	-
Loans and advances to customers (excluding finance leases)	229,924,450	184,635,642	45,288,808	229,903,554	190,479,120	39,424,434	181,848,992	157,252,579	24,596,413
Loans to and placements with banks	64,236,176	11,429,912	52,806,264	85,049,230	9,344,873	75,704,357	82,757,868	8,899,934	73,857,934
Investment securities	291,059,616	263,924,546	27,135,070	265,155,535	252,828,159	12,327,376	231,232,476	218,441,221	12,791,255
	653,296,994	528,066,852	125,230,142	645,237,899	517,781,732	127,456,167	568,364,546	457,118,944	111,245,602
Interest expense									
Deposits from customers	252,061,262	246,940,125	5,121,137	288,717,476	280,559,613	8,157,863	277,955,314	269,848,115	8,107,199
Preference shares	14,320,503	14,320,503	-	20,238,947	20,238,947	-	22,122,101	22,122,101	-
Borrowed funds	1,076,943	843,782	233,161	249,197	249,197	-	289,297	289,297	-
	267,458,708	262,104,410	5,354,298	309,205,620	301,047,757	8,157,863	300,366,712	292,259,513	8,107,199
Net interest income	385,838,286	265,962,442	119,875,844	336,032,279	216,733,975	119,298,304	267,997,834	164,859,431	103,138,403
(f) Net fee and commission income									
Fee and commission income									
Card and related fee income	53,211,817	4,746,367	48,465,450	60,940,790	9,270,164	51,670,626	71,597,790	13,353,572	58,244,218
Processing fees	10,591,725	8,445,370	2,146,355	6,319,307	6,319,307	-	8,731,515	8,731,515	-
International banking	25,062,665	-	25,062,665	25,127,571	-	25,127,571	30,106,976	-	30,106,976
Interbank transaction fees	10,934,052	4,658,418	6,275,634	9,080,598	9,080,598	-	8,908,546	8,908,546	-
Others	4,893,033	4,568,818	324,215	11,524,326	11,281,585	242,741	8,798,160	8,624,391	173,769
	104,693,292	22,418,973	82,274,319	112,992,592	35,951,654	77,040,938	128,142,987	39,618,024	88,524,963
Fee and commission expense									
Card and related fees	17,776,682	511,539	17,265,143	17,739,830	886,992	16,852,838	21,093,139	2,109,314	18,983,825
Interbank transaction fees	6,433,682	2,350,803	4,082,879	6,113,654	305,682	5,807,972	6,392,980	639,298	5,753,682
	24,210,364	2,862,342	21,348,022	23,853,484	1,192,674	22,660,810	27,486,119	2,748,612	24,737,507
Net fee and commission income	80,482,928	19,556,631	60,926,297	89,139,108	34,758,980	54,380,128	100,656,868	36,869,412	63,787,456

44. SEGMENTAL REPORTING (CONT'D)

	2018			2017			2016		
	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B
	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR	MUR
(g) Net trading income									
Net foreign exchange gain	85,243,497	28,086,346	57,157,151	63,830,549	38,354,650	25,475,899	65,420,427	29,103,633	36,316,794
(h) Other operating income									
Profit on disposal of investment securities	6,455,327	6,455,327	-	2,452,927	2,452,927	-	373,500	373,500	-
Dividend Income	1,237,480	1,237,480	-	1,176,385	1,176,385	-	1,036,164	1,036,164	-
Profit on disposal of property and equipment	187,032	187,032	-	338,001	338,001	-	-	-	-
Others	4,475	4,475	-	38,613	38,613	-	136,197	136,197	-
	7,884,314	7,884,314	-	4,005,926	4,005,926	-	1,545,861	1,545,861	-
(i) Allowance for credit impairment on financial assets									
Loans and advances to customers	5,855,717	2,987,812	2,867,905	12,620,454	12,620,454	-	54,393,380	54,393,380	-
Provision on guarantee	456,276	456,276	-	-	-	-	-	-	-
Investment in securities	3,226,428	997,259	2,229,169	10,332,259	6,149,119	4,183,140	7,038,256	4,128,994	2,909,262
	9,538,421	4,441,347	5,097,074	22,952,713	18,769,573	4,183,140	61,431,636	58,522,374	2,909,262
(j) Personnel expenses									
Wages and salaries	135,303,828	98,292,748	37,011,080	104,246,916	76,753,624	27,493,292	82,936,383	62,202,287	20,734,096
Employees benefit costs	696,557	522,418	174,139	778,507	583,880	194,627	601,233	450,925	150,308
Others	26,193,847	19,645,385	6,548,462	22,177,592	16,633,194	5,544,398	17,371,725	13,028,794	4,342,931
	162,194,232	118,460,551	43,733,681	127,203,015	93,970,698	33,232,317	100,909,341	75,682,006	25,227,335
(k) Other expenses									
Motor vehicle expenses and insurance	3,742,676	2,807,007	935,669	4,411,087	3,308,315	1,102,772	4,719,073	3,539,305	1,179,768
Rental of office	626,728	470,046	156,682	547,860	410,895	136,965	603,015	452,261	150,754
Advertising and marketing	5,940,039	4,455,029	1,485,010	6,164,193	4,623,145	1,541,048	4,251,090	3,188,317	1,062,773
Information technology costs	11,754,659	8,815,994	2,938,665	14,805,926	11,104,444	3,701,482	20,220,960	15,165,720	5,055,240
Licences	3,182,147	2,386,610	795,537	3,354,514	2,515,885	838,629	2,862,837	2,147,128	715,709
Loss on disposal of property and equipment	-	-	-	-	-	-	1,084,139	813,104	271,035
Communication costs	8,280,338	6,210,253	2,070,085	8,333,469	6,250,102	2,083,367	7,693,831	5,770,373	1,923,458
Legal and professional fees	11,558,723	8,669,042	2,889,681	8,914,915	6,686,186	2,228,729	9,631,601	7,223,701	2,407,900
Maintenance costs	4,211,061	3,158,296	1,052,765	3,599,652	2,699,739	899,913	3,437,274	2,577,955	859,319
Others	25,041,312	13,476,256	11,565,056	23,044,024	16,216,666	6,827,358	15,746,595	12,206,083	3,540,512
	74,337,683	50,448,533	23,889,150	73,175,640	53,815,377	19,360,263	70,250,415	53,083,947	17,166,468

CAUTIONARY NOTE

This report contains several forward-looking statements with respect to the financial position and business strategy of ABC Banking Corporation Ltd. By their very nature, forward-looking statements are based on a number of assumptions and management's current views; thus subject to inherent risks and uncertainties. Hence, there is a significant risk that the statements contained herein may not prove to be accurate.

Readers of this report are thus cautioned not to place undue reliance on the forward-looking statements as numerous factors could cause future results and actions to differ materially from the declarations of future expectations expressed herein. A number of factors ranging from the evolution of the economic and political landscape to technological headway, regulatory developments, interest rate and currency value fluctuations, management actions, level of competition in the local and global industry are bound to influence the future outcomes that relate to forward-looking statements.

ABC Banking Corporation Ltd does not undertake to update any forward-looking statement that may be made from time to time by the organisation or on its behalf.

NOTICE OF ANNUAL MEETING

Notice is hereby given that the Annual Meeting of Shareholders of ABC Banking Corporation Ltd (the "bank") will be held at the Labourdonnais Waterfront Hotel, on Friday 23 November 2018 at 14.00 to transact the following business:

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

By order of the Board.

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

1 November 2018

Note 1 A member of the Company entitled to attend and vote at this meeting but who is unable to attend may appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company. The appointment should be made in writing and the instrument (copy annexed) must be deposited with the Secretary, ABC Professional & Secretarial Services Ltd, c/o ABC Banking Corporation Ltd, WEAL HOUSE, Duke of Edinburgh Avenue, Place d'Armes, 11328 Port Louis not less than 24 hours before the meeting.

Note 2 The profiles and categories of the directors proposed for re-election are set out in the Annual Report 2018.

Note 3 Mr Jaddoo is a Fellow Member of the Institute of Chartered Accountants in England and Wales, and is a Corporate Finance and Advisory specialist with a special focus on investment management.

During his career, Mr Jaddoo has held important executive roles and directorship in entities of the De Chazal Du Mée Group and was the Chief Financial Officer and Director of Titanium Resource Group Ltd, a mining company listed on the London Stock Exchange. He also held the position of Managing Director of the Board of Investment between 2005 and 2010, and was until recently the Secretary General of the Mauritius Chamber of Commerce and Industry (MCCI).

He currently sits on a number of Private Equity Funds and international boards as an independent director with a focus on risk management, governance issues and investment management.

Note 4 The fees paid to Messrs. Ernst & Young Mauritius during the year ended 30 June 2018 are set out in the Annual Report 2018.

PROXY FORM

I / We .... of .... being a member / members of ABC banking Corporation Ltd, hereby appoint .... of .... or failing him / her .... of .... as my / our proxy to vote for me / us on my / our behalf at the Annual Meeting of the Company to be held on Friday 23 November 2018 or at any adjournment thereof.

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

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

Signature: ....

Signed this .... day of 2018

ABC BANKING CORPORATION

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