HABIB BANK LIMITED (MAURITIUS BRANCH)

ANNUAL REPORT - YEAR ENDED

DECEMBER 31, 2019

HABIB BANK LIMITED (MAURITIUS BRANCH)

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HABIB BANK LIMITED (MAURITIUS BRANCH)

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INTRODUCTION

Habib Bank Limited (Mauritius Branch) (the "Bank" or "HBL Mauritius") is operating in Mauritius as a branch operation of HBL, a bank incorporated in Pakistan.

The guidelines of Bank of Mauritius applicable to the Bank are those for a branch of a foreign bank. The Bank has developed global policies relating to different aspects of the foreign operations but wherever guidelines issued by the local regulatory authorities of the host country, which in this case is Mauritius, are more stringent in so far as the Bank's operations in the host country are concerned, the Bank adopts the local regulations.

The Bank is a public interest entity as defined under the Mauritian Financial Reporting Act 2004,and is guided by the Bank of Mauritius *Guideline on Corporate Governance*, and the National Code of Corporate Governance for Mauritius (2016) (the "Code").

Corporate governance involves a framework of processes and attitudes within a company and relationships between a company's management, board, shareholders and other stakeholders. Effective corporate governance practices are essential to adding value and ensuring long-term continuity and success of a company.

Compliance with the National Code of Corporate Governance for Mauritius

During the year under review, the management of the Bank has assessed the requirements and provisions as specified in the Code, and took the necessary steps to ensure adherence thereto.

Throughout the year ended 31 December 2019, to the best of the management's knowledge, where the Bank has not applied in view of its branch status, certain principles set out in the Code, the reasons for non-application are listed out in the relevant sections of the report.

Principles of the Code
Principle 1: Governance Structure
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Principle 3: Director Appointment Procedures
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Group Values, Charter and Code of Conduct

Vision

Enabling people to advance with confidence and success.

Mission

To make our customers prosper, our staff excel and create value for shareholders.

Our Values

Our values are the fundamental principles that define our culture and are brought to life in our attitudes and behaviour.

Customer Focus

We strive to fully understand our customers' needs while adapting our products and services to meet their requirements. We always endeavour for customer satisfaction as our primary goal.

Excellence

This is at the core of everything we do. In an increasingly competitive environment, we strive to provide quality services, products and premises. Only by being the very best, can we become successful.

Progressiveness

We believe in the advancement of society through the adoption of enlightened working practices, innovative products and processes and a spirit of enterprise.

Integrity

We are the leading bank in Pakistan, and our success depends upon building trust at every level. Our customers – and society in general – expect us to possess and steadfastly adhere to high moral principles and professional standards.

Meritocracy

We believe in providing opportunities to our employees on the basis of their performance and ability. We reward achievements and provide enriching careers for all.

CODE OF ETHCIS & BUSINESS CONDUCT

To HBL, preserving and nurturing the Bank's reputation and commitment towards its core values is of utmost importance. The Bank expects all employees to conduct themselves in accordance with Code of Ethics and Business Conduct that provides guidelines to employees and HBL Board of Directors in their actions and serve as a declaration of highest standards of ethics and integrity.

The Code lays down the principles and sets the tone for proper conduct and ethical behaviour in conducting business. The Board, the Chairman and the President have ultimate responsibility for ensuring the legality and integrity of the Bank's operations while day-to-day responsibility lies with line management and each employee.

WE EXPECT IN OUR PEOPLE

- Integrity, honesty, candor and moral principles that guide their daily actions.
- Honest and ethical conduct, including ethical handling of actual or apparent conflicts of interests between personal and professional relationships.
- Due diligence and proficiency in all business activities.
- Compliance to all legal and regulatory requirements, applicable governmental laws, rules and regulations.
- Conformity with all rules & regulations of the Bank and observance of all orders / directives issued by management.
- Avoid any conflict between personal, social, financial or political interests and the advancement of HBL’s business interests or the interests of its customers.
- The Bank prohibits employees from soliciting or accepting anything of value including gift, entertainment, or other favors from anyone in connection with the business of the Bank unless such acceptance is disclosed or is excluded from such disclosure.
- Refrain from bringing in outside pressure or influence to attain personal gains within the organization.

WE ARE A CUSTOMER FOCUSED ORGANISATION AND WANT EMPLOYEES TO

- Provide highest standard of services to customers and maintain a helpful and cooperative attitude towards them.
- Respect and protect privacy and confidentiality of our customers.
- Not disclose any information about the Bank or customer unless such disclosure is compelled by law or regulatory authorities.
- Be vigilant for character and actions of customers, vendors, and counter parties.

WE PROMOTE TRANSPARENCY AND EXPECT EMPLOYEES TO MANAGE CONFLICTS OF INTERESTS

- Ensure that our employees’ personal interests do not conflict with the duties which they have towards the Bank or which the Bank owes to its customers.
- Bank's books, records, documents, accounts, expense sheets, reports and statements must be factual to promote highest degree of integrity.
- Publicly representing self or submitting work for publication must be done after obtaining necessary approvals from Management. Ensure that public comments made in private capacity are not attributed as official comments of the Bank.
- Maintain confidentiality and secrecy at all times even after leaving the employment of the Bank as a commitment towards acceptance of a corporate code.

WE PROGRESS THROUGH TRUST & INTEGRITY

- It is essential for HBL's success to comply with laws, regulations and ethical standards that is an important element of our obligation towards customers, stakeholders, general public and employees.
- Our employees are prohibited to engage in insider trading of securities and observe Bank's rules on personal trading in securities.
- Any suspicious activities such as, suspected insider trading, fraud, misappropriation of funds and money laundering must be reported to Compliance Officer of the Bank.
- We are accountable for all compliance related activities and are cooperative with our regulators and auditors in performing their tasks with integrity.

WE WANT EMPLOYEES TO PROTECT & MANAGE THE BANK'S ASSETS

- Employees are responsible for safeguarding the Bank's and the customers' tangible and intangible assets including cash, securities, business plans, customer information, physical property and services and the Bank's reputation.
- Unauthorized copying of copyrighted material, selling, using and distributing information, software and other forms of the Bank's proprietary information is strictly prohibited.
- The Bank's property and assets are strictly used for business purposes only. Misuse of official stationary is not allowed.
- The Bank is alert and vigilant with respect to frauds, thefts or significant illegal activities committed within the office and reports such activity immediately.

WE ARE EQUAL OPPORTUNITY EMPLOYER AND PROMOTE EQUALITY & MERITOCRACY

- We treat all our employees, customers, suppliers and others with respect and dignity and value their individual differences. The Bank does not tolerate any act of discrimination against any person on the basis of race, religion, color, gender, age, marital status, national/ethical origin, sexual orientation, citizenship or disability. No employee is subject to any discrimination or harassment by another employee of the Bank.
- We do not prohibit employment of close relatives; however integrity of the human resource process must be maintained. An employee will not be part of any decision affecting a close relative to avoid conflict of interest.

WE ARE COMMITTED TOWARDS CREATING & MAINTAINING A SAFE WORK PLACE

- HBL has zero tolerance for violence against any member of the workforce and prohibits employees from committing violent acts or threatening to commit such acts.
- The employee should be responsible to maintain office decorum and observe office timings, dress code and fulfill work commitments.
- HBL fosters well-being and health of its employees and discourages illegal use drugs or alcohol on the job or work in presence of such substances in the body.
- HBL prohibits smoking in undesignated areas.
- HBL strictly forbids the violation of safety or health rules.

There is a mechanism in place where the top management meets at regular intervals through different forums (meetings & emails) to ensure that the values are communicated to staff. The Vision, Mission and Value statements are conspicuously displayed in the banking hall at all our branches.

How the Bank is responsible for the compliance with the Group code of conduct?

The code of conduct forms an integral part of the employment process and is mandatory for every new recruit to read, understand and sign an undertaking to abide by the terms and conditions stated therein.

It is the duty and responsibility of each employee and Board of Directors to understand and adhere to the principles provided in the Code.

Any known or suspected violation of the code of conduct must immediately be reported to Human Resources. Violations of the code of conduct may result in disciplinary action including, in severe situations, immediate termination of employment. We encourage employees to direct concerns or complaints, arising in the ordinary course of business, which cannot be resolved by the supervisor, to respective Functional Head / Human Resources. If further information, explanation or guidance is required regarding a particular provision or applicability of the code of conduct, the "Code of Ethics & Business Conduct for HBL Staff" should be referred to, or the employee may contact his/her immediate Manager or Human Resources.

Principle 1: Governance Structure

1.1 Shareholding structure

HBL Mauritius is a foreign branch of HBL. HBL is incorporated in Pakistan and is engaged in commercial banking related services in Pakistan and overseas. The Aga Khan Fund for Economic Development (AKFED), S.A. is the parent company of HBL and its registered office is in Geneva, Switzerland.

1.2 Responsibilities of the Board

The directors are responsible for ensuring proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of HBL. They are also responsible for ensuring that assets are safeguarded and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for ensuring that the internal control systems in place are effective and that the Bank's operations are properly controlled and comply with policies approved by the Bank and/or the Group as well as applicable laws and regulations.

Principle 2: The Structure of the Board and its Committees

2.1 Board Composition

HBL has a unitary board. The bank encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the Board includes 8 Directors out of which 7 are male directors and 1 female director.

Category	**Name of Directors**
Independent Directors	**1. Mr. Salim Raza** **2. Dr. Najeed Samie** **3. Mr. Agha Sher Shah**
Non-Executive Directors	**4. Mr. Sultan Ali Allana** **5. Mr. Shafiq Dharamshi** **6. Mr. Moeez Ahamad Jamal** **7. Ms. Sadia Khan**
Executive Director	**8. Mr. Muhammad Aurangzeb**

Principle 2: The Structure of the Board and its Committees (Continued)

2. The Structure of the Board and its Committees (Continued)

2.1 Board Composition (Continued)

The Board of Directors of HBL are elected for a three year term by the shareholders in the shareholders meeting.

The Board has an approved charter and has prepared a code of conduct and has ensured that appropriate steps have been taken to disseminate it through the Bank.

HBL has constituted various committees of directors for the oversight into different areas including risk management, matters of strategic importance, and corporate governance. The main committees of the Board are as follows:

a) Board Audit Committee
b) Board Risk Management Committee
c) Board Human Resource and Remuneration Committee
d) Board Compliance and Conduct Committee
e) Board Development Finance Committee
f) Board IT Committee
g) Board Oversight Committee- International Governance

Board Audit Committee (BAC)

BAC is responsible for the review the adequacy and effectiveness of the internal control operational controls, and adequacy of financial statements and reporting system.

Board Risk Management Committee (BRMC)

BRMC is responsible, on behalf of the Board, for oversight and advice to the Board on risk related matters and risk governance.

Board Human Resource & Remuneration Committee (BHRRC)

BHRRC is a committee of the Board from which it derives its authority and to which it regularly reports to HR and related matters.

Board Compliance and Conduct Committee (BCNC)

BCNC is responsible for providing support to the Board in inculcating compliance and conduct culture including various regulatory reports, policies and improving governance.

Board Development Finance Committee (BDFC)

BDFC’s responsibility is to assist the Board in providing oversight for financial inclusion to the underserved and underdeveloped areas of the country.

Board IT Committee (BITC)

BITC is mainly responsible for advising and reporting to the Board on the status of technology activities and digital initiatives.

Principle 2: The Structure of the Board and its Committees

2. The Structure of the Board and its Committees (Continued)

2.1 Board Composition (Continued)

Board Oversight Committee – International Governance (BOC-IG)

BOC–IG's responsibility is to assist the Board for enhanced oversight in the quality of governance in overseas business operations.

Since HBL Mauritius is a foreign branch of HBL, a bank incorporated in Pakistan, the Bank does not have a Board of Directors. The administration and operations of the Bank has been conferred to a local management team comprising the Country Manager, the Head of Retail & Islamic Banking, the Head of Finance, the Head of Compliance and the Country Operations Manager. The local management team is headed by the Country Manager for the day to day running of the local operations of the Bank. The Country Manager reports directly to HBL in Pakistan. The performance of the Bank is monitored through local management committees as well as by HBL.

There is a mandatory requirement to appoint a full time Company Secretary at HBL. The main responsibilities include preparing and circulating agendas and working papers to the Board, ensuring that proper procedures for the appointment of Directors are carried out and the bank complies with its constitution and all relevant statutory and regulatory requirements in relation to the Board.

There is no board or board sub-committee set up for the Bank. As such, no company secretary has been appointed. The Bank operates through local management.

Mauritius Branch Operations

Oversight of HBL Mauritius Operations- Management Composition

The Bank does not have a Board of Directors locally given that the administration and operations of the Bank has been conferred to a local management team comprising:

- the Country Manager;
- the Head of Retail & Islamic Banking;
- the Country Operations Manager;
- the Head of Finance; and
- the Head of Compliance.

Country Manager

The Country Manager is responsible for the following:

- Contribute to strategic planning and decision making for HBL's international banking business evaluating opportunities and threats relating to banking operations in Mauritius.;
- Ensure all Bank Manuals are updated and understood by all relevant staff;
- Coach and motivate branches with the aims of exceeding plan volume and profitability targets, ensure smooth operations of the Bank and ensure that the efficiency and delivery standards are maintained;
- Encourage staff to participate in strategic and regular communication meetings and to communicate their views;
- Lead by example and ensure culture change towards a target oriented team.

Principle 2: The Structure of the Board and its Committees

2.1 *Board Composition (Continued)*

Head Retail and Islamic Banking

- Formulate and develop strategies to achieve business targets;
- Grow assets and liabilities of Islamic Banking Unit as well as number of account targets.
- Devise marketing plans to maintain and develop customer relationship
- Assist branches in meeting their targets for account opening, assets and liabilities
- Maintain high standards of customer service and coordinate with the relevant support department to ensure high customer satisfaction.

Country Operations Manager

- To develop and manage efficiency of delivery channels and continuously improve service quality standards;
- Ensure smooth operations of all branches with no disruptions arising from IT or Administration issues;
- Ensure that optimum utilization is made of Misys and to take full benefit of system automation through adequate staff training and track and monitor divergence from Key Indicators with monthly report and recommendations to Country Manager and Manager Sales;
- Responsible for the smooth running of the Bank Operations
- Ensure setup and regular update on business processes, job descriptions and procedure manuals for each function of the Bank.

Principle 2: The Structure of the Board and its Committees (continued)

2.1 Board Composition (continued)

Mauritius Branch Operations (continued)

Oversight of HBL Mauritius Operations- Management Composition (continued)

Head of Finance

- To contribute towards strategic planning and decision making for the Bank, ensuring opportunities and evaluating threats relating to financial performance;
- To develop financial policies with due focus on financial and tax planning;
- Preparation of financial reporting for onward delivery to the management;
- Develop and implement processes and systems to provide management information to ensure that effective controls across all areas of the Bank are in place;
- Staying abreast of the local prudential regulations, economic environment and political environment of the country within the assigned portfolio;
- To participate in Asset Liability and Management Committees and provide financial analysis, advice and guidance.

Head of Compliance

- Review Know Your Customer (KYC) uploaded by the branches into Misys. The KYC quality assurance is a highly critical process given that KYCs are the basis of customer profiling (High, Medium and Low Risk) for the organization and is the primary tool for determining the level of AML/CFT risk in light of regulations and policies;
- Periodic Compliance Reviews of local branches/operations and investigate and raise queries with respective branches/units in order to analyze out of pattern transactions which are verified to the information already available in the system/account opening forms /other supporting documents;
- Build a strong Compliance culture across HBL Mauritius through continuous training efforts focused at educating branch staff on the criticality of completing KYC accurately and how it culminated into the overall management of regulatory, AML and reputational risk for the Bank. These training and awareness sessions are executed through lectures and practical demonstrations;
- Review the Alerts generated through AML solution (Mantas) & Safewatch filter
- Monitoring & identifying suspicious transactions and their disclosure and reporting to the Regulator;
- Ensure compliance with FATCA and CRS regulations.

The local Management team is headed by the Country Manager for the Day-to-Day running of the local operations of the Bank. The Country Manager reports directly to HBL.

In order to carry on an orderly conduct of the business, the Bank has formed the following committees:

- **Management Committee**

The Management Committee meets on a monthly basis. It has the responsibility for business development initiatives, human resources & internal management structure, IT & Operational issues, Health & Safety, social matters such as education & environmental protection and any other relevant issues.

Management also considers employee remuneration issues and key appointments. It ensures that the higher level management receives appropriate training as deemed appropriate. The Committee is headed by the Country Manager.

Principle 2: The Structure of the Board and its Committees (continued)

2.1 Board Composition (continued)

- **Asset and Liability Committee**

The Asset and Liability Committee (ALCO) of the Bank has a formal schedule of matters reserved for its purview and meets on a monthly basis. It is responsible for the overall branch strategy, acquisition and divestment, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of the Bank, its annual budget, its progress towards achievement of its budget and its capital expenditure program.

The Committee also takes stock of Liquidity and Treasury positions and plan for liquidity management. The Committee is headed by the Country Manager.

ALCO monitors the external environment in which the Bank operates and assesses the impact of factors such as:

- Interest rate volatility and trends;
- Market liquidity;
- Exchange rate movements;
- Monetary and fiscal policies;
- Competitors actions; and
- Stress testing.

- **Audit, Compliance & Internal Control Review Committee**

It is responsible for reviewing system, limit breaches, compliance, approvals and authorities and other controls in place to ensure sound internal control systems. The Committee is headed by the Country Manager and meets on a monthly basis.

The Internal Control Unit ("ICU") Mauritius reports directly to ICU at HBL, Karachi and administratively to the Country Manager and the Regional General Manager. Before the reports are released should be addressed to him for his review and comments (if deemed necessary).

ICU Mauritius assists management in improving the control environment through various types of reviews by identifying breaches i.e. (exceptions/issues) in approved policies, procedures and key regulatory requirements.

The functioning of ICU is as per a duly approved annual plan.

ICU Mauritius meets every fortnight with ICU Head of HBL through conference calls with other international branches to discuss ICU related issues.

- **Compliance Committee**

The Compliance Committee was established in May 2018.

It is responsible for promoting a high-level compliance culture within HBL Mauritius operations and addresses the weaknesses giving rise to non-compliance. It also ensures that Business functions take full ownership of compliance risks. Furthermore, it also reviews and discusses compliance risk issues faced by the Bank at cross functional level. It also ensures effective implementation of AML/CFT Policy in true spirit within the Bank as well as establish a mechanism to ensure that the desired results are achieved.

The Committee convenes once every quarter and is chaired by the Country Manager.

Principle 2: The Structure of the Board and its Committees (continued)

2.1 Board Composition (continued)

- **IT Steering Committee**

The IT Steering Committee meets on a quarterly to discuss and manage the developments in relation to the technology, software, IT security and acquisition of hardware.

The Committee is headed by the Country Manager.

- **Health and Safety Committee**

The Heath and Safety meets on a quarterly basis to discuss matters relating to employee health and work environment safety issues.

The Committee is headed by the Country Manager.

Principle 3: Director Appointment Procedures

3.1 Appointment of Directors

The Board of Directors of HBL is elected for a three-year term by the shareholders in the shareholders meeting. In case of any causal vacancy occurring on the Board, the person so appointed shall hold office for the remainder of the term of the Director in whose place she/he is appointed. The Board is responsible for succession planning and for the appointment and induction of new Directors to the Board.

3.2 Board Access to Information & Advice

Since HBL Mauritius administration and operations have been conferred to a local management team comprising the Country Manager, the Head of Retail & Islamic Banking, the Head of Finance and the Country Operations Manager, local committees including ALCO, Management, Compliance and IT steering committee have been setup to monitor the performance of the Bank.

The flow of information to the Bank is in the form of approved templates by different departments including finance, compliance, operations and Human Resource. Furthermore, where there is a matter of significant importance it is reported to the Bank immediately. At HBL's level, data is reviewed by respective Heads who are then responsible for the dissemination of the information at the Board and its sub-committee levels for updates and decision making.

The newly appointed Directors undergo an induction and orientation process.

3.3 Directors' Interests in Shares

Since HBL Mauritius is a foreign branch of HBL, a bank incorporated in Pakistan, there is no share issuance with respect to the foreign operations.

Principle 3: Director Appointment Procedures (continued)

3.4 Independent Directors

HBL encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. There are currently three independent directors out of a total of 8 Board members.

Since HBL Mauritius is a foreign branch of HBL, a bank incorporated in Pakistan, the responsibility of the operations of the Bank has been conferred to a local management team therefore there are no Directors appointed at the Bank's level.

3.5 Evaluation of Board Performance

One of the main responsibilities of the Board is to put in place a formal and rigorous mechanism for regularly reviewing its overall performance as well as the performance of Board Committees and individual Directors. The Board of HBL performs an annual evaluation. The annual evaluation covers different aspects of the Board including Boards structure, size, composition, responsibilities of individual directors including independent directors, performance evaluation of Board Sub Committees and CEO. It also includes detailed analysis of the aspects where the Board thinks it can improve and develop an action plan to address issues.

Since HBL Mauritius is a foreign branch of HBL, the responsibility of the operations of the Bank has been conferred to a local management team therefore there is no such evaluation process. The performance of these committees are evaluated on a monthly performance by HBL.

3.6 Succession Planning

There is a succession planning mechanism in place at HBL which is reviewed annually.

3.7 Induction & Orientation Programme & Periodic Refresher Programme for Directors

The Board of HBL ensures that Directors attend trainings to ensure an appropriate level of focus on critical areas.

Since HBL Mauritius is a foreign branch of HBL, the responsibility of the operations of the Bank has been conferred to a local management team therefore there are no induction or training programmes for the Directors. The senior level management of the Bank are required to attend trainings to enhance their skills and keep themselves well versed with the latest development in different areas affecting the business.

3.8 Common directors between the Bank and its sole shareholder

The Bank does not have a Board of Directors and hence there are no common directors between the Bank and shareholders. Locally the administration and operations of the Bank has been conferred to a local management team comprising:

- the Country Manager;
- the Head of Retail & Islamic Banking;
- the Head of Finance;
- the Head of Compliance; and
- the Country Operations Manager.

Principle 3: Director Appointment Procedures (continued)

3.8 Common directors between the Bank and its sole shareholder (continued)

The local Management team is headed by the Country Manager for the day to day running of the local operations of the Bank. The Country Manager reports directly to HBL. Furthermore, none of the senior management of the Bank holds any shares in HBL.

Principle 4: Director Duties, Remuneration and Performance

Board Charter

The Board of Directors owes a fiduciary duty of care to their organisation. Directors, individually and collectively, are responsible for the strategic direction and control of the Bank. Defining roles and responsibilities of Directors contributes to a transparent environment of decision making and accountability.

The Board ensures that conflicts of interest and related-party transactions have been conducted in accordance with the conflicts of interest and related-party transactions policy.

The Board is responsible:

(i) to manage the business of the Bank, including payment of expenses incurred in promoting and registering the Bank;
(ii) to issue shares and debentures;
(iii) to lend, borrow and invest funds;
(iv) incur capital expenditure;
(v) to allow a Bank in which the Director has an interest to contract with the Bank;
(vi) approve annual or semi-annual or other periodical accounts as are required to be circulated to the members;
(vii) declare interim dividend
(viii) to approve bonus to employees
(ix) takeover a bank or acquire a stake in another bank;
(x) focus on policy making and general direction, oversight and supervision of the affairs of the Bank;
(xi) approve and monitor the objectives, strategies and overall business plans of the Bank and oversee that the affairs are carried out prudently within the framework of existing laws and regulations and high business ethics;
(xii) for clearly defining the authorities and key responsibilities of both the Directors and the senior Management of the Bank;
(xiii) for developing and periodically updating policies on risk management, credit, Treasury & Investment, internal control system and audit, IT Security, human resources, expenditure, accounting and disclosure and any other operational areas which the Board may deem appropriate from time to time;
(xiv) to ensure existence of an effective Management Information System (MIS) to remain fully informed of the activities, operating performance and financial condition;
(xv) develop and disseminate a Code of Conduct within the bank to promote professional and corporate values;

Principle 4: Director Duties, Remuneration and Performance (continued)

Board Charter (continued)

(xvi) put in place adequate systems and controls for identification and redress of grievances arising from unethical practices;
(xvii) develop a vision and/or mission statement and overall corporate strategy;
(xviii) develop systems of sound internal controls at all levels;
(xix) put a formal mechanism in place for the annual evaluation of the Board, its Committees and individual directors.

Since HBL Mauritius is a foreign branch of HBL, the Bank does not have a Board of Directors locally given that the administration and operations of the Bank have been conferred to a local management team.

4.1 Role of Chairman and Functioning of the Directors

The chairman is responsible for leadership of the Board and ensure that the Board plays an effective role in fulfilling its responsibilities. The Chairman of the Board at the beginning of term of each Director, issues a letter to the Directors setting out their role, obligations, powers and responsibilities in accordance with the Companies Act and the Bank's Articles of Association, their remuneration and entitlement.

The roles and responsibilities of the Directors are as follows:

(i) Act in accordance with the Articles of Association of the bank.
(ii) Act in good faith in order to promote the objects of the bank for the benefit of its members as a whole, and in the best interests of the bank, its employees, the shareholders, the community and for the protection of the environment.
(iii) Discharge their duties with due and reasonable care, skill and diligence and shall exercise independent judgment.
(iv) Not involve in a situation in which they may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the bank.
(v) Not to achieve any undue gain or advantage either to themselves or to their relatives, partners, or associates and if such Director is found guilty of making any undue gain, they shall be liable to pay an amount equal to that gain to the bank.
(vi) Endeavour to prevent the commission of any fraud or offences of money laundering.

Since HBL Mauritius is a foreign branch of HBL, a bank incorporated in Pakistan. The Bank does not have a Board of Directors locally given that the administration and operations of the Bank have been conferred to a local management team.

Principle 4: Director Duties, Remuneration and Performance (continued)

4.2 Role of Company Secretary

Since HBL Mauritius is a foreign branch of HBL, the Bank does not have a Board and therefore does not have a company secretary but at the bank level as per the prevailing local laws and regulations there is a requirement to appoint a company secretary who looks after the company affairs.

a) Secretarial Function

(i) To ensure compliance of the provisions of Companies Act and rules made thereunder and other statutes and bye-laws of the bank;
(ii) To ensure that business of the Bank is conducted in accordance with its objects as contained in its memorandum of association.
(iii) To prepare the agenda in consultation with the Chairman and the other documents for all the meetings of the Board of Directors.
(iv) To arrange with and to call and hold meetings of the Board and to prepare a correct record of proceedings.
(v) To attend the Board meetings in order to ensure that the legal requirements are fulfilled, and provide such information as are necessary.
(vi) To arrange with the consultation of Chairman the annual and extraordinary general meetings of the bank and to attend such meetings in order to ensure compliance with the legal requirements and to make correct record thereof.

b) Legal Obligations

(i) Filling of various documents/returns with the Registrar as required under the provisions of the Act.
(ii) Proper maintenance of books and registers of the Bank as required under the provisions of the Act.
(iii) To see whether legal requirements of the allotment, issuance and transfer of share certificates, mortgages and charges, have been complied with.
(iv) To convene/arrange the meetings of Directors, on their advise.
(v) To issue notice and agenda of Board meetings to every director of the bank.
(vi) To correspond with the directors of the bank on various matters.
(vii) To record the minutes of the proceedings of the meetings of the Directors.

c) Other Duties

(i) Ensuring that statutory forms are filed promptly.
(ii) Keeping minutes of directors' meetings and general meetings.
(iii) Ensuring that people entitled to do so, can inspect company records.
(iv) Maintaining statutory books of the bank.

There is no board or board sub-committee set up for the Bank. As such, no company secretary has been appointed. The Bank operates through local management. The mandatory correspondences are made through the Country Manager.

4.3 Directors' Service Contracts

There are no Directors service contracts.

Principle 4: Director Duties, Remuneration and Performance (continued)

4.4 Directors' Emoluments

Since HBL Mauritius is a foreign branch of HBL, the Bank does not have a Board of Directors locally given that the administration and operations of the Bank have been conferred to a local management team comprising the Country Manager, the Head of Retail & Islamic Banking, the Head of Finance, the Head of Compliance and the Country Operations Manager. The remuneration of the senior management at the Bank's Level is determined by HBL.

4.5 Statement of Remuneration Policy

The Bank has a comprehensive, transparent and fair remuneration policy that is aligned with risk and responsibilities of financial intermediation, in accordance with the prevailing market practices.

a) The Board of Directors ensures that a fair, transparent and competitive remuneration mechanism is in place that encourages the culture of 'pay for performance'.

b) The Board of Directors approves the compensation and benefits of CEO and other key executives.

d) The Board of Directors has constituted a Human Resource and Remuneration Committee.

Since HBL Mauritius is a foreign branch of HBL, the Bank does not have a Board of Directors locally given that the administration and operations of the Bank have been conferred to a local management team comprising the Country Manager, the Head of Retail & Islamic Banking, the Head of Finance, the Head of Compliance and the Country Operations Manager. The remuneration of the senior management at the Bank's Level is determined by the HBL.

4.6 Conflict of Interest

Since HBL Mauritius is a Foreign Branch of HBL, the Bank does not have a Board of Directors locally given that the administration and operations of the Bank have been conferred to a local management team.

4.7 Directors Profile

Since HBL Mauritius is a foreign branch of HBL, a Bank incorporated in Pakistan. The Bank does not have a Board of Directors locally given that the administration and operations of the Bank have been conferred to a local management team. The profiles of the senior management of the branch are stated in section, 4.9.

4.8 Board and Committee Attendance

Since HBL Mauritius is a foreign branch of HBL, the Bank does not have a Board of Directors locally given that the administration and operations of the Bank have been conferred to a local management team. The local management monitors the performance of the Bank through different local sub committees.

Principle 4: Director Duties, Remuneration and Performance (continued)

4.9 Senior Management's Profile

The profiles of the Senior Management are as follows

Mr. Ali Haider (Country Manager - resigned on July 1, 2019)

Mr Ali. Haider vacated his post as the Country Manager on September 30th 2019. Mr Erslaan was appointed as the New Country Manager. His appointment was approved by the Bank of Mauritius on December 3rd 2019. During the period October 1st 2019 to December 2nd 2019, Mr. Imad Zahid Nagi was appointed as the Acting Country Manager.

Mr. Erslaan Ahmed (Country Manager - appointed on November 18th 2019)

Mr. Erslaan Ahmed joined HBL in 2005. His banking experience spans over a period of more than 29 years. He holds a Master of Business Administration degree. He was Country Manager of HBL Bahrain for about 5 years till February 2017. His recent role was that of Regional General Manager for HBL Bangladesh and HBL Afghanistan.

His current responsibilities cover the supervision of HBL Mauritius's operations including treasury, corporate banking, centralised operations, financial control, retail branches, human resources and general administration functions.

Mr. Shabbir Husein Rajani (Head of Retail & Islamic Banking)

Mr. Shabbir Husein Rajani is heading the Retail and Islamic segments of HBL in Mauritius. He joined the Bank on January 9th 1976 and since then has acquired experience in nearly all the business activities of the Bank. His responsibilities mainly encompasses the business development as far as Retail and Islamic Banking are concerned. He heads, manages and guides a team of Senior Managers and focuses towards business expansion on the retail side with the aim to increase the market share in the country. Mr. Shabbir Husein Rajani has 42 years' experience in the Banking Sector and devoted his entire career to the service of HBL in Mauritius.

Mr. Zakirhussen Pirbhay (Country Operations Manager)

Mr. Zakirhussen Pirbhay joined HBL in February 2001 as a Bank Officer in the Advances department. He has since acquired experience in heading different departments of the Bank like Credit Administration, Finance, Project and Centralized Operations. Mr. Pirbhay was also the MLRO from February 2010 to May 2017 and thereafter to the Operations department as Senior Operations Manager. In December 2017, he was assigned the responsibility of heading the operations of HBL Mauritius. His main role is to supervise and manage the overall operations of the Bank. He reports directly to the Country Manager. Mr. Pirbhay holds a Bsc (Hons) in Economics from the University of Mauritius.

Mr. Shaukat Ali Bangash (Country Head of Compliance- resigned on October 1st 2019)

Mr. Shaukat Ali Bangash vacated his post as Head of Compliance on October 31st 2019. Mr. Rhazally was appointed in his place as the new Head of Compliance. Mr. Rhazally's appointment was approved by the Bank of Mauritius on December 13th 2019.

Principle 4: Director Duties, Remuneration and Performance (continued)

4.9 Senior Management's Profile (continued)

Mr. Rhazally Jeeroburkan (Country Head of Compliance -appointed on November 14th 2019)

Mr. Rhazally Jeeroburkan joined the Bank in January 2020. His responsibilities comprise Management of KYC, monitoring and regularization of High Risk Accounts and Transaction Monitoring, and based on his previous experience he also provides training and awareness in areas of AML and reputational risk for the Bank.

Mr. Jeeroburkan has an experience of over 12 years. His core focus and experience has been in Operations and Compliance, which includes both local and global compliance. His last work experience comprised of working as MLRO at CIM Financials.

Mr. Imad Zahid Nagi (Country Head of Finance)

Mr. Imad Zahid Nagi joined the Bank (Mauritius Branch) in September 2018. His responsibilities comprise contributing towards the strategic planning and decision making of the Bank. He is also responsible for financial reporting, budgeting and advising the Country Manager on commercial strategies and financial performance.

Mr. Nagi has been associated with the financial banking sector for over eight years and prior to joining HBL, he has worked as the Chief Financial Officer of an asset management company. Before joining as Head of Finance in Mauritius, he was part of the Strategy Division of HBL.

Principle 5: Risk Governance and Internal Controls

5.1 Risk Management

The Bank continuously evaluates its risk architecture and governance framework through the Board Risk Management Committee which monitors, assesses and manages the risk profile of the Bank on an ongoing basis. Various risk committees at the senior management level are responsible for oversight and execution whereas day-to-day risk management activities are delegated to different levels through multi-tier management supervision and clearly articulated policies and procedures. Locally the risk is managed by ALCO which then reports to different levels at HBL. The Board through its sub committees monitors and evaluates the company's strategic, financial, operational and compliance risk. Furthermore, Board has also developed and implemented appropriate frameworks and effective processes for the sound management of risk.

5.2 Risk Governance, Process and Tools

Policies, procedures and systems are in place to govern practices in a systematic and consistent manner. Key tools such as Risk Control Self-Assessment (RCSA), Key Risk Indicators and Operational Loss Data Management, are used to gauge the likelihood and severity of operational risk. The Operational Risk Profile and Liquidity Risk Assessment are regularly shared with the respective departments at HBL which is then escalated to senior management and the Board Risk Management Committee. The Bank uses stress testing and scenario analysis to proactively assess the impact of different scenarios affecting the branch.

Principle 5: Risk Governance and Internal Controls (continued)

5.3 Risk Roles and Responsibilities

- Review impact of industry, legal and regulatory changes relating to operational risk.
- Monitor key risk indicators.
- Assess the effectiveness of operational risk management process, and address changes where required.
- Maintain a sound and effective market and liquidity risk management architecture.
- To ensure that the products/portfolios exposed to market risk and liquidity risk are identified, measured and monitored.
- Review the systems, tools and methodologies for measuring, monitoring and reporting market risk and liquidity risk.

5.4 Internal Control

Management is responsible for ensuring that the internal control systems in place are effective and that the Bank's operations are properly controlled and comply with policies approved by the Bank as well as applicable laws and regulations.

5.5 Whistleblowing

HBL believes that open communication with employees is an integral part of cultural change. It facilitates in creating a healthy environment of mutual trust, openness, credibility and respect where employees can comfortably give candid feedback on work and policy issues and raise concerns to the Management in confidence without any fear of repercussions.

The employees are encouraged to report any inappropriate conduct or unethical behavior which they may become aware of and which may impact the reputation of the Bank. Employees are encouraged to come forward and blow the whistle in confidence through various modes of communication including a dedicated email address, call number supported by both interactive voice response system and through post directly addressed to the Chief Compliance Officer. The complaints reported are reviewed by Global Compliance.

Principle 6: Reporting with Integrity

Organisation's financial, environmental, social and governance position

Management of HBL Mauritius's top priority has been to conduct the business with the highest level of integrity and honesty and ensure that services are provided by professionals who have the required level of competence and capability and portray professional behavior in dealings with the clients and customers.

The Bank, as a policy, gives priority to adherence to the directives and policy guidelines issued by the Bank of Mauritius for its operations in Mauritius.

The financial statements of the Bank comply with the Companies Act 2001 and the Banking Act 2004 and have been prepared in accordance with the International Financial Reporting Standards (IFRS), Guidelines and Guidance Notes issued by the Bank of Mauritius, in so far as the operations of the Bank are concerned.

Principle 6: Reporting with Integrity (continued)

Organisation's financial, environmental, social and governance position (continued)

The management is responsible for their integrity, consistency, objectivity and reliability of the financial statements. In complying with International Financial Reporting Standards as well as the requirements of the Banking Act 2004 and the guidelines issued thereunder management has exercised its judgement and made best estimates where deemed necessary.

The development of Human resource is critical for the survival of the organization. Employee development and trainings needs are continuously monitored. The Bank urges an open environment between the employees and senior management on the matters of concern without any risk of reprisal against them.

The Bank is fully committed and supports a Go Green Organizational Culture. The clean environment moto stems down from the top management with special focus on making the work environment paper less and saving energy. The Bank always promote environmental protection.

Statement of directors' responsibility

The Bank does not have a Board of Directors locally given that the administration and operations of the bank has been conferred to a local management team comprising the Country Manager, the Head of Retail & Islamic Banking and the Country Operations Manager. The local Management team is headed by the Country Manager for the day to day running of the local operations of the bank. The Country Manager reports directly to HBL.

Performance and Outlook

The matter has been discussed in detail in the section related to Management Discussions and Analysis.

Health & safety

The Bank has always promoted a working environment in which a health and safety are inculcated in the culture of the Bank. The Bank maintains very conducive working environment for higher productivity and the general wellbeing of the internal and external stakeholders. HBL Mauritius has established a Health and Safety Committee in which matters of safety and health of employees and customers is a significant feature.

Related Party transactions

As per the Bank's guideline on Related party transactions, all related party transactions will be placed before the Board Audit Committee for their review and recommendation to the Board for approval.

The related party exposure shall be subject to the following exclusion:

- Loans given to employees under the Bank's HR policies.
- Placement of funds by HBL with its own branches/subsidiaries overseas.
- Bank's investment in common shareholding of its subsidiaries.

Principle 6: Reporting with Integrity (continued)

Website

The Bank's website provides useful information to the stakeholders. The un-audited quarterly accounts and the Annual reports are also made available on the website.

Principle 7: Audit

Internal audit

HBL Mauritius has a team of Internal Group Auditors who report directly to the HBL Board in Pakistan ensuring objectivity and impartiality of regular audit exercise.

HBL conducts an internal audit of its overseas location once after every three years. The internal audit team submits its findings in the form of report to the Internal Audit Department. The findings are discussed by the Audit Committee which ultimately reports to the Board. The observations highlighted are regularly monitored by the Global Compliance department. In addition to it a desktop review of Business (Business Risk Review) is also conducted on an annual basis.

There have been no restrictions placed over the right of access by internal audit to the records, management or employees of the Bank as part of the audit procedures performed during the year under review.

External auditors

PricewaterhouseCoopers have been replaced by KPMG as statutory auditors for the year ended December 31, 2019. The other non-assurance services, which includes tax services have been outsourced to BDO & Co.

Name	**2019 (Rs' 000)**	2018 (Rs' 000)	2017 (Rs' 000)
Audit Services			
KPMG	**1,495**	-	-
PricewaterhouseCoopers (Cost over runs charged in 2019)	**207**	1,208	1,150
Non-Assurance Services	**124**	-	-
BDO & CO	**122**	122	46

The audited accounts including the audit findings are duly discussed and reviewed by the local management committee.

Principle 8: Relations with Shareholders and Other Key Stakeholders

Shareholder's meeting

It is mandatory for HBL to convene its annual general meeting (AGM), once at least in every calendar year within a period of four months following the close of its financial year.

Principle 8: Relations with Shareholders and Other Key Stakeholders (continued)

Shareholder's meeting (continued)

There are no shares issued by HBL Mauritius as it is a foreign branch of HBL, a bank incorporated in Pakistan, therefore no shareholders meeting takes place at the branch level.

Shareholder feedback and concerns

There are no shares issued by HBL Mauritius as it is a foreign branch of HBL, therefore no shareholders feedback and concern mechanism is required at the Bank level.

Shareholder's Calendar

There are no shares issued by HBL Mauritius as it is a foreign branch of HBL, therefore no shareholders meetings required at the branch level.

Employee share plans

There are no shares issued by HBL Mauritius as it is a foreign branch of HBL, therefore no employee share plans at the Bank's Level.

Dividend policy

Dividends paid by the Bank are an integral part of the capital management process. Capital that is surplus to business operational requirements is remitted to HBL in accordance with the prevailing laws and regulations in Mauritius.

Shareholder's Agreement Affecting the Governance of the Bank by the Board

Since HBL Mauritius is a foreign branch of HBL, the Bank does not have any issued shares. Hence, there is no Shareholder's Agreement that would affect the Governance of the Bank by the Board.

Third Party Management Agreement

There is no third-party management agreement by HBL Mauritius.

Rights to Minority Shareholders

Since HBL Mauritius is a foreign branch of HBL, the Bank does not have any issued shares. Hence, therefore is no minority shareholding in HBL Mauritius.

Shareholders Communication

Since HBL Mauritius is a foreign branch of HBL, there is a robust reporting system in place where HBL is updated on a continuous basis in relation to the financial matters, the business matters, the developments and changes in laws and regulations, the compliance matters and other significant matters arising in the normal course of business. There is a performance review mechanism in place which monitors the performance of the Bank.

Principle 8: Relations with Shareholders and Other Key Stakeholders (continued)

The Bank's other stakeholders include:

1) Employees

   Employee development and trainings needs are continuously monitored. The Bank urges an open environment between the employees and senior management on the matters of concern without any risk of reprisal against them.

   HBL Mauritius has a Platinum Staff Club which organises different staff activities during the year.

2) Customers

   Customer prosperity is the top most priority of the Bank. HBL Mauritius offers a wide range of products to its customers and ensures that services are provided by professionals who have the required level of competence and capability and portray professional behaviour in dealings with the customers.

3) Regulators

   HBL Mauritius views relationship with its regulators as essential to the development of the Bank and in maintaining best practices.

Corporate Social Responsibility and Donations

Political Contribution

No political contribution was made by the Bank during the year.

Donations

The Bank did not make any charitable donation during the year.

Environmental Practice and Energy Consumption

The Bank is fully committed and supports a Go Green Organizational Culture. The clean environment moto stems down from the top management with special focus on making the work environment paper less and saving energy.

STATEMENT OF COMPLIANCE

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

Name of PIE: Habib Bank Limited (Mauritius Branch)

Reporting period: January 1, 2019 to December 31, 2019

We, the Management of Habib Bank Limited (Mauritius Branch), confirm that to the best of our knowledge the Bank has complied with all of its obligations and requirements under the Code of Corporate Governance.

SIGNED BY:

Mr. Imad Zahid Nagi
Head of Finance

Mr. Erslaan Ahmed
Country Manager

DATE: MAY 27th 2020

The Management of Habib Bank Limited (Mauritius Branch) (the 'Bank') is pleased to present their Management Discussion and Analysis (MDA) as per the Bank of Mauritius Guideline on Public Disclosure of Information issued in July 2008 (Revised November 2009) and in compliance with the Banking Act 2004 and Companies Act 2001.

Forward looking statement as per Bank of Mauritius guidelines

In view of the uncertainties inherent in the forecasts and projections contained in the MDA, it is prudent to preface it with a cautionary note to the reader. The note should indicate that the MDA includes forward looking statements and that risks exist that forecasts, projections and assumptions contained therein may not materialise and that actual results may vary materially from the plans and expectations. The note should also state that the financial institution has no plan to update any forward-looking statements periodically. The reader should, therefore, stand cautioned not to place any undue reliance on such forecasts.

Financial Review

For the year ended 31 December 2019, the Bank has made a loss before income tax of **Rs 19,944 M** as compared to a loss of Rs 13,859 M for the same period in 2018. The increase in losses is mainly attributable to a decrease in the composition of assets where investment portfolio has increased by 47.68% representing an increase of **Rs 453,7 M** when compared to the year 2018 where loans & advances to customers have decreased by **Rs 469,784 M** representing a decrease of 61.27% whereas the operating costs remained consistent when compared with last year. The yields on sovereign papers remained conservative during the period. The deposits from customers reduced by **Rs 212,385 M** which is a decrease of 12.15**%** compared to the deposits of last year.

HBL (Habib Bank Limited incorporated in Pakistan and the Bank's head office) injected capital amounting to **Rs 115,103 M** during the year ended December 31, 2019 in Habib Bank Limited (Mauritius Branch).

Total assets of the Bank amounted to Rs 2,072 bln. The total assets decreased by 4.00% **(Rs 86,417 M**) for the year ended December 31, 2019 as compared to December 31, 2018 where the total assets amounted to Rs 2,159 bln.

Performance Against Objectives

Objectives for 2019	Performance for 2019	Objectives for 2020
The ROE projected at -6%	ROE stood at -3.6%	The ROE projected at -4.67%
Operating income projected to increase by 2.36%	Operating income decreased by 12.61%	Operating income projected to decrease by 7.30%
The operating expenses for 2019 is expected to decrease by 24%	The operating expenses decreased by 1.80%	Expected reduction in operating expenses by 2.58%
Loss before income tax (LBT) to reach Rs 32.398 M	Loss before income tax (LBT) reached Rs 19.9 M	Expected Loss before income tax (LBT) Rs 21.85M
The portfolio quality for 2019 is targeted to remain below 5%	The ratio stood at 4.77% in 2019	The portfolio quality for 2020 is targeted to remain below 4%
The Capital Adequacy Ratio to be maintained above 20%	The Capital Adequacy Ratio stood at 108.04%	Targeting to maintain above 20%

Objectives for 2018	Performance for 2018	Objectives for 2019
The ROE projected at -1%	ROE stood at -4%	The ROE projected at -6%
Operating income is projected to decrease by 15%	Operating income decreased by 27.34%	Operating income projected to increase by 2.36%
The operating expenses for 2018 is expected to decrease by 5%	The operating expenses have decreased by 2.61 %	The operating expenses for 2019 is expected to increase by 24%
Loss before income tax (LBT) to reach Rs 4.4 M	Loss before income tax (LBT) reached Rs 13.859 M	Loss before income tax (LBT) to reach Rs 32.398 M
The portfolio quality for 2018 is targeted to remain below 5%	The ratio stood at 7.31% in 2018	The portfolio quality for 2019 is targeted to remain below 5%
Targeting to maintain Capital Adequacy Ratio above 20%	Maintained at 42%	Targeting to maintain above 20%

Review by financial priority areas:

Revenue growth analysis over time

	2019	2018	2017
	%	%	%
Net interest margin	**2,61**	2,10	2,23
Return on average total assets	**-0,01**	-0,57	0,23
Cost to income ratio	**138,94**	123,65	94,65
Return on equity	**-3,06**	-4,00	1,00

Financial Data

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Interest income			
Loans and advances to customers	**30,192**	43,160	62,595
Placements with other banks	**1,818**	2,395	4,185
Investment securities	**31,095**	23,408	28,343
Other	**40**	283	4,154
Total	**63,145**	69,246	99,277
Interest expense			
Deposits from customers	**(16,833)**	(18,556)	(37,675)
Other borrowed funds	**(42)**	(15)	(1,360)
Lease liability under IFRS 16	**(1,236)**	-	-
Total	**(18,111)**	(18,571)	(39,035)
Net interest income	**45,034**	50,675	60,242
Non interest income			
Fee and commission income	**2,660**	4,455	8,972
Net trading income	**2,462**	3,480	10,827
Other operating income	**1,062**	-	624
Total	**6,184**	7,935	20,423
Non interest expense			
Net impairment reversal/(loss) on financial assets	**3,266**	(6,020)	(704)
Net impairment loss on off-balance sheet items	**(4)**	-	-
Personnel expenses	**(39,723)**	(34,315)	(42,328)
Operating lease expenses	**(4,468)**	(6,693)	(6,623)
Depreciation and amortisation	**(5,378)**	(2,836)	(3,815)
Other expenses	**(24,855)**	(22,605)	(20,939)
Total	**(71,162)**	(72,469)	(74,409)
(Loss)/Profit before income tax	**(19,944)**	(13,859)	6,256
Cash and cash equivalents	**222,342**	276,587	379,585
Loan and advances to customers	**296,938**	766,722	913,683
Investment securities	**1,405,214**	951,514	1,170,244
Total	**1,924,494**	1,994,823	2,463,512
Deposits from customers	**1,536,239**	1,748,624	2,220,585

Net Interest Income

Net interest income has decreased from Rs 50,675M in 2018 to reach Rs 45,034M in the current year, showing a decrease of 11.13% due to decrease in loan portfolio by Rs 469,784M and an increase in investments by Rs 453,700M. The yields on debt instruments remained conservative during the period.

Credit Exposure

Credit risk is the threat where a customer or counterparty will not be able to honour its obligation in accordance with agreed contract terms. Credit risk makes up the largest part of Bank's risk exposures. The Bank's credit process is guided by globally established credit policies, rules and guidelines continuing a close-to the market approach with the aim to maintain a well-diversified portfolio of credit risk which produces a reliable and consistent return.

The Credit Risk Strategy reflects HBL's tolerance for risk i.e. credit risk appetite and the level of expected profitability. This, as a minimum, reflects HBL's strategy to grant credit based on various products, economic sectors, client segments etc., target markets giving due consideration to risks specific to each target market.

Certain groups of exposures /facilities are managed under product programs which are approved by various level of approving authorities as defined in the credit policy manual. Each product program contains detailed credit criteria, regulatory, compliance and documentation requirement.

Credit Risk Mitigation

It is the practice of the Bank to monitor its credit portfolio on a continuous basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be high risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposure.

The Bank has a variety of techniques to mitigate credit risk. First and foremost, the Bank has a sound guideline for assessing borrowers to ensure that they have repayment capacity to service their loans. Once satisfied with the repayment capacity, the Bank takes adequate security to cover its exposure wherever possible.

HBL has established prudential limits set by the Board to address concentration of risks by counterparty and has well established guidelines from credit initiation to disbursement and asset remedial management. There is also a rating system for corporate customers to reflect the risk associated with such customers. Excesses over limits procedures are well defined and are treated as exceptions.

On Balance Sheet Credit Exposure

For the year ended **31 December 2019**, the provision for the credit losses/impairment amounted to **MUR 10,287M.**

The following table shows a breakdown of the Bank's sectorwise gross credit exposure:

Sectors	**2019**		2018		2017	
	Amount Rs'000	**% of total**	Amount Rs'000	% of total	Amount Rs'000	% of total
Agriculture & Fishing	**98,681**	**32,12%**	244,922	30,96%	202,402	21,67%
Manufacturing	**25,467**	**8,29%**	82,175	10,39%	158,755	17,00%
Tourism	**1,251**	**0,41%**	7,330	0,93%	8,953	0,96%
Transport	**2,939**	**0,96%**	3,445	0,44%	4,332	0,46%
Construction	**33,583**	**10,93%**	39,762	5,03%	53,106	5,69%
Traders	**112,736**	**36,70%**	287,511	36,34%	290,706	31,13%
Financial & Business Services	**14,852**	**4,83%**	105,463	13,33%	101,016	10,82%
Personal	**8,773**	**2,86%**	7,376	0,93%	9,438	1,01%
Professional	**-**	**-**	113	0,01%	-	-
Others	**8,598**	**2,80%**	10,653	1,35%	102,601	10,99%
Total Customer Advances	*306,880*	*99,89%*	*788,750*	*99,69%*	*931,310*	*99,71%*
Interest receivable	**345**	**0,11%**	2,432	0,31%	2,675	0,29%
Total Gross Customer Advances	**307,225**	**100,00%**	791,182	100,00%	933,985	100,00%

Off-Balance Sheet Credit Exposure

Sectors	**2019**		2018		2017	
	Rs'000	%	Rs'000	%	Rs'000	%
Food & Manufacturing	**3,528**	**15,01%**	809	3,07%	1,865	7,07%
Tourism	**5,500**	**23,39%**	7,340	27,82%	7,298	27,68%
Traders	**13,042**	**55,47%**	11,844	44,89%	12,239	46,43%
Others	**1,440**	**6,13%**	6,393	24,23%	4,959	18,81%
Total	**23,510**	**100,00%**	26,386	100,00%	26,361	100,00%

Credit Concentration

The Bank has a system of continuous monitoring of credit concentration and ensures adherence to the concentration limits as per the Bank of Mauritius Guideline. The Bank is reporting regularly to the Bank of Mauritius for customer advances aggregating more than 25% of its capital base or group exposures exceeding 40%.

Credit Quality

Loss allowance was made as per Bank of Mauritius *Guideline on Credit Impairment Measurement and Income Recognition* and in accordance with IFRS 9.

	2019			2018			2017		
	Total Advances	**Impaired loans**	**% of Total Advances**	Total Advances	Impaired loans	% of Total Advances	Total Advances	Impaired loans	% of Total Advances
Agriculture and Fishing	**98,681**	**500**	**0,16%**	244,922	500	0,06%	202,402	514	0,06%
Manufacturing	**25,467**	**-**	**0,00%**	82,175	33,469	4,24%	158,755	1,497	0,16%
Tourism	**1,251**	**-**	**-**	7,330	-	0,00%	8,953	-	0,00%
Transport	**2,938**	**-**	**-**	3,445	-	0,00%	4,332	-	0,00%
Construction	**33,583**	**3,131**	**1,02%**	39,762	3,131	0,40%	53,106	3,455	0,37%
Traders	**112,738**	**2,364**	**0,77%**	287,511	10,468	1,33%	290,706	16,316	1,75%
Financial & Business Services	**14,852**	**-**	**-**	105,463	-	0,00%	101,016	-	0,00%
Personal	**8,773**	**60**	**0,02%**	7,376	115	0,01%	9,438	81	0,01%
Professional	**-**	**-**	**-**	113	-	0,00%	-	-	0,00%
Others	**8,597**	**8,598**	**2,80%**	10,653	10,147	1,29%	102,601	10,147	1,09%
Total Customers Advances	**306,880**	**14,653**	**4,77%**	788,750	57,830	7,33%	931,310	32,010	3,44%
Interest Receivable	**345**	-		2,432	-		2,675	-	
Total Gross Customers Advances	**307,225**	**14,653**	**4,77%**	791,182	57,830	7,33%	933,985	32,010	3,44%

The ratio of Non-Performing Loans (NPLs) to total loans decreased from 7.33% in 2018 to 4.77% in 2019.

Credit Quality (continued)

A breakdown of the impaired loans and allowances for credit impairment is provided in table below:

	2019				2018	2017
	Impaired Loans	**Stage 3 ECL***	**Stage 1 and Stage 2 ECL***	**Total Allowances for Credit Impairment**	Total Allowances for Credit Impairment	Total Allowances for Credit Impairment
Agriculture and Fishing	**500**	**485**	**1,536**	**2,021**	1,760	1,833
Manufacturing	**-**	**-**	**316**	**316**	9,046	3,002
Tourism	**-**	**-**	**1**	**1**	35	81
Transport	**-**	**-**	**8**	**8**	72	39
Construction	**3,131**	**2,535**	**170**	**2,705**	3,428	3,015
Traders	**2,364**	**2,081**	**345**	**2,426**	6,832	7,707
Financial & Business Services	**-**	**-**	**4**	**4**	371	915
Personal	**60**	**81**	**68**	**149**	303	167
Professional	**-**	**-**	**-**	**-**	-	-
Others	**8,598**	**2,657**	**-**	**2,657**	2,613	3,543
Total	**14,653**	**7,839**	**2,448**	**10,287**	24,460	20,302

*ECL stands for Expected Credit Loss.

The table below shows comparative movements in total loss allowance made to non performing loan and total gross loans and advances respectively over the last 3 years.

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Specific allowances for credit impairment	**7,839**	18,867	11,869
Portfolio allowances for credit impairment	**2,448**	5,593	8,433
Total allowances for credit impairment	**10,287**	24,460	20,302
Total gross loans and advances	**307,225**	791,182	933,985
Total non performing loan	**14,653**	57,830	32,010
Specific allowance for credit impairment to non performing loan	**53,49%**	32,62%	37,08%
Allowance for credit impairment as a proportion of total gross loans and advances	**3,35%**	3,09%	2,17%

Loss allowance

The table below shows the movement in allowances for credit impairment:

	Total Rs'000
At January 01, 2019	24,460
Loss allowance made during the year	7,056
Loss allowance released	(10,322)
Loan written off in line with regulatory guidelines	(10,907)
At December 31, 2019	10,287

Loss allowance has been calculated as per the regulatory requirements of the Guideline on Credit Impairment Measurement and Income Recognition and in accordance with IFRS 9.

Risk Management Policies and Controls

Transactions in foreign currencies are converted in Mauritian rupees at the ruling rate of exchange. Monetary assets and liabilities for the year ended 31 December 2019 expressed in foreign currencies have been converted into Mauritian rupees; with the net foreign exchange gain/loss being transferred has been transferred to the Statement of Profit or Loss and Other Comprehensive Income.

Interests on performing advances, investments and placements as well as non interest income are taken on an accrual basis. Interest on non performing advances is only taken into account on a receipt basis. Accrual of interest is ceased on non-performing advances/loans as per the guidelines of the Bank of Mauritius and in accordance with IFRS 9. Fees and commissions are taken on an accrual basis. Interest rate risk is a risk that a movement in interest rates will have a significant adverse effect on the financial condition of the Bank.

The Bank operates in foreign currencies on international markets and is thus exposed to exchange risk arising from the fluctuation especially to Pound Sterling and Euros. Foreign exchange risk is a risk that can affect the financial position, earnings and economic value with a drastic movement of exchange rates.

The Bank is also exposed to interest rate risk on its deposits, advances and investments. The ALCO (Assets and Liabilities Committee) considers, reviews and examines the whole portfolio of the Bank on a monthly basis to sustain the risk.

The Bank is also exposed to credit risk of the debtors who are unable to pay their liabilities on due dates. The Bank has a structural system of placing limits on the amount of risk accepted in relation to the borrowers or group of borrowers in all sectors. All credit limits are renewed on an annual basis by the credit committee. Exposure to credit risk is also managed by obtaining collateral and personal guarantee.

Operational risk is the potential for loss from failure in business possessions, internal control system, technology or fraud. All these risks are reduced and mitigated by regular audit, training to staff and internal control system.

Concentration of Risk

Credit risk concentration through exposure of large credit exposures to groups of connected clients, is an important element in risk management. To mitigate the risk, the Bank is diversifying its credit portfolio to avoid any adverse concentrations of risks in associated with large exposures. The Bank is fully compliant with the existing Guideline on Credit Concentration limits issued by the Bank of Mauritius.

Customer Group	**At December 31, 2019**		At December 31, 2018		At December 31, 2017	
	Total Group Exposure	**% of Capital Base**	Total Group Exposure	% of Capital Base	Total Group Exposure	% of Capital Base
	Rs'm		Rs'm		Rs'm	
Customer Group 1	**91**	**20%**	146	40%	149	40%
Customer Group 2	-	-	135	37%	145	39%
Customer Group 3	-	-	102	28%	100	27%
Customer Group 4	-	-	91	25%	97	26%
Customer Group 5	-	-	91	25%	95	25%
Customer Group 6	-	-	91	25%	91	24%

Related Party Transactions Polices and Practices

Parties are considered to be related to the Bank if they have the ability, directly or indirectly, to control the Bank or exercise significant influence over the Bank in making financial and operating decisions, or vice versa, or if they and the Bank are subject to common control. Related parties may be individuals or other entities. The current Bank of Mauritius Guideline on Related Party Transactions, issued in January 2009 is articulated around 3 main elements:

a) The role of the Board of Directors of a financial institution, its Conduct Review Committee and that of its Senior Management in establishing and implementing appropriate policies on related party transactions and administering the process for handling the transactions;

b) The definition of the different types of related party transactions and the setting out of regulatory limits on credit exposures to related parties and;

c) The definition of basic rules for monitoring and regulatory reporting of related party transactions and their disclosure in the Annual Report.

In fact, the Guideline is more stringent than the applicable International Accounting Standard (IAS 24) in that a person holding directly or indirectly 10% or more of the capital or of the voting rights of the Bank also falls within the definition of related party. As a general rule, all transactions with a related party must be carried out on terms and conditions that are at least as favourable to the Bank as market terms and conditions.

Related party transactions include:

- Loans, finance leases and service agreements;
- Giving a guarantee on behalf of a related party;
- Making an investment in any securities of a related party;
- Deposits and placements; and
- Professional service contracts.

The Guideline classifies exposures to related parties into three categories:

Category 1

- Directors, their close family members and any entity where any of them holds more than a 10% interest;
- Shareholders owning more than 10% of the financial institution’s capital;
- Directors of any controlling shareholder; and
- Entities (excluding subsidiaries) where the financial institution holds more than a 10% interest.

Category 2

- Senior Management, their close family members and any entity where any of them holds more than a 10% interest;
- Senior Management of any controlling shareholder; and Subsidiaries of the financial institution.

Category 3

- Senior Management provided their exposures are within the terms and conditions of their employment contract.

Basel III Disclosures

In December 2010, the Basel Committee on Banking Supervision (BCBS) issued a comprehensive reform package entitled 'Basel III: A global regulatory framework for more resilient banks and banking systems. The reform measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance and strengthen bank's transparency and disclosures.

The 'Guideline on Scope of Application of Basel III and Eligible Capital' issued by the Central Bank has been effective as from 01 July 2014 and has been complied with by the Bank.

Capital Structure

As per requirement of the Banking Act 2004, the Assigned Capital of the Bank should not be less than Rs 400 M. As at 31 December 2019, the Bank's Assigned Capital stood at Rs 415.103 M.

The Bank is maintaining Statutory Reserve in accordance with the Banking Act 2004. The Basel III disclosure requirements are as follows:

BASEL III	Dec-19 Rs'000	Dec-18 Rs'000	Dec-17 Rs'000
TIER 1 CAPITAL			
Assigned Capital	**415,103**	300,000	200,000
Statutory reserve	**69,796**	69,796	69,619
Retained earnings	**(3,588)**	12,976	128,669
Actuarial loss	**(16,318)**	(14,286)	(13,973)
Less:			
Deferred tax asset	**(7,606)**	(4,711)	(8,680)
Regulatory adjustment	**-**	(2,703)	-
Common Equity Tier 1	**457,387**	361,072	375,635
Additional Tier 1 Capital	**-**	-	-
Total Tier 1 Capital	**457,387**	361,072	375,635
TIER 2 CAPITAL			
Portfolio provision	**2,448**	5,593	8 ,433
General banking reserve	**817**	1,455	428
Total Tier 2 Capital	**3,265**	7,048	8,861
TOTAL CAPITAL BASE	**460,652**	368,120	384,496
RISK WEIGHTED ASSETS FOR:			
On-balance sheet assets	**304,827**	737,602	845,422
Off-balance sheet exposures	**2,786**	1,627	4,893
Operational risk	**116,442**	129,326	149,094
Aggregate net open foreign exchange position	**2,306**	2,796	3,135
TOTAL RISK WEIGHTED ASSETS	**426,361**	871,351	1 002,544
CAPITAL ADEQUACY RATIO	**108,04%**	42,25%	38,35%
COMMON EQUITY TIER 1 CAPITAL RATIO	**107,28%**	41,44%	37,47%
TIER 1 CAPITAL RATIO	**107,28%**	41,44%	37,47%

The Bank of Mauritius has set the regulatory requirements with respect to banks' capital structure in Mauritius and has exercised its discretion in fixing the minimum capital adequacy ratio at 10%. The Bank has maintained its capital structure within prudential and supervisory limits, whilst ensuring it has sufficient capacity for its future development.

RISK WEIGHTED ASSETS AND OFF-BALANCE SHEET EXPOSURES

Risk Weighted On-Balance Sheet Assets

Risk Weighted On-Balance Sheet Assets	Dec-19			Dec-18			Dec-17		
	Amount	**Weight**	**Weighted Assets**	Amount	Weight	Weighted Assets	Amount	Weight	Weighted Assets
	Rs'000	**%**	**Rs'000**	Rs'000	%	Rs'000	Rs'000	%	Rs'000
Cash items	**50,879**	**-**	**-**	55,535	-	-	32,055	-	-
Claims on Sovereigns	**507,389**	**-**	**-**	75,000	-	-	1,000,715	-	-
Claims on Central Banks in MUR	**995,002**	**-**	**-**	942,047	-		336,290	-	-
Claims on Central Banks in Other than MUR	**8,582**	**50**	**4,291**	8,275	50	4,138	-	50	-
Claims on Banks in Foreign Currency	**162,724**	**20-50**	**65,095**	132,803	20-50	26,561	-	20-50	-
Claims on Corporates	**176,820**	**100**	**176,820**	592,850	100	592,850	772,314	100	772,314
Claims on Retail	**-**	**75**	**-**	217	75	163	-	75	
Claims secured by residential property	**58,143**	**35-100**	**24,664**	106,552	35-100	52,682	30,937	35-75	13,502
Past due claims	**23,634**	**100-125**	**23,725**	39,269	100-125	40,662	15,688	50-150	19,045
Other assets	**10,232**	**0-100**	**10,232**	20,546	0-100	20,546	40,561	0-100	40,561
	1,993,405		**304,827**	1,973,096		737,602	2,228,560		845,422

2019

Risk Weighted Off-Balance Sheet Assets	**Nominal Amount**	**Credit conversion factor**	**Credit equivalent amount**	**Weight**	**Weighted amount**
	Rs'000	**%**	**Rs'000**	**%**	**Rs'000**
Debit credit substitutes	**-**	**100**	**-**	**0-100**	**-**
Transaction-related contingent items	**5,572**	**50**	**2,786**	**0-100**	**2,786**
Traded related	**-**	**-**	**-**	**-**	**-**
Contingencies	**-**	**20**	**-**	**0-100**	**-**
Outstanding loans	**-**	**-**	**-**	**-**	**-**
Commitments	**308,089**	**-**	**-**	**-**	**-**
Total Risk Weighted Off-Balance Sheet Assets	**313,661**		**2,786**		**2,786**

2018

Risk Weighted Off-Balance Sheet Assets	Nominal Amount	Credit conversion factor	Credit equivalent amount	Weight	Weighted amount
	Rs'000	%	Rs'000	%	Rs'000
Debit credit substitutes	-	100	-	0-100	-
Transaction-related contingent items	3,255	50	1,627	0-100	1,627
Traded related	-	-	-	-	-
Contingencies	-	20	-	0-100	-
Outstanding loans	-	-	-	-	-
Commitments	243,689	-	-	-	-
Total Risk Weighted Off-Balance Sheet Assets	246,944		1,627		1,627

2017

Risk Weighted Off-Balance Sheet Assets	Nominal Amount	Credit conversion factor	Credit equivalent amount	Weight	Weighted amount
	Rs'000	%	Rs'000	%	Rs'000
Debit credit substitutes	2,533	100	2,533	0-100	2,533
Transaction-related contingent items	4,720	50	2,360	0-100	2,360
Traded related	-	-	-	-	-
Contingencies	-	20	-	0-100	-
Outstanding loans	-	-	-	-	-
Commitments	253,363	-	-	-	-
Total Risk Weighted Off-Balance Sheet Assets	260,616		4,893		4,893

2019

Risk Weighted Assets for Operational Risk	**Dec-18**	**Dec-17**	**Dec-16**	**Average Gross Income**
Annual gross income for last 3 years	**58,610**	**80,665**	**93,609**	
Average Gross Income				**77,628**
Capital Charge (15%)				**11,644**
Equivalent Risk Weighted Assets				**116,442**

2018

Risk Weighted Assets for Operational Risk	Dec-17	Dec-16	Dec-15	Average Gross Income
Annual gross income for last 3 years	80,665	93,609	84,378	
Average Gross Income				86,217
Capital Charge (15%)				12,933
Equivalent Risk Weighted Assets				129,326

2017

Risk Weighted Assets for Operational Risk	Dec-16	Dec-15	Dec-14	Average Gross Income
Annual gross income for last 3 years	93,609	84,378	120,200	
Average Gross Income				99,396
Capital Charge (15%)				14,909
Equivalent Risk Weighted Assets				149,094

The Bank manages capital with the following objectives:

- To comply with capital requirements set by Bank of Mauritius.
- To enable the Bank to continue as a going concern to provide returns to the shareholders and enlarge other stakeholders benefits.
- To enable the Bank to continue as a going concern to provide returns to the shareholders and enlarge other stakeholders benefits.

The Bank falls under the review of Bank of Mauritius for its supervision which requires the industry to hold a minimum capital adequacy ratio of 10%. The Bank manages its capital into two tiers on the guidelines given by the Bank of Mauritius:

Tier 1:

(i) Common Equity Tier 1 - capital includes share capital, retained earnings and reserves created by appropriations of retained earnings; (after deducting Deferred Tax Asset) and,

(ii) Additional Tier 1 Capital - capital includes share premium and any instruments issued which meet the 'criteria for inclusion in Additional Tier 1 Capital and not included in Common Equity Tier 1.

Tier 2 : capital comprises of portfolio provisioning and general banking reserves.

Risk Exposure and Assessment

Credit Risk

The Bank is exposed to credit risk of the creditors who are unable to pay their liabilities on due dates. The Bank has a structural system of placing limits on the amount of risk accepted in relation to the borrowers or group of borrowers in all sectors. All credit limits are renewed on an annual basis by the credit committee. Exposure to credit risk is also managed by obtaining collateral and personal guarantee.

The risk that counterparties might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank deals with counterparties of good credit standing, and when appropriate, obtain collateral. The Bank also ensures that Credit risks are well spread and not concentrated in a particular economic sector and/or group of customers.

The Bank’s primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Bank is exposed to credit risk on various other financial assets, including debt investments, the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Bank is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued.

Concentration of credit risk, whether on or off balance sheet, that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentration of credit risk arise by type of customer in relation to the Bank’s investments, foreign currency placements, loans and advances, commitments to extend credit and guarantees issued.

The Bank’s policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank’s obligations. Collateral for loans, guarantees, and letters of credit is usually in the form of cash, inventory, listed investments or other property.

Interest Rate Risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets, including investments, and interest-bearing liabilities mature or are repriced at different times or in different amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basic risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate and the base lending rate and different types of interest. Risk management activities are aimed at optimising net interest income; given market interest rate levels are consistent with the Bank's business strategies.

The Bank is also exposed to interest rate risk on its deposits, advances and investments. The Assets and Liabilities Committee ("ALCO") considers, reviews and examines the whole portfolios of the Bank on a monthly basis to sustain the risk.

Foreign Exchange Rate Risk

The Bank is exposed to currency risk through operations in foreign currencies. The Bank's main foreign currencies are in Pound Sterling and Euro. As the currency in which the Bank presents its financial statements is the Mauritian rupee, the Bank's financial statements are affected by movements in the exchange rates between these currencies and the Mauritian Rupee. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement.

Liquidity Risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank's strategy. In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategies.

The ALCO manages the liquidity risk and whilst observing the guidelines of the Bank of Mauritius, it maintains a liquid position to meet any risk or loss.

Operational Risk

Operational risk is the potential for loss from failure in business possessions, internal control system, technology or fraud. All these risks are reduced and mitigated by regular audit, training to staff and internal control system.

Market Risk

The market risk represents the risk of loss due to adverse movements in the market rates or prices such as foreign exchange rates. It emanates from the trading activities mainly carried out by the Treasury department. The market risk is managed by ALCO.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The Bank's financial statements have been prepared by the management, who are responsible for their integrity, consistency, objectivity and reliability. 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.

HBL's Board of Directors, acting in part through the Committee, which is comprised of non-executive directors, oversees the management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

HBL's internal auditor, who has full and free access to the Audit Committee, conducts a well designed program of internal audits in coordination with the Bank's external auditors. In addition, the Bank's compliance function maintains policies, procedures, and programs directed at ensuring compliance with regulatory requirements.

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

The Bank's external auditors, KPMG, have full and free access to the management and its committees to discuss the audit and matters arising therefrom, such as their observations and fairness of financial reporting and the adequacy of internal controls.

SIGNED BY:

Mr. Imad Zahid Nagi	**Mr. Erslaan Ahmed**
Head of Finance	Country Manager

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INDEPENDENT AUDITORS' REPORT
TO THE MANAGEMENT OF HABIB BANK LIMITED (MAURITIUS BRANCH)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of HABIB BANK LIMITED (MAURITIUS BRANCH) (the "Bank"), which comprise the statement of financial position as at 31 December 2019 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies, as set out on pages 47 to 130.

In our opinion, these financial statements give a true and fair view of the financial position of HABIB BANK LIMITED (MAURITIUS BRANCH) as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act, Banking Act and Financial Reporting Act.

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(a) of the financial statements, which indicates that the Bank incurred a net loss of MUR 17,202,000 during the year ended 31 December 2019 and, as of that date, the Bank's total assets exceeded its total liabilities by MUR 465,863,000. As stated in Note 2(a), these events or conditions, along with other matters as set forth in Note 2(a), indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KPMG

INDEPENDENT AUDITORS' REPORT
TO THE MANAGEMENT OF HABIB BANK LIMITED (MAURITIUS BRANCH)

Report on the Audit of the Financial Statements (continued)

Key audit matters

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

Expected credit losses ("ECL") for loans and advances to customers
Refer to the following notes in the financial statements: • Note 2(g) – Significant accounting policies – Impairment • Note 3(a) – Credit risk • Note 13 – Loans and advances to customers

Key audit matter	*How the matter was addressed in our audit*
The Bank's loans and advances to customers amounts to MUR 296,938,000 as at 31 December 2019. Expected Credit Loss (ECL) as at the same date amounts to MUR 10,287,000. The Bank follows a three-stage approach to measure the recognition of credit impairments.	Our audit procedures included the following: Loans and advances to customers: - Obtained an understanding of management's credit risk management process and tested the operating effectiveness of controls over credit origination, credit monitoring and credit remediation. ECL: - Tested the completeness and accuracy of the data used in the model. - Evaluated the adequacy of the financial statement disclosures in accordance with IFRS 9, including disclosures of the key assumptions, judgments and sensitivities.

INDEPENDENT AUDITORS' REPORT
TO THE MANAGEMENT OF HABIB BANK LIMITED (MAURITIUS BRANCH)

Report on the Audit of the Financial Statements (continued)

Key Audit Matter (continued)

Key audit matter	*How our audit addressed the matter*
Complex statistical models are used for purposes of ECL recognition for stage 1 and stage 2 exposures. For loans and advances which are credit impaired (stage 3 exposures), ECL are based on lifetime losses. Assets are considered to be credit impaired when they meet the regulatory definition of default which includes unlikeliness to pay indicators as well as any assets that are more than 90 days past due. Significant judgements, estimates and assumptions are applied by Management to: - Determine if the loan or advance is credit impaired; - Evaluate the adequacy and recoverability of collateral; - Determine the expected cash flows to be collected; and - Estimate the timing of the future cash flows. Due to the significance of loans and advances to customers and the significant estimates and judgement applied, the determination of expected credit losses for loans and advances to customers was considered to be a key audit matter.	- Where credit losses were calculated on a modelled basis we performed the following audit procedures, in conjunction with our credit risk specialists: o Critically assessed the ECL modelling methodology applied by Management to determine the Probability of Default (PD), Loss Given default (LGD), and Exposure at Default (EAD) used to compute the stage 1 and 2 ECL allowances against the requirements of IFRS 9 and the Bank's internal policies. o Re-performed the calculation of the ECL using independent inputs. o Performed an independent ECL estimate based on the input parameters using a challenger model and compared the ECL output to the Bank's ECL. o Performed credit reviews to assess whether loans and advances to customers were properly classified as stage 1 and 2 exposures as per the Bank's impairment policy. - For credit impaired exposures, our procedures included the following: o Challenged the valuation of credit losses on stage 3 loans and advances that had been incurred, including developing our own expectation of the amount of the expected credit losses and compared it to management's calculation.

INDEPENDENT AUDITORS' REPORT
TO THE MANAGEMENT OF HABIB BANK LIMITED (MAURITIUS BRANCH)

Report on the Audit of the Financial Statements (continued)

Key Audit Matter (continued)

Key audit matter	*How our audit addressed the matter*
	o Where stage 3 credit losses have been raised, we considered the impairment indicators, uncertainties and assumptions applied by management. In addition, we considered management's assessment of the recoverability of the exposure and supporting collateral with reference to current economic performance, assumptions most commonly used in the industry and comparison with external evidence and historical trends. We assessed collateral valuation techniques applied against the Bank's policy and industry standards.

Other Information

Management is responsible for the other information. The other information comprises the Statement of Corporate Governance Practices, Statement of Compliance, Management Discussion and Analysis and Statement of Management Responsibility for Financial Reporting. Other information does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors' 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.

INDEPENDENT AUDITORS' REPORT
TO THE MANAGEMENT OF HABIB BANK LIMITED (MAURITIUS BRANCH)

Report on the Audit of the Financial Statements (continued)

Responsibilities of management for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act, Banking Act and Financial Reporting Act, and for such internal control as management 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, management is 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 management either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

INDEPENDENT AUDITORS' REPORT
TO THE MANAGEMENT OF HABIB BANK LIMITED (MAURITIUS BRANCH)

Report on the Audit of the Financial Statements (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of managements' 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 auditors' 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 auditors' 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 management 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 management 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 management, 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 auditors' 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.

Other Matter

This report is made solely to the Bank's management, in accordance with Section 205 of the Mauritius Companies Act. Our audit work has been undertaken so that we might state to the Bank's management those matters that we are required to state to them in an auditors' 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 management, for our audit work, for this report, or for the opinions we have formed.

KPMG

INDEPENDENT AUDITORS' REPORT
TO THE MANAGEMENT OF HABIB BANK LIMITED (MAURITIUS BRANCH)

Report on the Audit of the Financial Statements (continued)

Other Matter (continued)

The financial statements of the Bank as at and for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 24 April 2019.

Report on Other Legal and Regulatory Requirements

Mauritius Companies Act

We have no relationship with or interests in the Bank other than in our capacity as auditors.

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

In our opinion, the financial statements have been prepared on a basis consistent with that of the preceding year and are complete, fair and properly drawn up and comply with the Banking Act 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

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

KPMG

KPMG
Ebène, Mauritius

Mervyn Lam Hung
Licensed by FRC

Date: **27 May 2020**

STATEMENT OF FINANCIAL POSITION - DECEMBER 31, 2019

	Notes	2019	2018	2017
		Rs'000	Rs'000	Rs'000
ASSETS				
Cash and cash equivalents	12	222,342	276,587	379,585
Loans and advances to customers	13(a)	296,938	766,722	913,683
Investment securities	14	1,405,214	951,514	1,170,244
Property and Equipment	15(a)	38,428	2,746	5,249
Intangible assets	15(b)	795	431	358
Deferred tax assets	16	7,606	4,711	8,680
Other assets	17	100,984	156,013	190,765
Total assets		2,072,307	2,158,724	2,668,564
LIABILITIES				
Deposits from customers	18	1,536,239	1,748,624	2,220,585
Other borrowed funds	19	-	-	249
Current tax liabilities	11(a)	-	-	688
Other liabilities	20	70,205	40,216	62,122
Total liabilities		1,606,444	1,788,840	2,283,644
Shareholders' equity				
Assigned capital	21	415,103	300,000	200,000
Statutory reserve	21	69,796	69,796	69,796
Retained earnings		(3,588)	12,976	128,669
Actuarial loss reserve	21	(16,318)	(14,286)	(13,973)
General banking reserve	21	817	1,455	428
Fair value reserve	21	53	(57)	-
Total equity		465,863	369,884	384,920
Total equity and liabilities		2,072,307	2,158,724	2,668,564

These financial statements were approved and authorised for issue by the Management Committee on **27 May 2020** and signed on its behalf by:

Mr. Imad Zahid Nagi
Head of Finance

Mr. Erslaan Ahmed
Country Manager

The notes on pages 51 to 130 form an integral part of these financial statements.
Auditors' report on pages 40 to 46.

HABIB BANK LIMITED (MAURITIUS BRANCH)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - YEAR ENDED DECEMBER 31, 2019

	Notes	2019	2018	2017
		Rs'000	Rs'000	Rs'000
Interest income	4	63,145	69,246	99,277
Interest expense	4	(18,111)	(18,571)	(39,035)
Net interest income	4	45,034	50,675	60,242
Fee and commission income	5	2,660	4,455	8,972
Net trading income	6	2,462	3,480	10,827
Other operating income	7	1,062	-	624
		3,524	3,480	11,451
Operating income		51,218	58,610	80,665
Net impairment reversal/(loss) on financial assets	8	3,266	(6,020)	(704)
Net impairment loss on off-balance sheet items	3a(ii)	(4)	-	-
Personnel expenses	9	(39,723)	(34,315)	(42,328)
Operating lease expenses		(4,468)	(6,693)	(6,623)
Depreciation and amortisation	15	(5,378)	(2,836)	(3,815)
Other expenses	10	(24,855)	(22,605)	(20,939)
		(71,162)	(72,469)	(74,409)
(Loss)/Profit before income tax		(19,944)	(13,859)	6,256
Income tax credit/(charge)	11(b)	2,742	(2,352)	(1,612)
(Loss)/Profit for the year		(17,202)	(16,211)	4,644
Other comprehensive income				
Items that will not be subsequently reclassified to profit or loss				
Remeasurement of defined benefit obligations	20(a)(iii)	(2,185)	(337)	546
Deferred tax on remeasurement of defined benefit obligations	16	153	24	(93)
Items that are or may be subsequently reclassified to profit or loss				
Net gain/(loss) on investment designated at fair value through other comprehensive income		110	(57)	-
Other comprehensive income for the year, net of tax		(1,922)	(370)	453
Total comprehensive income for the year		(19,124)	(16,581)	5,097

The notes on pages 51 to 130 form an integral part of these financial statements.

Auditors' report on pages 40 to 46.

HABIB BANK LIMITED (MAURITIUS BRANCH)

STATEMENT OF CHANGES IN EQUITY - DECEMBER 31, 2019

	Assigned capital	Statutory reserve	Retained earnings	Actuarial loss reserve	Fair value reserve	General banking reserve	Total equity
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Balance as at 1 January 2019	**300,000**	**69,796**	**12,976**	**(14,286)**	**(57)**	**1,455**	**369,884**
Loss for the year	**-**	**-**	**(17,202)**	**-**	**-**	**-**	**(17,202)**
Other comprehensive income for the year	**-**	**-**	**-**	**(2,032)**	**110**	**-**	**(1,922)**
Total comprehensive income for the year	**-**	**-**	**(17,202)**	**(2,032)**	**110**	**-**	**(19,124)**
Transaction with owners							
Increase in capital	**115,103**	**-**	**-**	**-**	**-**	**-**	**115,103**
Transfer to reserves	**-**	**-**	**638**	**-**	**-**	**(638)**	**-**
At December 31, 2019	**415,103**	**69,796**	**(3,588)**	**(16,318)**	**53**	**817**	**465,863**
Impact of adopting IFRS 9 as at 1 January 2018	-	-	(317)	-	-	1,862	1,545
Balance as at 1 January 2018	200,000	69,796	128,352	(13,973)	-	2,290	386,465
Loss for the year	-	-	(16,211)	-	-	-	(16,211)
Other comprehensive income for the year	-	-	-	(313)	(57)	-	(370)
Total comprehensive income for the year	-	-	(16,211)	(313)	(57)	-	(16,581)
Transaction with owners							
Transfer from reserves	100,000	-	(100,000)	-	-	-	-
Transfer to reserves	-	-	835	-	-	(835)	-
At December 31, 2018	300,000	69,796	12,976	(14,286)	(57)	1,455	369,884
At January 1, 2017	200,000	69,099	137,528	(14,426)	-	5,122	397,323
Profit for the year	-	-	4,644	-	-	-	4,644
Other comprehensive income for the year	-	-	-	453	-	-	453
Total comprehensive income for the year	-	-	4,644	453	-	-	5,097
Transaction with owners							
Dividend paid	-	-	(17,500)	-	-	-	(17,500)
Transfer to reserves	-	697	3,997	-	-	(4,694)	-
At December 31, 2017	200,000	69,796	128,669	(13,973)	-	428	384,920

The notes on pages 51 to 130 form an integral part of these financial statements.

Auditors' report on pages 40 to 46.

STATEMENT OF CASH FLOWS - YEAR ENDED DECEMBER 31, 2019

	Notes	2019	2018	2017
		Rs'000	Rs'000	Rs'000
Cash flows from operating activities				
(Loss)/Profit before income tax		**(19,944)**	(13,859)	6,256
Adjustments for:				
Depreciation and amortisation	15	**5,378**	2,836	3,815
Impairment on financial assets	8	**7,056**	6,170	1,107
Release in provision for credit impairment	8	**(10,322)**	(150)	(403)
Gain on sale of investment securities		**(39)**	-	-
Retirement benefit obligation	20(iii)	**1,023**	1,472	1,443
Net interest income	4	**(45,034)**	(50,675)	(60,242)
		(61,882)	(54,206)	(48,024)
Changes in operating assets and liabilities				
(Increase)/decrease in investment securities		**(454,150)**	218,316	(68,848)
Decrease in loans and advances to customers		**470,964**	142,560	76,363
Decrease in other assets		**55,029**	34,752	10,489
Decrease in deposits from customers		**(212,291)**	(468,051)	(62,130)
(Decrease)/increase in other liabilities		**(6,463)**	(16,340)	30,316
Contributions paid on retirement benefit obligation	20(iv)	**(2,733)**	(7,375)	(435)
Interest received		**65,735**	69,846	101,284
Interest (paid)		**(18,205)**	(22,481)	(38,110)
Income tax paid/(credit)		-	636	(4,825)
Net cash used in operating activities		**(163,996)**	(102,343)	(3,920)
Cash flows from investing activities				
Addition of equipment and intangibles assets	15(a)(b)	**(2,126)**	(406)	(2 297)
Net cash used in investing activities		**(2,126)**	(406)	(2 297)
Cash flows from financing activities				
Dividends paid		-	-	(17,500)
Payment for lease liability		**(3,226)**	-	-
Proceeds from capital injection	21	**115,103**	-	-
Decrease in other borrowed funds		-	(249)	(42,782)
Net cash generated from/(used in) financing activities		**111,877**	(249)	(60,282)
Decrease in cash and cash equivalents		**(54,245)**	(102,998)	(66,499)
Cash and cash equivalents at January 1,		**276,587**	379,585	446,084
Cash and cash equivalents at December 31,	12	**222,342**	276,587	379,585

The notes on pages 51 to 130 form an integral part of these financial statements.
Auditors' report on pages 40 to 46.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

1. GENERAL INFORMATION

Habib Bank Limited (Mauritius Branch) (the "Bank") is the Mauritius Branch of Habib Bank Limited, a bank incorporated in Pakistan. The Bank is engaged in the provision of general banking services. The address of its registered office is 30 Louis Pasteur Street, Port Louis, Mauritius.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless as otherwise stated in changes in accounting policies note 2(a).

(a) Basis of preparation

The financial statements of Habib Bank Limited (Mauritius Branch) comply with the Companies Act 2001 and the Banking Act 2004 and have been prepared in accordance with the International Financial Reporting Standards (IFRS), Guidelines and Guidance Notes issued by the Bank of Mauritius, in so far as the operations of the Bank are concerned.

The financial statements have been prepared under the historical cost convention basis except for the financial assets at fair value through other comprehensive income.

These financial statements are that of an individual entity. The financial statements are presented in Mauritian Rupees and all values are rounded to the nearest thousand (Rs'000), except when otherwise indicated.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in note 2.1.

Changes in accounting policies

The accounting policies adopted by the Bank are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC Interpretations:

New standards, amendments and interpretations to standards effective 1 January 2019

During the year, IFRS 16, Leases, became applicable to Banks. IFRS 16 replaces existing guidance on accounting for leases, including IAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases - Incentives, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces an on-balance sheet lease accounting model for leases entered into by the lessee. A lessee recognizes a right-of-use asset representing its right of using the underlying asset and a corresponding lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as either finance or operating leases.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Changes in accounting policies (continued)

New standards, amendments and interpretations to standards effective 1 January 2019 (continued)

IFRS 16

The Bank has adopted IFRS 16 from January 1, 2019, using the modified retrospective approach and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The Bank has recognized the lease liabilities in respect of leases which had previously been classified as operating leases under IAS 17, Leases. These lease liabilities are measured at the present value of the remaining lease payments, discounted using the Bank's incremental weighted average borrowing rate of 3.35% on initial application date as at January 1, 2019. Remeasurements of lease liabilities only occur in cases where the terms of the lease are changed during the lease tenor and are recognised as adjustments to the related right-of-use assets after the date of initial application.

On adoption of IFRS 16, the associated right-of-use assets were initially measured at the amount equal to the lease liability, adjusted by the amount of prepaid lease payments if any recognized in the statement of financial position immediately before the date of initial application. On subsequent measurement, right-of-use assets are stated at cost less any accumulated depreciation/accumulated impairment losses and are adjusted for any remeasurement of the lease liability.

Right-of-use assets are depreciated over their expected useful lives using the straight-line method. Depreciation on additions (new leases) is charged from the month in which the leases are entered into. No depreciation is charged in the month in which the leases mature or are terminated.

The Bank has decided not to recognize right-of-use assets and lease liabilities for short term leases of all class of underlying assets that have a lease term of 12 months or less or those which have low value underlying assets. The Bank recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Changes in accounting policies (continued)

New standards, amendments and interpretations to standards effective 1 January 2019 (continued)

IFRS 16 (continued)

Impact on Statement of Financial Position	**December 31, 2019 Rs'000**	**January 31, 2019 Rs'000**
Increase in fixed assets - Right-of-use assets	35,208	39,298
Increase in other liabilities - lease liability against right-of-use assets	(36,072)	(39,298)
Decrease in Net Assets	(864)	-

Impact on Profit and Loss	**December 31, 2019 Rs'000**
Increase in interest expense - lease liability against right-of-use assets	1,236
Increase/(Decrease) in administrative expenses:	
- Rent expense	(4,462)
- Depreciation on right-of-use assets	4,090
	(372)
Decrease in profit before tax	864
Decrease in tax	60
Decrease in profit after tax	924

While implementing IFRS 16, the Bank has used a single discount rate methodology for each portfolio of leases with similar characteristics.

Leases in which significant portion of the risk and reward of ownership are retained by another party, the lessor, are classified as operating lease.

Payments made under operating leases are recognized in profit and loss on a straight-line basis over the term of the lease.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Changes in accounting policies (continued)

New standards, amendments and interpretations to standards effective 1 January 2019 (continued)

Amendment to IAS 12 'Income Taxes'

Amendment to IAS 12 'Income Taxes' was issued in February 2018 as part of the Annual Improvement Cycle. The amendment clarifies that an entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. This amendment is effective for annual periods beginning on or after 1 January 2019 and is applied to the income tax consequences of distributions recognised on or after the beginning of the earliest comparative period.

Going concern

The financial statements are prepared on a going concern basis, as management is satisfied that the Bank has the resources to continue in business for the foreseeable future. In making this assessment, management has considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources. It is to be highlighted that the Bank incurred a net loss of Rs 17,202,000 (2018: Rs 16,211,000) during the year ended 31 December 2019 and, as of that date, the Bank's total assets exceeded its total liabilities by Rs 465,863,000.

The Bank's current strategy involves primarily investing in short term investment securities in the form of government bills and bonds and limiting its loan portfolio.

HBL has provided the Bank with a letter of support, which states that HBL will continue to provide the Bank with such financial or other support as necessary for the Bank for at least the next twelve months from the date of the letter or earlier to enable the Bank to continue as a going concern.

Any capital injections made by HBL require the necessary regulatory approvals. In the event HBL is unable to provide the required financial support due to a constraint placed by the regulators, it may create a material uncertainty whereby the Bank may be unable to realize its assets and discharge its liabilities in the normal course of the Bank's business.

Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand rupees unless otherwise stated.

(b) Foreign currency translation

The financial statements are presented in Mauritian rupees, which is the Bank's functional currency. These financial statements are prepared in Mauritian Rupees (Rs), which is the Bank's presentation currency.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency translation (continued)

(i) Functional and presentation currency

Items included in the financial statements are measured using Mauritian Rupees, the currency of the primary economic environment in which the Bank operates ("the functional currency").

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Trading transactions denominated in foreign currencies are accounted for at the rate of exchange ruling at the date of the transaction.

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

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

(c) Interest income and expense

Interest income and expense are recognised in profit or loss for all interest-bearing instruments using the effective interest rate based on the actual purchase price.

Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter based on the effective rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(d) Fees and commission

Fees and commissions are generally recognised when the service has been provided. Loan processing fees which are charged as a front-end fee are accounted for as fees and commission income.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

(e) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, and foreign exchange differences.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities

Measurement method

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

(i) Initial Recognition

The Bank initially recognises loans and advances to customers, deposits from customers and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(ii) Classification and subsequent measurement of financial assets

Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured in the following categories

- Fair value through profit or loss (‘FVPL’);
- Fair value through other comprehensive income (‘FVOCI’); or
- Amortised cost.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) the Bank's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement (continued)

Policy applicable from 1 January 2018 (Continued)

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised. Interest income from these financial assets is included in 'Interest income' using the effective interest method.

Fair value through other comprehensive income ('FVOCI')

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are SPPI are measured at FVOCI. These comprise primarily investment securities. They are recognised on the trade date when the Bank enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognized in the statement of comprehensive income as 'Net trading income'.

Fair value through profit or loss ('FVPL')

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented within 'Net trading income' in the period in which it arises. Interest income from these financial assets is included in `Interest income' using the effective interest method.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Business model

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement (continued)

Policy applicable from 1 January 2018 (Continued)

Business model (Continued)

During the year 2018, there has been a change in the business model of the Bank in line with the Bank's strategy. The Bank was previously classifying its treasury bills as held to maturity and measured at amortised cost under IAS 39, as management's intention was to hold these instruments till maturity. As from 1 January 2018 and with the implementation of IFRS 9, newly acquired treasury bills were classified as FVOCI. This is because management's intention changed from holding these instruments to maturity to both holding them to collect and to sell. All treasury bills acquired post 1 January 2018 have thus been classified as FVOCI. The treasury bills acquired before 1 January 2018 and classified as held to maturity were reclassified to amortised cost with the implementation of IFRS 9. Due to the short term nature, there is no material difference between the carrying amount and the fair value of the treasury bills.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Policy applicable before 1 January 2018

Under IAS 39, the Bank classified its financial assets in the following categories:
- loans and receivables;
- financial assets at fair value through profit or loss;
- held to maturity investments; and
- available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluated this designation at the end of each reporting period.

Loans and receivables

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

(i) those that the Bank intends to sell immediately or in the short-term, which are classified as held-for-trading, and those that the Bank upon initial recognition designates as at FVPL;
(ii) those that the Bank upon initial recognition designates as available-for-sale; or
(iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement (continued)

Policy applicable before 1 January 2018 (Continued)

Loans and receivables (Continued)

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Financial assets at fair value through profit or loss

Financial assets are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise;
- where the financial assets are managed and their performance evaluated and reported on a fair value basis; and
- where the financial asset contains one or more embedded derivatives that significantly modify the financial asset's cash flows.

Fair value gains and losses are recognised in profit or loss within "net trading income".

Held to maturity investments

Under IAS 39, non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity. These are subsequently measured at amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised as part of impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.

Available-for-sale financial assets

Under IAS 39, available-for-sale financial assets are recognised on the trade date when the Bank enters into contractual arrangements to purchase those instruments, and are normally derecognised when the securities are either sold or redeemed. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income until the assets are either sold or become impaired. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the profit or loss as 'Gains less losses from financial investments'.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES

(f) Financial assets and liabilities (Continued)

Policy applicable before 1 January 2018 (Continued)

Financial Liabilities

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at FVPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at FVPL are presented partially in OCI (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments.

- The Bank's holding in financial liabilities represents mainly deposits and borrowings from banks, customers and other liabilities.

(g) *Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. The Bank enters into transactions whereby it transfers assets recognised in statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (Continued)

(iii) Derecognition (continued)

Policy applicable before 1 January 2018 (Continued)

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains rights to service a transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing rights, depending on whether the servicing fee is more than adequate to cover servicing expenses (asset) or is less than adequate for performing the servicing (liability).

The Bank also derecognises certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(g) Impairment

Policy applicable from 1 January 2018

The Bank recognises loss allowances for expected credit losses ('ECL') on the following financial instruments that are not measured at FVPL:

a) Investment securities
b) Loans and advances to customers
c) Unfunded exposures

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (Continued)

Policy applicable from 1 January 2018 (Continued)

The Bank has applied low credit risk expedient to

a) Sovereign exposures
b) Cash and balances with the Bank of Mauritius
c) Amount due from the HBL and HBL branches

The Bank applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

i) Stage 1: 12 Months ECL

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

ii) Stage 2: Lifetime ECL - not credit impaired

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

iii) Stage 3: Lifetime ECL – credit-impaired

Financial assets are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

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

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

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

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

Policy applicable from 1 January 2018 (Continued)

iii) Stage 3: Lifetime ECL – credit-impaired (continued)

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Bank and all the cash flows that the Bank expects to receive. The amount of the loss is recognised using as allowance for impairment account. The Bank considers its historical loss experience and adjusts this for current observable data. In addition, the Bank uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, unemployment, interest rates, gross domestic product, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

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

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

However, for unfunded exposures, ECL is measured as follows:

- for undrawn loan commitments, as the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and

- for letter of credit and financial guarantee contracts, the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECL basis, or on a collective basis for portfolios of loans that share similar economic and credit risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original Effective Interest Rate ('EIR'), regardless of whether it is measured on an individual basis or a collective basis.

The following variables are key inputs for measuring ECL:

- Exposure at default ('EAD').
- Loss given default ('LGD').
- Probability of default ('PD').

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

Policy applicable from 1 January 2018 (Continued)

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

LGD is the possible loss rate after a default event occurred. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from realisation of any collateral. It is usually expressed as a percentage of EAD.

PD is an estimate of the likelihood of a default over a given time horizon.

Under the Bank of Mauritius Guideline on Credit Impairment Measurement and Income Recognition, portfolio provision shall not be less than one percent of aggregate amount of portfolio assessed loans. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general banking reserve as an appropriation of retained earnings. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in the profit or loss and reflected in allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss. Impairment on Investments held at fair value through Other Comprehensive Income are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an Investments held at fair value through Other Comprehensive Income to decrease, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired Investments held at fair value through Other Comprehensive Income is recognised directly in equity.

Policy applicable before 1 January 2018

At the end of reporting period the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

Policy applicable before 1 January 2018 (continued)

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Under the Bank of Mauritius Guideline on Credit Impairment Measurement and Income Recognition, portfolio provision shall not be less than one percent of aggregate amount of portfolio assessed loans. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general banking reserve as an appropriation of retained earnings. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in the profit or loss and reflected in allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

Policy applicable before 1 January 2018 (continued)

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss. Impairment on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

Impact of adoption of IFRS 9 on the financial statements

In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The total impact on the Bank's retained earnings as at 1 January 2018 is as follows:

	Rs'000
Closing retained earnings 31 December 2017	128,669
Decrease in provision for loans and advances to customers	1,862
Increase in provision for investment securities	-
Increase in provision for off-balance sheet exposure	-
Decrease in deferred tax assets relating to impairment provisions	(317)
Transfer from retained earnings to general banking reserve	(1,862)
Net decrease in retained earnings	(317)
Opening retained earnings 1 January 2018	128,352

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

Policy applicable before 1 January 2018 (continued)

Reconciliation of statement of financial position at 31 December 2017 and 1 January 2018

The following tables reconciles the statement of financial position from the previous measurement category in accordance with IAS39 to the new measurement categories upon transition to IFRS 9 at 1 January 2018:

Assets	IAS 39 Classification and Measurement Category	IFRS 9 Classification and Measurement Category	IAS 39 Carrying Amount as at 31 December 2017 RS'000	Remeasurements RS'000	IFRS 9 Carrying Amount as at 1 January 2018 RS'000
Cash and cash equivalents	Amortised cost - Loans and receivables	Amortised cost	379,585	-	379,585
Loans and advances to customers	Amortised cost - Loans and receivables	Amortised cost	913,683	1,862	915,545
Investment securities:					
- Treasury bills and investment Equity Fund	Amortised cost- Held to maturity	Amortised cost	876,376	-	876,376
- Placements, treasury notes and bonds	Amortised cost	Amortised cost	293,868	-	293,868
Other assets	Amortised cost- Loans and receivables	Amortised cost	188,184	-	188,184
Total assets			**2,651,696**	1,862	**2,653,558**

Liabilities	IAS 39 Classification and Measurement Category	IFRS 9 Classification Measurement Category	IAS 39 Carrying Amount as at 31 December 2017 RS'000	Remeasurements RS'000	IFRS 9 Carrying Amount as at 1 January 2018 RS'000
Deposits from customers	Amortised cost	Amortised cost	2,220,585	-	2,220,585
Other borrowed funds	Amortised cost	Amortised cost	249	-	249
Other liabilities	Amortised cost	Amortised cost	62,122	-	62,122
Total liabilities			**2,282,956**	-	**2,282,956**

The remeasurements relate to Expected Credit Losses allowances.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

Policy applicable before 1 January 2018 (continued)

Reconciliation of statement of financial position at 31 December 2017 and 1 January 2018 (continued)

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount 31 December 2017	**Reclassifications**	**Remeasurements**	**IFRS 9 carrying amount 1 January 2018**
	RS '000	**RS '000**	**RS '000**	**RS '000**
Cash and cash equivalents - amortised cost				
Balance under IAS 39 and Balance under IFRS 9	379,585	-	-	379,585
Loans and advances to customers - amortised cost				
Balance under IAS 39	913,683	-	-	-
Remeasurement: ECL allowance	-	-	1,862	-
Balance under IFRS 9	-	-	-	915,545
Investment securities - held to maturity				
Balance under IAS 39	1,170,244	-	-	-
Subtraction: to amortised cost (IFRS 9)	-	(1,170,244)	-	-
Balance under IFRS 9	-	-	-	-
Investment securities - amortised cost				
Balance under IAS 39	-	-	-	-
Addition: From financial assets held to maturity (IAS 39)	-	1,170,244	-	-
Balance under IFRS 9	-	-	-	1,170,244
Other assets - amortised cost				
Balance under IAS 39 and Balance under IFRS 9	190,765	-	-	190,765
Total financial assets measured at amortised cost	**2,654,277**	**-**	**1,862**	**2,656,139**

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

Policy applicable before 1 January 2018 (continued)

Reconciliation of statement of financial position at 31 December 2017 and 1 January 2018 (continued)

The following table reconciles the prior year's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Loan loss allowance under IAS 39 at 31 December 2017 RS'000	Remeasurement RS'000	Expected Credit Loss allowance under IFRS 9 at 1 January 2018 RS'000
Financial assets at amortised cost			
Cash and cash equivalents	-	-	-
Loans and advances to customers	20,302	(1,862)	18,440
Investment securities	-	-	-
Other assets	-	-	-
Total	**20,302**	**(1,862)**	**18,440**

(h) Write-off

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when Bank Credit determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status. The Bank may apply enforcement activities to financial assets written-off. In case of any contradiction with the Bank of Mauritius guidelines on write off of non-performing assets, the guidelines from the Bank of Mauritius will prevail. The Bank holds collateral against loans and advances to customers in the form of mortgage on property, deposit and securities under lien and charge on plant and machinery. Estimates of fair value are based on the value of collateral assessed at the time of borrowing.

Recoveries of amounts previously written-off are included in 'recoveries' in the Statement of profit or loss and other comprehensive income.

(i) Sale and repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are retained in the statement of financial position as Government securities and Treasury bills and the counterparty liability is included in amount due to other banks or deposits, as appropriate.

Securities purchased under agreements to resell ("reverse repos") are recorded as amount due from other banks or loans and advances, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repos agreements using the effective method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Investment securities

Financial Assets at amortised cost

The Bank classifies its placements, treasury notes and bonds, which form part of investment securities, as financial assets at amortised cost. Management determines the appropriate classification of its investments at the time of the purchase. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as financial assets at amortised cost.

Financial assets are classified at amortised cost if it meets both of the following conditions:

- The asset is held whose objective is to hold assets to collect contractual cash flows till maturity; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are initially recognized at fair value including transaction costs and measured subsequently at amortised cost using the effective interest rate method, less any provision for impairment. Interest earned while holding investment securities is reported as interest income.

Financial assets at fair value through other comprehensive Income

The Bank classifies its treasury bills which form part of investment securities as financial assets through other comprehensive income. Management determines the appropriate classification of its investments at the time of the purchase.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through other comprehensive income comprise:

- debt securities where the contractual cash flows are solely principal and interest and the objective of the company’s business model is achieved both by collecting contractual cash flows and selling financial assets.

These financial instruments are subsequently measured at fair value. Movements in the carrying amount form one reporting date to other are taken through OCI.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower (at draw-down) are categorised as loans by the Bank and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate these loans as is determinable by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the costs of the transaction.

All loans and advances are recognised when cash is advanced to borrowers. An allowance for loan impairment is established if there is the objective evidence that the Bank will not be able to collect all amounts due according to the original recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans.

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the end of the reporting period. These have been estimated upon the historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectible, it is written off against the related provision for impairment; subsequent recoveries are credited to the provision for loan losses in profit or loss.

Statutory and often regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general banking reserve as an appropriation of retained earnings.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for loan losses.

(l) Equipment

Equipment are carried at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate assets as appropriate only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Depreciation is calculated to write down the cost or amount of the valuation of such assets to their residual values on a straight-line basis over their estimated useful lives as follows:

Improvement to leasehold building	12.5% -20%
Computer equipment	13%- 33.33%
Furniture, fittings and office equipment	12% -30%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of equipment are determined by comparing proceeds with carrying amount and are included in profit or loss. Repairs and renewals are charged to profit or loss when the expenditure is incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. The details of accounting policies under IAS 17 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Bank’s incremental borrowing rate. The Bank uses its incremental borrowing rate as the discount rate.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank’s estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Leases (continued)

Policy applicable from 1 January 2019 (continued)

The Bank presents right-of-use assets in 'Property and Equipment' and lease liabilities in 'other liabilities' in the statement of financial position. The right-of-use relates to rental of buildings.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

The Bank did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

(n) Software

Amortization is calculated to write down the cost or amount of the valuation of such asset to their residual values on a straight-line basis over their estimated useful lives as follows:

Software	33.33%

(o) Cash and cash equivalents

For the purposes of the statements of cash flows, cash and cash equivalents comprise cash and balances with the Bank of Mauritius and amounts due to and from other banks. A further breakdown of cash and cash equivalents is given in note 12 to the financial statements.

(p) Provisions

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

(q) Financial guarantee

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits

Defined contribution plans

A defined contribution plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the assets are not sufficient to pay the benefits of the employees in relation to the services rendered in the current and prior periods.

Payments to defined contribution plans are recognised as an expense when employees have rendered service that entitle them to the contributions.

Defined benefit plans

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

The liability recognised in the statement of financial position in respect of defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) and the effect of the asset ceiling (if any, excluding interest), is recognised immediately in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income shall not be reclassified to profit or loss in subsequent periods.

The Bank determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset), taking into account any changes in the net defined liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense/(income) in recognised in profit or loss.

Service costs comprising current service cost, past service cost, as well as gains and losses on curtailments and settlements are recognised immediately in profit or loss.

The assets of the funded plan are held and administered independently by the Swan Life Limited.

The main assumptions made in the actuarial valuation of the pension fund are listed in note 20(a) to the financial statements.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Current and deferred income tax

The income tax expense for the period comprises of current and deferred income tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current income tax

The current income tax charge is based on taxable income for the year calculated on the basis of tax laws enacted or substantively enacted by the end of the reporting period.

Deferred income tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(t) Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are disclosed as liabilities with corresponding contra-assets.

(w) Segmental reporting

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

- Segment A relates to banking business other than Segment B business.
- Segment B is essentially directed to the provision of international financial services that give rise to foreign source income. Such services may be fund based or non-fund based.

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.

2.1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Management discussed the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

Key sources of estimation uncertainty

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2.1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Key sources of estimation uncertainty (Continued)

(a) Expected credit loss on loans and advances to customers

Specific provisioning/stage 3

The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgements based on any observable data which could indicate an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. 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 discounted as per requirements of the Bank of Mauritius Guidelines on Credit Impairment.

Portfolio provisioning/stage 1&2

In assessing the portfolio provisioning, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance. The Bank applies the expected credit loss model.

Refer to note 3(a) (ii) *Measuring ECL – Explanation of inputs, assumptions and estimation techniques.*

(b) Recoverability of Deferred Tax Asset

Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used. Management has determined that the recoverability of cumulative tax losses is certain as management believes it is probable that future taxable profit will be available against which the Bank can use the benefits.

Hence, management is of view that the deferred tax asset is recoverable and has been recognised accordingly in the financial statements.

(c) Adoption of IFRS 16

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

Refer to New standards, amendments and interpretations to standards effective 1 January 2019 for additional information.

2.1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Key sources of estimation uncertainty (Continued)

(d) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions.

2.2 New Standards and interpretations not yet adapted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Amendments to IFRS 9, IAS 39 and IFRS 7 have now been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.

The amendments address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.

The amendments are effective from 1 January 2020. Early application is permitted.

3. FINANCIAL RISK MANAGEMENT

Introduction and overview

The Bank has exposure to the following risks arising from financial instruments:

- credit risk;
- market risk (including currency risk and interest rate risk); and
- liquidity risk.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital. The Bank measures ECL considering the risk of default over the maximum contractual period over which the entity is exposed to credit risk.

Risk management framework

The Bank has a well-developed and robust risk management framework which is based on strong Board oversight, management oversight, efficient systems, documented risk appetite and documented policies and procedures.

HBL provides strategic guidance for effective risk management and ensures that a robust risk management frame work is in place. It is supported by Board Risk Management Committee and Board Audit Committee which is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

(a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment debt securities. For risk management reporting purposes, the

Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

i) Management of credit risk

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries and countries. The credit risk is primarily managed by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

i) Management of credit risk (Continued)

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate.

- Some other specific control and mitigation measures are outlined below Formulating credit policies in consultation with the Head Office, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of different grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.

Regular audits of the credit processes are undertaken by Internal Audit.

For rating assignment at individually significant customer level, businesses adopt an Internal Credit Ratings-Based ('IRB') approach and maintain risk rating methodologies incorporating both the probability of default ('PD') and the attribution of the exposure at default ('EAD') and the loss given default ('LGD') values at facility level.

PD reflects the likelihood of obligor default within the next 12 months, and is assigned to all corporate and other judgmentally assessed obligors, is reviewed at least annually.

LGD, is an estimate of the severity of the loss that the Bank is likely to incur in the event that the borrower defaults, expressed as a percentage of EAD and applied as a rating at facility level. The use of EAD and LGD ensures that the Bank complies with Group and local regulatory parameters to evaluate the severity of loss associated with judgmentally assessed credit exposures.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

i) Management of credit risk (Continued)

The Bank assesses the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments, there is no direct relationship between the credit quality assessment and IFRS 9 stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2. The credit quality classifications for lending are unchanged and are based on internal credit risk ratings.

The Bank used the following indicators to identify any significant increase in credit risks (“SICR”). The criteria below is applied at a counterparty level. The occurrence of any one of the indicators is considered as an indicator of significant increase in credit risk and consequently the related balances is classified as Stage 2 and attracts a lifetime ECL.

<u>Non-Retail Portfolio</u>

- Risk Ratings: Internal ratings with Obligor Risk Ratings (ORRs) 7 to 9/9A or customers with external ratings CCC to C will be categorised in Stage 2 at inception.

- Transition in Risk Ratings: Customers are moved to Stage 2 if they have been downgraded at the end of the reporting period by:
  - 3 or more grades: for customers which have ORR 1 or 2 (or external ratings of AAA to AA) at inception.
  - 2 or more grades: for customers which have ORR 3 to 5 (or external ratings of A to BB) at inception.
  - 1 or more grades: for customers which have ORR 6 (or external ratings of B and below) at inception.
  - 2 or more grades: for sovereign exposure in foreign currency if such downgrade results in the exposure falling below investment grade.

- Delinquency Status: Customers are considered as indicating a significant increase in credit risk (“SICR”) and are moved to Stage 2 if any of the following conditions are met:
  - Outstanding exposure (or related interest) is 30 days past due (“DPD”) at the end of the reporting period irrespective of the rating; or
  - ORR is 4 to 6 (or external rating of BBB to B) or below AND DPD>=30 at least 3 times over the last 12 months, even if DPD< 30 as at the reporting date; or
  - ORR is 4 to 6 (or external rating of BBB to B) or below AND DPD>=60 at least 1 time over last 12 months, even if DPD< 30 as at the reporting date.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

i) Management of credit risk (Continued)

Non-Retail Portfolio (continued)

- Watch list: Counterparties with facilities that are classified as watch list are considered as SICR and moved to Stage 2.

- Restructured status: Customers are considered as Stage 2 if:

  - They have been restructured in the past due to credit risk related factors and have not been regularized.
  - They were NPL in the past and are now regular but still within the cooling off period.

Retail Portfolio

Delinquency Status: The customers are considered as SICR and are moved to Stage 2 if any of the following conditions are met:

- Days past due>30 at reporting date; or
- Days past due >=30 at least 3 times over last 12 months , even if DPD< 30 at reporting date; or
- Days past due>=60 at least 1 time over last 12 months, even if DPD< 30 at reporting date

- Restructured status: Customer are considered as Stage 2 if:

- They have been restructured in the past due to credit risk related factors and have not been regularized

- They were in NPL in the past and are now regular but still within the cooling off period.

Any restructured exposure, which is uncollateralized and requires a bullet repayment 3 years or more are, at a minimum, be classified as Stage 2.

Watch list: Counterparties with facilities that are classified as watch list are considered as SICR and moved to Stage 2.

Note that the Bank does not maintain credit scoring for its retail exposures and hence the rating/scoring criteria to identify SICR is not applicable.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

i) Management of credit risk (Continued)

Retail Portfolio

In addition to the above criteria listed for retail and non- retail exposure, the Bank also considers the following factors in assessing whether there has been any SICR of the counterparty:

- Macroeconomic impact on commercial property occupancy and prices;
- Interest rates;
- Classification of the exposure by any other bank or financial institution or the local credit bureau;
- Deterioration of relevant credit risk drivers for an individual obligor (or pool of obligors);
- Unavailable/inadequate financial information/financial statements in periods subsequent to account opening;
- A qualified audit report by external auditors;
- Significant contingent liabilities;
- Pending litigation resulting in a detrimental impact;
- Loss of key staff from the organization;
- Increase in operational risk and higher occurrence of fraudulent activities;
- Continued delay and non-cooperation by the borrower in providing key relevant documentation

Level of Assessment: Counterparty Level vs Facility Level

Non-Retail Portfolio

The primary assessment for the Bank to evaluate and monitor credit risk of counterparties is credit ratings. The Bank’s current internal credit rating model for non-retail exposures is at a counterparty level rather than a facility level. Furthermore, the decision to grant additional facilities or retract the limit is also carried out at a counterparty level rather than at a facility level by the management. The management therefore believes that evaluating significant increase in credit risk at a facility level will result in undue cost and effort.

Accordingly, the management believes that evaluating significant increase in credit risk on a customer/counterparty level is appropriate and is not expected to give a significant different outcome had the evaluation been done on a facility level.

Retail

The Bank does not have any significant retail facilities and only has limited retail customers. Accordingly, retail SICR has also been assessed at a counterparty level.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(ii) Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 3(a)(i) for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

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

Change in credit quality since initial recognition

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

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

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(ii) Expected credit loss measurement (continued)

Significant increase in credit risk (SICR)

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

Quantitative criteria:

The remaining lifetime PD at the end of the reporting period has increased, compared to the residual lifetime PD expected at the end of the reporting period when the exposure was first recognised, so that it exceeds the relevant threshold per the table below:

Retail:

The Bank does not have a significant retail portfolio, and only has a limited number of retail products and customers. Therefore, SICR for the retail portfolio is assessed at a counterparty level as it would not give a significantly different outcome had the evaluation been done at a facility level.

Definition of default and credit-impaired assets

IFRS 9 requires an assessment of the extent of increase in credit risk of a financial instrument since initial recognition. This assessment is performed by considering the change in the risk of default occurring over the remaining life of the financial instrument. As a result, the definition of default is important.

IFRS 9 does not specifically define default, but requires it to be applied on a consistent basis with internal credit risk management practice for the relevant instruments and consider qualitative factors where appropriate. In addition, IFRS 9 also introduces a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.

In addition, default is defined under Basel for regulatory reporting purposes. The Basel regulation provides a clear definition by referring to the number of days past due and criteria for unlikeliness to pay. The criteria for unlikeliness to pay are similar to the definition of credit-impaired under IFRS 9 and in general, default for regulatory reporting purposes does not occur later than when a financial asset is 90 days past due as well.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(ii) Expected credit loss measurement (Continued)

Retail (continued)

In view of the above, the Bank has decided to align the IFRS 9 definition of default and Basel definition of ‘default’ whenever possible. The Bank has decided not to rebut the presumption introduced by IFRS 9, that is, default does not occur later than when a financial asset is 90 days past due. The use of the same default definition ensures that a single and consistent view of credit risk is applied for internal risk management, regulatory capital, and impairment calculations. In addition, since the criteria for credit-impaired under

IFRS 9 can be interpreted consistently with the accounting default definition, all accounting defaults are considered to be credit-impaired and all credit-impaired assets are considered to be defaulted for accounting purposes.

Backward Transition from Stage 2 to Stage 1

Non-retail facilities:

A financial asset which was classified in Stage 2 in the most recent ECL assessment will move back to Stage 1 if the following criteria is met and it does not meet any of the other SICR indicators mentioned above at the end of the reporting period:

Reason for classification in Stage 2	Move to Stage 1 when*:
Risk rating *	Risk rating recovers to 6 or better and it does not meet delinquency or industry criteria
Transition in risk rating*	The rating transition criteria is no longer relevant, and the counter party has been upgraded
Delinquency *	Counterparty has not been DPD>30 even once in the last 12 months
Watch list*	Original reasons for classification as watch list are no longer relevant
Restructured*	The counterparty has been regular after being restructured

*A minimum cooling period of 12 months is required before any financial asset is moved back to Stage 1.

Retail facilities:

The customer moves back from Stage 2 to Stage 1 if, as at the reporting date, it does not meet any of the SICR indicators and has been regular for a period of 12 months.

Backward Transition from Stage 3 to Stage 2

As a general rule, the underlying facility must have become regular, should be DPD<30 as of the reporting date and shall no longer meet the definition of credit impaired or being in default before it can be reclassified back from Stage 3.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(ii) Expected credit loss measurement (Continued)

Backward Transition from Stage 3 to Stage 2 (continued)

Any upgrading of a non-performing exposure (Stage 3) to a performing status (Stage 2) must be subject to a cooling off period of 12 months from the date of becoming regular in repayment. If the facility has been regular during the cooling off period, it will first move back to Stage 2 after which the criteria for moving from Stage 2 to Stage 1 will apply as stated in Section 3(a)(iii), which requires a further cooling off period.

In case of facilities which are restructured, a Stage 3 exposure will be moved back to Stage 2 only if the counterparty has been regular in the past 3 instalments (for repayments which are on a quarterly or more frequent basis) or for 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring.

Collaterals

Although collateral can be an important mitigant of credit risk, it is the Bank's general practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided without collateral. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the Bank may use the collateral as a source of repayment.

The Bank holds collateral against loans and advances to customers in the form of mortgage on property, cash collaterals and securities under lien and charge on vehicles. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated in line with the Bank of Mauritius guidelines. Collateral generally is not held over loans and advances to banks and investment securities, and no such collateral was held at 31 December 2019.

Analysis of collateral by type is presented in the following table:

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Cash Margins and liens	**29,085**	38,810	67,338
Mortgage	**186,807**	200,182	318,404
Lien on Vehicles	**5,487**	8,668	16,440

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

In general, the Bank calculates ECL using three main components, a PD, a loss given default ('LGD'), and the exposure at default ('EAD'). The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated on a similar basis for the lifetime. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument, respectively.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(ii) Expected credit loss measurement (Continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)

The measurement of ECL needs to take into account forecast of future economic conditions. This is incorporated into the measurement of ECL in more than one way. In theory, forecast economic conditions could be expanded into full credit risk variables. These variables are incorporated into the risk parameters (PDs, LGDs and EADs) used to determine IFRS 9 stage allocation and ECL measurement. This is possible if the risk parameters are calculated using an economic response model. The projection of future economic conditions relies on point in time statistical models supplemented by judgement or based entirely on judgement where there is insufficient data and correlations to develop statistically based models. Where PDs are adjusted on a systemised basis, stage allocation is determined using PDs which are calculated on a probability-weighted basis. The ECL is then measured on a probability weighted basis based on this stage allocation. In practice, methods that put less pressure on calculations performed during the reporting periods may be used, for example, the use of scalars provided that these methods meet the measurement objective. Simplified approaches which rely on the judgement of credit risk managers are applied where models do not support a systemised approach, e.g. the use of discounted cash flow models.

Stage 1 and 2

IFRS 9 credit risk models (IFRS 9 models) produce a number of risk component estimates that are used to measure ECL allowances and provisions for Stage 1 and 2 instruments. These models are developed, implemented and maintained in line with approved global model standards. Stage 1 and 2 ECL allowances and provisions are measured on either up to 12 months or lifetime ECL basis (depending on stage allocation) in a way that is unbiased and probability-weighted and incorporates forecasts of future economic conditions.

Stage 3

The ECL allowance assessment for financial instruments graded under Stage 3 is determined on a lifetime ECL basis.

Furthermore, expected credit losses of any financial instrument should also be measured in a way that reflects:

a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b) the time value of money; and
c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(ii) Expected credit loss measurement (Continued)

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Bank's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Bank remains exposed to credit risk that is not mitigated by credit risk management actions.

Expected credit loss measurement December 31, 2019

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL.

	Gross carrying/ nominal amount RS'000	Allowance for ECL RS'000
Loans and advances to customers at amortised cost	307,225	(10,287)
Other financial instruments	1,627,556	-
– cash and cash equivalents	222,342	-
- Investment securities	1,405,214	-
Total gross carrying amount on balance sheet	**1,934,781**	(10,287)
Financial guarantee and similar contracts	23,510	(4)
Total nominal amount off–balance sheet At 31 Dec 2019	**23,510**	(4)

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(ii) Expected credit loss measurement (Continued)

Expected credit loss measurement December 31, 2018

	Gross carrying/ nominal amount Rs'000	Allowance for ECL Rs'000
Loans and advances to customers at amortised cost	791,182	(24,460)
Other financial instruments	1,228,101	-
- cash and cash equivalents	276,587	-
- Investment securities	951,514	-
Total gross carrying amount on balance sheet	**2,019,283**	(24,460)
Financial guarantee and similar contracts	24,813	-
Total nominal amount off–balance sheet	**24,813**	
At 31 Dec 2018		-

Expected credit loss measurement December 31, 2017

	Gross carrying/ nominal amount RS'000	Allowance for ECL/IAS 39 RS'000
Loans and advances to customers at amortised cost	933,985	(20,302)
Other financial instruments	1,549,829	-
- cash and cash equivalents	379,585	-
- Investment securities	1,170,244	-
Total gross carrying amount on balance sheet	**2,483,814**	(20,302)
Financial guarantee and similar contracts	22,760	-
Total nominal amount off–balance sheet	**22,760**	
At 31 Dec 2017		-

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(ii) Expected credit loss measurement December 31, 2019

Summary of credit risk by stage distribution and ECL coverage by industry sector

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1 12-month ECL RS'000	Stage 2 Lifetime ECL RS'000	Stage 3 Lifetime ECL RS'000	Total RS'000	Stage 1 12-month ECL RS'000	Stage 2 Lifetime ECL RS'000	Stage 3 Lifetime ECL RS'000	Total RS'000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Loans and advances to customers at amortised cost	**207,004**	**85,568**	**14,653**	**307,225**	**(1,989)**	**(459)**	**(7,839)**	**(10,287)**	**(0.96%)**	**(0.53%)**	**(53.49%)**	**(3.35%)**
Other financial instruments	**1,627,556**	**-**	**-**	**1,627,556**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
• Cash and cash equivalents	222,342	-	-	222,342	-	-	-	-	-	-	-	-
• Investment securities	1,405,214	-	-	1,405,214	-	-	-	-	-	-	-	-
Financial guarantee and similar contracts	**23,510**	**-**	**-**	**23,510**	**(4)**	**-**	**-**	**(4)**	**(0.01%)**	**-**	**-**	**(0.01%)**
- Corporate and commercial	23,506	-	-	23,506	(4)	-	-	(4)	(0.01%)	-	-	(0.01%)
- financial	4	-	-	4	-	-	-	-	-	-	-	-
At 31 Dec 2019	**1,858,070**	**85,568**	**14,653**	**1,958,291**	**(1,993)**	**(459)**	**(7,839)**	**(10,291)**	**(0.11%)**	**(0.54%)**	**(53.50%)**	**(0.53%)**

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(ii) Expected credit loss measurement December 31, 2018

Summary of credit risk by stage distribution and ECL coverage by industry sector

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1 12-month ECL RS'000	Stage 2 Lifetime ECL RS'000	Stage 3 Lifetime ECL RS'000	Total RS'000	Stage 1 12-month ECL RS'000	Stage 2 Lifetime ECL RS'000	Stage 3 Lifetime ECL RS'000	Total RS'000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Loans and advances to customers at amortised cost	635,503	97,901	57,778	791,182	(4,296)	(1,297)	(18,867)	(24,460)	(0.68%)	(1.32%)	(32.65%)	(3.09%)
Other financial instruments	1,228,101	-	-	1,228,101	-	-	-	-	-	-	-	-
• Cash and cash equivalents	276,587	-	-	276,587	-	-	-	-	-	-	-	-
• Investment securities	951,514	-	-	951,514	-	-	-	-	-	-	-	-
Financial guarantee and similar contracts	24,813	-	-	24,813	-	-	-	-	-	-	-	-
- Corporate and commercial	22,913	-	-	22,913	-	-	-	-	-	-	-	-
- Financial	1,900	-	-	1,900	-	-	-	-	-	-	-	-
At 31 Dec 2018	1,888,417	97,901	57,778	2,044,096	(4,296)	(1,297)	(18,867)	(24,460)	(0.23%)	(1.32%)	(32.65%)	(1.20%)

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from stage 1 to stage 2. The disclosure below presents the ageing of stage 2 loans and advances to customers by those less than 30 and greater than 30 days past due and therefore presents those amounts classified as stage 2 due to ageing (30 days past due) and those identified at an earlier stage (less than 30 days past due).

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(ii) Expected credit loss measurement December 31, 2017 as per IAS 39

Credit quality of loans and advances to customers	2017
	Rs'000
Neither past due nor impaired	901,718
Past due but not impaired	257
Impaired	32,010
Gross	933,985
Less allowance for credit impairment	(20,302)
Net	913,683

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(ii) Expected credit loss measurement December 31, 2019

Stage 2 days past due analysis for loans and advances to customers at 31 December 2019

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2 RS'000	Of which: 1 to 29 DPD RS'000	Of which: 30 and > DPD RS'000	Stage 2 RS'000	Of which: 1 to 29 DPD RS'000	Of which: 30 and > DPD RS'000	Stage 2 %	Of which: 1 to 29 DPD %	Of which: 30 and > DPD %
Loans and advances to customers at amortised cost	**85,568**	**85,568**	**-**	**(459)**	**(459)**	**-**	**(0.53%)**	**(0.53%)**	**-**

Stage 2 days past due analysis for loans and advances to customers at 31 December 2018

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2 RS'000	Of which: 1 to 29 DPD RS'000	Of which: 30 and > DPD RS'000	Stage 2 RS'000	Of which: 1 to 29 DPD RS'000	Of which: 30 and > DPD RS'000	Stage 2 %	Of which: 1 to 29 DPD %	Of which: 30 and > DPD %
Loans and advances to customers at amortised cost	97,901	97,127	774	(1,297)	(1,195)	(102)	(1.32%)	(1.23%)	(13.18%)

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(iii) Maximum exposure

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

- Loans and advances to customers at amortised cost as at December 31, 2019

	Stage 1 12-month	**Stage 2** Lifetime	**Stage 3** Lifetime	**Total**
	RS'000	RS'000	RS'000	RS'000
Credit grade				
Loans and advances	**207,004**	**85,568**	**14,653**	**307,225**
Gross Carrying amount	**207,004**	**85,568**	**14,653**	**307,225**
Loss allowance	**(1,989)**	**(459)**	**(7,839)**	**(10,287)**
Carrying amount	**205,015**	**85,109**	**6,814**	**296,938**

- Off- balance sheet exposures

	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	RS'000	RS'000	RS'000	RS'000
Credit grade				
Guarantees	**23,510**	**-**	**-**	**23,510**
Gross Carrying amount	**23,510**	-	-	**23,510**
Loss allowance	**(4)**	-	-	**(4)**
Carrying amount	**23,506**	-	-	**23,506**

- Loans and advances to customers at amortised cost as at December 31, 2018

	Stage 1 12-month	**Stage 2** Lifetime	**Stage 3** Lifetime	**Total**
	RS'000	RS'000	RS'000	RS'000
Credit grade				
Loans and advances	635,503	97,901	57,778	791,182
Gross Carrying amount	635,503	97,901	57,778	791,182
Loss allowance	(4,296)	(1,297)	(18,867)	(24,460)
Carrying amount	631,207	96,904	38,911	766,722

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(iii) Maximum exposure (Continued)

- Off-balance sheet exposures

	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	RS'000	RS'000	RS'000	RS'000
Credit grade				
Letter of Guarantee	24,813	-	-	24,813
Gross Carrying amount	24,813	-	-	24,813
Loss allowance	-	-	-	-
Carrying amount	24,813	-	-	24,813

iv) Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of ECL is highly complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the measurement objective of IFRS 9.

Methodology for developing forward looking economic scenarios

The Bank has adopted the use of three economic scenarios, which are representative of its view of forecast economic conditions, sufficient to calculate unbiased ECL. They represent a 'most likely outcome', (the Base scenario) and two, less likely, 'Outer' scenarios on either side of the Base Scenario, referred to as an 'Positive' and a 'Negative' scenario respectively. Each outer scenario is consistent with a probability of 10%, while the Base scenario is assigned the remaining 80%. This weighting scheme is deemed as appropriate for the computation of unbiased ECL in most economic environments. Setting key scenario assumptions using the average of forecasts from external economists helps to ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

For the Base scenario, key assumptions such as GDP growth, inflation, unemployment and policy rates are set using either the average of external forecasts (commonly referred to as consensus forecasts) for most economies or market prices.

The Positive and Negative scenarios are designed to be cyclical in that GDP growth, inflation and unemployment usually revert back to the Base scenario after the first three years for major economies. The Bank determines the maximum divergence of GDP growth from the Base scenario using the 10^{th} and the 90^{th} percentile of the entire distribution of forecast outcomes for major economies. Using externally available forecast distributions ensures independence in scenario construction. While key economic variables are set with reference to external distributional forecasts, the Bank also aligns the overall narrative of the scenarios to the macroeconomic risks.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

v) Loss allowance

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

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

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

- **Loans and advances to customers at amortised cost as at December 31, 2019**

	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
	RS’000	RS’000	RS’000	RS’000
As at 1 January 2019	**4,296**	**1,297**	**18,867**	**24,460**
Movements				
Transfer from stage 1 to stage 2	**(260)**	**260**	**-**	**-**
Transfer from stage 1 to stage 3	**-**	**-**	**-**	**-**
Transfer from stage 2 to stage 1	**-**	**-**	**-**	**-**
Transfers from stage 2 to stage 3	**-**	**-**	**-**	**-**
Transfer from stage 3 to stage 1	**-**	**-**	**-**	**-**
Transfer from stage 3 to stage 2	**-**	**-**	**-**	**-**
Increase	**-**		**7,056**	**7,056**
Release	**-**	**-**	**(7,177)**	**(7,177)**
Loans paid off	**(2,047)**	**(1,098)**	**-**	**(3,145)**
Loan written off	**-**	**-**	**(10,907)**	**(10,907)**
New financial assets originated or purchased	**-**	**-**	**-**	**-**
As at 31 December 2019	**1,989**	**459**	**7,839**	**10,287**

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

- **Loans and advances to customers at amortised cost as at December 31, 2018**

	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
	RS'000	RS'000	RS'000	RS'000
As at 1 January 2018	4,307	2,264	11,869	18,440
Movements				
Transfer from stage 1 to stage 2	(183)	183	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	650	(650)	-	-
Transfers from stage 2 to stage 3	-	(122)	122	-
Transfer from stage 3 to stage 1	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
Increase	-	503	7,026	7,529
Release	-	-	(150)	(150)
Loans paid off	(2,195)	(881)	-	(3,076)
New financial assets originated or purchased	1,717	-	-	1,717
As at 31 December 2018	4,296	1,297	18,867	24,460

(b) Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, and foreign exchange rates.

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The principal measurement technique used to measure and control market risk is the stress tests as outlined below.

Currency risk

Foreign exchange risks are controlled and monitored through the limits approved by ALCO. The Bank is exposed to currency risk through operations in foreign currencies. The Bank's main foreign currencies operations are in US Dollars, Pound Sterling and Euro. As the currency in which the Bank presents its financial statements is the Mauritian Rupee, the Bank's financial statements are affected by movements in the exchange rates between these currencies and the Mauritian Rupee. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the profit or loss.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Currency risk

Concentration of assets, liabilities and off-balance sheet items

	USD Rs'000	EURO Rs'000	GBP Rs'000	MUR Rs'000	OTHERS Rs'000	TOTAL Rs'000
At December 31, 2019						
ASSETS						
Cash and cash equivalents	313	56,785	5,215	158,359	1,670	222,342
Loans and advances to customers	-	1,843	-	305,382	-	307,225
Investment securities	-	108,580	-	1,296,634	-	1,405,214
Other assets	-	-	216	98,765	-	98,981
	313	167,208	5,431	1,859,140	1,670	2,033,762
Allowance for credit impairment						(10,287)
Total assets						2,023,475
LIABILITIES						
Deposits	930	167,505	4,794	1,363,010	-	1,536,239
Other liabilities	-	-	-	70,205	-	70,205
Total liabilities	930	167,505	4,794	1,433,215	-	1,606,444
Net on balance sheet position	(617)	(297)	637	425,925	1,670	427,318
Less allowance for credit impairment						(10,287)
						417,031

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Currency risk (continued)

	USD Rs'000	EURO Rs'000	GBP Rs'000	MUR Rs'000	OTHERS Rs'000	TOTAL Rs'000
At December 31, 2018						
ASSETS						
Cash and cash equivalents	2,259	157,350	4,301	111,336	1,341	276,587
Loans and advances to customers	-	-	-	791,182	-	791,182
Investment securities	-	147,286	-	804,228	-	951,514
Other assets	-	-	230	153,360	-	153,590
	2,259	304,636	4,531	1,860,106	1,341	2,172,873
Allowance for credit impairment						(24,460)
Total assets						**2,148,413**
LIABILITIES						
Deposits	2,218	305,103	3,456	1,437,485	362	1,748,624
Other liabilities	-	3	-	40,213	-	40,216
Total liabilities	2,218	305,106	3,456	1,477,698	362	**1,788,840**
Net on balance sheet position	**41**	**(470)**	**1,075**	**382,408**	**979**	**384,033**
Less allowance for credit impairment						(24,460)
						359,573

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Currency risk (continued)

	USD Rs'000	EURO Rs'000	GBP Rs'000	MUR Rs'000	OTHERS Rs'000	TOTAL Rs'000
At December 31, 2017						
ASSETS						
Cash and cash equivalents	2,543	190,548	3,940	180,269	2,285	379,585
Loans and advances to customers	-	6,492	-	927,493	-	933,985
Investment securities	-	168,462	-	1,001,782	-	1,170,244
Other assets	248	22,312	253	165,370	1	188,184
	2,791	387,814	4,193	2,274,914	2,286	2,671,998
Allowance for credit impairment						(20,302)
Total assets						**2,651,696**
LIABILITIES						
Deposits	4,131	364,173	4,213	1,848,043	25	2,220,585
Other borrowed funds	-	249	-	-	-	249
Other liabilities	219	28,065	139	33,699	-	62,122
Total liabilities	4,350	392,487	4,352	1,881,742	25	**2,282,956**
Net on balance sheet position	**(1,559)**	**(4,673)**	**(159)**	**393,172**	**2,261**	**389,042**
Less allowance for credit impairment						(20,302)
						368,740

The tables below indicate the currencies to which the Bank has exposure on assets and liabilities. The analysis calculates the effect of a reasonably possible increase in the currency rate against the MUR, with all other variables held constant (a possible equal decrease in the currency rate against the MUR will have an equal and opposite effect). A negative amount in the table reflects a potential net reduction in profit and loss, while a positive amount reflects a net potential increase in profit and loss.

Currency	**2019 Change in currency rate in %**	**2019 Effect on profit and loss Rs'000**	2018 Change in currency rate in %	2018 Effect on profit and loss Rs'000	2017 Change in currency rate in %	2017 Effect on profit and loss Rs'000
USD	**±10**	**(62)**	±10	4	±10	(156)
EURO	**±10**	**(30)**	±10	(47)	±10	(467)
GBP	**±10**	**64**	±10	108	±10	(16)

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk

Interest rate risk is the exposure of the Bank's financial condition to adverse movements in interest rate. Changes in interest rates affect a bank's earnings by changing its Net Interest Income and the level of other interest sensitive income and expenses. It also affects the underlying value of Bank's assets, liabilities and off-balance sheet items. The ALCO sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored monthly by Treasury.

At December 31, 2019

Assets	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1- 3 years**	**Over 3 years**	**Non-interest sensitive**	**Total**
	Rs'000	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**
Cash and cash equivalents	-	-	-	-	-	-	222,342	222,342
Loans and advances to customers	247,366	-	3,844	477	6,041	34,844	14,653	307,225
Investment securities	681,102	564,862	158,750	-	-		500	1,405,214
Other assets	-	-	-	-	-	-	98,981	98,981
	928,468	564,862	162,594	477	6,041	34,844	336,476	2,033,762
Less allowances for credit impairment								(10,287)
Total assets								**2,023,475**
LIABILITIES								
Deposits from customers	778,048	-	5,114	144,240	29,322	58,373	521,142	1,536,239
Other liabilities	-	-	-	-	-	-	70,205	70,205
Total liabilities	778,048	-	5,114	144,240	29,322	58,373	591,347	**1,606,444**
Interest sensitivity gap	150,420	564,862	157,480	(143,763)	(23,281)	(23,529)	N/a	682,189
Less allowances for credit impairment								(10,287)
								671,902

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk (Continued)

At December 31, 2018

Assets	Up to 1 month	1 – 3 months	3 - 6 months	6 - 12 months	1- 3 years	Over 3 years	Non-interest sensitive	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Cash and cash equivalents	118,007	-	-	-	-	-	158,580	276,587
Loans and advances to customers	502,630	181,098	36	235	13,769	35,584	57,830	791,182
Investment securities	471,551	282,177	147,286	-	50,000		500	951,514
Other assets	-	-	-	-	-	-	153,190	153,190
	1,092,188	463,275	147,322	235	63,769	35,584	216,910	2,172,873
Less allowances for credit impairment								(24,460)
Total assets								**2,148,413**
LIABILITIES								
Deposits from customers	824,653	56,466	36,731	93,216	43,592	3,374	690,592	1,748,624
Other liabilities	-	-	-	-	-	-	40,216	40,216
Total liabilities	824,653	56,466	36,731	93,216	43,592	3,374	730,808	**1,788,840**
Interest sensitivity gap	267,535	406,809	110,591	(92,981)	20,177	32,210	N/a	744,341
Less allowances for credit impairment								(24,460)
								719,881

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk (Continued)

At December 31, 2017	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-interest sensitive	TOTAL
Assets	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**
Cash and cash equivalents	39,538	-	-	-	-	-	340,047	379,585
Loans and advances to customers	901,975	-	-	-	-	-	32,010	933,985
Investment securities	136,662	493,079	316,667	148,496	74,840		500	1,170,244
Other assets	-	-	-	-	-	-	188,184	188,184
	1,078,175	493,079	316,667	148,496	74,840	-	560,741	2,671,998
Less allowances for credit impairment								(20,302)
Total assets								**2,651,696**
LIABILITIES								
Deposits from customers	1,084,470	108,320	57,970	93,770	92,574	-	783,481	2,220,585
Other borrowed funds	249	-	-	-	-	-	-	249
Other liabilities	27,620		-	-	-	-	34,502	62,122
Total liabilities	1,112,339	108,320	57,970	93,770	92,574	-	817,983	**2,282,956**
Interest sensitivity gap	(34,164)	384,759	258,697	54,726	(17,734)	-	N/a	646,284
Less allowances for credit impairment								(20,302)
								625,982

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk (Continued)

Interest rate risk is also assessed by measuring the impact of a reasonably possible change in interest rate movements. The Bank has estimated the impact of interest rate on its interest income and interest expense in accordance with the BOM Guideline on Measurement and Management of Market Risk.

	Interest income Rs'000	Interest expense Rs'000
As at 31 December 2019	**4,337**	**(2,596)**
As at 31 December 2018	**4,230**	**(2,650)**
As at 31 December 2017	**6,113**	**(2,727)**

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities.

Management of liquidity risk

The Bank’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank’s reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank relies on deposits from customers as its primary sources of funding which generally have shorter maturities and a large proportion of them are repayable on demand.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The short-term nature of these deposits increases the Bank’s liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

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, which reflects the significance of inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm’s length basis.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (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.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (Continued)

a) Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair values. The Bank has not disclosed the fair value of financial assets and financial liabilities that are liquid or have a short-term maturity, because the carrying amounts are a reasonable approximation of the fair values. This assumption also applies to loans and advances to customers which are linked to the prime lending rate and deposits from customers without a specific maturity included and granted at a variable rate.

	Carrying Value			Fair value			Fair Value Hierarchy
	2019	2018	2017	2019	2018	2017	
	Rs'000			Rs'000			
Financial assets							
Cash and cash equivalents	**222,342**	276,587	379,585	**222,342**	276,587	379,585	Level 3
Loans and advances to customers	**296,938**	766,722	913,683	**296,938**	766,722	913,683	Level 3
Investment securities- Held at amortised cost	**158,736**	222,731	1,170,244	**158,736**	222,731	1,170,244	Level 1
Other assets	**98,981**	153,590	188,184	**98,981**	153,590	188,184	Level 3
Total Assets	**776,997**	1,419,630	2,651,696	**776,997**	1,419,630	2,651,696	
Financial Liabilities							
Deposits from customers	**1,536,239**	1,748,624	2,220,585	**1,536,239**	1,748,624	2,220,585	Level 3
Other liabilities (excluding accrued expenses)	**58,871**	24,168	48,770	**58,871**	24,168	48,770	Level 3
Total Liabilities	**1,595,110**	1,772,792	2,269,355	**1,595,110**	1,772,792	2,269,355	

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (Continued)

b) Financial instruments measured at fair value

The Bank holds an investment which is unlisted and classified as level 2 financial instrument. As at 31 December 2019, the investment was fair valued using the net assets value approach and the fair value of the investment amounted to Rs500k.

	2019			2018			2017		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	Rs'000			Rs'000			Rs'000		
Financial assets									
Investment Securities									
- *Fair value through other comprehensive income*	**1,245,978**	**500**	**-**	728,283	500	-	-	-	-
Total Assets	**1,245,978**	**500**	**-**	728,283	500	-	-	-	-
Financial Liabilities									
Other borrowed funds	**-**	**-**	**-**	-	-	-	-	-	249
Total Liabilities	-	-	-	-	-	-	-	-	249

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

Management of liquidity risk

Maturities of Assets & Liabilities:

Contractual maturity of financial liabilities on an undiscounted basis

At December 31, 2019

ASSETS	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1- 3 years	Over 3 years	Non Maturity Items*	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Cash and cash equivalents	52,104	-	-	-	-	-	170,238	222,342
Loans and advances to customers	258,888	-	3,844	477	6,238	37,778	-	307,225
Investment securities	681,102	564,861	158,750	-	-	-	500	1,405,213
Other assets	-	-	-	-	-	-	98,981	98,981
	992,094	564,861	162,594	477	6,238	37,778	269,719	2,033,761
Less allowances for credit impairment								(10,287)
Total assets								2,023,474
LIABILITIES								
Deposits from customers	1,299,190	-	5,114	144,240	29,322	58,373	-	1,536,239
Other liabilities	16,062	-	-	-	-	-	54,143	70,205
Total liabilities	1,315,252	-	5,114	144,240	29,322	58,373	54,143	1,606,444
Net liquidity gap	(323,158)	564,861	157,480	(143,763)	(23,084)	(20,595)	215,576	427,317
Less allowances for credit impairment								(10,287)
								417,030

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

Management of liquidity risk (Continued)

At December 31, 2018

ASSETS	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1- 3 years	Over 3 years	Non Maturity Items	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Cash and cash equivalents	118,007	-	-	-	-	-	158,580	276,587
Loans and advances to customers	560,460	181,098	36	235	13,769	35,584	-	791,182
Investment securities	471,551	282,177	147,286	-	50,000		500	951,514
Other assets	-	-	-	-	-	-	153,590	153,590
	1,150,018	463,275	147,322	235	63,769	35,584	312,670	2,172,873
Less allowances for credit impairment								(24,460)
Total assets								2,148,413
LIABILITIES								
Deposits from customers	1,515,245	56,466	36,731	93,216	43,592	3,374	-	1,748,624
Other liabilities	15,583	-	-	-	-	-	24,633	40,216
Total liabilities	1,530,828	56,466	36,731	93,216	43,592	3,374	24,633	1,788,840
Net liquidity gap	(380,810)	406,809	110,591	(92,981)	20,177	32,210	288,037	384,033
Less allowances for credit impairment								(24,460)
								359,573

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

Management of liquidity risk (Continued)

At December 31, 2017	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1- 3 years	Over 3 years	Non Maturity Items*	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Cash and cash equivalents	231,372	-	-	-	-	-	148,213	379,585
Loans and advances to customers	758,453	91,019	39	15,862	15,932	52,680	-	933,985
Investment securities	136,662	493,079	316,667	148,496	74,840	-	500	1,170,244
Other assets	-	-	-	-	-	-	188,184	188,184
	1,126,487	584,098	316,706	164,358	90,772	52,680	336,897	2,671,998
Less allowances for credit impairment								(20,302)
Total assets								2,651,696
LIABILITIES								
Deposits from customers	1,867,951	108,320	57,970	93,770	92,574	-	-	2,220,585
Other borrowed funds	249	-	-	-	-	-	-	249
Other liabilities	27,620	-	-	-	-	-	34,502	62,122
Total liabilities	1,895,820	108,320	57,970	93,770	92,574	-	34,502	2,282,956
Net liquidity gap	(769,333)	475,778	258,736	70,588	(1,802)	52,680	302,395	389,042
Less allowances for credit impairment								(20,302)
								368,740

**Items which do not have any maturity dates are classified under Non Maturity Items.*

4. NET INTEREST INCOME

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Interest income			
Loan and advances to customers	**30,192**	43,160	62,595
Placements with other banks	**1,818**	2,395	4,185
Investment securities	**31,095**	23,408	28,343
Bonds	**40**	283	4,154
Total interest income	**63,145**	69,246	99,277

Interest income has been calculated using the effective interest method.

	2019	2018	2017
Interest expense			
Deposits from customers	**(16,833)**	(18,556)	(37,675)
Interest expense on lease liability	**(1,236)**	-	-
Other borrowed funds	**(42)**	(15)	(1,360)
Total interest expense	**(18,111)**	(18,571)	(39,035)
Net interest income	**45,034**	50,675	60,242
<u>Segment A</u>			
Interest income			
Loans and advances to customers	**30,192**	43 148	62 486
Placements with other banks	**7**	259	172
Investment securities	**31,095**	23 408	28 343
Bonds	**40**	-	-
Total interest income	**61,334**	66 815	91 001
Interest expense			
Deposits from customers	**(16,213)**	(18,554)	(35,654)
Interest expense on lease liability	**(1,236)**	-	-
Other borrowed funds	**(42)**	(15)	(1,360)
Total interest expense	**(17,491)**	(18,569)	(37,014)
Net interest income	**43,843**	48,246	53,987
<u>Segment B</u>			
Interest income			
Loans and advances to customers	**-**	12	109
Placements with other banks	**1,811**	2,136	4,013
Bonds	**-**	283	4,154
	1,811	2,431	8,276
Interest expense			
Deposits from customers	**(620)**	(2)	(2,021)
Net interest income	**1,191**	2,429	6,255

5. FEE AND COMMISSION INCOME

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Fee and commission income	**2,660**	4,455	8,972
Segment A			
Fee and commission income	**2,619**	4,382	6,887
Segment B			
Fee and commission income	**41**	73	2,085

6. NET TRADING INCOME

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Foreign exchange	**2,462**	3,480	10,827
Segment A			
Other	**2,458**	3,480	10,793
Segment B			
Other	**4**	-	34

7. OTHER OPERATING INCOME

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Other	**1,062**	-	624
Segment A			
Other	**1,062**	-	624
Segment B			
Other	-	-	-

8. NET IMPAIRMENT REVERSAL/(LOSS) ON FINANCIAL ASSETS

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total) and Segment A			
Provision for credit impairment	**7,056**	6,170	1,107
Provisions released during the year	**(10,322)**	(150)	(403)
	(3,266)	6,020	704

9. PERSONNEL EXPENSES

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Wages and salaries	**30,526**	22,896	38,251
Compulsory social security obligations	**288**	336	1,263
Contributions to defined contribution plans	**2,537**	4,231	185
Other personnel expenses	**6,372**	6,852	2,629
	39,723	34,315	42,328
Segment A			
Wages and salaries	**30,070**	22,390	37,540
Compulsory social security obligations	**288**	336	1,263
Contributions to defined contribution plans	**2,537**	4,231	185
Other personnel expenses	**6,372**	6,852	2,629
	39,267	33,809	41,617
Segment B			
Wages and salaries	**456**	506	711

10. OTHER EXPENSES

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Software licencing and other information technology cost	**6,686**	5,830	5,663
Branch licence fee	**3,933**	3,963	3,963
Professional consultancy fee	**4,727**	3,024	1,531
Other	**9,509**	9,788	9,782
	24,855	22,605	20,939
Segment A			
Software licencing and other information technology cost	**6,276**	5,456	5,166
Branch licence fee	**3,933**	3,963	3,963
Professional consultancy fee	**4,727**	3,024	1,531
Other	**9,108**	8,542	8,213
	24,044	20,985	18,873
Segment B			
Software licencing and other information technology cost	**410**	374	497
Branch licence fee	**-**	-	-
Professional consultancy fee	**-**	-	-
Other	**401**	1,246	1,569
	811	1,620	2,066

		2019	2018	2017
11.	**INCOME TAX**	**Rs'000**	Rs'000	Rs'000
	Bank (Total)			
(a)	**Amounts recognised in the statement of financial position**			
	Income tax based on adjusted profits	-	-	2,068
	Special levy on banks	-	-	913
	Foreign tax credit	-	-	(767)
	Tax paid under Advance Payment System	-	-	(1,526)
		-	-	688
(b)	**Amounts recognised in the statement of profit or loss**			
	Income tax based on the adjusted profits	-	-	2,068
	Special levy on banks	-	-	913
	Foreign tax credit	-	-	(767)
	Over provision in previous years	-	(1,324)	-
	Deferred tax	**(2,742)**	3,676	(602)
	(Credit)/charge for the year	**(2,742)**	2,352	1,612
(c)	**Amounts recognised in other comprehensive income**			
	Deferred tax (Credit)/charge for the year	**(153)**	(24)	93

The tax on the profits differs from the theoretical amount that would arise using the basic tax rate as

	2019	2018	2017
follows:(Loss)/Profit before income tax	**(19,944)**	(13,859)	6,256
Income tax at 7% (2018: 7% & 2017: 17%)	**(1,387)**	(970)	770
Expenses not deductible for tax purposes	**1,492**	779	1,290
Income not subject to tax	**(2,862)**	(1,275)	(594)
Foreign tax credit	-	-	(767)
Deferred tax not provided in previous years*	**15**	-	-
Underprovision in deferred tax in prior year	-	5,142	-
Over provision in previous years	-	(1,324)	-
Special levy on banks	-	-	913
	(2,742)	2,352	1,612
<u>Segment A</u>			
Income tax based on the adjusted profits	**(2,737)**	(1,433)	1,361
Over provision in previous years	**15**	(1,324)	-
Deferred tax (Note 16)	-	5,142	(602)
Special levy on banks	-	-	661
	(2,722)	2,385	1,420

11. INCOME TAX (CONT'D)

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Segment A (cont'd)			
(Loss)/Profit before income tax	**(19,501)**	(13,867)	1,306
Income tax at 7% (2018: 7% & 2017: 17%)	**(1,365)**	(971)	27
Expenses not deductible for tax purposes	**1,476**	813	1,266
Income not subject to tax	**(2,848)**	(1,275)	(534)
Deferred tax not provided in previous years*	**15**	-	-
Underprovision in deferred tax in prior year	**-**	5,142	-
Over provision in previous years	**-**	(1,324)	-
Special levy on banks	**-**	-	661
(Credit)/charge for the year	**(2,722)**	2,385	1,420
Segment B			
Profit/(loss) before income tax	**(443)**	8	4,950
Income tax at 5% (2018: 7%)	**(22)**	1	707
Expenses not deductible for tax purposes	**16**	(34)	-
Income not subject to tax	**(14)**	-	-
Special levy on banks	**-**	-	252
Foreign tax credit	**-**	-	(767)
Defered Tax	**-**	-	-
(Credit)/charge for the year	**(20)**	(33)	192

*Deferred tax not provided in previous years relates to deferred tax charge on current year temporary differences P&L balances except for tax losses.

12. CASH AND CASH EQUIVALENTS

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Cash in hand	**50,880**	51,062	31,521
Foreign currency notes and coins	**1,224**	4,473	5,354
Balances with banks abroad	**54,393**	54,196	194,425
Balances with local banks	**-**	98,307	-
Unrestricted balances with Central Bank	**115,845**	68,549	148,285
	222,342	276,587	379,585
Segment A			
Cash in hand	**50,880**	51,062	31,521
Foreign currency notes and coins	**1,224**	4,473	5,354
Unrestricted balances with Central Bank	**115,845**	68,549	148,285
Balances with local banks	**-**	98,307	-
	167,949	222,391	185,160
Segment B			
Balances with banks abroad	**54,393**	54,196	194,425

13(a). LOANS AND ADVANCES TO CUSTOMERS

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total) and Segment A			
Mortgage	**31,033**	35,805	45,516
Other retail loans	**28,138**	27,820	50,098
Corporate customers	**247,709**	725,125	835,696
Interest receivable	**345**	2,432	2,675
Gross loans	**307,225**	791,182	933,985
Less allowance for impairment (note 13(iii))	**(10,287)**	(24,460)	(20,302)
	296,938	766,722	913,683

13(a). **LOANS AND ADVANCES TO CUSTOMERS (CONT'D)**

		2019	2018	2017
		Rs'000	Rs'000	Rs'000
(i)	**Remaining Term of maturity:**			
	Up to 3 months	**258,888**	741,558	849,472
	Over 3 months and up to 6 months	**3,844**	36	39
	Over 6 months and up to 12 months	**477**	235	15,862
	Over 1 year and up to 5 years	**18,085**	19,913	23,650
	Over 5 years	**25,931**	29,440	44,962
		307,225	791,182	933,985

		2019	2018	2017
(ii)	**Credit concentration of risk by industry sectors:**	**Rs'000**	Rs'000	Rs'000
	Agriculture and fishing	**98,681**	244,922	202,402
	Manufacturing	**25,467**	82,175	158,755
	Tourism	**1,251**	7,330	8,953
	Transport	**2,938**	3,445	4,332
	Construction	**33,583**	39,762	53,106
	Traders	**112,738**	287,511	290,706
	Information and communication	**-**	-	-
	Financial and business services	**14,852**	105,463	101,016
	Personal	**8,773**	7,376	9,438
	Professional	**-**	113	-
	Others	**8,597**	10,653	102,602
		306,880	788,750	931,310
	Interest receivable	**345**	2,432	2,675
		307,225	791,182	933,985

		Total
(iii)	**Allowances for credit impairment**	**Rs'000**
	At December 31, 2016	**19,598**
	Provision for credit impairment for the year	1,107
	Provision released	(403)
	At December 31, 2017	**20,302**
	Impact on adoption of IFRS 9	(1,862)
	Adjusted opening balance January 1, 2018	18,440
	Provision for credit impairment for the year	6,170
	Provision released	(150)
	At December 31, 2018	**24,460**
	Provision for credit impairment for the year	**7,056**
	Provision released	**(10,322)**
	Loan written off in line with regulatory guidelines	**(10,907)**
	At December 31, 2019	**10,287**

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

(iv) **Allowances for credit impairment by Industry sectors**

	Gross amount of loans	**Impaired loans**	**2019 Total allowances for credit impairment**	2018 Total allowances for credit impairment	2017 Total allowances for credit impairment
	Rs'000	**Rs'000**	**Rs'000**	Rs'000	Rs'000
Agriculture and fishing	**98,681**	**500**	**2,021**	1,760	1,833
Manufacturing	**25,467**	**-**	**316**	9,046	3,002
Tourism	**1,251**	**-**	**1**	35	81
Transport	**2,938**	**-**	**8**	72	39
Construction	**33,583**	**3,131**	**2,705**	3,428	3,015
Traders	**112,738**	**2,364**	**2,426**	6,832	7,707
Financial and business services	**14,852**	**-**	**4**	371	915
Personal	**8,773**	**60**	**149**	303	167
Others	**8,597**	**8,598**	**2,657**	2,613	-
Interest receivable	**345**	**-**	**-**	-	3,543
	307,225	**14,653**	**10,287**	24,460	20,302

14. INVESTMENT SECURITIES

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Investments at fair value through Other Comprehensive Income (FVOCI)			
Treasury Bills	**1,245,978**	728,283	-
Investment Equity Fund	**500**	500	-
Held at amortised cost			
Treasury Bills	**-**	-	875,876
Placements	**108,579**	147,286	168,462
Treasury Notes	-	25,000	75,236
Bonds	**50,157**	50,445	50,170
Investment Equity Fund	-	-	500
	1,405,214	951,514	1,170,244

Segment A

Held at fair value through Other Comprehensive Income (FVOCI)	**2019**	2018	2017
	Rs'000	Rs'000	Rs'000
Treasury Bills	**1,245,978**	728,283	-
Investment Equity Fund	**500**	500	-
Held at amortised cost			
Treasury Bills	-	-	875,876
Treasury Notes	-	25,000	75,236
Bonds	**50,157**	50,445	50,170
Investment Equity Fund	**-**	-	500
	1,296,635	804,228	1,001,782

Segment B

Held at amortised cost	**2019**	2018	2017
	Rs'000	Rs'000	Rs'000
Placements	**108,579**	147,286	168,462
	108,579	147,286	168,462

15(a). **PROPERTY AND EQUIPMENT**

	Improvement to leasehold building	Computer equipment and hardware	Furniture, fittings and office equipment	Motor vehicles	Right of use assets	Total
	Rs'000	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**
Bank (Total)						
Cost						
At December 31, 2017	19,803	9,323	14,346	1,791	-	45,263
Additions	35	54	161	-	-	250
Disposals	(138)	(2,922)	(945)	-	-	(4,005)
At December 31, 2018	19,700	6,455	13,562	1,791	-	41,508
Additions		**1,253**	**312**	**-**	**-**	**1,565**
Disposals		**(97)**	**-**	**-**	**-**	**(97)**
Recognition of Right of use asset on initial application of IFRS 16	**-**	**-**	**-**	**-**	**39,298**	**39,298**
At December 31, 2019	**19,700**	**7,611**	**13,874**	**1,791**	**39,298**	**82,274**
Accumulated depreciation						
At December 31, 2017	18,204	8,069	11,950	1,791	-	40,014
Charge for the year	1,034	432	1,287	**-**	**-**	2,753
Disposals	(138)	(2,922)	(945)	-	-	(4,005)
At December 31, 2018	19,100	5,579	12,292	1,791	-	38,762
Charge for the year	**175**	**466**	**449**	**-**	**4,091**	**5,181**
Disposals	**-**	**(97)**	**-**	**-**	**-**	**(97)**
At December 31, 2019	**19,275**	**5,948**	**12,741**	**1,791**	**4,091**	**43,846**
Net carrying amount						
At December 31, 2019	**425**	**1,663**	**1,133**	**-**	**35,207**	**38,428**
At December 31, 2018	600	876	1,270	-	-	2,746
At December 31, 2017	1,599	1,254	2,396	-	-	5,249

15(b) **INTANGIBLE ASSETS**

	Computer equipment Software	Total
	Rs'000	**Rs'000**
Bank (Total)		
Cost		
At December 31, 2017	1,258	1,258
Additions	156	156
Disposals	(6)	(6)
At December 31, 2018	1,408	1,408
Additions	**561**	**561**
Disposals	**-**	**-**
At December 31, 2019	**1,969**	**1,969**
Accumulated depreciation		
At December 31, 2017	900	900
Charge for the year	83	83
Disposals	(6)	(6)
At December 31, 2018	977	977
Charge for the year	**197**	**197**
Disposals	-	-
At December 31, 2019	**1,174**	**1,174**
Net carrying amount		
At December 31, 2019	**795**	**795**
At December 31, 2018	431	431
At December 31, 2017	358	358

16. DEFERRED TAX ASSETS

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total) and Segment A			
At December 31,	**4,711**	8,680	8,171
Impact of IFRS 9 adoption	-	(317)	-
At January 1,	**4,711**	8,363	8,171
Movement during the year recognised in profit or loss	**2,742**	(3,676)	602
Movement during the year recognised in other comprehensive income	**153**	24	(93)
At December 31,	**7,606**	4,711	8,680

Deferred tax assets:	**2019**	2018	2017
	Rs'000	Rs'000	Rs'000
Provision for credit impairment	**1,297**	1,526	3,642
Provision for retirement benefits	**1,467**	1,091	3,596
Accelerated depreciation charge	**592**	635	1,442
Tax losses	**4,250**	1,459	-
	7,606	4,711	8,680

17. OTHER ASSETS

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Mandatory balances with Central Bank	**98,734**	153,498	188,004
Other	**2,250**	2,515	2,761
	100,984	156,013	190,765
Segment A			
Mandatory balances with Central Bank	**98,734**	153,498	188,004
Other	**2,250**	2,515	2,761
	100,984	156,013	190,765

Mandatory balances with the Central Bank are not available for use in the Bank's day-to-day operations. These balances are based on the Cash Reserve Requirements (CRR) limits in line with the directives of the Central Bank.

18. DEPOSITS FROM CUSTOMERS

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Retail customers :			
Current account	**299,429**	436,728	494,955
Savings account	**732,597**	723,729	813,560
Time deposits with remaining term to maturity :			
- Up to 3 months	**6,382**	3,599	5,661
- Over 3 months and up to 6 months	**5,104**	1,000	1,400
- Over 6 months and up to 12 months	**135,664**	139,265	132,349
- Over 1 year and up to 5 years	**76,436**	82,711	177,627
Corporate customers :			
Current account	**189,073**	228,268	288,525
Savings account	**71,244**	112,745	243,569
Time deposits with remaining term to maturity :			
- Up to 3 months	**-**	-	-
- Over 3 months and up to 6 months	**-**	-	30,000
- Over 6 months and up to 12 months	**6,971**	6,550	15,000
- Over 1 year and up to 5 years	**9,342**	9,938	9,938
Interest payable	**3,997**	4,091	8,001
	1,536,239	1,748,624	2,220,585

Savings account and time deposits are interest bearing accounts. These interest bearing customer deposit accounts carry variable interest rates.

18. DEPOSITS FROM CUSTOMERS (CONT'D)

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Segment A			
Retail customers :			
Current account	**156,940**	166,530	213,251
Savings account	**707,821**	694,096	758,536
Time deposits with remaining term to maturity :			
- Up to 3 months	**6,382**	3,599	5,661
- Over 3 months and up to 6 months	**5,104**	1,000	1,400
- Over 6 months and up to 12 months	**134,128**	137,629	129,464
- Over 1 year and up to 5 years	**57,776**	64,051	158,967
Corporate customers :			
Current account	**189,073**	227,902	267,892
Savings account	**71,244**	112,745	243,569
Time deposits with remaining term to maturity :			
- Up to 3 months	-	-	-
- Over 3 months and up to 6 months	-	-	30,000
- Over 6 months and up to 12 months	**6,971**	6,550	15,000
- Over 1 year and up to 5 years	**9,342**	9,938	9,938
Interest payable	**3,372**	4,090	8,000
	1,348,153	1,428,130	1,841,678
Segment B			
Retail customers :			
Current account	**142,489**	270,198	281,704
Savings account	**24,776**	29,633	55,024
Time deposits with remaining term to maturity :			
- Up to 3 months	**-**	-	-
- Over 3 months and up to 6 months	**-**	-	-
- Over 6 months and up to 12 months	**1,536**	1,636	2,885
- Over 1 year and up to 5 years	**18,660**	18,660	18,660
Interest payable	**625**	1	1
Corporate customers :			
Current account	**-**	366	20,633
	188,086	320,494	378,907
Total	**1,536,239**	1,748,624	2,220,585

19. OTHER BORROWED FUNDS

		2019	2018	2017
	Bank (Total)	**Rs'000**	Rs'000	Rs'000
(a)	Other borrowed funds comprise the following:			
	Borrowings from banks:			
	- in Mauritius	**-**	-	-
	- abroad	**-**	-	249
		-	-	249
(b)	Remaining term to maturity:			
	On demand within a period not exceeding 1 year	**-**	-	249
	Segment A			
	Borrowings from banks:			
	- in Mauritius	**-**	-	-
	Segment B			
	Borrowings from banks:			
	- abroad	**-**	-	249

20.	**OTHER LIABILITIES**	**2019**	2018	2017
		Rs'000	Rs'000	Rs'000
	Bank (Total) & Segment A			
	Bills payable	**6,741**	8,585	27,620
	Retirement benefit obligations (see note 20(a))	**16,058**	15,583	21,150
	Lease liability against right-of use-assets	**36,072**	-	-
	Accrued expenses	**8,230**	5,798	4,822
	Others	**3,104**	10,250	8,530
		70,205	40,216	62,122

(a)	**Retirement benefit obligations**	**2019**	2018	2017
		Rs'000	Rs'000	Rs'000
(i)	**Amount recognised in statement of financial position**			
	Present value of funded/ unfunded obligations	**54,199**	49,241	45,705
	Fair value of plan assets	**(38,141)**	(33,658)	(24,555)
	Liability recognised in the statement of financial position	**16,058**	15,583	21,150

The plan is a defined benefit arrangement, with benefits based on final salary. It provides for a pension at retirement and a benefit on death or disablement in service before retirement.

(ii)	**Pension expense components**	**2019**	2018	2017
		Rs'000	Rs'000	Rs'000
	Current service cost	**246**	159	149
	Net interest cost	**566**	876	1,255
	Scheme expenses	**122**	310	39
	Cost of insuring risk benefits	**89**	126	-
		1,023	1,471	1,443

(iii)	**Movement in liability recognised in statement of financial position**	**2019**	2018	2017
		Rs'000	Rs'000	Rs'000
	At January 1,	**15,583**	21,150	20,688
	Total expense recognised in profit or loss	**1,023**	1,471	1,443
	Actuarial losses/(gains) recognised in other comprehensive income	**2,185**	337	(546)
	Contributions paid	**(2,733)**	(7,375)	(435)
	At December 31,	**16,058**	15,583	21,150

(iv) **Movement in the present value of defined benefit obligations over the year is as follows:**

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
At January 1,	**(49,241)**	(45,705)	(43,074)
Current service cost	**(246)**	(159)	(149)
Interest cost	**(1,964)**	(2,285)	(2,625)
Employees' contribution	**(387)**	(383)	(536)
Actuarial (losses)/gains	**(2,634)**	(709)	678
Benefits paid	**273**	-	1
At December 31,	**(54,199)**	(49,241)	(45,705)

20. **OTHER LIABILITIES (CONT'D)**

(a) **Retirement benefit obligations (cont'd)**

(v) **Movement in the fair value of plan assets is as follows:**

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
At January 1,	**33,658**	24,555	22,386
Interest income	**1,398**	1,409	1,370
Employer's contribution	**2,733**	7,375	435
Scheme expenses	**(122)**	(310)	(39)
Cost of insuring risk benefits	**(89)**	(126)	-
Employees' contribution	**387**	383	536
Actuarial gains/(losses)	**449**	372	(132)
Benefits paid	**(273)**	-	(1)
At December 31,	**38,141**	33,658	24,555

(vi) **Assets in the plan:**

The assets of the plan are invested in the Deposit Administration Policy underwritten by Swan Life Limited. The Deposit Administration Policy is a pooled insurance product for Group Pension Schemes. It is a long-term investment Policy which aims to provide a smooth progression of returns from one year to the next without regular fluctuations associated with asset-linked investments such as Equity Funds. Moreover, the Deposit Administration Policy offers a minimum guaranteed return of 4% p.a.

(vii) The actual return on plan assets was Rs 1,847,216 for the year ended December 31, 2019.

(viii) Expected contributions to post-employment benefit plans for the year ending December 31, 2020 are Rs 6.7 m.

(ix) The principal actuarial assumptions used were as follows:

	2019	2018	2017
	%	%	%
Discount rate	**2,60**	3,60	5,00
Expected return on plan assets	**4,00**	4,00	4,00
Expected salary escalation	**1,00**	1,50	1,50

(x) **Amounts for the current and previous years are as follows:**

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Present value of defined benefit obligation	**(54,199)**	(49,241)	(45,705)
Fair value of plan assets	**38,141**	33,658	24,555
Deficit	**(16,058)**	(15,583)	(21,150)
Experience (losses)/gains on plan liabilities	**(2,634)**	(709)	678
Experience losses on plan assets	**449**	372	(132)

(xi) **Sensitivity analysis on defined benefit obligations at end of the reporting date:**

December 31, 2019	**Increase**	**Decrease**
	Rs'000	**Rs'000**
Discount rate (1% movement)	**859**	**485**

An increase/decrease of 1% in other principal actuarial assumptions would not have a material impact on defined benefit obligations at the end of the reporting period.

20. **OTHER LIABILITIES (CONT'D)**

(a) **Retirement benefit obligations (cont'd)**

(xi) **Sensitivity analysis on defined benefit obligations at end of the reporting date: (cont'd)**

December 31, 2018	Increase	Decrease
	Rs'000	Rs'000
Discount rate (1% movement)	867	729

An increase/decrease of 1% in other principal actuarial assumptions would not have a material impact on defined benefit obligations at the end of the reporting period.

December 31, 2017	Increase	Decrease
	Rs'000	Rs'000
Discount rate (1% movement)	796	516

An increase/decrease of 1% in other principal actuarial assumptions would not have a material impact on defined benefit obligations at the end of the reporting period.

The sensitivity above have been determined based on a method that extrapolates the impact on net defined obligations as a result of reasonable changes in key assumptions occuring at the end of the reporting period. The present value of the defined benefit obligation has been calculated using the projected unit credit method.

The sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

(xii) The defined benefit pension plan explores the Bank to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

(xiii) The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan.

(xiv) The weighted average duration of the defined benefit obligation is 1 year at the end of the reporting period (2018: 2 years).

21. **SHAREHOLDERS' EQUITY**

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Assigned capital	**415,103**	300,000	200,000

The Bank's assigned capital was Rs 415M, which meets the minumum capital requirement of Rs 400M or equivalent in foreign currency in compliance with Section 20 of the Banking Act 2004.

21. SHAREHOLDERS' EQUITY (CONT'D)

Reserves

Statutory reserve

The Bank's statutory reserve was at **Rs 69,796,000** (2018 : Rs 69,796,000) in accordance with Section 20 of the Banking Act 2004 which requires that 15% of the Bank's net profit after tax to be transferred from Retained Earnings to a non distributable statuatory reserve untill such time as this reserve is equivalent to the Bank's share capital.

General Banking Reserve

This represents amount set aside by the Bank as appropriation of earnings, for unforeseeable risks and future loss. Additional provision for certain specific sectors are made in accordance with the Bank of Mauritius macro- prudential measures.

Actuarial loss reserve

Actuarial loss reserves relates to loss which arises in the valuation of the Bank's retirement plan obligations. The loss arises due to changes in the actuarial assumptions used.

Fair value reserve

Fair value reserve relates to gain recognised on the revaluation of financial asset carried at fair value at year end.

Retained Earnings

Retained Earnings relate to profit and loss carried forward at year-end.

22. CONTINGENT LIABILITIES

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and are generally extended over the period of the facility. These commitments and contingent liabilities have off-balance sheet credit risk.

The contractual amounts of contingent and non contingent liabilities are set out below:

Instruments	**2019**	2018	2017
Bank (Total) and Segment A	**Rs'000**	Rs'000	Rs'000
Contingent Liabilities			
Guarantees on account of customers	**23,510**	24,813	22,760
	23,510	24,813	22,760
Non Contingent Liabilities	**-**	1,573	3,601
Total Off Balance Sheet	**23,510**	26,386	26,361

23. COMMITMENTS

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Undrawn facilities	**171,710**	108,373	357,456
Segment A	**171,710**	108,373	357,456

24. RELATED PARTY TRANSACTIONS

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Key management and personnel			
Deposits	**5,599**	6,334	1,919
Loans	**990**	1,215	1,427

Key Management Personnel have benefited from preferential rates on loans (secured) as applicable to staff.

	2019	2018	2017
Deposits held with group entities	**Rs'000**	Rs'000	Rs'000
Jubilee Insurance (Mauritius) Ltd	**8,613**	17,572	26,069

The following table summarises the transactions during the period and the balances at year end with related parties:

	2019	2018	2017
Other branches abroad	**Rs'000**	Rs'000	Rs'000
Bank balances and placement	**158,673**	173,576	362,425
Transactions during the year			
Interest income on placements	**1,811**	2,136	4,014
Medical insurance paid	**895**	897	683
Key management compensation			
Remuneration paid to key management personnel	**6,479**	6,715	6,957
Other post-retirement benefits	**230**	141	39
	6,710	6,856	6,996

25. LEASE COMMITMENTS

Non cancellable operating lease rentals are payable as follows:	**2019**	2018	2017
	Rs'000	Rs'000	Rs'000
Minimum rental recognised in profit or loss	**2,138**	6,693	6,623
Future minimum rentals to be paid:			
-Not later than one year	**-**	-	4,848
-Later than one year and not later than five years	**8,087**	37,379	-
-Later than five years	**-**	23,329	4,028
Total minimum rentals payable	**8,087**	60,708	8,876

26. SEGMENTAL REPORTING

In compliance with the Banking Act 2004, the banking business of licensed bank is divided into two segments, Segment A and Segment B. Segment B relates to the banking business that gives rise to "Foreign source income". All other banking business is classified under Segment A. The financial statements incorporate both segments.

		Segment A			Segment B			Bank (Total)		
Statement of financial position	Notes	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	2017
		Rs'000	Rs'000	Rs'000	**Rs'000**	Rs'000	Rs'000	**Rs'000**	Rs'000	Rs'000
ASSETS										
Cash and cash equivalents	12	**167,949**	222,391	185,160	**54,393**	54,196	194,425	**222,342**	276,587	379,585
Loans and advances to customers	13	**296,938**	766,722	913,683	**-**	-	-	**296,938**	766,722	913,683
Investment securities	14	**1,296,635**	804,228	1,001,782	**108,579**	147,286	168,462	**1,405,214**	951,514	1,170,244
Property and Equipment	15(a)	**38,428**	2,746	5,249	**-**	-	-	**38,428**	2,746	5,249
Intangible Assets	15(b)	**795**	431	358	**-**	-	-	**795**	431	358
Deferred tax assets	16	**7,606**	4,711	8,680	**-**	-	-	**7,606**	4,711	8,680
Other assets	17	**100,984**	156,013	190,765	**-**	-	-	**100,984**	156,013	190,765
Total assets		**1,909,335**	1,957,242	2,305,677	**162,972**	201,482	362,887	**2,072,307**	2,158,724	2,668,564
LIABILITIES										
Deposits from customers	18	**1,348,153**	1,428,130	1,841,678	**188,086**	320,494	378,907	**1,536,239**	1,748,624	2,220,585
Other borrowed funds	19	**-**	-	-	**-**	-	249	**-**	-	249
Current tax liabilities	11(a)	**-**	-	688	**-**	-	-	**-**	-	688
Other liabilities	20	**70,205**	40,216	62,122	**-**	-	-	**70,205**	40,216	62,122
Total liabilities		**1,418,358**	1,468,346	1,904,488	**188,086**	320,494	379,156	**1,606,444**	1,788,840	2,283,644
Shareholders' equity										
Assigned capital	21	**415,103**	300,000	200,000	**-**	-	-	**415,103**	300,000	200,000
Statutory reserve		**69,796**	69,796	69,796	**-**	-	-	**69,796**	69,796	69,796
Retained earnings		**(3,588)**	12,976	128,669	**-**	-	-	**(3,588)**	12,976	128,669
Actuarial loss		**(16,318)**	(14,286)	(13,973)	**-**	-	-	**(16,318)**	(14,286)	(13,973)
General banking reserves		**817**	1,455	428	**-**	-	-	**817**	1,455	428
Fair value reserve		**53**	(57)	-	**-**	-	-	**53**	(57)	-
Total shareholders' equity		**465,863**	369,884	384,920	**-**	-	-	**465,863**	369,884	384,920
Total equity and liabilities		**1,884,221**	1,838,230	2,289,408	**188,086**	320,494	379,156	**2,072,307**	2,158,724	2,668,564

26. SEGMENTAL REPORTING (CONT'D)

		Segment A			Segment B			Bank (Total)		
	Notes	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	2017
Statement of profit and loss and other comprehensive income		**Rs'000**	Rs'000	Rs'000	**Rs'000**	Rs'000	Rs'000	**Rs'000**	Rs'000	Rs'000
Interest income		**61,334**	66,815	91,001	**1,811**	2,431	8,276	**63,145**	69,246	99,277
Interest expense		**(17,491)**	(18,569)	(37,014)	**(620)**	(2)	(2,021)	**(18,111)**	(18,571)	(39,035)
Net interest income	4	**43,843**	48,246	53,987	**1,191**	2,429	6,255	**45,034**	50,675	60,242
Fee and commission income	5	**2,619**	4,382	6,887	**41**	73	2,085	**2,660**	4,455	8,972
Net trading income	6	**2,458**	3,480	10,793	**4**	-	34	**2,462**	3,480	10,827
Other operating income	7	**1,062**	-	624	**-**	-	-	**1,062**	-	624
		3,520	3,480	11,417	**4**	-	34	**3,524**	3,480	11,451
Operating income		**49,982**	56,108	72,291	**1,236**	2,502	8,374	**51,218**	58,610	80,665
Net impairment reversal/(loss) on financial assets	8	**3,266**	(6,020)	(704)	**-**	-	-	**3,266**	(6,020)	(704)
Net impairment loss on off-balance sheet items	3a(ii)	**(4)**	-	-	**-**	-	-	**(4)**	-	-
Personnel expenses	9	**(39,267)**	(33,809)	(41,617)	**(456)**	(506)	(711)	**(39,723)**	(34,315)	(42,328)
Operating lease expenses		**(4,381)**	(6,325)	(6,111)	**(87)**	(368)	(512)	**(4,468)**	(6,693)	(6,623)
Depreciation and amortisation	15	**(5,053)**	(2,836)	(3,815)	**(325)**	-	-	**(5,378)**	(2,836)	(3,815)
Other expenses	10	**(24,044)**	(20,985)	(18,873)	**(811)**	(1,620)	(2,066)	**(24,855)**	(22,605)	(20,939)
		(69,483)	(69,975)	(70,985)	**(1,679)**	(2,494)	(3,424)	**(71,162)**	(72,469)	(74,409)
(Loss)/Profit before income tax		**(19,501)**	(13,867)	1,306	**(443)**	8	4,950	**(19,944)**	(13,859)	6,256
Income tax credit/(charge)	11(b)	**2,722**	(2,385)	(1,420)	**20**	33	(192)	**2,742**	(2,352)	(1,612)
(Loss)/Profit for the year		**(16,779)**	(16,252)	(114)	**(423)**	41	4,758	**(17,202)**	(16,211)	4,644
Other comprehensive income										
Items that will not be subsequently reclassified to profit or loss										
Remeasurement of defined benefit obligations	20(a)(iii)	**(2,185)**	(337)	546	**-**	-	-	**(2,185)**	(337)	546
Deferred tax on measurement of defined benefit obligations	16	**153**	24	(93)	**-**	-	-	**153**	24	- (93)
Items that are or may be subsequently reclassified to to profit or loss										
Net gain/ (loss) on investment designated at fair value through other comprehensive income		**110**	(57)	-	**-**	-	-	**110**	(57)	-
Other comprehensive income for the year, net of tax		**(1,922)**	(370)	453	**-**	-	-	**(1,922)**	(370)	453
Total comprehensive income for the year		**(18,701)**	(16,622)	339	**(423)**	41	4,758	**(19,124)**	(16,581)	5,097

27. **Subsequent Event Note**

There are no material events that occurred subsequent to the reporting date that would require adjustment to the financial statements other than the Coronavirus COVID-19 outbreak which is considered to be a material subsequent event. On March 11, 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic. Many governments are taking increasingly stringent steps to help contain the spread of the virus, including: requirement for self-isolation/quara including: requirement for self-isolation/quarantine by those potentially affected, implementation of social distancing measures, and the control or closure of borders and “locking-down” cities/ regions or even entire countries. The pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of finalisation of the financial statements its effects are subject to significant levels of uncertainty.There is potentially adverse effect on the foreign exchange reserves as the global equity markets experience negative shocks and volatility.

In light of the spread of the COVID-19 which has affected the banking sector in general, management has assessed the impact of the outbreak and the appropriateness of the use of the going concern assumption in the preparation of these financial statements subsequent to year end. Based on the assessment performed, management is of the view that the significant doubt associated with the current uncertainties related to the COVID-19 virus currently does not result in a material uncertainty related to such events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. The assets of the Bank comprise largely of investment securities which are held with the Bank of Mauritius. Further, the main activities of the Bank are conducted in MUR as further illustrated in note 3 (c) of the financial statements. The Bank’s loans exposure by industry is disclosed in note 13 (a) (ii). So far, there is no immediate material financial impact on the existing portfolio, however management will continue monitoring closely any detrimental effect of the outbreak.