HABIB BANK LIMITED (MAURITIUS BRANCH)

ANNUAL REPORT - YEAR ENDED

DECEMBER 31, 2018

HABIB BANK LIMITED (MAURITIUS BRANCH)

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HABIB BANK LIMITED (MAURITIUS BRANCH)

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

INTRODUCTION

The Bank is operating in Mauritius as a Mauritius Branch operations of Habib Bank Limited, a Bank incorporated in Pakistan. The guidelines of Bank of Mauritius applicable to the Bank are those for a foreign bank. The Bank has developed global policies relating to different aspects of the foreign operations but in case 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, wherever applicable.

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 (2016)

During the year under review, the management of the Bank have 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 2018, to the best of the management's knowledge, where the Bank has not applied 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
Principle 2: The Structure of the Board and its Committees
Principle 3: Director Appointment Procedures
Principle 4: Director Duties, Remuneration and Performance
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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 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 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 behavior 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 your 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 otherwise 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 your personal interests do not conflict with the duties which you owe to 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.
- As an employee of the Bank, you 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 BANK'S ASSETS

- Employees are responsible for safeguarding Bank's and the customers' tangible and intangible assets including cash, securities, business plans, customer information, physical property and services and Bank's reputation.
- Unauthorized copying of copyrighted material, selling, using and distributing information, software and other forms of bank's proprietary information is strictly prohibited.
- The Bank's property and assets be strictly used for business purposes only. Misuse of official stationary is not allowed.
- Be alert and vigilant with respect to frauds, thefts or significant illegal activities committed within the office and report 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. Bank shall 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 shall be subjected 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. Employee shall 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 or its property and prohibits employees from committing violent acts or threatens to commit such acts.
- You 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 staffs. 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 must immediately be reported to the Human Resources. Violations of the Code 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(s) / Human Resources. If further information, explanation or guidance is required regarding a particular provision or applicability of the code, the "Code of Ethics & Business Conduct for HBL Staff" should be referred to, or you may contact your immediate Manager or Human Resources.

Principle 1: Governance Structure

1. Governance Structure

1.1 Shareholding structure

HBL Mauritius is a foreign branch of Habib Bank Limited Pakistan. Habib Bank Limited (the Bank) 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 the Habib Bank Limited Pakistan 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 Habib Bank Limited. They are also responsible for ensuring safeguard of assets 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. The Structure of the Board and its Committees

2.1 *Board Composition*

Habib Bank Limited Pakistan (the 'Group') encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the Board includes 8 Directors of which 7 are elected.

Category	Number of Directors
Independent Directors	3
Non-Executive Directors	4
Executive Director	1

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

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

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 to review the adequacy and effectiveness of the Bank's 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 to support the Board in inculcating compliance and conduct culture into the Bank including various regulatory reports, policies and improving governance of the Bank.

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)

Board Development Finance Committee (BDFC)

BDFC 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.

Board Oversight Committee – International Governance (BOC-IG)

BOC–IG 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 Habib Bank Limited, a bank incorporated in Pakistan, the bank does not have a Board of Directors and similarly Board and its sub committees 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 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 Head office in Pakistan. The performance of the Branch is monitored through locally formed management committees as well as by the Head Office in Pakistan.

There is a mandatory requirement to appoint a full time Company Secretary at the Habib Bank Limited Group Level. The main responsibilities include prepare and circulate agendas and working papers to the Board, ensuring that proper procedures for the appointment of Directors is 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 Branch. As such, no company secretary has been appointment. The Branch 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; and
- the Head of Finance and
- the Head of Compliance;

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)

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 and ensuring that strategic choices are based
- Ensure all Bank Manuals are updated and understood by all relevant staff.
- To 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/ voice their views.
- Lead by example and ensure culture change towards a target Oriented Team.

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 KISP with monthly report and recommendations to CM and Manager Sales
- Responsible for developing and driving the Bank for the smooth running of the Bank Operations
- Ensure setup and regular update of DIB, Job Descriptions and Procedure Manuals for each function of the bank.

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 placed
- 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.

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)

Head of Compliance

- Review KYCs uploaded by branch 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/AOF/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 maybe executed through lectures and practical demonstration.
- To review the Alerts generated through AML solution (MANTAS)& Safewatch filter
- Monitoring & Identifying suspicious transactions and their disclosure and reporting to Regulator.
- Ensure compliance with FATCA & 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 Head office in Pakistan.

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.

- 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 is headed by the Country Manager.

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)

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.

- Treasury and Liquidity Committee

The Treasury and Liquidity Committee meets twice a week to take stock of Liquidity and Treasury positions and plan for immediate/short term liquidity management. The Committee is headed by the Country Manager.

- Audit, Compliance & Internal Control Review Committee

Review of system, action, physical limits, compliance, approvals and authorities and other controls in place to ensure sound internal control systems. The Committees is headed by Country Manager and meets on a monthly basis

The Internal Control Unit ("ICU") Mauritius report directly to ICU Head Office, Karachi whilst administratively to Country Manager and Regional General Manager and reports released should be addressed to him for his review and comments (if deemed necessary).
ICU Mauritius assist the management in improving the control environment through various types of reviews by identifying non compliances i.e (exceptions/issues) in implemented policies, procedures and key regulatory requirements.

ICU resource function as per a duly approved annual plan.

ICU Mauritius meet every fortnight with ICU Head of HOK through conference call 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 address the weaknesses giving rise to non-compliance. It is also required to ensure Business functions take full ownership of compliance risks. Review and discuss compliance risk issues faced by the Bank at cross functional level and 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 is chaired by the Country Manager.

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)

- IT Steering Committee

The IT Steering Committee meets one a month 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.

Principle 3: Director Appointment Procedures

3. Director Appointments Procedures

3.1 Appointment of Directors

The Board of Directors of Habib Bank Limited Pakistan are elected for a three-year term by the shareholders in the shareholders meeting. In case of any causa vacancy occurring on the Board and the person so appointed shall hold office for the remainder of the term of the Director in whose place she/he is appointed.

3.2 Board Access to Information & Advice

Since HBL Mauritius administration and operations has 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, there are local committees including ALCO, MANCOM, COMPLIANCE COMMITTEE, TREASURY AND LIQUIDITY COMMITTEE AND IT COMMITTEE have been setup which monitors the performance of the Branch.

There is a flow of information to the Head Office 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 Head Office immediately. At the Head Office level data is reviewed by respective Group Head who are then responsible for dissemination of the information at the Board and its sub-committee levels for updates and decision making.

3.3 Directors' Interests in Shares

Since HBL Mauritius is a Foreign Branch of Habib Bank Limited, a bank incorporated in Pakistan, there is no shares issuance with respect to the foreign operations and operations of the branch has been conferred to a local management team therefore there are no Directors appointed at the branch level.

Principle 3: Director Appointment Procedures

3. Director Appointments Procedures (continued

3.4 *Independent Directors*

Habib Bank Limited Pakistan (the 'Group') 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 Habib Bank Limited, a bank incorporated in Pakistan, the responsibility of the operations of the branch has been conferred to a local management team therefore there are no Directors appointed at the branch 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 Habib Bank Limited 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 Habib Bank Limited Pakistan, a bank incorporated in Pakistan, the responsibility of the operations of the branch has been conferred to a local management team therefore there are no such evaluation process. The performance of these committees ae evaluated on a monthly performance analyses by the Head Office in Pakistan.

3.6 *Succession Planning*

There is a Succession Planning mechanism in place at Habib Bank Limited which is reviewed periodically.

3.7 *Induction & Orientation Programme & Periodic Refresher Programme for Directors*

The Board of Habib Bank Pakistan Limited ensures that Directors attend trainings to ensure an appropriate level of focus on critical areas.

Since HBL Mauritius is a Foreign Branch of Habib Bank Limited Pakistan, a bank incorporated in Pakistan, the responsibility of the operations of the branch 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 Branch are required to attend trainings to enhance their skills and keep themselves well versed with the latest development in different areas affecting the business.

Principle 3: Director Appointment Procedures

3. Director Appointments Procedures (continued)

3.8 Common directors between the Bank and its sole shareholder

The Branch 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.

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 Head office in Pakistan. Furthermore, none of the senior management of the Branch holds any shares if HBL Pakistan

Principle 4: Director Duties, Remuneration and Performance

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 company. Defining roles and responsibilities of Directors contributes to a transparent environment of decision making and accountability.

The business of a company shall be managed by the Board of Directors and exercise all powers of the company unless they are required under any law or the articles of the company to be exercised at the general meeting.

The Board is responsible:

(i) to manage the business of the company, including payment of expenses incurred in promoting and registering the company;
(ii) to issue shares and debentures;
(iii) to lend, borrow and invest funds;
(iv) incur capital expenditure;
(v) to allow a company 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 company or acquire a stake in another company
(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;

Principle 4: Director Duties, Remuneration and Performance

5 Director Duties, Remuneration and performance (continued)

Board Charter

(xiii) for developing and periodically updating policies on risk management, credit, Treasury & Investment, internal control system and audit, IT Security, human resource, expenditure, accounting and disclosure and any other operational area 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;
(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 annual evaluation of the Board, its Committees and individual directors.

Since HBL Mauritius is a Foreign Branch of Habib Bank Limited, a bank incorporated in Pakistan. 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.

5.7 *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, issue 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 Functioning of the Directors is 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) Not assign their office and any assignment so made shall be void.
(vii) Endeavour to prevent the commission of any fraud or offences of money laundering.

Principle 4: Director Duties, Remuneration and Performance

4. Director Duties, Remuneration and performance (continued)

4.1 Role of Chairman and Functioning of the Directors (continued)

Since HBL Mauritius is a Foreign Branch of Habib Bank Limited, a bank incorporated in Pakistan. 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.

4.2 Role of Company Secretary

The Role of Company Secretary comprises of the following

Since HBL Mauritius is a Foreign Branch of Habib Bank Limited, a bank incorporated in Pakistan. The bank does not have a Board and therefore does not have a company secretary but at the head office 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 there-under and other statutes and bye-laws of the company
(ii) To ensure that business of the company 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 broad 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 company and to attend such meetings in order to ensure compliance with the legal requirements and to make correct record thereof.

a) Legal Obligations

(i) Filling of various documents/returns with the Registrar as required under the provisions of the Ordinance.
(ii) Proper maintenance of books and registers of the company as required under the provisions of the Ordinance.
(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. To issue notice and agenda of board meetings to every director of the company.
(v) To carry on correspondence with the directors of the company on various matters.
(vi) To record the minutes of the proceedings of the meetings of the Directors.

b) Other Duties

(i) Ensuring that statutory forms are filed promptly.
(ii) Keeping or arranging for the having of 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.

Principle 4: Director Duties, Remuneration and Performance

4. Director Duties, Remuneration and performance (continued)

4.2 Role of Company Secretary (continued)

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

4.3 Directors' Service Contracts

There are no Directors service contracts.

4.4 Directors' Emoluments

Since HBL Mauritius is a Foreign Branch of Habib Bank Limited, a bank incorporated in Pakistan. 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 Head of Finance, the Head of Compliance and the Country Operations Manager. The remuneration of the senior management at the Branch Level is determined by the Head Office.

4.5 Statement of Remuneration Policy

HBL Pakistan has a comprehensive, transparent and fair remuneration policy that is aligned with risk and responsibilities of financial intermediation, in accordance with the international standards.

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

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

c) The BoD has constituted a Human Resource and Remuneration Committee.

Since HBL Mauritius is a Foreign Branch of Habib Bank Limited, a bank incorporated in Pakistan. 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 Head of Finance, the Head of Compliance and the Country Operations Manager. The remuneration of the senior management at the Branch Level is determined by the Head Office.

4.6 Conflict of Interest

Since HBL Mauritius is a Foreign Branch of Habib Bank Limited, a bank incorporated in Pakistan. 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.

4.7 Directors Profile

Since HBL Mauritius is a Foreign Branch of Habib Bank Limited, a bank incorporated in Pakistan. 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. The profiles of the senior management of the branch are stated in the next section.

Principle 4: Director Duties, Remuneration and Performance

4. Director Duties, Remuneration and performance (continued)

4.8 Board and Committee Attendance

Since HBL Mauritius is a Foreign Branch of Habib Bank Limited, a bank incorporated in Pakistan. 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. The local management monitors the performance of the Branch through different local sub committees.

4.9 Senior Management's Profile

The profiles of the Senior Management are as follows

Mr. Syed Ali Haider (Country Manager)

The Bank is headed by its Country Manager, Mr. Syed Ali Haider who joined Habib Bank Limited (Mauritius Branch) in October 2014. His responsibilities cover the administration and business development growth and to increase the overall market share of Habib Bank Limited (Mauritius Branch). Mr. Haider has been in the banking sector for over 23 years and prior to joining Habib Bank Limited, he spent these years within several banks overseas. Mr. Haider holds a Master of Business Administration with Major in Marketing.

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 09 January 1976 and since then has acquired experiences 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 main goal to increase our 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. He started as a teller and after a long and fruitful journey in HBL, he has been elevated to the rank of Deputy General Manager.

Mr. Zakirhussen Pirbhay (Country Operations Manager)

Mr. Zakirhussen Pirbhay joined Habib Bank Limited 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 during the period February 2010 to May 2017 and thereafter was called 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.

Principle 4: Director Duties, Remuneration and Performance

4. Director Duties, Remuneration and performance (continued)

4.9 Senior Management's Profile (continued)

Mr. Shaukat Ali Bangash (Country Head of Compliance)

Mr. Shukat Ali Bangash joined Habib Bank Limited (Mauritius Branch) in August 2017. His responsibilities comprises of Management of KYC, monitoring and Regularization of High Risk Accounts, Transaction Monitoring and based on his global experience providing training and awareness in areas of AML and reputational risk for the bank.
Mr. Bangash has been with the bank for over 13 years. His core focus and experience has been in Operations and the Compliance which includes both Local and Global compliance. He was also part of HBL AFGHANISTAN for a period spanning to 5 years where he worked as Country Compliance Officer from 2011 to 2016.

Mr. Imad Zahid Nagi (Country Head of Finance)

Mr. Imad Zahid Nagi joined Habib Bank Limited (Mauritius Branch) in September 2018. His responsibilities comprise of contributing towards the strategic planning and decision making of the Bank. He is also responsible for the 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 8 years and prior to joining Habib Bank Limited, he has worked in the position of the Chief Financial Officer for Asset Management Company. Before joining in his role as Head of Finance in Mauritius he was part of the Strategy Division of HBL.

Principle 5: Risk Governance and Internal Controls

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 than reports to different levels at head office level.

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 Head Office Level which is than 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

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

The 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

Reporting with integrity

The Management of the HBL Mauritius's top priority has been to carry 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 operation in Mauritius.

Principle 6: Reporting with Integrity (continued)

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 Head office in Pakistan.

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 above the Bank's defined materiality limits will be placed before the Board Audit Committee for their review and recommendation to the Board for their approval.

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

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

Facilities extended to related parties should be at arm's length basis and on normal terms & conditions applicable to other borrowers of HBL

Website

The Bank's website provides useful information to the stakeholders.

Principle 7: Audit (continued)

Audit

Internal audit

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

The Bank 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.

Principle 7: Audit (continued)

Audit

External auditors

Pricewaterhouse Coopers (PWC) have been appointed as external auditors by HBL Mauritius for the year ended December 31, 2018.

The other non assurance services which includes tax service has been outsourced to BDO & Co.

Name	2018 (MUR in 000)	2017 (MUR in 000)	2016 (MUR in 000)
Audit Services			
Pricewaterhouse Coopers	1,207.50	1.150	920
Non Assurance Services			
BDO & CO	121.50	46	44

Principle 8: Relations with Shareholders and Other Key Stakeholders

Shareholder's meeting

It is mandatory for Habib Bank Limited Pakistan 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.

There is no shares issued by HBL Mauritius as it is a Foreign Branch of Habib Bank Limited Pakistan, 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 Habib Bank Limited Pakistan, a bank incorporated in Pakistan, therefore no shareholders feedback and concern mechanism is required at the branch level.

Shareholder's Calendar

There are no shares issued by HBL Mauritius as it is a Foreign Branch of Habib Bank Limited Pakistan, a bank incorporated in Pakistan, 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 Habib Bank Limited Pakistan, a bank incorporated in Pakistan, therefore no employee share plans at the Branch 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 are remitted to the Head Office in Pakistan in accordance with the prevailing laws and regulation in Mauritius.

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

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

There are no shares issued by HBL Mauritius as it is a Foreign Branch of Habib Bank Limited Pakistan, a bank incorporated in Pakistan, therefore is no such Shareholder's Agreement affecting 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

There are no shares issued by HBL Mauritius as it is a Foreign Branch of Habib Bank Limited Pakistan, a bank incorporated in Pakistan, therefore is no minority shareholding in HBL Mauritius.

Shareholders Communication

Since HBL Mauritius is a Foreign Branch of Habib Bank Limited Pakistan, a bank incorporated in Pakistan. There is a robust reporting system in place where the Head Office is update on a continuous basis in relation to the financial matters, the business matters, the developments and changes in laws and regulations, the compliance matters. There is a performance review mechanism in place which monitors the performance of the branch.

The Branch's other stakeholders include:

1) *Employees*

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

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

2) Customers

Customer prosperity is the top most priority of the Branch. HBL offers difference 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 views relationship with its regulators as essential to the development of the Branch and in maintaining best practices.

Corporate Social Responsibility and Donations

Political Contribution

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

Donations

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

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

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 emphasis 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, 2018 to December 31, 2018

We, the Management of Habib Bank Limited (Mauritius Branch), confirm that to the best of our knowledge, the Bank has applied the principles of the code except for principle 6 of the code which has not been fully applied. Management has only presented a fair, balanced and understandable assessment of the Banks' financial, environmental, social and governance position in its annual report only and not on its website.

Management will consider uploading the bank's annual report on its website once the annual report has been approved for issue.

SIGNED BY:

Mr Imad Zahid Nagi	**Mr. Ali Haider**
Head of Finance	Country Manager

Date: 24 AVR. 2019

The Management of Habib Bank Limited (Mauritius Branch) (the 'Bank') is pleased to present their Management Discussion and Analysis 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 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 2018, the Bank has made a loss before tax of **Rs 13.859 M** as compared to a profit of **Rs 6.256 M** for the same period in 2017. The decrease in profitability is mainly attributable to decrease in assets. Investment Portfolio have decreased by 18.69% representing a decrease of **Rs 218.730 M** when compared to the year 2017. Loans & advances to customers have decreased by **Rs 146,961 M** representing a decrease of 16.1% and Deposits show a decrease of **Rs 471.96 M** that is 21.25%

Total assets of the Bank have decreased by 19.4% **(Rs 509.840M)** for the year ended 31 December 2018 as compared to 31 December 2017.

Performance Against Objectives

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 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%
LBT to reach Rs4.4M	LBT reached Rs 13.859 M	LBT to reach Rs 32.398M
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 Capitail Adequacy Ratio above 20%	Maintained at 42%	Targeting to maintain above 20%

Objectives for 2017	Performance for 2017	Objectives for 2018
1. Return on Equity (ROE) The ROE was expected to remain at 3.4%	ROE stood at 1%	The ROE projected at -1%
2. Revenue Growth The Bank was expected to grow Operating Income by 4.2%	Operating Income decreased by 12.8%	Operating Income projected to decrease by 15%
3. Expense Growth The operating expenses for 2017 were expected to increase by 9.7%	The operating expenses have increased by 9.6%	The operating expenses for 2018 is expected to decrease by 5%
4. Profit Before Tax (PBT) PBT was expected to reach Rs16.5M	PBT reached Rs5.0M	LBT to reach Rs4.4M
5. Portfolio Quality The ratio of net impaired loans to average loan was targeted to remain below 1%	The ratio stood at 3.44% in 2016	The portfolio quality for 2017 is targeted to remain below 5%
6. Tier 1 Capital The Tier 1 Capital was targeted to grow with PAT	The Tier 1 Capital stood at Rs 369M	The Tier 1 Capital for 2018 is expected to grow with PAT
7. Capital Adequacy Ratio Targeted to maintain above 20%	Maintained at 38%	Targeting to maintain above 20%

Review by financial priority areas:

Revenue growth Analysis over time

	2018	2017	2016
	%	%	%
Net interest margin	2.10	2.23	3.05
Return on average total assets	-0.57	0.23	0.96
Cost to income ratio	123.65	94.65	74.76
Return on equity	-4.00	1.00	5.88

Financial Data

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Interest income			
Loans and advances to customers	43,160	62,595	84,429
Placements with other banks	2,395	4,185	1,192
Investment securities	23,408	28,343	15,313
Other	283	4,154	5,871
Total	69,246	99,277	106,805
Interest expense			
Deposits from customers	(18,556)	(37,675)	(31,611)
Other borrowed funds	(15)	(1,360)	(287)
Total	(18,571)	(39,035)	(31,898)
Net interest income	50,675	60,242	74,907
Non interest income			
Fee & commission income	4,455	8,972	10,443
Net trading income	3,480	10,827	8,259
Other operating income	-	624	-
Total	7,935	20,423	18,702
Non interest expense			
Net impairment loss on financial assets	(6,020)	(704)	296
Personal expenses	(34,315)	(42,328)	(39,115)
Operating lease expenses	(6,693)	(6,623)	(6,235)
Depreciation	(2,836)	(3,815)	(4,402)
Other expenses	(22,605)	(20,939)	(20,528)
Total	(72,469)	(74,409)	(69,984)
Profit before tax	(13,859)	6,256	23,625
Cash and cash equivalents	276,587	379,585	446,084
Loan and advances to customers	766,722	913,683	990,771
Investment securities	951,514	1,170,244	1,103,382
Total	1,994,823	2,463,512	2,540,237
Deposit from customers	1,748,624	2,220,585	2,281,790

Net Interest Income

Total interest income has decreased from Rs 99.277M in 2017 to reach Rs 69.246M in the current year, showing a decrease of 30.24% due to decrease in loan portfolio by Rs 146,9611M and decrease in investment by Rs 218.730M.

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 an aim to maintain a well-diversified portfolio of credit risk which produces a reliable and consistent return.

The Credit Risk Strategy reflects the Group's tolerance for risk i.e. credit risk appetite and the level of expected profitability. This, as a minimum, reflects Group'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.

The Group 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 2018**, the provision for the credit losses/impairment amounted to **MUR 24.46M.**

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

Rs'000

Sectors	2018		2017		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
Agriculture & Fishing	244,922	30.96%	202,402	21.67%	107,779	10.67%
Manufacturing	82,175	10.39%	158,755	17.00%	204,230	20.21%
Tourism	7,330	0.93%	8,953	0.96%	102,654	10.16%
Transport	3,445	0.44%	4,332	0.46%	3,573	0.35%
Construction	39,762	5.03%	53,106	5.69%	58,770	5.84%
Traders	287,511	36.34%	290,706	31.13%	272,452	26.97%
Information & Communication	-	0.00%	-	0.00%	230	0.02%
Financial & Business Services	105,463	13.33%	101,016	10.82%	116,546	11.53%
Personal	7,376	0.93%	9,438	1.01%	17,975	1.78%
Professional	113	0.01%	-	0.00%	0	0.00%
Others	10,653	1.35%	102,601	10.99%	123,264	12.20%
Total Customer Advances	788,750	99.69%	931,310	99.71%	1,007,473	99.73%
Interest receivable	2,432	0.31%	2,675	0.29%	2,696	0.27%
Total Gross Customer Advances	**791,182**	**100.00%**	**933,985**	**100.00%**	**1,010,169**	**100.00%**

Off Balance Sheet Credit Exposure

	Rs'000	%
Food & Manufacturing	809	3.07%
Tourism	7,340	27.82%
Traders	11,844	44.89%
Others	6,393	24.23%
Total	**26,386**	**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

Provisioning was made as per Bank of Mauritius *Guideline on Credit Impairment Measurement and Income Recognition*.

	2018			2017			2016		
	Total Advances	**Impaired loans**	**% of Total Advances**	Total Advances	Impaired loans	% of Total Advances	Total Advances	Impaired loans	% of Total Advances
Agriculture and Fishing	**244,922**	**500**	**0.06%**	202,402	514	0.06%	107,779	1,594	0.16%
Manufacturing	**82,175**	**33,469**	**4.24%**	158,755	1,497	0.16%	204,230	1,947	0.19%
Tourism	**7,330**		-	8,953	-	0.00%	102,654	-	0.00%
Transport	**3,445**		-	4,332	-	0.00%	3,573	-	0.00%
Construction	**39,762**	**3,131**	**0.40%**	53,106	3,455	0.37%	58,970	2,956	0.29%
Traders	**287,511**	**10,468**	**1.33%**	290,706	16,316	1.75%	272,452	8,605	0.85%
Information & Communications	-		-	-	-	0.00%	230	-	0.00%
Financial & Business Services	**105,463**		-	101,016	-	0.00%	116,546	-	0.00%
Personal	**7,376**	**115**	**0.01%**	9,438	81	0.01%	17,974	2,514	0.25%
Professional	**113**	-	-	-	-	0.00%	-	-	0.00%
Others	**10,653**	**10,147**	**1.29%**	102,601	10,147	1.09%	123,264	10,147	1.01%
Total Customers Advances	**788,750**	**57,830**	**7.33%**	**931,310**	**32,010**		**1,007,673**	**27,763**	
Interest Receivable	**2,432**	-		**2,675**	-		**2,696**	-	
Total Gross Customers Advances	**791,182**	**57,830**	7.33%	**933,985**	**32,010**	3.44%	**1,010,369**	**27,763**	2.76%

The ratio of Non-Performing Loans (NPLs) to total loans increased from 3.44% in 2017 to 7.33% in 2018.

A breakdown of the loan portfolio is provided in table below:

	2018				2017	2016
	Impaired Loans	**Specific Allowances for Credit Impairment**	**Portfolio Allowances for Credit Impairment**	**Total Allowances for Credit Impairment**	**Total Allowances for Credit Impairment**	**Total Allowances for Credit Impairment**
Agriculture and Fishing	500	219	1,541	1,760	1,833	988
Manufacturing	33,469	8,344	702	9,046	3,002	3,778
Tourism	-	-	35	35	81	941
Transport	-	-	72	72	39	33
Construction	3,131	2,535	893	3,428	3,015	2,020
Traders	10,468	5,075	1,757	6,832	7,707	5,541
Information & Communications	-	-	-	-	-	2
Financial & Business Services	-	-	371	371	915	1,069
Personal	115	81	222	303	167	1,725
Professional	-	-	-	-	-	-
Others	10,147	2,613	-	2,613	3,543	3,502
Total	**57,830**	**18,867**	**5,593**	**24,460**	**20,302**	**19,893**

The table below shows comparative movements in total provisions made to Non Performing Loan and total gross loans and advances respectively over the last 3 years.

Rs'000

	2018	**2017**	**2016**
Specific allowances for credit impairment	**18,867**	11,869	10,359
Portfolio allowances for credit impairment	**5,593**	8,433	9,239
Total allowances for credit impairment	**24,460**	20,302	19,598
Total gross loans and advances	**791,182**	933,985	1,010,369
Total Non Performing Loan	**57,830**	32,010	27,763
Specific allowance for credit impairment to Non Performing Loan	**32.62%**	37.08%	37.31%
Allowance for credit impairment as a proportion of total gross loans and advances	**3.09%**	2.17%	1.94%

Provisioning

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

Rs'000

	Total
At January, 01 2018	20,302
Provisions made during the year	9,754
Provision released	(150)
Provision transferred to General Banking Reserve	(5,446)
At December, 31 2018	24,460

Provision has been calculated as per the regulatory requirements of the Guideline on Credit Impairment Measurement and Income Recognition.

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 2018 expressed in foreign currencies have been converted into Mauritian rupees; with the net foreign exchange gain/loss being transferred has been transferred to the income statement.

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. 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 Treasury and liquidity sub-committee of ALCO meets twice a week to manage the liquidity risk. Whilst observing the guidelines of the Bank of Mauritius, it maintains a liquid position to meet any risk or loss.

The Bank is 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 advances to groups of connected client, 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, 2018	
	Total Group Facilities Rs'm	% of Capital Base (Under Basel III)
Customer Group 1	146	40%
Customer Group 2	135	37%
Customer Group 3	102	28%
Customer Group 4	91	25%
Customer Group 5	91	25%
Customer Group 6	91	25%

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:

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

Capital Structure

As per requirement of the Banking Act 2004, the Assigned Capital of the Bank should not be less than MUR300M. As at 31 December 2018, the Bank's Assigned Capital stood at MUR300M.

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

BASEL III	Dec-18 Rs'000	Dec-17 Rs'000	Dec-16 Rs'000
TIER 1 CAPITAL			
Assigned Capital	300,000	200,000	200,000
Statutory reserve	69,796	69,619	69,099
Retained earnings	12,976	128,669	137,528
Actuarial loss	(14,286)	(13,973)	(14,426)
Less:			
Deferred tax asset	(4,711)	(8,680)	(8,171)
Regulatory adjustment	(2,703)	-	-
Common Equity Tier 1	**361,072**	**375,635**	**384,030**
Additional Tier 1 Capital	-	-	-
Total Tier 1 Capital	**361,072**	**375,635**	**384,030**
TIER 2 CAPITAL			
Portfolio provision	5,593	8,433	9,240
General banking reserves	1,455	428	5,122
Total Tier 2 Capital	7,048	8,861	14,362
TOTAL CAPITAL BASE	**368,120**	**384,496**	**398,392**
RISK WEIGHTED ASSETS FOR:			
On balance sheet assets	737,602	845,422	921,043
Off balance sheet exposures	1,627	4,893	20,670
Operational risk	129,326	149,094	149,094
Aggregate net open foreign exchange position	2,796	3,135	14,971
TOTAL RISK WEIGHTED ASSETS	**871,351**	**1,002,544**	**1,105,778**
CAPITAL ADEQUACY RATIO	**42.25%**	**38.35%**	**36.03%**
COMMON EQUITY TIER 1 CAPITAL RATIO	**41.44%**	**37.47%**	**34.73%**
TIER 1 CAPITAL RATIO	**41.44%**	**37.47%**	**34.73%**

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%, above the 8% norm of the Basel Committee. Habib Bank Limited 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

	Dec-18		
	Amount	Weight	Weighted Assets
	Rs'000	%	Rs'000
Risk Weighted On Balance Sheet Assets			
Cash items	55,535	-	-
Claims on Sovereigns	75,000	-	-
Claims on Central Banks in MUR	942,047	-	-
Claims on Central Banks in Other than MUR	8,275	50.00	4,138
Claims on Banks	132,803	20.00	26,561
Claims on Corporates	592,850	100	592,850
Claims on Retail	217	75	162.96
Claims secured by residential property	106,552	35-100	52,682
Past due claims	39,269	100-125	40,662
Other assets	20,546	0-100	20,546
	1,973,096		**737,602**

	2018				
	Nominal Amount	Credit conversion factor	Credit equivalent amount	Weight	Weighted amount
	Rs'000	%	Rs'000	%	Rs'000
Risk Weighted Off Balance Sheet Assets					
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	-	-	-	-	-
Commitment	243,689	-	-	-	-
Total Risk Weighted Off Balance Sheet Assets	**246,944**		**1,627**		**1,627**

Risk Weighted Assets for Operational Risk	Dec-18	Dec-17	Dec-16
Average gross income for last 3 years	86,217	101,786	99,396
Capital charge	12,933	15,268	14,909
Equivalent Risk Weighted Assets	**149,094**	**149,094**	**116,063**

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 build a solid capital base to fuel growth and development of its business.

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 lines 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 ALCO (Assets and Liabilities Committee) 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 US Dollars, Pound Sterling, Euro and Japanese Yen. 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.

The Group'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.

The Group'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, Pricewatercoopers, 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:

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Mr Imad Zahid Nagi	**Mr. Ali Haider**
Head of Finance	Country Manager

24 AVR. 2019

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Independent Auditor's Report

To the directors of Habib Bank Limited

Report on the Audit of the Financial Statements

Our Opinion

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

What we have audited

The financial statements of Habib Bank Limited (Mauritius Branch) set out on pages 45 to 108 comprise:

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

Basis for Opinion

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

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

Independence

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

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Independent Auditor's Report

To the directors of Habib Bank Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers The Bank has adopted IFRS 9 'Financial Instruments' which requires the recognition of expected credit losses ('ECL') rather than incurred credit losses. This represents a fundamentally new and highly judgemental approach to impairment computation. The impairment model makes use of several judgement, data and assumptions which have been have not been used previously for the preparation of the accounting records. This increases the risk around completeness and accuracy of certain data used to create assumptions and operate the models. Management is required to determine the ECL that may occur over either a 12-month period or the remaining life of a financial asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether there has been a significant increase in credit risk ('SICR') of the borrower since loan origination.	Given the complexity of the model used for the ECL calculation, specialist teams assisted us in performing certain procedures. The procedures performed included the following: • We obtained an understanding of portfolio segmentation. • We tested the completeness and accuracy of the data used in the model. • Through our specialist team, we have assessed the input assumptions applied in compliance with the requirements of IFRS 9 Financial Instruments. • We assessed the appropriateness of the models through re-performance and validation procedures on a sample basis. • We assessed that selected macro-economic variable used for determining forward-looking probability of default are statistically relevant for the purpose.

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Independent Auditor's Report

To the directors of Habib Bank Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Key Audit Matters (Continued)

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers (continued) Management has relied on models designed at group level, and calibrated specifically to each region, and which take into account data sourced from local systems. Management is also required to make forward looking assumptions.	• Where ECL has been raised for stage 3 exposures, we have independently recalculated the ECL based on our assessment of the expected cash flows and the recoverability of the collateral at an individual counterparty level.

Other Information

The management of the Bank ("Management") is responsible for the other information. The other information included in the annual report but does not include the financial statements and our auditor's report thereon.

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

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

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

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

Corporate Governance Report

Our responsibility under the Mauritian Financial Reporting Act 2004 is to report on the compliance with the Code of Corporate Governance (the "Code") disclosed in the annual report and assess the explanations given for non-compliance with any requirement of the Code. From our assessment of the disclosures made on corporate governance in the annual report, the Bank has failed to satisfactorily explain the reason for partial compliance with the requirements of principle 6 of the Code.

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Independent Auditor's Report

To the directors of Habib Bank Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Responsibilities of Management for the Financial Statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001, the Mauritian Banking Act 2004 and regulations and guidelines issued by the Bank of Mauritius, and for such internal control as the 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, the 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 the Management either intends to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Management is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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Independent Auditor's Report

To the directors of Habib Bank Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the 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.

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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Mauritian Companies Act 2001

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

(a) we have no relationship with or interests in the Bank other than in our capacity as auditor;

(b) we have obtained all the information and explanations we have required; and

(c) in our opinion, proper accounting records have been kept by the Bank as far as appears from our examination of those records.

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Independent Auditor's Report

To the directors of Habib Bank Limited (Continued)

Report on Other Legal and Regulatory Requirements (Continued)

Mauritian Banking Act 2004

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

(a) in our opinion, the financial statements have been prepared on a basis consistent with that of the preceding year and are complete, fair and properly drawn up and comply with the Mauritian Banking Act 2004 and the regulations and guidelines issued by the Bank of Mauritius; and

(b) the explanations or information called for or given to us by the officers or agents of the Bank were satisfactory.

Other Matter

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

PricewaterhouseCoopers

Michael Ho Wan Kau, licensed by FRC

24 April 2019

STATEMENT OF FINANCIAL POSITION - DECEMBER 31, 2018

	Notes	2018	2017	2016
		Rs'000	Rs'000	Rs'000
ASSETS				
Cash and cash equivalents	12	276,587	379,585	446,084
Loans and advances to customers	13(a)	766,722	913,683	990,771
Investment securities	14	951,514	1,170,244	1,103,382
Equipment	15	3,177	5,607	7,125
Deferred tax assets	16	4,711	8,680	8,171
Other assets	17	156,013	190,765	201,254
Total assets		2,158,724	2,668,564	2,756,787
LIABILITIES				
Deposits from customers	18	1,748,624	2,220,585	2,281,790
Other borrowed funds	19	-	249	43,031
Current tax liabilities	11(a)	-	688	3,299
Other liabilities	20	40,216	62,122	31,344
Total liabilities		1,788,840	2,283,644	2,359,464
Shareholders' equity				
Assigned capital	21	300,000	200,000	200,000
Statutory reserve	21	69,796	69,796	69,099
Retained earnings		12,976	128,669	137,528
Actuarial loss reserve	21	(14,286)	(13,973)	(14,426)
General banking reserve	21	1,455	428	5,122
Fair value reserve	21	(57)	-	-
Total equity		369,884	384,920	397,323
Total equity and liabilities		2,158,724	2,668,564	2,756,787

These financial statements were approved for issue by the Management Committee on:
and signed on its behalf by:

Imad Nagi

Mr. Imad Zahid Nagi
Head of Finance

A. Haider

Mr. Ali Haider
Country Manager

24 AVR. 2019

The notes on pages 49 to 108 form an integral part of these financial statements.
Auditors' report on pages 39 and 44.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - YEAR ENDED DECEMBER 31, 2018

	Notes	2018	2017	2016
		Rs'000	Rs'000	Rs'000
Interest income	4	69,246	99,277	106,805
Interest expense	4	(18,571)	(39,035)	(31,898)
Net interest income	4	50,675	60,242	74,907
Fee and commission income	5	4,455	8,972	10,443
Net trading income	6	3,480	10,827	8,259
Other operating income	7	-	624	-
		3,480	11,451	8,259
Operating income		58,610	80,665	93,609
Net impairment loss on financial assets	8	(6,020)	(704)	296
Personnel expenses	9	(34,315)	(42,328)	(39,115)
Operating lease expenses		(6,693)	(6,623)	(6,235)
Depreciation	15	(2,836)	(3,815)	(4,402)
Other expenses	10	(22,605)	(20,939)	(20,528)
		(72,469)	(74,409)	(69,984)
(Loss)/Profit before income tax		(13,859)	6,256	23,625
Income tax expense	11(b)	(2,352)	(1,612)	(270)
(Loss)/Profit for the year		(16,211)	4,644	23,355
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurement of defined benefit obligations	20(a)(iii)	(337)	546	(10,164)
Deferred tax on remeasurement of defined benefit obligations	16	24	(93)	1,728
at fair value through other comprehensive income		(57)	-	-
Other comprehensive income for the year, net of tax		(370)	453	(8,436)
Total comprehensive income for the year		(16,581)	5,097	14,919

The notes on pages 49 to 108 form an integral part of these financial statements.

Auditors' report on pages 39 and 44.

STATEMENT OF CHANGES IN EQUITY - DECEMBER 31, 2018

	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
At December 31,2017	200,000	69,796	128,669	(13,973)	-	428	384,920
Impact of adopting IFRS 9 as at 1 Januariy 2018		-	(317)	-	-	1,862	1,545
Balance as at 1 January 2018	200,000	69,796	128,352	(13,973)	-	2,290	386,465
Profit 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
At January 1, 2016	200,000	65,596	127,961	(5,990)	-	3,662	391,229
Profit for the year	-	-	23,355	-	-	-	23,355
Other comprehensive income for the year	-	-	-	(8,436)	-		(8,436)
Total comprehensive income for the year	-	-	23,355	(8,436)	-	-	14,919
Transaction with owners							
Dividend paid	-	-	(8,825)	-	-	-	(8,825)
Transfer to reserves	-	3,503	(4,963)	-	-	1,460	-
At December 31, 2016	200,000	69,099	137,528	(14,426)	-	5,122	397,323

The notes on pages 49 to 108 form an integral part of these financial statements.

Auditors' report on pages 39 and 44.

STATEMENT OF CASH FLOWS - YEAR ENDED DECEMBER 31, 2018

	Notes	2018	2017	2016
		Rs'000	Rs'000	Rs'000
Cash flows from operating activities				
(Loss)/ Profit before income tax		(13,859)	6,256	23,625
Adjustments for:				
Depreciation	15	2,836	3,815	4,402
Loss on asset disposed		-	-	14
Impairment on financial assets		6,170	1,107	6,123
Release of provisions for credit impairment		(150)	(403)	(6,418)
Retirement benefit obligation		1,472	1,443	1,219
Net interest income		(50,675)	(60,242)	(74,907)
		(54,206)	(48,024)	(45,942)
Changes in operating assets and liabilities				
Decrease/(increase) in investment securities		218,316	(68,848)	(694,421)
Decrease/(increase) in loans and advances to customers		142,560	76,363	422,101
Decrease/(increase) in other assets		34,752	10,489	(39,481)
(Decrease)/increase in deposits from customers		(468,051)	(62,130)	358,718
Increase/(decrease) in other liabilities		(16,340)	30,316	(3,673)
Contributions paid on retirement benefit obligation		(7,375)	(435)	(831)
Interest received		69,846	101,284	105,979
Interest paid		(22,481)	(38,110)	(31,261)
Income tax paid		636	(4,825)	(277)
Net cash (used in) / from operating activities		(102,343)	(3,920)	70,912
Cash flows from investing activities				
Proceeds from disposal of equipment		-	-	540
Purchase of equipment		(406)	(2,297)	(1,257)
Net cash used in investing activities		(406)	(2,297)	(717)
Cash flows from financing activities				
Dividends paid		-	(17,500)	(8,825)
Decrease in other borrowed funds		(249)	(42,782)	(54,545)
Net cash used in financing activities		(249)	(60,282)	(63,370)
(Decrease) / Increase in cash and cash equivalents		(102,998)	(66,499)	6,825
Cash and cash equivalents at January 1,		379,585	446,084	439,259
Cash and cash equivalents at December 31,	12	276,587	379,585	446,084

The notes on pages 49 to 108 form an integral part of these financial statements.

Auditors' report on pages 39 and 44.

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 otherwise stated.

(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. Where necessary, comparatives figures have been amended to conform with changes in presentation, or in accounting policies in the current year.

The financial statements have been prepared under the historical cost convention.

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 (Rs000), 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 recognised 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 recognised 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 2018

IFRS 9, 'Financial instruments'

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of IFRS 9 in previous years.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current year.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 'Financial Instruments: Disclosures' disclosures have also only been applied to the current year. The comparative year notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank.

2. SIGNIFICANT ACCOUNTING POLICIES

IFRS 9, 'Financial instruments' (continued)

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at fair value through profit or loss. With respect to the classification and measurement, the number of financial categories of financial assets under IFRS 9 has been reduced: all recognised financial assets that are currently within the scope of IAS 39 will subsequently be measured at either amortised cost or fair value under IFRS 9. The classification and measurement of financial assets into the categories mentioned above will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics).

Specifically:

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

2. SIGNIFICANT ACCOUNTING POLICIES

IFRS 9, 'Financial instruments' (continued)

Classification and measurement (continued)

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. In case of the Bank, the new impairment requirements are applied to debt instruments accounted for at amortised cost. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12- month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL. The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the end of the reporting period. In addition, the estimation of ECL should take into account the time value of money. As a result, an increase in the total level of impairment allowances is expected, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

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

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

Exposure at Default (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.

Loss given default (LGD) is the possible loss rate after a default event occurred. It is based on the difference between the contractual cashflows 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.

Probability of Default (PD) is an estimate of the likelihood of a default over a given time horizon.

2. SIGNIFICANT ACCOUNTING POLICIES

IFRS 9, 'Financial instruments' (continued)

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:

	MUR'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**

(i) 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 MUR'000**	**Remeasurements MUR'000**	**IFRS 9 Carrying Amount as at 1 January 2018 MUR'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	Amortised cost- Held to Maturity	Amortised cost	1,170,244	-	1,170,244
Other assets	Amortised cost- Loans and receivables	Amortised cost	190,765	-	190,765
Total assets			**2,654,277**	1,862	**2,656,139**

Liabilities	**IAS 39 Classification and Measurement Category**	**IFRS 9 Classification Measurement Category**	**IAS 39 Carrying Amount as at 31 December 2017 MUR'000**	**Remeasurements MUR'000**	**IFRS 9 Carrying Amount as at 1 January 2018 MUR'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			**2,283,644**	-	2,283,644

The remeasurements relate to Expected Credit Losses allowances.

2. SIGNIFICANT ACCOUNTING POLICIES

IFRS 9, 'Financial instruments' (continued)

(i) 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
	MUR '000	MUR '000	MUR '000	MUR '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

IFRS 9, 'Financial instruments' (continued)

(i) Reconciliation of impairment allowance balance under IAS 39 and provision under IAS 37 to expected credit losses under IFRS 9

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	Remeasurement	Expected Credit Loss allowance under IFRS 9 at 1 January 2018
	MUR'000	MUR'000	MUR'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**

	Loan loss allowance under IAS 37 at 31 December 2017	Remeasurement	Expected Credit Loss allowance under IFRS 9 at 1 January 2018
	MUR'000	MUR'000	MUR'000
Loan commitments and financial guarantee contracts			
Provisions (loan commitments and financial guarantees)	-	-	-
Total	-	-	-

IFRS 15 – Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers and associated amendments to various other standards. IFRS 15 did not impact the Bank's financial statements.

New standards, amendments and interpretations to standards not yet adopted

A number of new standards, amendments, interpretations to standards are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements.

IFRS 16 – Leases

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

2. SIGNIFICANT ACCOUNTING POLICIES

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 will be 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. The management of the Bank are yet to assess the impact of the amendment.

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 probability, cash flows and capital resources.

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

(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 entity operates ("the functional currency").

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end 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.

2. SIGNIFICANT ACCOUNTING POLICIES

(b) Foreign currency translation (continued)

(ii) Transactions and balances (continued)

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 yield method 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 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 taken directly to income.

(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, interest and foreign exchange differences.

(f) Leases

Operating lease
Lease in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases.

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

(g) Financial assets and liabilities

(i) 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.

2. SIGNIFICANT ACCOUNTING POLICIES

(g) Financial assets and liabilities (continued)

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.

(ii) Initial Recognition

The Bank initially recognises loans and advances, deposits 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.

(iii) Classification and subsequent measurement of financial assets

Policy applicable from 1 January 2018

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement 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:

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 rate 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 solely payments of principal and interest are measured at FVOCI. These comprise primarily investment securities. They are recognised on the trade date when the group 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 recognised in the income statement as 'Other operating income'.

2. SIGNIFICANT ACCOUNTING POLICIES

(g) Financial assets and liabilities (continued)

Policy applicable from 1 January 2018 (continued)

Debt instruments (continued)

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 rate method.

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.

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. The directors determined the classification of its 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.

2. SIGNIFICANT ACCOUNTING POLICIES

(g) Financial assets and liabilities (continued)

Policy applicable before 1 January 2018 (continued)

Loans and receivables

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'.

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;

2. SIGNIFICANT ACCOUNTING POLICIES

(g) Financial assets and liabilities (continued)

Policy applicable before 1 January 2018 (continued)

Available-for-sale financial assets (continued)

- 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.

(iv) 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES

(g) Financial assets and liabilities (continued)

(v) 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.

(h) Impairment

Policy applicable from 1 January 2018

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

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on debt instruments accounted for at amortised cost. 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. As this uses the same criteria as under IAS 39, the Bank's methodology for specific provisions remain unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment (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 provision charge 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.

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment (continued)

Policy applicable before 1 January 2018 (continued)

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 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.

(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 yield method.

(j) Investment securities

The Bank classifies its investment securities as financial assets at amortized 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 Amortized Cost.

Financial Assets is classified at amortized 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 solely payments of principal and interest on the principal amount outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Investment securities (continued)

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

(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 cost 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 occuring 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 cost are included in the assets 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 and software	16.22% - 33 1/3%
Furniture, fittings and office equipment	11% -30%
Motor vehicles	20%

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Equipment (continued)

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.

(m) Cash and cash equivalents

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

(n) 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.

(o) 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). Financial guarantees are included within other liabilities.

(p) 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 fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

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 than an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (continued)

Defined benefit plans (continued)

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 comprise 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 period.

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 Anglo Mauritius Assurance Society Limited.

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

(q) Current and deferred income tax

The income tax expense for the period comprises of current and deferred income tax. Income tax is recognised in pro 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 income tax is provided for, using the liability method, on all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation of property, plant and equipment, provisions for impairment losses on loans and advances and provisions for employee benefits.

The rates enacted or subsequently enacted at the end of the reporting date are used to determine deferred tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) 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 yield method.

(s) 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.

(t) 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 regard 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

a) Impairment losses on loans and advances

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. The directors use 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)

(a) Impairment losses on loans and advances (continued)

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's accounting policy for impairment of financial assets changed significantly under IFRS 9, and the expected credit loss model was applied for the financial year ended 31 December 2018.

The comparative period was not restated upon adoption of IFRS 9. The following accounting policy only applies to the impairment of financial assets for the year ended 31 December 2018.

(b) Asset lives and residual values

Property, plant and equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Consideration is also given to the extent of current profits and losses on the disposal of similar assets.

(c) Depreciation policies

Property, plant and equipment are depreciated to their residual values over their estimated useful lives. The residual value of an asset is the estimated net amount that the company would currently obtain from disposal of the asset, if the asset, were already of the age and in condition expected at the end of its useful life.

Management therefore make estimates based on historical experience and use best judgement to assess the useful of assets and to forecast the expected residual values of the assets at the end of their expected useful lives.

(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.

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
- liquidity risk; and

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 measurement of ECL under IFRS 9 uses the information and approaches that the Bank uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9.

Risk management framework

The Group Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All committees have both executive and/or non-executive members and report regularly to the Board of Directors on their activities.

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.

The Group Audit Committee 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 Group Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

(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).

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

i) Management of credit risk

The Group has delegated responsibility for the oversight of credit risk to its Group Credit Committee. A separate Group Credit department, reporting to the Group Credit Committee, is responsible for management of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, 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. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Group Credit, Head of Group Credit, Group Credit Committee or the Board of Directors as appropriate.

- *Reviewing and assessing credit risk* Group Credit assesses all credit exposures 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. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by Group Risk.

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group Credit on the credit quality of local portfolios and appropriate corrective action is taken.

- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the Group Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Group Credit processes are undertaken by Internal Audit.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

i) Management of credit risk (continued)

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.

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 will be applied at a counterparty level. The occurrence of any one of the indicators should be considered as an indicator of significant increase in credit risk and consequently the related balances will be classified as Stage 2 and will attract a lifetime ECL.

<u>Non-Retail Portfolio</u>

- Risk Ratings: Internal ratings 8 to 11 or customers with external ratings B to C will be directly categorised in Stage 2 (absolute measure).
- Transition in Risk Ratings: All customers that have been downgraded at the end of the reporting period by:
  - 2 or more grade: for customers which were internally rated 1 to 4 (or external ratings of AAA to BBB) at inception.
  - 1 or more grade: for other customers which were internally rated 5 to 7 (or external ratings from BB and below) at inception
- Delinquency Status: The customers will be considered as SICR and will be 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;
  - Internal rating is 5 to 7 or external rating of BB or below AND DPD>=30 at least 3 times over last 12 months;
  - Internal rating is 5 to 7 or external rating of BB or below AND DPD>=60 at least 1 time over last 12 months.

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. Any client identified by the senior management as having significant increase in credit risk and enhanced monitoring is required.

Retail Portfolio

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

- Days past due>30 at reporting date;
- Days past due >=30 at least 3 times over last 12 months; and
- Days past due >=60 at least 1 time over last 12 months

Restructured status: All customers that have been restructured in the past due to credit risk related factors and have not regularised or which were considered as non performing loan in the past and now regular but subject to cooling period to be considered Stage 2.

Watch list: Counterparties with facilities that are classified as watch list. Any client identified by the senior management as having significant increase in credit risk and enhanced monitoring is required.

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.

In addition to the above criteria listed for retail and non- retail exposure, the Bank will also consider the following factors and assess if any of these result in SICR for the counterparty:

Level of Assessment: Counterparty Level vs Facility Level

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 is at a counterparty 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. Furthermore, the Bank does not have any internal mechanism to tag credit rating at a facility level and doing so will require significant manual effort which will be difficult to manage on a periodic basis. Due to this reason, 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 significant increase in credit risk ('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 expected credit losses 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 1	Stage 2	Stage 3
(Initial recognition) 12-month expected credit losses	(Significant increase in credit risk since initial recognition) Lifetime expected credit losses	(Credit-impaired assets) Lifetime expected credit losses

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

Significant increase in credit risk (SICR)

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(ii) Expected credit loss measurement (continued)

Retail:

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.

Qualitative criteria:

If the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

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

The assessment of SICR incorporates forward-looking information. Where a Watchlist is used to monitor credit risk, this assessment is performed at the customer level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Credit Risk team.

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.

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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(ii) Expected credit loss measurement (continued)

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 7 or better and it does not meet delinquency or industry criteria
Transition in risk rating*	Recovers to original rating before transition
Delinquency *	Counterparty has not been delinquent
Watch list*	Original reasons for classification as watch list are no longer relevant
Restructured*	The counterparty has been regular
Other reasons*	When the reason is no longer applicable.

*A minimum cooling period of 3 months is required before any financial asset is moved back to Stage 1.

Backward Transition from Stage 3 to Stage 2

As a general rule, the underlying facility must have become regular, should be current and no longer meets the definition of credit impaired or is in default before it can be reclassified back from Stage 3.

Any upgrading of non-performing exposure to a performing status must be subject to a cooling off period of 6 months from the date of becoming regular in repayment. If the facility has been regular during the cooling off period, it will move back to Stage 2 after which the criteria for moving from Stage 2 to Stage 1 will apply.

In case of facilities which have been restructured, the 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 basis or less) or 12 months (in cases where instalments are on a longer frequency than quarterly).

Write-off policy

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 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, and generally are not updated except when a loan is individually assessed as impaired.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(ii) Expected credit loss measurement (continued)

Backward Transition from Stage 3 to Stage 2 (continued)

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 unsecured. 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. There has been no change in the Bank's collateral policy for the year and there are no financial instruments for which the underlying collaterals would have resulted in no impairment allowance.

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, and generally are updated every 3 years and every year when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks and investment securities, and no such collateral was held at 31 December 2018, 31 December 2017 and 31 December 2016.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

In general, the Bank calculates ECL using three main components, a probability of default ('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.

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, eg 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.

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)

Stage 3
The ECL allowance assessment for financial instruments graded under Stage 3 are 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.

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.

The Bank has adopted the requirements of IFRS 9 from 1 January 2018. Under IFRS 9, the scope of impairment now covers amortised cost of financial assets, loan commitments and financial guarantees. Impairment is calculated in three stages and financial instruments are allocated into one of the three stages where the transfer mechanism depends on whether there is a significant increase in credit risk between its first recognition and the relevant reporting period. After the allocation, the measurement of ECL, which is the product of PD, LGD and EAD, will reflect the change in risk of default occurring over the remaining life of the instruments.

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 expected credit losses ('ECL'). Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39.

	Gross carrying/ nominal amount MUR'000	Allowance for ECL MUR'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	-	-
At 31 Dec 2018	24,813	-

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(ii) Expected credit loss measurement (continued)

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 MUR'000	Stage 2 Lifetime ECL MUR'000	Stage 3 Lifetime ECL MUR'000	Total MUR'000	Stage 1 12-month ECL MUR'000	Stage 2 Lifetime ECL MUR'000	Stage 3 Lifetime ECL MUR'000	Total MUR'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).

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 MUR'000	Of which: 1 to 29 DPD MUR'000	Of which: 30 and > DPD MUR'000	Stage 2 MUR'000	Of which: 1 to 29 DPD MUR'000	Of which: 30 and > DPD MUR'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%

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) 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

	Stage 1 12-month	**Stage 2** Lifetime	**Stage 3** Lifetime	**Total**
	MUR'000	MUR'000	MUR'000	MUR'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**

- Off balance sheet exposures

	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	MUR'000	MUR'000	MUR'000	MUR'000
Credit grade				
LGS	24,813	-	-	24,813
Gross Carrying amount	24,813	-	-	24,813
Loss allowance	-	-	-	-
Carrying amount	24,813	-	-	24,813

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

iv) Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of expected credit loss ('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 10th and the 90th 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.

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 de-recognised 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:

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

vi) Loss allowance (continued)

- Loans and advances to customers at amortised cost

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	MUR'000	MUR'000	MUR'000	MUR'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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) 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.

Concentration of assets, liabilities and off-balance sheet items

	USD	EURO	GBP	MUR	OTHERS	TOTAL
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	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	155,783	-	156,013
	2,259	304,636	4,531	1,862,529	1,341	2,175,296
Allowance for credit impairment						(24,460)
Total Assets						**2,150,836**
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**	**384,831**	**979**	**386,456**
Less allowance for credit impairment						(24,460)
						361,996

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) 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	167,951	1	190,765
	2,791	387,814	4,193	2,277,495	2,286	2,674,579
Allowance for credit impairment						(20,302)
Total Assets						**2,654,277**
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)**	**395,753**	**2,261**	**391,623**
Less allowance for credit impairment						(20,302)
						371,321

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Currency risk (continued)

At December 31, 2016	USD Rs'000	EURO Rs'000	GBP Rs'000	MUR Rs'000	OTHERS Rs'000	TOTAL Rs'000
ASSETS						
Cash and cash equivalents	66,745	126,876	3,808	246,583	2,072	446,084
Loans and advances to customers	20,871	4,759	-	984,739	-	1,010,369
Investment securities	72,704	3,765	-	1,026,913	-	1,103,382
Other assets				201,254		201,254
	160,320	135,400	3,808	2,459,489	2,072	2,761,089
Allowance for credit impairment						(19,598)
Total Assets						2,741,491
LIABILITIES						
Deposits	121,096	135,460	4,590	2,020,585	59	2,281,790
Other borrowed funds	43,031	-	-	-	-	43,031
Other liabilities	-	-	-	31,344		31,344
Total liabilities	164,127	135,460	4,590	2,051,929	59	2,356,165
Net on balance sheet position	(3,807)	(60)	(782)	407,560	2,013	404,924
Less allowance for credit impairment						(19,598)
						385,326

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) 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.

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	-	-	-	-	-	-	156,013	156,013
	1,092,188	463,275	147,322	235	63,769	35,584	372,923	2,175,296
Less allowances for credit impairment								(24,460)
Total assets								**2,150,836**
LIABILITIES								
Deposits	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, 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) 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	-	-	-	-	-	-	190,765	190,765
	1,078,175	493,079	316,667	148,496	74,840	-	563,322	2,674,579
Less allowances for credit impairment								(20,302)
Total assets								**2,654,277**
LIABILITIES								
Deposits	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, 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (Continued)

At December 31, 2016	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	119,613	2,760	-	-	-	-	323,711	446,084
Loans and advances to customers	982,606	-	-	-	-	-	27,763	1,010,369
Investment securities	88,346	440,772	262,654	186,748	74,885	49,477	500	1,103,382
Other assets	-	-	-	-	-	-	201,254	201,254
	1,190,565	443,532	262,654	186,748	74,885	49,477	553,228	2,761,089
Less allowances for credit impairment								(19,598)
Total assets								**2,741,491**
LIABILITIES								
Deposits	1,075,756	8,342	140,581	175,882	126,635	-	754,594	2,281,790
Other borrowed funds	43,031	-	-	-	-	-	-	43,031
Other liabilities	-	-	-	-	-	-	31,344	31,344
Total liabilities	1,118,787	8,342	140,581	175,882	126,635	-	785,938	**2,356,165**
Interest sensitivity gap	71,778	435,190	122,073	10,866	(51,750)	49,477	N/a	637,634
Less allowances for credit impairment								(19,598)
								618,036

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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.

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.

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (Continued)

Management of liquidity risk (Continued)

Maturities of Assets & Liabilities: 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	-	-	-	-	-	-	156,013	156,013
	1,150,018	463,275	147,322	235	63,769	35,584	315,093	2,175,296
Less allowances for credit impairment								(24,460)
Total assets								**2,150,836**
LIABILITIES								
Deposits	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	290,460	386,456
Less allowances for credit impairment								(24,460)
								361,996

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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	-	-	-	-	-	-	190,765	190,765
	1,126,487	584,098	316,706	164,358	90,772	52,680	339,478	2,674,579
Less allowances for credit impairment								(20,302)
Total assets								2,654,277
LIABILITIES								
Deposits	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	304,976	391,623
Less allowances for credit impairment								(20,302)
								371,321

HABIB BANK LIMITED (MAURITIUS BRANCH)

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (Continued)

Management of liquidity risk (Continued)

At December 31, 2016	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	266,785	2,760	-	-	-	-	176,539	446,084
Loans and advances to customers	782,069	93,316	518	507	57,166	76,793	-	1,010,369
Investment securities	88,346	440,772	262,654	186,748	74,885	49,477	500	1,103,382
Other assets	-	-	-		-	-	201,254	201,254
	1,137,200	536,848	263,172	187,255	132,051	126,270	378,293	2,761,089
Less allowances for credit impairment								(19,598)
Total assets								**2,741,491**
LIABILITIES								
Deposits	1,830,350	8,342	140,581	175,882	126,635	-	-	2,281,790
Other borrowed funds	43,031	-	-	-	-	-	-	43,031
Other liabilities	-	-	-	-	-	-	31,344	31,344
Total liabilities	1,873,381	8,342	140,581	175,882	126,635	-	31,344	2,356,165
Net liquidity gap	(736,181)	528,506	122,591	11,373	5,416	126,270	346,949	404,924
Less allowances for credit impairment								(19,598)
								385,326

4. NET INTEREST INCOME

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Interest income			
Loan and advances to customers	**43,160**	62,595	84,429
Placements with other banks	**2,395**	4,185	1,192
Investment securities	**23,408**	28,343	15,313
Bonds	**283**	4,154	5,871
Total interest income	**69,246**	99,277	106,805
Interest expense			
Deposits from customers	**(18,556)**	(37,675)	(31,611)
Other borrowed funds	**(15)**	(1,360)	(287)
Total interest expense	**(18,571)**	(39,035)	(31,898)
Net interest income	**50,675**	60,242	74,907
Segment A			
Interest income			
Loans and advances to customers	**43,148**	62,486	84,394
Placements with other banks	**259**	172	278
Investment securities	**23,408**	28,343	15,313
Total interest income	**66,815**	91,001	99,985
Interest expense			
Deposits from customers	**(18,554)**	(35,654)	(31,516)
Other borrowed funds	**(15)**	(1,360)	(287)
Total interest expense	**(18,569)**	(37,014)	(31,803)
Net interest income	**48,246**	53,987	68,182
Segment B			
Interest income			
Loans and advances to customers	**12**	109	35
Placements with other banks	**2,136**	4,013	914
Bonds	**283**	4,154	5,871
	2,431	8,276	6,820
Interest expense			
Deposits from customers	**(2)**	(2,021)	(95)
Net interest income	**2,429**	6,255	6,725

5. FEE AND COMMISSION INCOME

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Fee and commission income	**4,455**	8,972	10,443
Segment A			
Fee and commission income	**4,382**	6,887	8,776
Segment B			
Fee and commission income	**73**	2,085	1,667

6. NET TRADING INCOME

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Foreign exchange	**3,480**	10,827	8,259
Segment A			
Other	**3,480**	10,793	8,259
Segment B			
Other	-	34	-

7. OTHER OPERATING INCOME

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Other	-	624	-
Segment A			
Other	-	624	-
Segment B			
Other	-	-	-

8. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total) and Segment A			
Provision for credit impairment	**6,170**	1,107	6,122
Provisions released during the year	**(150)**	(403)	(6,418)
	6,020	704	(296)

9. PERSONNEL EXPENSES

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Wages and salaries	**22,896**	38,251	35,246
Compulsory social security obligations	**336**	1,263	1,312
Contributions to defined contribution plans	**4,231**	185	95
Other personnel expenses	**6,852**	2,629	2,462
	34,315	42,328	39,115
Segment A			
Wages and salaries	**22,390**	37,540	34,895
Compulsory social security obligations	**336**	1,263	1,312
Contributions to defined contribution plans	**4,231**	185	95
Other personnel expenses	**6,852**	2,629	2,462
	33,809	41,617	38,764
Segment B			
Wages and salaries	**506**	711	351

10. OTHER EXPENSES

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total) and Segment A			
Software licencing and other information technology cost	**5,830**	5,663	6,434
Other	**16,775**	15,276	14,094
	22,605	20,939	20,528
Segment A			
Software licencing and other information technology cost	**5,456**	5,166	6,004
Other	**15,529**	13,707	13,092
	20,985	18,873	19,096
Segment B			
Software licencing and other information technology cost	**374**	497	430
Other	**1,246**	1,569	1,002
	1,620	2,066	1,432

11. INCOME TAX

	2018	2017	2016
	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	2,919
Special levy on banks	-	913	1,461
Foreign tax credit	-	(767)	(1,026)
Tax paid under Advance Payment System	-	(1,526)	(55)
	-	688	3,299

	2018	2017	2016
(b) Amounts recognised in the statement of profit or loss and other comprehensive income			
Income tax based on the adjusted profits	-	2,068	2,919
Special levy on banks	-	913	1,461
Foreign tax credit	-	(767)	(1,026)
Over provision in previous years	(1,324)	-	-
Deferred tax	3,676	(602)	(3,084)
Charge/(credit) for the year	2,352	1,612	270

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

	2018	2017	2016
(Loss)/ Profit before income tax	(13,859)	6,256	23,625
Income tax at 7% (2018 & 2017: 17%)	(970)	770	3,884
Expenses not deductible for tax purposes	779	1,290	807
Income not subject to tax	(1,275)	(594)	(542)
Foreign tax credit	-	(767)	(1,026)
Deferred tax not provided in previous years	-	-	(1,552)
Underprovision in deferred tax in prior year	5,142	-	(2,762)
Over provision in previous years	(1,324)	-	-
Special levy on banks	-	913	1,461
	2,352	1,612	270

	2018	2017	2016
<u>Segment A</u>			
Income tax based on the adjusted profits	(1,433)	1,361	1,928
Over provision in previous years	(1,324)	-	(2,762)
Deferred tax (note 16)	5,142	(602)	(322)
Special levy on banks	-	661	1,170
	2,385	1,420	14

11. INCOME TAX (CONT'D)

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Segment A (cont'd)			
Profit/ (loss) before income tax	(13,307)	1,306	17,504
Income tax at 7% (2018 & 2017: 17%)	(931)	27	2,893
Expenses not deductible for tax purposes	773	1,266	807
Income not subject to tax	(1,275)	(534)	(542)
Deferred tax not provided in previous years	-	-	(1,552)
Underprovision in deferred tax in prior year	5,142	-	(2,762)
Over provision in previous years	(1,324)	-	-
Special levy on banks	-	661	1,170
Current Tax Charge	2,385	1,420	14
Segment B			
Profit/(loss) before income tax	(552)	4,950	6,121
Income tax at 17% (2016 & 2014: 17%)	(29)	707	991
Special levy on banks	-	252	291
Foreign tax credit	-	(767)	(1,026)
Defered Tax	(4)	-	-
Current tax expense	(33)	192	256

12. CASH AND CASH EQUIVALENTS

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Cash in hand	51,062	31,521	70,013
Foreign currency notes and coins	4,473	5,354	1,699
Balances with banks abroad	54,196	194,425	197,834
Balances with local banks	98,307	-	-
Unrestricted balances with Central bank	68,549	148,285	176,538
	276,587	379,585	446,084
Segment A			
Cash in hand	51,062	31,521	70,013
Foreign currency notes and coins	4,473	5,354	1,699
Unrestricted balances with Central bank	68,549	148,285	176,538
Balances with local banks	98,307	-	-
	222,391	185,160	248,250
Segment B			
Balances with banks abroad	54,196	194,425	197,834

13(a) LOANS AND ADVANCES TO CUSTOMERS

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total) and Segment A			
Mortgage	35,805	45,516	50,780
Other retail loans	27,820	50,098	61,305
Corporate customers	725,125	835,696	895,588
Interest receivable	2,432	2,675	2,696
Gross loans	791,182	933,985	1,010,369
Less allowance for impairment (note 13(iii))	(24,460)	(20,302)	(19,598)
	766,722	913,683	990,771

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

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
(i) Remaining Term of maturity:			
Up to 3 months	**741,558**	849,472	875,385
Over 3 months and up to 6 months	**36**	39	518
Over 6 months and up to 12 months	**235**	15,862	507
Over 1 year and up to 5 years	**19,913**	23,650	78,744
Over 5 years	**29,440**	44,962	55,215
	791,182	933,985	1,010,369

(ii) Credit concentration of risk by industry sectors:	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Agriculture and fishing	**244,922**	202,402	107,779
Manufacturing	**82,175**	158,755	204,230
Tourism	**7,330**	8,953	102,654
Transport	**3,445**	4,332	3,573
Construction	**39,762**	53,106	58,970
Traders	**287,511**	290,706	272,452
Information and communication	-	-	230
Financial and business services	**105,463**	101,016	116,546
Personal	**7,376**	9,438	17,975
Professional	**113**	-	-
Others	**10,653**	102,602	123,264
	788,750	931,310	1,007,673
Interest receivable	**2,432**	2,675	2,696
	791,182	933,985	1,010,369

(iii) Allowances for credit impairment	Total
	Rs'000
At December 31, 2015	**19,894**
Provision for credit impairment for the year	6,122
Provision released	(6,418)
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 1 Jan 2018	18,440
Provision for credit impairment for the year	6,170
Provision released	(150)
At December 31, 2018	**24,460**

13 LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(iv) Allowances for credit impairment by Industry sectors

	Gross amount of loans	Impaired loans	2018 Total allowances for credit impairment	2017 Total allowances for credit impairment	2016 Total allowances for credit impairment
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Agriculture and fishing	244,922	500	1,760	1,833	988
Manufacturing	82,175	33,469	9,046	3,002	3,778
Tourism	7,330	-	35	81	941
Transport	3,445	-	72	39	33
Construction	39,762	3,131	3,428	3,015	2,020
Traders	287,511	10,468	6,832	7,707	5,541
Information and Communication	-	-	-	-	2
Financial and business services	105,463	-	371	915	1,069
Personal	7,376	115	303	167	1,725
Others	10,766	10,147	2,613	-	3,501
Interest receivable	2,432	-	-	3,543	-
	791,182	57,830	24,460	20,302	19,598

14 INVESTMENT SECURITIES

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Investments at fair value through Other Comprehensive Income (FVOCI)			
Treasury Bills	728,283	-	-
Investment Equity Fund	500	-	-
Held at amortised cost			
Treasury Bills	-	875,876	774,700
Placements	147,286	168,462	3,765
Treasury Notes	25,000	75,236	201,713
Bonds	50,445	50,170	122,704
Investment Equity Fund	-	500	500
	951,514	1,170,244	1,103,382

Segment A
Held at fair value through Other Comprehensive Income (FVOCI)

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Treasury Bills	728,283	-	-
Investment Equity Fund	500	-	-
Held at amortised cost			
Treasury Bills	-	875,876	774,700
Treasury Notes	25,000	75,236	201,713
Bonds	50,445	50,170	50,000
Investment Equity Fund	-	500	500
	804,228	1,001,782	1,026,913

Segment B
Held at amortised cost

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Placements	147,286	168,462	3,765
Bonds	-	-	72,704
	147,286	168,462	76,469

15. EQUIPMENT

	Improvement to leasehold building	Computer equipment	Furniture, fittings and office equipment	Motor vehicles	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Bank (Total)					
Cost					
At December 31, 2016	19,529	9,083	13,821	1,791	44,224
Additions	274	1,498	525	-	2,297
At December 31, 2017	19,803	10,581	14,346	1,791	46,521
Additions	35	210	161	-	406
Disposals	(138)	(2,928)	(945)	-	(4,011)
At December 31, 2018	**19,700**	**7,863**	**13,562**	**1,791**	**42,916**
Accumulated depreciation					
At December 31, 2016	16,816	8,232	10,260	1,791	37,099
Charge for the year	1,388	737	1,690	-	3,815
At December 31, 2017	18,204	8,969	11,950	1,791	40,914
Charge for the year	1,034	515	1,287	-	2,836
Disposals	(138)	(2,928)	(945)	-	(4,011)
At December 31, 2018	**19,100**	**6,556**	**12,292**	**1,791**	**39,739**
NET BOOK VALUE					
At December 31, 2018	**600**	**1,307**	**1,270**	**-**	**3,177**
At December 31, 2017	1,599	1,612	2,396	-	5,607
At December 31, 2016	2,713	851	3,561	-	7,125

16. DEFERRED TAX ASSETS

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total) and Segment A			
At December 31,	**8,680**	8,171	3,359
Impact of IFRS 9 adoption	**(317)**	-	-
At January 1,	**8,363**	8,171	3,359
Movement during the year recognised in profit or loss	**(3,676)**	602	3,084
Movement during the year recognised in other comprehensive income	**24**	(93)	1,728
At December 31,	**4,711**	8,680	8,171
	Rs'000	Rs'000	Rs'000
Bank (Total) and Segment B			
At January 1,	-	-	-
Movement during the year recognised in profit or loss	-	-	-
Movement during the year recognised in other comprehensive income	-	-	-
At December 31,	-	-	-
Deferred tax assets:			
Provision for credit impairment	**1,526**	3,642	3,332
Provision for retirement benefits	**1,091**	3,596	3,517
Accelerated depreciation charge	**635**	1,442	1,322
Tax losses	**1,459**	-	-
	4,711	8,680	8,171

17. OTHER ASSETS

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Mandatory balances with Central Bank	**153,498**	188,004	196,955
Other	**2,515**	2,761	4,299
	156,013	190,765	201,254
Segment A			
Mandatory balances with Central Bank	**153,498**	188,004	196,955
Other	**2,515**	2,761	4,299
	156,013	190,765	201,254

18. DEPOSITS FROM CUSTOMERS

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total)			
Retail customers :			
Current account	**436,728**	494,955	437,005
Savings account	**723,729**	813,560	835,592
Time deposits with remaining term to maturity :			
- Up to 3 months	**3,599**	5,661	6,702
- Over 3 months and up to 6 months	**1,000**	1,400	13,581
- Over 6 months and up to 12 months	**139,265**	132,349	148,282
- Over 1 year and up to 5 years	**82,711**	177,627	126,635
Corporate customers :			
Current account	**228,268**	288,525	317,589
Savings account	**112,745**	243,569	226,386
Time deposits with remaining term to maturity :			
- Up to 3 months		-	8,342
- Over 3 months and up to 6 months		30,000	127,000
- Over 6 months and up to 12 months	**6,550**	15,000	27,600
- Over 1 year and up to 5 years	**9,938**	9,938	-
Interest payable	**4,091**	8,001	7,076
	1,748,624	2,220,585	2,281,790

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)	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Segment A			
Retail customers :			
Current account	**166,530**	213,251	274,836
Savings account	**694,096**	758,536	798,675
Time deposits with remaining term to maturity :			
- Up to 3 months	**3,599**	5,661	6,702
- Over 3 months and up to 6 months	**1,000**	1,400	750
- Over 6 months and up to 12 months	**137,629**	129,464	148,282
- Over 1 year and up to 5 years	**64,051**	158,967	122,435
Corporate customers :			
Current account	**227,902**	267,892	311,456
Savings account	**112,745**	243,569	226,386
Time deposits with remaining term to maturity :			
- Up to 3 months	-	-	8,342
- Over 3 months and up to 6 months	-	30,000	127,000
- Over 6 months and up to 12 months	**6,550**	15,000	27,600
- Over 1 year and up to 5 years	**9,938**	9,938	-
Interest payable	**4,090**	8,000	7,023
	1,428,130	1,841,678	2,059,487
Segment B			
Retail customers :			
Current account	**270,198**	281,704	162,169
Savings account	**29,633**	55,024	36,917
Time deposits with remaining term to maturity :			
- Up to 3 months	-	-	-
- Over 3 months and up to 6 months	-	-	12,831
- Over 6 months and up to 12 months	**1,636**	2,885	-
- Over 1 year and up to 5 years	**18,660**	18,660	4,200
Interest payable	**1**	1	53
Corporate customers :			
Current account	**366**	20,633	6,133
	320,494	378,907	222,303
Total	**1,748,624**	2,220,585	2,281,790

19. OTHER BORROWED FUNDS	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total)			
(a) Other borrowed funds comprise the following:			
Borrowings from banks:			
- in Mauritius	-	-	25,106
- abroad	-	249	17,925
	-	249	43,031
(b) Remaining term to maturity:			
On demand within a period not exceeding 1 year	-	249	43,031
Segment A			
Borrowings from banks:			
- in Mauritius	-	-	25,106
Segment B			
Borrowings from banks:			
- abroad	-	249	17,925

20. OTHER LIABILITIES

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Bank (Total) & Segment A			
Bills payable	8,585	27,620	2,559
Retirement benefit obligations (see note 20(a))	15,583	21,150	20,688
Others	16,048	13,352	8,097
	40,216	62,122	31,344

(a) Retirement benefit obligations

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
(i) Amount recognised in statement of financial position			
Present value of funded/ unfunded obligations	49,241	45,705	43,074
Fair value of plan assets	(33,658)	(24,555)	(22,386)
Liability recognised in the statement of financial position	15,583	21,150	20,688

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	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Current service cost	159	149	91
Net interest cost	876	1,255	718
Scheme expenses	310	39	42
Cost of insuring risk benefits	126	-	368
	1,471	1,443	1,219

(iii) Movement in liability recognised in statement of financial position	2018	2017	2016
	Rs'000	Rs'000	Rs'000
At January 1,	21,150	20,688	10,136
Total expense recognised in profit or loss	1,471	1,443	1,219
Actuarial (Gains)/ losses recognised in other comprehensive income	337	(546)	10,164
Contributions paid	(7,375)	(435)	(831)
At December 31,	15,583	21,150	20,688

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

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
At January 1,	(45,705)	(43,074)	(30,500)
Current service cost	(159)	(149)	(91)
Interest cost	(2,285)	(2,625)	(2,175)
Employees' contribution	(383)	(536)	(469)
Actuarial losses	(709)	678	(9,839)
Benefits paid	-	1	-
At December 31,	(49,241)	(45,705)	(43,074)

20. OTHER LIABILITIES (CONT'D)

(a) Retirement benefit obligations (cont'd)

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

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
At January 1,	24,555	22,386	20,364
Interest Income	1,409	1,370	1,457
Employer's contribution	7,375	435	831
Scheme expenses	(310)	(39)	(42)
Cost of insuring risk benefits	(126)	-	(368)
Employees' contribution	383	536	469
Actuarial gains/ (losses)	372	(132)	(325)
Benefits paid	-	(1)	-
At December 31,	33,658	24,555	22,386

(vi) Assets in the plan:

The assets of the plan are invested in the Deposit Administration Policy underwritten by Anglo-Mauritius. 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 1,408,525 for the year ended December 31, 2018.

(viii) Expected contributions to post-employment benefit plans for the year ending December 31, 2018 are Rs 6.6m.

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

	2018	2017	2016
	%	%	%
Discount rate	3.60	5.00	6.00
Expected return on plan assets	4.00	4.00	6.00
Expected salary escalation	1.50	1.50	2.50

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

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Present value of defined benefit obligation	(49,241)	(45,705)	(43,074)
Fair value of plan assets	33,658	24,555	22,386
Deficit	(15,583)	(21,150)	(20,688)
Experience losses on plan liabilities	(709)	678	(9,839)
Experience losses on plan assets	372	(132)	(325)

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

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.

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, 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.

December 31, 2016	Increase	Decrease
	Rs'000	Rs'000
Discount rate (1% movement)	1,016	769

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 2 years at the end of the reporting period (2017: 1 year).

21. SHAREHOLDERS' EQUITY

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Assigned capital	**300,000**	200,000	200,000

The Bank's assigned capital was Rs.300M, which meets the minumum capital requirement of Rs.200M 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** (2017 : 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 appropiration of earnings, for unforeseeable risks and future losse. Additional provsion for certain specific sectors are made in accordance with the bank of Mauritius macro- prudential measures.

Acturial loss reserve

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

Fair value reserve

Fair value reserve relates to gain on 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. Only organisation fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expired.

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

Instruments	**2018**	**2017**	**2016**
Bank (Total) and Segment A	**Rs'000**	**Rs'000**	Rs'000
Contingent Liabilities			
Acceptance on account of customers	-	-	8,026
Guarantees on account of customers	**24,813**	**22,760**	27,412
Letters of credit and other obligations	-	-	1,321
	24,813	**22,760**	36,759
Non Contingent Liabilities	**1,573**	**3,601**	16,289
Total Off Balance Sheet	**26,386**	**26,361**	53,048

23. COMMITMENTS

	2018	**2017**	**2016**
	Rs'000	**Rs'000**	Rs'000
Undrawn facilities	**108,373**	**357,456**	395,845
Segment A	**108,373**	**357,456**	395,845

24. RELATED PARTY TRANSACTIONS

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Key management and personnel			
Deposits	6,334	1,919	386
Loans	1,215	1,427	277
Key management compensation			
Salary and other benefits	6,715	6,957	4,229
Other post-retirement benefits	141	39	338

Key Management Personnel has benefited from preferential rates on loans as applicable to staff.

	2018	2017	2016
Deposits held with group entities	Rs'000	Rs'000	Rs'000
Jubilee Insurance (Mauritius) Ltd	17,572	26,069	49,527
Medical Insurance paid	897	683	445

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

	2018	2017	2016
Other branches abroad	Rs'000	Rs'000	Rs'000
Bank balances and placement	173,576	362,425	201,568
Interest income	2,136	4,014	914

25. LEASE COMMITMENTS

Non cancellable operating lease rentals are payable as follows:	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Minimum rental recognised in profit or loss	6,693	6,623	6,235
Future minimum rentals to be paid:			
-Not later than one year	-	4,848	-
-Later than one year and not later than five years	37,379	-	10,562
-Later than five years	23,329	4,028	4,761
Total minimum rentals payable	60,708	8,876	15,323

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	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
		Rs'000	Rs'000	Rs'000	**Rs'000**	Rs'000	Rs'000	**Rs'000**	Rs'000	Rs'000
ASSETS										
Cash and cash equivalents	12	**222,391**	185,160	248,250	**54,196**	194,425	197,834	**276,587**	379,585	446,084
Loans and advances to customers	13	**766,722**	913,683	990,771	**-**	-	-	**766,722**	913,683	990,771
Investment securities	14	**804,228**	1,001,782	1,026,913	**147,286**	168,462	76,469	**951,514**	1,170,244	1,103,382
Equipment	15	**3,177**	5,607	7,125	**-**	-	-	**3,177**	5,607	7,125
Deferred tax assets	16	**4,711**	8,680	8,171	**-**	-	-	**4,711**	8,680	8,171
Other assets	17	**156,013**	190,765	201,254	**-**	-	-	**156,013**	190,765	201,254
Total assets		**1,957,242**	2,305,677	2,482,484	**201,482**	362,887	274,303	**2,158,724**	2,668,564	2,756,787
LIABILITIES										
Deposits from customers	18	**1,428,130**	1,841,678	2,059,487	**320,494**	378,907	222,303	**1,748,624**	2,220,585	2,281,790
Other borrowed funds	19	**-**	-	25,106	**-**	249	17,925	**-**	249	43,031
Current tax liabilities	11(a)	**-**	688	3,299	**-**	-	-	**-**	688	3,299
Other liabilities	20	**40,216**	62,122	31,344	**-**	-	-	**40,216**	62,122	31,344
Total liabilities		**1,468,346**	1,904,488	2,119,236	**320,494**	379,156	240,228	**1,788,840**	2,283,644	2,359,464
Shareholders' equity										
Assigned capital	21	**300,000**	200,000	200,000	**-**	-	-	**300,000**	200,000	200,000
Statutory reserve		**69,796**	69,796	69,099	**-**	-	-	**69,796**	69,796	69,099
Retained earnings		**12,976**	128,669	137,528	**-**	-	-	**12,976**	128,669	137,528
Actuarial loss		**(14,286)**	(13,973)	(14,426)	**-**	-	-	**(14,286)**	(13,973)	(14,426)
General banking reserves		**1,455**	428	5,122	**-**	-	-	**1,455**	428	5,122
Fair value reserve		**(57)**	-	-	**-**	-	-	**(57)**	-	-
Total shareholders' equity		**369,884**	384,920	397,323	**-**	-	-	**369,884**	384,920	397,323
Total equity and liabilities		**1,838,230**	2,289,408	2,516,559	**320,494**	379,156	240,228	**2,158,724**	2,668,564	2,756,787

26. SEGMENTAL REPORTING (CONT'D)

		Segment A			Segment B			Bank (Total)		
	Notes	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
		Rs'000	Rs'000	Rs'000	**Rs'000**	Rs'000	Rs'000	**Rs'000**	Rs'000	Rs'000
Statement of profit and loss and other comprehensive income										
Interest income		**66,815**	91,001	99,985	**2,431**	8,276	6,820	**69,246**	99,277	106,805
Interest expense		**(18,569)**	(37,014)	(31,803)	**(2)**	(2,021)	(95)	**(18,571)**	(39,035)	(31,898)
Net interest income	4	**48,246**	53,987	68,182	**2,429**	6,255	6,725	**50,675**	60,242	74,907
Fee and commission income	5	**4,382**	6,887	8,776	**73**	2,085	1,667	**4,455**	8,972	10,443
Net trading income	6	**3,480**	10,793	8,259	**-**	34	-	**3,480**	10,827	8,259
Other operating income	7	**-**	624	-	**-**	-	-	**-**	624	-
		3,480	11,417	8,259	**-**	34	-	**3,480**	11,451	8,259
Operating income		**56,108**	72,291	85,217	**2,502**	8,374	8,392	**58,610**	80,665	93,609
Net impairment loss on financial assets	8	**(6,020)**	(704)	296	**-**	-	-	**(6,020)**	(704)	296
Personnel expenses	9	**(33,809)**	(41,617)	(38,764)	**(506)**	(711)	(351)	**(34,315)**	(42,328)	(39,115)
Operating lease expenses		**(6,325)**	(6,111)	(5,790)	**(368)**	(512)	(445)	**(6,693)**	(6,623)	(6,235)
Depreciation	15	**(2,836)**	(3,815)	(4,402)	**-**	-	-	**(2,836)**	(3,815)	(4,402)
Other expenses	10	**(20,985)**	(18,873)	(19,096)	**(1,620)**	(2,066)	(1,432)	**(22,605)**	(20,939)	(20,528)
		(69,975)	(70,985)	(67,713)	**(2,494)**	(3,424)	(2,271)	**(72,469)**	(74,409)	(69,984)
Profit before income tax		**(13,867)**	1,306	17,504	**8**	4,950	6,121	**(13,859)**	6,256	23,625
Income tax expense	11(b)	**(2,385)**	(1,420)	(14)	**33**	(192)	(256)	**(2,352)**	(1,612)	(270)
Profit for the year		**(16,252)**	(114)	17,490	**41**	4,758	5,865	**(16,211)**	4,644	23,355
Other comprehensive income for the year										
Items that will not be reclassified to profit or loss										
Remeasurement of defined benefit obligations	20(a)(iii)	**(337)**	546	(10,164)	**-**	-	-	**(337)**	546	(10,164)
Deferred tax on measurement of defined benefit obligations	16	**24**	(93)	1,728	**-**	-	-	**24**	(93)	1,728
Net gain/ (loss) on investment designated at fair value through other comprehensive income		**(57)**	-	-	**-**	-	-	**(57)**	-	-
Other comprehensive income for the year, net of tax		**(370)**	453	(8,436)	**-**	-	-	**(370)**	453	(8,436)
Total comprehensive income for the year		**(16,622)**	339	9,054	**41**	4,758	5,865	**(16,581)**	5,097	14,919