STANDARD BANK (MAURITIUS) LIMITED

# ANNUAL REPORT 2019

Standard Bank

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## Our report

In Mauritius since 2001, Standard Bank Mauritius shares the Group's aspiration to be the leading financial services organisation, in, for and across Africa. We deliver exceptional client experiences and create superior value for our clients, our people and all our stakeholders. From Mauritius to continent, we will continue to move Africa forward.

## BUSINESS REVIEW



## ENSURING OUR SUSTAINABILITY



## ANNUAL FINANCIAL STATEMENTS

# BUSINESS REVIEW



# OUR VALUES

Our success and growth over the long-term is built on making a difference in the communities in which we operate. We are committed to moving Africa forward.

**Serving** our customers

**Growing** our people

**Delivering** to our shareholders

**Being** proactive

**Working** in teams

Constantly **raising** the bar

**Respecting** each other

**Upholding** the highest levels of integrity

## CREATING VALUE FOR THE GROUP

Our strategic value drivers align our allocation of resources to our strategy. We have identified five key value drivers, shown below, and continue to work on selecting the appropriate metrics for each, which are supporting more effective resource allocation and appropriate trade-off decisions.

- Client focus
- Employee engagement
- Risk and conduct
- Financial outcome
- Social, economic and environmental outcome

**Ethical and effective leadership**
Ethical and effective leadership relates to uniting purpose and performance. Embedding an ethical culture recognises that the trust of our stakeholders is the basis on which we compete and win.

## CREATING VALUE FOR SOCIETY

Social relevance is fundamental to our survival and success, and is implied in our purpose and vision.

We are moving towards measuring our social return, and to obtain a truer picture of our broader value outcomes. This involves identifying the social, economic and environmental risks and opportunities that Mauritius presents and how our business activities can respond to these.

**Corporate citizenship**
Corporate citizenship relates to the integral role we play in the socioeconomic wellbeing of Mauritius. It commits us to using our resources responsibly as inputs to our business model, and balances our needs with those of society.

## DRIVING AFRICA'S GROWTH OVER THE LONG TERM

Our multi-generational purpose recognises the mutual interdependency of Mauritius' wellbeing and that of the group. It is the ultimate expression of our commitment to drive Africa's growth that is inclusive and sustainable, and in turn secures viable markets for our long-term profitability and value creation.

**Sustainable development**
Sustainable development commits us to enhance the resources and relationships we rely on today, for the future. Our social, environmental and economic initiatives is delivered in line with our purpose.

**Putting our clients' best interests at the centre of our business**

**Motivating our people**

**Managing regulatory change**

**Embracing innovation**

**Leveraging our investments in IT**

# REVIEW OF PERFORMANCE

↑ 26.1%

CAPITAL TO RISK-WEIGHTED ASSETS

2018: 25%

↓ 134

EMPLOYEES

2018:136

↑ USD127.9m

SHAREHOLDER'S FUNDS

2018: USD115.8million

↑ 39.7

COST TO INCOME RATIO

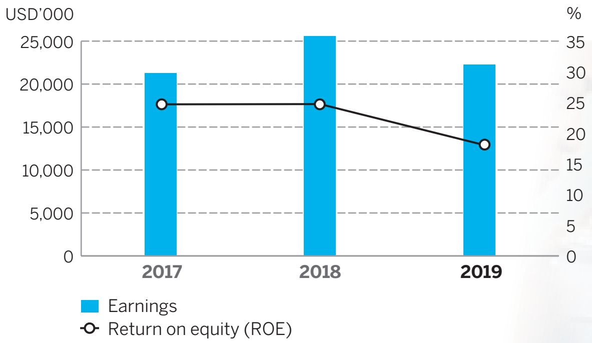
2018: 39.4%



# FINANCIAL HIGHLIGHTS

| | Dec-19 USD'000 | Dec-18 USD'000 | Dec-17 USD'000 |
|---|---|---|---|
| **Earnings attributable to shareholder** | **22,254** | 25,573 | 21,286 |
| **Statement of Financial Position** | | | |
| Gross Loans to Customers | **234,975** | 231,933 | 124,135 |
| Total Assets | **1,446,356** | 1,587,170 | 1,280,777 |
| Total Deposits | **1,299,500** | 1,422,348 | 1,164,410 |
| Shareholder's Funds | **127,857** | 115,791 | 90,961 |
| Common Equity Tier 1 / Tier 1 Capital before regulatory adjustment | **109,241** | 97,524 | 71,298 |
| Risk weighted assets | **422,285** | 380,950 | 226,974 |
| **Performance Ratios (%)** | | | |
| Return on average total assets | **1.5%** | 1.8% | 1.5% |
| Return on average equity | **18.3%** | 24.7% | 24.7% |
| Return on average Tier I Capital | **21.5%** | 30.3% | 27.9% |
| Cost to Income Ratio | **39.7%** | 39.4% | 41.0% |
| Non interest income to total income | **30.8%** | 39.5% | 44.5% |
| Loan to Deposit Ratio | **19.8%** | 16.0% | 16.0% |
| **Capital Adequacy Ratio** | | | |
| Common Equity Tier 1 / Tier 1 Capital Ratio | **25.9%** | 24.1% | 31.4% |
| Capital to risk weighted assets | **26.1%** | 25.0% | 32.0% |
| **Asset Quality** | | | |
| Non performing loans (NPL) | **21,909** | 812 | 812 |
| NPL Ratio (%) | **9.3%** | 0.4% | 0.7% |
| Allowance for loan impairment losses | **8,479** | 4,286 | 1,965 |
| Credit loss ratio (CLR) | **1.9%** | 1.0% | (0.2%) |
| Number of employees | **134** | 136 | 138 |

**Earnings attributable to shareholder**



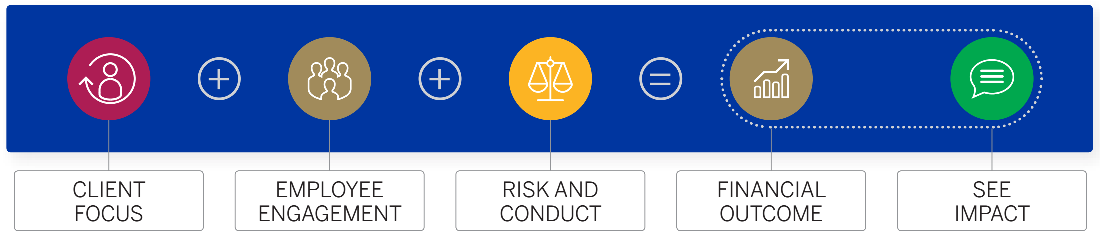

# NON-FINANCIAL PERFORMANCE

## Strategy

Standard Bank (Mauritius) Limited (the Bank) is structured to support Standard Bank Group (the Group)'s aspiration to be the leading financial services institution, in, for and across Africa, delivering an exceptional client experience and superior value. Our strategy and purpose is centred on our commitment to Africa and our growth and evolution is directed to the shared benefit of our clients, our people and all our stakeholders. This drives us to build a better business, to lead with purpose, and to position our footprint and be ready for the future. In 2019, client centricity and consistent service delivery remained the main pillars upon which the Bank has focused in order to reinforce and enhance its clients' experience. Emphasis was placed on digitisation and technology, employee engagement, improving client's experience and our clients were at the centre of everything we did.

### OUR STRATEGIC VALUE DRIVERS

help us focus our efforts and measure the progress towards delivering on our group strategy and vision.




**Client Focus - Putting the client at the centre of everything we do**

Focusing on the client lies at the heart of our business; it is a value inextricably linked to the profitability and sustainability of the Bank. By consistently creating exceptional client experience, understanding our clients holistically and offering the products, services and solutions that our clients need to achieve their goals, we, in turn, are able to achieve our goals.

The aim is to have all our business units and corporate functions work together seamlessly to deliver our clients' financial needs. To achieve these goals and objectives, and to create long-term and lasting relationships, the client is placed at the centre of everything we do.

**Employee engagement - Making Standard Bank a great place to work**

Our biggest asset is our people. Therefore, there is a direct correlation between the growth of our organisation and the growth of our staff members and individuals who forms part of this organisation.

Our client satisfaction levels and our ability to deliver on our strategy directly correlates to how our people think and feel about their work. Our people are empowered and recognised for delivering against our strategic objective. In simple words: satisfied people make satisfied clients.

**Risk and Conduct - Supporting our clients by doing the right business the right way**

The financial services industry operates within a strict set of regulatory frameworks and as a Bank, we have the responsibility to comply with all applicable laws and regulations to ensure that we support and protect our clients. In order to maintain our reputation as a trusted financial services organisation, we must do our part to ensure that our vision and values come to life on a daily basis which means doing the right business the right way.

**Financial Outcome - Delivering value to our shareholder**

Value creation for our shareholder is an essential part of our strategy, which we measure by the organisation's financial outcomes. Helping us to generate earnings allows us to invest capital to support our clients' needs, thereby enabling us to drive Africa's growth. Financial outcomes are directly driven by and dependent on client satisfaction, employee engagement and risk value drivers.

**Social, Economic and Environmental (SEE) Impact - Creating and maintaining shared value**

Delivering value to the communities we serve by contributing to the social, economic and environmental well-being in the markets in which we operate. We drive Africa's growth in a responsible manner. Our social and environmental initiatives are discussed in the Sustainability section of the report.

## Other highlights

During the year 2019, our marketing and communication initiatives were mainly focused on promoting a client-centric culture, brand equity, building and nurturing relationship with clients and stakeholders and upholding the organisation's culture, values and principles.

The focus of the Marketing and Communication team is on enhancing the brand image and visibility of the Bank, thereby supporting business growth and raising awareness of the Bank's capabilities. It also promotes a brand culture and a committed workforce by driving a culture of engagement, pride and excellence.

## Advertising

The Bank positioned itself as the partner for growth on the continent it calls home. In 2019, our marketing strategy was supported by a brand awareness campaign which emphasised the Bank's ability to act as a platform to connect clients to the African continent as well as the role of the Bank in Mauritius as a platform to Africa with advertising materials in strategic locations. The aim was to reinforce the message that we are uniquely positioned to leverage our African footprint, strong focus on natural resources and local market knowledge.

## Sponsorship

Sponsorships are an important component of the Bank's social responsibility and communication strategies. They provide us with the right platform to engage with our different stakeholders and a major contributor in enhancing our brand and creating relevance in our market. For several years now, one of the priorities of Standard Bank's sponsorship strategy has been the promotion of sports, arts and culture. In line with our strategy, our brand, our culture and our values, our involvement in 2019 as sponsor is characterised by consistency and continuity in sports commitments.

The sponsored events in 2019 were as follows:

### Standard Bank Royal Raid

Standard Bank Mauritius was the title sponsor of the Royal Raid 2019, which is one of the most popular trail running events in Mauritius, leading the participants in the heart of the south-west of the island to discover the untouched nature of the island. Trail running events are very popular and attract many runners - amateurs as well as professionals both locally and overseas.

Royal Raid is a challenging trail run which shares all the qualities that Standard Bank stands for: hard work, dedication, endurance and the desire to succeed. This trail will eventually reward the runner with some of the luxuriant untouched landscapes of Mauritius along with a strong sense of accomplishment.

### University of Mauritius Trail

The Bank was among the sponsors of the 2nd edition of the University of Mauritius (UOM) Trail. Held in the Black River Gorges National Park, more than 300 UOM students experienced the true beauty of largest national park in Mauritius while practicing a physical activity.

### FutureFest- ALU

This initiative is in line with the Bank's vision to bring a meaningful contribution to the Mauritian society by having a social and economic relevance. In an era of digital disruption and fast changing landscape, what better time than now to empower the Mauritian youth, and along with experts, to brainstorm about digitisation and their future. We believe that technology inspires progress, growth, development and change.

The Bank was the main sponsor of the FutureFest-ALU. This conference was organised by a group of students from the African Leadership University, and brought together minds from across Mauritius, the African continent and the world to discuss the future of our island and our planet. The Bank contributed to the discussion at FutureFest-ALU, with our Chief Information Officer, Adjhmir Bhugaloo participating in a panel discussion - The future of the digital society in a digital economy.

## Client Events

During the year, hospitality and business events were organised for clients. A whisky masterclass was organised for the ultimate experience for the true whisky aficionado. The aim of the event was to create a friendly platform to interact with clients outside of normal business hours, thus strengthening our relationship with them. Clients embarked on a guided discovery of a selection of whiskies paired with specific tasting dishes. This unique sensorial experience allowed the clients to perceive whiskies in a whole new way.

Events support our business by delivering, consistent world class experiences and growing relationships to our clients. They offer an unparalleled level of client engagement, with an opportunity for positive personal interaction that builds loyalty.

**Lakshman Bheenick**
*Chief Executive*

**Duncan Westcott**
*Chairman*

# CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

The Board of the Standard Bank (Mauritius) Limited is pleased to present its seventeenth Annual Report for the year ended 31 December 2019.

Dear Shareholder,

On behalf of the Board of directors, it gives us great pleasure to present Standard Bank (Mauritius) Limited's Annual Report for the financial year ended 31 December 2019. Despite headwinds and uncertainties in the global economy, we delivered a financial performance aligned to the unforeseen uncertainties.

## Our overall performance

The Bank had a robust first half of the year. By June 2019, revenue increased by 5.4% compared to the prior period, indicating that we were on a strong growth trajectory and on course to outperform our objectives for the FY2020. This growth momentum, however, was halted by unforeseen circumstances in the global macroeconomic environment. For the first time in over a decade, the U.S Federal Reserve cut its benchmark interest rate three times in the second half of 2019, reversing the rate hikes made in 2018 and undermining the assumptions of achieving our financial goals. Concurrently trading revenue did not perform as expected in line with consistent margin contraction witnessed over the past 2 years. Two of our credit exposures showed signs of distress in the second half of the year which required a higher level of credit impairment charges in line with IFRS 9, the quantum of which USD5.5m had a significant impact on our headline earnings.

After three consecutive years of achieving all-time high financial performance, we fell short of our financial objectives. However, business performance still reaped a total revenue of USD 46.8m(-16%) and a profit after tax of USD22.3m (-27%) in line with our Africa focused strategy.

## Transforming our organisation for long-term growth

In an ever-evolving world and highly volatile environment, it has become an imperative for organisations to transform themselves in line with rising customer expectations. As announced in last year's report, we chose to discontinue our Wealth and Investment activities in 2019 with the purpose of focusing solely on Corporate and Investment Banking. We aligned our teams to enhance our capabilities and services on chosen client segment. Our client relationship team is now better equipped to address critical client requirements within a streamlined and integrated business model to explore the best solutions aligned to our product capabilities and expertise.



## Advancing our strategic objectives

We remain focused on our five group value drivers against which we measure our progress:

### Client focus

The Bank connects the client to the right resources and capabilities that will drive the relevant solution for as per their business needs. In 2019, we leveraged technology to offer a seamless digital experience and ultimately, deliver on our group strategic goal of digitisation by implementing enhanced Straight-Through Processing to accelerate the speed of transactions from hours to less than 1 minute. Clients now have an overview of their payments in real time and can access their accounts remotely. We also strengthened our cybersecurity posture by upgrading our security systems and protocols to protect both our clients and our organisation.

### Employee engagement

Employee engagement among our 134 employees is critical to our success alongside ensuring our clients' needs are delivered. We have invested into health and wellness in 2019. Recognition is also one aspect that supports engagement and we have two schemes:

- Instant recognition: acknowledges one-time achievements in the form of a cash award or paid leave
- An annual recognition for exceptional behaviours and performance: Mark of Excellence

Concurrently the Standard Bank Group runs a group-wide survey 'Are You A Fan' once annually to have the pulse of each subsidiary. Our Net Employee Promoter Score for Standard Bank Mauritius rose to +19 in 2019 as compared to -2 in 2018.

### Risk and Conduct

An increasingly tightening regulatory landscape requires us to quickly identify, manage and mitigate risks. Compliance, ethics and best practices remain prominently top of mind for the Standard Bank Group as an organisation that operates across geographies. We have three focused functions—Compliance, Legal and Risk —which assist us in insuring against internal and external threats, and to establish a culture of integrity within the Bank. We continue strengthening our practices and ensure that every employee upholds strong ethical and corporate governance standards.

### Financial Outcome

Our results reflect the investments made in digitalisation, in improving the client experience and in becoming a more agile and integrated Bank. Despite an unfavourable second half of the year, the resilience of the Balance sheet is demonstrated by the following metrics:

- Headline Earnings : USD22.3m – (2018: USD 25.6m)
- Customer Deposits : USD1.2bn – (2018: USD 1.4bn)
- Gross Customer Loans : USD 235.0m – (2018: USD231.9m)

### Our Social, Economic and Environmental (SEE) impact

The Bank is committed to playing a prominent role in our communities. Our Corporate Social Responsibility approach is focused on three areas: Education, Environment and Health. Education remains one of the most driving engines for growth and sustainable development. We provide a scholarship scheme for the University of Mauritius, internship and development opportunities to new graduates to equip them with the skills they need to thrive in the workplace. A strategic partnership has also been concluded with the Mauritius Wildlife Fund.

## Looking ahead

Into 2020, the Bank will continue to strengthen its focused strategy for Africa for Corporate and Investment Banking clients to increase both client wallet share and market share and ensuring we deepen our relationships with our clients.

## Acknowledgments

Our FY 2018 Chairman, Louis Rivalland, resigned from the Board. His dedication and contribution over 9 years have proven invaluable and on behalf of the Board members, we wish him all the very best for the future. Brenda Niehaus also resigned from the Board in November 2019.

We are grateful to our Board of Directors for their guidance. We thank our clients, regulators, management, business partners and shareholders for their ongoing support to the Bank.

Chairman
Duncan Westcott

Chief Executive
Lakshman Bheenick

18 March 2020

# MACROECONOMIC REVIEW

Trade protectionism, Brexit, and marked economic weakness in Europe and China have reduced global growth to its slowest since the financial crisis. The coronavirus is the most significant risk threatening to derail an otherwise improving global economic climate. Concerns surrounding the socio-economic and health implications of the virus remain elevated.

Mauritius' GDP for the year grew by 3.6% when measured at market prices, due to the impetus from public investment in infrastructure, especially the Metro Express project. External demand is expected to improve, as the improvements in EU economies as Mauritius's main trading partner will add some buoyancy. The construction sector has boosted growth in 2019 and this sector is expected to continue to underpin growth in the medium to long term, driven by major projects introduced in the budget FY2019/20. However, tourist arrivals are unlikely to rebound meaningfully largely due to the Asian market and the impact of the coronavirus.

The incumbent government secured re-election in November 2019. This will provide political stability and continuity in economic policy in the medium term. The economy will however be vulnerable to global economic trends, especially conditions in Europe, China and the US, which remain the country's major trading partners.

Capital and financial inflows have remained robust through the year, as implied by rising FX reserves which reached USD7.36bn in December, covering 12.6-mths of import based on the Bank of Mauritius's estimates.

The headline inflation rate decreased from 3.2% in 2018 to 0.5% in 2019, against the backdrop of low global inflation due to contained oil prices, soft economic activity worldwide and subdued domestic demand. Looking ahead, inflationary pressures are likely to remain broadly contained, after factoring in the reduction in excise duties on selected items, and cuts in the prices of gasolene, diesel and liquefied petroleum gas. However, a resurgence of international oil prices and the depreciation of the Rupee may lead inflationary pressures.

Whilst short-term yields continue to evolve within the interest rate corridor of the operational framework for monetary policy, excess liquidity in the Rupee market has put significant downward pressure on yields across the rupee yield curve, in spite of the various initiatives implemented by the Bank of Mauritius to reduce the excess.

The Mauritian Rupee is a relatively free-floating exchange rate, with the Bank of Mauritius's interventions on the domestic foreign exchange market focused on keeping orderly and balanced conditions. The Rupee/Dollar exchange has historically tracked the Euro/Dollar exchange rate, due to the island nation's strong economic ties to Europe. Demand and supply conditions in the domestic market also influence the value of the Mauritian Rupee. The Rupee/Dollar has traded in the range 34.79 to 35.56 during the year 2019. An upside likelihood to the EUR/USD, will trigger the USD/MUR to fall in short to medium term.

The Monetary Policy Committee (MPC) has reduced the Key Repo Rate from 3.50% pa to 3.35% pa on 27 November 2019 with a view to continuing to support economic growth.

*Source: Standard Bank Research, Bank of Mauritius, Statistics Mauritius*

# MANAGEMENT DISCUSSION AND ANALYSIS

The MDA includes forward-looking statements and there is a risk that forecasts, projections and assumptions contained therein may not materialise and that actual results may vary materially from the plans and expectations. The Bank 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.

The Bank, a wholly owned subsidiary of Standard Bank Group, distinguishes itself from the fiercely competitive banking landscape in Mauritius by focusing on global corporations with operations across the African continent, as well as African corporations that operate on the continent and offshore. Our footprint across 20 countries in Africa, combined with our expertise of the Mauritian jurisdiction and extensive global network, puts us in the unique position to support corporations in their ambitious African strategies. The extensive knowledge we have of our markets, gained through our on-the-ground presence, and our deep understanding of our clients' businesses allows us to continuously assess and define country, sector and client risks and opportunities. This enables us to respond quickly and appropriately to changes in our operating context. We remain focused on key sectors where we have a deep sector-specific knowledge and expertise, while sufficiently diversified across geographies and markets to reduce our exposure to risk and show resilience in the face of an ever-changing operating environment.

Our strategy is grounded in service excellence, client centricity and digital innovation, allowing us to deliver on our purpose of being the leading financial services institution in, for and across Africa. We continued on the transformation journey of our business to ensure a singular focus on our clients: to understand their needs and to gain, and keep, their trust by delivering complete solutions. Initiated as three key strategic value drivers last year, we have progressed steadily in the delivery of these priorities: client centricity, employee engagement and risk and conduct. We strongly believe that a combination of these will deliver a competitive advantage for the Bank.

Underpinning and supporting these product houses are solid corporate functions that enable us to execute our strategic objectives: an employee-centric Human Resource department, a customer-centric Operations division and a Risk & Conduct function among others.

## The Results

Our performance was robust for the first half year. Amid rising concerns over Brexit and US-China trade tensions, the US Federal Reserve slashed interest rates three times as from July 2019, bringing the benchmark rate down by 0.75 bps to a range of 1.75% to 2.25%. Being mostly a USD denominated asset and liability driven business, the Bank was heavily reliant on this benchmark interest rate. This adversely impacted the net interest income for the second half of the year. While some solid growth in the franchise was seen in some areas of the business, the drop-in activity from certain major clients as well as the effect of the declining interest rate environment highlighted the need to continuously diversify the client base, grow the asset book, and originate new opportunities.

The subdued performance in trading revenues, coupled with additional credit impairment of USD 5.5m raised in the last quarter of the year, translated into a lower than expected return on equity of 18.3% and a profit after tax of USD22.3m. Despite those challenging headwinds, the Bank closed the year with the highest financial results since its seventeenth years of activities.

## Review by Business lines

The Bank provides its clients with a full range of banking, trading, transactional, investment and advisory services through three core product houses:

- Transactional Products and Services
- Investment Banking
- Global Markets

In a strategic move to optimise our operating model and focus on our key value drivers, Wealth Management no longer forms part of our core offerings since early 2019.

The Bank continues to serve the banking, finance, trading, transactional, investment and advisory needs of a wide range of multinational companies, local and regional businesses, financial institutions, governments and parastatals. In so doing, teams were reorganised in a way to address customer-specific issues, with Transactional Product Services (TPS) and Client Coverage teams now split into two separate functions. The Client Coverage function will coordinate and drive the client strategy going forward and ensure we deliver on our goal to become a truly universal financial services organisation. Client Coverage team will now service and support our three product houses. With expertise in all of the Bank's products, the Client Coverage teams provide comprehensive strategic, capital raising, and risk management support tailored to clients' unique requirements, enabling them to develop a sustainable competitive advantage. As trusted strategic partners, they are well positioned to enhance their understanding of customers, anticipate their future needs, provide unbiased insights and offer omnichannel service.

Towards the later part of the year, the Bank set in motion a client acquisition plan to boost the Bank's growth potential. In the same line, the client value proposition will be revamped.

## Transactional Products and Services (TPS)

TPS provides the Bank's corporate clients with transactional solutions across jurisdictions in Africa. These solutions include access to short-term finance facilities, cash management activities and support on complex transactions. TPS accounts for over 50% of the Bank's revenue and hosts its liability base.

| Operating environment | 2019 Performance | Alignment to Strategic Drivers | Outlook and priorities for 2020 |
|---|---|---|---|
| As a USD liability driven business, the macro economic environment has been quite challenging, with the various Fed rate cuts which occurred this year. Global economic conditions are increasingly subdued, particularly due to the uncertainty of the macroeconomic effects of the Covid-19 virus outbreak around the world. | As part of Digitalisation, we are proud to state that 86% of our customer payments are now processed through our electronic platforms. We launched a state-of-the-art mobile application in the first quarter of 2019 allowing clients to fast-track critical tasks. The application provides an enhanced digital experience to our clients through their mobile devices. | Client centricity & Digitalisation & Universal Financial Services | We expect our new structure to deliver greater value to our clients through a more dedicated and quality service.<br><br>Our priority for 2020 is to focus on Tier 1 clients, our largest customer base. The focus for 2020 will be on accompanying the Group's large Tier 1 clients in their African ventures. Diversification of our product offering to our existing and new clients will also be high on our agenda. |
| Technological advances and heightening customer expectations have and will continue to disrupt the banking landscape. While digitalisation creates new opportunities to drive innovation, it also generates risks related to privacy and security. The Bank's response to this, is to roll out digital platforms and develop technological capabilities that meet our clients' expectations of 24/7, anytime-anywhere service. | The implementation of Straight-Through Processing (STP), an electronic payment process, has enabled us to accelerate the speed and efficiency of payments. While the traditional method may take a few hours to process and required the intervention of multiple resources, STP is free of human intervention and transactions are processed in merely 14 seconds. Clients receive their advice electronically as soon as their transaction is completed. This has improved the client experience in our client centricity journey. | Digitalisation & Client Centricity & Employee Engagement | We expect our customers to continue increasing their online interactions and intend to ensure a seamless experience for clients across our processes and channels.<br><br>As STP reduces processing time and errors, it also frees up our resources. This allows them to focus on greater value-added tasks and on creating a more positive user experience for our customers. |
| | 2019 was a tale of two halves for Transactional Products and Services (TPS) unit. The first half of the year saw a very strong performance on total Income with revenues higher than the prior year corresponding period by almost 24.5%. The second half was very subdued with TPS closing the year 4.6% above 2018. Cash Management continue to be the main driver of TPS income and a growth of 7.3% was witnessed over the prior year. The main drivers of Cash Management were higher deposits levels and increased volume of transactions. On the other hand, Trade finance had a difficult year with income lower by 22% as compared to 2018, due to difficult market conditions impacting a few of our key clients resulting in reduced activities. There were some significant one-off transactions from one of our largest clients in 2018 which did not repeat itself in 2019. | Financial Performance | With the ongoing focus to grow our client base, the Bank will be enhancing its client value proposition and grow both its assets and funding base.<br><br>With the recent inclusion of Mauritius on the FATF (Financial Action Task Force) list of countries subject to increased monitoring, we will keep a close monitoring on any impact to our client base. |

| Operating environment | 2019 Performance | Alignment to Strategic Drivers | Outlook and priorities for 2020 |
|---|---|---|---|
| | The average loan book in 2019 increased by 14% to close at USD56m and 8% ahead of target on account of increased utilisation of our facilities from existing clients and new disbursements from new clients. Average liabilities grew by 26% to reach USD1.2bn year-on-year. A strong deposit growth was experienced since late 2018, as a result of new client acquisitions which brought in fresh deposits and has kept us in good stead in 2019.<br><br>Towards the last quarter of the year, our asset book has been adversely impacted with two distressed assets of USD 9.9m which required credit impairment level to the tune of USD2.5m to be raised. | | |

## Investment Banking (IB)

Our Investment Banking team leverages its insights from our local, regional and international footprint to deliver financial solutions to multinational corporations with a strong presence in Africa. Our expertise, combined with our global strategic relationships and unparalleled network, enables us to identify unique opportunities and support your growth. Our capabilities include best-in-class advisory services, debt capital market solutions, innovative debt solutions and flexible primary financing solutions.

| Operating environment | 2019 Performance | Alignment to Strategic Drivers | Outlook and priorities for 2020 |
|---|---|---|---|
| Internally, the restructuring of our client-facing teams and the creation of a dedicated Client Coverage function has been beneficial to us. Now operating in a more strategic role, they have a holistic view of a client's activities and act as the main point of contact.<br><br>Externally, the competitive landscape has remained relatively unchanged, however the need to closely assess and monitor cross-border risk remains paramount, and less-than-expected growth from various African jurisdictions necessitates careful structuring and post-transaction monitoring. | The focus for this year was the continued execution of the pipeline existing at the end of 2018 and the follow-through on the strategy of leveraging our balance sheet capacity and Standard Bank Group's broad network to unlock value for our multinational group clients.The growth of the asset book this year has improved its diversification - a key medium-term goal for the business, which will enable us to mitigate risk to earnings both from credit risk as well as unanticipated prepayments.<br><br>Our single obligor limits have increased since last year and has allowed the business to participate more meaningfully in debt transactions and diversification in the book. | Customer Centricity & Employee Engagement & Universal Financial Services | Moving forward, our priority is to accelerate our speed of execution and operational excellence. Pipeline going into the year is relatively healthy and through focused collaboration with Client Coverage we aim to generate additional opportunities across our target sectors. With growth in the book, we will further our aim of diversifying exposures which will build resilience against the net effect of credit impairment events. |

| Operating environment | 2019 Performance | Alignment to Strategic Drivers | Outlook and priorities for 2020 |
|---|---|---|---|
| | As a result, our share of wallet increased by 30% from USD130m in 2018 to USD170m in 2019. New facilities disbursed in 2019, coupled with those initiated late in 2018 led to a growth of 46% in revenues year-on-year. In spite of this encouraging growth, however, we were adversely impacted by two credit exposures which have shown a deterioration in the credit quality level and which required credit provisioning of USD3m to be raised. This has significantly impacted our bottom line. Despite these challenges, the business grew its non-interest revenue by USD 370k on the back of higher debt arrangement fees. | Financial Performance | In 2020 we also look forward to procuring a Corporate Finance Advisory Licence which will enable us to market a more comprehensive set of services (namely Capital Markets and Advisory) which are fully aligned with the global IB value proposition.<br>An ancillary goal for 2020 is to deploy an upgraded loan management system, that will boost efficiencies, reduce operational risks and increase security. |
| | In June 2019, a new Investment Banking Manager was recruited, whose experience and knowledge have contributed significantly to deal origination and execution, as well as the smooth running of the function. | Employee Engagement | |

## Global Markets

Our Global Markets (GM) specialists provide client-driven sales, industry-leading insights and trading services to meet the hedging and treasury needs of our clients. The Bank's extensive regional footprint and presence in all major global financial markets enables us to protect our clients from a suite of interest rate and foreign exchange risks, enhance their risk-adjusted portfolio returns and allow them to realise their growth ambitions in Africa.

| Operating environment | 2019 Performance | Alignment to Strategic Drivers | Outlook and priorities for 2020 |
|---|---|---|---|
| Global Markets income comprises two components, namely Net Interest Income (NII) and trading income. NII is driven by the amount of excess funds available for placements.<br>Trading income on the other hand is generated from interest rates and Foreign Currency (FX) flow trading with clients. | NII increased by 37.3% supported by an increase in deposit base, efficient overnight placements and balance sheet optimisation.<br>Trading income went down by 36.4%. Performance for the year was negatively impacted by lower turnover from key clients and margin compression. Moreover, the discontinuance of our Wealth and Investment offering early during the year added to the underperformance. Unfortunately, no significant client with GM needs were acquired during the year to make up for the income shortfall. | Financial Performance | We are currently looking at ways to enhance yields on our high-quality liquid assets (HQLA) portfolio and Bank placements.<br>To diversify our client portfolio, our priority for 2020 will be to diversify our client portfolio across sectors, geographies and ecosystems. This client acquisition initiative is being driven bank-wide by business heads and will go a long way towards reducing concentration risks in the medium to long term. In parallel to acquiring new clients, we will step up engagements with existing clients with the objective of deepening our understanding and adding greater value to their businesses. |

| Operating environment | 2019 Performance | Alignment to Strategic Drivers | Outlook and priorities for 2020 |
|---|---|---|---|
| | During the year, we continued to showcase our e-market trading platform to our clients in our drive to make digitalisation a priority for the Bank and bring efficiency to the dealing room. EMarketTrader enables our clients to execute their foreign exchange transactions, monitor international currency exchange rates and keep records of their deals through trading receipts. While clients used to be restricted to our working hours to trade currencies, they can now trade currencies at the click of a button. | Digitalisation & Customer Centricity | In 2020, our booking platform, will be upgraded. The objective is to provide a robust real-time risk platform to our business and meet the growing demand for diversification of products to our clients. |

## Risk and Conduct

Our objective to do the right business the right way is pervasive – from our compliance with regulations, including the enforcement of measures to combat money laundering, financing of terrorism or other fraudulent practices, to our ethical conduct as individuals and as a financial services organisation.

As a financial institution with a global presence, our operations are required to adopt global best practice in financial standards. Our teams maintain relationships with the banking regulators and central banks to ensure that we understand and can proactively manage increasing regulatory change.

We manage risk within an agreed risk appetite, which is regularly reviewed based on the insights of our risk teams and the group risk management function. Our strategy of developing relationships with our clients and knowing the sectors and markets they operate in, enables us not only to select quality clients and projects but also to avoid risk or anticipate it and respond proactively. We adjust our risk appetite indicators to reflect changes in our clients or their operating environments.

The Bank remains constantly vigilant against cybercrime and continues to place the highest priority on maintaining IT security and stability.

## Human Capital

Our Bank is a people-inspired organisation. Over time, we have built a base of highly skilled employees, who continue to be the driving force behind our success.

In 2019, in line with the Bank's efforts to shift towards a more collaborative model, our Human Capital (HC) function transitioned from a supporting role to an enabler of our strategy and a strategic partner that adds value to our business lines. Some of the most notable achievements for the year include:

- We strengthened the relationships between HC and our business units, ensuring more cross-departmental collaboration and the cross-pollination of ideas. HC not only services our product houses, but also provides insights and recommendations to address critical business challenges through the talent lens.
- Only through open dialogue and a more collaborative culture across the Bank can we improve employee engagement. Results from our last Employee Promoter Score reveal that our efforts are paying off, with an improvement in our rating score. The implementation of Office Vibe, as well as the annual 'Are you a fan' survey, enable us to measure and monitor employee engagement levels and enact the right actions in underperforming areas.
- We continue to ensure a seamless flow of knowledge and learning within the organisation. We began by identifying the training interventions required and carried out a number of targeted trainings to meet the Bank's needs. Our leadership team underwent the Rockefeller training to hone their leadership, interpersonal and management skills; our senior management also received culture training to ensure that they live by the Bank's core values each day and lead by example.
- We reinvigorated the office space, creating a more inspired 'break room' on the rooftop. We are working towards establishing a congenial culture and social atmosphere so our employees are happy and satisfied and can harness their maximum potential. We operate under the belief that happy employees lead to an increase in productivity, retention rate and ultimately, satisfied customers.

## Operations

Carrying on from last year's motto, Operations continued to ensure the optimal operational performance of the Bank by leveraging technology and bringing excellence to all aspects of the customer experience:

- Operations plays a big part in ensuring that financial transactions are executed quickly. As customers become increasingly demanding, requiring an experience that is as convenient as it is immediate, traditional systems and cumbersome processes no longer work. Eliminating human touch points also greatly reduces the risk of errors and delays, while allowing our employees to shift away from mundane, repetitive tasks to focus on more value-added and analytical functions. As positioned earlier a new payment system was rolled out and as with any introduction of a new system invariably demands effective change management. Straight-through-processing (STP) frees resources from time-consuming tasks, they are now redirected towards other critical tasks like risk management and data management, which requires new skill sets and capabilities. The Bank is committed to equipping our employees with the tools and resources they need to adapt to the change.
- We made particular strides in facilitating processes for clients using our Trade Finance services and products, through the integration of Eximbills Enterprise, a cutting-edge integrated system that audits and automates the complete cycle of trade finance, in real time, and in accordance with SWIFT and UCP standards. It drastically reduces turnaround times, while providing accurate and timely reporting and maintaining the highest level of security. Our clients receive automatic notifications, bringing them the convenience and efficiency they have come to expect from their bankers.

## Information Technology

The advancement of technology has brought about rapid changes in the way businesses and operations are being conducted in the financial industry. Information Technology is a strategic partner leading the delivery of exceptional digital client experience and driving the desired outcomes of our strategy.

As technology is both the source of future opportunities and potential disruption, the need for adequate and effective governance is imperative. In 2019, we formally established a Board Technology and Information Committee to oversee and monitor the implementation and execution of technology initiatives across the Bank, guided by the following governance domains: strategic alignment, risk management, resource management, performance measurement and value delivery.

We also engaged with a reputable firm to conduct a cyber security maturity assessment on the Bank's current cyber security, maturity and processes in order to determine the current state of cyber security levels in the organisation. This exercise enabled us to determine the current state against best practice of the cyber security measures in place and perform a high-level gap analysis. It also allowed us to receive guidance on the best approach to close these gaps identified in a planned manner. The cyber security maturity assessment was then followed by further simulation exercises and a penetration test which allowed us to implement and remediate our controls and cyber security strategies.

In 2019, we continued our transition from an on-premise IT infrastructure to a hybrid model such that all our critical applications are now available from the Group's private cloud infrastructure leading to the successful delivery of the below initiatives among others:

- Trade Finance platform roll-out and upgrade to newer version. This directly benefitted our clients due to an overall reduction of 37% gained in the average processing times of trade finance products.
- Migration of clients from legacy platforms to Business Online. By December 2019, we achieved a penetration rate of 80% of our client base using Business Online, against 70% back in January 2018, reducing manual payments to just 14%.
- Office 365 – various components such as One Drive, Share-point, Teams and Kaizala. Implementation and adoption of Office 365 suite of products is one of the stepping stones which will allow us to deploy initiatives such as flexi-time and work-from-home in the near future.
- Simplification of IT architecture. In line with our 'Simplification' strategy, we successfully decommissioned five legacy systems to reduce point of failures and increase systems availability to clients.

## Digitalisation

The world is moving fast, and we need to embrace a digital way of thinking, not only to keep up, but to lead the way. Innovation and new technologies are driving a profound change in the way business is being conducted. Our clients and their experience are at the core of everything we do and it is imperative for us to walk side by side with our clients as they move into a future defined by digital innovation.

Through digitalisation, we will deliver our Universal Financial Services Organisation (UFSO) through secure, personalised and relevant experiences to our clients and employees in real time all the time. Significant resources are being invested with a view to automate our processes and becoming a paperless environment.

At the Bank, we strive to offer a seamless banking journey to our clients across multiple channels. In addition to our existing channels, we have delivered new offerings in 2019 such as the mobile application, the enablement of STP for outward payments and the Swift Global Payments Innovation (GPI) Tracker.

## External forces review

### Legal and Regulatory Environment

The Bank continues to be impacted by a wave of regulatory and legislative changes. The Bank remains well informed on all pending regulations that are likely to impact our business and actively participates in discussions regarding new regulatory changes.

The following are key regulatory developments in 2019 which resulted in the Bank reviewing its policies and processes where necessary.

**A. Anti-Money Laundering Legislations and Regulations**

Mauritius is a founding member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLAG) which assesses the level of compliance of its members with the FATF recommendations. ESAMMLAG assessed Mauritius' AML/CFT legal framework and its level of effectiveness and issued a report in September 2018 highlighting certain weaknesses in the Mauritian AML/CFT framework. Mauritius proactively addressed the issues in 2019 by making substantial legislative amendments.

Several changes have been made to the Financial Intelligence and Anti-Money Laundering Act 2002 to address FATF requirements on, inter alia, customer due diligence, politically exposed persons, correspondent banking, wire transfers and reliance on third parties. New legislations such as the United Sanctions (Financial Prohibitions, Arms Embargo and Travel Ban) Act 2019 and the Financial Intelligence and Anti-Money Laundering Regulations 2018 have also been promulgated.

Following the legislative amendments, Mauritius applied to the ESSAMLAG for technical compliance re-rating in April and September 2019. The applications were successful such that Mauritius has been rated as Compliant or Largely Compliance on 35 of the 40 FATF Recommendations.

*Other regulatory Developments*

**B. Guideline on Credit Impairment and Income Recognition (Revised)**

The Bank of Mauritius revised the Guideline on Credit Impairment and Income Recognition in June 2019 to align with the IFRS9 Financial Instruments accounting standard in replacement of the previous accounting standard IAS 39 Financial Instruments: Recognition and Measurement. The amended guideline provides minimum prudential requirements with regards to asset classification, provisioning requirements and income recognition which financial institutions are required to follow. The revised Guideline which was effective as from 1 January 2020 has been put on hold until further notice by the Bank of Mauritius.

**C. Guideline on Credit Concentration Risk (Bank of Mauritius)**

The guideline has been revised by the Bank of Mauritius in August 2019 to align with the Basel Committee's Standard on 'Supervisory Framework for Measuring and Controlling Large Exposures'. A financial institution is exposed to various types and levels of credit concentration risk, with the potential of causing significant losses that could materially affect a financial institution's continued viable existence. Concentration risk may arise from excessive exposure to individuals or groups of counterparties and asset types. Safeguarding against credit concentration to different types of counterparties, industries, geographical regions and asset classes forms the basis of concentration risk management.

The Bank of Mauritius clearly states through this guideline the regulatory credit concentration limits and the basic framework of credit concentration risk management to be put in place by financial institutions.

**D. Financial Services (Custodian Services (digital assets)) Rules 2019 (Mauritius Financial Service Commission)**

The Financial Services Commission has issued a new Rule to regulating persons carrying out custodian services for digital assets.

**E. Guidance Notes on Common Reporting Standards (Mauritius Revenue Authority)**

The Guidance Notes have been reviewed to align the threshold used in identifying persons with "controlling ownership interest" with other applicable legislations such as the Banking Act and the Financial Intelligence and Anti-Money Laundering Act. The revised Guidance Notes further enhanced the prescribed characteristics of a 'Dormant Account'.

**F. Guideline for the write-off of non-performing assets - July 2019**

This guideline sets out a broad framework for the write-off process at financial institutions to ensure consistency and prudence while writing-off non-performing assets in a timely manner. This should also assist financial institutions in cleaning their balance sheets. It is mandatory for financial institutions to design and implement a board-approved write-off policy having regard to specificities of their asset portfolio, in accordance with this guideline.

The design of a framework for write-off of non-performing assets with weak recovery prospects ensures consistency across financial institutions and at the same time, helps in bringing more transparency on the current asset quality.

**G. Guidelines on Complaints Handling Policy and Procedures applicable to Banks and Non-Bank Deposit Taking Institutions licensed by the Bank of Mauritius issued by the Ombudsperson for Financial Services – 7 October 2019**

The Ombudsperson for Financial Services Act 2018 (Act) was proclaimed on 1 March 2019 and is operative as from that date. The primary mandate of the Ombudsperson is to deal with complaints made by consumers of financial services against financial institutions with a view to give better protection to consumers of financial services. The Ombudsperson may for the purposes of the Ombudsperson for Financial Services Act request any institution to furnish within such time and in such form and manner as he may determine such information as he may require. He may also by notice in writing to financial institutions falling under his purview, issue instructions and guidelines and impose such requirements as he may determine.

This guideline sets out the minimum standards and criteria to be observed by banks and non-bank deposit taking institutions licensed by the Bank of Mauritius for the purposes of the above.

**H. Guideline on Liquidity Risk Management - Revised April 2019**

Liquidity reflects the capacity of a bank to deploy cash, convert assets into cash, or secure funds in a timely manner to meet obligations as they come due without incurring undue losses. A bank transforms short term deposits into long term loans which makes it inherently vulnerable to liquidity risk. This vulnerability can extend beyond the Bank and affect the market as a whole. Effective liquidity risk management protects the Bank and the system as a whole from disruptive effects of liquidity shortfall. Liquidity shortfall at one institution can have system-wide repercussions. The Bank of Mauritius expects all institutions to have appropriate risk control measures to identify, manage and monitor liquidity risk exposures under various stress situations in order to protect their operations from disruption and adverse financial consequences.

This guideline draws on the analysis and recommendations of the Basel Committee on Banking Supervision (BCBS).

## Looking Forward

It is highly likely that economic conditions will remain challenging in 2020 and business will be impacted across the board. We expect the downside risk to persist, with 2020 being another story of resilience.

We will continue to transform our business to ensure a relentless focus on offering the solutions our clients want and need, delivering consistently excellent service and developing localised and empowered teams. We will deepen our existing client relationships and acquire new clients in key sectors.

Our priorities will look into:

- maintaining growth momentum of target client segments in Africa with service excellence and embed a market-based ecosystem approach
- Improve client experience and increase the Digitisation momentum
- allocating resources to growth opportunities, within risk appetite, aligned to clear sector focus
- maintaining disciplined cost management
- adopt the Group architecture framework and become more agile.

## Financial Review

**Table 1: Performance against objectives by key areas**

| | Objectives 2019 | Performance 2019 | Objectives 2020 |
|---|---|---|---|
| **Return on equity (ROE)** | ROE of 23.5% was expected to be generated, based on a budgeted profit of USD 30.5m. | ROE was at 18.3% following lower non-interest income as a result of lower trading income as well as the unexpected impact of increased levels of credit provisioning raised this year. | ROE expected to hover around 16.0%. |
| **Return on average assets (ROA)** | ROA was expected to close at 1.7% in 2019. | Return on average asset decreased to 1.5% as a result of lower earnings. | ROA estimated to reduce to 1.4% on account of lower profitability. |
| **Operating income** | NII was expected to increase by 19% on account of new term facilities.<br><br>Non-interest income was expected to increase by 15%, driven by additional fees and increased forex flows. | Operating income was lower than target by 16.1% as a result of a lower non-interest income, driven by the subdued performance of trading income, which was 36% behind expectations. | NII is expected to decrease by 9% on account of lower margins. Non-interest income is expected to increase by 6%, driven by additional fees. |
| **Operating expenses** | Operating cost was expected to increase by 17% driven mostly by increased headcount, rental of new premises and professional fees. | Operating costs was below target by 16.5% following a rigorous cost containment. | Operating cost is expected to increase by 9%, on account of additional IT support costs earmarked. |
| **Cost to income** | The cost to income ratio was expected to hover around 40%. | Cost to income was aligned to target and closed at 39.7% | The cost to income ratio is expected to increase to 46% as a result of the lower budgeted operating income. |
| **Loans & advances growth** | The loan book was expected to increase by 13%, on account of anticipated growth in client base. | Lower level of income from medium term loans was witnessed as the expected term disbursements took longer to materialise. This resulted in the term asset book to be behind target by 16%. | The loan book growth expectation is 39%, on account of anticipated growth in client base. |
| **Deposit growth** | Deposits were expected to decrease by 6%. | Customer deposits were 8% behind target as a result of lower deposits. | Deposits are expected to increase by 19% from existing and new business. |
| **Portfolio quality** | NPL ratio was expected to be within the threshold of 0.32% to 5%. | The ratio of non-performing loans to gross loans has increased to 9.3%, following the deterioration of two credit facilities.<br><br>One write-off was made in the year. | NPL ratio is expected to be within the threshold of 2.8% to 3.7% |
| **Capital management** | Capital adequacy ratio was expected to close around 31.4%. with CET 1 at 30.4% | The capital adequacy ratio closed at 26.1%, with CET Tier I ratio at 25.9%. | Capital adequacy ratio is targeted at 24.7% with CET 1 to be at 23.5%. |

## Review by Financial Priority Area

### Financial Outcome

The Bank delivered a robust financial performance for the first half of the year, with revenue increasing by 5.4% over the prior period and outperforming budget by 5% in attributable profits, an indication that the Bank was on course to deliver strong growths this year and outperform its objectives set. This prospect was however dampened in the second half of the year by unforeseen circumstances in our macroeconomic context, which had an adverse impact on earnings. The U.S Federal Reserve aggressively cutting its benchmark interest rate three times in a very short period of time took the industry by surprise and brought about significant challenges to the Bank to reverse the tide before the year ended and undermining our best efforts to achieve our set targets. In the last quarter of the year, the asset quality on two credit exposures showed signs of deterioration and was classified as stage 3 level under IFRS 9. This resulted in additional credit impairment charge of USD 5.5m and led the credit loss ratio to increase to 1.9%. These two significant factors led the Bank to fall short of expectations by 27% on its overall financial performance.

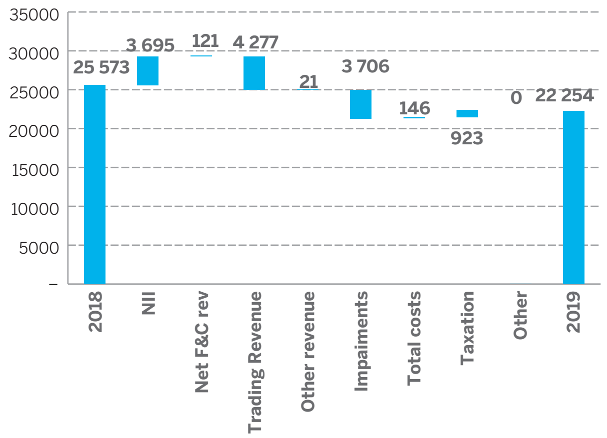
Notwithstanding these unforeseen events, the Bank achieved a reasonable financial performance, underpinned by the excellent performance delivered in the first half year. Operating income was slightly below last year by 1.4% to reach USD 46.8m. Profit after tax closed at USD22.3m, 13.0% down on last year, mainly due to the weak performance of non-interest income and impairment. The challenges for revenue growth included difficult market conditions impacting a few of our trade finance key clients resulting in reduced trade finance activities and lower FX flows from key clients and margin compression impacting trading revenue.

The above-mentioned factors resulted in negative jaws of 0.7% against the prior year. A detailed cost review analysis as well as a headcount freeze enabled us to maintain costs at par with prior year, resulting in cost to income ratio to remain flat at 39.7% with prior year. The good performance has resulted in the return on equity closing at 18.3%.

In spite of these challenging events, there were positive signs with good increases in the deposits base and a good asset deal pipeline in place. The Bank has sustained sound financial indicators, as gauged by the maintenance of relatively strong funding and liquidity positions. The Bank's capital position remained at comfortable levels, with a common equity tier 1 (CET 1) ratio of 25.9% and a total adequacy ratio of 26.1%.

Our balance sheet remains healthy and strong, given both our strong capital and risk positions. These leading indicators provide a good foundation for growth in 2020.

The waterfall hereunder details a summary of changes compared to prior year:




## Analysis of Results

### Revenue Growth

Total operating income went down by 1.4%, triggered mainly by the under performance of the trading revenue line, underpinned by lower FX flows witnessed during the year.

#### Net interest income (NII)

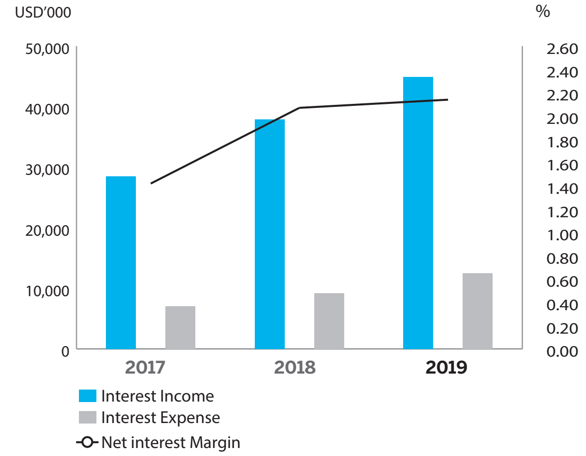
NII grew by 12.9% in the current year to reach USD 32.4m. In the first half of the year the Bank benefitted from a favourable interest rate environment and NII was ahead of the prior year by 31.3%. Being principally a USD liability driven Balance Sheet, the Bank is naturally positioned for a rising interest rate environment and is highly exposed to a falling interest rate environment. This was evidenced in the second half of the year, following the continuous lowering of US interest rate by the Federal Reserve as from July onwards, which impacted the Bank's momentum to achieve its half year set targets and led NII growth to substantially reduce to 12.9%.

Interest income increased by 18.4% to reach USD 44.9m, supported by increases in the medium-term loan book that grew by 33.0% year on year with the disbursement of new term facilities. Increased utilisation of short-term credit lines by customers also contributed to the increase in interest income. Despite a drop in placements in 2019, the interest income from placements increased by 6%, gauged by the efficient management of our placements book as well as the optimisation of our balance sheet. To mitigate further dilution in earnings following the various FED rate cuts, the Bank entered into an endowment hedge in August 2019, investing USD185m in US treasuries over 18 months.

The funding mix has shifted during the year, with an increase in interest bearing liabilities. This led to an increase in our interest expense by 35.5%, whilst a drop in the deposits base of 12.7% was witnessed.

Net interest margins remained flat at 2.2%.

**Net interest income**




#### Non-interest revenue (NIR)

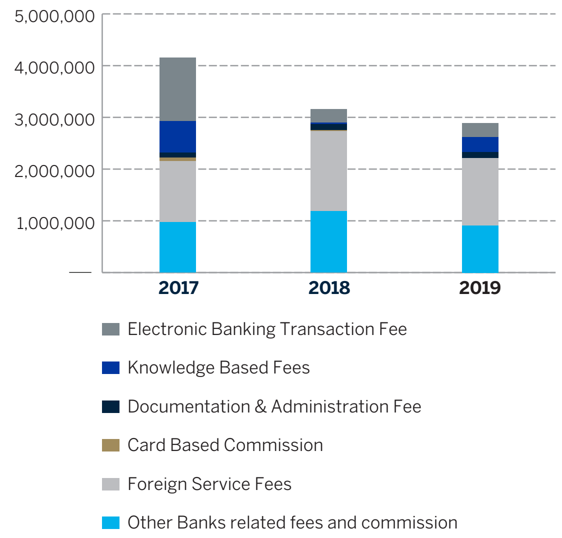
Non-interest revenue reduced by 23.3% to reach USD14.4m, with a slight decrease of 1.8% on net fee and commission revenue, trading income declined by 36.3%, whilst other income witnessed an increase of 6.6%.

Our customers are increasingly preferring digital channels. Net fees and commission revenue benefited from higher electronic volumes from Business Online transactions (5%). A decline was noted in the trade finance spheres spurred by lower volumes registered in both import and export fees activities.

Knowledge based fees depicted a strong growth (>100%) to close USD295k on the back of non-recurring structuring fees on deals initiated during the year.

The card-based commission has declined following the discontinuation of our wealth and investment business.

**Non-interest revenue**



## Trading income

Trading revenue dropped by 36.3% year-on-year to reach USD7.4m. The fall in revenue is mainly attributable to a drop in corporate sales volume from major clients compared to 2018. The FX flow trading, which is the main income generator, contributed 99.1% of the trading revenue. 2019 saw a contraction in margins due to a more competitive FX environment.

Revenue from FX flow trading was 36.5% lower than 2018. The money market trading desk experienced a fall in trading revenue of 52.4% compared to prior year, resulting from a reduction in swap activities. Client requirements for hedging solution were significantly lower than prior year, driving a significant fall in demand for structured products.

**Other revenue** grew by 6.6% supported by higher recharges of the shared services during the year from Standard Bank Trust (Mauritius) Co.

## Credit impairment

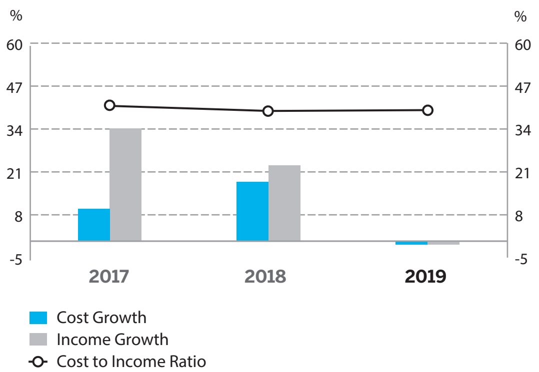
Credit impairment charges increased substantially by USD3.7m year-on-year, explained mainly by the increase in the non-performing loan portfolio. Provisions for credit impairments had a key impact on headline earnings this year. Substantial stage 3 provisions of USD 5.5m was raised on two credit exposures. Managing those particular assets and maintaining a high standard of prudence and pragmatism in our origination efforts going forward will be critical.

*A detailed analysis of performing and non-performing loans is provided in the financial risk management report on page 133.*

## Operating expenses

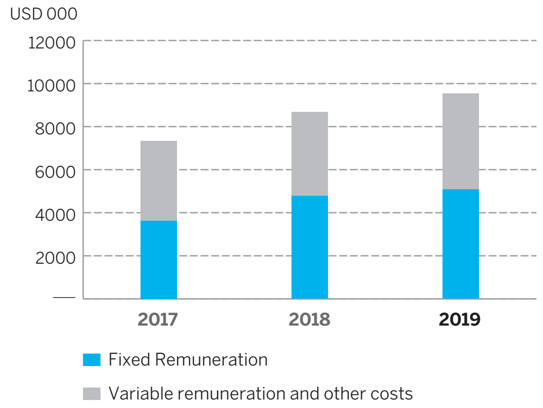
Operating expenses growth was well contained and was 0.8% below prior year, as a result of focused cost control. This was however not enough to offset the reduction in revenue resulting in negative jaws of 0.7%. A detailed cost review analysis has enabled us to maintain costs at par with prior year, resulting in cost to income ratio to be at par at 39.7% with prior year.

### Cost and income growth




Compared to prior year, a rise of 9.8% in staff costs was noted, representing 51.3% of the Bank's total cost base, on account of provisions raised for pension gratuity of USD502k to align to legislation following an assessment made by the actuaries. Headcount has reduced by 1.5% from 136 to 134. The increase in variable remuneration and other costs is driven by a rise in incentive cost mainly for 13th month cheque as a result of change in Worker's Rights Act and also a rise in share price of deferred bonus scheme.

### Staff costs expenses

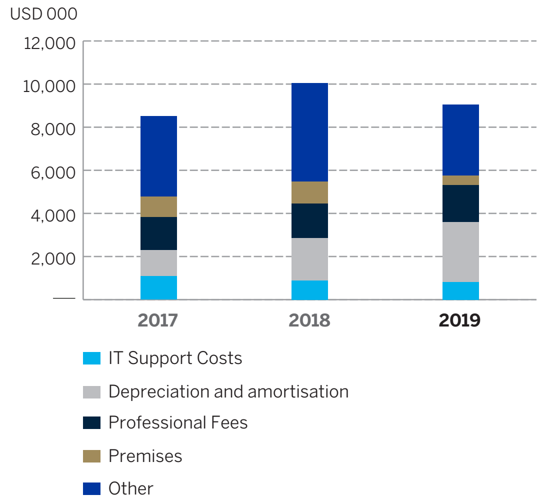



Other operating expenses were well contained with a 10% decrease on prior year. This improvement on cost was mainly due to the savings achieved following the decommissioning of Wealth and Investment IT systems, namely Sparrow and EMVP Chip Cards.

Since the implementation of IFRS 16 Leases in January 2019, there has been a shift in cost from premises expenses to depreciation, amortisation and interest expense. As from January 2019 rental of premises have been capitalised under right of use asset, leading to a rise in depreciation and amortisation and a reduction in premises expenses. Increase in professional fees is mainly due to the influx of IT managed services.

Other Expenses improved by 15.9% on prior year on account of further reduction in IT costs noted, supported by the reversal of various IT projects costs provision that will not materialise.

### Other operating expenses




## Tax

Whilst profit before tax decreased by 15.5%, the tax charge for the year went down by 53.3% as compared to 2018.

This is explained by the decrease in special levy due to the change in legislation applicable to the Bank. As from 1 January 2019, special levy is computed on net interest income and other operating income from Segment A activities only, compared to 2018 where it was computed on both segments A and B. Furthermore, in 2018, a one- off adjustment of USD 670k on deferred tax was made as per requirements of IAS 12: Income Taxes to cater for the change in tax rate highlighted below. The effective tax rate of the Bank moved from 6.3% in 2018 to 3.5% for the year.

As from 1 January 2020, a single corporate tax rate of 5% will apply to the Bank in addition to 2% CSR and Special levy on segment A activities.

## Dividends

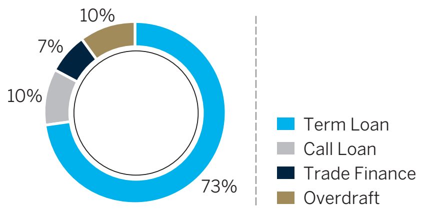
A dividend of USD 10.0m was paid in 2019 to the sole shareholder.

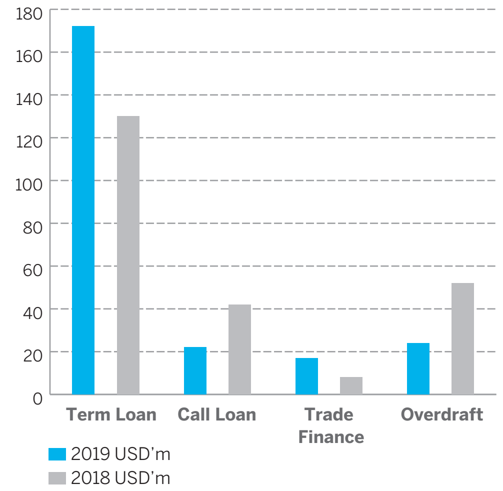
## Loans and advances

Gross loans and advances to customers remained fairly constant at USD235.0m, increasing by 1.3% from 2018 while loan to banks marginally decreased by 1.1% to reach USD298.7m.

The Bank remains particularly focused on its core activities relating to multinationals with an African footprint as well as local corporates with an interest into Africa. We have witnessed a slight increase in credit exposures year over year and the loan book has grown marginally from USD231.9m in 2018 to reach USD235.0m in 2019 and this may further increase in line with our diversification plans. The asset book remained skewed towards Segment B activities, in line with our business operating model.

### Composition of gross loans and advances




Whilst the overall exposures remained fairly flat, a drop in the Overdraft and Call loans portfolios aggregating USD47m was witnessed, driven by lower utilisation of working capital lines. Term Loan portfolios recorded a growth of 32.2 % by USD42m, supported by new credit facilities availed linked mostly to property holding and consumers sector. Trade Finance facilities rose by USD9m over the financial year, stemming from import loans and accepted letters of credit.

Overall the product mix showed a higher weightage on the loans product which represented around 73.1% of our Loan and Advances book, while both Overdraft and Call Loans have decreased by 53.7% and 46.8% respectively, as a result of our refreshed Investment Banking Strategy implemented since 2016.

As at 31 December 2019, the loan to deposit ratio stood at 19.8%. (2018: 16.0%).

## Credit exposure portfolio

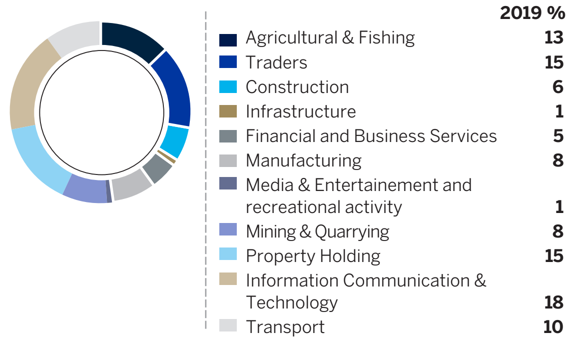
As at end of December 2019, the Bank exposures to the Global Business Licence (GBL) and Property Holding were 74.7% and 10.0% respectively. Exposure within the GBL sectors remained well diversified and in line with our sector appetite.

The Bank continues to trade with the established Tier 1 domestic counterparties, where working capital and short-term requirements are being financed, whilst continuing to service mainly the multinational corporates through the Segment B counterparties.

The Bank's credit appetite is constantly being reviewed in relation to any sector challenges and macroeconomic changes and caution is exercised as and when appropriate. The sector appetite is a yardstick to manage our appetite and exposure on each sector based on the individual sector outlook. The strategy is to ensure a well-balanced and diversified risk profile of our entire assets book based on insightful sector information.

### Credit exposure portfolio mix


### Global Business Licence Holders portfolio mix




## Credit Concentration

A large credit exposure is defined by the Bank of Mauritius as the aggregate of credit exposure to one customer or group of closely-related customers for amounts exceeding 10% of the Tier 1 Capital. A regulatory limit has been set by Bank of Mauritius for the aggregate of such exposures not to exceed 800% of Tier 1 Capital for MUR-denominated exposures and 1200% of Tier 1 Capital for foreign currency denominated exposures. For all exposure above 25% of Tier 1 Capital, our parent company, Stanbic Africa Holdings Limited (SAHL) has been informed as prescribed in the guideline.

As at 31 December 2019, out of the top 19 customers or group of customers with large exposure, there were no single customer with above 25% and no single group of customers with exposure above 40% of Tier 1 capital base for MUR-denominated exposures and 75% of Tier 1 Capital for foreign currency denominated exposures. Relevant processes are in place to ensure compliance in respect of regulatory guidelines. Those exposures were from major customers with satisfactory credit risk rating.

The top 19 most significant concentrations in respect of customer or group of customers as at 31 December 2019 were as follows:

| Sector | Exposure (USD'000) | % of Tier 1 |
|---|---|---|
| GBL (16 Clients and 2 Groups of clients) | 235,362 | 215.5% |
| Mining & Quarrying (1 Client) | 23,763 | 21.8% |
| Property Holding (1 Client) | 23,410 | 21.4% |
| Traders (1 Client) | 24,333 | 22.3% |
| | 306,868 | |

The Bank has in place an industry portfolio concentrations model and policy which regulates management of our sector concentration in an active manner. Limits have been set defining the Bank's credit appetite with particular attention paid to sectors with potential credit concerns.

## Cash and cash equivalents and financial investments

The expansion in the loans' portfolio and the reduction in the Bank's deposit base has led to a drop in the Bank's liquid assets, characterised by a decrease of 21.5% in cash and cash equivalents.

Financial investments consisting of MUR treasury bills and US treasuries registered an increase of 33.7% to reach USD197.1m, stemming from the Bank's requirement to maintain an adequate stock of unencumbered high-quality liquid assets (HQLA). This consists of cash or assets that can be converted into cash at little or no loss of value, to meet the required Basel III Liquidity Coverage Ratio (LCR), as prescribed by the Bank of Mauritius.

The overall ratio of liquid assets as a percentage of deposits was 68.0% as opposed to 72.0% in the prior year.

## Trading assets

Led by an increase in client swap activities at year end, the holdings of MUR treasury bills for trading purposes went up from USD 2.5m to USD3.7m.

## Trading liabilities

There were no trading liabilities at year-end.

## Derivative assets and liabilities

Derivative assets comprise of mark-to-market on foreign exchange derivatives. Due a drop in the volume of foreign exchange forwards and swaps transactions, derivative assets experienced a drop of 9.9% from prior year to reach USD1.1m.

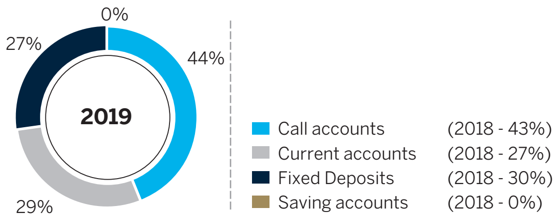
Derivatives liabilities consist of mark-to-market on foreign exchange derivatives which are held for trading and mark-to-market on interest rate derivatives which are held for hedging.

Derivatives liabilities on derivatives held for trading dropped by 15.5% from prior year, driven by a fall in volumes of foreign exchange forwards and swaps transactions.

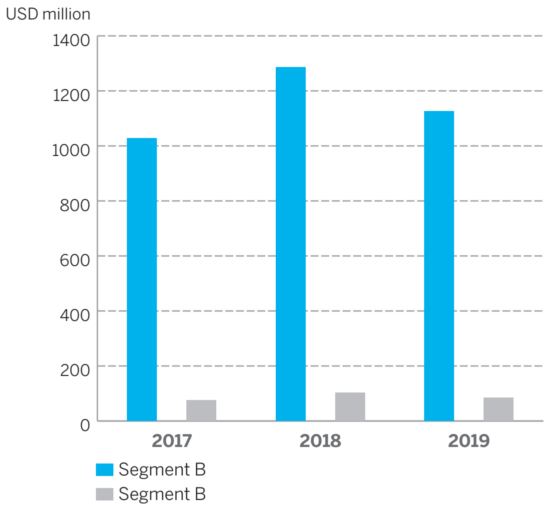
## Deposits

Customer deposits which represent our main source of funding reduced by 12.7% to close at USD1.2bn (2018: USD1.4bn). The disinvestment of the Wealth and Investment business has led to some deposit outflows. Total transferable deposits dropped by 10.1%, while term deposits declined by 18.9% at year end.

## Composition of deposits from customers




**Deposit splits**




## Deposits from banks

Deposits from banks expanded by 154.6% to reach USD88.4m, supported by regional treasury activities, higher utilisation of the vostros by related parties, as well as new deposits from local banks.

## Other borrowed funds

Other borrowed fund decreased by 66.7% as a result of repayment of some term facilities that were funded by borrowings from related parties. There were no local interbank borrowings as at end of December 2019.

# Off Balance Sheet Items

**Off Balance Sheet Exposure per sector**

| Sector | 2017 | 2018 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| Agriculture & Fishing | 1,000 | 1,000 | 1,856 |
| Construction | 1,293 | 7,619 | 8,843 |
| Energy | 3,170 | 1,103 | 829 |
| Financial Intermediation & Business Services | 659 | 3,415 | 3,028 |
| Govt & Institutional Org (GIO) & Infrastructure | 89 | 36 | 4 |
| Manufacturing | 1,059 | 1,004 | 1,003 |
| Media & Entertainment | 3,080 | 4,080 | 2,080 |
| Mining & Quarrying | 7,331 | 4,304 | 825 |
| Oil & Gas | - | - | 2,100 |
| Personal | 8 | 8 | 6 |
| Property Holding | - | - | 739 |
| Public Non-Financial Corporation | - | - | 150 |
| Telecommunications & ICT | 6,299 | 40 | 14 |
| Traders | 9,464 | 13,470 | 8,235 |
| Transport | 153 | 153 | 3 |
| | 33,605 | 36,232 | 29,715 |

Off Balance Sheet exposure decreased from USD36.2m to USD29.7m in 2019 as a result of lower non-fund-based facilities to clients mainly in the Traders', Media & Entertainment and Mining & Quarrying sectors.

**Off Balance Sheet Exposure by geographical concentration**

| Country | 2018 | 2019 |
|---|---|---|
| | USD'000 | USD'000 |
| Botswana | 133 | - |
| China | 108 | - |
| France | 11,681 | 5,338 |
| Italy | - | 128 |
| Luxembourg | - | 8,612 |
| Mauritius | 20,416 | 8,219 |
| Netherlands | - | 2,100 |
| South Africa | 2,850 | 4,319 |
| UAE | 44 | - |
| UK | 1,000 | 1,000 |
| | 36,232 | 29,715 |

## Credit Quality

The non-performing loans (NPLs) ratio to total loans rose from 0.4% to 9.3% as at end of December 2019. Two credit exposures were classified as non-performing during the year. Stage 3 credit impairment provision at year end stood at USD7.3m. This in turn has driven the credit loss ratio to close at 1.9%, with total allowance for credit loan losses aggregating to USD8.5m under IFRS 9 for all financial assets subject to credit risk.

The level of provision on the performing book under IFRS 9 was lower than the 1% regulatory requirement provision, as per Bank of Mauritius Guideline on Credit Impairment and Income Recognition at year end. This required an additional provision of USD1.5m raised under the statutory credit risk reserve.

*A detailed analysis of performing and non-performing loans is provided in the financial risk management section on pages 127-143.*

The quality of the lending book remains healthy despite four clients classified as impaired, duly provisioned for. Legal action is still in progress on the written-off client during the year. Our credit appetite on sector exposure is being managed within the Bank's approved framework to ensure acceptable level of concentration of risk and cross border activities are managed under our country risk management policy. This policy is in line with regulatory requirement and our business strategic deliverables as far as asset build up is concerned.

During the year, the exposures aggregating USD20,068,849 to two counterparties have been restructured with one being under a distressed scenario. The corresponding provision amount of USD4,549,200 was held.

# ENSURING OUR SUSTAINABILITY



# RISK & CAPITAL MANAGEMENT REPORT

## Introduction

Effective risk management is fundamental to the successful execution of the Bank's strategy, as it pursues its vision to build the leading financial organisation in, for and across Africa. The role of the risk management function is to ensure that the full spectrum of risks faced by the Bank are properly identified, assessed, managed, monitored, measured and reported in the pursuit of its goals.

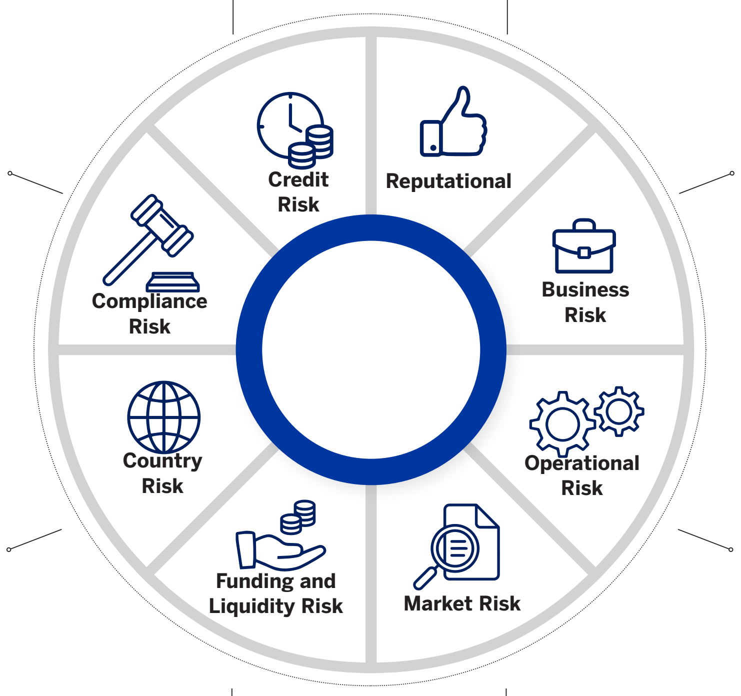
The Bank's approach to managing risk is to adopt a risk and governance framework that enables management to maximise risk adjusted returns while remaining within the Board-approved risk appetite and risk tolerance levels. This approach ultimately ensures the protection of the Bank's reputation and is consistent with our objective of increasing shareholder value. The material types of risks the Bank's faces are outlined below:

**Credit risk** is the risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due. It is composed of obligor risk, concentration risk and country risk.

**Reputational risk** is the risk of potential or actual damage to the Bank's image which may impair the profitability and/or sustainability of its business.

**Compliance risk** is the risk of legal or regulatory sanction, financial loss or damage to reputation that the Bank may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards of good practice applicable to its financial services activities.

**Business risk** is the risk of earnings variability, resulting in operating revenues not covering operating costs after excluding the effects of market risk, credit risk, structural interest rate risk and operational risk.




**Country risk**, also referred to as cross-border country risk, is the uncertainty that obligors will be able to fulfil obligations given political or economic conditions in the country.

**Operational risk** is the risk of loss suffered as a result of the inadequacy of, or failure in, internal processes, people and/or systems or from external events.

**Liquidity risk** is defined as the risk that an entity, although solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

**Market risk** is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

## RISK GOVERNANCE

The Bank's approach to managing risk and capital is set out in the Bank's risk management framework, which is endorsed by the Board of directors. The framework has two components:

**GOVERNANCE DOCUMENTS**

**Governance documents** comprise standards, frameworks and policies which set out the requirements for the identification, assessment, measurement, monitoring, managing and reporting of risks and the effective management of capital. Governance standards and framework are approved by the Board.

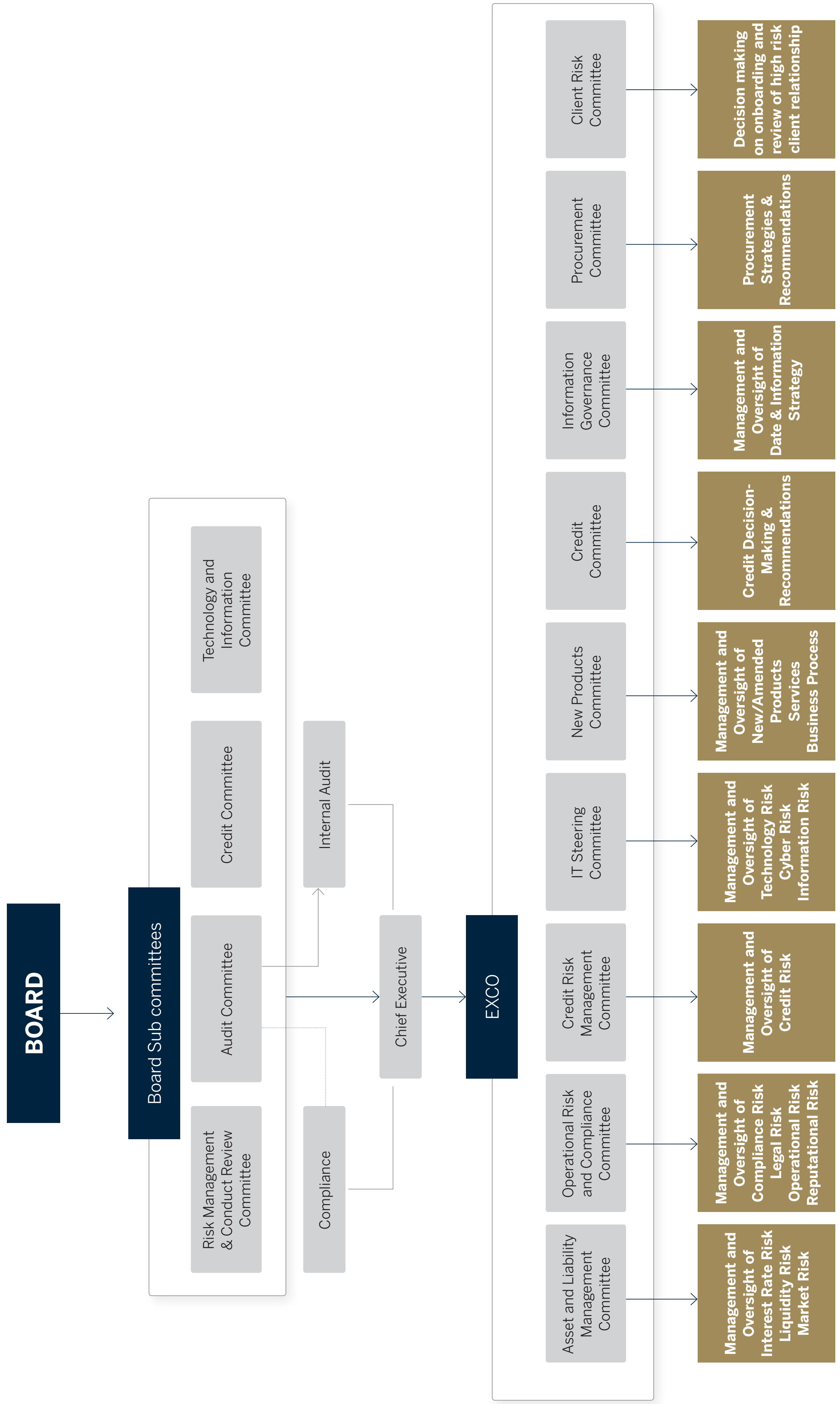
**GOVERNANCE COMMITTEES**

**Governance committees** are in place at both a board and management level. These committees have mandates and delegated authorities that are regularly reviewed.

Risk governance standards have been developed for all major risk types that the Bank is exposed to and ensure that all material risks to the Bank's strategic and financial objectives are identified and managed proactively. The risk governance standards are part of the Group's governance infrastructure, reflecting the expectations and requirements of the board and its committees in respect of key risk areas. The standards set out minimum control requirements and ensure alignment and consistency in the manner in which the major risk types and capital management metrics across the Group are dealt with, from identification to reporting. These standards are localised to recognise in-country laws and regulations.

Policies are developed where required on specific items as stated within the standards and are reviewed on a bi-ennial basis or earlier if required. Details with regard to the implementation of these policies within each particular business unit are set out in the processes and procedures manual. Compliance with the standards, policies and procedures is overseen by the risk management team through annual self-assessments by business units, back-testing and independent reviews by the third line of defence functions.

## Structure




## Board and Sub-Committees

The Board of Directors of Standard Bank (Mauritius) Limited has the ultimate responsibility for the oversight of risk. The Bank's approach to managing risk is to adopt a risk and governance framework that enables Management to maximise risk adjusted returns while remaining within the Board-approved risk appetite and risk tolerance levels. As at 31 December 2019, the Board is satisfied that:

- The Bank's risk and capital management controls and processes generally operated effectively.
- The Bank's business activities have been managed within the board-approved risk appetite.
- The Bank is adequately funded and capitalised to support the execution of its strategy.

In the instances where gaps were identified or the Bank incurred losses and breached risk appetite, the Board is satisfied that Management has taken appropriate remedial and timely action.

## Executive Committees

Details of the Executive Committees are provided in the Corporate Governance Report section of this annual report pages 70-71. Other Executive Committees of the Bank are:

### New Products Committee (NPC)

The purpose of the New Products Committee (NPC) is to facilitate the introduction of new products, services, businesses, legal entities systems or processes in a coordinated and effective manner which is consistent with our overall strategic, business and risk management focus.

The objectives of the NPC are:

- To ensure that any significant risks that could arise from the introduction or amendment of businesses, products or services, systems and processes are properly identified and appropriately addressed by the relevant parties;
- To achieve greater consistency in decision-making through standardising the requirements for the approval process of new products;
- To ensure that feasible and visible support and control processes and systems are in place to support the deployment of new products;
- To ensure that risks from interdependencies associated with the roll out of Corporate and Investment Banking (CIB) products across multiple African countries are properly identified and mitigated in a coherent manner; and
- To ensure adequate control and effective maintenance of the NPC process itself.

The NPC, a sub-committee of the Executive Committee (EXCO), is chaired by the Chief Finance Officer and consists of a minimum of five EXCO members depending on the type of product/service being introduced. The NPC meets as and when required.

### Credit Committee

The Credit Committee is the senior management credit decision-making function with a defined delegated authority as determined by the Board of directors through the Board Credit Committee from time to time. The purpose of the Credit Committee is:

- To exercise responsibility for the independent assessment, approval, review and monitoring of all credit risk assets relating to the Bank's business; and
- To ensure that the origination and management of the assets in the portfolio is done in terms of the Group's credit standard and any other guidance given to it by Group Governance Committees from time to time.

The Credit Committee, a sub-committee of EXCO, is chaired by the Head: Credit and comprises at least four core members. The Credit Committee meets meet at least monthly or more frequently as determined by business needs.

### Information Governance Committee

The Information Governance Committee (iGovco) has been established as a sub-committee of the in-country Executive Committee and is mandated to set, track, monitor and report on the effective implementation of the Bank's data and information strategy.

The main responsibilities of the Committee include, inter alia, the following:

- Setting the priorities and agreeing on the critical data and information scope for the Bank;
- Approving the Bank's operating model for Data and Information;
- Making investment decisions on key data and information programmes; and
- Overseeing and supporting the delivery of strategic data and information projects.

The iGovco is chaired by the Chief Executive and meets at least on a monthly basis.

### Procurement Committee

The Procurement Committee, which meets on a monthly basis, comprises permanent members namely the Chief Finance Officer (Chairperson), Head: Risk, Head: Legal and Procurement Manager.

The purpose of the Procurement Committee is to ensure that the procurement strategies and recommendations are viewed in a systematic and consistent manner, according to our business priorities, commercial standards and ethical principles before making commitments to suppliers.

### Client Risk Committee

As a cornerstone of good practice and in line with regulatory requirements, the Bank is required to determine its appetite for establishing or continuing a business relationship with a potential or existing customer classified as high risk. The Client Risk Committee, a sub-committee of EXCO, serves to give effect to the governance and control requirements of the Bank and is responsible for approving client relationships where that relationship may have adverse reputational risk implications for the Bank. Potential reputational risk may span over a wide spectrum with various parameters e.g. country of operation, nature of business activity, connection with Politically Exposed Persons, adverse information, amongst others. The Bank, through the Client Risk Committee, ensures that a review process is in place for all relevant clients falling within this category.

The Client Risk Committee is currently chaired by the Head: Legal and comprises six other EXCO members. The Committee meets weekly or as required depending on business requirements.

## THREE LINES OF DEFENSE MODEL

**THE FIRST LINE**
BUSINESS LINES

The **First Line** of defence consists of the management of business lines. It is the responsibility of first line management to identify and manage risks. This includes, at an operational level, the day-to-day effective management of risk in accordance with agreed risk policies, appetite and controls. Effective first line management includes:

- the proactive self-identification of issues and including emerging risks
- the design, implementation and ownership of appropriate controls
- the associated operational control remediation
- a strong control culture of effective and transparent risk partnership

**THE SECOND LINE**
RISK MANAGEMENT AND COMPLIANCE

The second line of defence functions provide independent oversight and assurance. Resources provide oversight of risks and support management in ensuring that their specific risks are effectively managed as close to the source as possible.

The second line of defence functions develop, implement and intergrate governance standards, frameworks and policies for each material risk type to which the Bank is exposed. This ensures consistency and an enterprise-wide approach across business lines. Compliance with the standards and frameworks is ensured through self-assessments by the second line of defence and reiews by IA.

**THE THIRD LINE**
INTERNAL AUDIT (IA)

The Third line of defence provides independent and objective assurance to the Board and senior management on the effectiveness of the first and second lines of defence. This responsibility lies with the IA function.

## RISK CULTURE

The Bank leverages the three lines of defence model to build and maintain a strong risk culture, where resilience is a priority for the effective management of risk across the Bank. Focus is placed on multiple drivers to enhance the risk culture, with emphasis on doing the right business, the right way. Employees are empowered to act with confidence, drive meaningful behavioural changes and place the customer at the centre of everything they do, through the embedment of the Bank's values and code of ethics, compliance training and whistle-blowing programmes.

Key components of the Bank's Risk culture include:

- Tone from the Top – Directors and Executive Management are required to consistently act professionally and ethically in line with the principles of integrity, accountability and transparency, thus leading by example and promoting and maintaining trust across the Bank.
- Robust Risk Governance – Executive Management continuously ensures that legal, regulatory and business requirements are fully embedded in the Bank's policies, processes and governance frameworks supported by robust control mechanisms to comply with same.
- Focus on Key and Emerging Risks – Executive Management is accountable to proactively identify and manage principal and emerging risks.

### Risk Management Team

The Risk Management Team provides the day-to-day oversight on management of risk and promotes a strong risk culture across the Bank. The function aims at reinforcing the Bank's resilience by encouraging a holistic approach to the management of risk and return throughout the Bank as well as the effective management of the Bank's risk, capital and reputational profile. The following principles underpin the Bank's risk culture:

- Risk is taken within the defined risk appetite and approved risk management framework;
- Continuous monitoring and management of risks; and
- The Bank needs to be adequately compensated for risks taken.

The Risk Management Team is responsible for creating and maintaining the risk practices across the Bank as defined by Group Risk and to ensure that controls are in place for all risk categories.

The Risk function is subject to periodic assurance reviews by Group Internal Audit where it is assessed by specialised teams for each of the different types of risk. Internal Audit provides an assessment on the adequacy and effectiveness of the Bank's processes for controlling its activities, managing its risks and ensuring good governance. It reports and provides recommendations on significant issues related to the risk management, control and governance processes within the Bank.

The Risk Management Team maintains its objectivity by being independent of operations. The Head: Risk has a direct reporting line to the Chief Executive and to Group Risk.



## RISK APPETITE AND STRESS TESTING

### Overview

The key to the Bank's long-term sustainable growth and profitability lies in ensuring that there is a strong link between its risk appetite and its strategy. Risk appetite is set and stress testing activities are undertaken at a risk type and legal entity level.

### Governance

The primary management level governance committee overseeing risk appetite and stress testing is the Assets & Liabilities Committee. The principal governance documents are the risk appetite governance framework and the stress testing governance framework.

### Risk appetite governance framework

The risk appetite governance framework guides:

- the setting and cascading of risk appetite by risk type and legal entity;
- measurement and methodology;
- governance;
- monitoring and reporting of the risk profile; and
- escalation and resolution.

The Bank has adopted the following definitions:

**Risk appetite:** an expression of the amount or type of risk the Bank is willing to take in pursuit of its financial and strategic objectives, reflecting its capacity to sustain losses and continue to meet its obligations as they fall due, under both normal and a range of stress conditions.

**Risk appetite trigger:** an early warning trigger set at a level that accounts for the scope and nature of available management actions and ensures that corrective management action can take effect and prevent a risk tolerance limit breach.

**Risk tolerance:** the maximum amount of risk the Bank is prepared to tolerate above risk appetite. The metric is referred to as a risk tolerance limit.

**Risk capacity:** the maximum amount of risk the Bank is able to support within its available financial resources.

**Risk appetite statement (RAS):** the documented expression of risk appetite and risk tolerance which have been approved by the Board. The RAS is reviewed and revised, if necessary, on an annual basis.

**Risk profile:** the risk profile is defined in terms of three dimensions, namely:

- current or forward risk profile;
- unstressed or stressed risk profile; and
- pre- or post-management actions.

The following diagram provides a schematic view of the three levels of risk appetite and the integral role that risk types play in the process of cascading risk appetite from dimensions such as regulatory capital, economic capital, stressed earnings and liquidity to more granular portfolio limits.

**RISK APPETITE**

**LEVEL ONE**

**Risk appetite dimensions**

**Capital**
- Economic Capital Coverage Ratio
- Total Regulatory Capital

**Adequacy Ratio**
- Tier 1 Regulatory Capital Adequcy Ratio
- Common Equity Tier 1 Capital
- Adequacy Ratio

**Earnings Volatility**
- Stressed Earnings

**Liquidity**
- Liquidity Coverage Ratio
- Net Stable Funding Ratio

**LEVEL ONE**

**Risk appetite dimensions by risk type**

- Credit risk
- Operational risk
- Market risk
- Interest risk
- Liquidity risk

Capital demand/earnings at risk utilisation per risk type

**LEVEL THREE**

**Portfolio limits by risk type**

**Credit risk**
- CLR
- NPL
- Concentrations

**Operational risk**
- Operational risk losses % to total income

**Market risk**
- Normal value-at-risk (VaR) and stressed VaR (SVaR) limits

**Interest rate risk**
- Interest rate sensitivity

**Liquidity risk**
- Depositor concentration

**RAS**

### Risk appetite statement (RAS)

Executive Management and the Board Risk Management & Conduct Review Committee are responsible for recommending the RAS for approval by the Board. In developing the RAS, Executive Management considers the Bank's strategy and the desired balance between risk and return. The Board Risk Management & Conduct Review Committee reviews the Bank's current risk profile on a quarterly basis and forward risk profile (both stressed and unstressed) at least annually.

**Level one** risk appetite dimensions can be either quantitative or qualitative.

Quantitative level one risk appetite dimensions relate to available financial resources and earnings volatility. The standardised quantitative dimensions used by the Bank are:

- stressed earnings;
- economic capital;
- regulatory capital; and
- liquidity.

The Bank's qualitative RAS, set out below, serves as a guide for embedding the risk appetite framework to guide strategic and operational decision making across the Bank.

- **Capital position:** The Bank aims to have a strong capital adequacy position measured by regulatory and economic capital adequacy ratios. Capital levels are managed to support business growth, maintain depositor and creditor confidence, create value for shareholders and ensure regulatory compliance.
- **Funding and liquidity management:** The Bank's approach to liquidity risk management is governed by prudence and is in accordance with the applicable laws, regulations and takes into account the competitive environment in which the bank operates. The Bank manages liquidity risk on a self-sufficient basis.
- **Earnings volatility:** The Bank aims to have sustainable and well diversified earning streams in order to minimise earnings volatility through business cycles.
- **Reputation:** The Bank has no appetite for compromising its legitimacy or for knowingly engaging in any business, activity or relationship which, in the absence of taking mitigating actions, could result in foreseeable reputational risk or damage to the Bank and Standard Bank Group.
- **Conduct:** The Bank has no appetite for wilful conduct failures, inappropriate market conduct or knowingly causing a breach of regulatory requirements. The Bank strives to meet customers' expectations for efficient and fair engagements by doing the right business the right way, thereby upholding the trust of its customers.

**Level two** risk appetite represents the allocation of level one risk appetite to risk types. Specifically, the contribution of individual risk types to earnings volatility and overall capital demand (both economic and regulatory) is controlled through triggers and limits.

**Level three** consists of key metrics used to monitor the portfolio. Portfolio triggers and limits are required to be broadly congruent with level one and level two triggers and limits. These metrics are regularly monitored at a risk type level and ensure proactive risk management.

## STRESS TESTING

### Stress testing governance framework

Stress testing is a key management tool within the Bank and is used to evaluate the sensitivity of the current and forward risk profile relative to different levels of risk appetite. Stress testing supports a number of business processes, including:

- strategic and financial planning;
- the ICAAP, including capital planning and management, and the setting of capital buffers;
- liquidity planning and management;
- informing the setting of risk appetite;
- identifying and proactively mitigating risks through actions such as reviewing and changing limits, limiting exposures, and hedging; and
- facilitating the development of risk mitigation or contingency plans, including recovery plans, across a range of stressed conditions.

Stress testing within the Bank is subject to the Bank's stress testing governance framework which sets out the responsibilities for and approaches to stress testing activities. Broadly aligned and fit-for-purpose stress testing programmes are implemented for the Bank to ensure appropriate coverage of the different risks.

### Stress testing programme

The Bank's stress testing programme uses one or a combination of stress testing techniques, including scenario analysis and sensitivity analysis to perform stress testing for different purposes.

### Macroeconomic stress testing

Macroeconomic stress testing is conducted across all major risk types on an integrated basis for a range of economic scenarios varying in severity from mild to very severe but plausible macroeconomic shocks. The impact, after consideration of mitigating actions, on the Bank's income statement, Statement of Financial Position and the Bank's capital demand and supply is measured against the Bank's risk appetite.

Macroeconomic stress testing for the Bank is performed, as a minimum, once a year for selected scenarios that are specifically designed to target the Bank's risk profile, geographical presence and strategy. In 2019, these scenarios included financial market distress and global trade war. The results indicated that the Bank is well capitalised and able to handle these scenarios.

Macroeconomic stress testing results are presented at a board level in order to consider whether the Bank's risk profile is consistent with the Bank's risk appetite buffer. Macroeconomic stress testing results are submitted as part of the annual ICAAP.

### Additional stress testing

Bank-wide macroeconomic stress testing results are supplemented with additional ad hoc stress testing at the Bank, that may be required from time-to-time for risk management or planning purposes. The purpose of this stress testing is to inform management of risks that may not yet form part of routine stress testing or where the focus is on a specific portfolio or business unit. Additional stress testing can take the form of either scenario analysis or sensitivity analysis.

### Risk type stress testing

Risk type stress tests apply to individual risk types. Risk type stress testing could take the form of scenario or sensitivity analysis.

*(Refer to ICAAP section under Capital Management)*

## 1. CREDIT RISK*

### Overview and definition

Credit risk is the risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due. It is composed of obligor risk, concentration risk and country risk.

### Concentration risk

Concentration risk is the risk of loss arising from an excessive concentration of exposure to a single counterparty, an industry, a product, a geography, maturity, or collateral.

### Approach to managing credit risk

Credit risk is managed through:

- Setting the appetite for credit risk with respect to counterparty, sector and country concentrations with regular monitoring to proactively adjust to changes in client's economic environment. All countries to which the Bank is exposed are reviewed at least annually. Internal rating models are employed to determine ratings for jurisdiction, sovereign and transfer and convertibility risk.
- Maintaining a culture of responsible lending through a robust risk policy and control framework
- Ensuring that there is expert scrutiny and approval of credit risk and its mitigation independently of the business functions
- Identifying, assessing and measuring credit risk across the Bank, from an individual facility level through to an aggregate portfolio level
- Monitoring the Bank's credit risk exposure relative to approved customer limits, risk appetites, changes in economic environment (countries, sectors) and client state of affairs
- Independent credit risk reviews by second and third line of defence to assess quality of credit evaluation and adherence to credit risk standards
- Defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions

### Credit risk mitigation

Wherever warranted, the Bank will attempt to mitigate credit risk to any counterparty, transaction, sector, or geographic region, to achieve the optimal balance between risk, cost, capital utilisation and reward. Risk mitigation may include the use of collateral, the imposition of financial or behavioural covenants, the acceptance of guarantees from parents or third parties, the recognition of parental support, and the distribution of risk.

In the case of collateral where the Bank has an unassailable legal title, the Bank's policy requires collateral to meet certain criteria including:

- being readily marketable and liquid
- being legally perfected and enforceable
- having a low valuation volatility
- being readily realisable at minimum expense
- having no material correlation to the obligor credit quality
- having an active secondary market for resale.

The main types of collateral obtained by the Bank for its exposures include

- cash collaterals
- fixed charges over commercial and industrial properties
- floating charges
- pledges of receivables
- corporate guarantees

### Classification of NPL accounts under sub-standard and doubtful:

(i) Sub-standard credit

Credit that is currently performing but has weaknesses that throw doubt on the customer's ability to comply with the terms and conditions of the credit, may warrant to be classified as a sub-standard. However, when it is impaired and is past due between 90 and 180 days, it must, as a minimum, be classified as sub-standard.

(ii) Doubtful credit

Credit that is not in arrears or in arrears in less than 180 days but has weaknesses that make collection in full highly improbable, may warrant to be classified to doubtful. However, when it is impaired and in past due for a period exceeding 180 days but less than one year, it must, as a minimum, be classified as doubtful.

(iii) Loss

Credit classified as loss and uncollectible although there may be some salvage or recovery value of security available. Such credit should not be kept on the financial institution for the reason that there might be some recoveries in the long term. An impaired credit that is past due in excess of a year, must be classified as loss.

### Governance and reporting

Credit risk is managed through the Bank's governance committees, the Credit Risk Management Committee ("CRMC") and the Board Credit Committee ("BCC").

## 2. COUNTRY RISK

### Overview and definition

By virtue of its strategy, the Bank is exposed to country risk. Country risk is the uncertainty whether obligors (including sovereign and group companies) will be able to fulfil financial obligations given political or economic conditions in the country in question.

### Approach to managing country risk

All countries, to which the Bank is exposed to, are reviewed at least annually. Our Internal rating model is used to determine ratings for country, sovereign, transfer and convertibility risk. Once rated, the countries are then categorised into high, medium or low risk.

Country risk is mitigated through a number of methods, including:

- political and commercial risk insurance
- co-financing with multilateral institutions
- structures to mitigate transfer and convertibility risk such as collection, collateral and margining deposits outside the country in question.

### Governance and reporting

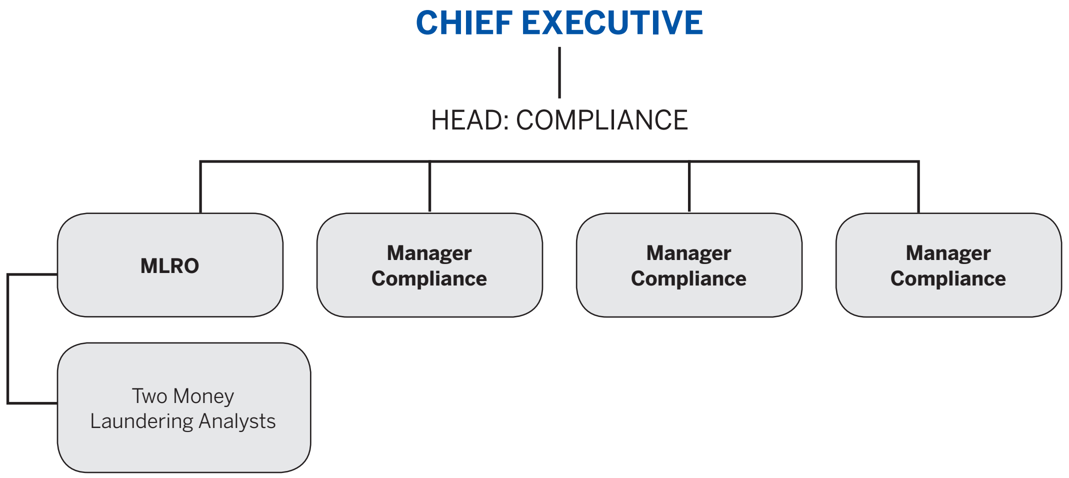
The primary management level governance committee overseeing this risk type is the Bank's CRMC. The principal governance document is the country risk policy.

* Information in this section has been audited

## 3. COMPLIANCE RISK

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss or loss of reputation that the Bank may suffer as a result of its failure to comply with laws and regulations applicable to the Bank's activities. Compliance is an independent function accountable for identifying, assessing, monitoring and reporting on whether the Bank complies with applicable laws, regulations and internal requirements. The Compliance team is also accountable for providing advice to first-line-of-defence units in relation to the mitigation of compliance risks.

**Compliance team**




The Compliance team proactively supports senior management and business through effective compliance risk management practices to ensure all business is within statutory supervisory and regulatory requirements thereby mitigating regulatory sanctions and reputational risk. The Compliance function is subject to annual internal audit. Business units and operational units own the compliance risks associated with their departmental processes.

Compliance is accountable for the implementation of an effective compliance framework, key activities of which are summarised below:

- identifying and assessing compliance risks;
- providing advice on risk mitigation to compliance risk owners in the first line of defence; and
- monitoring the adequacy of risk mitigation and controls in the first line of defence and reporting on the compliance risk status for the Bank.

## 4. FUNDING AND LIQUIDITY RISK

### (a) Approach to managing liquidity risk*

The nature of the Bank's banking and trading activities gives rise to continuous exposure to liquidity risk. Liquidity risk may arise where counterparties, who provide the Bank with short-term funding, withdraw or do not roll over that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The Bank manages liquidity in accordance with applicable regulations and within Standard Bank's risk appetite framework. The Bank's liquidity risk management governance framework supports the measurement and management of liquidity to ensure that payment obligations can be met under both normal and stressed conditions and that regulatory minimum requirements are met at all times. This is achieved through a combination of maintaining adequate liquidity buffers and to ensure that cash flow requirements can be met. Liquidity risk management ensures that the group has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times.

The Bank manages liquidity risk as three interrelated pillars, which are aligned to the Basel III liquidity requirements.

* Information in this sub-section 4(a) has been audited

**LIQUIDITY MANAGEMENT CATEGORIES**

| TACTICAL (SHORT-TERM) LIQUIDITY RISK MANAGEMENT | STRUCTURAL (LONG-TERM) LIQUIDITY RISK MANAGEMENT | CONTINGENCY LIQUIDITY RISK MANAGEMENT |
|---|---|---|
| • manage intra-day liquidity positions<br>• monitor interbank shortage levels<br>• monitor daily cash flow requirements<br>• manage short-term cash flows<br>• manage daily foreign currency liquidity<br>• set deposit rates in accordance with structural and contingent liquidity requirements as informed by ALCO.<br>• ensure compliance with the Bank of Mauritius liquidity coverage ratio (LCR). | • ensure a structurally sound statement of financial position<br>• identify and manage structural liquidity mismatches<br>• determine and apply behavioural profiling<br>• manage long-term cash flows<br>• aim for a diversified funding base<br>• inform term funding requirements<br>• assess foreign currency liquidity exposures<br>• establish liquidity risk appetite<br>• ensure appropriate transfer pricing of liquidity costs | • monitor and manage early warning liquidity indicators<br>• establish and maintain contingency funding plans<br>• undertake regular liquidity stress<br>• testing and scenario analysis<br>• convene ad-hoc ALCO as a liquidity crisis management committee, if needed<br>• set liquidity buffer levels in accordance with anticipated stress events<br>• advise on the diversification of liquidity buffer portfolios<br>• ensure compliance with the Bank of Mauritius liquidity coverage ratio (LCR). |

The LCR is a metric introduced by the BCBS to measure a bank's ability to manage a sustained outflow of customer funds in an acute stress event over a 30-day period. The ratio is calculated by taking the Bank's high-quality liquid assets (HQLA) and dividing it by net cash outflows. The LCR rule issued by the Bank of Mauritius became effective in Mauritius on 3 November 2017 with the following transitional arrangements.

### (b) LCR IMPLEMENTATION TIMELINE

| | As from 30 November 2017 | As from 31 January 2018 | **As from 31 January 2019** | As from 31 January 2020 |
|---|---|---|---|---|
| LCR in Mauritian Rupee (MUR) | 100% | 100% | **100%** | 100% |
| LCR in material foreign currencies | 60% | 70% | **80%** | 100% |
| Consolidated LCR | 60% | 70% | **80%** | 100% |

As at 31 December 2019, the Bank was within regulatory compliance with a MUR liquidity coverage ratio (LCR) of 125%, a USD LCR of 89% and a consolidated LCR of 90%. As from 31 January 2020, the Bank will maintain LCR of 100% as required by the Bank of Mauritius.

### (c) Governance

The primary governance committee overseeing liquidity risk is the Asset and Liability Management Committee (ALCO).

### (d) Liquidity characteristics and metrics

**OVERVIEW OF LIQUIDITY AND FUNDING METRICS**

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Total liquidity reserves (USDm) | **1,065** | 1,188 | 695 |
| Eligible BOM LCR HQLA (USDm) | **204** | 165 | 176 |
| Single depositor (MUR%) | **36.90%** | 34.65% | 16.66% |
| Top 10 depositors (MUR%) | **71.92%** | 70.15% | 71.64% |
| Single depositor (FCY%) | **5.10%** | 6.39% | 7.70% |
| Top 10 depositors (FCY%) | **29.42%** | 37.63% | 39.57% |
| BOM LCR (Quarterly average of monthly observations%) | **110%** | 88% | 92% |

### (e) Liquidity coverage ratio (LCR) disclosures:

| Consolidated in USD | TOTAL UNWEIGHTED VALUE (quarterly average of bimonthly observations)[1] | TOTAL WEIGHTED VALUE (quarterly average of bimonthly observations)[1] |
|---|---|---|
| **HIGH-QUALITY LIQUID ASSETS** | **USD** | **USD** |
| Total high-quality liquid assets (HQLA) | 202,117,772 | 199,320,021 |
| **CASH OUTFLOWS** | | |
| Retail deposits and deposits from small business customers (Less Stable) | 110,993,638 | 25,714,618 |
| Unsecured wholesale funding (Non-operational deposits) | 1,048,511,646 | 669,642,153 |
| Outflows related to derivative exposures and other collateral requirements | 577,610 | 577,610 |
| Credit and liquidity facilities | 154,328,416 | 24,462,475 |
| Other contingent funding obligations | 29,894,506 | 1,494,725 |
| **TOTAL CASH OUTFLOWS** | **1,344,305,816** | **721,891,582** |
| **CASH INFLOWS** | | |
| Inflows from fully performing exposures | 635,699,027 | 624,788,345 |
| **TOTAL CASH INFLOWS** | **635,699,027** | **624,788,345** |

| | TOTAL ADJUSTED VALUE |
|---|---|
| **TOTAL HQLA** | **199,320,021** |
| **TOTAL NET CASH OUTFLOWS** | **180,472,896** |
| **LIQUIDITY COVERAGE RATIO (%)** | **110%** |
| **QUARTERLY AVERAGE OF DAILY HQLA**[2] | **199,517,160** |

The high-quality liquid assets comprise mainly of investment in US Treasury Bills, Government of Mauritius Treasury Bills, Bank of Mauritius Bills, coins and bank notes and qualifying central bank reserves. The cash outflows represent the funding of the Bank categorised as per the Bank of Mauritius guideline on liquidity risk management and weighted at the appropriate run-off rate (most conservative between internal data and the regulatory guideline). The Bank's cash inflows comprise mainly of group placements maturing within the next 30 days.

The Bank seek to exceed the minimum LCR requirement with a sufficient buffer to allow for funding flows volatility as determined by its internal liquidity risk appetite. A buffer is maintained above the minimum regulatory requirement to cater for balance sheet and market volatility.

### (f) Contingency liquidity risk management

**(i) Contingency funding plans**

Contingency funding plans are designed to protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an early warning indicator process supported by clear crisis response strategies. Early warning indicators are monitored according to assigned frequencies and tolerance levels.

Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event. The updating of contingency funding plans, while considering budget forecasting, continues to be a focus area for the asset liability management team.

**(ii) Liquidity stress testing and scenario analysis**

Stress testing and scenario analysis are based on hypothetical and historical events. These are conducted on the Bank's funding profiles and liquidity positions. The crisis impact is typically measured over a 30 calendar-day period as this is considered the most crucial time horizon for a liquidity event. This measurement period is also consistent with the LCR requirements.

Anticipated on and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the Bank's ability to maintain sufficient liquidity under adverse conditions.

Internal stress testing metrics are supplemented with the regulatory LCR in monitoring the Bank's ability to survive severe stress scenarios.

### (g) Structural liquidity mismatch

**Maturity analysis of financial liabilities using behavioural profiling**

With actual cash flows typically varying significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments, as well as to certain liquid assets. Behavioural profiling assigns probable maturities based on historical customer behaviour. This is used to identify significant additional sources of structural liquidity in the form of core deposits, such as current and savings accounts, which exhibit stable behaviour despite being repayable on demand or at short notice.

To highlight potential risks within the Bank's defined liquidity risk thresholds, structural liquidity mismatch analyses are performed regularly to anticipate the mismatch between payment profiles of statement of financial position items.

[1] The quarterly average of bimonthly observations for the period October 2019 to December 2019
[2] The quarterly average of daily HQLA is based on close of day figures over the period 01 October 2019 to 31 December 2019

## 5. MARKET RISK*

### Definition

The Bank defines market risk as the risk of a change in market value, actual or effective earnings or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables. To ensure that all market risks are identified, all new products are required to be signed off by the New Products Committee where Market Risk unit's input is mandatory.

### Managing market risk

The market risk management framework applied in the Bank is consistent with the Group's market risk management framework:

- The Board-approved market risk policy outlines the framework and principles designed to properly identify, measure, monitor, manage and report market risk in order to minimise the risk of financial loss.
- Board monitors compliance with the policy and ensures that an appropriately mandated Assets & Liabilities Committee (ALCO) is established to enforce compliance with the policy.
- Risk appetite is set and approved by the Board and is expressed in terms of the following compulsory and optional measures for the Bank's trading operations:
  - A Value at Risk (VaR) and stressed VaR (SVaR) appetite (compulsory for trading portfolios and liquid investment portfolios).
  - An appetite for loss under stress market conditions (compulsory).
  - A regulatory or economic capital value (optional).

Market Risk unit translates the risk appetite into limits and triggers and allocates these to individual trading desks in the form of trading limits and authorised product mandates. If the Bank enters a period of market volatility, stop loss procedures are in place to cap losses. Stop loss triggers are set to ensure that losses suffered in trading do not erode, or have the potential to erode, the income generated by the market making and sales activity. As such, the overall objective is to preserve the Bank's revenue.

A stop loss trigger alert can result in any or all of the following actions being taken:

- Risk position reduction.
- Risk limit(s) reduction.

Transfer of positions out of the control of the relevant trader and into that of Management

- Market Risk unit ensures that the trading portfolio is carried at fair value by ensuring that the market risk models used to mark-to-market are appropriate (model validation) and that the inputs into those models are relevant and reflective of current market conditions (price validation).
- The Market Risk Management unit is independent of trading operations and accountable to ALCO.

### Market risk measurement

Market risk is measured under both normal and stressed market conditions.

### Metric: VaR (Value at Risk)

Measurement of trading exposures under normal market conditions is based on Value at Risk (VaR). Normal VaR is calculated on a **historical** simulation basis with 250 days of market data and uses a 95% confidence interval and a one day holding period. This means that losses are not expected to exceed the projected number with a likelihood of 95% (or 19 days out of 20). The VaR calculation assumes no corrective action is taken during the assumed holding period.

Measurement of daily trading exposures under stress market conditions is based on VaR defined with a 10-day holding period, worst case and historical data for a period of 5 years. The quality of the VaR model is continuously monitored by back testing the VaR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VaR distribution are investigated. Stressed VaR is supplemented by cross market stress tests where the Bank measures the impact of abnormal exchange rate and interest rate movements.

### Metric – Present value of the portfolio for a 1 bp change in rates

Risk sensitivities highlight how exposed a portfolio is to certain market variables notably exchange rates and interest rates. FX risk is monitored through FX Delta, FX Delta being the present value of foreign currency positions reflecting how exposed the Bank is to fluctuations in exchange rates. Interest Rate risk is monitored through PV01; PV01 being the change in the present value or mark-to-market value of the portfolio as a result of moving interest rates up by 1 basis point (0.01%).

### Reporting

Exposures and excesses are monitored and reported daily to the Bank and Group Management, monthly to ALCO and quarterly to the Board Risk Management and Conduct Review Committee (BRMCRC). Where breaches in limits and triggers occur, actions are taken by the Market Risk Management unit to ensure that traders hedge exposures back in line with approved market risk appetite with such breaches being reported to Management, ALCO and BRMCRC.

Please refer to Note 3(c) in the audited financial statements for further disclosures on exposure to market risk and stress tests.

## 6. INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk results from the different repricing characteristics of banking book assets and liabilities. The Bank's IRRBB can be further divided into the following sub-risk types:

- Repricing risk: timing differences in the repricing of assets and liabilities
- Yield curve risk: shifts in the yield curve that have an adverse impact on the Bank's income
- Endowment risk: Exposure arising out of the net differential between interest rate insensitive assets such as on-earning assets and interest rate insensitive liabilities such as non-interest bearing liabilities and equity.

### Approach to managing interest rate risk

The adopted approach in mitigating IRRBB essentially involves managing the potential adverse effect of interest rate movements on the banking book.

A forward-looking net interest income forecast is used to quantify the Bank's anticipated interest rate exposure. This approach involves the forecasting of both changing balance sheet structures and interest rate scenarios, to determine the effect

* Information in this section has been audited

these changes may have on future earnings. Balance sheet projections and the impact on net interest income due to rate changes cover a minimum of 12 months forecasting and is compared to the set limits. Desired changes to the interest rate risk profile are achieved through the restructuring of on-balance sheet repricing or maturity profiles.

## 7. OPERATIONAL RISK

### Overview and Definition

Operational risk is the risk of loss suffered as a result of the inadequacy of or failure in internal processes, people and systems or from external events. Operational risks can arise from all the Bank's activities. The Bank is exposed to operational risks in its day to day running of operations or whenever it accepts new business, originates new transactions, introduces new products, enters new markets, outsources activities or hires new staff. Operational risk covers such a broad spectrum of circumstances and events that it is now categorised into subtypes and managed by specialists' functions. These include the following:


### Approach to managing operational risk

The Bank recognises that operational risk exists in the natural course of business activity and adheres to the Group's operational risk governance framework, which sets out the minimum standards for operational risk management adopted across all legal entities across the Standard Bank Group. This framework aligns with the Bank's strategy by demonstrating that the purpose of operational risk management is not to eliminate all risks, which is not economically viable, but rather to enable Management to weigh the payoff between risk and reward. The framework also ensures that adequate and consistent governance is in place, guiding management to avoid unacceptable risks such as:

- breaking the law;
- damaging the Group's reputation;
- disrupting services to customers;
- wilful conduct failures;
- inappropriate market conduct;
- knowingly breaching regulatory requirements; and
- causing environmental damage.

The Bank's approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist line management in understanding their residual risk and managing their risk profile within risk appetite. The management of operational risk primarily resides in first line, supported by second line with dedicated centres of excellence. The operational risk management function forms part of the second line of defence and reports to the Head: Risk.

The core capabilities of operational risk management ensure alignment and integration across:

- developing and maintaining the operational risk governance framework;
- facilitating the business's adoption of the operational risk framework;
- providing guidance and advice to the frontline;
- regulatory oversight;
- monitoring and assurance; and
- reporting.

The well-embedded operational risk framework sets out a structured, consistent approach for managing operational risk across the Bank and is based on the following core components:

#### Risk and controls self-assessment (RCSA)

The Bank inculcates the culture of self-assessment whereby each business unit and corporate function is required to analyse its business activities and critical processes to identify the key operational risks to which it is exposed and assess the adequacy and effectiveness of its mitigating controls. For any area where management concludes that the level of residual risk is beyond an acceptable level, it is required to define action plans to reduce the level of risk. These assessments are facilitated, monitored and challenged by the Operational Risk team at least annually.

#### Key risk indicators (KRIs)

KRIs are used to monitor the operational risk profile and alert the Bank to impending problems in a timely manner. Relevant risks and controls highlighted in the risk and control self-assessment are monitored through KRIs. The implementation of the key risk indicators process is an integral element in providing an early warning indicator through trigger thresholds of a potential increase in risk exposure and/or a potential breakdown of controls.

KRIs are reported on a monthly basis by business units and corporate functions to the Operational Risk team and thus enable the monitoring of the Bank's control culture, business environment and trigger mitigating actions and facilitate the forward-looking management of operational risks based on early warning signals.

#### Incident management and reporting

Operational risk incidents are recorded and reported. The definition of operational risk incidents includes not only events resulting in actual loss, but those resulting in non-financial impacts and near misses. The continuous collection of operational risk loss events is a pre-requisite for operational risk management including analysis and provision of timely information to Management. Reporting and analysis is undertaken for operational risk loss events and near-misses.

This includes:

- Trends in previous events, near misses, losses and business environment where such incidents are occurring;
- Root cause analysis; and
- Review of control improvements and other actions to prevent or mitigate the recurrence.

### Operational risk subtypes

#### Technology risk

Technology risk is the inability to manage, develop and maintain secure, agile technology assets to support strategic objectives, operational efficiencies and robust risk management. Customer experience, as a strategic imperative, is directly and heavily influenced by effectiveness of technology in providing relevant, innovative, secure and stable digital as well as physical service offerings. The Bank's strategic imperatives namely customer centricity and digitisation are all enabled by technology and the success or failure in achieving the technology goals will directly impact the achievement of business objectives. Technology risk is therefore a major factor in successful strategy execution.

To that effect, the Bank is seeking to enhance its technological capability and mitigate resulting risks through the following initiatives:

- Launch of a quantum shift strategy at Group level followed by the implementation of associated changes to operating models. The strategy priorities client needs and supports the journey to become a digital and agile Bank.
- Change management process has been enhanced to ensure proper readiness and limit teething issues at deployment.
- Process for managing major incidents was overhauled to improve diagnosis and resolution of incidents.
- New ways of working to ensure appropriate prioritisation in programme increment planning and business improvement initiatives.
- Review of physical infrastructure followed by the long-term virtualisation intent.

Given the nature and scale of the Bank's business, some interruption is inevitable and IT incidents and downtime cannot be completely avoided. Management focus and capability is placed on the ability to predict, prevent, detect and rapidly respond to, and manage the risks associated with incidents.

#### Cyber risk

Cyber risk is the risk of financial loss, disruption or damage to reputation from breaches or attacks on transaction sites, systems or networks. Cybercrime includes cyber fraud, data theft, extortion (ransomware) and malicious business disruption. The escalation in the scale and sophistication of cybercrime is amplified by the growing digitisation of businesses and the complexity of running ageing systems.

Cyber risk continues to be recognised as one of the most important risks to the Bank. Focus on developing capabilities that can reduce attacks and raise the cost to attackers continued throughout the year. The escalation in the scale and sophistication of cyber-attacks is amplified by the growing digitisation of businesses and the complexity of running ageing systems. The Bank is cognisant of the mounting risk posed by cyber-attacks and significant investments have been made to enhance security capabilities and accelerate strategic directives.

In response to the growing volume and sophistication of cybercrime incidents and attacks, the Bank has endorsed the Group's IT cyber security strategy which is centred around the four key pillars of governance, culture, capability and community, all of which are crucial for an effective cyber defence strategy. 2019 saw a continued focus on improving cyber security capabilities including the following key initiatives:

- A risk-based visibility approach was used to ensure that all endpoints can be seen across the Bank to ensure that all the devices are patched and monitored.
- Proper controls, procedures and hardening of endpoints were applied to maintain cyber security hygiene to further strengthen the Bank's holistic security posture.
- Vulnerability management capabilities were enhanced for a more accurate picture of the network.
- Independent cyber maturity and technical assessment was conducted to assess the Bank's defensive posture. The assessment emphasised operational best practices across various domains and confirmed effectiveness and maturity of internal policies and procedures.
- Hacking resistance has been further improved through red team capability which is aimed at increasing the length of time it takes to breach systems and reduce the time to detect and respond to breaches.
- Improved cyber security operations centre (CSOC) monitoring across the Group. The CSOC houses a team responsible for monitoring and analysing the security posture on an ongoing basis. The team detects and responds to incidents using a number of solutions and a set of processes. This ensures that any security issue is promptly addressed once identified.
- Cyber-attack simulations and penetration testing were conducted to improve detection and remediation. The simulations were undertaken to exploit the vulnerabilities from a hacker's viewpoint and test management response to such crisis following which remedial actions were taken to address identified loopholes.

#### Regulatory impact risk

Regulatory impact risk is the risk of incurring reputational and financial losses due to the Bank's inability to keep abreast of regulatory developments and comply with and keep abreast of regulatory requirements. The Bank has no tolerance for knowingly breaching regulatory requirements and aims to comply with all regulations relevant to the different parts of the business. Details on how the Bank manages regulatory impact risk has been outlined in the compliance risk section above.

#### Fraud risk

Fraud risk is the risk of loss, regulatory sanction or risk to reputation due to fraud, violent crime and misconduct internally from staff and externally. The Bank has no appetite for wilful misconduct and aims to limit fraud losses in the pursuit of its strategic objectives. The in-country Risk Team leverages on the Group's specialised intelligence team namely Group Investigation and Fraud Risk Unit to manage financial crime.

As the Bank migrates its content digitally, more payments are being channelled through the Bank's internet banking and application platforms, and more customers are favouring these channels. Customers are vulnerable to phishing attacks, whereby criminals fraudulently access their banking information. At a Group Level, investment continues in anti-phishing and device profiling capabilities to frustrate fraudsters. The Group has partnered with world-class anti-phishing experts to identify and shut down phishing sites masquerading as Standard Bank.

The Bank continues to operate with zero tolerance for employee misconduct and independently investigates all allegations of employee misconduct. Employees are also provided with ongoing awareness and training and are provided with the appropriate tools for escalating and reporting misconduct anonymously through the independent whistleblowing capability. The Group also has an incentivised staff program, FraudStop, to encourage employees to log genuine cases of external fraud for which they are financially rewarded.

#### Information risk

Information risk is the risk of accidental or intentional unauthorised use, access, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity and availability of information and which would potentially harm the business. The Bank leverages on the Group's information risk management framework to maintain the confidentiality, integrity and availability of information assets stored, processed and transmitted.

Information risk management falls under the aegis of the Risk unit which is responsible for executing set policies and practices in relation to information security. A gap analysis has been conducted against the information risk management governance landscape as a first step towards managing and reducing information risk within the Bank. The gap analysis has allowed the Bank to identify areas of improvement and implement controls to drive the risk governance and processes required and ultimately enhance the control environment. An overall risk remediation plan is being maintained to record management's intent as well as track progress against it.

In an endeavour to address information risk gaps and mitigate ensuing threats, the Bank has invested in the following:

- Promoting continued awareness around protecting sensitive banking information and credentials.
- Focused campaigns which served as reminders for a consistent information protection culture.
- Continued improvement in data leakage prevention rules to enhance the ability to detect potential information leakage events.
- Improved end-point encryption systems which encrypt hard drives, secure information and prevent exploitation by external parties.
- Stronger authentication for high-risk and privileged user accounts

Further enhancement of information management, implementation of controls and policy implementation will remain a focus area for 2020. The Bank will focus on the identification and classification of information assets, as part of the broader information risk management framework.

### People risk

Our ability to differentiate Standard Bank as client-focused and digitally enabled organisation through the successful execution of our strategy by our people in an intensely competitive environment will be impacted negatively by an inability to attract and retain committed people and not creating an environment that enables our people to grow in order to remain relevant in a rapidly evolving world of work. The Bank tracks and monitors employee engagement with three key indicators, namely voluntary turnover rate, regrettable turnover and an annual employee net promoter score.

Over the years, the Bank has introduced a range of reward and recognition initiatives to support client centricity, retain top talent and ensure sustainable long-term performance. Additionally, the Bank has continued to provide staff with access to online learning platforms and digital libraries to ensure fit-for purpose learning anytime, anywhere and on any device. Top and senior management transformation reviews for all business units and corporate functions ensure a focus on the identification and development of diverse talent pools. The Bank has also rolled out an employee insights platform which enables the rapid deployment of surveys to gauge how staff think and feel about working for the Bank and to ask for their input when reshaping solutions that will directly impact them. The Bank has also delivered a range of health and wellness initiatives to employees across the organisation, including wellness days, medical assessments and counselling services, and offered a range of training initiatives to build personal resilience and coping skills.

### Business disruption risk

Business disruption risk is the risk of infrastructure failure, environmental impact or change failure disrupting the services to and of the Bank. Business continuity management is a process that identifies potential operational disruptions and provides a basis for planning for the mitigation of the negative impact from such disruptions. In addition, it promotes operational resilience and ensures an effective response that safeguards the interests of both the Bank's and its stakeholders.

A comprehensive business resilience policy and standard are in place. They assist the Bank in effectively planning for and responding to incidents and business interruptions so that the Bank can resume critical activities within the briefest delay possible, thus safeguarding its reputation and the interests of key stakeholders. The Bank's business resilience framework encompasses emergency response preparedness and crisis management capabilities to manage the business through a crisis to full recovery. Each business unit is responsible for its own business continuity management plan, closely supported by the Risk team, who will provide the governance, steer, oversight and reporting of the Bank's status of readiness to maintain availability of the Bank's critical business activities at acceptable pre-defined service levels. The Bank's business resilience capabilities are evaluated by testing business continuity plans and conducting crisis simulations.

The Bank aims to achieve optimal business resilience performance, as defined in the business resilience standard and evidenced through a demonstration of an implemented fit-for-purpose business resilience capability when critical services, functions and systems encounter business disruption. A business resilience dashboard is prepared on a monthly basis and provides the minimum standard of what needs to be in place with regard to business continuity, tracks progress and highlights gaps in the business resilience programme. This report card is submitted on a monthly basis to Group and is also tabled at the relevant governance committees.

Simulations were performed in 2019 to assist with quick and effective response to consequences of a risk event. Exercises and tests included the work area recovery site test, IT disaster recovery capability for all in–country and group-hosted systems and applications, a cyberattack scenario and fire evacuations to adequately prepare Management to respond quickly and effectively in the event of a catastrophic event.

The Bank leverages on the following Group capabilities:

- Well-practiced and well-rehearsed IT security and cyber security incident response teams which convene on a regular basis either in response to real-life incidents or during simulation exercises.
- Documented cyber extortion response plan which details specific actions to be carried out during cyber incidents.
- Well-staffed 24/7 cyber security operations centre which monitors all cyber-vulnerabilities and attacks, including malware.

### Third party risk

Third party risk refers to the risk of losses or disruptions due to ineffective management of third-party relationships. To that effect the following guidelines in respect of third-party management have been established for all entities of the Standard Bank Group:

- No appetite for entering into transactions with sanctioned suppliers;
- No tolerance for contractual agreements concluding outside the procurement process;
- No tolerance for procurement happening outside the governance process. This includes sourcing, purchasing and contracting processes.

Prior to establishing any relationship with third parties, it is the Bank's policy to conduct background checks and due diligence on the concerned third parties. Service providers/suppliers undergo a stringent due diligence process before the Bank enters into a relationship with a service provider/supplier and before a service provider/supplier is onboarded. Enhanced due diligence process in place for high-risk suppliers/service providers which include adverse media checks and checks related to fraud and negative publicity. Periodic monitoring and checks are conducted on active critical suppliers/service providers including risk assessments on their financial performance, security policies, data privacy, amongst others.



Third-party risk continues to evolve in importance, due to reliance on third-parties to provide services critical to the Bank's operations. Third-party relationships may increase the Bank's exposure to operational risk because the Bank may not have direct control of the activity performed by the third-party. Failure to manage these third-party risks can expose the Bank to regulatory sanction, financial loss, litigation and reputational damage, and may impair the Bank's ability to deliver to its customers.

The risk is governed by the third-party risk framework, approved during 2019. This framework is underpinned by the implementation of a fit-for-purpose operating model, which is aligned with the Bank's risk culture and considers appropriate levels of accountability and responsibility across the Bank. The operating model will be deployed in a phased manner across all legal entities of the Group in 2020.

### Conduct risk

Conduct risk is the risk that detriment is caused to the Bank's clients, the market or the Bank itself because of inappropriate execution of business activities. To effectively manage conduct risk, Standard Bank Group has developed a conduct framework that follows a culture-led strategy to embed culture and manage conduct. The conduct framework including the establishment and embedment of the reporting architecture i.e. metrics, management information, and conduct reporting enables the Board and Executive Management in all legal entities across the Standard Bank Group to exercise oversight and evidence good conduct risk management. Governance structures ensure business ownership are in place to manage conduct risks. Conduct is closely monitored through the Executive Committee and the Board Risk Management & Conduct Review Committee. The conduct framework facilitates a continuous process to identify conduct risk, which allows the Bank to keep abreast of economic and regulatory development to meet regulatory expectations. Conduct reporting to Senior Management and the Board includes both quantitative and qualitative metrics. The conduct dashboards in fact take into consideration different reporting pillars, such as strategy, culture, governance, product, quality sales and advice.

### Governance

The primary management level governance committee overseeing operational risks is the Operational Risk & Compliance Committee. The primary governance documents are the operational risk governance framework and the operational risk governance standard. Operational risk subtypes have governance documents applicable to each risk subtype. The governance of the various risk subtypes is through the following Governance Committees:

| Committee | Operational risk subtype |
|---|---|
| IT Steering Committee | Technology, Cyber, Information and Business Disruption |
| Operational Risk & Compliance Committee | Fraud, Third Party and Regulatory |
| Executive Committee | People and Conduct |

### Insurance Cover

The Bank has contracted insurance covers to mitigate operational risk; these covers are reviewed on an annual basis. The Board, through the Risk function, ensures that an adequate insurance programme is in place designed to protect the Bank against loss resulting from its business activities. The principal insurance policies in place are outlined below:

**Banking (Financial Risks)**

- Crime Insurance
- Professional Indemnity Insurance
- Directors' & Officers' Liability Insurance
- Cyber Protection Insurance

**Non-Banking (Non-Financial Risks)**

- Assets All Risks including Business Interruption
- Motor Vehicles
- Employers Liability
- Group Personal Accident
- Public Liability
- Political Riot and Terrorism

## 8. BUSINESS RISK

Business risk includes strategic risk. Strategic risk is the risk that the Bank's future business plans and strategies may be inadequate to prevent financial loss or protect the Bank's competitive position and shareholder returns. The Bank's business plans and strategies are discussed and approved by Executive Management and the Board and, where appropriate, subjected to stress tests.

Business risk is usually caused by the following:

- inflexible cost structures.
- market-driven pressures, such as decreased demand, increased competition or cost increases.
- bank-specific causes, such as a poor choice of strategy, reputational damage or the decision to absorb costs or losses to preserve reputation.

The Bank mitigates business risk in a number of ways, including:

- detailed analysis of the business cases.
- the application of new product processes per business line through which the risks and mitigating controls for new and amended products and services are evaluated.
- stakeholder management to ensure favourable outcomes from external factors beyond the Bank's control.
- monitoring the profitability of product lines and customer segments.
- maintaining tight control over the Bank's cost base, including the management of its cost-to-income ratio, which allows for early intervention and management action to reduce costs.
- being alert and responsive to changes in market forces.
- a strong focus in the budgeting process on achieving headline earnings growth while containing cost growth; and building contingency plans into the budget that allow for costs to be significantly reduced in the event that expected revenues do not materialise.
- increasing the ratio of variable costs to fixed costs which creates flexibility to reduce costs during an economic downturn.
- stress testing techniques applied to assess the resilience of the Bank's planned earnings under macroeconomic downturn conditions.

The primary governance committee for overseeing this risk is the Assets & Liabilities Committee.

## 9. REPUTATIONAL RISK

Reputation is defined as what stakeholders say and think about the Bank, including its staff, customers and clients, investors, counterparties, regulators, policymakers, and society at large. The Bank's reputation can be harmed from an actual or perceived failure to fulfil the expectations of its stakeholders due to a specific incident or from repeated breaches of trust.

Reputational harm can adversely affect the Bank's ability to maintain existing business, generate new business relationships, access capital, enter new markets, and secure regulatory licences and approvals.

Safeguarding and proactively managing the Bank's reputation is of paramount importance. There is growing awareness of reputational risks arising from compliance breaches, social and environmental considerations, as well as from ethical considerations linked to countries, clients and sectors.

The Bank manages reputational risk from a tactical and reactive perspective as well as from a strategic and proactive perspective. In respect to crisis response, the Bank's crisis management processes are designed to minimise the reputational impact of such events or developments. A crisis management team is in place at Executive level. This includes ensuring that the Bank's perspective is fairly represented in the media. In addition, more attention is being paid to leveraging opportunities to proactively bolster the Bank's reputation among influential stakeholders through programmes, including stakeholder engagement, advocacy, sponsorships and corporate social initiatives.

The principal governance document is the reputational risk governance standard and the Bank's qualitative risk appetite statement includes a statement on reputation. The Bank's code of ethics is an important reference point for all staff. The Bank has appointed an Ethics Officer whose role is to ensure an ethics framework is in place at the Bank together with a code of ethics and values embedded across the Bank. The Ethics Officer reports on a quarterly basis on matters of ethics to Executive Management and the Board Risk Management and Conduct Review Committee.

### REPORTING

The Bank's risk appetite, risk profile and risk exposures are reported on a regular basis to the Board and Senior Management through various governance committees. Risk management reports are tabled at the formalised governance structures at both Board and Management Risk Committees levels.

### Risk data aggregation and risk reporting (RDARR)

In January 2013, the Basel Committee on banking supervisions (BCBS) published principles for effective RDARR with the aim of improving the quality of information that banks use in decision making, particularly as it pertains to risk management. The 14 principles, aimed at improving the risk data aggregation and risk reporting capabilities of banks, set out the criteria for governance, risk data aggregation, risk reporting practices and supervisory review as pictured below.


The programme was successfully completed during the course of 2018-2019, wherein the governance framework, processes and technological set up underpinning the governance, architecture, data aggregation and reporting principles were rolled out and embedded as part of the Bank's "business-as-usual" operations. Ongoing education sessions were held during the year which covered the framework. In 2020, Internal Audit will be performing an advisory review to confirm the extent to which the Bank is complying with the principles and programme requirements.

### Looking Ahead

Risk is everyone's business and the Bank's material risks are monitored, managed and mitigated through the three lines of defence model. In an evolving world that is interconnected through technology, it is becoming vital for the Bank to remain forward-looking in the management of its risk environment. The top risks and emerging threats process provides for continuous assessment and monitoring of current risks and emerging threats, thereby equipping the Bank to proactively identify these potential risks and manage and mitigate them effectively. The Bank will continue to instil conscious risk-taking, thereby making strategically informed risk decisions in pursuit of its identified growth opportunities. This consistent approach to risk helps ensure that the Bank manages its business and the associated risks in a manner that balances the interests of clients and other key stakeholders whilst protecting the safety and soundness of the Bank.



## 10. CAPITAL MANAGEMENT*

### Overview and objectives

The Bank's capital management function is designed to ensure that regulatory requirements are always met and that the Bank is capitalised in line with its risk appetite and target ratios, both of which are approved by the board.

It further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of the Bank's budget and forecasting process. The capital plan is tested under a range of stress scenarios as part of the Bank's annual internal capital adequacy assessment process (ICAAP).

The capital management function is governed primarily by management level subcommittees that oversee the risks associated with capital management, namely ALCO. The principal governance documents are the capital management governance framework.

### REGULATORY CAPITAL

The main regulatory requirements to be complied with are those specified in the Banking Act 2004 and related regulations, which are aligned with Basel III.

### Basel III

Basel III aims to strengthen the regulation, supervision and risk management of the banking sector. The measures recommended aim to:

- improve the global banking sector's ability to absorb shocks arising from financial and economic; stress, whatever the source;
- improve risk management and governance; and
- strengthen Bank's transparency and disclosures

The Bank of Mauritius has adopted a phased approach to the implementation of Basel III with the issue of the Bank of Mauritius Guideline on scope and application of Basel III and eligible capital. Regulatory capital adequacy is measured through three risk-based ratios:

**CET I (Common EQUITY Tier I):** ordinary share capital, share premium, retained earnings, other reserves and qualifying non-controlling interest less impairments divided by total risk weighted assets (RWA).

**Tier I:** CET I plus perpetual, non-cumulative instruments with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA.

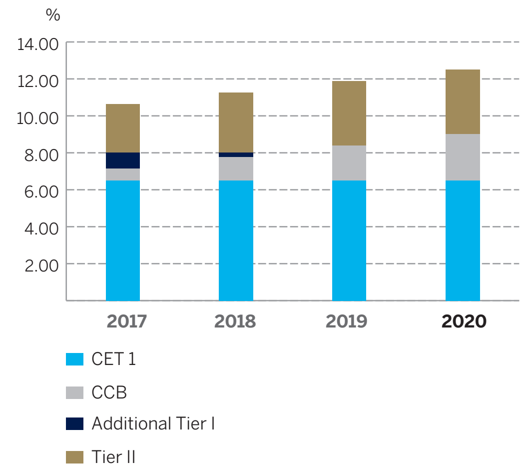
**Total capital adequacy:** tier I plus other items such as general credit impairments and subordinated debt with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. The ratios are measured against internal targets and regulatory minimum requirements.

A transitional arrangement was in place for banks to comply with the Basel III principles on capital, with banks to fully implement these by 2020. Basel III introduced the concept of capital conservation buffer (CCB) which aimed at promoting the conservation of capital and the build-up of adequate buffers above the minimum during normal times (i.e. outside periods of stress) which can be drawn down as losses are incurred during a stressed period.

The Bank manages its capital levels to support business growth, maintain depositor and creditor confidence, create value for shareholders and ensure regulatory compliance. The Bank has been compliant with the minimum requirements to date.

The calculation of regulatory capital is based on net counterparty exposures after recognising a limited set of qualifying collateral. A prescribed percentage, the risk weighting of which is based on the perceived credit rating of each counterparty, is then applied to the net exposure. An additional capital conservation buffer of 0.625% is added each year to reach 2.5% in 2020.

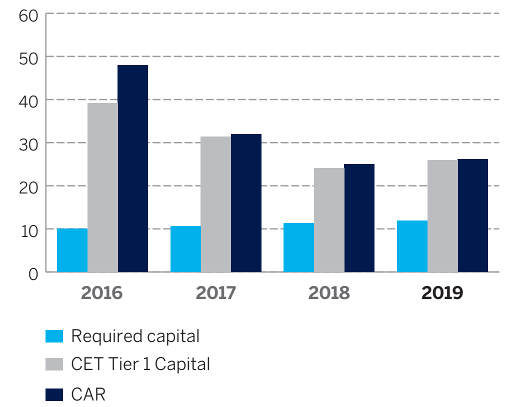
**Bank of Mauritius minimum ratios (capital as a percentage of risk weighted assets) effective 1 January each year (%).**




For exposures that have been rated by approved credit assessment institutions, the process prescribed by the Bank of Mauritius is used to ascribe public issue ratings into comparable assets. For counterparties for which there are no credit ratings available, exposures are classified as unrated and a 100% risk weighting is applied for determining regulatory capital charge.

The following graph discloses the Bank's total capital adequacy and the components thereof and indicates that the Bank's capital is well above the required level of capital.

**Capital adequacy (%)**




* Information in this section has been audited

The Bank capital position based upon Common Equity Tier I and total capital ratios as per the tables below.

**Capital structure under Basel III**

| | Basel III 2019 USD'000 | Basel III 2018 USD'000 | Basel III 2017 USD'000 | Basel III 2016 USD'000 |
|---|---|---|---|---|
| **Common Equity Tier I Capital** | | | | |
| Share Capital | **35,000** | 35,000 | 35,000 | 35,000 |
| Statutory Reserve | **22,458** | 19,120 | 15,285 | 12,091 |
| Other Reserves | **69,043** | 61,671 | 40,531 | 34,501 |
| Less: Deductions | | | | |
| Intangible Assets | **(17,010)** | (18,143) | (19,518) | (14) |
| Deferred Tax | **-** | - | - | (300) |
| Adjustment to Additional Tier 1 Capital | **(249)** | (5,883) | | |
| **Common Equity Tier I Capital** | **109,241** | 91,765 | 71,298 | 81,278 |
| Other Reserves | | | - | - |
| Subordinated Debts | | | - | 17,500 |
| Provision for performing loans | **1,034** | 3,447 | 1,241 | 763 |
| | **1,034** | 3,447 | 1,241 | 18,263 |
| **Total Capital Base** | **110,275** | 95,212 | 72,539 | 99,541 |
| Risk Weighted Assets for: | | | | |
| Credit Risk | **349,028** | 315,827 | 171,269 | 154,495 |
| Operational Risk | **72,738** | 63,607 | 55,654 | 52,376 |
| Aggregate Net Open Foreign Exchange Position | **520** | 1,516 | 51 | 532 |
| **Total Risk Weighted Assets** | **422,285** | 380,950 | 226,974 | 207,403 |
| **Common Equity Tier I Capital** | **25.9%** | 24.1% | 31.4% | 39.2% |
| **CAPITAL ADEQUACY RATIO** | **26.1%** | 25.0% | 32.0% | 48.0% |

The Bank maintains appropriate levels of capital, with a Common Equity Tier 1 capital ratio of 25.9% (2018: 24.1%) and a total capital adequacy ratio standing at 26.1% (2018: 25.0%). The Bank remains well positioned to meet all capital adequacy regulatory requirements.

The Bank uses the ratings assigned by Moody's Investors Service to banks to determine the risk weighting of exposure with banks.

**On-balance sheet netting**

As part of the Bank's credit risk mitigation, the Bank uses the net exposure of loans and deposits as the basis for calculating its capital adequacy ratio, aligned to Bank of Mauritius guideline on standardised approach to credit risk.

**Off-balance sheet netting**

The Bank nets off-balance sheet claims and obligations for capital adequacy purposes. The net off is for market-related contracts with a single counterparty across both the banking and trading books, where the relevant obligations are covered by eligible bilateral netting agreements.

The Bank collateral valuation guidelines describe the processes for managing our collateral valuation to mitigate credit risk. The policy provides the minimum valuation requirements that need to be adhered to, based on the types of assets held.

The Bank uses the following collaterals for credit risk mitigation:

(1) Cash – Cash collateral which has been deposited on account held with the Bank;
(2) Listed shares- Shares that are listed on the stock exchange or on a licensed exchange;
(3) Fixed or immovable property-residential, commercial and agricultural property taken under a fixed charge;
(4) Floating/movable assets - plant, equipment and machinery, stock, receivable and other assets taken under a floating charge

Under the standardised approach to credit risk, the Bank's eligible guarantors are sovereign entities, public sector enterprises, banks and securities firms with a lower risk weight than that of the counterparty.

The following table shows details of mitigations taken by the Bank.

| Mitigation | USD'000 |
|---|---|
| Guarantee – Standard Bank of South Africa | - |
| Guarantee- Local Bank | - |
| Cash collateral | 6,849 |
| Total | 6,849 |
| Total credit risk exposures | 1,595,155 |
| % exposure covered by collaterals | 0.43% |

**Exposures subject to the standardised approach per risk weighting as at 31 December 2019**

| | 2019 | | | | 2018 | 2017 |
|---|---|---|---|---|---|---|
| | Nominal Amount | Mitigation | Risk Weight | Risk Weighted Assets | | |
| **CREDIT RISK** | USD'000 | | % | USD'000 | USD'000 | USD'000 |
| On Balance Sheet Assets | | | | | | |
| Cash Items | 75 | - | 0-20 | - | - | - |
| Claims on Sovereigns | 200,299 | - | 0-100 | - | - | - |
| Claims on Banks | 970,888 | - | 20-100 | 73,229 | 46,897 | 46,897 |
| Claims on Central Banks | 16,629 | - | 0-150 | 13 | - | - |
| Claims on PSE | - | - | 20-150 | - | - | - |
| Claims on corporates | 222,444 | - | 20-150 | 224,944 | 225,063 | 212 |
| Claims secured on residential property | 310 | - | 35-125 | 178 | 212 | - |
| Past due claims | 7,444 | - | 50-150 | 7,444 | 419 | 419 |
| Other Assets / Fixed Assets | 11,558 | - | 100 | 11,558 | 4,700 | 4,700 |
| Total | 1,429,648 | - | | 317,365 | 277,290 | 52,228 |
| Non-market related off-balance sheet risk weighted assets | | | | | | |
| Direct Credit Substitute | 22,003 | 16,658 | 20-100 | 16,658 | 23,116 | 20,498 |
| Transaction-related contingent items | 11,390 | 11,222 | 20-100 | 5,611 | 2,008 | 492 |
| Trade Related Contingencies | - | - | 20-100 | - | 132 | 611 |
| Other Commitments | 144,347 | 144,347 | 20-100 | 6,422 | 10,131 | 1,250 |
| Total | 177,740 | 172,227 | | 28,691 | 35,387 | 22,851 |
| Market related off-balance sheet risk weighted assets | | | | | | |
| Interest Rate Contracts | 17,845 | - | | 89 | 89 | - |
| Foreign exchange contracts | 173,047 | - | | 2,882 | 3,061 | 13,658 |
| Total | 190,892 | - | | 2,971 | 3,150 | 13,658 |
| Total Credit Risk | 1,798,281 | 172,227 | | 349,028 | 315,827 | 88,736 |
| Operational Risk | | | | 72,738 | 63,607 | 55,654 |
| Aggregate Net Open Foreign Exchange Position | | | | 520 | 1,516 | 51 |
| **Total Risk Weighted Assets** | 1,798,281 | 172,227 | | 422,285 | 380,950 | 144,441 |

**Internal capital adequacy assessment process (ICAAP)**

ICAAP considers the qualitative capital management processes within the organisation and includes the organisation's governance, risk management, capital management and financial planning standards and frameworks. Furthermore, the quantitative internal assessments of the organisation's business models are used to assess capital requirements to be held against all risks the Bank is or may become exposed to, in order to meet current and future needs as well as to assess the Bank's resilience under stressed conditions.

The Group has embedded sound internal capital adequacy assessment processes throughout the Group and across all its subsidiaries. The Bank is aligned with the Group and has implemented the Bank of Mauritius Guideline on Supervisory Review Process since 2011. The ICAAP document is reviewed on an annual basis and is approved by the Board. Periodic reviews are made to ensure that the Bank remains well capitalised after considering all material risks.

The Bank consciously maintains a risk management culture and practices that are conservative and rigorous and considers that risk appetite is an integral part of the Bank's strategy and business plans. As a result, all material risks are appropriately managed and mitigated, with back-up action plans identified for execution should the capital levels of the Bank ever fall below levels deemed acceptable by the Board, Management or Bank of Mauritius.

Credit risk consumes approximately 75% of total regulatory capital usage and as such represents the largest source of risk that the Bank is exposed to. Such risk therefore attracts a high degree of management focus, with sufficient resources assigned to ensure that the risk is mitigated.

**Year under review - Stress Scenarios**

Economic headwinds, volatility in markets and competitive pressures accelerate the need to continuously assess the Bank's forward-looking risk profile under normal and stressed conditions against the stated risk appetite. The appropriateness of the macroeconomic stress scenarios and the severity of the relevant scenarios are approved by the Board and Senior Management on an annual basis.

Stress testing is conducted using macroeconomic stress scenarios as well as bank specific scenarios based on the composition of the loan book and liquidity profile. Stress testing is performed annually as part of the Bank's ICAAP process.

Stress results are analysed and any departure from our risk appetite statement trigger mitigating actions. During 2019, the Bank ran several stress tests to understand the impact that potential stress events would have on its profitability and capital position on a forward-looking basis. These events included financial market distress, Global Trade War and single obligor default scenarios. Capital buffers were considered adequate. While stress results for capital adequacy are within requirements, the Bank will nonetheless remain alert to possible deterioration of economic conditions to trigger a re-assessment of capital levels and initiate early remedial action should circumstances dictate. In instances, where the results of the stress tests breached risk appetite or tolerance, the Board ensured that Management has mitigating actions in place to minimise the impact.

For the purposes of ICAAP, the Bank maintains a capital buffer of 2% above the regulatory requirement.

## 11. RELATED PARTY TRANSACTIONS

The Bank's related party transaction policy establishes and defines the framework for the governance, risk management, and reporting of related party transactions. The policy fulfils the requirements of the Bank of Mauritius guideline on related party transactions to effectively identify, monitor, control and report related party transactions within the Bank and to take appropriate steps to mitigate the risks arising from these transactions.

As per Bank of Mauritius guideline on related party transactions, a "related party" means:

- a person who has significant interest in the financial institution or the financial institution has significant interest in the person;
- a director or senior officer of the financial institution;
- close family members of the above;
- an entity that is controlled by a person described above;
- a person or class of persons who has been designated by the Bank of Mauritius as a related party.

Related party transactions include intragroup transactions as well as the following transactions:

- Credit, non-fund-based commitments such as documentary credits, guarantees on behalf of a related party, acquiring a loan made by a third party;
- Placements made by the Bank with the related party;
- Vendor agreements with related parties;
- Consulting or professional service contracts with directors and related parties;
- Investment in equity of a related party;
- Deposits placed by related parties with the Bank; and
- Acquisition, sale or lease of assets with related parties.

The Bank has policies and processes in place to avoid conflict of interest when carrying out related party transactions and to ensure that same are conducted at arm's length. Transactions which are not at arm's length are subject to prior approval by the Board Risk Management & Conduct Review Committee.

The Bank provides assurance to the Board Risk Management & Conduct Review Committee on a quarterly basis that where approval has not been sought, transactions have been conducted at arm's length.

All credit exposures to related parties are reported to the Risk Management & Conduct Review Committee.

The Top 5 related party exposures at end December 2019 are outlined below:

| Counterparty | USD |
|---|---|
| Standard Bank of South Africa Limited | 600,788,915 |
| Stanbic Bank Kenya Limited | 7,003,198 |
| Stanbic Bank Uganda Limited | 1,930 |
| Stanbic Bank Namibia Limited | 1,283 |
| Stanbic Bank Ghana Limited | 968 |
| | 607,796,294 |

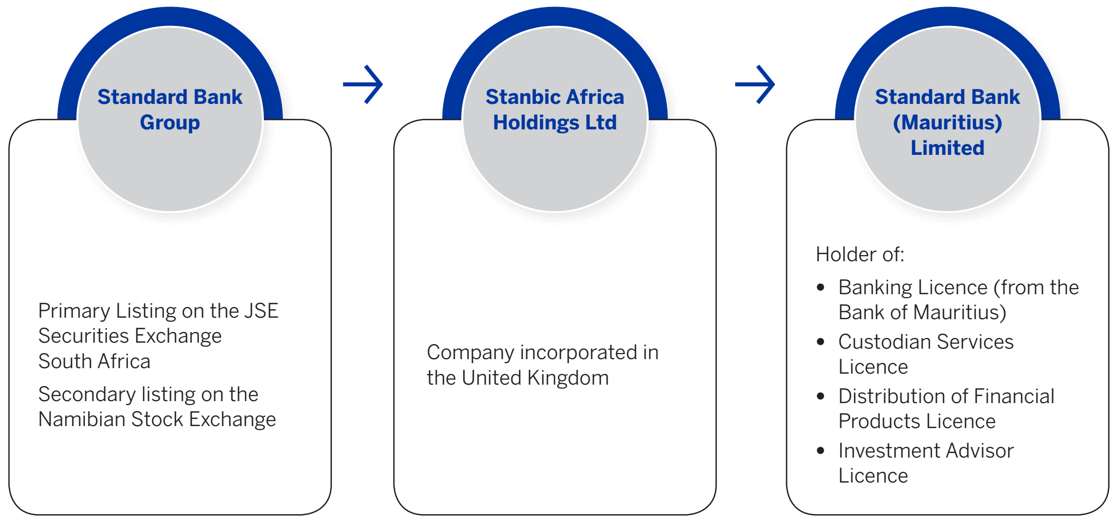
The Bank has exempt related party exposures with members of the Standard Bank Group as part of interbank transactions in relation to its treasury operations.

A detailed analysis of related party transactions is available in the notes to the accounts from pages 192-194.



# CORPORATE GOVERNANCE REPORT

## HOLDING STRUCTURE




### Our governance philosophy

We see governance as promoting strategic decision-making that balances short, medium and long-term outcomes to reconcile the interests of the Bank, stakeholders and society in creating sustainable shared value. Our approach to governance extends beyond compliance. We believe that good governance creates shared value by underpinning responsive thinking, and protects shared value by ensuring responsible behaviour, deepening competitive advantage through enhanced accountability, effective leadership, robust risk management, clear performance management and greater transparency.

Standard Bank (Mauritius) Limited (the "Bank") is directly held by Stanbic Africa Holdings Limited (SAHL), a company incorporated in the United Kingdom, and the ultimate holding company is Standard Bank Group Limited. Standard Bank Group is committed to applying local and international best practice in corporate governance and ensures that corporate governance is integrated across the Group' operations. The Group and its subsidiaries adhere to the principles of the code of corporate practices and conduct (King Code) whilst at the same time ensuring adherence to the legal and regulatory requirements on corporate governance under the local jurisdiction.

The Bank operates within a clearly defined Board-approved governance framework, which outlines mechanisms for the Bank to implement robust governance practices and provides clear direction for decision-making across all disciplines. The Bank's corporate governance framework enables the Board to oversee strategic direction, financial goals, resource allocation and risk appetite, and to hold executive management accountable for execution. The Board also ensures that management applies the tone set by the Board for good governance, based on the Bank's values, as a set of principles and structures that enable the Bank to create shared value for all our stakeholders.

The Board has overall responsibility for governance across the Bank and retains effective control through the board-approved governance framework and provides for delegation of authority with clearly defined mandates and authorities while retaining its accountability. The governance framework outlines mechanisms for the Bank to implement robust governance practices with defined and clear decision rights across the Bank.

The Board also serves as the focal point for and custodian of the Bank's corporate governance and ensures that the principles of governance and codes of best practices are in place and adhered to. It is responsible for providing ethical and effective leadership to the Bank. It agrees the strategic direction and approves the policy frameworks used to measure organisational performance. This is achieved through transparent reporting on the part of management and active board oversight.

The Bank, being a public interest entity, is required to adopt the principles set out by national code on corporate governance for Mauritius (2016) (the Code). To the best of the Board's knowledge, the Bank has complied with the Code throughout the year ended 31 December 2019. The Bank has applied all of the principles set out in the Code and explained how these principles have been applied. The Bank also subscribes to and is fully compliant with the Bank of Mauritius guideline on corporate governance in all material aspects.

## Board of Directors

The Board of directors is constituted in terms of the Bank's Constitution and in line with the provisions of the Mauritian Companies Act, the Mauritian Banking Act and any applicable law or binding regulatory provisions. The Board currently comprises of 8 board members with suitable and wide breadth of backgrounds and professional experience from the banking, financial, legal, accounting, IT and commercial sectors. The Bank has a unitary board model comprising of a mix of executive directors, non-executive directors and independent director.

The Bank's ability to innovate is critical to remaining relevant to its clients. The Board is committed to ensuring that it remains agile to meet the changing needs of its clients and other stakeholders. The composition of the Board is carefully reviewed to ensure it has the necessary skills to deliver on the Bank strategy and leverage opportunities. The composition and size of Board is considered effective and appropriate to meet the requirements of the business in terms of setting the direction of the Bank and monitor management in order for the Bank to achieve its objectives. The Board has sufficient depth of skills and capabilities, diversity of experience as well as gender balance to provide the Bank with the appropriate direction and guidance to meet the expectation of its stakeholders.

The Bank, a wholly owned subsidiary of Standard Bank Group Limited, operates in a highly regulated and dynamic sector where the Bank is required to constantly adapt itself to conform to the changing legislation and market conditions. The Bank ensures that the directors are kept abreast of all their legal duties through continuous trainings carried out by in-house specialists and external consultants throughout the year. Newly appointed directors are also informed of their legal duties during the induction programme. The directors are cognisant of the requirement to exercise the degree of care, skill and diligence reasonably expected of a prudent and competent director for the proper discharge of their duties.

The Bank is predominantly regulated by the Bank of Mauritius, and operates in accordance with its guidelines, instructions and directives. The Bank of Mauritius guideline on corporate governance encourages subsidiaries of foreign banks to have at least one independent director on the board. The Board fully embraces this position and has on its board an independent director in the person of Mr Arvind Hari. Most of the board members remain non-executive directors who bring diverse perspectives to board deliberations and constructively challenge management.

Board members are bound by the code of ethics and fiduciary duties owed to the Bank. It is responsible for providing ethical and effective leadership towards the achievement of the Bank's strategy. It agrees the strategic direction and approves the policy framework used to measure organisational performance. This is achieved by ensuring transparent reporting by management and active board oversight. By so doing, the Board continuously scrutinises the Bank's operations and its environment in which it operates to ensure that it meets all legal and regulatory requirements. The Chief Executive and the executive team deliver against agreed performance targets aligned to the Bank strategy and in the best interests of the Bank and its stakeholders. Management is open and transparent in its engagements with the Board and escalates material matters requiring Board's consideration in a timeous manner. Special board meetings are convened in need.

The Board is committed to acting in the best interests of the Bank, in good faith whilst avoiding conflicts of interest. The Board has established robust governance practices which require the Board to review and approve, at least on a yearly basis, the mandates of the Board and its sub-committees. The mandates of the Board and its sub-committees were reviewed at the Board of Directors' meeting held in November 2019.The Board is also responsible to review and approve, as and when required, the Bank's Code of Ethics, job descriptions of the key senior governance positions, Bank's organisational structure and statement of major accountabilities of the executive management. These are published on the Bank's website.

The Board has ultimate responsibility for the affairs of the Bank.

- It acts as the link between the Bank and its shareholder.
- Decision makers - setting and monitoring strategic direction and key policies.
- Responsible for governance.
- Chairman of the Board is the spokesperson for the Board.
- Chief Executive is the spokesperson for the Bank.
- Empowering executive management to take actions to drive the Bank towards the set strategies.
- Approving the Bank's corporate plan encompassing short as well as long term business objectives, strategy together with appropriate policies to execute the strategy including those relating to risk management, financial, capital adequacy, liquidity, strategy, compliance, operational and risk appetite amongst others.
- Responsible for the appointment and monitoring of senior management, question and analyse the performance of senior management in delivering and achieving corporate objectives.
- Responsible for the appointment of the Chief Executive and other senior officers.
- Ultimately accountable to the shareholder.

## Composition

The Bank recognises that a balanced board is vital for sustainable value creation. The Bank has a unitary board, which is considered effective and appropriate for the size of the Bank.

As at 31 December 2019, the Board comprised 8 directors, 5 of whom are non-executive directors, 2 of whom are executive directors and 1 is an independent director.

The Board believes that its composition is both qualitatively and quantitatively balanced in terms of skills, gender, nationalities, experience and tenure. The directors have deep experience and diverse skills, which collectively ensure that the Board operates effectively to protect and create value in the design and delivery of the Bank's strategy, and in the execution of its duties. There is a clear division of responsibilities ensuring that no one director has unfettered powers in the decision-making process, whilst ensuring that there is an appropriate balance of power.

The collective background of the Board members provides for a balanced mix of attributes and skills that enables the Board to fulfil its duties and responsibilities. The composition of the Board and its committees is regularly reviewed to ensure that the balance and mix of diversity is preserved and that the Board maintains its effectiveness and efficiency at all times.



## BOARD OF DIRECTORS

**Executive Directors**

Mr Lakshman BHEENICK (Chief Executive)

Mrs Michele AH SEE (Head: Risk)

**Independent Director**

Mr Arvind HARI

**Non-Executive Directors**

Mr Duncan James WESTCOTT (Chairman)

Mr Roderick Terner Forbes POOLE

Mr Clive Robert TASKER

Mr Stephen Vincent SCALI

Mr Antonio Caroto COUTINHO

## Changes in Board's composition during the year

On 20 March 2019, Mr Louis RIVALLAND resigned as director from the Board and the Board appointed Mr Duncan James WESTCOTT as Chairman of the Board.

On 6 November 2019, Mrs Brenda June NIEHAUS resigned from the Board.

## Chairman and Chief Executive

The role of Chairman is separate from that of the Chief Executive and there is a clear division of responsibilities. Care is taken to ensure that no single director has unfettered powers in the decision-making process. Whilst the Chairman and Chief Executive are collectively responsible for the leadership of the Bank and for promoting the highest standards of integrity and probity, these roles are carried out by two different persons. Each plays a distinctive role but complements each other to ensure that there is a balance of power and authority.

**Chairman**

- sets the ethical tone for the Board and Bank;
- builds and maintains stakeholder trust and confidence;
- provides leadership and governance of the Board to create the conditions for overall Board's and individual director's effectiveness;
- ensures that all key and appropriate issues are discussed by the Board in a timely manner;
- ensures that all members of the Board are provided with timely, adequate and accurate information;
- ensures that the strategies and policies adopted by the Board are effectively implemented by the Chief Executive and management;
- conveys feedback in a balanced and accurate manner between the Board and the Chief Executive; and
- monitors the effectiveness of the Board and assesses individual performance of directors.

**Chief Executive**

- shoulders the responsibility for the execution of the day to day running of the Bank's affairs;
- develops the Bank's strategy and long-term plans for consideration and approval by the Board;
- runs the daily business supported by the executive committee which he chairs;
- establishes an organisational structure for the Bank which is appropriate for the execution of strategy;
- appoints and ensures proper succession planning of the executive team, and assesses their performance;
- reports to the Board on the performance of the Bank in line with the approved risk appetite, and its compliance with applicable laws and corporate governance principles; and
- sets the tone for ethical leadership, creating an ethical environment and ensures a culture that is based on the Bank's values.

**Executive Directors**

The Executive Directors are members of the Board and in full time employment with the Bank.

# BOARD OF DIRECTORS

## Lakshman BHEENICK

**PERSONAL PROFILE**

- Aged 46
- Holder of a BA (Hons) in Economics from University of Manchester (England)

**CURRENT**

- Appointed as Executive Director in May 2010
- Chief Executive of Standard Bank (Mauritius) Limited
- Joined Standard Bank (Mauritius) Limited in June 2006 as Head: Global Markets
- Also assumes the role of Head: Corporate and Investment Banking in the Bank

**PREVIOUS**

- Worked for Barclays Bank Plc where he successfully led the Debt Capital Issuance in Mauritius and Botswana

Ordinarily Resident in Mauritius

## Michele AH SEE

**PERSONAL PROFILE**

- Aged 53
- Holder of a MA (ord) in Accountancy and Economics from University of Aberdeen (Scotland)
- Member of the Institute of Chartered Accountants of England and Wales

**CURRENT**

- Appointed as Executive Director in February 2014
- Joined Standard Bank (Mauritius) Limited in February 2009
- Occupies the post of Head: Risk in the Bank

**PREVIOUS**

- Worked 10 years at the State Bank of Mauritius. Headed the Value Management Office, the Credit Underwriting Division and the Corporate Banking Division
- Worked for Somers Baker in UK and PricewaterhouseCoopers Mauritius in Audit

Ordinarily Resident in Mauritius

## Duncan James WESTCOTT

**PERSONAL PROFILE**

- Aged 70
- Holder of a BSC Economics from the University of Wales
- Fellow of the Institute of Chartered Accountants in England and Wales

**CURRENT**

- Appointed as Independent Director in September 2010
- Appointed Chairman of Standard Bank (Mauritius) Limited since March 2019

**PREVIOUS**

- Previously a Partner of PricewaterhouseCoopers Inc. in South Africa

## Clive Robert TASKER

**PERSONAL PROFILE**

- Aged 64
- Holder of a BA LLB from the University of Natal, Pietermaritzburg
- Advanced Management Programme from Wharton Business School University of Pennsylvania

**CURRENT**

- Appointed as Non-executive Director in February 2016
- Chairman of the Board Risk Management/Conduct Review Committee and Board Technology and Information Committee
- Member of the Board Audit Committee

**PREVIOUS**

- Joined The Standard Bank of South Africa Limited in November 2000
- Occupied various key positions within the Standard Bank Group including serving as Chief Executive of Standard Bank Africa from March 2008 to December 2011
- Former Head: Corporate Banking International, Corporate and Investment Banking of Standard Bank Group from January 2012 to December 2012
- Former Chief Executive Officer of Standard Advisory (China) Limited, a position he occupied from January 2013 until his retirement in September 2015.
- Served as director on the board of various companies within the Standard Bank Group.

## Stephen Vincent SCALI

**PERSONAL PROFILE**

- Aged 47
- Holder of a Juris Doctor from Harvard Law School, USA
- Holder of a MA in Industrial Relations from the University of Warwick, United Kingdom
- Admitted to the New York State Bar in 2002
- Non Practising Solicitor of England and Wales

**CURRENT**

- Appointed as Independent Director in June 2011
- Chairman of Board Credit Committee
- Member of the Board Audit Committee and Board Risk Management/Conduct Review Committee

**PREVIOUS**

- Acted as in-house legal counsel at Vodafone Group Plc and Merrill Lynch
- Acted as Chief Executive of an investment management company, legal advisor, and director of leading Mauritius companies

Ordinarily Resident in Mauritius

## Roderick Terner Forbes POOLE

**PERSONAL PROFILE**

- Aged 58
- Holder of a Bachelor of Commerce from the University of South Africa

**CURRENT**

- Appointed as Non-Executive Director in November 2016
- Currently Head: Change and Business Transformation of Standard Bank Group
- Member of the Board Risk Management/Conduct Review Committee, Board Audit Committee, Board Technology and Information Committee and Board Credit Committee

**PREVIOUS**

- Occupied various key positions in Finance, IT and HR within the Standard Bank Group as from 1984 to 1991
- Former Head: Human Resources Corporate and Investment Banking at Standard Bank Plc, London, in 2007
- Former Head: Human Resources CIB, Standard Bank of South Africa in 2008
- Former Head: Human Capital, Marketing and Communications CIB of The Standard Bank of South Africa from 2012 to 2014
- Former Chief of Staff, Corporate and Investment Banking until November 2016

## Antonio COUTINHO

**PERSONAL PROFILE**

- Aged 52
- Holder of Bachelor of Commerce (Accounting) from the University of Pretoria
- Holder of a Diploma in Management from Henley Business School

**CURRENT**

- Appointed as Non-Executive Director in December 2018
- Currently Regional Chief Executive Africa Regions, Standard Bank Group
- Member of the Board Risk Management/Conduct Review Committee, Board Audit Committee, Board Technology and Information Committee and Board Credit Committee

**PREVIOUS**

- Served as Chief Executive of Standard Bank Angola until mid-2018
- Former Chief Executive of Standard Bank Mozambique from 2004 to 2015.

## Arvind HARI

**PERSONAL PROFILE**

- Aged 59
- Holder of a Bachelor in Commerce and Bachelor of Accountancy from the University of Witwatersrand
- Holder of a Master of Commerce from the University of Pretoria
- Member of the South African Institute of Chartered Accountants, Independent Regulatory Board for Auditors of South Africa and Mauritius Institute of Directors

**CURRENT**

- Appointed as Independent Director in October 2018
- Chairman of Board Audit Committee
- Member of the Board Technology and Information Committee and Board Credit Committee

**PREVIOUS**

- Served as Partner at KPMG Inc. in South Africa for 21 years
- Served as Member of KPMG's Policy Board for 11 years
- Former Partner in Charge of the IT Audit and Advisory Business Unit of KPMG
- Former Executive Partner responsible for KPMG's Finances, Executive Remuneration, People (Human Resources) and internal IT unit

7 MALE
1 FEMALE

Executive directors
Non-executive directors
Independent Director

## Appointment of Directors

The Board is responsible for the oversight of succession planning, the nomination process and the short listing of candidates. The Board has a formal and transparent process for the appointment of directors. Apart from a candidate's skills, experience, availability and likely fit, the Board also considers the candidate's demonstrated integrity, proven leadership as well as other directorships and commitments to ensure that they will have sufficient time to discharge their role properly. Due diligence is also conducted on the candidates and the Board considers and discusses the results thereof. The candidates are also required to satisfactorily meet the fit and proper test, as required by the Mauritian Banking Act. Additionally, the Directors' Affairs Committee, a committee set up at the parent level of the Bank, reviews the recommendations for the appointment of the candidates. This committee considers the current Board skills matrix, a candidate's skills, experience, availability, possible conflicts of interest and likely fit as well as demonstrated integrity, proven leadership and other time commitments. The salient terms and conditions of appointment of independent and non-executive directors are available on the Bank's website.

As per the Bank' Constitution, each director is required to retire annually from office and, if available and eligible, to stand for re-election at the annual meeting upon recommendation by the Board. Where the Board believes that a director is not discharging his/her duties and responsibilities to its satisfaction, it may consider the removal of the director. Once a decision is taken, the Board, through the Chairman, shall recommend the removal of the director to the shareholder or shall not recommend the director for re-election at the annual meeting, as the case may be.

The Chairman provides feedback on each individual director to the shareholder at each annual meeting, prior to the re-election of the directors. At the 2019 annual meeting, the Chairman has provided feedback on each individual director to the shareholder on whether the director's performance continued to be effective, following which all directors who presented themselves for re-election were re-elected.

## Directors' induction and ongoing training

Newly appointed directors are provided with the Bank's governance manual which contains all relevant governance information, including the Bank's founding documents, mandates, governance structures, significant reports, relevant legislation and policies. One-on-one meetings are organised with executive heads of department during which the director is introduced to the Bank and its operations. Site visits are also scheduled at the Bank's premises and its disaster recovery sites. Meetings may also be scheduled with key executives at group level. The induction programme is tailored to each new director's specific requirements.

Dates for training are scheduled in advance and form part of the board-approved annual calendar. Directors are kept abreast of applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments that could affect the Bank and its operations.

Topics considered in 2019 included:

- Cyber security
- Risk data aggregation and risk reporting

The above trainings were given and delivered by Standard Bank Group trainers, including, the Head: IT Security, Africa Regions Standard Bank Group and Head: Risk, Standard Bank (Mauritius) Limited.

The Board Chairman, the Chairman of the Board Risk Management/Conduct Review Committee and the Chairman of the Board Technology and Information Committee followed a two-day training programme, dispensed by a leading university of the United States, the Massachusetts Institute of Technology (MIT), on digital transformation. The training programme was facilitated by Group executives. Feedback was provided by the directors who attended the training to the other Board members, with recommendations and an action plan put in place to apply the learnings.

**DIRECTOR**

- Bank's constitution provides for annual re-election of all directors
- Appointed by the shareholder at the annual meeting held in March every year
- After six years of tenure, a director no longer qualifies as an independent director
- Independent directors and qualifying non-executive directors receive fixed fees for service on Board and Board committees
- No limits on the number of times a director may stand for re-election, subject to continued satisfactory performance
- Directors' remuneration is recommended by the Board to the shareholder for approval



## Assessing the Board's effectiveness

Assessment of the Board and its committees and the performance of directors are conducted annually. The results of the assessment are discussed by the Board and areas of improvement and recommendations are proposed and an action plan is agreed. Any training needs are identified, and the Company Secretary facilitates the holding of the such trainings during the course of the year.

The 2019 Board effectiveness review, led by the Chairman, was internally facilitated by the Company Secretary. The Board effectiveness review was assessed against the following main areas:

- Board strategy and execution
- Board composition, induction, succession planning
- Board operations and duties
- Effectiveness of Board committees
- Effectiveness of IT strategy, operations and controls

The process commenced in October 2019 whereby directors were asked to answer a web-based board effectiveness questionnaire. The questionnaire also allowed for free-text comments on the effectiveness of the Board and its committees, whilst requesting feedback on areas considered effective and areas requiring improvement. All directors were also invited to evaluate the individual performance of their peers. Individual results were shared with each director and the Chairman and one-on-one individual director feedback sessions were held between the Chairman and directors, where the results of the peer review were shared and discussed. The results of the Board effectiveness review, which were overall positive with no major concerns raised, were discussed by the Board at the November Board meeting. The recommendations on areas for improvement were noted and an action plan put in place.

## Remuneration of Directors

Effective governance is essential to ensure that the remuneration process is fair and supports the Bank's strategy.

The Bank of Mauritius has dispensed the Bank to establish a Nominations & Remuneration Committee at board level upon being satisfied that a suitably effective framework is in place at parent level to fulfil this role. The Group Directors' Affairs Committee, set up at group level, is responsible, amongst others, to consider the remuneration of directors. The Group's Director's Affairs Committee ensures, through the Subsidiary Governance Framework and Principles of Standard Bank Group, that directors' remuneration (including directors' fees) promotes the long-term success of the group and applies best practices in determining director's remuneration including annual review and benchmark against local peers.

Proposed fees are based on a carefully considered assessment of the directors' responsibility, including the significant amount of work involved at committee level. The Board, and particularly its committees, chairs and committee members, spend a significant amount of time on in-depth analysis of matters relevant to the Bank's performance and regulatory requirements. Once the proposed fees are considered by the Group Director's Affairs Committee and the Board, a recommendation for approval is made to the shareholder by the Board at each annual meeting.

Eligible non-executive and independent directors receive a yearly fixed retainer fee as well as a 'sitting fee" for service on boards and board committees. They do not receive annual incentive awards, nor do they participate in any of the Bank's or Group's long-term incentive schemes. Fees are paid after each quarterly meeting, with any increased fee amount being approved by the Shareholder at the annual meeting. For the remuneration of the executive directors, please refer to the statement of remuneration philosophy.

## Company Secretary

Directors have access to the services of the Company Secretary. The current incumbent in the role of Company Secretary is Mrs Reshmee Kistnamah. The main duties of the Company Secretary are as per below:

**COMPANY SECRETARY**

- Facilitates evaluation of Board and committee effectiveness
- Ensures the Board remains cognisant of its duties and responsibilities
- Monitors compliance with regulations and inform Board of relevant changes in legislations and governance best practices
- Training of directors
- Provides guidance to the Board
- Ensures good information flows within the Board and its committees and between senior management and non-executive/independent directors.
- Oversees the induction of new directors

## Board composition - Year 2019

**BOARD**

- Lakshman BHEENICK
- Michele AH SEE
- Duncan James WESTCOTT (Chairman)
- Clive Robert TASKER
- Stephen Vincent SCALI
- Roderick Terner Forbes POOLE
- Antonio COUTINHO
- Arvind HARI*

Executive Director
Non-Executive Director
*Independent DIrector

## Role and duties of Board

The Board oversees the Bank's business strategy, internal organisation and governance structure, its risk management and compliance practices, and key personnel decisions. The Board is collectively and ultimately responsible for the safety, soundness and long-term success of the Bank and delivery of sustainable shareholder value. It provides leadership to the Bank within a framework of prudent and effective controls enabling risks to be assessed and managed.

There is a clear demarcation of responsibilities and obligations between the Board and management. The Board is independent from management.

To effectively oversee the affairs of the Bank, the Board has constituted four sub-committees:

**BOARD OF DIRECTORS**

- Board Audit Committee
- Board Risk Management/Conduct Review Committee
- Board Technology and Information Committee
- Board Credit Committee

The Board reviews and approves their terms of reference on an annual basis. In 2019, the Board reviewed and approved the mandates of its sub committees and its mandate.

## Summary of key terms of reference of the Board of directors

| | |
|---|---|
| **Strategy** | • Map out the Bank's goals and plans for achieving those goals.<br>• Ensures that any action is aligned to the Bank's values, performance and sustainability.<br>• Continuously monitor financial performance.<br>• Ensure that an adequate budget and planning process exists. |
| **Corporate Governance** | • Ensure that sound corporate governance practices are implemented within the Bank.<br>• Annual assessment of achievements against set objectives.<br>• Delegate power, authorities and discretions to the chief executive and sub-committees for efficient decision-making process.<br>• Propose to the shareholder for approval, the remuneration of independent and non-executive directors.<br>• Recommend external auditor's fees to the shareholder for approval following recommendation from the Board Audit Committee.<br>• Review matters such as code of ethics, environmental and social issues.<br>• The Board approves the Bank's code of ethics and ensures that the highest set of standards for responsible business practice is adhered to by the Bank. |
| **Board members' appointment, and overall effectiveness and evaluation of Board** | • The Board conducts a fit and proper assessment before recommending the appointment of directors to the shareholder.<br>• The Board approves the appointment of the Chairperson and membership of all Board committees on an annual basis.<br>• The Board assumes the responsibilities for succession planning and for the appointment and induction of new directors to the Board.<br>• Ongoing board education remains a focus for the Board to ensure that directors are kept abreast of all applicable legislations and regulations, changes to rules, standards and codes, as well as relevant sector developments that could affect the Bank and its operations.<br>• Annual assessment of the board is conducted against set objectives to review and further the Board's effectiveness. |
| **Risk and Compliance** | • Ensure proper and effective compliance and risk management policies and procedures are implemented.<br>• Implement policies and procedures to identify conflict of interest situations and steps to redress such situations. |
| **Dividend Policy, Finance and Capital Funding** | • Responsible for the preparation of accounts that fairly present the state of affairs of the organisation and which comply with international reporting standards.<br>• Ensure that policies and systems are in place to achieve a prudential balance between risks and returns to the shareholder.<br>• Approve dividends payments to the shareholder.<br>• Consider and approve capital expenditure recommended by the Executive Committee.<br>• Ensure an adequate budget and planning process exists, and that performance is measured against budgets and plans. |
| **Access to information and Resources** | • Regular interaction between Board and executive management.<br>• Directors have free and unrestricted access to management team and to Bank's information.<br>• Directors are provided with the services of external legal advisors when required. |

**The year ahead**

- Implement board succession plans
- Consider the impact of regulatory changes
- Measure progress against strategic objectives
- Continue to monitor the Bank's operational and financial performance

# Board and committees responsibilities as at 31 December 2019

## Summary of key terms of reference

### Board Audit Committee

**BOARD AUDIT COMMITTEE**

- Arvind Hari (Chairman)
- Antonio Coutinho
- Clive Tasker
- Stephen Scali
- Roderick Poole

The **Board Audit Committee** assists the Board in honouring its responsibilities for monitoring the quality of the financial statements of the Bank. It reviews the accounting policies, financial reporting and regulatory compliance practices, the Bank's system and standards of internal controls, and monitors processes for internal audit and external audit.

| Summary of key terms of reference |
|---|
| Review interim and audited annual financial statements and other financial information required to be submitted to the shareholder. |
| Consider reports by the executive management on measures implemented to ensure compliance with the statutes, internal policies and procedures and controls, including accounting systems and record keeping controls, information systems and technology controls, internal audit processing, management information systems and reports applied to the day to day management of the business and review. |
| Review the basis on which the Bank has been determined 'a going concern' and make a recommendation to the Board. |
| Recommend the appointment of external auditor and the terms of reference to the Board. |
| Evaluate reports produced by the internal audit department of the Bank detailing the adequacy and overall effectiveness of the Bank's internal audit function. |
| Consider reports from the external auditors. |
| Review the Bank's compliance plan, with specific reference to the procedures for identifying regulatory risks and controlling their impact on the Bank as well as ensuring that the Bank's policy complies with relevant regulatory and legal requirements. |
| Review complaints handling and complaints reporting procedures. |

### Audit process

With a view to ensuring the overall adequacy of the Bank's internal control framework, the Audit Committee evaluates the independence and effectiveness of the external auditor on an ongoing basis before making a recommendation to the Board on their appointment and retention.

On a quarterly basis, the Board Audit Committee Chair meets with the external as well as the internal auditors independently of management to discuss any issues of concerns that were raised. The external auditors meeting is held as part of the quarterly financial review. Regular engagements are held to discuss critical issues, policies, judgements and estimates. The external auditors are invited to attend the quarterly audit committee where they are given the opportunity to present their audit plan, audit findings and any significant or material changes in accounting policies and principles.

### External audit

To ensure an effective external audit process, engagements are held with the Board Audit Committee Chair to discuss on areas of focus prior to the engagement. The external auditors prepare their audit plan which is then presented to the Board Audit Committee for approval. The auditors are actively encouraged to participate at the Board Audit Committee on matters under discussion and they will raise any concerns at each quarterly meeting. In addition, they are always kept informed of any significant changes or critical issues that can impact the Bank. The relation with the external auditors is very open and transparent. On a yearly basis, the Board Audit Committee convene to assess the external auditors, this is done through a questionnaire. Results thereof are then discussed with the audit partner for improvements where required. PricewaterhouseCoopers was first appointed for the financial year ended December 2016 following a competitive tender. The appointment of PricewaterhouseCoopers for year ended 31 December 2019 was approved by both Board Audit Committee and Board of Directors in March 2019. In line with the provisions of the Mauritian Banking Act 2004, the Bank will rotate external auditors as from financial year ending 31 December 2021.

It is recognised that the external auditors have detailed knowledge of the Bank's business processes and this often enables them to provide better service than other consulting firms in certain instances. In addition, the number of firms with specialised technical skills required for consulting in the Mauritian banking environment is limited. The Bank has set up a non-audit services policy which ensures that the Board Audit Committee and the Bank's external auditors will be independent of the Bank both in fact and in appearance in order to maintain their credibility and effectively fulfil their primary role as the Bank's auditors. The provision of extensive levels or certain types of non-audit services to the Bank will not impair their independence or be perceived to do so. A pre-approval of any proposed agreement with the auditors for the provision of non-audit services to the company is required.

As a general guideline, and to facilitate implementation, the Bank's authorised spend on non-audit services provided by the external auditors in any one financial year should not exceed 33.33% of the amount incurred on audit services as disclosed in the annual financial statements in the immediately preceding financial year. The actual spend is reviewed on an ongoing basis by the Board Audit Committee. In 2019, there were no non-audit services provided by the external auditors.

### Auditors' Fees and Fees for Other Services

The audit fees payable for the financial year under review is tabled hereunder:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| | USD | USD | USD |
| PwC | | | |
| • Audit Fees | 131,409 | 116,800 | 107,500 |
| • Non-Audit Fees | - | 13,051 | - |
| | 131,409 | 129,851 | 107,500 |

The non-audit services include gap analysis on the new code of corporate governance performed in 2018.

### Internal Audit

It is the policy of the Bank to maintain an independent Internal Audit function to undertake independent internal audit activities of the various units within the Bank. Internal Audit mission is to provide independent and objective assurance and advisory services designed to add value and improve the Bank's operations. It plays an important role in the combined assurance model and assists the Bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and the internal control environment. Internal Audit conduct is guided by its Code of Ethics and its purpose, authority and responsibility.

The Board Audit Committee (BAC) approves the Internal Audit charter on an annual basis and this charter defines the purpose, authority and responsibility of the Bank's Internal Audit function.

The charter requires Internal Audit to:

- Maintain an unbiased mental attitude that allows internal auditors to perform objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on audit matters to others.
- Have no direct operational responsibility or authority over any of the activities audited. Accordingly, Internal Auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgement.
- Maintain the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being audited.
- Have an informed view, make a balanced assessment and form judgements after assessment of all relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by the auditor's own interests or by others in forming judgements.

The internal audit function of the Bank comprises a Head: Internal Audit supported by Internal Audit Managers sourced from Group.

To preserve the independence of the Internal Audit Function, the Head: Internal Audit reports functionally to the Board Audit Committee (BAC) and administratively to the Bank's Chief Executive and Regional Head of Audit. BAC is also responsible for the appointment, remuneration approval, performance review and removal of the Head: Internal Audit. The Head: Internal Audit communicates and interacts directly with BAC, with sessions between committee meetings as appropriate, including meetings with the chairman and/or committee members, without management presence.

The Bank of Mauritius (BOM) has developed a risk-based supervision framework (RBS) which would leverage on the work of the Internal Audit function. There is an expectation that banks must strengthen their internal audit framework by adopting a more risk-focused and robust framework. In that respect, the Internal Audit function has reviewed and aligned its risk-based internal audit framework to the regulator's expectation.

Internal Audit adopts a risk-based approach in developing the annual audit plan and in the execution of same. The audit plan is formally approved by the Board Audit Committee on an annual basis and ensures that significant areas are covered on a risk-based approach. The areas of coverage for year 2019 included credit, customer due diligence, ICAAP, Information Technology and general controls, regulatory returns, investment banking, investor services review and information security and cyber risk. Internal Auditors were granted full access to the records, management or employees of the organisation for the purposes of their reviews.

The Head: Internal Audit reports to the Board Audit Committee. The Head: Internal Audit holds the following academic qualifications:

- Certified Internal Auditor (CIA), Institute of Internal Auditors (IIA) 2018
- IIA Certificate in Internal Audit and Business Risk (UK), 2015
- ACCA qualified, Associate of Chartered Certified Accountants (UK) 2011
- BSc (Hons) Finance with Law, University of Mauritius, 2005

**The year ahead**

- Continue to monitor internal financial controls and key accounting developments that are likely to affect the Bank
- Continue to monitor the activities of external audit, internal audit and compliance as they pertain to the regulatory and internal control environment of the Bank
- Review reports from management

## Risk Management/ Conduct Review Committee

The Board, through the **Risk Management/Conduct Review Committee**, is responsible for the governance of risk and for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives.

**Risk Management/Conduct Review Committee** provides oversight and advice to the Board on current and potential future risk exposures of the Bank and future risk strategy. It reviews the Bank's compliance with approved risk appetite and oversees the operation of Bank's policy framework.

**BOARD RISK MANAGEMENT/ CONDUCT REVIEW COMMITTEE**

- Clive Tasker (Chairman)
- Antonio Coutinho
- Stephen Scali
- Roderick Poole
- Lakshman Bheenick

**Summary of key terms of reference**

- Responsible for advising the Board on the Bank's overall current and future risk appetite, overseeing senior management's implementation of the risk appetite framework and reporting on the state of risk culture in the Bank.
- Review and assess the integrity of the risk control systems and ensure that risk policies and strategies are effectively identified, managed and monitored in order to contribute to a climate of discipline and control, thereby reducing the opportunity of risk, including fraud, in all areas of operation.
- Establish an enterprise wide risk framework, for implementation in the business that will include the following disciplines: credit risk; operational risk; liquidity risk; market risk; legal risk; regulatory capital management and risk assurance.
- Consider legal issues that could have a significant impact on the Bank's business.
- Ensure independence of Head: Risk from operational management.
- Evaluate efficacy of insurance coverage.
- Consider all ethics related matters.
- Review procedures dealing with related party transactions and approve such related party transactions in accordance with the procedures.

Refer to the risk and capital management report for further details on risk and capital management.

**The year ahead**

- Continue to monitor the current and future risk profile of the Bank to ensure the Bank is managed within risk appetite relative to strategy.
- Continue to monitor capital adequacy of the Bank and review the impact of significant transactions on capital.

## Board Credit Committee

**BOARD CREDIT COMMITTEE**

- Stephen Scali (Chairman)
- Clive Tasker
- Duncan Westcott
- Rod Poole
- Lakshman Bheenick

**Summary of key terms of reference**

- Review and approve on an annual basis the terms of reference of management committees set up to consider credit risk namely the Credit Risk Management Committee and the Credit Committee, with clearly defined mandates.
- Oversight on the delegated authority to the Credit Committee which approves credit facilities within approved thresholds.
- Approval of agreed credit risk appetite framework as required under the credit risk governance standard as adopted by the Bank.
- Review of the credit risk portfolio reports, the credit risk impairment adequacy and any other credit related reports submitted by management.
- Consider any other credit related matters that may be necessary.

**The year ahead**

- Continue to monitor credit portfolios.
- Continue to monitor the current and future credit risk profile of the Bank to ensure the Bank is managed within credit risk appetite relative to strategy.
- Continue to ensure that the appropriate credit governance framework is in place.



## Board Technology and Information Committee

The Board ensures that prudent and reasonable steps have been taken with respect to fulfilling its responsibilities for technology and information governance. The Board has delegated authority to the Board Technology and Information Committee to oversee the governance of data, technology and information in a way that supports the organisation in setting and achieving its strategic objectives. The Board Technology and Information Committee is responsible to the Board for all matters related to data, technology and information.

**BOARD TECHNOLOGY AND INFORMATION COMMITTEE**

- Clive Tasker (Chairman)
- Arvind Hari
- Lakshman Bheenick

**Summary of key terms of reference**

- Review and approve the technology and information governance framework.
- Consider management's strategies relating to technology and information.
- Ensure the establishment of effective technology and information management functions in the Bank.
- Review and approve the IT and data related governance standards and policies and oversee effective implementation thereof by management.
- Review technology and information management reports.
- Consider the IT budget as a component of the Bank's approved budget and to assess the suitability and affordability of significant IT investments in relation to the budget.
- Consider any material IT investments and IT outsourcing arrangements or contracts.
- Review the Bank's assessment of risks associated with technology and information including disaster recovery, business continuity and IT security.

**The year ahead**

- Oversee the technology and information governance framework.
- Review the Bank's assessment of risks associated with technology and information including disaster recovery, business continuity and IT security.
- Consider management's strategies related to technology and information.

## Board and Committee Meetings

Board and Board subcommittee meetings are held every quarter with an additional annual board meeting to consider the Bank's strategy. Ad hoc meetings are called if and when necessary. Directors are provided with comprehensive board documentation at least four days prior to each of the scheduled meetings to enable members to apply their minds to the content and allow adequate opportunity for formal and informal discussions. The Board uses an electronic board paper system which provides quick, easy and secure access to board papers and materials (including a resource centre that contains comprehensive reference materials). Board packs are circulated via this system prior to meetings. Information about latest issues affecting the Bank is also circulated as appropriate.

| Standard Bank (Mauritius) Limited | | Board of Directors | Board Committees | | | |
|---|---|---|---|---|---|---|
| | | | Board Audit Committee | Risk Management/ Conduct Review Committee | Board Credit Committee | Board Technology and Information Committee |
| Number of meetings held | | 7 | 5 | 4 | 4 | 4 |
| Chairman | | Duncan Westcott | Arvind Hari | Clive Tasker | Stephen Scali | Clive Tasker |
| **Attendance** | | | | | | |
| Executive | Lakshman Bheenick | 7 | N/A | 4 | 4 | 4 |
| | Michele Ah See | 7 | N/A | N/A | N/A | N/A |
| Non-Executive | Louis Rivalland* | 1 | N/A | N/A | N/A | N/A |
| | Duncan Westcott** | 7 | 1*** | 1*** | 1*** | N/A |
| | Clive Tasker | 7 | 5 | 4 | 1*** | 4 |
| | Stephen Scali | 7 | 5 | 3*** | 4 | N/A |
| | Roderick Poole | 6 | 3*** | 3 | 3 | 2*** |
| | Brenda Niehaus**** | 6 | 4 | 4 | N/A | 4 |
| | Antonio Coutinho | 7 | 4*** | 3*** | 3*** | 3*** |
| Independent | Arvind Hari | 7 | 4*** | N/A | 3*** | 4 |

* Resignation of Mr Louis Rivalland as Chairman of the Board and director on 20 March 2019.
** Appointment of Mr Duncan Westcott as Chairman of the Board on 20 March 2019.
*** Change in composition of Board subcommittees during the year 2019.
**** Resignation of Mrs Brenda Niehaus as director on 6 November 2019.

## Codes, regulations and compliance

The Bank has established a number of processes and policies to ensure its long-term success and sustainability. The Bank ensures that it remains compliant with all legislations, regulations and codes in its journey to achieve its goals.

The Board, through the relevant board committees, considers compliance reports submitted by executive management, internal auditors and external auditors on measures implemented to ensure compliance with regulatory and other legislative requirements.

The Bank also networks with regulators and other stakeholders when applying legislative and regulatory controls. The Bank aims to ensure that regulatory requirements are embedded in the Bank's operations in a way that drives long term business value.

## Dealing in securities, conflicts of interests and related party transactions

In its quest to ensure that bu siness is conducted professionally and in an ethical manner, the Bank has implemented guidelines to restrict Directors and embargoed employees from dealing in its securities.

The Bank has in place a Personal Account Trading Policy which prohibits directors and employees from trading in securities during closed periods. Continuous compliance with the policy is ensured and any breaches of policy are dealt with in line with the provisions of the policy.

The Board is committed to acting in the best interests of the Bank, in good faith whilst ensuring no conflicts of interest. All Board decisions are consistently based on ethical foundations in line with the Bank's values. A Conflict of Interest Policy is in place requiring directors and employees to disclose any conflict of interest situation including disclosure of any directorships held in any other legal entity. The Company Secretary maintains a register whereby all disclosures of interests of the Directors are recorded. The register is available for consultation to the shareholder upon written request to the Company Secretary. The register is tabled annually at Board meetings and any changes to the disclosures are submitted to the Board at quarterly Board meetings. The Board is aware of outside commitments of the directors and is satisfied that the directors allocate sufficient time to enable them to discharge their responsibilities effectively. A summary of the Conflict of Interest Policy is available on the Bank's website.



Directors are also required to declare whether there are any conflicts of interest in relation to matters on the agenda at the beginning of each meeting. Directors do not participate and recuse themselves from the meeting when the board considers any matters in which they may be conflicted.

All transactions with a related party are carried out on terms and conditions that are at arm's length. The Risk Management/Conduct Review Committee is responsible to monitor and review related party transactions.

The Bank is committed to protecting the privacy and data of persons and has in place a Data Privacy Policy. The Policy ensures that the Bank manages data privacy risk, maintains and continuously improves its data privacy culture and promotes the safeguarding of personal information. It also aims to guarantee that the Bank processes personal information in a lawful and reasonable manner, thus ensuring that the Bank is protected from criminal sanction, reputational damage, fines and penalties. The Bank has published on its website a Data Privacy Statement which details how it collects and processes personal information.

Directorship held in listed companies is as follows:

| Names of Directors | Names of Companies |
|---|---|
| **Duncan Westcott** | Lewis Group Limited |
| **Clive Tasker** | Nil |
| **Stephen Scali** | The Mauritius Development Investment Trust Company Limited |
| **Lakshman Bheenick** | Nil |
| **Michele Ah See** | Nil |
| **Rod Poole** | Nil |
| **Arvind Hari** | Nil |
| **Antonio Coutinho** | Standard Bank Malawi |

## Entrenching ethics

To drive our growth cohesively, we have agreed on a number of common guidelines, including our code of ethics and our values. These ensure that we do the right business in the right way, by complying with relevant laws and legislation as it is imperative that we retain the trust of our stakeholders.

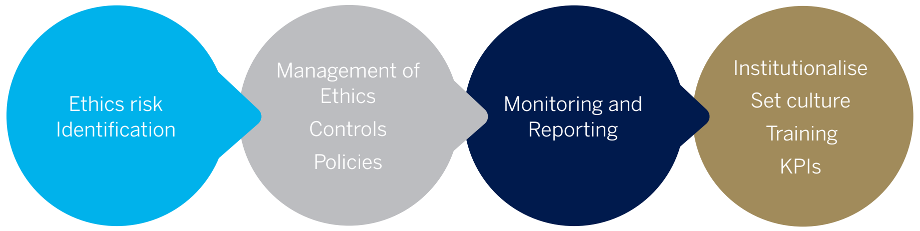
Our code of ethics applies to the Board and to our employees and is aligned to Standard Bank Group ethics and values.

The Chairman and the Board set the ethical tone for the Bank through the approval of the Code of Ethics and values which are embedded within the Bank as part of the approved Ethics Framework:

**Oversight by Board Risk Management and Conduct Review Committee**

**Ethics Officer ensures implementation of the framework**

**Chief Executive and Executive Management adopt the framework**




The Chief Executive and Executive Management, through the Ethics Officer, are responsible for entrenching the Ethics Framework. The Board of Directors through the Board Risk Management and Conduct Review Committee, requests and considers quarterly reports by Executive Management, on measures implemented, status of compliance with the ethics framework as well as a self-rating on the culture health of the organisation. The culture health assessment takes into account the following measures which have defined metrics reported on a monthly basis:

- Employee integration into the organisation
- Training completion statistics
- Culture of openness and challenge
- Behavioural failures
- Employee personal conduct
- Organisational climate
- Client satisfaction
- Transactions not conducted at arm's length

Mechanisms are also in place for employees and other stakeholders to seek advice or report concerns about unethical or unlawful behaviour anonymously. Information on the processes and the policy relating to the whistle-blowing service is published in all business units and within every supplier contract.

For the year under review, the Board is satisfied that the Bank has an adequate and well embedded ethics framework in place.

## Relationships with the shareholder

An important part of the Bank's approach to governing its stakeholder relationships is to ensure the shareholder's views are heard and fully considered. The annual meeting provides an opportunity for the Board to interact with and be accountable to the shareholder. It provides an opportunity for the shareholder to ask questions and vote on resolutions.

The Board has the important role of overseeing management performance on behalf of the shareholder. The shareholder necessarily has little voice in the day to day management of corporate operations, but has the right to elect representatives (Directors) to look out for its interests and to receive the information it needs to make investment and voting decisions.

## Connecting with our stakeholders

Stakeholder engagement is part of the Bank's everyday business. The Bank engages with different stakeholders in different ways and strive to be responsive to their concerns.

The Bank's stakeholder management approach involves the application of the Bank's resources to build and maintain good relationships with stakeholders. This approach ensures that the Bank understands the expectations of society, minimising reputational risk and form strong partnerships with all of which support commercial sustainability. It also maintains and strengthens the Bank's legitimacy and social licence to operate, builds trust with stakeholders, and enhances its reputation as a socially-relevant and responsible corporate citizenship.

The Bank's stakeholders are those individuals, groups, and organisations that materially affect, or could be materially affected by, its business activities, products and services and associated performance. The Bank believes that stakeholders provide the Bank with the resources it needs to achieve its strategy and purpose, influence the environment in which it operates its business, and confer legitimacy on its activities. They are the providers of financial, human, intellectual, natural, manufactured, and social capitals. The Bank understands that its business activities directly and indirectly impact on stakeholders' own wellbeing and success and strives to minimise any harmful impacts, and optimise the positive impacts, on its stakeholders.

Our stakeholders can be categorised into two primary groups:

- The first group comprises stakeholders with which we also have a direct, contractual relationship: namely, our people, our clients, our partners, our suppliers, and our shareholder.
- The second group comprises stakeholders which do not necessarily have a contractual relationship with us but yet fall within the Bank's sphere of influence, and thus have a stake in our performance; namely civil society organisations, professional bodies, regulators, policy-makers, academia, legislators, the diplomatic community, political parties, special-interest and advocacy groups, analysts, researchers and think tanks, the media, and non-governmental organisations.

Given the scale of our operations and the diversity of our stakeholders, the Bank has adopted a de-centralised stakeholder engagement approach. Different teams in the Bank meet with their stakeholders regularly on matters of mutual interest, exploring potential partnerships, and searching for opportunities to create value.

Our proactive engagement with stakeholders informs the identification of our material issues, business strategy and operations, shapes products and services, helps us to manage and respond to their concerns and expectations, minimises reputational risk and influences our operating environment. Underpinning the de-centralised operating model is our ethos of listening to, and constructively engaging with, legitimate stakeholders. We engage with our stakeholders in the following ways:

# STAKEHOLDERS ENGAGEMENT

## CLIENTS

### WHY?

**This is why we think it's important to engage**

Our clients are at the centre of everything we do. We need a clear understanding of each of our clients' needs and preferences, to provide an appropriately tailored service offering.

### WHAT?

**These are the issues that matter the most to them**

- Delivering consistently excellent client experiences
- Affordable and appropriate products and services
- Safety and security of client data and assets

### HOW?

**These are some of the ways we responded and engaged**

- The Bank conducts a client survey annually whereby clients are requested to evaluate the services offered by the Bank. In the 2019 client survey, feedback of clients was requested on the following areas:
  - The client experience
  - The perception the clients have on the Bank as a leading corporate and investment bank
  - The professionalism of the Bank's teams as well as the Bank's physical presence on the continent
  - The support and expertise of the Bank's team
  - Satisfaction of the turnaround time on credit requests

The results of survey showed that clients were overall satisfied with the services offered by the Bank and their experience with the Bank has improved.

- The Bank strives to offer a seamless banking journey to clients across multiple channels. To further enhance our clients' digital experience, the Bank has introduced the following:
  (i) a Mobile Application, in addition to our existing channels. The Mobile Application allows our clients to:
    - get instant access to their account balances
    - approve, authorise & audit beneficiaries & instructions on the go
    - gain better control of their cash flow

  (ii) Straight Through Processing (STP) leading to improved processing time and efficiency

  (iii) transformed the cross-border payment experience of clients by aligning to the SWIFT GPI initiative. This has resulted in:
    - Enabling end beneficiaries to be credited in minutes or even seconds
    - Allowing nearly all cross-border payments to be tracked from end-to-end
    - Offering full transparency on exactly what fees will be charged
    - Ensuring unaltered remittance data upon receipt.

Whisky Masterclass

A whisky masterclass was organised for clients -the ultimate experience for the true whisky aficionado. The aim of the event was to create a friendly platform to interact with clients outside of normal business hours, thus firming up our relationship with them. Clients had a guided discovery of a selection of whiskies paired with specific tasting dishes. This is a unique sensorial experience which allowed the clients to perceive whiskies in a whole new way and was appreciated by all participants.

## OUR PEOPLE

### WHY?

**This is why we think it's important to engage**

Our people drive the purpose of the Bank. Regular engagement with our people is vital in fostering constructive relationships and truly making the Bank a great place to work.

### WHAT?

**These are the issues that matter the most to them**

- Access to career advancement opportunities through continuous development of all employees
- Creating an engaging environment for our employees

### HOW?

**These are some of the ways we responded and engaged**

- The Bank is aware of the impacts of increasing digitisation on our workforce, and is working with employees to manage these impacts, including through skills development programmes.
- The Bank monitors the engagement level of its workforce on a continuous basis through the web-based engagement platform, Office Vibe engagement rating for 2019 was positive. The 'Are You a Fan' Group-wide employee survey was also conducted in 2019 and remarkable progress has been noted in our employee engagement rating.
- A Mentoring program launched in 2018 for high performers extended to 2019. The purpose is to provide a firm foundation for current mentees and impart hands-on skills which includes the learning of effective relationships, self-awareness and cultural diversity.
- The Bank has embarked on a culture programme to align itself to the Group. 25 Employees at Managerial and EXCO level were trained.
- To enhance the Health and Wellness agenda, the Bank has started subsidizing the gym membership fees for all employees as from March 2019.
- Reverse mentoring has been implemented to foster a deeper understanding of digitisation to facilitate meaningful conversations between members of the Board and digitally astute employees to gain fresh and different perspectives that will allow them to stay abreast of current and future digital trends and solutions. In turn, employees will receive invaluable insights from members of the Board, resulting in higher levels of engagement.

## SHAREHOLDER

**WHY?**

**This is why we think it's important to engage**

Our Shareholder provides the financial capital that allows our business to grow and we have a fiduciary duty to manage its investment with care. We need to provide the Shareholder with a compelling value proposition to retain its confidence and support.

**WHAT?**

**These are the issues that matter the most to them**

- Strengthening efficiency and return on investment
- Responding to increased competition in challenging market conditions

**HOW?**

**These are some of the ways we responded and engaged**

- We engage with the Shareholder in calls, meetings and conferences, and at interim and annual results announcements, and convey its key issues and concerns to relevant internal stakeholders, including the Board, and take these issues into account in our planning and reporting.
- The views of the shareholder are disseminated to the Board through the Board Chairman. Any concerns or feedback communicated by the shareholder are discussed at board meetings with appropriate action implemented, if required. The Chairman also acts as an intermediary between the key stakeholders of the Standard Bank Group and the Board.
- At Group level, shareholder engagement remains key on the agenda. In 2019, a minority shareholder resolution on the issue of finance for coal-fired power generation and exposure to climate change risk was tabled at group annual meeting. The Group was not legally obliged to table the resolution but did so in a spirit of respectful and honest engagement on the issue, and recognition of the importance of hearing multiple perspectives on such issues. In accordance with our shareholders' wishes, the group subsequently developed and published policies governing new investment in coal-powered power stations and new investment in coal mining).
- The Bank has in its board the Regional Chief Executive in Africa Regions who acts as the primary point of contact between the country board and the Group.

## REGULATORS

**WHY?**

**This is why we think it's important to engage**

We highly value effective engagement and collaboration with our regulators to demonstrate our commitment in supporting their objective of ensuring the financial stability and soundness of the financial system in Mauritius and internationally.

**WHAT?**

**These are the issues that matter the most to them**

- Threats of money laundering and financing of terrorism
- Good practice and conduct in the foreign exchange market
- Customer complaints
- Credit risks of financial institutions

**HOW?**

**These are some of the ways we responded and engaged**

- The Chief Executive ensures that the Board is kept abreast of any material legal or regulatory matter through management reports tabled to the Board for consideration. The views of the Board are sought and management is informed through the Chief Executive on any action required to be taken.
- The financial services industry has experienced an array of new and revised legislations and guidelines in 2019 falling under the ambit of our regulators and other government bodies such as the Office of the Ombudsperson for Financial Services. Standard Bank Mauritius has actively contributed in the implementation of these new legal and regulatory developments by engaging directly with the relevant government body and participating in working committees set up either by the relevant government body or the Mauritius Bankers Association.
- On a more general note, Standard Bank Mauritius adopts a transparency approach with our regulators and ensures that they are up-to-date with every aspect of our business strategy and vision. This approach has proved to be very fruitful in gaining their support and collaboration.

## CIVIL SOCIETY GROUPS

**WHY?**

**This is why we think it's important to engage**

The Bank applies sustainable principles to drive growth and development which are inextricably linked to the prosperity and wellbeing of the society in which we operate in.

Sponsorships are an important component of the Bank's social responsibility and communication strategies. They provide us with the right platform to engage with our different stakeholders and a major contributor in enhancing our brand and creating relevance in our market.

**WHAT?**

**These are the issues that matter the most to them**

- Accelerating inclusive economic growth, job creation, financial inclusion, and transformation
- Contribution to and promotion of a just and equitable society

**HOW?**

**These are some of the ways we responded and engaged**

- The Board has delegated authority to its subcommittees to consider views of other key stakeholders with respect to consumer complaints, ethical matters, conflict of interests, environmental, social and health and safety matters. Management provides quarterly reports on same to the Board and its subcommittees for consideration.
- CSR initiatives - To make a significant positive impact, we have identified the following three areas of intervention and various initiatives were undertaken during the course of 2019:

**Education, Health & Social, Environment**

- Under the **Education pillar**, the focus remained the **Standard Bank Scholarship Scheme**. With our newly on-boarded 2019 batch, the Bank is financially sponsoring 57 students. This programme has allowed bright students with limited financial means to have access to tertiary education in Mauritius.
- Under **the Health and Social pillar**, one key initiative has been the support provided by the Bank to **Society for Aid to Children Inoperable in Mauritius (SACIM)**

  Two surgeries were funded by the Bank for two children from low income families in Mauritius who suffered from illnesses requiring surgical intervention abroad.

- Regarding the **Environment pillar**, the Bank partnered with the Mauritian Wildlife Foundation for three projects namely:
  - Mauritius Kestrel conservation project
  - Ecosystem reconstruction using giant tortoises
  - Rare plants conservation project

For more information on our various CSR initiatives, please refer to the sustainability report section.

**Sponsorships**

Sponsorships are an important component of the Bank's social responsibility and communication strategies. Some initiatives carried out in 2019:

- **FutureFest- ALU**

The Bank believes that technology inspires progress, growth, development and change. It is committed to initiatives aimed at technological advancement. The Bank was the main sponsor of the FutureFest-ALU. This conference was organised by a group of students from the African Leadership University, and brought together minds from across Mauritius, the African continent and the world to discuss the future of our island and our planet. Our Chief Information Officer, Adjhmir Bhugaloo, participated in a panel discussion – "The future of the digital society in a digital economy."

- **Standard Bank Royal Raid 2019**

The Bank was the title sponsor of the Royal Raid 2019. Royal Raid is a challenging trail run which shares all the qualities that Standard Bank stands for: hard work, dedication, endurance and the desire to succeed.

## Shareholder's Calendar

| | Reporting date |
|---|---|
| Financial Year End | December |
| Annual General Meeting of Shareholders | March |
| Publication of Financial Statements | |
| Annual Report | March |
| Quarterly Unaudited Financial Statements | |
| 31 March | May |
| 30 June | August |
| 30 September | November |

## Sustainability

Through our stakeholder engagement processes, the Bank is committed to understanding and being responsive to the interests and expectations of stakeholders and to partnering with them to find solutions to sustainability challenges, in line with the Group's values. The Group's annual sustainability report provides comprehensive commentary on the Group's sustainability and transformation efforts, as well as key non-financial performance indicators. The report aims to present a balanced view and disclose relevant and material information to the Group's stakeholders. The report is published on the Standard Bank Group's website.

**Refer to the Sustainability Report of the Bank for further details on the Bank's initiatives.**

### Going concern

On the recommendation of the Board Audit Committee, the Board annually considers and assesses the going concern basis for the preparation of financial statements at the year end. At the interim reporting period, a similar process is followed to enable the Board to consider whether there is sufficient reason for this conclusion to be affirmed.

# EXECUTIVE MANAGEMENT AND GENERAL MANAGEMENT

**Lakshman Bheenick**
*Chief Executive*
Please refer to profile on page 54

**Michele Ah See**
*Head: Risk*
Please refer to profile on page 54

**Nathalie Pompon-Nemorin**
*Chief Financial Officer*
- Joined Standard Bank (Mauritius) Limited in 2001 as Financial Manager
- Acceded to Head of Finance in 2006
- Appointed Chief Financial Officer in July 2012
- Fellow Member of the Association of Chartered Certified Accountants (FCCA)
- Previously employed at Kemp Chatteris, Clay Ratnage Chartered Accountants in London
- Previously worked at Investec Bank (Mauritius) Ltd as Accountant

**Cole Acutt**
*Head: Client Coverage and Investment Banking*
- Appointed Head: Investment Banking in October 2017
- Holder of a Bachelor of Business Science (Finance Honours) from the University of Cape Town
- Joined Standard Bank Johannesburg, as Graduate Trainee on the Standard Bank Corporate and Investment Banking Graduate Programme
- Appointed as Specialised Credit Origination Manager, Structured and Leveraged Credit Africa, Standard Bank Johannesburg
- Occupied the position of Transaction Manager, Diversified Lending and Leverage in Standard Bank Johannesburg and Nairobi respectively
- Prior to joining Standard Bank (Mauritius) Limited, was Senior Transaction Manager, Diversified Lending & Leverage, Standard Bank of South Africa

**Daniel Philippe Ng Tseung**
*Head: Transactional Products and Services*
- Joined Standard Bank (Mauritius) Limited in February 2014 as Head Corporate Banking/ Transactional Products and Services.
- Holder of a BSc. (Hons) Economics from Loughborough University (UK)
- Previously worked and held various positions such as Group Treasurer and was responsible for the Cards Division at the State Bank of Mauritius
- Previously employed as Treasurer at The Hongkong and Shanghai Banking Corporation Limited (HSBC)

**Meenakshi Sandrasagren**
*Head: Global Markets*
- Joined Standard Bank (Mauritius) Limited in 2011 as Head Global Markets
- Holder of an MBA from the City University Business School (UK) and a Master in International Economics and Finance from Brandeis University (USA)
- Fellow member of the Association of Chartered Certified Accountants (FCCA)
- Previously employed at Air Mauritius as Head of Treasury for a period of thirteen years
- Worked for MEDIA as financial controller
- Worked for De Chazal Du Mée and Philips ELL & Gross

**Reshmee A Kistnamah**
*Head: Legal and Company Secretary*
- Joined Standard Bank (Mauritius) Limited in 2010 as Corporate Lawyer
- Holder of an LLB (Hons) from the University of Mauritius, an LLM in Commercial and Corporate Law from the University of London and a diploma in French Law from the Universite de Droit, d'Economie et des Sciences D'Aix en Provence.
- Qualified as a Barrister-at-Law and called to the Bar in 2004
- Previously worked at Harel Mallac Group in charge of the Legal and Corporate Affairs Department

**Rita Balaka**
*Head: Compliance*
- Appointed Head Compliance, Mauritius in October 2018
- Joined Stanbic Bank Uganda Limited in 2014 as Head: Compliance
- Holder of a Master in Economic Policy and Planning and a Bachelor of Arts (Hons) Economics & Social Administration from Makerere University, Kampala
- Previously employed as Vice President – Executive Director of Citibank Uganda

Executive Management
General Management

**Adjhmir Bhugaloo**
*Chief Information Officer*
- Joined Standard Bank (Mauritius) Limited in 2007 as Head Electronic Banking and later as Client Access Manager
- Holder of a Licence Professionnelle Commerce, option Commerce Electronique from Université de La Reunion and a diplome de technologie, mention Informatique de Gestion from the Mauritius Chambers of Commerce and Industry
- Previously employed at The HongKong and Shanghai Banking Corporation Limited

**Nigel Hou**
*Head: Credit*
- Appointed Head: Credit in March 2017
- Holder of a Bachelor of Commerce in Finance from McGill University, Montreal, Quebec and also a CFA Charterholder
- Joined the Bank in 2009 as Credit Origination Manager – Wholesale
- Appointed as Accounts Risk Manager in 2013 and Manager, Investment Banking in 2015
- Worked as Senior Analyst at TD Canada Trust in Quebec

**Daniel Lai Choo**
*Head: Marketing & Communication*
- Joined Standard Bank (Mauritius) Limited in 2011
- Appointed Head: Marketing & Communication in 2015
- Holder of a Master of Business Administration from University of Surrey
- Holder of a Bachelor of Commerce and a Bachelor of Commerce (Hons) from University of the Witwatersrand
- Previously worked at Barclays Bank Mauritius where he held various positions such as Change Manager and Marketing Manager

**Aelander Mootoosamy**
*Head: Human Capital*
- Appointed Head: Human Capital in November 2015 with Standard Bank (Mauritius) Limited
- Holder of a Masters in Social Sciences from the University of Natal in Durban, South Africa and a Masters in Organisational Psychology from the University of Cape Town
- Previously employed as the Country Head HR of Deutsche Bank, Mauritius
- Registered Psychologist with the Health Professional Council of South Africa

**Robin Veerapen**
*Head: Operations*
- Joined Standard Bank (Mauritius) Limited in April 2005 as Head: Operations and IT
- Held the position of Regional CIB Head of Operations: West Africa and Francophone Region from December 2014 to December 2016
- Holder of a BSc (Hons) in Information Technology from the British Computer Society
- Previously worked at the State Bank of Mauritius and The HongKong and Shanghai Banking Corporation Limited (HSBC) for 14 years

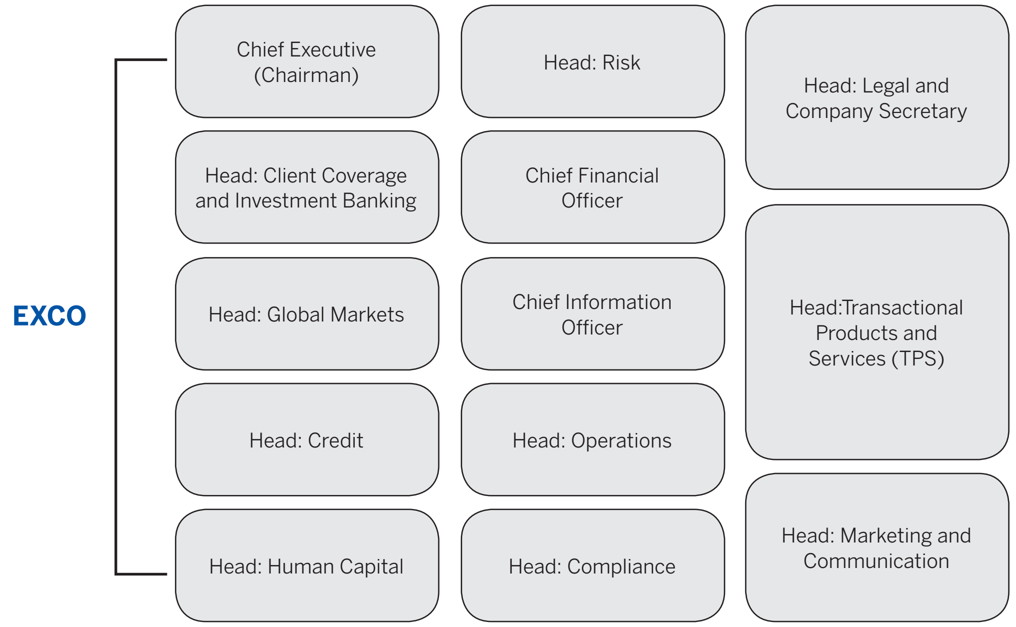
**Departures:**
Rita Balaka
Head: Compliance
Date of resignation:
31 December 2019

7 MALE
6 FEMALE

## Management Committees

The Chief Executive has the authority to manage the Bank within the framework laid down by the Board of directors and the Standard Bank Group. Five main management committees have been constituted to assist the Chief Executive in managing the Bank. These are the Executive Committee ('EXCO'), the Asset and Liability Management Committee ('ALCO'), the Credit Risk Management Committee ('CRMC'), the Operational Risk and Compliance Committee ('ORCC') and the IT Steering Committee ('IT STEERCO').

## Executive Committee (EXCO)




| Summary of key terms of reference |
|---|
| This committee is established to assist the Chief Executive in the daily running, management and control of the Bank and its affairs subject to statutory limits and the Board's limitations on delegation of authority to the Chief Executive, to achieve sustainable growth within the Bank's governance framework and approved risk profile. |
| Overlook the Bank's capitalisations, acquisitions, disposals and capital expenditure within limits as set by the Delegation of Authority framework. |
| Review the annual budget forecasts, business plans, capital expenditure plans and new strategic alliances. |
| Address human resources issues such as senior management succession and appointments, personnel policies or employment law related issues and promotions. |
| Formulate the Bank's overall strategy and targets (both financial and non-financial) for recommendation to the Board of directors. |
| Outline risk parameters and policy including credit policy and credit management strategies. |
| Control issues relating to the day to day management of the Bank. |
| Oversee any other issues specifically delegated to EXCO by the Board of directors. |

## Statement of Major Accountabilities of each EXCO member:

### Chief Executive

The Chief Executive ("CE") is responsible for guiding and formulating strategies for the profitable growth of business in line with the Group broad objectives. The CE's task is to execute the strategic goals and objectives of the business as approved by the Board, whilst ensuring that efficient reporting mechanisms are in place to carry along all stakeholders. The CE is also responsible for the overall performance of the business while leveraging on competencies inherent in the Banking group. In addition, the CE is relied upon to provide leadership and direction in ensuring that the Group's value and vision is imbibed.

### Head: Risk

Provide the leadership, vision, direction and implementation of risk management processes and systems as a key enabler to achieving business objectives of the organisation. The purpose is to be the trusted risk management business partner that equips business with the tools to mitigate financial, reputational and regulatory impact of material (operational and non-operational) risk incidents. This will require the anticipation of external drivers coupled with impacts of current and planned systems, processes, products and strategic changes on the risk profile of the business and to guide decision making on controls to manage and mitigate these risks.

### Chief Financial Officer

Accountable for the development, translation and implementation of the finance strategy for the Bank. Provide leadership, vision, direction to finance and business management teams. Ensure the effective implementation and continuity of full financial management services. Construct and drive the development and implementation of processes, systems and controls in the finance area through the finance team.

### Head: CIB

Take overall accountability for building and maintaining a strong CIB brand and reputation at a country level as aligned with Standard Bank Group and CIB Brand. Act as in-country leader of the CIB employee base and drive "One CIB Culture". Direct, develop and manage the CIB team in country, in partnership with the Sub-Regional Product Heads (where applicable). Ensure delivery of CIB revenues and net earnings through delivery of an appropriate range of banking products (Transactional Product and Services, Investment Banking and Global Markets Products) to the existing and targeted client base, working with and through the Client Coverage Teams.

### Head: Transactional Products and Services

Driving and strategising client relationships and maximise cross-selling revenues and client profitability while providing effective client support and relationship development to Standard Bank's wholesale client base. Responsible for driving the sales team who are required to sell the Bank's total product and solutions offering which is in line with the strategic objectives of Mauritius, including transactional products ("TPS"), global markets ("GM") and investment banking ("IB").

### Head: Client Coverage

Lead the Client Coverage team by providing the strategic direction that will enable Standard Bank to position itself in the industry and drive the realisation of goals set. Leverage industry relationships to achieve high levels of client service, business targets and revenue opportunities across Client Coverage.

### Head: Global Markets

Promote, manage and co-ordinate the Global Markets business and performing Treasury function in country in line with the CIB strategy in order to grow the franchise maximise profitability and improve/maintain the Bank's profile as a proficient and compliant operator in the country market.

### Head: Investment Banking

Drive the daily operations of Investment Banking in Mauritius, contributing to the performance of the local operation and the franchise across Africa. Provide material support to driving necessary research, analyses, origination, execution and administration in Investment Banking.

### Head: Operations

Support the country in providing a consistently high quality financial services platform. Proactively identify and assess the risks faced by CIB Operations, Group Real Estate Services and Procurement. Manage risks and have an effective system of controls to reduce overall exposure and provide a secure appropriately staffed, cost effective service delivery infrastructure. Accountable for delivering, maintaining and monitoring appropriate infrastructure, equipment, staffing structures, procedures and controls that match the current and future strategic operational and financial needs of the business as well as compliance and regulatory requirements.

### Head: Compliance

Provide input into the strategy and to assist in the strategic execution in the business compliance risk management function in order to discharge compliance risk management processes as required by relevant regulatory requirements, applicable codes of conduct and minimum standards, as well as business partnering initiatives across all operations.

### Head: Credit

Manage the Country Credit Risk portfolio and profile within its risk appetite and acceptable Group parameters. Interact with other departments with regard to credit strategy and manage various credit related department staff.

### Head: Legal & Company Secretary

Within the overall Group legal strategy, drive the development of the key legal risk indicators for Legal Risk Management within the organisation including the definition of the legal framework, evaluating the potential likelihood of legal risks and impact and determining the appropriate controls to be in place. Provide effective strategic support to senior business leadership by, amongst others, ensuring that business is conducted in accordance with applicable laws and regulations and ensuring that the Group's legal standards and processes are adhered to whilst safeguarding the integrity and reputation of the organisation and the Standard Bank brand. In the role of company secretary, provide professional advisory service to the Board of Directors and ensure that the Board fulfils its lawful obligations, statutory duties and performs its functions in accordance with law and the Bank's constitution. Responsible for the implementation of sound corporate governance principles within the organisation in line with international and local best practices.

### Chief Information Officer

Provide strategic vision and operational IT leadership for the Information Technology department and be accountable for directing, planning, organising and controlling all IT functions. In addition, the role is responsible for the delivery of a broad range of IT services and sponsors process/system improvements aimed at the efficient and effective provision of IT services.

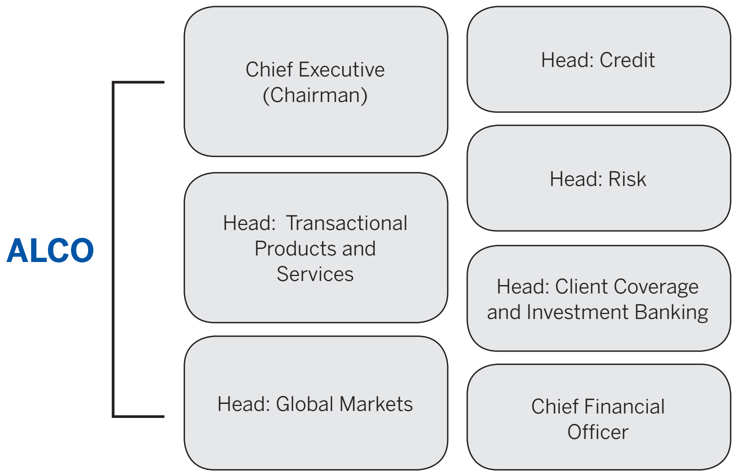
### Head: Human Capital

Translate the group and business line's people strategies into tactical operational plans and incorporate it into the overarching country people plan for execution at country and business unit level. Ensure that staff costs are aligned with the overall strategy of the Bank: provide a Human Capital business partnering function to senior management and executives of the business. Coordinate delivery of HC initiatives and services with other business partners and centres of excellence to ultimately ensure that the Bank is adequately and competently equipped in terms of capacity and capability.

### Head: Marketing & Communication

Direct and oversee marketing/communications/public relations strategies and tactical plans designed to capitalise on market opportunities and generate demand within the business area in support of business objectives. Lead a creative, integrated, multi-channel marketing team that builds brand awareness and reputation, provides a steady flow of demand through for example sales leads, and measures the return on marketing program investments.

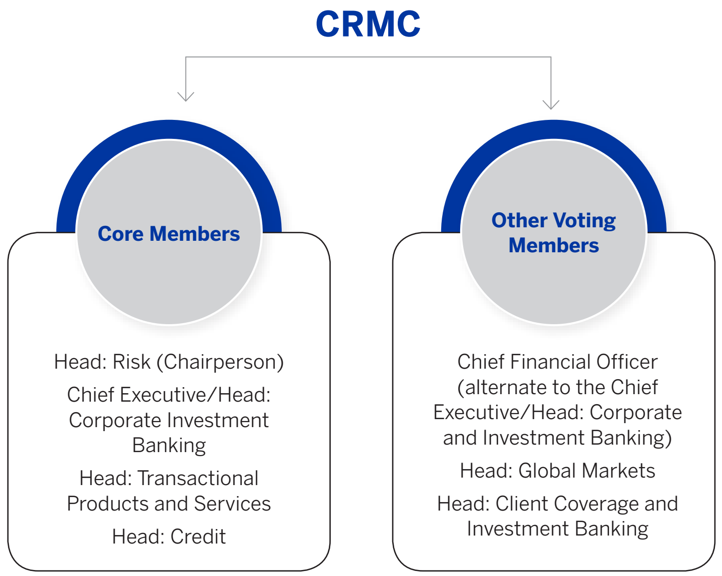
### Asset and Liability Management Committee (ALCO)




| Summary of key terms of reference |
|---|
| The purpose of ALCO is to monitor and control all trading book risk and banking book liquidity risk and interest rate risk in accordance with the risk appetite. |
| Ensure appropriate risk identification, measuring, monitoring and management processes are adopted in the Bank. |
| Review ALCO tolerance limits and appetite triggers and agree remedial actions in order to align exposures with agreed risk appetite and tolerance. |
| Review market risk, liquidity risk, funds transfer pricing, capital management framework and banking book interest rate risk policies. |
| Ensure a sound capital position and optimal capital plans for the Bank. |
| Review and note the impact of internal and external factors on the net interest margin. |
| Review internal capital adequacy assessment process document, market risk limits and triggers. |
| Review policies relating to market risk management, liquidity risk management and capital management. |

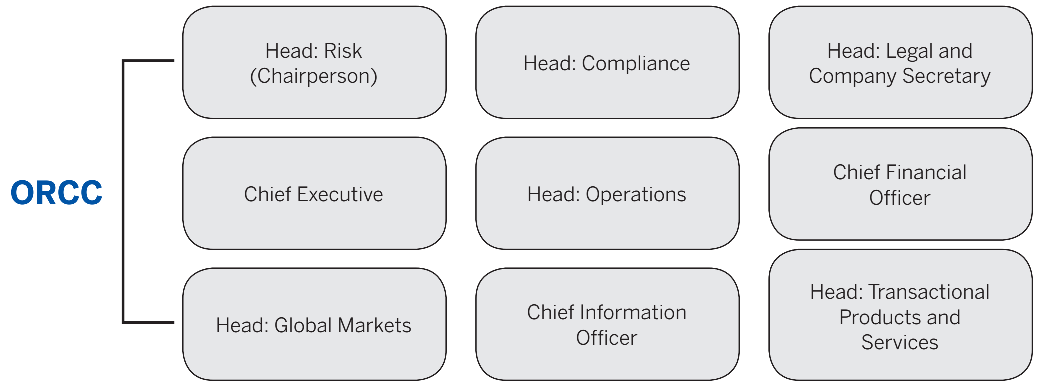


### Credit Risk Management Committee



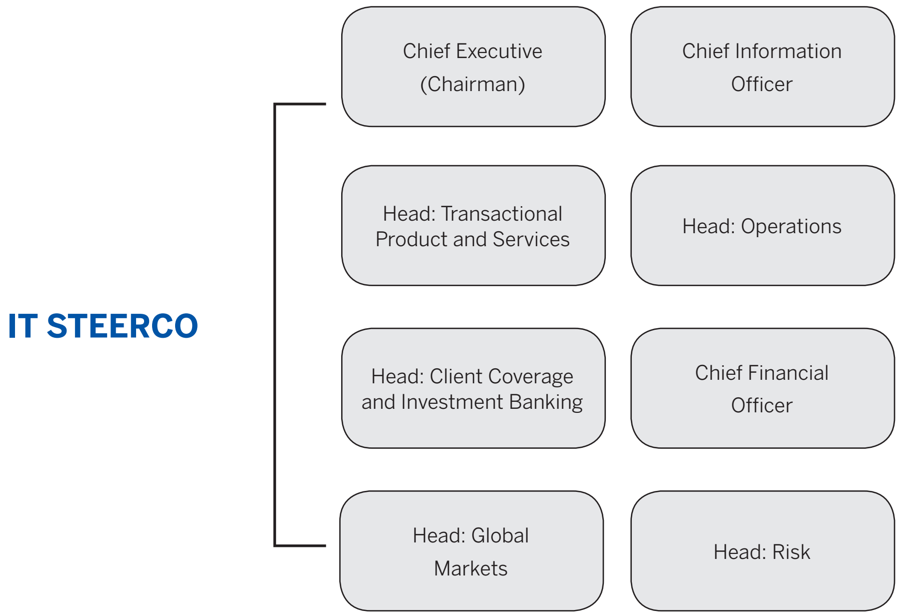

| Summary of key terms of reference |
|---|
| The purpose of the CRMC is to establish and define the principles under which the Bank is prepared to assume credit risk and the overall framework for the consistent and unified governance, identification, measurement, management and reporting of credit risk. |
| Adopt credit policies subject to Board's approval. |
| Review and report to Board Credit Committee all credit risk breaches and non-compliance of credit policies. |
| Review all past due but not impaired portfolios as well as impaired portfolios and the adequacy of specific and general impairments. |
| Review credit risk portfolios and material sub-portfolios. |

### Operational Risk and Compliance Committee (ORCC)




| Summary of key terms of reference |
|---|
| The main purpose of the committee is to assist the EXCO in discharging its duties relating to the identification of key risk areas, measurement and control of risks, and ensuring that the controls, processes, procedures and systems employed meet the Standard Bank Group's risk appetite and the requirements of the regulatory authorities. |
| Consider reports submitted by Operational Risk, Compliance, Internal Audit, Legal, IT and External audit. |
| Review and assess the integrity of the risk control systems and ensure that risk policies and strategies are effectively managed. |
| Review significant risk events and ensure that the control environment is adequate to prevent recurrence. |
| Monitor new and changing laws and regulatory requirements and ensure that appropriate plans are in place. |
| Provide the requisite guidance and advise the Bank to invest in appropriate risk management infrastructure, including software and human resources. |
| Review and concur with the level of insurance cover and note significant claims. |

### IT Steering Committee (IT STEERCO)




| Summary of key terms of reference |
|---|
| The purpose of the committee is to provide assurance to the EXCO and the Board that management has implemented effective IT governance structures that support the effective and efficient management of resources, the optimisation of costs and the mitigation of risk in a secure and sustainable manner. |
| Review the following IT governance domains: Enterprise IT governance, strategic alignment, value delivery, risk management, resource management and performance management. |
| Ensure that the IT governance framework includes relevant structures, accountabilities, policies, standards, processes and mechanisms to enable the delivery of value to the business and the mitigation of risks. |
| Ensure adequate internal control frameworks are adopted and implemented and that the independent assurance is provided to EXCO and the Board on the effectiveness thereof. |
| Review material IT audit findings and monitor the resolution of issues. |
| To monitor the performance of the IT investment portfolio (both in terms of performance and financial implications) and escalate issues or concerns to the EXCO and the Board. |
| Consider the sourcing strategy for IT services and ensure that the appropriate governance requirements are met. |
| Ensure that effective risk management exists within IT (including disaster recovery, business continuity, IT security, compliance, etc.). |

## Information technology

The Bank subscribes to sound corporate governance principles as mandated by Standard Bank Group, one of which is the use of policies and standards which define and articulate practices, boundaries and expectations within which the Bank operates.

Technology and Information (IT) is key to the achievement of the Bank's strategic ambition and IT Risk Management is an integral part of the risk management processes, reporting and oversight. The Board of Directors of Standard Bank (Mauritius) Limited, the Board Technology and Information Committee and the Board Risk Management /Conduct Review Committee ensure that all IT risks are adequately addressed through the risk management, monitoring and assurance processes.

Policies and Standards are reviewed on a biennial basis and subsequently approved by the Board/ Board Subcommittee. The policies and standards are made available to all employees for consultation through the Bank's intranet.

The following policies have been adopted by the Bank:

## IT data centre management policy

The reliability, availability and recoverability of IT systems, networks and infrastructures are crucial in maintaining confidence in the operational capabilities of the Bank. As critical systems and data are concentrated and maintained in the Bank's data centres, it is important that our data centres are resilient and physically secured from internal and external threats.

The management of the Bank's data centres across the IT value chain is considered a standard requirement and also a business priority and this Policy contains the required controls applicable to the following areas:

- Definitive hardware storage areas;
- Disaster recovery buildings and sites;
- Generator, power, cooling, fire detection and protection, Building Management System and rotary/static uninterrupted power supply rooms; and
- Media Storage areas within the Data Centre.

## IT service operations policy

The purpose of service operations is to deliver agreed levels of service to users and customers and to manage the applications, technology and infrastructure that support the delivery of the services. All IT services deployed into production must be managed and controlled through the IT support processes for:

- Access management;
- Event management;
- Incident management;
- Problem management; and
- Service desk/request fulfilment.

## IT service continuity management policy

The reliability, availability and recoverability of IT systems, networks and infrastructures are crucial in maintaining confidence in the operational capabilities of the Bank. When critical systems fail, the disruptive impact can be severe and can adversely impact reputation, cause regulatory breaches, revenue and business losses. Critical systems can be defined as systems which, when failed to operate for a given period of time:

- Will have a disruptive impact that is considered severe;
- Will adversely impact the reputation of the organisation;
- Will cause regulatory breaches; and/or
- Will negatively impact revenue generation (business losses)

As systems can be vulnerable, this policy sets forth the recovery and business resumption priorities and contingency procedures that are tested and rehearsed so that any disruptions may be minimised.

## IT third party management policy

Management of IT third parties is considered a strategic imperative for highly regulated industries such as the financial sector. A key responsibility of IT is to manage contracts, relationships, performance and risks associated with third parties. The scope and the scale of these activities should vary between the strategic and tactical outcomes to be achieved through engagement with third parties.

Third party suppliers are becoming more than providers of a contracted service with many becoming sources of strategic advantage that drive costs, business failure or success, business agility, reputational scrutiny and could result in punitive measures if not actively managed within IT. Effective supplier and contract management is crucial to ensure that suppliers and the services they provide are managed to support IT service targets and business expectations.

## IT service transition policy

Service transition entails the transfer and delivery of new or changed services into operation and the planning and coordination of resources to build, release, test, deploy and establish a new or changed service into production.

Service transition develops and improves capabilities for introducing new and changed services into supported environments. All new or to be changed IT service designs comply with this policy, related standards, processes and practices, and are in alignment with the following policy statements:

- Transition planning and support;
- Change management and change evaluation;
- Release and deployment management; and
- Service validation and testing.

## IT software asset management policy

Software asset management is a business practice that involves managing and optimising the purchase, deployment, maintenance, utilisation and disposal of software within an organisation.

Software asset management processes are in place to provide accurate information and control across all software assets within the infrastructure. They identify, control and account for software assets thereby protecting and ensuring the integrity across the service life-cycle.

Software asset management entails the alignment of software usage to software entitlements and applicable licensing terms and conditions. The goals are:

- To optimise the Bank's software estate in terms of software selection;
- To minimise risk (commercial, legal and reputational); and
- To maximise commercial benefit.

## IT hardware asset management policy

Hardware asset management is a business practice that involves managing and optimising the purchase deployment, maintenance, utilisation, refresh of aged assets and disposal of hardware assets within an organisation. Hardware asset management processes are in place to provide accurate information and control across all hardware assets within the infrastructure. They identify, control and account for hardware asset items thereby protecting and ensuring the integrity across the service life-cycle. Hardware asset management entails the management of the IT physical assets from acquisition through disposal. Common business practices should include:

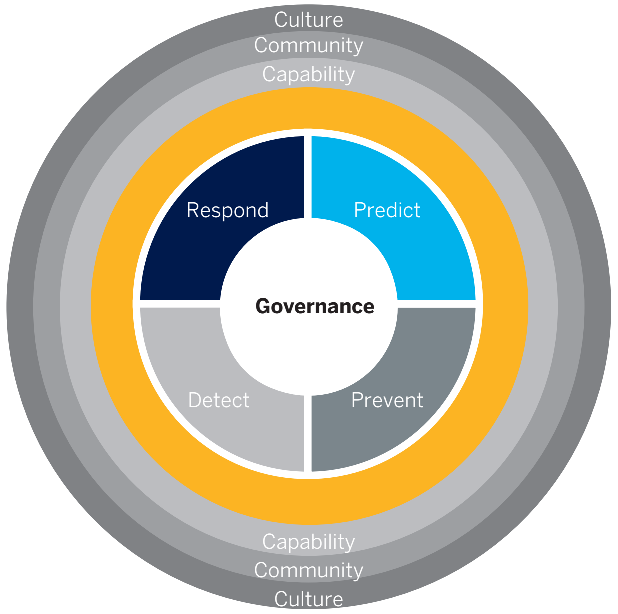
- request and approval process;
- procurement management;
- life cycle management;
- refresh of aged assets;

- redeployment; and
- disposal management.

A key component is capturing the financial information regarding the hardware life cycle which aids the Bank in making business decisions based on meaningful and measurable financial objectives.

### Cyber resilience technology standard

The cyber resilience technology standard articulates how the Bank determines its cyber resilience objectives and cyber risk tolerance, as well as how to effectively identify, mitigate, and manage cyber risks. It covers people, process and technology and aligns to enterprise risk management strategies as well as international standards. The cyber resilience framework is depicted in the diagram below and the principles for each component are articulated in the standard.




The framework governs how the Bank protects its IT assets which include systems in production, systems under development and systems hosted by third parties in a systematic and consistent manner.

The IT security function is mandated to establish and uphold a culture of security across the Bank, provide assurance on a robust control environment, ensure that stakeholder requirements for the protection of data are continually met, focusing on confidentiality (the risk of unauthorised access to data and IT systems), integrity (the risk of data being manipulated) and availability (the risk of data and IT systems being unavailable when needed.)

### Statement of remuneration philosophy

As a subsidiary of Standard Bank Group, the Bank is aligned to the following four key objectives guiding its remuneration strategy:

(1) Measure and reward for value delivered and adjust for risk assumed.
(2) Aim to be competitive in remuneration in the global marketplace for skills.
(3) Reward our people fairly, at both individual and shareholder level, while avoiding a bonus-centric culture that distorts motivations and may encourage excessive and irresponsible risk taking.
(4) Promote and reward teamwork.

The Bank aims to attract and retain sufficient, appropriately skilled people to fulfil strategic business objectives and that people are fairly rewarded by ensuring that:

- Remuneration is externally competitive and internally equitable;
- Base salaries are competitive within an appropriate market sector;
- Opportunities are given to our people to enhance total reward through performance-related bonus awards;

Our remuneration policy and structures are guided by the Group Remuneration Committee and focus on total reward and strive for the appropriate mix between fixed and variable pay for all our employees, depending on their roles.

The Group Remuneration Committee is mindful of its responsibilities to all stakeholders, especially our shareholders when assessing and reviewing the remuneration of Senior Executives of the Bank. The committee also reviews performance to ensure that earnings are not the result of one year's work but rather the planned outcome of work done in the past years.

### Chief Executive

The Chief Executive receives a remuneration package and qualifies for long-term incentives. He is not subject to a retention agreement.

#### Remuneration Structure

Executive directors, independent director and non-executive directors' fees

The following amount represents the sum paid to executive, non-executive and independent directors for the year under review:

| | USD |
|---|---|
| Louis Rivalland | 1,848 |
| Duncan Westcott | 29,500 |
| Stephen Scali | 24,749 |
| Clive Tasker | 25,857 |
| Brenda Niehaus | 22,533 |
| **Total non-executive directors** | **104,487** |
| Arvind Hari | 25,857 |
| **Total independent director** | **25,857** |
| Lakshman Bheenick | 764,389 |
| Michele Ah See | 278,385 |
| **Total executive directors** | 1,042,774 |
| **Total non-executive & executive directors** | **1,173,118** |

The remuneration of both executive directors consists of the following:

- guaranteed remuneration - based on their market value and the role that they play;
- annual bonus incentive - used to incentivise the achievement of Bank objectives;
- pension - provides a competitive post-retirement benefit in line with Bank employees.

The non-executive directors are not entitled to share options or bonuses associated with organisational performance. Additionally, as per Group policy, no fees are payable to directors who are employed by Group. Roderick Poole and Antonio Coutinho are employees of Group and hence are not remunerated by the Bank.

*The full annual report is available on the Bank's website: www.standardbank.mu*



# SUSTAINABILITY REPORT

The Bank applies sustainable principles to drive growth and development which are inextricably linked to the prosperity and wellbeing of the society in which we operate to make a significant positive impact.

## Health and Safety

The Bank aims is to identify, prevent and manage occupational health and safety risks within the Bank premises. Directors, managers and staff are fully involved to promote a 'positive health and safety culture' within the Bank in terms of competence, control, co-operation and communication. Risk assessments are carried out whenever any alterations to our offices are made or in the event of any major organisational changes. A Health and Safety committee meets up every two months with representation of both employers and employees and addresses any findings. The Bank keeps track of health and safety activities with respect of any accidents, near misses and training carried out.

## Energy consumption

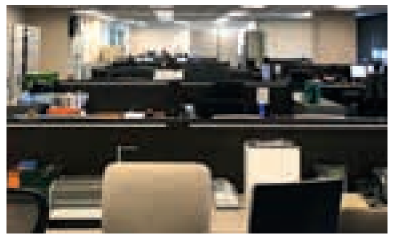
Our long-term focus remains the implementation of an energy management strategy. The objective is drive energy efficiency in our operation. The amount spent on electricity to perform our day-to-day activities is approximately MUR8m a year, thus managing this cost materially contributes to our sustainable long-term financial performance. The energy consumed in the Bank was 933,579-kilowatt hours (2018: 964,165 kilowatt hours) and our diesel consumption for the year was negligible.

## Environment sustainability

The Bank has implemented environmentally friendly and ecological measures to contribute in preserving the environment and reducing our carbon footprint. The engagement is to adopt a responsible ecological mind-set and approach which starts with the implementation of the following measures in the office:

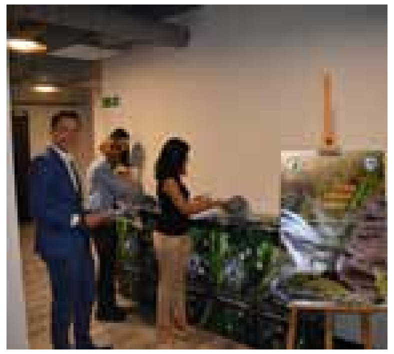
### Energy efficiency

LED lights consume less energy use, as such all conventional fluorescent lights in the office were replaced by LED lights. In turn reducing power consumption and the overall power on the grid and the Bank was able to save 40% on its light consumption.



### Recycling

We are supportive of paper recycling and we have partnered with a recycling company and placed recycle bins at the disposal of the staff to dispose of paper waste. Awareness campaigns and frequent reminders are issued to remind staff to segregate their paper waste and general waste.



### Paper reduction

We have created awareness to bring unnecessary printing to a minimum which has reduced paper usage in our operations. Another initiative put in place was secure printing functionality on printers to avoid junk printing.

### Plastic Reduction Strategy

A programme to eliminate the usage of plastic water bottles in the office was set up. Plastic water bottles have been replaced by glass water bottles and water dispensers have been installed in the office.

## Mauritius – Corporate Social Responsibility

### Changing life | Building sustainability

During the year, we have identified the following areas of intervention for CSR activities, where USD 292,824 was spent on initiatives.

### Education

Education is one of the main areas of intervention under the CSR initiatives. We have supported needy beneficiaries through our scholarship programme and different NGOs.

The Standard Bank Mauritius Scholarship Programme has allowed bright students with limited financial means to follow undergraduate courses in Mauritius. With our newly on-boarded 2019 batch, the Bank is financially sponsoring 57 students. The aim is to give to those bright children access to tertiary education and the means to change their world and future.

To contribute to the society in which we operate, Standard Bank Mauritius has partnered with the following NGOs to help them in their fight against social ills and poverty. **NGO "Reve et Espoir**" to provide services to children and young adults with mental & physical disabilities. We supported a psychologist programme whose objectives are to improve the children's development, increase their chances to become more independent and sustain progress. Through this partnership, we have helped 30 direct beneficiaries improve their concentration, memory, behaviour, attention span, improve their educational standards and learning abilities as well as promoted psychological wellbeing, social, emotional and behavioural development.

**NGO "Quartier de Lumiere"** assists and empowers children in the village of La Valette, Bambous (Western region of the island) who are left on their own and come from poor and needy families. Our support has enabled the NGO meet the following objectives:

- Ensure the integral development of the child be it physical, cognitive and moral
- To see healthy, empowered children who are aware of their importance in society, having realised that success is the fruit of hard work and discipline
- Care of the child from the youngest age
- School support
- Development of the children's personality and an introduction to civic values

An exhibition of the paintings done by the beneficiaries of the NGO was done at the Bank. Staff members voted for their favourite paintings and those paintings were purchased by the Bank. The funds were used to finance a trip for the beneficiaries.

**Les amis de Zippy** program aims to improve the skills of young children aged 6 – 7 to develop coping mechanisms to cope with everyday difficulties. The program is setup in primary schools and also required the training of teachers who will then share with the children. The Bank identified school in underprivileged regions on the island namely: Case Noyale, Chemin Grenier, Souillac, Baie du Cap and Chamarel.

**Counselling support to teenagers,** their parents as well as the teachers. Schools were identified in underprivileged regions on the island namely: Mahebourg, Bambous, Petite Riviere, Ste Croix, Riviere Noire.

## Health and Social

Under this pillar, the following initiatives were carried out:

### Lovebridge

The Bank funded the NGO Lovebridge whose aim is to deliver autonomy to vulnerable families, caught in the poverty trap, and willing to work constructively towards empowerment. The identified families are empowered to be autonomous and escape the poverty trap.

### Society for Aid to Children Inoperable in Mauritius (SACIM)

SACIM is an NGO specialised in the care of inoperable children from low-income families in Mauritius. Those children suffer from illness that requires surgical intervention abroad and due to lack of funds, same cannot be done on time. With the Bank's support, those children had the necessary treatment.

Two surgeries were funded by the Bank for two girls Lichia (13 years old) and Melina (5 years old).

Lichia underwent scoliosis spine surgery and she is recovering, whereas Melina's heart surgery is yet to be carried out.

### Link to Life

Awareness campaigns and free breast, prostate and cervical cancer tests were carried out in social community centres. Two different underprivileged regions were identified and 106 people benefitted from the free screening. One potential cancer case was detected and referred for further tests.

### World Aids Day with PILS

PILS is an organisation at the forefront of the fight against AIDS and HIV and advocating for the rights of people living with HIV for the past 23 years in Mauritius. With our support, PILS raised awareness about HIV and other sexually transmitted infections.

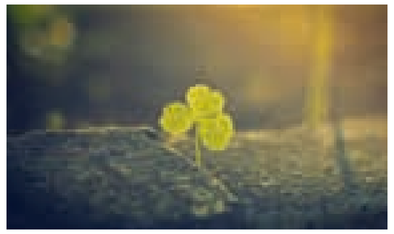
This year's theme was "San Twa pa capav aret SIDA" (Without you we cannot stop AIDS). This year's World AIDS Day was commemorated on Saturday 30 November 2019 to have the maximum reach. The following activities were carried out:

- Free HIV, Hepatitis C and Syphilis screening were conducted and the public was encouraged to be health conscious and undergo regular screening.
- Support was provided to people living with HIV and they were encouraged to come forward and stay in the continuum of care.
- The public was encouraged to advocate for equal rights for all and stop stigmatisation towards people living with HIV.

## Environment

### Mauritian Wildlife Foundation

The Bank partnered with the Mauritian Wildlife Foundation (MWF) to support them on the following three projects. The MWF is an independent non-governmental organisation established in 1984 with the objective to protect and preserve endangered plant and animal species in Mauritius.



### Mauritius Kestrel conservation project

The Mauritius Kestrel is one of the nine endemic bird species left in Mauritius. However, a rapid degradation of the Mauritian native forests has contributed to a decline in the number of Mauritius kestrels. The aim is to prevent the population decline by attaining a viable, stable or increasing population and increase the distribution of the birds.

### Ecosystem reconstruction using giant tortoises

With the extinction of our endemic tortoise species, all the functional roles fulfilled by giant tortoises in the ecosystem have gone missing. To remediate this situation, MWF will use the Aldabra tortoise (a close relative of Mauritian giant tortoises) to replace lost ones. This will be used as substitutes to re-enact the lost 'plant-tortoises' interactions and help restore the native forest on Ile aux Aigrettes and Round Island.

### Rare plants conservation project

Mauritius is home to 691 native species of flowering plants. 281 are endemic and more than 90% are threatened. The project undertakes to propagate and plant endemic species to reintroduce them in the wild and in urban areas and to increase their numbers. This action will in the long term support the endemic fauna.

## Supporting the community

Staff members are encouraged be more and do more by giving their time serving the community and society in which our business operates. The following initiatives were driven by the staff to help those in need:

### Scholarship scheme – Buddy initiatives

Along with the scholarship scheme, the Bank runs an internal buddy initiative whereby each scholarship beneficiary is assigned a 'buddy' within the Bank. The staff member who volunteers to be a buddy has the following responsibilities:

- Act as a mentor to the scholars
- Provide general career advice and tips
- Assistance in drafting CVs and provide interview tips
- Regular meetings with the scholars to assess any issues with regards to their studies

Staff members also participated in various initiatives and gave their time to the beneficiaries of NGOs "Reve et Espoir", "Quartier de Lumiere" and Link to Life during different activities organised.

### Fund raising and donation for victims of cyclone Idai.

A donation was made to World Vision International for victims of cyclone Idai. Moreover, the staff of Standard Bank Mauritius contributed generously in a raffle organised to raise funds for the victims. The funds collected were matched under the CSR matching scheme and around USD 7,700 were collected.

### Run for a cause – Odyssea Trail Race

The concept of this race in France is to bring together the public around the fight against breast cancer in a sporty and friendly environment. A target has now been set for Mauritius; collect Rs 1,000,000 to be shared between two NGOs who are fighting against and creating awareness around breast cancer in Mauritius. Staff members participated in the race.

### Plogging

Plogging is a Swedish fitness trend that combines outdoor physical exercise with environmentally friendly actions. Staff members participated in plogging sessions, which were organised at Petrin and Albion lighthouse.

### Charitable and Political Donations

The Bank spent USD 292,824 on social corporate responsibility for the financial year 2019.

# STATEMENT OF COMPLIANCE

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

### Name of Public Interest Entity: Standard Bank (Mauritius) Limited

**Reporting Period: Year ended 31 December 2019**

We, the directors of Standard Bank (Mauritius) Limited, confirm that to the best of our knowledge Standard Bank (Mauritius) Limited has complied with all of its obligations and requirements under the National Code of Corporate Governance for Mauritius (2016).

Chairman
Duncan Westcott

Chief Executive
Lakshman Bheenick

18 March 2020

# ANNUAL FINANCIAL STATEMENTS



# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

## Statement of management's responsibility for financial reporting

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

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

The Bank's Board of Directors, acting in part through the Board Audit Committee and the Risk Management Conduct Review Committee which comprise independent/non-executive directors who are not officers or employees of the Bank, oversees management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

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

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

The Bank's external auditors, Pricewaterhouse Coopers, have full and free access to the Board of directors and its committees to discuss the audit and matters arising there from, such as their observations and fairness of financial reporting and the adequacy of internal controls.

| Chairman | Director | Chief Executive |
|---|---|---|
| **Duncan Westcott** | **Arvind Hari** | **Lakshman Bheenick** |

18 March 2020



# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which present fairly the financial position, financial performance and cash flows of the Bank. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and to enable them to ensure that the financial statements comply with the Mauritian Companies Act 2001 and the requirements of the Mauritian Banking Act 2004 and the guidelines issued thereunder. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

| Chairman | Director | Chief Executive |
|---|---|---|
| **Duncan Westcott** | **Arvind Hari** | **Lakshman Bheenick** |

18 March 2020

# SECRETARY'S CERTIFICATE

In accordance with section 166 (d) of the Companies Act 2001, we certify that to the best of our knowledge and belief, the Bank has filed with the Registrar of Companies, all such returns as are required of the Bank under the Mauritian Companies Act 2001.

**Company Secretary**

18 March 2020



# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF STANDARD BANK (MAURITIUS) 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 Standard Bank (Mauritius) Limited (the "Bank") as at 31 December 2019, 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 Standard Bank (Mauritius) Limited's accompanying financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes, comprising significant accounting policies and other explanatory information.

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

### Basis for Opinion

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

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

#### Independence

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

### Key Audit Matters

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment of loans and advances**<br><br>This is the second year that expected credit losses ('ECL') have been reported under IFRS 9 Financial Instruments. The underlying processes and controls have continued to mature during the year, with an increased focus on back-testing.<br><br>The key areas of significant management judgement within the ECL calculations include:<br><br>• Evaluation of significant increase in credit risk ("SICR");<br>• Input assumptions applied to estimate the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD");<br>• Incorporating forward economic guidance into the SICR assessment and ECL measurement;<br>• Assessment of ECL raised for Stage 3 exposures; and<br>• Making post model adjustments. | Given the complexity of the model used for the ECL calculation, our internal experts assisted us in performing certain procedures.<br><br>We obtained an understanding and tested the relevant controls relating to the approval of credit facilities, subsequent monitoring and remediation of exposures and key system reconciliations.<br><br>With the assistance of our internal experts, we assessed the input assumptions applied within the PD, LGD and EAD models (including forward looking information) in compliance with the requirements of IFRS 9 *Financial Instruments*. In addition, our procedures included assessing the appropriateness of the models through reperformance and validation procedures. We also performed risk based substantive testing of models, including independently re-building certain assumptions.<br><br>Where ECL has been raised for stage 3 exposures, we considered the impairment indicators, uncertainties and assumptions applied by management in their assessment of the recoverability of the exposure. We independently recalculated the ECL based on our assessment of the expected cash flows and recoverability of collateral at an individual counterparty level. |

## Report on the Audit of the Financial Statements (Continued)

### Other Information

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

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

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

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

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

#### Corporate Governance Report

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

### Responsibilities of the Directors for the Financial Statements

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

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

The directors are responsible for overseeing the financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

### Mauritian Banking Act 2004

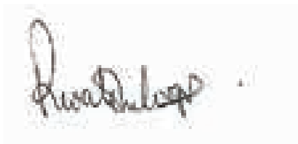
The Mauritian Banking Act 2004 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

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

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

## Other Matter

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



**PricewaterhouseCoopers**

**Gilles Beesoo, licensed by FRC**

18 March 2020

# Statement of Financial Position

**AS AT 31 DECEMBER 2019**

| | Notes | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 7 | 686,658,119 | 875,019,563 | 570,823,648 |
| Trading assets | 8 | 3,690,943 | 2,473,961 | 749,636 |
| Derivative assets | 9 | 1,151,716 | 1,278,203 | 9,674,017 |
| Loans and advances to banks | 10 | 298,481,160 | 301,895,689 | 424,145,193 |
| Loans and advances to customers | 11 | 227,004,114 | 228,032,006 | 122,169,578 |
| Financial investments | 12 | 197,075,417 | 147,364,470 | 123,612,813 |
| Property, plant and equipment | 13 | 3,915,870 | 3,177,587 | 2,037,435 |
| Intangible assets | 14 | 17,010,463 | 18,143,248 | 19,517,579 |
| Right-of-use assets | 15 | 3,306,259 | - | - |
| Other assets | 17 | 8,062,336 | 9,785,646 | 8,046,618 |
| **Total Assets** | | **1,446,356,397** | 1,587,170,373 | 1,280,776,517 |
| **Liabilities** | | | | |
| Deposits from banks | 18 | 88,402,630 | 34,716,399 | 60,895,260 |
| Deposits from customers | 19 | 1,211,097,476 | 1,387,631,188 | 1,103,515,134 |
| Derivative liabilities | 9 | 1,705,225 | 1,671,872 | 9,353,440 |
| Other borrowed funds | 20 | 470,766 | 1,412,299 | 4,097,627 |
| Lease liabilities | 15 | 3,387,780 | - | - |
| Current tax liabilities | 21 | 876,781 | 673,262 | 630,313 |
| Deferred tax liabilities | 16 | 435,000 | 760,000 | 38,000 |
| Other liabilities | 22 | 12,123,660 | 44,513,903 | 11,285,967 |
| **Total Liabilities** | | **1,318,499,318** | 1,471,378,923 | 1,189,815,741 |
| **Shareholder's Equity** | | | | |
| Share capital | 23 | 35,000,000 | 35,000,000 | 35,000,000 |
| Statutory and other reserves | 35 | 23,813,752 | 19,243,582 | 15,414,664 |
| Retained earnings | | 69,043,327 | 61,547,868 | 40,546,112 |
| **Total equity attributable to equity holder** | | **127,857,079** | 115,791,450 | 90,960,776 |
| **Total Equity and Liabilities** | | **1,446,356,397** | 1,587,170,373 | 1,280,776,517 |

Approved by the Board of Directors and authorised for issue on 18 March 2020.

**Chairman**
**Duncan Westcott**

**Director**
**Arvind Hari**

**Chief Executive**
**Lakshman Bheenick**

The notes on pages 96 to 194 form part of these financial statements.



# Statement of profit or loss and other comprehensive income

**FOR THE YEAR ENDED 31 DECEMBER 2019**

| | Notes | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|---|
| Interest income | | 44,878,982 | 37,913,582 | 28,481,564 |
| Interest expense | | (12,478,849) | (9,208,582) | (7,018,359) |
| **Net interest income** | 25 | **32,400,133** | 28,705,000 | 21,463,205 |
| Fee and commission income | | 6,931,396 | 7,148,964 | 7,188,411 |
| Fee and commission expense | | (311,241) | (407,468) | (373,345) |
| **Net fee and commission income** | 26 | **6,620,155** | 6,741,496 | 6,815,066 |
| Net trading income | 27 | 7,399,617 | 11,610,187 | 10,121,660 |
| Net income from other financial instruments carried at fair value | 28 | 40,066 | 106,357 | 7,438 |
| Other operating income | 29 | 336,855 | 316,141 | 273,897 |
| | | 7,776,538 | 12,032,685 | 10,402,995 |
| **Operating income** | | **46,796,826** | 47,479,181 | 38,681,266 |
| Net impairment (charge)/gain on financial assets | 30 | (5,160,591) | (1,455,341) | 183,343 |
| Personnel expenses | 31 | (9,535,265) | (8,681,740) | (7,325,926) |
| Operating lease expenses | 32 | (136,076) | (776,865) | (651,227) |
| Depreciation on right-of-use assets | 15 | (705,556) | - | - |
| Depreciation and amortisation | 13&14 | (2,069,810) | (1,970,598) | (1,223,735) |
| Other expenses | 33 | (6,127,578) | (7,290,321) | (6,646,935) |
| | | (23,734,876) | (20,174,865) | (15,664,480) |
| **Profit before income tax** | | **23,061,950** | 27,304,316 | 23,016,786 |
| Income tax expense | 34 | (808,253) | (1,731,418) | (1,730,447) |
| **Profit for the year** | | **22,253,697** | 25,572,898 | 21,286,339 |
| **Other comprehensive income** | | | | |
| *Item that may be reclassified to profit or loss* | | | | |
| Net gain / (loss) on fair value of debt instruments | | 22,474 | 14,276 | (15,008) |
| *Item that will not be reclassified to profit or loss* | | | | |
| Remeasurement of defined benefit liabilities | 31c | (249,421) | - | - |
| **Other comprehensive income for the year** | | **(226,947)** | 14,276 | (15,008) |
| **Total comprehensive income for the year** | | **22,026,750** | 25,587,174 | 21,271,331 |

The notes on pages 96 to 194 form part of these financial statements.

# Statement of Cash Flows

**FOR THE YEAR ENDED 31 DECEMBER 2019**

| | Notes | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before income tax | | **23,061,950** | 27,304,316 | 23,016,786 |
| **Adjusted for:** | | | | |
| Depreciation and amortisation | **13/14/15** | **2,775,366** | 1,970,598 | 1,223,735 |
| Loss on sale of assets | | **-** | - | 1,301 |
| Loss on plant and equipment written off | | **2,862** | - | - |
| Net foreign exchange difference | | **648,363** | 262,821 | 199,355 |
| Net impairment charge / (gain) on financial assets | | **4,204,692** | 1,452,910 | (183,343) |
| Retirement benefit cost | | **502,159** | - | - |
| Interest income | | **(44,878,982)** | (37,913,582) | (28,481,564) |
| Interest expense | | **12,478,849** | 9,208,582 | 7,018,359 |
| **Changes in operating assets and liabilities** | | | | |
| (Increase) / decrease in trading assets | | **(1,216,982)** | (1,724,327) | 11,465,136 |
| Decrease/ (increase) in derivative assets and liabilities | | **159,840** | 715,216 | (90,052) |
| Decrease in loans and advances to banks | | **3,647,410** | 122,847,183 | 39,582,278 |
| Increase in loans and advances to customers | | **(2,775,999)** | (107,621,745) | (43,689,776) |
| Decrease /(increase) in other assets | | **1,577,229** | (1,903,565) | 1,398,471 |
| Increase /(decrease) in deposits from banks | | **53,489,350** | (26,174,549) | (33,489,941) |
| (Decrease)/ increase in other borrowed funds | | **(941,533)** | (2,685,329) | 78,772 |
| (Decrease)/ increase in deposits from customers | | **(176,166,444)** | 283,508,753 | (179,742,064) |
| (Decrease)/ increase in other liabilities | | **(33,251,805)** | 33,171,853 | (22,706,982) |
| Increase in financial investments | | **(780,959)** | (70,747) | (30,542) |
| Interest received | | **44,318,406** | 36,194,281 | 27,832,010 |
| Interest paid | | **(12,649,235)** | (8,605,592) | (6,933,862) |
| Income tax paid | | **(783,796)** | (787,866) | (819,978) |
| **Net cash (used in)/from operating activities** | | **(126,579,259)** | 329,149,211 | (204,351,901) |
| **Cash flows from investing activities** | | | | |
| Capital expenditure on property, plant and equipment | **13** | **(1,422,579)** | (1,724,098) | (600,200) |
| Capital expenditure intangible assets | **14** | **(255,591)** | (12,321) | (19,899,655) |
| Purchase of financial investments | **12** | **(196,184,195)** | (141,338,975) | (131,468,679) |
| Financial investments matured | **12** | **147,364,470** | 118,382,553 | 8,894,088 |
| Acquisition of right-of-use assets | **15** | **(44,819)** | - | - |
| **Net cash used in investing activities** | | **(50,542,714)** | (24,692,841) | (143,074,446) |
| **Cash flows from financing activities** | | | | |
| Repayment of subordinated debt | | **-** | - | (25,000,000) |
| Principal portion of lease liability paid | | **(579,023)** | - | - |
| Dividends paid | **37(xi)** | **(10,000,000)** | - | (12,000,000) |
| **Net cash used in financing activities** | | **(10,579,023)** | - | (37,000,000) |
| **Net (decrease)/ increase in cash and cash equivalents** | | **(187,700,996)** | 304,456,370 | (384,426,347) |
| Net foreign exchange difference | | **(648,363)** | (262,821) | (199,355) |
| Cash at the beginning of the year | | **875,019,563** | 570,823,648 | 955,449,350 |
| Effect of IFRS 9 impairment charge | | **(12,085)** | 2,366 | - |
| **Total cash at end of the year** | **7** | **686,658,119** | 875,019,563 | 570,823,648 |

The notes on pages 96 to 194 form part of these financial statements.



# Statement of Changes in Equity

**FOR THE YEAR ENDED 31 DECEMBER 2019**

| | Share capital USD | Statutory reserve USD | Other reserves USD | Retained earnings USD | Total equity attributable to equity holder USD |
|---|---|---|---|---|---|
| Balance 1 January 2017 | 35,000,000 | 12,091,641 | 100,646 | 34,500,874 | 81,693,161 |
| Profit for the year | - | - | - | 21,286,339 | 21,286,339 |
| Other comprehensive income: | | | | | |
| Net loss on fair value of debt instruments | - | - | (15,008) | - | (15,008) |
| Total comprehensive income for the year | - | - | (15,008) | 21,286,339 | 21,271,331 |
| Transfer to statutory reserve | - | 3,192,951 | - | (3,192,951) | - |
| Transfer to credit risk reserve | - | - | 48,107 | (48,107) | - |
| *Transactions with owner of the Bank:* | | | | | |
| Dividend to equity holder (Note 37) | - | - | - | (12,000,000) | (12,000,000) |
| Share based payments | - | - | (3,673) | (43) | (3,716) |
| Balance at 31 December 2017 | 35,000,000 | 15,284,592 | 130,072 | 40,546,112 | 90,960,776 |
| Impact of adoption of IFRS 9 | - | - | - | (850,916) | (850,916) |
| Balance at 1 January 2018 | 35,000,000 | 15,284,592 | 130,072 | 39,695,196 | 90,109,860 |
| Profit for the year | - | - | - | 25,572,898 | 25,572,898 |
| Other comprehensive income: | | | | | |
| Net gain on fair value of debt instruments | - | - | 14,276 | - | 14,276 |
| Total comprehensive income for the year | - | - | 14,276 | 25,572,898 | 25,587,174 |
| Transfer to statutory reserve | - | 3,835,935 | - | (3,835,935) | - |
| *Transactions with owner of the Bank:* | | | | | |
| Transfer from credit risk reserve | - | - | (115,666) | 115,666 | - |
| Share based payments | - | - | 94,373 | 43 | 94,416 |
| Balance at 31 December 2018 | 35,000,000 | 19,120,527 | 123,055 | 61,547,868 | 115,791,450 |
| Impact of adoption of IFRS 16 | - | - | - | 36,742 | 36,742 |
| **Balance at 1 January 2019** | **35,000,000** | **19,120,527** | **123,055** | **61,584,610** | **115,828,192** |
| **Profit for the year** | **-** | **-** | **-** | **22,253,697** | **22,253,697** |
| **Other comprehensive income:** | | | | | |
| **Net gain on fair value of debt instruments** | **-** | **-** | **22,474** | **-** | **22,474** |
| **Remeasurement of defined benefit liabilities** | **-** | **-** | **(249,421)** | **-** | **(249,421)** |
| **Total comprehensive income for the year** | **-** | **-** | **(226,947)** | **22,253,697** | **22,026,750** |
| **Transfer to statutory reserve** | **-** | **3,338,054** | **-** | **(3,338,054)** | **-** |
| **Transfer to credit risk reserve** | **-** | **-** | **1,456,926** | **(1,456,926)** | **-** |
| ***Transactions with owner of the Bank:*** | | | | | |
| **Dividend to equity holder (Note 37)** | **-** | **-** | **-** | **(10,000,000)** | **(10,000,000)** |
| **Share based payments** | **-** | **-** | **2,137** | **-** | **2,137** |
| **Balance at 31 December 2019** | **35,000,000** | **22,458,581** | **1,355,171** | **69,043,327** | **127,857,079** |
| **Note** | **23** | | **35** | | |

The notes on pages 96 to 194 form part of these financial statements.

# Notes to and forming part of the Financial Statements

## 1. General Information

Standard Bank (Mauritius) Limited (the "Bank") is a company incorporated and domiciled in Mauritius. The address of the Bank's registered office is Level 9, Tower A, 1 Cybercity, Ebène, Mauritius.

Standard Bank (Mauritius) Limited obtained its Banking Licence issued by the Bank of Mauritius effective from November 2001.

The Bank is primarily involved in investment and corporate banking. The Bank is also involved in the distribution of financial products and offering of custody services.

The Bank holds the following licences that fall under the regulatory purview of the Financial Services Commission (FSC):-

(i) Distribution of Financial Products. (Effective from 17 August 2010)
(ii) Investment adviser (Restricted) (Effective from 20 August 2010)
(iii) Investment adviser (Representative) (Effective from 20 August 2010)
(iv) Custody Licences: Non-Collective Investment Schemes (Effective from 07 February 2007) and Collective Investment Schemes (Effective from 17 April 2009)

The principal accounting policies applied in the presentation of the Bank annual financial statements are set out below. The Bank's accounting policies are consistent with that of the prior year unless stated otherwise.

## 2. Basis of preparation

### (a) Statement of compliance

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB and Guidelines and Guidance Notes issued by the Bank of Mauritius, in so far as the operation of the Bank is concerned.

### (b) Basis of measurement

The annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Financial assets classified at fair value through OCI (available-for-sale financial assets), financial assets and liabilities classified at fair value through profit or loss and liabilities for cash-settled share-based payment arrangements.
- Net defined benefit liability is measured at fair value of plan assets less present value of the defined benefit obligations.

The following principal accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies shown in brackets:

- purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 2.1.(b))
- cumulative gains and losses recognised in OCI in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability
- intangible assets (other than goodwill) and property and equipment are accounted for at cost less accumulated amortisation and impairment (accounting policies 2.1.(e))

### (c) Functional and presentation currency

The annual financial statements are presented in United States Dollars (USD), which is the Bank's functional currency as well as reporting currency.

As at 31 December 2019, the rate of the Mauritian Rupee against US Dollar was 36.35. (2018:34.20)

### (d) Use of estimates and judgements

The preparation of the annual financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of bank 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 prospectively.

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 annual financial statements are described in note 5.

## 2. Basis of preparation (continued)

### (e) Changes in accounting policies

The accounting policies are consistent with those reported in the previous year except as required in terms of the adoption of the following:

**Adoption of new and amended standards effective for the current financial period**

**International Financial Reporting Standards and amendments effective for the first time for December 2019 year-end**

| Number | Effective date | Executive summary |
|---|---|---|
| Amendments to IFRS 9 – 'Financial instruments' on prepayment features with negative compensation and modification of financial liabilities. | Annual periods beginning on or after 1 January 2019 | The narrow-scope amendment covers two issues:<br>• The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss.<br>• How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings. |
| Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement. | Annual periods on or after 1 January 2019<br><br>(issued February 2018) | These amendments require an entity to:<br>• Use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and<br>• Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus (recognised or unrecognised). This reflects the substance of the transaction, because a surplus that has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised in other comprehensive income, and it is not reclassified to profit or loss.The impact of the amendments is to confirm that these effects are not offset. |
| Annual improvements cycle 2015-2017 | Annual periods beginning on or after 1 January 2019<br><br>(Published December 2017) | These amendments include minor changes to:<br>• IAS 12,' Income taxes' - The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.<br>• IAS 23,' Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale. |
| IFRIC 23, 'Uncertainty over income tax treatments' | Annual periods beginning on or after 1 January 2019<br><br>(Published 7 June 2017) | IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting. |

The adoption of new and amended standards on 1 January 2019 did not affect the Bank's previously reported financial results, disclosures or accounting policies and did not impact the Bank's results upon transition.

In addition, during the year the Bank adopted IFRS 16 Leases where impact of adoption is disclosed below:

# 2. Basis of preparation (continued)

## (e) Changes in accounting policies (continued)

### Adoption of new and amended standards effective for the current financial period (continued)

**IFRS 16 LEASES – IMPACT OF ADOPTION**

IFRS 16 with effect from 1 January 2019, replaced IAS 17 as well as the related interpretations. IFRS 16 introduced a single lease accounting model for lessees which impacted the Bank's results upon transition and materially impacted the Bank's accounting policies for lessees.

This note explains the impact of the adoption of IFRS 16 Leases (IFRS 16) on the Bank's financial statements and discloses the new accounting requirements that have been applied from 1 January 2019.

The transition adjustments arising from the new leasing standard are therefore recognised in the opening balance sheet on 1 January 2019.

IFRS 16 replaces IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier). The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. The most significant change pertaining to the accounting treatment for operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating or finance leases as required by IAS 17 and introduces a single lessee accounting model, where a right-of-use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value. The Bank has elected to apply IFRS 16 retrospectively without restating comparative periods, which will continue to be presented in terms of IAS 17, with a transition adjustment as at 1 January 2019. IFRS 16 impacted the Bank by an increase of USD 3,938,098 in total assets and total liabilities and an increase in reserves of USD 36,742 at 1 January 2019.

**(i) Adjustments recognised on adoption of IFRS 16**

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate (the standardised Funding Transfer Pricing (FTP) rate was deemed representative of the Bank's incremental borrowing rate) as of 1 January 2019. The weighted average lessee's incremental borrowing rate (being the standardised FTP rate) applied to calculate the lease liabilities as at 1 January 2019 was 5.83%.

The associated right-of-use assets for the Bank's leases were measured using the present value of the remaining lease payments. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The recognised right-of-use assets relate to the following types of assets:

| | 31 December 2019 USD | 1 January 2019 USD |
|---|---|---|
| Properties | 2,799,711 | 3,355,178 |
| Others (Parking) | 506,548 | 582,920 |
| **Total right-of-use assets** | **3,306,259** | 3,938,098 |

Measurement of lease liabilities:

| | 1 January 2019 USD |
|---|---|
| Operating lease commitments disclosed at 31 December 2018 | 4,828,409 |
| Discounted using the Bank's incremental borrowing rate at the date of initial application | 3,585,980 |
| Adjustments as a result of a different treatment of extension and termination options | 447,750 |
| Less: Short term and low-value leases not recognised as a liability | (95,632) |
| **Lease liability recognised at 1 January 2019** | **3,938,098** |



# 2. Basis of preparation (continued)

## (e) Changes in accounting policies (continued)

### Adoption of new and amended standards effective for the current financial period (continued)

**IFRS 16 LEASES – IMPACT OF ADOPTION (CONTINUED)**

Classification of Lease Liability:

| | 1 January 2019 USD |
|---|---|
| Current | 550,318 |
| Non-Current | 3,387,780 |
| **Total Lease Liability** | **3,938,098** |

The change in accounting requirements due to IFRS 16 for Lessee affected the following items in the statement of financial position on 1 January 2019:

- property, plant and equipment and ROU assets – increase by USD 3,938,098.
- lease liabilities – increase by USD 3,938,098.

The net impact on retained earnings on 1 January 2019 was an increase of USD 36,742 due to the release of the straight-line lease liability recognised in term of IAS 17.

**(ii) Practical expedients applied**

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

**(iii) The Bank's leasing activities and how these are accounted for**

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the remaining lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the remaining lease term on a straight-line basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the incremental borrowing rate being the standardised FTP rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received, and
- restoration costs (however these costs were not considered probable and could not be reliability estimated at transition).

## 2. Basis of preparation (continued)

### (e) Changes in accounting policies (continued)

**Adoption of new and amended standards effective for the current financial period (continued)**

**IFRS 16 LEASES – IMPACT OF ADOPTION (CONTINUED)**

The Bank's leasing activities and how these are accounted for (continued)

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less, without a validate option to extend and without an option to purchase. Low-value assets comprise IT equipment and small items of office furniture.

## 2.1. Detailed accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the annual financial statements.

### (a) Foreign currency translations

Foreign currency transactions are translated into the functional currency of the Bank at exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items.

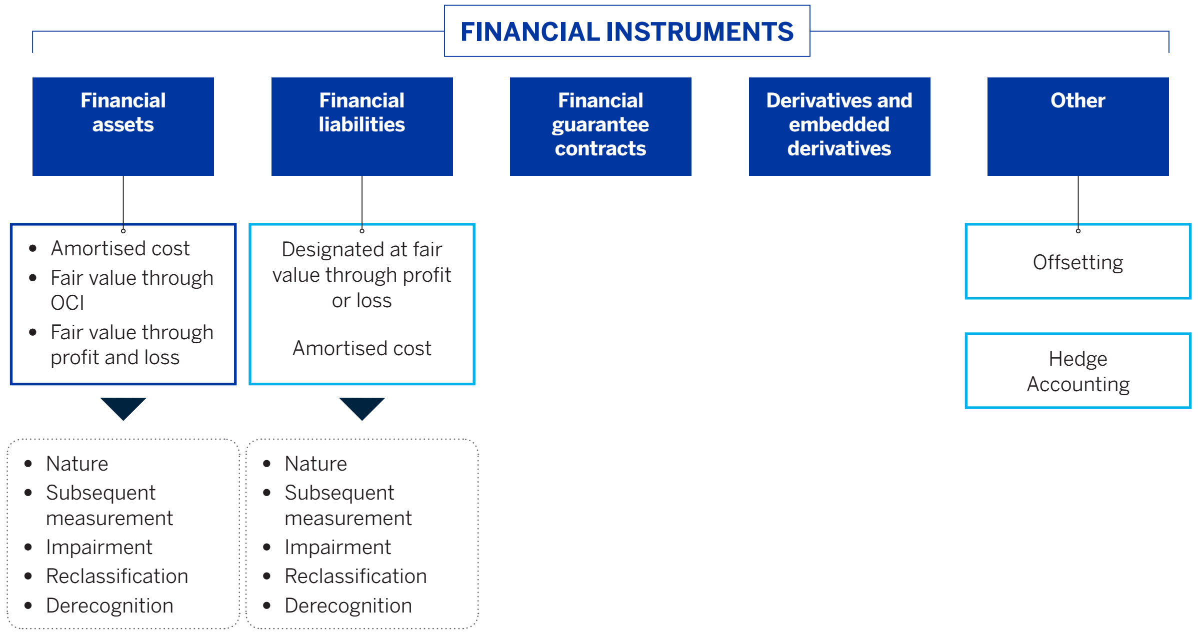
Foreign exchange gains and losses on equities (debt) classified as fair value through OCI are recognised in the fair value through OCI reserve in OCI (net trading income) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (net trading income).



## 2. Basis of preparation (continued)

## 2.1. Detailed accounting policies (continued)

### (b) Financial instruments




**A: Initial measurement - financial instruments**

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the bank commits to purchase (sell) the instruments (trade date accounting).

**Financial assets**

| Nature | |
|---|---|
| **Amortised cost** | A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):<br>• Held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and<br>• 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.<br><br>This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss-default. |

# 2. Basis of preparation (continued)

## 2.1. Detailed accounting policies (continued)

### (b) Financial instruments (continued)

**A: Initial measurement - financial instruments (continued)**

| Nature | |
|---|---|
| **Fair value through OCI** | A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):<br>• Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and<br>• 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.<br><br>This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.<br><br>Equity financial assets which are not held for trading and are irrevocably elected (on an instrument-by-instrument basis) to be presented at fair value through OCI. |
| **Held for trading** | Financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.<br><br>Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-trader margin. |
| **Designated at fair value through profit or loss** | Financial assets are designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch that would otherwise arise. |
| **Fair value through profit or loss - default** | Financial assets that are not classified into one of the above-mentioned financial asset categories. |



# 2. Basis of preparation (continued)

## 2.1. Detailed accounting policies (continued)

### (b) Financial instruments (continued)

**B: Subsequent measurement**

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

| | |
|---|---|
| **Amortised cost** | Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges.<br><br>Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate. |
| **Fair value through OCI** | **Debt instrument:** Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other operating income within non-interest revenue. Expected credit impairments losses are recognised as part of credit impairment charges. However, for these FVOCI debt instruments the expected credit loss is recognised in OCI and does not reduce the carrying amount of the financial asset in the statement of financial position. Interest income on a debt financial asset is recognised in interest income in terms of the effective interest rate method. Dividends received are recognised in interest income within profit or loss.<br><br>**Equity instrument:** Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When equity financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified within reserves to retained income.<br><br>Dividends received on equity instruments are recognised in other revenue within non-interest income. |
| **Held for trading** | Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue. |
| **Designated at fair value through profit or loss** | Fair value gains and losses (including interest and dividends) on the financial asset recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue. |
| **Fair value through profit or loss - default** | Debt instruments - Fair value gains and losses (including interest and dividends) on the financial asset recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.<br><br>Equity instruments - Fair value gains and losses on the financial asset recognised in the income statement as part of other gains and losses on financial instruments. Dividends received on equity instruments are recognised in other revenue within non-interest revenue. |

## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (b) Financial instruments (continued)

**C: Impairment**

Expected Credit Losses (ECL) is recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a SICR at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

| | |
|---|---|
| **Stage 1** | A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR. |
| **Stage 2** | A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk. |
| **Stage 3 (credit impaired assets)** | A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired:<br>– Default<br>– Significant financial difficulty of borrower and/or modification<br>– Probability of bankruptcy or financial reorganisation<br>– Disappearance of an active market due to financial difficulties |

**(i) ECL measurement period**

The ECL measurement period at a minimum, is equal to the 12-month ECL of the financial asset. A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition. The requirement to hold ECL on unutilised loan commitments has been included, where appropriate, within this classification.

**(ii) Significant increase in credit risk (SICR) and low credit risk**

A lifetime ECL requirement for all exposures for which there has been SICR. This included the impact of the LGD work out, being an increase in the life time period over which subsequent cures and re-defaults are considered. The requirement to hold ECL on off-balance sheet exposures has been included where appropriate within this classification.

*Internal Ratings-based Approach*

The Bank uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes), as illustrated in the table below.

| Master ratings scale | Grading | Credit quatily | Moody's investor services | Standard & Poor's | Fitch |
|---|---|---|---|---|---|
| 1-4 | Investment grade | Normal monitoring | Aaa, Aa1, Aa2, Aa3 | AAA, AA+, AA, AA- | AAA, AA+, AA, AA- |
| 5-7 | | | A1, A2, A3 | A+, A, A- | A+, A, A- |
| 8-12 | | | Baa1, Baa2, Ba3 | BBB+, BBB, BBB- | BBB+, BBB, BBB- |
| 13-21 | Sub-investment grade | | Ba1, Ba2, Ba3, B1, B2, B3 | BB+, BB, BB-, B+, B, B- | BB+, BB, BB-, B+, B, B- |
| 22-25 | | Close monitoring | Caa1, Caa2, Caa3, Ca | CCC+, CCC, CCC- | CCC+, CCC, CCC- |
| Default | Default | Default | C | D | |



## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (b) Financial instruments (continued)

**C: Impairment (continued)**

**(ii) Significant increase in credit risk (SICR) and low credit risk (continued)**

*Internal Ratings-based Approach (continued)*

Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

Exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historic default experience which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historic default experience, exposures that are classified by the Bank's master rating scale as investment grade are assessed for SICR at each reporting date but are considered to be of a low credit risk for IFRS 9 purposes.

**(iii) Key rating models**

As a CIB-led portfolio, the Bank uses distinct credit rating models which are used for exposures to banks, sovereigns, local government, brokers, hedge funds, pension funds, asset managers, long- and short-term insurers, property finance (both developer and investor cash flow) and project finance respectively. PD, EAD and LGD modelling is integral to all of the models.

**(iv) ECL measurement**

12-month ECL is computed by DF (discounting factor) x FWDd PD x EAD x LGD

For lifetime expected loss, the ECL is computed by DF x Weighted PD x EAD x lifetime LGD.

Probability of default

PD is calculated using actual historical default rates that ensures a clear ranking of risk by mapping higher scores to lower PDs and vice versa. The Probability of Default ("PD") associated with the rating is based on an averaged Through-The-Cycle ("TTC") PD which is converted to a point-in-time (PIT) 1-year PD. The PIT PDs are extrapolated based on the TTC PD term structure to develop a longer-term PIT PD term structure that can be used for lifetime expected loss calculations. PDs are to be updated at least annually, or more frequently, for example as soon as fresh financial information is obtained, or when new information comes to light which has a material bearing on the credit risk.

The weighted average PD provides an estimate for the annualised weighted average probability of default over the lifetime of the financial instrument and is driven primarily by the profile of contractual expected exposure run-down and the relevant PD term structure. Forward PD ("FWD PD") is derived from the Bank's master scale, and represents the Cumulative Probability of Default ("CUM PD"), which is derived from the Bank's risk grading. FWD PD is then the movement of the CUM PD on a monthly basis.

Exposure at default

Exposure at default ("EAD") captures the potential impact of changes in exposure values, for example: potential drawdowns against unutilised facilities, missed payments, repayments of capital, and potential changes in cross currency positions due to changes in market prices.

Loss Given Default

The Loss Given Default ("LGD") is the amount of a counterparty's obligation to the group that is not expected to be recovered after default and is expressed as a percentage of the EAD. LGD measures are a function of customer type, product type, seniority of loan, country of risk and level of collateralisation. LGD is calculated using the workout method (discounted cash flows). Forecasting is performed for accounts that are still in default at the end of the outcome period. LGDs are estimated based on historical recovery data per category of LGD. A downturn LGD is used in the estimation of the capital charge and reflects the anticipated recovery rates in a downturn period. The lifetime LGD provides an estimate of expected recovery experience over the lifetime of a financial instrument in the event of default. The calculation relies on an estimate for LGD as at each point in time over the lifetime of the loan.

# 2. Basis of preparation (continued)

## 2.1. Detailed accounting policies (continued)

### (b) Financial instruments (continued)

**C: Impairment (continued)**

**(iv) ECL measurement (continued)**

Lifetime LGD work out

Increased lifetime period over which subsequent cures and re-defaults are considered resulted in higher credit impairments for credit-impaired financial assets.

**(v) Forward looking expectations**

Forward looking economic expectations are incorporated in client ratings. The client rating thus reflects the expected client risk for the Bank's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.

- The Group Economics Research team determines the macroeconomic outlook for each country and a group view of commodities over a planning horizon of at least three years. The outlook is prepared on a half yearly basis and is provided to the Bank's Asset and Liability Committee (ALCO) for review and approval.
- Macroeconomic outlooks take into account various variables such as gross domestic product, central bank policy interest rates, inflation, exchange rates and treasury bill rates.
- Narratives for each of the country economic outlooks, being bear, base and bull cases, are compiled and typically include consideration of the country's economic background, sovereign risk, foreign exchange risk, financial sector, liquidity and monetary policy stance.
- Probabilities are assigned to each of the bear, base and bull cases based on primary macroeconomic drivers and are reviewed monthly.
- The forward-looking economic expectations are updated on a bi-annual basis or more regularly when deemed appropriate.

**South Africa (SA)**

- The base case for South Africa is premised on a recovery in both business and consumer confidence, which would require real, though incremental, progress economic reforms. If so, we should see a modest recovery in both real private sector fixed investment and employment. We expect the current government leadership to implement the Eskom turnaround plan. However, further power cuts would pose a significant risk to growth forecast. From a global perspective, the US-China trade (partial phase one trade deal) signed recently may be detailed, given that some of the key underlying points of contention have not been resolved: however, for now the rand is reaping the benefits in the wake of the deal.
- A more bearish outcome could materialise should concrete economic reform remain out of reach, despite the initial institutional improvements and some administrative policy reforms. SA's economic growth remains inactive, inhibiting both employment growth and fiscal improvement. Government has thus far failed to ensure debt stabilisation and fiscal sustainability. In addition, SA is likely to in March lose its only remaining investment grade by Moody's because of potentially no compelling spending cuts in the February 2020 National Budget. The global trade war may well intensify, resulting in further demand weakness from SA's major trading partners.
- There's a moderate probability of a bullish case emerging, from better than expected policy reform implementation improving both business and consumer confidence and, ultimately, private sector fixed investment and employment. Consumer spending, still quite resilient, would also further benefit from improved confidence and employment growth.

**Mauritius**

The economy continues to grow steadily with the growth just below 4% year on year (y/y) since 2011 and is expected to close at 2.8% y/y in 2020. Growth has been driven by construction, financial services, and manufacturing. In 2018, construction sector posted the highest growth, and it is expected to continue to grow in 2020. Considering that the sector contributes 3%-4% of GDP it is unlikely to move the economy to higher trajectory. Inflation remained under control, following a high base effect in the previous year. Exposure to Europe is still elevated regardless of attempts to diversify the economy towards other markets.



# 2. Basis of preparation (continued)

## 2.1. Detailed accounting policies (continued)

### (b) Financial instruments (continued)

**C: Impairment (continued)**

**(v) Forward looking expectations (continued)**

**Mauritius (continued)**

Sovereign risk remains Baa1 rated. Public debt % of GDP is quite high, but political and social stability and a healthy economy will enable the country to sustain Baa1 rating. Despite the slow pace of growth in recent years, the country still ranks comparatively high.

The balance of payments is expected to remain in a surplus position, supported by strong net financial inflows. The net financial inflows are robust enough to keep the FX reserves rising although slower. Favourable balance of payments developments allow the Bank of Mauritius to choose an FX policy. USD/MUR will continue to follow the trajectory of the EUR/USD.

**(vi) Low credit risk**

Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.

**(vii) Default**

The Bank's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower)
- a breach of contract, such as default or delinquency in interest and/or principal payments
- disappearance of active market due to financial difficulties
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider
- where, in the Bank's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit)

The Bank has not rebutted the IFRS 9's 90 days past due rebuttable presumption.

**(viii) Write off policy**

An impaired loan is written off once all reasonable attempts at collection have been made and there is no economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- the financial asset has been in default for the period defined for the specific product (i.e. vehicle and asset finance, mortgage loans, etc.) which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan; and
- at the point of write-off, the financial asset is fully impaired (i.e. 100% allowance) with the expectation that the probability of recovery is nil and this probability is not expected to change in the future.

As an exception to the above requirements, where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post-realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above. The shortfall amount does not need to meet the first requirement to be written off.

# 2. Basis of preparation (continued)

## 2.1. Detailed accounting policies (continued)

### (b) Financial instruments (continued)

**C: Impairment (continued)**

(ix) Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e. stage 3) still exist. Financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e. six full consecutive monthly payments per the terms and conditions). However, in the case of financial assets with quarterly or longer dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the Bank's Credit Governance Committee (as appropriate), such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial asset.

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, when compared to the credit rating at initial recognition, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively. In retail portfolios, a rehabilitation period of at least 6 months (subsequent to a customer repaying all outstanding facilities) would be needed for the customer's internal rating to decrease back to its rating scale at initial recognition and move from stage 2 to stage 1 accordingly.

(x) Debt financial investments

In terms of IFRS 9, this impairment provision is calculated per exposure for the shorter of 12 months or the remaining lifetime of the exposure.

(xi) Off-balance sheet exposures – bankers acceptances, guarantees and letters of credit

The requirement to hold ECL on off-balance sheet financial instruments, such as guarantees and letters of credit, resulted in a requirement to hold additional credit impairment provisions.

(xii) Credit impairment losses on loans and advances - IAS39 (Applicable before 1 January 2018)

Portfolio loan impairments

The Bank assessed its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recognised in profit or loss, the Bank made judgements as to whether there was observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease was allocated to an individual loan in that portfolio. Estimates were made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis.

The impairment for performing and non-performing but not specifically impaired loans was calculated on a portfolio basis, based on historical loss patterns, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These included early arrears, notices of accounts under debt review, renegotiated loans, post write-off recoveries, watch list exposures and changes in macro-economic conditions and legislation affecting credit recovery. The impairments were monitored on a monthly basis, with back-testing performed between actual write off experience and that estimated by the Bank's models. The models were updated on a regular basis to incorporate actual write-off experience. The sensitivity to changing conditions was evaluated and specific sensitivity testing is done if and when required.

A key input into the determination of the Bank's portfolio impairment provisions was the emergence period. The loss ratios applied to loan balances in the portfolio were based on the estimated loss emergence period. The Bank applied an average loss emergence period of a minimum of 12 months for CIB loans and advances. Where required, these emergence periods were assessed by determining the sensitivity of the impairment by applying both longer and shorter emergence periods and comparing the sensitivity results with the incurred loss experience.

(xii) Credit impairment losses on loans and advances - IAS39 (Applicable before 1 January 2018) (continued)

Specific loan impairments

Non-performing loans included those loans for which the Bank had identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more.

The methodology used in determining the specific loan impairment included modelling with various inputs such as segmentation, levels of loss expectation, recoverability of collateral, potential cash flows and probability of default. Management's estimates of future cash flows on individually impaired loans were based on historical loss experience for assets with similar credit risk characteristics. 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. Basis of preparation (continued)

## 2.1. Detailed accounting policies (continued)

### (b) Financial instruments (continued)

**C: Impairment (continued)**

(xiii) Recognition of ECL

ECLs are recognised within the statement of financial position as follows:

| | |
|---|---|
| **Financial assets measured at amortised cost (including loan commitments)** | Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities. |
| **Off-balance sheet exposures (excluding loan commitments)** | Recognised as a provision within other liabilities. |
| **Financial assets measured at fair value through OCI** | Recognised in the fair value reserve within equity. The carrying value of the financial asset is recognised in the statement of financial position at fair value. |

(xiv) Reclassification

Reclassifications of debt financial assets are permitted when, and only when, the Bank changes its business model or managing financial assets, in which case all affected financial assets are reclassified. Reclassifications are accounted for prospectively from the date of reclassification as follows:

- Financial assets that are reclassified from amortised cost to fair value are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments
- The fair value of a financial asset that is reclassified from fair value to amortised cost becomes the financial asset's new carrying value
- Financial assets that are reclassified from amortised cost to fair value through OCI are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in OCI
- The fair value of a financial asset that is reclassified from fair value through OCI to amortised cost becomes the financial asset's new carrying value with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying value
- The carrying value of financial assets that are reclassified from fair value through profit or loss to fair value through OCI remains at fair value
- The carrying value of financial assets that are reclassified from fair value through OCI to fair value through profit or loss remains at fair value, with the cumulative fair value adjustment in OCI being recognised in the income statement at the date of reclassification.

**D: Cash and cash equivalents**

Cash and cash equivalents comprise notes and coins on hand, unrestricted balances held with central banks and highly liquid assets with original maturities of three months or less from the acquisition date, which are subject to insignificant risk of changes in their fair value and are used by the Bank in the management of its short term commitments.

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

## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

**(b) Financial instruments (continued)**

**E: Financial liabilities**

*Nature*

| | |
|---|---|
| **Held-for-trading** | Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. |
| **Designated at fair value through profit or loss** | Financial liabilities are designated to be measured at fair value in the following instances:<br>• to eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis where the financial liability contains one or more embedded derivatives that significantly modify the financial liability's cash flows. |
| **Amortised cost** | All other financial liabilities not included in the above categories. |

*Subsequent measurement*

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

| | |
|---|---|
| **Held-for-trading** | Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue. |
| **Fair value through profit or loss** | Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in the other gains and losses on financial instruments as part of non-interest revenue.<br>Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue. |
| **Amortised cost** | Amortised cost using the effective interest method recognised in interest expense. |



## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

**(b) Financial instruments (continued)**

**F: Derecognition and modification of financial assets and liabilities**

Financial assets and liabilities are derecognised in the following instances:

| | Derecognition | Modification |
|---|---|---|
| **Financial assets** | Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Bank has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.<br>The Bank enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.<br>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, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.<br>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. | Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes.<br>If the terms are not substantially different for financial assets or financial liabilities, the Bank recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications). |
| **Financial liabilities** | Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires. | |

**G: Financial guarantee contracts**

A financial guarantee contract is a contract that requires the group (issuer) 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 original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of:

- ECL calculated for the financial guarantee
- unamortised premium

## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (b) Financial instruments (continued)

**H: Derivatives and embedded derivatives**

In the normal course of business, the Bank enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation, credit, commodity and equity exposures. Derivative instruments used by the Bank in both trading and hedging activities include swaps, options, forwards and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held-for-trading with all changes in fair value being recognised within trading revenue. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. In terms of IFRS 9 embedded derivatives included in hybrid instruments, where the host is a financial asset, are assessed in terms of the accounting policy on financial assets. In all other instances (being non-financial host contracts and financial liabilities), the embedded derivatives are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant group accounting policy. The terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant group accounting policy.

The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedge relationship.

Hedge accounting

Derivatives are designated by the Bank into the following relationships:

| TYPE OF HEDGE | NATURE | TREATMENT |
|---|---|---|
| **Fair value hedges** | Hedges of the fair value of recognised financial assets, liabilities or firm commitments. | Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same line item in profit or loss as the related hedged item. Any hedge ineffectiveness is recognised immediately in trading revenue.<br><br>If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The adjustment to the carrying amount of a hedged item measured at amortised cost, for which the effective interest method is used, is amortised to profit or loss as part of the hedged item's recalculated effective interest rate over the period to maturity. |
| **Cash flow hedges** | Hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecasted transaction, or a highly probable forecast intragroup transaction. | The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve. The ineffective part of any changes in fair value is recognised immediately in profit or loss as trading revenue.<br><br>Amounts recognised in OCI are transferred to profit or loss in the periods in which the hedged forecast cash flows affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses recognised previously in OCI are transferred and included in the initial measurement of the cost of the asset or liability<br><br>If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The cumulative gains or losses recognised in OCI remain in OCI until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains and losses recognised in OCI are immediately reclassified to profit or loss and classified as trading revenue. |



## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (b) Financial instruments (continued)

**I: Offsetting**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the counterparties to the transaction.

Income and expenses are presented on a net basis only when permitted by IFRS, or for gains and losses arising from a group of similar transactions.

#### (c) Fair Value

**FAIR VALUE**

- Fair value hierarchy
- Inputs and valuation techniques
- Portfolio valuations
- Day 1 profit/loss
- Cost exception

In terms of IFRS, the Bank is either required to or elects to measure a number of its financial assets and financial liabilities at fair value. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at measurement date.

Fair value hierarchy

The Bank's financial instruments that are both carried at fair value and for which fair value is disclosed are categorised by level of fair value hierarchy. The different levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Hierarchy levels

The levels have been defined as follows:

| | |
|---|---|
| **Level 1** | Fair value is based on quoted market prices (unadjusted) in active markets for an identical financial asset or liability. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. |
| **Level 2** | Fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data. |
| **Level 3** | Fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument being valued and the similar instrument. |

# 2. Basis of preparation (continued)

## 2.1. Detailed accounting policies (continued)

### (c) Fair Value (continued)

Hierarchy transfer policy

Transfers of financial assets and financial liabilities between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Inputs and valuation techniques

Fair value is measured based on quoted market prices or dealer price quotations for identical assets and liabilities that are traded in active markets, which can be accessed at the measurement date, and where those quoted prices represent fair value. If the market for an asset or liability is not active or the instrument is not quoted in an active market, the fair value is determined using other applicable valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Fair value measurements are categorised into level 1, 2 or 3 within the fair value hierarchy based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Where discounted cash flow analysis are used, estimated future cash flows are based on management's best estimates and a market related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

The Bank's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include the following valuation techniques and main inputs and assumptions per type of instrument.

| ITEM AND DESCRIPTION | VALUATION TECHNIQUE | MAIN INPUTS AND ASSUMPTIONS |
|---|---|---|
| **Derivative financial instruments**<br>Derivative financial instruments comprise foreign exchange and interest rate derivatives that are either held-for-trading or designated as hedging instruments in hedge relationships. | Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument.<br><br>Techniques include discounted cash flow model. | For level 2 and 3 fair value hierarchy items:<br>• discount rate*<br>• spot prices of the underlying<br>• correlation factors<br>• volatilities<br>• dividend yields<br>• earnings yield<br>• valuation multiples |
| **Trading assets and trading liabilities**<br>Trading assets and liabilities comprise instruments which are part of the Bank's underlying trading activities. These instruments primarily include sovereign and corporate debt. | Where there are no recent market transactions in the specific instrument, fair value is derived from the last available market price adjusted for changes in risks and information since that date. Where a proxy instrument is quoted in an active market, the fair value is determined by adjusting the proxy fair value for differences between the proxy instrument and the financial investment being fair valued. Where proxies are not available, the fair value is estimated using more complex modelling techniques. These techniques include discounted cash flow and Black-Scholes models using current market rates for credit, interest, liquidity, volatility and other risks. Combination techniques are used to value unlisted equity securities and include inputs such as earnings and dividend yields of the underlying entity. | |
| **Financial investments**<br>Financial investments are non-trading financial assets and primarily comprise of sovereign debt. | | |



# 2. Basis of preparation (continued)

## 2.1. Detailed accounting policies (continued)

### (c) Fair Value (continued)

Inputs and valuation techniques (continued)

| Item | Description | Valuation technique | Main inputs and assumptions, (Level 2 and 3 fair value hierarchy items) |
|---|---|---|---|
| **Loans and advances to banks and customers** | Loans and advances comprise:<br>• Loans and advances to banks: call loans, loans granted under resale agreements and balances held with other banks<br>• Loans and advances to customers, other asset-based loans and other secured and unsecured loans, overdrafts, other demand lending, term lending) | For certain loans fair value may be determined from the market price of a recently occurring transaction adjusted for changes in risks and information between the transaction and valuation dates. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value. Discounted cash flow models incorporate parameter inputs for interest rate risk, foreign exchange risk, liquidity and credit risk, as appropriate. For credit risk, probability of default and loss given default parameters are determined using credit default swaps (CDS) markets, where available and appropriate, as well as the relevant terms of the loan and loan counterparty such as the industry classification and subordination of the loan. | For level 2 and 3 fair value hierarchy items discount rate* |
| **Deposits and debt funding** | Deposits from banks and customers comprise amounts owed to banks and customers | For certain deposits, fair value may be determined from the market price on a recently occurring transaction adjusted for all changes in risks and information between the transaction and valuation dates. In the absence of an observable market for these instruments discounted cash flow models are used to determine fair value based on the contractual cash flows related to the instrument. The fair value measurement incorporates all market risk factors including a measure of the Bank's credit risk relevant for that financial liability. The market risk parameters are valued consistently to similar instruments held as assets stated in the section above. | For level 2 and 3 fair value hierarchy items discount rate* |

* Discount rates, where applicable, include the risk-free rate, risk premiums, liquidity spreads, credit risk (own and counterparty as appropriate), timing of settlement, storage/service costs, prepayment and surrender risk assumptions and recovery rates/loss given default.

**Portfolio valuations**

The Bank has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the group of financial assets and financial liabilities to be measured at fair value on a net basis, with the net fair value being allocated to the financial assets and financial liabilities.

**Day one profit or loss**

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument or is determined using valuation models with only observable market data as inputs. Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument or is determined using valuation models that utilise non-observable market data as inputs.

The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (d) Employee Benefits

The Bank operates a defined contribution plan.

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank provides retirement benefits for its employees through a defined contribution plan which is funded by contributions from the Bank. Under the defined contribution plan, the Bank has no legal or constructive obligation to contribute further to what has been contributed into the fund as defined in the rules of the scheme. Pension contributions are charged to the profit or loss in the year to which they relate. The Bank has an obligation under the current labour laws to pay a severance allowance on retirement of its employees and is allowed to deduct from this severance allowance up to five times the amount of any annual pension granted at retirement age from the said fund.

The present value of the severance allowance payable under the Workers' Rights Act 2019 is calculated annually by independent actuaries using the projected unit credit method. The present value of the severance allowance is determined by the estimated future cash outflows using a discount rate by reference to current interest rates and the yield on bonds and treasury bills and recent corporate debenture issues. Where the present value of the severance allowance payable on retirement is greater than five years of pension payable under the pension plan, the additional severance allowance payable is recognised as a liability and disclosed as unfunded obligations under retirement benefits obligations.

*State pension plan*
Contributions to the National Pension Scheme are recognised in profit or loss in the period in which they fall due.

*Short-term employee benefits*
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*Termination benefits*
Termination benefits are recognised when the Bank is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy when it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. A liability is recognised for the termination benefit representing the best estimate of the amount payable and the termination benefits are recognised as an expense.



## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (e) Non-financial assets (Intangible assets and Property and equipment)

**NON-FINANCIAL ASSETS**

**Tangible Assets**
Equipment
Furniture
Motor Vehicles

**Intangible Assets**
Computer Software
Other Intangible assets

<table>
<tr><th>Type and Initial and Subsequent measurement</th><th>Useful lives, depreciation/ amortisation method or fair value basis</th><th>Impairment</th></tr>
<tr><td>Tangible assets (equipment, furniture and motor vehicles)<br>Equipment, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses.<br><br>Cost includes expenditure that is directly attributable to the acquisition of the asset.<br><br>Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Bank and the cost of the item can be measured reliably.<br><br>Expenditure, which does not meet these criteria, is recognised in operating expenses as incurred.<br><br>Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate major components of property and equipment.</td><td>Property and equipment are depreciated on the straight-line basis over estimated useful lives (see below) of the assets to their residual values.<br><br><table><tr><td>Computer equipment</td><td>3-5 years</td></tr><tr><td>Office equipment</td><td>5-10 years</td></tr><tr><td>Furniture & fittings</td><td>5-13 years</td></tr><tr><td>Motor Vehicles</td><td>4-5 years</td></tr></table><br>The residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.</td><td>These assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.<br><br>An impairment loss is recognised in non-trading and capital related items for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use.<br><br>Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.<br><br>In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.<br><br>For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest level for which there are separately identifiable cash inflows from continuing use cash generating units (CGUs).<br><br>Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use.<br><br>Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through non-trading and capital related items only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.</td></tr>
</table>

## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (e) Non-financial assets (Intangible assets and Property and equipment) (continued)

| Type and Initial and Subsequent measurement | Useful lives, depreciation/ amortisation method or fair value basis | Impairment |
|---|---|---|
| **Computer software**<br>Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred.<br><br>However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the group and have a probable future economic benefit beyond one year, are recognised as intangible assets.<br><br>Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses from the date that the assets are available for use.Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. | Amortisation is recognised in operating expenses on a straight line basis at rates appropriate to the expected lives of the assets (2 to 15 years) from the date that the asset is available for use.<br><br>Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary. | Intangible assets that have an indefinite useful life are tested annually for impairment and additionally when an indicator of impairment exists.<br><br>The accounting treatment for computer software and other intangible assets is otherwise the same as for tangible assets. |
| **Other intangible assets**<br>The Bank recognises the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in operating expenses as incurred.<br><br>Capitalised intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. | Amortisation is recognised in operating expenses on a straight-line basis over the estimated useful lives of the intangible assets, not exceeding 20 years, from the date that the asset is available for use.<br><br>Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary. | |

**Derecognition**

Non-financial assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds and the carrying amount of the non-financial asset.

## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (f) Equity-linked transactions

**EQUITY COMPENSATION PLANS**

- Equity-settled share-Based payments
- Cash-settled share-based payments

| | |
|---|---|
| **Equity-settled share-based payments** | The Bank operates both equity-settled and cash-settled share-based compensation plans. All share options are accounted for as share-based payment transactions.<br><br>The fair value of the equity-settled share-based payments are determined on grant date and accounted for within operating expenses - staff costs over the vesting period with a corresponding increase in the share-based payment reserve. Non-market vesting conditions are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against operating expenses and share-based payment reserve over the remaining vesting period.<br><br>On vesting of the equity-settled share-based payments, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. |
| **Cash-settled share-based payments** | Cash-settled share-based payments are accounted for as liabilities at fair value until the date of settlement. The liability is recognised over the vesting period and is revalued at every reporting date up to and including the date of settlement. All changes in the fair value of the liability are recognised in operating expenses. |

#### (g) Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- leases of low value assets; and
- leases with a duration of twelve months or less.

Accounting for lease liabilities

Initially measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease unless (as is typically the case for the Bank) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. The Bank's internal funding rate is the base on which the incremental borrowing rate is calculated. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate. On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favour of the Bank, should it be reasonably certain that this option will be exercised;
- Any penalties payable for terminating the lease, should the term of the lease be estimated on the basis of this termination option being exercised.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Interest expense on lease liabilities:

A lease finance cost, determined with reference to the interest rate implicit in the lease or the Bank's incremental borrowing rate, is recognised within interest expense over the lease period.

## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (g) Leases (continued)

Right-of-use assets (ROU)

Initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

The Bank applies the cost model subsequent to the initial measurement of the right-of-use assets.

*Depreciation of ROU*

Subsequent to initial measurement, the right of use assets are depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter than the lease term unless ownership of the underlying asset transfers to the group at the end of the lease term, whereby the right of use assets are depreciated on a straight-line basis over the remaining economic life of the asset. This depreciation is recognised as part of depreciation on right-of-use asset in profit or loss.

Termination of leases

When the Bank or lessor terminates or cancels a lease, the right of use asset and lease liability are derecognized. On derecognition of the right of use asset and lease liability, any difference is recognised as a derecognition gain or loss in profit or loss.

Low value leases

All leases that meet the criteria as either a lease of a low value asset or a short term lease are accounted for on a straight-line basis over the lease term. Accruals for unpaid lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease expense are recognised.

Payments made under these leases, net of any incentives received from the lessor, are recognised in operating lease expenses on a straight-line basis over the term of the lease. When these leases are terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating lease expenses in the period in which termination takes place.

Reassessment and modification of leases

*Reassessment of lease terms and lease modifications that are not accounted for as a separate lease:*

When the Bank reassesses the terms of any lease (i.e. it re-assesses the probability of exercising an extension or termination option) or modifies the terms of a lease without increasing the scope of the lease or where the increased scope is not commensurate with the stand-alone price, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the applicable rate at the date of reassessment or modification. The carrying amount of lease liability is similarly revised when the variable element of future lease payments dependent on a rate or index is revised.

For reassessments to the lease terms, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, if the carrying amount of the right-of-use asset is reduced to zero any further reduction in the measurement of the lease liability is recognised in profit or loss.

For lease modifications that are not accounted for as a separate lease, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, for lease modifications that decrease the scope of the lease the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease, with any resulting difference being recognised in profit or loss as a gain or loss relating to the partial or full termination of the lease.

*Lease modifications that are accounted for as a separate lease:*

When the Bank modifies the terms of a lease resulting in an increase in scope and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in scope, the Bank accounts for these modifications as a separate new lease. This accounting treatment equally applies to leases which the Bank elected the short-term lease exemption and the lease term is subsequently modified.



## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (h) Provisions, contingent assets and contingent liabilities

**EQUITY COMPENSATION PLANS**

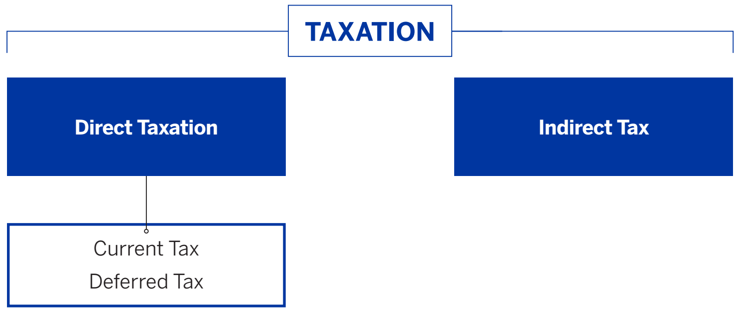
**Provisions** | **Contingent assets** | **Contingent Liabilities**

| | |
|---|---|
| **Provisions** | Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Bank provisions typically (when applicable) include the following:<br><br>**Provisions for legal claims**<br><br>Provisions for legal claims are recognised on a prudent basis for the estimated cost for all legal claims that have not been settled or reached conclusion at the reporting date. In determining the provision management considers the probability and likely settlement (if any). Reimbursements of expenditure to settle the provision are recognised when and only when it is virtually certain that the reimbursement will be received.<br><br>**Provisions for restructuring**<br><br>A provision for restructuring is recognised when the Bank has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.<br><br>**Provisions for onerous contract**<br><br>A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract. |
| **Contingent Assets** | Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the Bank, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Bank's control. |
| **Contingent Liabilities** | Contingent liabilities include certain guarantees (other than financial guarantees) and letters of credit and are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are considered remote. |

## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (i) Taxation




| Type | Description, recognition and measurement | Offsetting |
|---|---|---|
| **Current tax-determined for current period transactions and events** | Current tax is recognised in the income tax expense line in the statement of profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.<br><br>The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.<br><br>As per The Finance (Miscellaneous Provisions) Act 2018 of Mauritius, the tax rate will be amended to 15% or 5% if certain conditions are met effective as from assessment year 2020-2021 (assessment year 2019-2020: 15% less the foreign tax credit of 80% for segment B).<br><br>The Bank is also liable to pay a special levy on its leviable income (Net interest income and other income before deduction of expenses) derived during the year. Special levy is calculated at the rate of 5.5% on leviable income. The special levy is included in income tax expense and current liability in the financial statements. The Bank is subject to the Advances Payment System ('APS') whereby it pays income tax on a quarterly basis.<br><br>Corporate Social Responsibility tax (CSR) is also payable by the Bank at the rate of 2% of the Segment A chargeable income of the preceding year. | Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. |



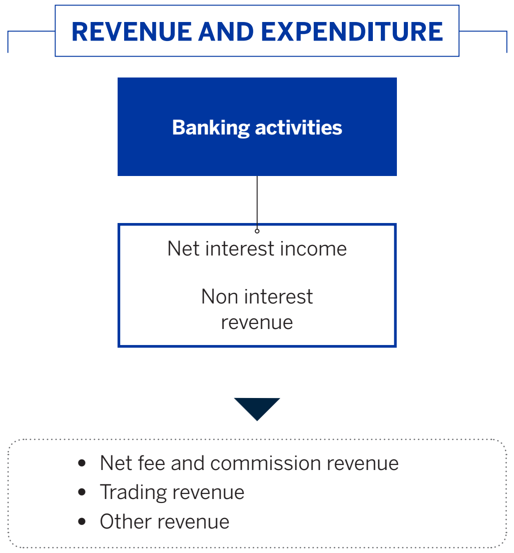
## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (i) Taxation (continued)

| | |
|---|---|
| **Deferred tax- determined for future tax consequences** | Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.<br><br>Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.<br><br>Deferred tax is not recognised for temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses.<br><br>The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.<br><br>Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. |
| **Indirect taxation** | Indirect taxes, including non-recoverable value added tax (VAT), skills development levies and other duties for banking activities, are recognised in the indirect taxation line in the income statement. |

#### (j) Revenue and Expenditure



## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (j) Revenue and Expenditure (continued)

| Type | Description | Recognition and Measurement |
|---|---|---|
| **Bank activities** | **Net interest income** | Interest income and expense are recognised in net interest income using the effective interest method for all interest-bearing financial instruments.<br><br>In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.<br><br>Where the estimates of payments or receipts on financial assets or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the adjusted cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income.<br><br>When a financial asset is classified as specifically impaired (before 1 January 2018) or as Stage 3 impaired (after 1 January 2018), interest income is calculated on the impaired value (gross carrying amount less specific impairment) based on the original effective interest rate. The contractual interest income on the gross exposure is suspended and is only recognised in interest income (before 1 January 2018) and other interest (after 1 January 2018) when the financial asset is no longer specifically impaired (before 1 January 2018) or is reclassified out of Stage 3 (after 1 January 2018).<br><br>Before the adoption of IFRS 9 on 1 January 2018, the following additional amounts were recognised in net interest income. Fair value gains and losses on debt financial assets that were designated at fair value through profit or loss:<br><br>• The gain or loss on the derecognition of a financial asset classified as available-for-sale<br>• Gains and losses arising from the derecognition of financial assets and financial liabilities classified as at amortised cost<br>• Fair value gains and losses on financial liabilities (including changes as a result of own credit risk) that were designated at fair value through profit or loss. |
| | **Net fee and commission revenue** | Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period.<br><br>Loan syndication fees, where the Bank does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised to the statement of profit and loss as interest income.<br><br>The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.<br><br>Fee and commission expenses, included in net fee and commission revenue, are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is presented as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue. |



## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (j) Revenue and Expenditure (continued)

| Type | Description | Recognition and Measurement |
|---|---|---|
| | **Net trading income** | Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends. |
| | **Net income from other financial instruments carried at fair value** | Net income from other financial instruments carried at fair value includes:<br><br>• Fair value gains and losses on debt financial assets that are at fair value through profit or loss.<br>• The gain or loss on the derecognition of a debt financial asset classified as at fair value through OCI.<br>• Gains and losses arising from the derecognition of financial assets and financial liabilities classified as at amortised cost.<br>• Gains and losses arising from the reclassification of a financial asset from amortised cost to fair value.<br>• Gains and losses arising from the modification of a financial asset (which is not distressed) and financial liability as at amortised cost.<br>• Fair value gains and losses on designated financial liabilities. |
| | **Other operating income** | Other operating income comprises of expenses recharged to Standard Bank Trust. |

#### (k) Other significant accounting policies

**OTHER SIGNIFICANT ACCOUNTING POLICIES**

- Segment reporting
- Statutory credit risk reserve
- Related Party

| | |
|---|---|
| **Segment reporting** | A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.<br><br>In accordance with the Bank of Mauritius Guideline on Segmental Reporting under a Single Banking Licence Regime, the Bank is required to split into Segment A and Segment B:<br><br>• 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; and<br>• Segment A relates to banking business other than Segment B business.<br><br>Neither these guidelines nor IFRS mandate the application of IFRS 8 Operating segments to the financial statements of the Bank. |
| **Statutory credit reserve** | Statutory requirements (one percent of the aggregate amount of portfolio assessed loans) that exceed the amounts to be provided under IFRS 9 are dealt with in the statutory credit reserve as an appropriation of retained earnings. |

## 2. Basis of preparation (continued)

### 2.1. Detailed accounting policies (continued)

#### (k) Other significant accounting policies (continued)

| | |
|---|---|
| **Related Parties** | For the purposes of these financial statements, parties are considered to be related to the Bank where:<br>(a) A person or a close member of that person's family is related to the Bank if that person<br>(i) has control or joint control over the Bank,<br>(ii) has significant influence over the Bank or<br>(iii) is a member of the key management personnel of the Bank or of a parent of the Bank.<br>An entity is related to the Bank if any of the following conditions applies:<br>(i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).<br>(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).<br>(iii) Both entities are joint ventures of the same third party.<br>(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.<br>(v) The entity is a post-employment defined benefit plan for the benefit of employees of either the Bank or an entity related to the Bank. If the Bank hold such a plan, the sponsoring employers are also related to the Bank.<br>(vi) The entity is controlled or jointly controlled by a person identified in (a).<br>(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).<br>(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent of the Bank. |
| **Comparatives** | Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed when comparative information. When IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. |

#### (l) New standards and interpretations not yet effective

The IASB has published a number of minor amendments to IFRSs which are effective from 1 January 2020. The Bank expects the below amendments will have an insignificant effect, when adopted, on the financial statements.

*Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material*

These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

- use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is:

*"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."*

*Amendments to IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosure – Interest rate benchmark reform*

These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The reliefs relate to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.



## 3. Financial Risk Management

### Introduction and Overview

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

The Bank has exposure to the following risk from financial instruments:

- credit risk;
- liquidity risk;
- market risk;
- interest rate risk; and
- capital risk management

### (a) Credit Risk

For the definition of credit risk and information of how credit risk is managed by the Bank, please refer to page 37 under the Risk and Capital Management section.

### (i) Maximum Exposure to Credit Risk

The Bank credit exposure is spread across a broad range of asset classes, including trading assets, derivative assets, loans and advances to customers, loans and advances to banks and financial investments.

The following table presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements (unless such credit enhancements meet accounting offsetting requirements). For financial assets recognised on the statement of financial position the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon.

For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

| | **2019 USD** | 2018 USD | 2017 USD |
|---|---|---|---|
| Cash and cash equivalents | **686,658,119** | 875,019,563 | 570,823,648 |
| Trading assets | **3,690,943** | 2,473,961 | 749,636 |
| Derivative assets | **1,151,716** | 1,278,203 | 9,674,017 |
| Loans and advances to banks | **298,481,160** | 301,895,689 | 424,145,193 |
| Loans and advances to customers | **227,004,114** | 228,032,006 | 122,169,578 |
| Financial Investments | **197,075,417** | 147,364,470 | 123,612,813 |
| Other assets | **7,330,860** | 9,358,033 | 7,794,930 |
| Financial guarantees and other credit-related contingent liabilities | **29,693,301** | 36,197,673 | 33,604,341 |
| Loan and other credit-related commitments | **144,069,523** | 102,959,206 | 2,500,000 |
| At 31 December | **1,595,155,153** | 1,704,578,804 | 1,295,074,156 |

Non-financial assets relating to prepayments and VAT amounting to USD 731,476 were excluded from other assets as at 31 December 2019 (2018: USD427,613; 2017: USD251,688).

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

***(a) Credit Risk (continued)***

***(ii) Analysis of credit quality***

***ECL on Financial Assets***

| | Gross Carrying amount | | | ECL | | | ECL % | | |
|---|---|---|---|---|---|---|---|---|---|
| **At 31 December 2019** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| | **USD** | **USD** | **USD** | **USD** | **USD** | **USD** | **USD** | **USD** | **USD** |
| **Loans and advances to customers** | **213,066,336** | **-** | **22,061,463** | **673,021** | **-** | **7,298,018** | **0.3%** | **-** | **33%** |
| **Loans and advances to banks** | **298,671,634** | **-** | **-** | **190,474** | **-** | **-** | **0.1%** | **-** | **-** |
| **Cash and cash equivalents** | **686,674,375** | **-** | **-** | **16,256** | **-** | **-** | **-** | **-** | **-** |
| **Financial Investments - Amortised** | **186,757,301** | **-** | **-** | **1,663** | **-** | **-** | **-** | **-** | **-** |
| **Financial Investments – FVOCI** | **10,319,853** | **-** | **-** | **74** | **-** | **-** | **-** | **-** | **-** |
| **Non-Funded Facilities** | **170,470,244** | **1,085,736** | **2,506,113** | **152,731** | **340** | **146,198** | **-** | **-** | **5.8%** |
| **Total** | **1,565,959,743** | **1,085,736** | **24,567,576** | **1,034,219** | **340** | **7,444,216** | **0.1%** | **-** | **30.3%** |
| At 31 December 2018 | | | | | | | | | |
| Loans and advances to customers | 221,044,053 | 10,076,899 | 812,391 | 1,046,920 | 2,015,744 | 838,673 | 0.5% | 20.0% | 103% |
| Loans and advances to banks | 302,101,501 | - | - | 205,812 | - | - | - | - | - |
| Cash and cash equivalents | 875,047,904 | - | - | 28,341 | - | - | - | - | - |
| Financial Investments - Amortised | 140,111,207 | - | - | 145 | - | - | - | - | - |
| Financial Investments – FVOCI | 7,253,476 | - | - | 68 | - | - | - | - | - |
| Non-Funded Facilities | 139,307,337 | - | - | 150,459 | - | - | - | - | - |
| Total | 1,684,865,478 | 10,076,899 | 812,391 | 1,431,745 | 2,015,744 | 838,673 | 0.1% | 20.0% | 103% |

***Note: Loans and advances to customers for stage 3 exclude interest in suspense USD 152,646.***

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

***(a) Credit Risk (continued)***

***(ii) Analysis of credit quality (continued)***

***31 December 2019***

**Reconciliation of the expected credit losses**

| | Opening ECL balance | Transfers between stages | | | | Income statement movement | | | | Impaired accounts written off | Time Value of Money | Reclassification in/out of AC measurement catogory | Closing balance | Post write off recoveries recognised in PL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Transfer Stage 1 to/ (from) | Transfer Stage 2 to/ (from) | Transfer Stage 3 to/ (from) | Total | Originated "New" impairments raised | Changes in ECL - due to modifications | Subsequent changes in ECL | Total | | | | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Stage 1** | | | | | | | | | | | | | | |
| Corporate lending Amortised cost | 1,046,919 | - | - | (25,221) | (25,221) | 158,227 | - | (506,904) | (348,677) | - | - | - | 673,021 | - |
| Financial Investment at Amortised Costs | 68 | - | - | - | - | 74 | - | (68) | 6 | - | - | - | 74 | - |
| Financial Investment at FVOCI | 145 | - | - | - | - | 1,663 | - | (145) | 1,518 | - | - | - | 1,663 | - |
| Bank lending/Cash and Cash Equivalent at Amortised Cost | 234,154 | - | - | - | - | 146,614 | - | (174,038) | (27,424) | - | - | - | 206,730 | - |
| Non Funded Facilities at Amortised Cost | 150,459 | - | - | - | - | 23,343 | - | (21,071) | 2,272 | - | - | - | 152,731 | - |
| **Total** | 1,431,745 | - | - | (25,221) | (25,221) | 329,921 | - | (702,226) | (372,305) | - | - | - | 1,034,219 | - |
| **Stage 2** | | | | | | | | | | | | | | |
| Corporate lending Amortised cost | 2,015,744 | - | - | (2,015,744) | (2,015,744) | - | - | - | - | - | - | - | - | - |
| Financial Investment at Amortised Costs | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Financial Investment at FVOCI | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bank lending/Cash and Cash Equivalent at Amortised Cost | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Non Funded Facilities at Amortised Cost | - | - | - | - | - | 172 | - | 168 | 340 | - | - | - | 340 | - |
| **Total** | 2,015,744 | - | - | (2,015,744) | (2,015,744) | 172 | - | 168 | 340 | - | - | - | 340 | - |
| **Stage 3 (excluding IIS)** | | | | | | | | | | | | | | |
| Corporate lending Amortised cost | 838,673 | 25,221 | 2,015,744 | - | 2,040,965 | - | - | 5,387,128 | 5,387,128 | (837,047) | (131,701) | - | 7,298,018 | (770) |
| Financial Investment at Amortised Costs | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Financial Investment at FVOCI | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bank lending/Cash and Cash Equivalent at Amortised Cost | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Non Funded Facilities at Amortised Cost | - | - | - | - | - | - | - | 146,198 | 146,198 | - | - | - | 146,198 | - |
| **Total** | 838,673 | 25,221 | 2,015,744 | - | 2,040,965 | - | - | 5,533,326 | 5,533,326 | (837,047) | (131,701) | - | 7,444,216 | (770) |
| **Total ECL** | 4,286,162 | 25,221 | 2,015,744 | (2,040,965) | - | 330,093 | - | 4,831,268 | 5,161,361 | (837,047) | (131,701) | - | 8,478,775 | (770) |

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

***(a) Credit Risk (continued)***

***(ii) Analysis of credit quality (continued)***

***31 December 2019***

**Credit exposure at amortised cost**

| | Gross Carrying value | SB 1 - 12 | | SB 13 - 20 | | SB 21 - 25 | | Stage 3 | | Total gross carrying amount of non-performing loans | Balance sheet impairments for non performing specifically impaired loans (stage 3) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Sub standard | Doubtful | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| On-balance sheet exposures | | | | | | | | | | | |
| Corporate lending Amortised cost | 235,127,799 | 68,813,306 | - | 144,253,030 | - | - | - | 11,994,491 | 10,066,972 | 22,061,463 | 7,298,018 |
| Financial Investment at Amortised Costs | 186,757,301 | 186,757,301 | - | - | - | - | - | - | - | - | - |
| Financial Investment at FVOCI | 10,319,853 | 10,319,853 | - | - | - | - | - | - | - | - | - |
| Bank lending/Cash and Cash Equivalent at Amortised Cost | 985,346,009 | 978,339,292 | - | 7,006,617 | - | 100 | - | - | - | - | - |
| Off-balance sheet exposures | - | - | - | - | - | - | - | - | - | - | - |
| Non Funded Facilities at Amortised Cost | 174,062,093 | 71,849,108 | - | 98,621,135 | 1,085,736 | - | - | 2,506,113 | - | - | 146,198 |
| **Gross carrying value of financial assets subject to credit risk** | 1,591,613,055 | | | | | | | | | | |
| Less: Total ECL for financial assets subject to credit risk | (8,478,775) | | | | | | | | | | |
| Stage 1 | (1,034,219) | | | | | | | | | | |
| Stage 2 | (340) | | | | | | | | | | |
| Stage 3 | (7,444,216) | | | | | | | | | | |
| Interest In Suspense (IIS) | (152,646) | | | | | | | | | | |
| **Net carrying value of financial assets subject to credit risk** | 1,582,981,634 | | | | | | | | | | |

Loans and advances include the element of MTM amounting USD 598,843 from Hedge accounting.

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

***(a) Credit Risk (continued)***

***(ii) Analysis of credit quality (continued)***

31 December 2018

**Reconciliation of the expected credit losses**

| | Opening ECL balance | Transfers between stages | | | | Income statement movement | | | | Impaired accounts written off | Closing balance |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Transfer Stage 1 to/from | Transfer Stage 2 to/from | Transfer Stage 3 to/from | Total | Originated "New" impairments raised | Changes in ECL - due to modifications | Subsequent changes in ECL | Total | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Stage 1** | | | | | | | | | | | |
| Corporate lending Amortised cost | 704,725 | - | - | - | - | 541,724 | - | (199,530) | 342,194 | - | 1,046,919 |
| Financial Investment at Amortised Costs | 2,071 | - | - | - | - | - | - | (2,003) | -2,003 | - | 68 |
| Financial Investment at FVOCI | - | - | - | - | - | 145 | - | - | 145 | - | 145 |
| Bank lending/Cash and Cash Equivalent at Amortised Cost | 204,636 | - | - | - | - | 55,308 | - | (25,790) | 29,518 | - | 234,154 |
| Non Funded Facilities at Amortised Cost | 138,743 | - | - | - | - | 130,057 | - | (118,341) | 11,716 | - | 150,459 |
| **Total** | 1,050,175 | - | - | - | - | 727,234 | - | (345,664) | 381,570 | - | 1,431,745 |
| **Stage 2** | | | | | | | | | | | |
| Corporate lending Amortised cost | 971,650 | - | - | - | - | 1,044,094 | - | - | 1,044,094 | - | 2,015,744 |
| Financial Investment at Amortised Costs | - | - | - | - | - | - | - | - | - | - | - |
| Financial Investment at FVOCI | - | - | - | - | - | - | - | - | - | - | |
| Bank lending/Cash and Cash Equivalent at Amortised Cost | - | - | - | - | - | - | - | - | - | - | - |
| Non Funded Facilities at Amortised Cost | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | 971,650 | - | - | - | - | 1,044,094 | - | - | 1,044,094 | - | 2,015,744 |
| **Stage 3 (excluding IIS)** | | | | | | | | | | | |
| Corporate lending Amortised cost | 808,997 | - | - | - | - | 29,676 | - | - | 29,676 | - | 838,673 |
| Financial Investment at Amortised Costs | - | - | - | - | - | - | - | - | - | - | - |
| Financial Investment at FVOCI | - | - | - | - | - | - | - | - | - | - | - |
| Bank lending/Cash and Cash Equivalent at Amortised Cost | - | - | - | - | - | - | - | - | - | - | - |
| Non Funded Facilities at Amortised Cost | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | 808,997 | - | - | | - | 29,676 | - | - | 29,676 | - | 838,673 |
| **Total ECL** | 2,830,822 | - | - | - | - | 1,801,004 | - | (345,664) | 1,455,340 | - | 4,286,162 |

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

*(a) Credit Risk (continued)*

*(ii) Analysis of credit quality (continued)*

31 December 2018

**Credit exposure at amortised cost**

| | Gross Carrying value | SB 1 - 12 | | SB 13 - 20 | | SB 21 - 25 | | Stage 3 | | Total gross carrying amount of non-performing loans | Securities and expected recoveries on specifically impaired loans | Interest in suspemse |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Sub standard | Loss | | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| On-balance sheet exposures | | | | | | | | | | | | |
| Corporate lending Amortised cost | 232,247,656 | 46,878,723 | - | 174,165,329 | - | - | 10,076,899 | - | 1,126,705 | 1,126,705 | 812,391 | 314,314 |
| Financial Investment at Amortised Costs | 140,111,207 | 140,111,207 | - | - | - | - | - | - | - | - | - | - |
| Financial Investment at FVOCI | 7,253,476 | 7,253,476 | - | - | - | - | - | - | - | - | - | - |
| Bank lending/Cash and Cash Equivalent at Amortised Cost | 1,160,843,769 | 1,152,204,481 | - | 8,639,288 | - | - | - | - | - | - | - | - |
| Off-balance sheet exposures | - | - | - | - | - | - | - | - | - | - | - | - |
| Non Funded Facilities at Amortised Cost | 139,307,337 | 44,669,899 | - | 94,637,438 | - | - | - | - | - | - | - | - |
| **Gross carrying value of financial assets subject to credit risk** | 1,679,763,445 | | | | | | | | | | | |
| Less: Total ECL for financial assets subject to credit risk | (4,286,162) | | | | | | | | | | | |
| Stage 1 | (1,431,745) | | | | | | | | | | | |
| Stage 2 | (2,015,744) | | | | | | | | | | | |
| Stage 3 | (838,673) | | | | | | | | | | | |
| Interest In Suspense (IIS) | (314,314) | | | | | | | | | | | |
| **Net carrying value of financial assets subject to credit risk** | 1,675,162,969 | | | | | | | | | | | |

Loans and advances include the element of MTM amounting USD 387,000 from Hedge accounting.



## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

*(a) Credit Risk (continued)*

*(ii) Analysis of credit quality (continued)*

**Loans and Advances to Customers**

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| Neither past due nor impaired | **213,066,336** | 231,120,951 | 123,322,094 |
| Past due but not impaired | **-** | - | - |
| Individually impaired | **21,908,817*** | 812,391* | 812,391* |
| **Total Gross Amount** | **234,975,153** | 231,933,342 | 124,134,485 |
| **Allowance for Impairment** | | | |
| Stage 3 ECL/Individual | **(7,298,018)** | (838,673) | (839,384) |
| Stage 1&2 ECL Collective | **(673,021)** | (3,062,663) | (1,125,523) |
| **Total Allowance for Impairment** | **(7,971,039)** | (3,901,336) | (1,964,907) |
| **Net Carrying Amount** | **227,004,114** | 228,032,006 | 122,169,578 |

*Amount is net of interest in suspense of USD 152,646 (2018: USD 314,314).

Other than loans and advances to customers disclosed above, all financial assets subject to credit risk were classified as neither past due nor impaired.

| | Performing Loans to Customers | | |
|---|---|---|---|
| | Total Gross advances | Normal Monitoring | Close Monitoring |
| | USD | USD | USD |
| **2019** | | | |
| Neither past due nor impaired | **213,066,336** | **212,766,206** | **300,130** |
| 2018 | | | |
| Neither past due nor impaired | 231,120,951 | 221,044,052 | 10,076,899 |
| 2017 | | | |
| Neither past due nor impaired | 123,322,094 | 112,826,071 | 10,496,023 |

| | Non-Performing Loans to Customers | | | |
|---|---|---|---|---|
| | Total Impaired advances | Sub-standard | Doubtful | Loss |
| | USD | USD | USD | USD |
| **2019** | | | | |
| Individually impaired | **21,908,817** | **11,841,845** | **10,066,972** | **-** |
| 2018 | | | | |
| Individually impaired | 812,391 | - | - | 812,391 |
| 2017 | | | | |
| Individually impaired | 812,391 | - | - | 812,391 |

**Close monitoring:** These are exposures placed under watchlist showing early signs of potential future distress.

**Normal monitoring:** These are all performing loans to customers excluding those in close monitoring.

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

***(a) Credit Risk (Continued)***

***(iii) Collaterals held and other credit enhancements, and their financial effect.***

| | 2019<br>USD | 2018<br>USD | 2017<br>USD |
|---|---|---|---|
| **Loans and Advances to customers** | | | |
| **Against neither past due nor impaired** | | | |
| Property | **60,837,525** | 25,478,800 | 29,096,305 |
| Equities | **263,887** | 776,267 | 796,565 |
| Other floating charges/assignments and pledges | **116,363,870** | 164,545,425 | 85,929,818 |
| Clean Basis | | | |
| **Total** | **177,465,282** | 190,800,492 | 115,822,688 |
| **Past due but not impaired** | | | |
| Floating charge | **-** | - | - |
| Property | **-** | - | - |
| | **-** | - | - |
| **Against Individually impaired** | | | |
| Floating charge | **11,994,491** | - | - |
| Property | **10,066,972** | - | - |
| | **22,061,463** | - | - |

Wherever warranted, the Bank attempts to mitigate credit risk and the mitigation options include the use of collateral. The collateral is monitored on a regular basis in accordance with our Collateral Valuation Guidelines.

Collaterals held are made up of fixed charge on property, listed shares, corporate guarantees and letters of support.

The Bank does not generally hold collaterals against loans and advances to banks, trading assets and financial investments.

***(iv) Reconciliation of impaired loans and advances***

The table below sets out a reconciliation of changes in the amount of impaired loans and advances to customers:

| | 2019<br>USD | 2018<br>USD | 2017<br>USD |
|---|---|---|---|
| Impaired loans and advances to customers at 1 January | **812,391** | 812,391 | 812,391 |
| New loans originated | **22,061,463** | - | - |
| Bad debts recovered | **-** | - | - |
| Amount written off | **(812,391)** | - | - |
| Interest in suspense | **(152,646)** | - | - |
| Impaired loans and advances to customers at 31 December | **21,908,817** | 812,391 | 812,391 |

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

***(a) Credit Risk (Continued)***

***(v) Concentration risk***

Refer to Note 11(b) for the concentration risk disclosure for loans and advances to customers by industry sectors and Note 11(c) for concentration by geographical area.

***(b) Liquidity risk***

For the definition of liquidity risk and information of how liquidity risk is managed by the Bank, please refer to page 38 to 41 under the Risk and Capital Management section.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods at reporting date to the contractual maturity date.

(i) Maturity Analysis of financial assets and financial liabilities

| 31 December 2019 | Carrying Value/ Contractual cash flows | Up to 3 months | Over 3 months and up to 6 months | Over 6 months and up to 12 months | Over 1 year and up to 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD | USD |
| **Financial Liabilities** | | | | | | |
| **Deposits from banks** | 88,402,630 | 88,402,630 | - | - | - | - |
| **Deposits from customers** | 1,213,031,655 | 1,125,788,773 | 7,175,893 | 72,506,652 | 7,560,337 | - |
| **Derivative liabilities** | 1,705,225 | 919,091 | 144,263 | - | 641,871 | - |
| **Other borrowed funds** | 470,766 | - | 470,766 | - | - | - |
| **Lease liabilities** | 3,387,780 | 156,824 | 156,824 | 313,648 | 2,760,484 | |
| **Other liabilities** | 7,139,907 | 7,139,907 | - | - | - | - |
| | 1,314,137,963 | 1,222,407,225 | 7,947,746 | 72,820,300 | 10,962,692 | - |
| **Financial Assets** | | | | | | |
| **Cash and cash equivalents** | 686,658,119 | 686,658,119 | - | - | - | - |
| **Trading assets** | 3,690,943 | 3,690,943 | - | - | - | - |
| **Loan and advances to banks** | 304,455,945 | 456,329 | 70,967,318 | 184,000,220 | 42,119,381 | 6,912,697 |
| **Loan and advances to customers** | 258,493,878 | 100,285,727 | 3,203,609 | 16,705,795 | 137,926,894 | 371,853 |
| **Financial investments** | 197,574,391 | 6,112,792 | 96,913,532 | 1,513,067 | 93,035,000 | - |
| **Derivative assets** | 1,151,716 | 990,697 | 161,019 | - | - | - |
| **Other assets** | 7,330,860 | 7,330,860 | - | - | - | - |
| **Loan commitments** | 144,069,523 | 144,069,523 | - | - | - | - |
| | 1,603,425,375 | 949,594,990 | 171,245,478 | 202,219,082 | 273,081,275 | 7,284,550 |

Non-financial assets relating to prepayments and VAT amounting to USD731,476 were excluded from other assets as at 31 December 2019 (2018: USD427,613; 2017: USD251,688).

Non-financial liabilities relating to retirement benefit obligations, provisions and taxes amounting to USD4,983,753 have been excluded from other liabilities as at 31 December 2019 (2018: USD1,960,545; 2017: USD1,856,848).

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

***(b) Liquidity risk (continued)***

| 31 December 2018 | Carrying Value/ Contractual cash flows | Up to 3 months | Over 3 months and up to 6 months | Over 6 months and up to 12 months | Over 1 year and up to 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| | **USD** | **USD** | **USD** | **USD** | **USD** | **USD** |
| **Financial Liabilities** | | | | | | |
| Deposits from banks | 34,716,399 | 34,716,399 | - | - | - | - |
| Deposits from customers | 1,387,631,188 | 1,343,926,674 | 17,526,263 | 21,584,165 | 4,594,086 | - |
| Derivative liabilities | 1,671,872 | 1,132,515 | 125,464 | 611 | 413,282 | - |
| Other borrowed funds | 1,412,299 | - | - | - | 1,412,299 | - |
| Other liabilities | 42,553,358 | 42,553,358 | - | - | - | - |
| | 1,467,985,116 | 1,422,328,946 | 17,651,727 | 21,584,776 | 6,419,667 | - |
| **Financial Assets** | | | | | | |
| Cash and Cash Equivalents | 875,019,563 | 875,019,563 | - | - | - | - |
| Trading Assets | 2,476,608 | 2,476,608 | - | - | - | - |
| Loan and advances to banks | 301,918,540 | 2,415,853 | 56,974,221 | 168,637,417 | 65,721,499 | 8,169,550 |
| Loan and advances to customers | 259,368,970 | 95,431,779 | 19,153,487 | 22,730,325 | 121,630,686 | 422,693 |
| Financial investments | 147,709,941 | 145,516,959 | 730,994 | 1,461,988 | - | - |
| Derivative assets | 1,278,202 | 1,100,615 | 176,633 | 954 | - | - |
| Other assets | 9,358,033 | 9,358,033 | - | - | - | - |
| Loan Commitments | 102,959,205 | 102,959,205 | - | - | - | - |
| | 1,700,089,062 | 1,234,278,615 | 77,035,335 | 192,830,684 | 187,352,185 | 8,592,243 |
| 31 December 2017 | | | | | | |
| **Financial Liabilities** | | | | | | |
| Deposits from banks | 60,895,260 | 60,895,260 | - | - | - | - |
| Deposits from customers | 1,103,515,134 | 1,069,483,507 | 20,342,634 | 13,688,993 | - | - |
| Derivative liabilities | 9,353,440 | 8,410,571 | 217,199 | 725,670 | - | - |
| Other borrowed funds | 4,097,627 | 1,743,277 | - | - | 2,354,350 | - |
| Other liabilities | 9,429,119 | 9,429,119 | - | - | - | - |
| | 1,187,290,580 | 1,149,961,734 | 20,559,833 | 14,414,663 | 2,354,350 | - |
| **Financial Assets** | | | | | | |
| Cash and Cash Equivalents | 570,823,648 | 570,823,648 | - | - | - | - |
| Trading Assets | 749,636 | 749,636 | - | - | - | - |
| Loan and advances to banks | 437,724,030 | 53,567,759 | 95,793,958 | 160,922,824 | 114,443,571 | 12,995,918 |
| Loan and advances to customers | 140,293,517 | 28,815,315 | 1,646,411 | 20,955,519 | 88,451,844 | 424,428 |
| Financial Investment | 125,255,256 | 3,753,754 | - | 121,501,502 | - | - |
| Derivative assets | 9,674,017 | 8,709,703 | 238,644 | 725,670 | - | - |
| Other assets | 7,794,930 | 7,794,930 | - | - | - | - |
| Loan Commitments | 2,500,000 | 2,500,000 | - | - | - | - |
| | 1,294,815,034 | 676,714,745 | 97,679,013 | 304,105,515 | 202,895,415 | 13,420,346 |

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

***(c) Market risk***

For the definition of market risk and information of how market risk is managed by the Bank, please refer to page 41 to 42 under Risk Management section.

(i) Assets and liabilities subject to market risk between trading and non-trading portfolios:

| | Carrying amount | Trading portfolios | Non-trading portfolios |
|---|---|---|---|
| | **USD** | **USD** | **USD** |
| **31 December 2019** | | | |
| **Assets subject to market risk** | | | |
| **Cash and cash equivalents** | **686,658,119** | **-** | **686,658,119** |
| **Trading assets** | **3,690,943** | **3,690,943** | **-** |
| **Derivative assets** | **1,151,716** | **1,151,716** | **-** |
| **Loans and advances to banks** | **298,481,160** | **-** | **298,481,160** |
| **Loans and advances to customers** | **227,004,114** | **-** | **227,004,114** |
| **Financial investments** | **197,075,417** | **-** | **197,075,417** |
| **Other assets** | **7,330,860** | **-** | **7,330,860** |
| **Liabilities subject to market risk** | | | |
| **Deposits from banks** | **88,402,630** | **-** | **88,402,630** |
| **Deposits from customers** | **1,211,097,476** | **-** | **1,211,097,476** |
| **Derivative liabilities** | **1,705,225** | **1,705,225** | **-** |
| **Other borrowed funds** | **470,766** | **-** | **470,766** |
| **Lease liabilities** | **3,387,780** | **-** | **3,387,780** |
| **Other liabilities** | **7,139,907** | **-** | **7,139,907** |
| 31 December 2018 | | | |
| Assets subject to market risk | | | |
| Cash and cash equivalents | 875,019,563 | - | 875,019,563 |
| Trading assets | 2,473,961 | 2,473,961 | - |
| Derivative assets | 1,278,203 | 1,278,203 | - |
| Loans and advances to banks | 301,895,689 | - | 301,895,689 |
| Loans and advances to customers | 228,032,006 | - | 228,032,006 |
| Financial investments | 147,364,470 | - | 147,364,470 |
| Other assets | 9,358,033 | - | 9,358,033 |
| Liabilities subject to market risk | | | |
| Deposits from banks | 34,716,399 | - | 34,716,399 |
| Deposits from customers | 1,387,631,188 | - | 1,387,631,188 |
| Derivative liabilities | 1,671,872 | 1,671,872 | - |
| Other borrowed funds | 1,412,299 | - | 1,412,299 |
| Other liabilities | 42,553,358 | - | 42,553,358 |
| 31 December 2017 | | | |
| Assets subject to market risk | | | |
| Cash and cash equivalents | 570,823,648 | - | 570,823,648 |
| Trading assets | 749,636 | 749,636 | - |
| Derivative assets held for risk management | 9,674,017 | 9,674,017 | - |
| Loans and advances to banks | 424,145,193 | - | 424,145,193 |
| Loans and advances to customers | 122,169,578 | - | 122,169,578 |
| Financial investments | 123,612,813 | - | 123,612,813 |
| Other assets | 7,794,930 | - | 7,794,930 |
| Liabilities subject to market risk | | | |
| Deposits from banks | 60,895,260 | - | 60,895,260 |
| Deposits from customers | 1,103,515,134 | - | 1,103,515,134 |
| Derivative liabilities held for risk management | 9,353,440 | 9,353,440 | - |
| Other borrowed funds | 4,097,627 | - | 4,097,627 |
| Other liabilities | 9,429,119 | - | 9,429,119 |

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

***(c) Market risk (continued)***

(ii) Exposure to market risks – Value at risk

VaR constitutes an integral part of the Bank's market risk control regime and limits and triggers are established by the Board annually for all trading and non-trading portfolios (fair valued only). VaR expresses the potential loss which can be incurred based on a certain confidence interval.

Normal VaR is calculated on a historical simulation basis with 250 days of market data and uses a 95% confidence interval and a one day holding period.

**Diversified Normal VaR Exposures (USD'000)**

| 2019 | Diversified Normal VaR (USD '000) – Trading Book | | | | |
|---|---|---|---|---|---|
| **Desk Name** | **Max** | **Min** | **Avg** | **31-Dec** | **Limit** |
| **Bank-wide** | 117.0 | 0.8 | 30.5 | 4.1 | 255.0 |
| **FX Trading** | 117.0 | 0.7 | 30.5 | 4.1 | 250.0 |
| **Interest Rate Trading** | 0.2 | 0.0 | 0.1 | 0.1 | 30.0 |
| **Diversification Effect** | | | | -0.1 | |
| | **Normal VaR (USD '000) – FVOCI** | | | | |
| **Desk Name** | **Max** | **Min** | **Avg** | **31-Dec** | **Limit** |
| **Money Markets Banking** | 1.3 | 0.3 | 0.8 | 0.7 | 88.0 |

| 2018 | Diversified Normal VaR (USD '000) – Trading Book | | | | |
|---|---|---|---|---|---|
| Desk Name | **Max** | **Min** | **Avg** | **31-Dec** | **Limit** |
| Bank-wide | 159.9 | 0.6 | 30.6 | 51.4 | 255.0 |
| FX Trading | 160.0 | 0.5 | 30.5 | 51.4 | 250.0 |
| Interest Rate Trading | 1.9 | 0.1 | 0.6 | 0.1 | 30.0 |
| Diversification Effect | | | | -0.1 | |
| | **Normal VaR (USD '000) - FVOCI** | | | | |
| Desk Name | **Max** | **Min** | **Avg** | **31-Dec** | **Limit** |
| Money Markets Banking | 4.9 | 0.6 | 2.1 | 0.8 | 88.0 |

| 2017 | Diversified Normal VaR (USD '000) – Trading Book | | | | |
|---|---|---|---|---|---|
| Desk Name | **Max** | **Min** | **Avg** | **31-Dec** | **Limit** |
| Bank-wide | 151.5 | 1.8 | 44.7 | 6.9 | 255.0 |
| FX Trading | 151.4 | 0.7 | 44.7 | 6.8 | 250.0 |
| Interest Rate Trading | 6.9 | 0.0 | 1.8 | 0.4 | 30.0 |

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

***(c) Market risk (continued)***

(iii) Stress tests

Stress VaR uses a similar methodology to Normal VaR but is based on a period of financial stress and assumes a 10-day holding period and worst case scenario.

**Stress VaR Exposures (USD'000)**

| 2019 | Diversified Stress VaR (USD '000) - Trading Book | | | | |
|---|---|---|---|---|---|
| **Desk Name** | **Max** | **Min** | **Avg** | **31-Dec** | **Limit** |
| **Bank-wide** | 265.7 | 1.9 | 73.5 | 56.2 | 1,180.0 |
| **FX Trading** | 265.5 | 1.6 | 74.0 | 56.4 | 1,020.0 |
| **Interest Rate Trading** | 6.4 | 0.9 | 2.9 | 1.8 | 600.0 |
| **Diversification Effect** | | | | -2.0 | |
| | **Stress VaR (USD '000) - FVOCI** | | | | |
| **Desk Name** | **Max** | **Min** | **Avg** | **31-Dec** | **Limit** |
| **Money Markets Banking** | 50.9 | 9.5 | 30.9 | 29.3 | 465.0 |

Stress VaR Exposures (USD'000)

| 2018 | Diversified Stress VaR (USD '000) - Trading Book | | | | |
|---|---|---|---|---|---|
| Desk Name | **Max** | **Min** | **Avg** | **31-Dec** | **Limit** |
| Bank-wide | 251.9 | 3.7 | 61.3 | 117.4 | 1,180.0 |
| FX Trading | 253.1 | 1.1 | 60.4 | 117.1 | 1,020.0 |
| Interest Rate Trading | 11.0 | 1.2 | 5.3 | 1.7 | 600.0 |
| Diversification Effect | | | | - | |
| | **Stress VaR (USD '000) - FVOCI** | | | | |
| Desk Name | **Max** | **Min** | **Avg** | **31-Dec** | **Limit** |
| Money Markets Banking | 42.8 | 9.5 | 25.4 | 17.6 | 465.0 |

Stress VaR Exposures (USD'000)

| 2017 | Diversified Stress VaR (USD '000) - Trading Book | | | | |
|---|---|---|---|---|---|
| Desk Name | **Max** | **Min** | **Avg** | **31-Dec** | **Limit** |
| Bank-wide | 204.1 | 5.7 | 74.5 | 10.7 | 1,180.0 |
| FX Trading | 204.8 | 1.0 | 74.2 | 12.4 | 1,020.0 |
| Interest Rate Trading | 24.3 | 2.3 | 9.3 | 8.0 | 600.0 |

# 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (d) Interest rate risk

For the definition of interest rate risk and information of how interest rate risk is managed by the Bank, please refer to pages 41-42 under Risk Management section.

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or are repriced at different times. Risk management activities are aimed at maximising net interest income; given market interest rate levels are consistent with the Bank's strategies. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken.

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (IRRBB) (net interest income and banking book mark-to-market profit or loss) and the economic value of equity. The Bank's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the Bank operates.

The Bank's treasury team monitors banking book interest rate risk on a monthly basis operating under the oversight of the Bank's ALCO. The Bank's interest rate risk management is predominantly controlled by the Bank treasury team under policies approved by the board of directors. The Bank treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

In adherence to policies regarding interest rate risk management, the Bank applies fair value hedge accounting in respect of the interest rate risk element only, present within specifically identified long-term fixed interest rate loans and advances and deposits. To manage the risk associated with such risk exposures the Bank uses one or more fix for floating interest rate swaps that matches the critical terms or that exhibits the same duration as the of the underlying risk exposure.

The Bank observes interest rate risk in respect of these exposures using an unfunded interest rate derivatives discount curve. Hedge effectiveness between the hedging instrument and the hedged item is determined at the inception of the hedge relationship and through periodic effectiveness assessments to ensure that an economic relationship exists using regression analysis between the hedged items and the hedging instruments for sensitivity of changes to changes in interest rate risk only.

The Bank uses a combination of interest rate swaps and interest rate basis swaps to mitigate against the risk of changes in market value of hedged items for changes in interest rates. The Bank elects for each fair value interest rate risk hedging relationship, using swaps, to include forward points (basis) contained in the derivative instrument in the hedging relationship. Where the basis is included in the hedging relationship this exposes the hedge relationship to hedge ineffectiveness. The extent of hedge ineffectiveness as a result of fair value interest rate risk hedges is disclosed in note 9.3.3.

The table below summarises the Bank's exposure to interest rate risks for the non-trading portfolio. The Bank's assets and liabilities at carrying amount are categorised by their repricing dates:

| **31 December 2019** | **Less than three months** | **Between three months and one year** | **Over one year** | **Non-Rate sensitive** | **Total** |
|---|---|---|---|---|---|
| | **USD** | **USD** | **USD** | **USD** | **USD** |
| **Financial Assets** | | | | | |
| **Cash and cash equivalents** | **686,582,778** | **-** | **-** | **75,341** | **686,658,119** |
| **Loans and advances to banks** | **145,051,972** | **153,429,188** | **-** | **-** | **298,481,160** |
| **Loans and advances to customers** | **209,045,115** | **17,958,999** | **-** | **-** | **227,004,114** |
| **Financial investments** | **11,115,463** | **93,580,005** | **92,379,949** | **-** | **197,075,417** |
| | **1,051,795,328** | **264,968,192** | **92,379,949** | **75,341** | **1,409,218,810** |
| **Financial Liabilities** | | | | | |
| **Deposits from banks** | **88,402,630** | **-** | **-** | **-** | **88,402,630** |
| **Deposits from customers** | **799,956,007** | **65,519,771** | **-** | **345,621,698** | **1,211,097,476** |
| **Other borrowed funds** | **-** | **470,766** | **-** | **-** | **470,766** |
| **Lease liabilities** | **156,824** | **470,472** | **2,760,484** | **-** | **3,387,780** |
| | **888,515,461** | **66,461,009** | **2,760,484** | **345,621,698** | **1,303,358,652** |

# 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (d) Interest rate risk (continued)

| 31 December 2018 | **Less than three months** | **Between three months and one year** | **Over one year** | **Non Rate sensitive** | **Total** |
|---|---|---|---|---|---|
| | **USD** | **USD** | **USD** | **USD** | **USD** |
| Financial Assets | | | | | |
| Cash and cash equivalents | 874,953,980 | - | - | 65,583 | 875,019,563 |
| Loans and advances to banks | 256,243,030 | 40,592,659 | 5,060,000 | - | 301,895,689 |
| Loans and advances to customers | 226,619,863 | - | 1,412,143 | - | 228,032,006 |
| Financial investments | 145,221,490 | 2,142,980 | - | - | 147,364,470 |
| | 1,503,038,363 | 42,735,639 | 6,472,143 | 65,583 | 1,552,311,728 |
| Financial Liabilities | | | | | |
| Deposits from banks | 34,716,399 | - | - | - | 34,716,399 |
| Deposits from customers | 978,584,571 | 38,565,355 | 4,513,040 | 365,968,222 | 1,387,631,188 |
| Other borrowed funds | - | - | 1,412,299 | - | 1,412,299 |
| | 1,013,300,970 | 38,565,355 | 5,925,339 | 365,968,222 | 1,423,759,886 |

| 31 December 2017 | | | | | |
|---|---|---|---|---|---|
| | **USD** | **USD** | **USD** | **USD** | **USD** |
| Financial Assets | | | | | |
| Cash and cash equivalents | 481,519,895 | 26,722,911 | - | 62,580,842 | 570,823,648 |
| Loans and advances to banks | 385,875,572 | 36,571,395 | - | 1,698,226 | 424,145,193 |
| Loans and advances to customers | 116,158,389 | 241,000 | 2,353,571 | 3,416,618 | 122,169,578 |
| Financial investments | 3,762,152 | 119,683,968 | - | 166,693 | 123,612,813 |
| | 987,316,008 | 183,219,274 | 2,353,571 | 67,862,379 | 1,240,751,232 |
| Financial Liabilities | | | | | |
| Deposits from banks | 58,256,223 | 241,000 | 2,353,571 | 44,466 | 60,895,260 |
| Deposits from customers | 758,375,082 | 33,783,914 | - | 311,356,138 | 1,103,515,134 |
| Other borrowed funds | 4,095,920 | - | - | 1,707 | 4,097,627 |
| | 820,727,225 | 34,024,914 | 2,353,571 | 311,402,311 | 1,168,508,021 |

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Analysis of the Bank's sensitivity to an increase or decrease in market interest rate, assuming no asymmetrical movement in yield curves on a constant balance sheet position, is as follows:

The Bank has assets and liabilities primarily in USD, EUR, GBP, MUR and ZAR. These 5 currencies constitute more than 95% of the balance sheet with US Dollar being the primary component with an 80% weighting on the overall balance sheet. A stress test of a 100 basis points increase in US Dollar interest rates on the US Dollar book would have resulted into an increase in net interest income of USD 3,276,321. A stress test of a 100 basis points decrease in US Dollar interest rates on the US Dollar book would have resulted into a decrease in net interest income of USD2,861,814. The Bank's banking book has been within the set limit for the past three years.

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below shows the net interest income sensitivity of the US Dollar book for a change of 100 basis points.

***(d) Interest rate risk (continued)***

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| NII Sensitivity for a 100 bps increase | **8.90%** | 13.96% | 12.33% |
| NII Sensitivity for a 100 bps decrease | **(7.77%)** | (15.12%) | (29.95%) |

***(e) Currency risk***

The Bank is exposed to currency risk through fluctuations in foreign currency exchange rates on its foreign currency positions. The Bank's main operations in addition to US Dollars are in Euro, Pound Sterling, South African Rand and Mauritian Rupees. Limits on the level of exposure by currency and in total for both overnight and intra-day positions are being set by the Board and are monitored on an ongoing basis. As the Bank's reporting currency is in United States Dollars, any fluctuations between movements in the reporting currency and the foreign currencies will be reflected on the financial statements as foreign currency gains or losses.

The table below summarises the Bank's exposure to foreign currency at year end:

| **Currency** | **2019 USD** | 2018 USD | 2017 USD |
|---|---|---|---|
| GBP | **110,504** | (46,974) | (27,558) |
| EUR | **158,820** | 414,062 | 23,162 |
| ZAR | **242,668** | (27,799) | (23,644) |
| Others | **345** | (1,440,846) | 7,865 |
| | **512,337** | (1,101,557) | (20,175) |

***(f) Capital Management***

For details and information on capital management please refer to pages 47 to 50 of the Risk and Capital Management section.

## 4. FAIR VALUES OF FINANCIAL INSTRUMENTS

*Determining Fair Values*

As per IFRS, the Bank is either required to or elects to measure a number of its financial assets and financial liabilities at fair value, being the price that would, respectively, be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market participants at the measurement date. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions.

When determining fair value, it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the Bank and in particular provides assurance that the risk and return measures that the Bank has taken are accurate and complete.

Prices quoted in an active market

The existence of quoted prices in an active market represents the best evidence of fair value. Where such prices exist, they are used in determining the fair value of its assets and liabilities. Where quoted market prices are unavailable, the Bank establishes fair value using valuation techniques that incorporate inputs that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) for such assets and liabilities. Where such inputs are not available, the Bank makes use of unobservable inputs in establishing fair value. The valuation models and techniques used in determining fair values are subject to independent validation and approval by appropriate technical teams respectively and are reviewed on at least an annual basis or more frequently if considered appropriate.

The table below shows the Bank's financial assets and financial liabilities as at 31 December 2019 classified according to their measurement category.



## 4. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Prices quoted in an active market (continued)

| **31 December 2019** | **FVTPL** | **FVOCI** | **Amortised costs** | **Carrying Value** | **Fair Value** |
|---|---|---|---|---|---|
| | **USD** | **USD** | **USD** | **USD** | **USD** |
| **ASSETS** | | | | | |
| **Cash and cash equivalents** | **-** | **-** | **686,658,119** | **686,658,119** | **686,658,119** |
| **Trading assets** | **3,690,943** | **-** | **-** | **3,690,943** | **3,690,943** |
| **Derivative assets** | **1,151,716** | **-** | **-** | **1,151,716** | **1,151,716** |
| **Loans and advances to banks** | **-** | **-** | **298,481,160** | **298,481,160** | **298,481,160** |
| **Loans and advances to customers** | **-** | **-** | **227,004,114** | **227,004,114** | **227,004,114** |
| **Financial investments** | **-** | **10,319,779** | **186,755,638** | **197,075,417** | **197,075,417** |
| **Other assets** | **7,150,640** | **-** | **180,220** | **7,330,860** | **7,330,860** |
| | **11,993,299** | **10,319,779** | **1,399,079,251** | **1,421,392,329** | **1,421,392,329** |
| **LIABILITIES** | | | | | |
| **Deposits** | **-** | **-** | **1,299,500,106** | **1,299,500,106** | **1,299,500,106** |
| **Trading liabilities** | **-** | **-** | **-** | **-** | **-** |
| **Derivative liabilities** | **1,705,225** | **-** | **-** | **1,705,225** | **1,705,225** |
| **Other borrowed funds** | **-** | **-** | **470,766** | **470,766** | **470,766** |
| **Other liabilities** | **-** | **-** | **7,139,907** | **7,139,907** | **7,139,907** |
| **Lease liabilities** | **-** | **-** | **3,387,780** | **3,387,780** | **3,387,780** |
| | **1,705,225** | **-** | **1,310,498,559** | **1,312,203,784** | **1,312,203,784** |
| 31 December 2018 | | | | | |
| ASSETS | | | | | |
| Cash and cash equivalents | - | - | 875,019,563 | 875,019,563 | 875,019,563 |
| Trading assets | 2,473,961 | - | - | 2,473,961 | 2,473,961 |
| Derivative assets | 1,278,203 | - | - | 1,278,203 | 1,278,203 |
| Loans and advances to banks | - | - | 301,895,689 | 301,895,689 | 301,895,689 |
| Loans and advances to customers | - | - | 228,032,006 | 228,032,006 | 228,032,006 |
| Financial investments | - | 7,253,408 | 140,111,062 | 147,364,470 | 147,364,470 |
| Other assets | 8,687,635 | - | 670,398 | 9,358,033 | 9,358,033 |
| | 12,439,799 | 7,253,408 | 1,545,728,718 | 1,565,421,925 | 1,565,421,925 |
| LIABILITIES | | | | | |
| Deposits | - | - | 1,422,347,587 | 1,422,347,587 | 1,422,347,587 |
| Trading liabilities | - | - | - | - | - |
| Derivative liabilities | 1,671,872 | - | - | 1,671,872 | 1,671,872 |
| Other borrowed funds | - | - | 1,412,299 | 1,412,299 | 1,412,299 |
| Other liabilities | - | - | 42,553,358 | 42,553,358 | 42,553,358 |
| | 1,671,872 | - | 1,466,313,244 | 1,467,985,116 | 1,467,985,116 |
| 31 December 2017 | | | | | |
| ASSETS | | | | | |
| Cash and cash equivalents | - | - | 570,823,648 | 570,823,648 | 570,823,648 |
| Trading assets | 749,636 | - | - | 749,636 | 749,636 |
| Derivative assets | 9,674,017 | - | - | 9,674,017 | 9,674,017 |
| Loans and advances to banks | - | - | 424,145,193 | 424,145,193 | 424,145,193 |
| Loans and advances to customers | - | - | 122,169,578 | 122,169,578 | 122,169,578 |
| Financial investments | - | 24,949,390 | 98,663,423 | 123,612,813 | 123,612,813 |
| Other assets | 7,442,747 | - | 352,183 | 7,794,930 | 7,794,930 |
| | 17,866,400 | 24,949,390 | 1,216,154,025 | 1,258,969,815 | 1,258,969,815 |
| LIABILITIES | | | | | |
| Deposits | - | - | 1,164,410,394 | 1,164,410,394 | 1,164,410,394 |
| Trading liabilities | - | - | - | - | - |
| Derivative liabilities | 9,353,440 | - | - | 9,353,440 | 9,353,440 |
| Other borrowed funds | - | - | 4,097,627 | 4,097,627 | 4,097,627 |
| Other liabilities | - | - | 9,429,119 | 9,429,119 | 9,429,119 |
| | 9,353,440 | - | 1,177,937,140 | 1,187,290,580 | 1,187,290,580 |

## 4. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The tables that follow analyse the Bank's financial assets and liabilities at the end of the reporting period, by level of fair value hierarchy as required by IFRS. The different levels are based on the extent to which observable market data and inputs are used in the calculation of the fair value of the financial assets and liabilities.

The levels of the hierarchy are defined in Note 2.1.

| 31 December 2019 | Level 1 | Level 2 | Level 3 | Carrying Value | Fair Value |
|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD |
| **ASSETS** | | | | | |
| **Trading assets** | **-** | **3,690,943** | **-** | **3,690,943** | **3,690,943** |
| **Derivative assets** | **-** | **1,151,716** | **-** | **1,151,716** | **1,151,716** |
| **Financial investments through OCI** | **-** | **10,319,779** | **-** | **10,319,779** | **10,319,779** |
| **Other Assets** | **7,150,640** | **-** | **-** | **7,150,640** | **7,150,640** |
| | **7,150,640** | **15,162,438** | **-** | **22,313,078** | **22,313,078** |
| **LIABILITIES** | | | | | |
| **Derivative liabilities** | **-** | **1,705,225** | **-** | **1,705,225** | **1,705,225** |
| | | | | | |
| 31 December 2018 | | | | | |
| ASSETS | | | | | |
| Trading assets | - | 2,473,961 | - | 2,473,961 | 2,473,961 |
| Derivative assets | - | 1,278,203 | - | 1,278,203 | 1,278,203 |
| Financial investments through OCI | - | 7,253,408 | - | 7,253,408 | 7,253,408 |
| Other Assets | 8,687,635 | - | - | 8,687,635 | 8,687,635 |
| | 8,687,635 | 11,005,572 | - | 19,693,207 | 19,693,207 |
| LIABILITIES | | | | | |
| Derivative liabilities | - | 1,671,872 | - | 1,671,872 | 1,671,872 |
| | | | | | |
| 31 December 2017 | | | | | |
| ASSETS | | | | | |
| Trading assets | - | 749,636 | - | 749,636 | 749,636 |
| Derivative assets | - | 9,674,017 | - | 9,674,017 | 9,674,017 |
| Financial investments | - | 24,949,390 | - | 24,949,390 | 24,949,390 |
| Other Assets | 7,442,747 | - | - | 7,442,747 | 7,442,747 |
| | 7,442,747 | 35,373,043 | - | 42,815,790 | 42,815,790 |
| LIABILITIES | | | | | |
| Derivative liabilities | - | 9,353,440 | - | 9,353,440 | 9,353,440 |

There has been no transfer between the different fair value levels during the year.

Fair value measurement disclosures – level 2

The valuation techniques used in determining the fair value of assets and liabilities classified within level 2 and level 3 of the fair value hierarchy is the discounted cash flow model and other valuation techniques commonly used by market participants. Such models are populated using market parameters that are corroborated by reference to independent market data, where possible, or alternative sources such as third-party quotes, recent transaction prices or suitable proxies. The inputs used include discount rates (including credit spreads), liquidity discount rates, risk-free and volatility rates, risk premiums, volatilities and correlations.

## 4. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement disclosures – level 3

The fair value of level 3 assets and liabilities is determined using valuation techniques which incorporate assumptions that are not supported by prices from observable current market transactions in the same asset or liability and are not based on available observable market data. Changes in these assumptions could affect the reported fair values of these financial assets and liabilities. Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market-related discount rate at the reporting date for a financial asset or liability with similar terms and conditions.

Although the Bank believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values could impact the fair value of its assets and liabilities. The behaviour of the unobservable parameters used to fair value level 3 financial assets and liabilities is not necessarily independent and may often hold a relationship with other observable and unobservable market parameters. Where material and possible, such relationships are captured in the valuation by way of correlation factors, though these factors are, themselves, frequently unobservable. In such instances, the range of possible and reasonable fair value estimates is taken into account when determining appropriate model adjustments.

## 5. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty

In preparing the annual financial statements, estimates and assumptions are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances. Unless otherwise stated, no material changes to assumptions have occurred during the year.

***Allowances for credit losses***

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanations of inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 2.1b. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL

Detailed information about the judgements and estimated made by the Bank in the above areas is set out in note 2.1b.

Management assessed and considered the sensitivity of the IFRS 9 provision against the forward-looking economic conditions at a client level. The reviews and ratings of each client are performed at least annually. This process entails credit analysts completing a credit scorecard and incorporating forward looking information. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting IFRS 9 provision for the individual client. Therefore the impact of forward looking economic conditions is embedded into the total IFRS 9 provision for each CIB client and cannot be stressed or separated out of the overall IFRS 9 provision.

***Retirement Benefit Obligations***

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

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

The sensitivity analysis for the key assumptions are disclosed in Note 31(c).

***Financial asset and liability classification***

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances. In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy 2.1 (b).

Details of the Bank's classification of financial assets and liabilities are given in note 4.

## 6. SEGMENTAL REPORTING

**Statement of Financial Position as at 31 December 2019**

| Assets | | Segment A | | | Segment B | | | Bank | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | 2019 USD | 2018 USD | 2017 USD | 2019 USD | 2018 USD | 2017 USD | 2019 USD | 2018 USD | 2017 USD |
| Cash and cash equivalents | 7 | 6,668,698 | 16,305,636 | 52,406,196 | 679,989,421 | 858,713,927 | 518,417,452 | 686,658,119 | 875,019,563 | 570,823,648 |
| Trading assets | 8 | 3,690,943 | 2,473,961 | 749,636 | - | - | - | 3,690,943 | 2,473,961 | 749,636 |
| Derivative assets | 9 | 7,412 | - | 5,536,522 | 1,144,304 | 1,278,203 | 4,137,495 | 1,151,716 | 1,278,203 | 9,674,017 |
| Loans and advances to banks | 10 | 4,336,472 | 3,129,680 | 145,155 | 294,144,688 | 298,766,009 | 424,000,038 | 298,481,160 | 301,895,689 | 424,145,193 |
| Loans and advances to customers | 11 | 9,642,461 | 25,898,300 | 9,313,241 | 217,361,653 | 202,133,706 | 112,856,337 | 227,004,114 | 228,032,006 | 122,169,578 |
| Financial investments | 12 | 10,319,779 | 7,253,408 | 5,230,260 | 186,755,638 | 140,111,062 | 118,382,553 | 197,075,417 | 147,364,470 | 123,612,813 |
| Property, plant and equipment | 13 | 216,686 | - | - | 3,699,184 | 3,177,587 | 2,037,435 | 3,915,870 | 3,177,587 | 2,037,435 |
| Intangible assets | 14 | 941,278 | - | - | 16,069,185 | 18,143,248 | 19,517,579 | 17,010,463 | 18,143,248 | 19,517,579 |
| Right-of-use assets | 15 | 182,953 | - | - | 3,123,306 | - | - | 3,306,259 | - | - |
| Other assets | 17 | 7,873,985 | 9,390,921 | 7,664,464 | 188,351 | 394,725 | 382,154 | 8,062,336 | 9,785,646 | 8,046,618 |
| **Total Assets** | | 43,880,667 | 64,451,906 | 81,045,474 | 1,402,475,730 | 1,522,718,467 | 1,199,731,043 | 1,446,356,397 | 1,587,170,373 | 1,280,776,517 |
| **Liabilities** | | | | | | | | | | |
| Deposits from banks | 18 | 20,230,089 | 24,650,591 | 24,815,832 | 68,172,541 | 10,065,808 | 36,079,428 | 88,402,630 | 34,716,399 | 60,895,260 |
| Deposits from customers | 19 | 85,324,754 | 101,987,539 | 75,733,805 | 1,125,772,722 | 1,285,643,649 | 1,027,781,329 | 1,211,097,476 | 1,387,631,188 | 1,103,515,134 |
| Derivatives liabilities | 9 | 7,133 | 13,701 | 159,979 | 1,698,092 | 1,658,171 | 9,193,461 | 1,705,225 | 1,671,872 | 9,353,440 |
| Other borrowed funds | 20 | - | - | 1,502,213 | 470,766 | 1,412,299 | 2,595,414 | 470,766 | 1,412,299 | 4,097,627 |
| Lease liabilities | 15 | 187,464 | - | - | 3,200,316 | - | - | 3,387,780 | - | - |
| Current tax liabilities | 21 | 162,153 | 193,837 | 393,609 | 714,628 | 479,425 | 236,704 | 876,781 | 673,262 | 630,313 |
| Deferred tax liabilities | 16 | 62,000 | 87,340 | (237,660) | 373,000 | 672,660 | 275,660 | 435,000 | 760,000 | 38,000 |
| Other liabilities | 22 | 4,838,058 | 5,796,010 | 3,899,428 | 7,285,602 | 38,717,893 | 7,386,539 | 12,123,660 | 44,513,903 | 11,285,967 |
| **Total Liabilities** | | 110,811,651 | 132,729,018 | 106,267,206 | 1,207,687,667 | 1,338,649,905 | 1,083,548,535 | 1,318,499,318 | 1,471,378,923 | 1,189,815,741 |
| Shareholder's Equity | | | | | | | | | | |
| Share capital | 23 | - | - | - | 35,000,000 | 35,000,000 | 35,000,000 | 35,000,000 | 35,000,000 | 35,000,000 |
| Statutory and Other Reserves | | 2,423,040 | 2,370,529 | 1,954,885 | 21,390,712 | 16,873,053 | 13,459,779 | 23,813,752 | 19,243,582 | 15,414,664 |
| Retained earnings | 35 | 9,487,770 | 3,901,951 | 7,469,831 | 59,555,557 | 57,645,917 | 33,076,281 | 69,043,327 | 61,647,868 | 40,546,112 |
| **Total Equity attributable to equity holder** | | 11,910,810 | 6,272,480 | 9,424,716 | 115,946,269 | 109,518,970 | 81,536,060 | 127,857,079 | 115,891,450 | 90,960,776 |
| **Total Equity and Liabilities** | | 122,722,461 | 139,001,498 | 115,691,922 | 1,323,633,936 | 1,448,168,875 | 1,165,084,595 | 1,446,356,397 | 1,587,170,373 | 1,280,776,517 |

## 6. SEGMENTAL REPORTING

**Income statement for the year ended 31 December 2019**

| 31 December 2019 | | Segment A | | | Segment B | | | Bank | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | 2019 USD | 2018 USD | 2017 USD | 2019 USD | 2018 USD | 2017 USD | 2019 USD | 2018 USD | 2017 USD |
| Interest income | | 952,961 | 916,678 | 741,604 | 43,926,021 | 36,996,904 | 27,739,960 | 44,878,982 | 37,913,582 | 28,481,564 |
| Interest expense | | (1,279,225) | (1,023,111) | (603,725) | (11,199,624) | (8,185,471) | (6,414,634) | (12,478,849) | (9,208,582) | (7,018,359) |
| **Net interest (expense)/ income** | 25 | (326,264) | (106,433) | 137,879 | 32,726,397 | 28,811,433 | 21,325,326 | 32,400,133 | 28,705,000 | 21,463,205 |
| Fee and commission income | | 468,323 | 677,131 | 721,421 | 6,463,073 | 6,471,833 | 6,466,990 | 6,931,396 | 7,148,964 | 7,188,411 |
| Fee and commission expense | | (311,241) | (407,468) | (373,345) | - | - | - | (311,241) | (407,468) | (373,345) |
| **Net fee and commission income** | 26 | 157,082 | 269,663 | 348,076 | 6,463,073 | 6,471,833 | 6,466,990 | 6,620,155 | 6,741,496 | 6,815,066 |
| Net trading income | 27 | 2,381,774 | 2,444,172 | 3,612,170 | 5,017,843 | 9,166,015 | 6,509,490 | 7,399,617 | 11,610,187 | 10,121,660 |
| Net income from other financial instruments carried at fair value | 28 | 40,066 | 106,357 | 7,438 | - | - | - | 40,066 | 106,357 | 7,438 |
| Other operating income | 29 | 336,855 | 316,141 | 273,897 | - | - | - | 336,855 | 316,141 | 273,897 |
| | | 2,758,695 | 2,866,670 | 3,893,505 | 5,017,843 | 9,166,015 | 6,509,490 | 7,776,538 | 12,032,685 | 10,402,995 |
| **Operating income** | | 2,589,513 | 3,029,900 | 4,379,460 | 44,207,313 | 44,449,281 | 34,301,806 | 46,796,826 | 47,479,181 | 38,681,266 |
| Net impairment (charge)/gain on financial assets | 30 | 2,143 | (70,906) | 612,750 | (5,162,734) | (1,384,435) | (429,407) | (5,160,591) | (1,455,341) | 183,343 |
| Personnel expenses | 31 | (527,636) | (554,028) | (829,435) | (9,007,629) | (8,127,712) | (6,496,491) | (9,535,265) | (8,681,740) | (7,325,926) |
| Operating lease expenses | 32 | (7,530) | (49,576) | (73,731) | (128,546) | (727,289) | (577,496) | (136,076) | (776,865) | (651,227) |
| Depreciation on ROU Assets | 15 | (39,042) | | | (666,514) | | | (705,556) | | |
| Depreciation and amortisation | 13&14 | (114,533) | - | - | (1,955,277) | (1,970,598) | (1,223,735) | (2,069,810) | (1,970,598) | (1,223,735) |
| Other income/(expenses) | 33 | 129,518 | (493,795) | (728,035) | (6,257,096) | (6,796,526) | (5,918,900) | (6,127,578) | (7,290,321) | (6,646,935) |
| | | (557,080) | (1,168,305) | (1,018,451) | (23,177,796) | (19,006,560) | (14,646,029) | (23,734,876) | (20,174,865) | (15,664,480) |
| **Profit before income tax** | | 2,032,433 | 1,861,595 | 3,361,009 | 21,029,517 | 25,442,721 | 19,655,777 | 23,061,950 | 27,304,316 | 23,016,786 |
| Income tax expense | 34 | (213,357) | (354,286) | (839,018) | (594,896) | (1,377,132) | (891,429) | (808,253) | (1,731,418) | (1,730,447) |
| **Profit for the year** | | 1,819,076 | 1,507,309 | 2,521,991 | 20,434,621 | 24,065,589 | 18,764,348 | 22,253,697 | 25,572,898 | 21,286,339 |

# 6. SEGMENTAL REPORTING

**Statement of profit or loss and other comprehensive Income as at 31 December 2019**

| | Note | Segment A | | | Segment B | | | Bank | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **2019 USD** | 2018 USD | 2017 USD | **2019 USD** | 2018 USD | 2017 USD | **2019 USD** | 2018 USD | 2017 USD |
| Profit for the year | | **1,819,076** | 1,507,309 | 2,521,991 | **20,434,621** | 24,065,589 | 18,764,348 | **22,253,697** | 25,572,898 | 21,286,339 |
| **Other comprehensive Income** | | | | | | | | | | |
| *Item that may be reclassified to profit or loss* | | | | | | | | | | |
| Net gain/(loss) on fair value of debt instruments | | **22,474** | 1,467 | (15,008) | **-** | 12,809 | - | **22,474** | 14,276 | (15,008) |
| *Item that may not be reclassified to profit or loss* | | | | | | | | | | |
| Remeasurement of defined benefit liabilities | | **(13,802)** | - | - | **(235,619)** | - | - | **(249,421)** | - | - |
| **Other comprehensive income for the year** | | **8,672** | 1,467 | (15,008) | **(235,619)** | 12,809 | - | **(226,947)** | 14,276 | (15,008) |
| **Total comprehensive income for the year** | | **1,827,748** | 1,508,776 | 2,506,983 | **20,199,002** | 24,078,398 | 18,764,348 | **22,026,750** | 25,587,174 | 21,271,331 |



# 7. CASH AND CASH EQUIVALENTS

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Bank - Total** | | | |
| Cash in hand | **54,784** | 59,766 | 72,108 |
| Foreign currency notes and coins | **20,558** | 6,459 | 20,317 |
| Unrestricted balances with Central Bank | **6,203,320** | 16,239,411 | 52,313,771 |
| Balances with local banks | **390,042** | - | - |
| Balances with banks abroad | **680,005,671** | 858,742,268 | 518,417,452 |
| *Less Stage 1 ECL Collective Allowance* | **(16,256)** | (28,341) | - |
| | **686,658,119** | 875,019,563 | 570,823,648 |
| **Segment A** | | | |
| Cash in hand | **54,784** | 59,766 | 72,108 |
| Foreign currency notes and coins | **20,558** | 6,459 | 20,317 |
| Unrestricted balances with Central Bank | **6,203,320** | 16,239,411 | 52,313,771 |
| Balance with local banks | **390,042** | - | - |
| *Less Stage 1 ECL Collective Allowance* | **(6)** | - | - |
| | **6,668,698** | 16,305,636 | 52,406,196 |
| **Segment B** | | | |
| Balances with banks abroad | **680,005,671** | 858,742,268 | 518,417,452 |
| *Less Stage 1 ECL Collective Allowance* | **(16,250)** | (28,341) | - |
| | **679,989,421** | 858,713,927 | 518,417,452 |

| | | | |
|---|---|---|---|
| **Net debt reconciliation** | | | |
| Cash and cash equivalents | **686,658,119** | 875,019,563 | 570,823,648 |
| Lease liabilities | **(3,387,780)** | - | - |
| At 31 December | **683,270,339** | 875,019,563 | 570,823,648 |

| **Net debt analysis** | **Cash USD** | **Lease liabilities USD** | **Total USD** |
|---|---|---|---|
| **Net debt at 1 January 2019** | **875,019,563** | **-** | **875,019,563** |
| **Recognised on adoption of IFRS 16 (Note 15)** | **-** | **(3,938,098)** | **(3,938,098)** |
| **Cash flows (i)** | **(187,700,995)** | **783,525** | **(186,917,470)** |
| **Net foreign exchange difference** | **(648,363)** | **-** | **(648,363)** |
| **Other changes (ii)** | **(12,086)** | **-** | **(12,086)** |
| **Net changes to leases (iii)** | **-** | **(233,207)** | **(233,207)** |
| **Net debt at 31 December 2019** | **686,658,119** | **(3,387,780)** | **683,270,339** |
| Net debt as at 1 January 2018 | 570,823,648 | - | 570,823,648 |
| Net foreign exchange difference | (262,821) | - | (262,821) |
| Other changes (ii) | 2,366 | - | 2,366 |
| Cash flows | 304,456,370 | - | 304,456,370 |
| Net debt as at 31 December 2018 | 875,019,563 | - | 875,019,563 |
| Net debt as at 1 January 2017 | 955,449,350 | - | 955,449,350 |
| Net foreign exchange difference | (199,355) | - | (199,355) |
| Cash flows | (384,426,347) | - | (384,426,347) |
| Net debt as at 31 December 2017 | 570,823,648 | - | 570,823,648 |

(i) Cashflows for lease liabilities include USD 579,023 relating to principal portion payment classified within financing activities and USD 204,502 relating to interest payment classified within operating activities.

(ii) Other changes include effect of IFRS 9 impairment charge on cash and cash equivalents.

(iii) Net changes to leases include non-cash movements relating to interest expense and acquisition of leases.

## 7. CASH AND CASH EQUIVALENTS (CONTINUED)

***31 December 2019***

**Reconciliation of the expected credit losses for cash and cash equivalents at amortised cost**

| | Opening ECL balance | Transfers between stages | | | | Income statement movement | | | | | Closing balance |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Transfer Stage 1 to/from | Transfer Stage 2 to/from | Transfer Stage 3 to/from | Total | Originated "New" impairments raised | Changes in ECL - due to modifications | Subsequent changes in ECL | Derecognition | Total | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| Stage 1 | | | | | | | | | | | |
| Bank lending | (28,341) | - | - | - | - | (11,413) | - | 23,498 | - | 12,085 | (16,256) |
| **Total** | (28,341) | - | - | - | - | (11,413) | - | 23,498 | - | 12,085 | (16,256) |

**Credit risk exposure of Loans and advances to Bank at Amortised cost**

| | Gross Carrying value | SB 1 - 12 | | SB 13 - 20 | | SB 21 - 25 | | Stage 3 | | Total gross carrying amount of non-performing loans | Gross specific impairment coverage % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Sub standard | Doubtful | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | |
| Cash and cash equivalents | 686,674,375 | 686,581,335 | - | 92,940 | - | 100 | - | - | - | - | - |
| *Less: Total expected credit loss provision for cash and cash equivalents* | (16,256) | - | - | - | - | - | - | - | - | - | - |
| Stage 1 | (16,256) | | | | | | | | | | |
| Stage 2 | - | | | | | | | | | | |
| Stage 3 | - | | | | | | | | | | |
| Interest In Suspense (IIS) | - | | | | | | | | | | |
| **Net carrying value of cash and cash equivalents at amortised cost** | 686,658,119 | | | | | | | | | | |

## 7. CASH AND CASH EQUIVALENTS (CONTINUED)

31 December 2018

Reconciliation of the expected credit losses for cash and cash equivalents at amortised cost

Credit risk exposure of cash and cash equivalents at Amortised cost

| | Opening ECL balance | Transfers between stages | | | | Income statement movement | | | | | Closing balance |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Transfer Stage 1 to/from | Transfer Stage 2 to/from | Transfer Stage 3 to/from | Total | Originated "New" impairments raised | Changes in ECL - due to modifications | Subsequent changes in ECL | Derecognition | Total | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Stage 1** | | | | | | | | | | | |
| Bank lending | (28,295) | - | - | - | - | (23,932) | - | 23,886 | - | (46) | (28,341) |
| **Total** | (28,295) | - | - | - | - | (23,932) | - | 23,886 | - | (46) | (28,341) |

**Credit risk exposure of Loans and advances to Bank at Amortised cost**

| | Gross Carrying value | SB 1 - 12 | | SB 13 - 20 | | SB 21 - 25 | | Stage 3 | | Total gross carrying amount of non-performing loans | Gross specific impairment coverage % | Nonperforming loans % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Sub standard | Doubtful | | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | | |
| Corporate lending | 875,047,904 | 875,020,515 | - | 27,389 | - | - | - | - | - | - | 0% | 0% |
| Sovereign lending | - | | | | | | | | | | | |
| Bank lending | - | | | | | | | | | | | |
| Intercompany | - | | | | | | | | | | | |
| **Gross carrying value of cash and cash equivalents** | 875,047,904 | | | | | | | | | | | |
| Less: Total expected credit loss provision for cash and cash equivalents at amortised cost | (28,341) | | | | | | | | | | | |
| Stage 1 | (28,341) | | | | | | | | | | | |
| Stage 2 | - | | | | | | | | | | | |
| Stage 3 | - | | | | | | | | | | | |
| Purchased/originated credit impaired | - | | | | | | | | | | | |
| Interest In Suspense (IIS) | - | | | | | | | | | | | |
| **Net carrying value of cash and cash equivalents at amortised cost at amortised cost** | 875,019,563 | | | | | | | | | | | |

# 8. TRADING ASSETS AND LIABILITIES

**Trading assets**

| Bank – Total & Segment A | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| Sovereign | **3,690,943** | 2,473,961 | 749,636 |
| **Current** | **3,690,943** | 2,473,961 | 749,636 |

# 9. DERIVATIVE INSTRUMENTS

All derivatives are classified as either derivatives held-for-trading or derivatives held-for-hedging. A summary of the fair values of the derivative assets and derivative liabilities is as follows:

| | Fair value of assets | | | Fair value of liabilities | | |
|---|---|---|---|---|---|---|
| | 2019 USD | 2018 USD | 2017 USD | 2019 USD | 2018 USD | 2017 USD |
| **Bank Total** | | | | | | |
| Held-for-trading | **1,151,716** | 1,278,203 | 9,674,017 | **1,063,354** | 1,258,594 | 9,353,440 |
| Held-for-hedging | **-** | - | - | **641,871** | 413,278 | - |
| | **1,151,716** | 1,278,203 | 9,674,017 | **1,705,225** | 1,671,872 | 9,353,440 |
| **Segment A** | | | | | | |
| Held-for-trading | **7,412** | - | 5,536,522 | **7,133** | 13,701 | 159,979 |
| | **7,412** | - | 5,536,522 | **7,133** | 13,701 | 159,979 |
| **Segment B** | | | | | | |
| Held-for-trading | **1,144,304** | 1,278,203 | 4,137,495 | **1,056,221** | 1,244,893 | 9,193,461 |
| Held-for-hedging | **-** | - | - | **641,871** | 413,278 | - |
| | **1,144,304** | 1,278,203 | 4,137,495 | **1,698,092** | 1,658,171 | 9,193,461 |
| **Current** | **1,151,716** | 1,278,203 | 9,674,017 | **1,063,354** | 1,258,594 | 9,353,440 |
| **Non-current** | **-** | - | - | **641,871** | 413,278 | - |



# 9. DERIVATIVE INSTRUMENTS (CONTINUED)

## 9.1 Use and measurement of derivative instruments

In the normal course of business, the Bank enters into a variety of derivative transactions for both trading purposes and hedging foreign exchange, interest rate and credit exposures. Derivative instruments used by the Bank in both trading and hedging activities include swaps, options, forwards and other similar types of instruments based on foreign exchange rates, credit risk and interest rates. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range to take into account possible correlations.

## 9.2 Derivatives held-for-trading

The Bank transacts derivative contracts to address client demand, both as a market maker in the wholesale markets and in structuring tailored derivatives for clients. The Bank also takes proprietary positions for its own account. Trading derivative products include the following:

| | 2019 | | | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value assets | Fair value liabilities | Nominal amount | Fair value assets | Fair value liabilities | Nominal amount | Fair value assets | Fair value liabilities | Nominal amount |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Bank Total** | | | | | | | | | |
| Foreign exchange derivatives | **1,151,716** | **1,063,354** | **341,738,476** | 1,278,203 | 1,258,594 | 357,988,812 | 9,674,017 | 9,353,440 | 774,625,527 |
| **Segment A** | | | | | | | | | |
| Foreign exchange derivatives | **7,412** | **7,133** | **3,570,670** | - | 13,701 | 1,248,064 | 5,536,522 | 159,979 | 128,665,625 |
| **Segment B** | | | | | | | | | |
| Foreign exchange derivatives | **1,144,304** | **1,056,221** | **338,167,806** | 1,278,203 | 1,244,893 | 356,740,748 | 4,137,495 | 9,193,461 | 645,959,902 |

* The notional amount is the sum of the absolute value of all bought or sold contracts for both derivative assets and liabilities. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the Bank's participation in derivative contracts.

## 9.3 Financial instruments held-for-hedging

Where all relevant criteria are met, derivatives are classified as derivatives held-for-hedging and hedge accounting is applied to remove the accounting mismatch between the derivative (hedging instrument) and the underlying instruments (hedged item). All qualifying hedging relationships are designated as either fair value or cash flow hedges for recognised financial assets or liabilities, and highly probable forecast transactions. In 2019, the Bank has applied hedge accounting in respect of interest rate risk on fixed rate loans.

# 9. DERIVATIVE INSTRUMENTS (CONTINUED)

**9.3 Financial instruments held-for-hedging (continued)**

**9.3.1 Derivatives designated as hedging instruments in fair value hedging relationships:**

| Bank and Segment B | Fair value of assets | Fair value of liabilities | Fair value gain/ (loss) | Contract/ notional amount | Less than one year | Between one to five years | Over five years | Net fair value |
|---|---|---|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD | USD | USD | USD |
| **31 December 2019** | | | | | | | | |
| **Interest rate risk fair value hedging relationships** | | | | | | | | |
| Interest rate swaps | **-** | **641,871** | **(228,593)** | **17,845,223** | **-** | **641,871** | **-** | **(641,871)** |
| **Total derivatives designated as hedging instruments in fair value hedging relationships** | **-** | **641,871** | **(228,593)** | **17,845,223** | **-** | **641,871** | **-** | **(641,871)** |
| 31 December 2018 | | | | | | | | |
| Interest rate risk fair value hedging relationships | | | | | | | | |
| Interest rate swaps | - | 413,278 | (413,278) | 17,845,223 | - | 413,278 | - | (413,278) |
| Total derivatives designated as hedging instruments in fair value hedging relationships | - | 413,278 | (413,278) | 17,845,223 | - | 413,278 | - | (413,278) |

# 9. DERIVATIVE INSTRUMENTS (CONTINUED)

**9.3 Financial instruments held-for-hedging (continued)**

**9.3.2 Hedge items classified as fair value hedges:**

| Bank and Segment B | Fair value of assets | Fair value of liabilities | Fair value gain/(loss) | Fair value gain/(loss) used to test hedge ineffectiveness | Accumulated fair value hedge adjustments | Accumulated fair value hedge adjustments for which hedge accounting stopped |
|---|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD | USD |
| **31 December 2019** | | | | | | |
| **Loans and advances** | | | | | | |
| Interest rate risk fair value hedging relationships | **18,580,138** | **-** | **211,839** | **211,839** | **598,843** | **-** |
| **Total items classified as fair value hedges** | **18,580,138** | **-** | **211,839** | **211,839** | **598,843** | **-** |
| 31 December 2018 | | | | | | |
| Loans and advances | | | | | | |
| Interest rate risk fair value hedging relationships | 18,436,011 | - | 387,004 | 387,004 | 387,004 | - |
| Total items classified as fair value hedges | 18,436,011 | - | 387,004 | 387,004 | 387,004 | - |

**9.3.3 Hedge ineffectiveness recognised in profit or loss:**

| Bank and Segment B | Trading revenue | Other fair value movements | Net interest income |
|---|---|---|---|
| | USD | USD | USD |
| **31 December 2019** | | | |
| **Fair value hedges** | | | |
| Interest rate risk fair value hedging relationships | **-** | **-** | **(2,491)** |
| 31 December 2018 | | | |
| Fair value hedges | | | |
| Interest rate risk fair value hedging relationships | - | - | (679) |

## 10. LOANS AND ADVANCES TO BANKS

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Bank Total** | | | |
| Loans and advances to banks | **298,671,634** | 302,101,501 | 424,145,193 |
| Less Stage 1 ECL Collective Allowance | **(190,474)** | (205,812) | - |
| | **298,481,160** | 301,895,689 | 424,145,193 |
| **Segment A** | | | |
| Loans and advances to banks | **4,336,939** | 3,129,842 | 145,155 |
| Less Stage 1 ECL Collective Allowance | **(467)** | (162) | - |
| | **4,336,472** | 3,129,680 | 145,155 |
| **Segment B** | | | |
| Loans and advances to banks | **294,334,695** | 298,971,659 | 424,000,038 |
| Less Stage 1 ECL Collective Allowance | **(190,007)** | (205,650) | - |
| | **294,144,688** | 298,766,009 | 424,000,038 |
| **Remaining term to maturity** | | | |
| **Bank Total** | | | |
| Up to 3 months | **65,041** | 2,415,737 | 50,271,927 |
| Over 3 months and up to 6 months | **66,469,100** | 56,925,966 | 94,630,434 |
| Over 6 months and up to 12 months | **184,647,869** | 168,662,049 | 159,972,894 |
| Over 1 year and up to 5 years | **40,575,947** | 65,485,850 | 109,416,155 |
| Over 5 years | **6,913,677** | 8,611,899 | 9,853,783 |
| | **298,671,634** | 302,101,501 | 424,145,193 |
| **Remaining term to maturity** | | | |
| **Segment A** | | | |
| Up to 3 months | **65,041** | 2,415,737 | 145,155 |
| Over 3 months and up to 6 months | **4,271,898** | 512,764 | - |
| Over 6 months and up to 12 months | **-** | 201,341 | - |
| | **4,336,939** | 3,129,842 | 145,155 |
| **Remaining term to maturity** | | | |
| **Segment B** | | | |
| Up to 3 months | **-** | - | 50,126,772 |
| Over 3 months and up to 6 months | **62,197,202** | 56,413,202 | 94,630,434 |
| Over 6 months and up to 12 months | **184,647,869** | 168,460,708 | 159,972,894 |
| Over 1 year and up to 5 years | **40,575,947** | 65,485,850 | 109,416,155 |
| Over 5 years | **6,913,677** | 8,611,899 | 9,853,783 |
| | **294,334,695** | 298,971,659 | 424,000,038 |
| **Current assets** | **251,182,010** | 228,003,752 | 304,875,255 |
| **Non- current assets** | **47,489,624** | 74,097,749 | 119,269,938 |

## 10. LOANS AND ADVANCES TO BANKS (CONTINUED)

**Reconciliation of the expected credit losses for loans and advances to bank at amortised cost**

**31 December 2019**

| | Opening ECL balance | Transfers between stages | | | | Income statement movement | | | | | Impaired accounts written off | Currency translation and other movements | Reclassification in/out of AC measurement category | Closing balance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Transfer Stage 1 to/ from | Transfer Stage 2 to/ from | Transfer Stage 3 to/ from | Total | Originated "New" impairments raised | Changes in ECL - due to modifications | Subsequent changes in ECL | Derecognition | Total | | | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Stage 1** | | | | | | | | | | | | | | |
| Bank lending | (205,812) | | - | - | - | (135,201) | | 150,539 | | 15,338 | | | | (190,474) |
| **Total** | (205,812) | | - | - | - | (135,201) | - | 150,539 | - | 15,338 | | - | - | (190,474) |

**Credit risk exposure of Loans and advances to Bank at Amortised cost**

| | Gross Carrying value | SB 1 - 12 | | SB 13 - 20 | | SB 21 - 25 | | Stage 3 | | Total gross carrying amount of non-performing loans | Securities and expected recoveries on specifically impaired loans | Interest in suspense (enter as positive) | Balance sheet impairments for non performing specifically impaired loans (Stage 3 and purchased or originated credit impaired) | Gross specific impairment coverage % | Nonper-forming loans % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Sub standard | Doubtful | | | | | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | | |
| Bank lending | 298,671,634 | 291,757,957 | - | 6,913,677 | - | - | - | - | - | - | - | - | - | - | - |
| **Gross carrying value of loans and advances** | 298,671,634 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Less: Total expected credit loss provision at amortised cost | (190,474) | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Stage 1 | (190,474) | | | | | | | | | | | | | | |
| Stage 2 | - | | | | | | | | | | | | | | |
| Stage 3 | - | | | | | | | | | | | | | | |
| Purchased/originated credit impaired | - | | | | | | | | | | | | | | |
| Interest In Suspense (IIS) | - | | | | | | | | | | | | | | |
| **Net carrying value at amortised cost** | 298,481,160 | | | | | | | | | | | | | | |

## 10. LOANS AND ADVANCES TO BANKS (CONTINUED)

**Reconciliation of the expected credit losses for loans and advances to bank at amortised cost**

**31 December 2018**

| | Opening ECL balance | Transfers between stages | | | | Income statement movement | | | | | Impaired accounts written off | Currency translation and other movements | Reclassification in/out of AC measurement catogory | Closing balance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Transfer Stage 1 to/from | Transfer Stage 2 to/from | Transfer Stage 3 to/from | Total | Originated "New" impairments raised | Changes in ECL - due to modifications | Subsequent changes in ECL | Derecognition | Total | | | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Stage 1** | | | | | | | | | | | | | | |
| Bank lending | (176,340) | - | - | - | - | (168,921) | - | 139,449 | - | (29,472) | - | - | - | (205,812) |
| **Total** | (176,340) | - | - | - | - | (168,921) | - | 139,449 | - | (29,472) | - | - | - | (205,812) |

**Credit risk exposure of Loans and advances to Bank at Amortised cost**

| | Gross Carrying value | SB 1 - 12 | | SB 13 - 20 | | SB 21 - 25 | | Stage 3 | | Total gross carrying amount of non-performing loans | Securities and expected recoveries on specifically impaired loans | Interest in suspense (enter as positive) | Balance sheet impairments for non performing specifically impaired loans (Stage 3 and purchased or originated credit impaired) | Gross specific impairment coverage % | Nonper-forming loans % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Sub standard | Doubtful | | | | | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | | |
| Corporate lending | 302,101,501 | 293,489,602 | - | 8,611,899 | - | - | - | - | - | - | - | - | - | 0% | 0% |
| Sovereign lending | - | | | | | | | | | | | | | | |
| Bank lending | - | | | | | | | | | | | | | | |
| Intercompany | - | | | | | | | | | | | | | | |
| **Gross carrying value of loans and advances** | 302,101,501 | | | | | | | | | | | | | | |
| Less: Total expected credit loss provision at amortised cost | (205,812) | | | | | | | | | | | | | | |
| Stage 1 | (205,812) | | | | | | | | | | | | | | |
| Stage 2 | - | | | | | | | | | | | | | | |
| Stage 3 | - | | | | | | | | | | | | | | |
| Purchased/originated credit impaired | - | | | | | | | | | | | | | | |
| Interest In Suspense (IIS) | - | | | | | | | | | | | | | | |
| **Net carrying value at amortised cost** | 301,895,689 | | | | | | | | | | | | | | |



## 11. LOANS AND ADVANCES TO CUSTOMERS

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Bank-Total** | | | |
| Personal Loans | **574,422** | 1,164,085 | 1,220,993 |
| Corporate Customers | **184,948,696** | 178,813,375 | 113,264,455 |
| Entities outside Mauritius | **49,452,035** | 51,955,882 | 9,649,037 |
| | **234,975,153** | 231,933,342 | 124,134,485 |
| Less stage 3 ECL/specific allowance | **(7,298,018)** | (838,673) | (839,384) |
| Less stage 1&2 ECL collective allowance | **(673,021)** | (3,062,663) | (1,125,523) |
| | **227,004,114** | 228,032,006 | 122,169,578 |
| **Loans and advances to customers** | | | |
| **Segment A** | | | |
| Personal Loans | **263,887** | 776,267 | 796,565 |
| Corporate Customers | **9,400,485** | 25,994,326 | 9,414,676 |
| | **9,664,372** | 26,770,593 | 10,211,241 |
| Less stage 3 ECL/specific allowance | **-** | (838,673) | (839,384) |
| Less stage 1&2/ ECL collective allowance | **(21,911)** | (33,620) | (58,616) |
| | **9,642,461** | 25,898,300 | 9,313,241 |
| **Loans and advances to customers** | | | |
| **Segment B** | | | |
| Personal Loans | **310,535** | 387,818 | 424,428 |
| Corporate Customers | **175,548,211** | 152,819,049 | 103,849,779 |
| Entities outside Mauritius | **49,452,035** | 51,955,882 | 9,649,037 |
| | **225,310,781** | 205,162,749 | 113,923,244 |
| Less stage 3 ECL/specific allowance | **(7,298,018)** | - | - |
| Less stage 1&2 ECL/collective allowance | **(651,110)** | (3,029,043) | (1,066,907) |
| | **217,361,653** | 202,133,706 | 112,856,337 |
| **11.(a) Remaining term to maturity** | | | |
| **Bank - Total** | | | |
| Up to 3 months | **90,360,964** | 110,597,416 | 27,391,788 |
| Over 3 months and up to 6 months | **581,251** | 1,877,335 | 241,137 |
| Over 6 months and up to 12 months | **12,601,125** | 15,291,721 | 18,242,853 |
| Over 1 year and up to 5 years | **131,121,278** | 103,830,643 | 77,834,279 |
| Over 5 years | **310,535** | 336,227 | 424,428 |
| | **234,975,153** | 231,933,342 | 124,134,485 |
| **Segment A** | | | |
| Up to 3 months | **9,400,485** | 26,770,593 | 8,775,323 |
| Over 3 months and up to 6 months | **263,887** | - | - |
| Over 6 months and up to 12 months | **-** | - | 1,435,918 |
| Over 1 year and up to 5 years | **-** | - | - |
| Over 5 years | **-** | - | - |
| | **9,664,372** | 26,770,593 | 10,211,241 |

## 11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **11. (a) Remaining term to maturity (continued)** | | | |
| **Segment B** | | | |
| Up to 3 months | **80,960,479** | 83,826,823 | 18,616,465 |
| Over 3 months and up to 6 months | **317,364** | 1,877,335 | 241,137 |
| Over 6 months and up to 12 months | **12,601,125** | 15,291,721 | 16,806,935 |
| Over 1 year and up to 5 years | **131,121,278** | 103,830,643 | 77,834,279 |
| Over 5 Years | **310,535** | 336,227 | 424,428 |
| | **225,310,781** | 205,162,749 | 113,923,244 |
| **Current assets** | **103,543,340** | 127,766,472 | 45,875,778 |
| **Non-current assets** | **131,431,813** | 104,166,870 | 78,258,707 |
| **(b) Credit concentration of risk by industry sectors** | | | |
| **Bank-Total** | | | |
| Transport | **-** | - | 1,816,552 |
| Financial and Business Services | **6,594,021** | 10,988,688 | 5,108,355 |
| Traders | **5,635,618** | 35,682,812 | 10,317,722 |
| Personal | **574,422** | 1,164,085 | 1,220,993 |
| Global Business Licence holders | **175,548,211** | 152,819,049 | 103,849,779 |
| Property Holdings | **23,410,337** | 20,272,663 | - |
| Public Non-Financial Corporation | **-** | 10,839,894 | 1,821,084 |
| Infrastructure | **-** | 166,151 | - |
| Mining & Quarrying | **23,212,544** | - | - |
| | **234,975,153** | 231,933,342 | 124,134,485 |
| **Segment A** | | | |
| Financial and business services | **6,594,021** | 10,988,688 | 5,108,355 |
| Traders | **2,806,464** | 3,999,593 | 2,485,236 |
| Personal | **263,887** | 776,267 | 796,566 |
| Public Non-Financial Corporation | **-** | 10,839,894 | 1,821,084 |
| Infrastructure | **-** | 166,151 | |
| | **9,664,372** | 26,770,593 | 10,211,241 |
| **Segment B** | | | |
| Transport | **-** | - | 1,816,552 |
| Traders | **2,829,154** | 31,683,219 | 7,832,486 |
| Personal | **310,535** | 387,818 | 424,427 |
| Global Business Licence holders | **175,548,211** | 152,819,049 | 103,849,779 |
| Property Holdings | **23,410,337** | 20,272,663 | - |
| Mining & Quarrying | **23,212,544** | - | - |
| | **225,310,781** | 205,162,749 | 113,923,244 |

## 11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

**(c) Segmental Analysis -Geographical Area**

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| Africa | **197,172,135** | 229,721,910 | 116,655,744 |
| Australia | **13,700,914** | 387,818 | 62,801 |
| Europe | **24,102,104** | 1,823,614 | 7,415,940 |
| | **234,975,153** | 231,933,342 | 124,134,485 |

**(d) Allowance for credit impairment**

| | Stage 3 ECL/ specific allowance USD | Stage 1&2 ECL collective allowance USD | Total USD |
|---|---|---|---|
| Balance at 1 January 2017 | 941,763 | 695,233 | 1,636,996 |
| Provision for credit impairment for the year | 2,027 | 1,013,043 | 1,015,070 |
| Provisions released | (104,406) | (582,753) | (687,159) |
| Balance at 31 December 2017 | 839,384 | 1,125,523 | 1,964,907 |
| IFRS 9 transition: 1 January 2018 | (30,387) | 550,853 | 520,466 |
| Provision for credit impairment for the year | 29,676 | 1,585,817 | 1,615,493 |
| Provisions released | - | (199,530) | (199,530) |
| **Balance at 31 December 2018** | **838,673** | **3,062,663** | **3,901,336** |
| **Loans written off** | **(837,047)** | **-** | **(837,047)** |
| **Provision for credit impairment for the year** | **5,255,427** | **158,227** | **5,413,654** |
| **Transfer between stages** | **2,040,965** | **(2,040,965)** | **-** |
| **Provisions released** | **-** | **(506,904)** | **(506,904)** |
| **Balance at 31 December 2019** | **7,298,018** | **673,021** | **7,971,039** |

| | | |
|---|---|---|
| **2019** | | |
| **Segment A** | **-** | **21,911** |
| **Segment B** | **7,298,018** | **651,110** |
| 2018 | | |
| Segment A | 838,673 | 33,018 |
| Segment B | - | 3,029,645 |
| 2017 | | |
| Segment A | 839,284 | - |
| Segment B | - | 1,125,523 |

## 11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

**(e) Allowance for credit impairment by industry sectors**

| | 2019 | | | | | 2018 | 2017 |
|---|---|---|---|---|---|---|---|
| **Bank – Total** | **Gross amount of loans** | **Impaired loans** | **Stage 3 ECL/ specific allowance** | **Stage 1&2 ECL collective allowance** | **Total allowances for credit impairment** | Total allowances for credit impairment | Total allowances for credit impairment |
| | **USD** | **USD** | **USD** | **USD** | **USD** | USD | USD |
| Transport | - | - | - | - | - | - | 2,649 |
| Financial and Business Services | 6,594,021 | - | - | 13,679 | 13,679 | 5,187 | 44,971 |
| Traders | 5,635,618 | - | - | 25,407 | 25,407 | 156,602 | 39,573 |
| Personal | 574,422 | - | - | 5,744 | 5,744 | 2,819 | 3,252 |
| Property Holdings | 23,410,337 | - | - | 7,351 | 7,351 | 179,374 | - |
| Global Business licence holders | 175,548,211 | 21,908,817 | 7,298,018 | 618,242 | 7,916,260 | 2,714,993 | 1,033,087 |
| Infrastructure | - | - | - | - | - | 50 | - |
| Public Non-financial Corporations | - | - | - | - | - | 842,311 | - |
| Others | - | - | - | - | - | - | 841,375 |
| Mining & Quarrying | 23,212,544 | - | - | 2,598 | 2,598 | - | - |
| | **234,975,153** | **21,908,817** | **7,298,018** | **673,021** | **7,971,039** | 3,901,336 | 1,964,907 |
| **Segment A** | | | | | | | |
| Financial and Business Services | 6,594,021 | - | - | 13,679 | 13,679 | 5,187 | 44,971 |
| Traders | 2,806,464 | - | - | 5,593 | 5,593 | 21,928 | 9,532 |
| Personal | 263,887 | - | - | 2,639 | 2,639 | 2,215 | 2,122 |
| Infrastructure | - | - | - | - | - | 50 | - |
| Public Non-financial Corporations | - | - | - | - | - | 842,311 | - |
| Others | - | - | - | - | - | - | 841,375 |
| | **9,664,372** | **-** | **-** | **21,911** | **21,911** | 871,691 | 898,000 |

Impaired loans of USD 21,908,817 as at 31 December 2019 were from clients resident in Mauritius and Mozambique.

## 11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

**(e) Allowance for credit impairment by industry sectors (continued)**

| | **2019** | **2019** | **2019** | **2019** | **2019** | 2018 | 2017 |
|---|---|---|---|---|---|---|---|
| | **Gross amount of loans** | **Impaired loans** | **Stage 3 ECL/specific allowance** | **Stage 1&2 ECL collective allowance** | **Total allowances for credit impairment** | Total allowances for credit impair-ment | Total allowances for credit impair-ment |
| | **USD** | **USD** | **USD** | **USD** | **USD** | USD | USD |
| **Segment B** | | | | | | | |
| Transport | - | - | - | - | - | - | 2,649 |
| Traders | 2,829,154 | - | - | 19,814 | 19,814 | 134,674 | 30,041 |
| Personal | 310,535 | - | - | 3,105 | 3,105 | 604 | 1,130 |
| Property Holdings | 23,410,337 | - | - | 7,351 | 7,351 | 179,374 | - |
| Global Business licence holders | 175,548,211 | 21,908,817 | 7,298,018 | 618,242 | 7,916,260 | 2,714,993 | 1,033,087 |
| Mining & Quarrying | 23,212,544 | - | - | 2,598 | 2,598 | - | - |
| | **225,310,781** | **21,908,817** | **7,298,018** | **651,110** | **7,949,128** | 3,029,645 | 1,066,907 |

## 11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

**Reconciliation of the expected credit losses for loans and advances at amortised cost**

***31 December 2019***

| | Opening ECL balance | Transfers between stages | | | | Income statement movement | | | | Impaired accounts written off | Time Value of Money | Reclassification in/ out of AC measurement catogory | Closing balance | Post write-off recoveries recognised in P/L |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Transfer Stage 1 to/from | Transfer Stage 2 to/ from | Transfer Stage 3 to/ from | Total | Originated "New" impairments raised | Changes in ECL - due to modifications | Subsequent changes in ECL | Total | | | | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Stage 1** | | | | | | | | | | | | | | |
| Corporate lending | 1,046,919 | - | - | (25,221) | (25,221) | 158,227 | - | (506,904) | (348,677) | - | - | - | 673,021 | - |
| Sovereign lending | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bank lending | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Intercompany | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | 1,046,919 | - | - | (25,221) | (25,221) | 158,227 | - | (506,904) | (348,677) | - | - | - | 673,021 | - |
| **Stage 2** | | | | | | | | | | | | | | |
| Corporate lending | 2,015,744 | - | - | (2,015,744) | (2,015,744) | - | - | - | - | - | - | - | - | - |
| Sovereign lending | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bank lending | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Intercompany | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | 2,015,744 | - | - | (2,015,744) | (2,015,744) | - | - | - | - | - | - | - | - | - |
| **Stage 3 (excluding IIS)** | | | | | | | | | | | | | | |
| Corporate lending | 838,673 | 25,221 | 2,015,744 | - | 2,040,965 | - | - | 5,387,128 | 5,387,128 | (837,047) | (131,701) | - | 7,298,018 | (770) |
| Sovereign lending | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bank lending | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Intercompany | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | 838,673 | 25,221 | 2,015,744 | - | 2,040,965 | - | - | 5,387,128 | 5,387,128 | (837,047) | (131,701) | - | 7,298,018 | - |
| **Purchased/ originated credit impaired** | | | | | | | | | | | | | | |
| Corporate lending | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sovereign lending | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bank lending | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Intercompany | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total ECL** | 3,901,336 | 25,221 | 2,015,744 | (2,040,965) | - | 158,227 | - | 4,880,224 | 5,038,451 | (837,047) | (131,701) | - | 7,971,039 | (770) |

## 11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

**Credit risk exposure of Loans and advances at Amortised cost**

***31 December 2019***

| | Gross Carrying value | SB 1 - 12 | | SB 13 - 20 | | SB 21 - 25 | | Stage 3 | | Total gross carrying amount of non-performing loans | Balance sheet impairments for non performing specifically impaired loans (stage 3) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Sub standard | Doubtful | | |
| | | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| Corporate lending* | 235,127,799 | 68,813,306 | | 144,253,030 | - | - | - | 11,994,491 | 10,066,972 | 22,061,463 | 7,298,018 |
| **Gross carrying value of loans and advances** | 235,127,799 | - | - | - | - | - | - | - | - | - | - |
| Less: Total expected credit loss provision for loans and advances at amortised cost | (7,971,039) | - | - | - | - | - | - | - | - | - | - |
| Stage 1 | (673,021) | | | | | | | | | | |
| Stage 2 | - | | | | | | | | | | |
| Stage 3 | (7,298,018) | | | | | | | | | | |
| Purchased/originated credit impaired | - | | | | | | | | | | |
| Interest In Suspense (IIS) | (152,646) | | | | | | | | | | |
| **Net carrying value of loans and advances at amortised cost** | 227,004,114 | | | | | | | | | | |

*The corporate lending exclude interest in suspense.

Loans and advances include the element of MTM amounting USD 598,843 from Hedge accounting (ref note 9.3.2).

## 11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

**Reconciliation of the expected credit losses for loans and advances at amortised cost.**

*31 December 2018*

| | Opening balance | Transfers between stages | | | | Income statement movement | | | | Closing ECL balance |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Transfer to/ from Stage 1 | Transfer to/ from Stage 2 | Transfer to/ from Stage 3 | Total | Originated "New" impairments raised | Subsequent changes in ECL | De-recognition | Total | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Stage 1** | | | | | | | | | | |
| Corporate lending | (704,725) | - | - | - | - | (541,724) | 199,530 | - | (342,194) | (1,046,919) |
| Sovereign lending | - | - | - | - | - | - | - | - | - | - |
| Bank lending | | | | | - | - | | | - | - |
| Intercompany | - | - | - | - | - | - | - | - | - | - |
| **Total** | **(704,725)** | **-** | **-** | **-** | **-** | **(541,724)** | **199,530** | **-** | **(342,194)** | **(1,046,919)** |
| **Stage 2** | | | | | | | | | | |
| Corporate lending | (971,650) | - | - | - | - | (1,044,094) | - | - | (1,044,094) | (2,015,744) |
| Sovereign lending | - | - | - | - | - | - | - | - | - | - |
| Bank lending | | | | | - | - | | | - | - |
| Intercompany | - | - | - | - | - | - | - | - | - | - |
| **Total** | **(971,650)** | **-** | **-** | **-** | **-** | **(1,044,094)** | **-** | **-** | **(1,044,094)** | **(2,015,744)** |
| **Stage 3 (excl IIS)** | | | | | | | | | | |
| Corporate lending | (808,997) | | - | - | - | (29,676) | - | - | (29,676) | (838,673) |
| Sovereign lending | - | - | - | - | - | - | - | - | - | - |
| Bank lending | | | | | - | - | | | - | - |
| Intercompany | - | - | - | - | - | - | - | - | - | - |
| **Total** | **(808,997)** | **-** | **-** | **-** | **-** | **(29,676)** | **-** | **-** | **(29,676)** | **(838,673)** |
| **Total ECL** | **(2,485,372)** | **-** | **-** | **-** | **-** | **(1,615,494)** | **199,530** | **-** | **(1,415,964)** | **(3,901,336)** |

## 11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

**Credit risk exposure of Loans and advances at Amortised cost**

*31 December 2018*

| | Gross Carrying value | SB 1 - 12 | | SB 13 - 20 | | SB 21 - 25 | | Stage 3 | | Total gross carrying amount of non-performing loans | Securities and expected recoveries on specifically impaired loans | Interest in suspense (enter as positive) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 1 | Stage2 | Stage 1 | Stage 2 | Sub standard | Doubtful | | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| Corporate lending | 232,247,656 | 46,878,723 | | 174,165,329 | | | 10,076,899 | | 1,126,705 | 1,126,705 | 812,391 | 314,314 |
| Sovereign lending | - | - | - | - | - | - | - | - | - | - | - | - |
| Bank lending | - | - | - | - | - | - | - | - | - | - | - | - |
| Intercompany | - | - | - | - | - | - | - | - | - | - | - | - |
| **Gross carrying value of loans and advances** | 232,247,656 | | | | | | | | | | | |
| *Less: Total expected credit loss provision for loans and advances at amortised cost* | (3,901,336) | | | | | | | | | | | |
| Stage 1 | (1,046,919) | | | | | | | | | | | |
| Stage 2 | (2,015,744) | | | | | | | | | | | |
| Stage 3 | (838,673) | | | | | | | | | | | |
| Purchased/originated credit impaired | - | | | | | | | | | | | |
| Interest in Suspense (IIS) | (314,314) | | | | | | | | | | | |
| **Net carrying value of loans and advances at amortised cost** | 228,032,006 | | | | | | | | | | | |

Loans and advances include the element of MTM amounting USD 387,004 from Hedge accounting (ref note 9.3.2).

# 12. FINANCIAL INVESTMENTS

| | Segment A | | | Segment B | | | Bank - Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2019 USD** | 2018 USD | 2017 USD | **2019 USD** | 2018 USD | 2017 USD | **2019 USD** | 2018 USD | 2017 USD |
| **Comprising of** | | | | | | | | | |
| Sovereign bonds | **10,319,779** | 7,253,408 | 5,230,260 | **186,755,638** | 140,111,062 | 118,382,553 | **197,075,417** | 147,364,470 | 123,612,813 |
| | **10,319,779** | 7,253,408 | 5,230,260 | **186,755,638** | 140,111,062 | 118,382,553 | **197,075,417** | 147,364,470 | 123,612,813 |
| **Classified as:** | | | | | | | | | |
| Net debt financial investments measured at amortised cost | **-** | - | - | **186,755,638** | 140,111,062 | 98,663,423 | **186,755,638** | 140,111,062 | 98,663,423 |
| Gross debt financial investments measured at amortised cost | **-** | - | - | **186,757,301** | 140,111,207 | 98,663,423 | **186,757,301** | 140,111,207 | 98,663,423 |
| Less: Expected credit losses for debt financial investments measured at amortised cost (note 12.1) | **-** | - | - | **(1,663)** | (145) | - | **(1,663)** | (145) | - |
| Net debt financial investments measured at fair value through OCI | **10,319,779** | 7,253,408 | 5,230,260 | **-** | - | 19,719,130 | **10,319,779** | 7,253,408 | 24,949,390 |
| Gross debt financial investments measured at fair value through OCI | **10,319,853** | 7,253,476 | 5,230,260 | **-** | - | 19,719,130 | **10,319,853** | 7,253,476 | 24,949,390 |
| Less: Expected credit losses (ECL) for debt financial investments measured at fair value through OCI | **(74)** | (68) | - | **-** | - | - | **(74)** | (68) | - |

**12.1 Maturity analysis**

| | Segment A | | | Segment B | | | Bank - Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2019 USD** | 2018 USD | 2017 USD | **2019 USD** | 2018 USD | 2017 USD | **2019 USD** | 2018 USD | 2017 USD |
| **Current:** | | | | | | | | | |
| Up to 3 months | **6,098,962** | 5,105,953 | 3,750,969 | **-** | 140,111,062 | - | **6,098,962** | 145,217,015 | 3,750,969 |
| Over 3 months and up to 6 months | **2,728,584** | - | - | **93,333,639** | - | - | **96,062,223** | - | - |
| Over 6 months and up to 12 months | **1,492,233** | 2,147,455 | 1,479,291 | **-** | - | 118,382,553 | **1,492,233** | 2,147,455 | 119,861,844 |
| **Non-current:** | | | | | | | | | |
| Over 1 year and up to 5 years | **-** | - | - | **93,421,999** | - | - | **93,421,999** | - | - |
| | **10,319,779** | 7,253,408 | 5,230,260 | **186,755,638** | 140,111,062 | 118,382,553 | **197,075,417** | 147,364,470 | 123,612,813 |



## 12. FINANCIAL INVESTMENTS (CONTINUED)

**12.2 Reconciliation of Financial investments measured at fair value through OCI**

| 2019 | Segment A | Segment B | Total |
|---|---|---|---|
| | USD | USD | USD |
| **Balance at 1 January 2019** | **7,253,408** | **-** | **7,253,408** |
| **Purchase of Financial Investments** | **10,221,650** | **-** | **10,221,650** |
| **Matured** | **(7,253,408)** | **-** | **(7,253,408)** |
| **Accrued Interest** | **75,655** | **-** | **75,655** |
| **Fair value movements** | **22,548** | **-** | **22,548** |
| **Impairment -ECL** | **(74)** | **-** | **(74)** |
| **Balance at 31 December 2019** | **10,319,779** | **-** | **10,319,779** |
| 2018 | | | |
| Balance at 1 January 2018 | 5,230,260 | 19,719,130 | 24,949,390 |
| Purchase of Financial Investments | 1,933,120 | - | 1,933,120 |
| Matured | - | (19,719,130) | (19,719,130) |
| Accrued Interest | 75,752 | - | 75,752 |
| Fair value movements | 14,344 | - | 14,344 |
| Impairment -ECL | (68) | - | (68) |
| Balance at 31 December 2018 | 7,253,408 | - | 7,253,408 |
| 2017 | | | |
| Balance at 31 December 2016 | 833,184 | - | 833,184 |
| Purchase of Financial Investments | 13,253,249 | 19,701,307 | 32,954,556 |
| Matured | (8,894,088) | - | (8,894,088) |
| Accrued Interest | 39,296 | 31,450 | 70,746 |
| Fair value movements | (1,381) | (13,627) | (15,008) |
| Impairment -ECL | - | - | - |
| Balance at 31 December 2017 | 5,230,260 | 19,719,130 | 24,949,390 |

**12.3 Reconciliation of Financial investments measured at amortised cost**

| 2019 | | | |
|---|---|---|---|
| **Balance at 1 January 2019** | **140,111,062** | **-** | **140,111,062** |
| **Purchase of Financial Investments** | **185,962,545** | **-** | **185,962,545** |
| **Matured** | **(140,111,062)** | **-** | **(140,111,062)** |
| **Accrued Interest** | **794,756** | **-** | **794,756** |
| **Fair value movements** | **-** | **-** | **-** |
| **Impairment -ECL** | **(1,663)** | **-** | **(1,663)** |
| **Balance at 31 December 2019** | **186,755,638** | **-** | **186,755,638** |
| 2018 | | | |
| Balance at 1 January 2018 | 98,663,423 | - | 98,663,423 |
| Purchase of Financial Investments | 139,405,855 | - | 139,405,855 |
| Matured | (98,663,423) | - | (98,663,423) |
| Accrued Interest | 705,352 | - | 705,352 |
| Fair value movements | - | - | - |
| Impairment -ECL | (145) | | (145) |
| Balance at 31 December 2018 | 140,111,062 | | 140,111,062 |

## 12. FINANCIAL INVESTMENTS (CONTINUED)

**12.3 Reconciliation of Financial investments measured at amortised cost**

| 2017 | Segment A | Segment B | Total |
|---|---|---|---|
| | USD | USD | USD |
| Balance at 31 December 2016 | - | - | - |
| Purchase of Financial Investments | - | 98,514,123 | 98,514,123 |
| Accrued Interest | - | 149,300 | 149,300 |
| Fair value movements | - | - | - |
| Impairment - ECL | - | - | - |
| Balance at 31 December 2017 | - | 98,663,423 | 98,663,423 |

## 12. FINANCIAL INVESTMENTS (CONTINUED)

**12.4 Reconciliation of expected credit losses for debt financial investments measured at amortised cost**

| | Opening ECL 1 January 2019 | Total transfers between stages | Income statement movements | | | | Net ECL raised/ (released) | Impairment accounts written-off | Exchange and other movements | Closing ECL 31 December 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | ECL on new exposure raised | Change in ECL due to modifications | Subsequent changes in ECL | Change in ECL due to derecognition | | | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Sovereign** | | | | | | | | | | |
| Stage 1 | 145 | - | 1,663 | - | - | (145) | 1,518 | - | - | 1,663 |
| Stage 2 | - | - | - | - | - | - | - | - | - | - |
| Stage 3 | - | - | - | - | - | - | - | - | - | - |
| **Total** | 145 | - | 1,663 | - | - | (145) | 1,518 | - | - | 1,663 |

**12.5 Reconciliation of expected credit losses for debt financial investments measured at fair value through OCI**

| | Opening ECL 1 January 2019 | Total transfers between stages | Income statement movements | | | | Net ECL raised/ (released) | Impairment accounts written-off | Exchange and other movements | Closing ECL 31 December 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | ECL on new exposure raised | Change in ECL due to modifications | Subsequent changes in ECL | Change in ECL due to derecognition | | | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Sovereign** | | | | | | | | | | |
| Stage 1 | 68 | - | 74 | - | - | (68) | 6 | - | - | 74 |
| Stage 2 | - | - | - | - | - | - | - | - | - | - |
| Stage 3 | - | - | - | - | - | - | - | - | - | - |
| **Total** | 68 | - | 74 | - | - | (68) | 6 | - | - | 74 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Computer Equipment | Office Equipment | Furniture and Fittings | Motor Vehicles | Total |
|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD |
| **Bank – Total** | | | | | |
| ***Cost*** | | | | | |
| Balance at 1 January 2017 | 3,491,120 | 820,616 | 2,238,637 | 33,886 | 6,584,259 |
| Acquisitions | 399,084 | 440 | 33,654 | 167,022 | 600,200 |
| Disposals | - | - | (11,220) | - | (11,220) |
| Balance at 31 December 2017 | 3,890,204 | 821,056 | 2,261,071 | 200,908 | 7,173,239 |
| Acquisitions | 423,434 | 6,418 | 1,294,246 | - | 1,724,098 |
| Balance at 31 December 2018 | **4,313,638** | **827,474** | **3,555,317** | **200,908** | **8,897,337** |
| Acquisitions | **297,890** | **214,316** | **910,373** | **-** | **1,422,579** |
| Disposals | **(1,612,718)** | **(86,919)** | **(17,045)** | **-** | **(1,716,682)** |
| **Balance at 31 December 2019** | **2,998,810** | **954,871** | **4,448,645** | **200,908** | **8,603,234** |
| ***Depreciation and Impairment Losses*** | | | | | |
| Balance at 1 January 2017 | 2,718,789 | 524,407 | 1,066,538 | 23,534 | 4,333,268 |
| Depreciation for the year | 470,295 | 81,722 | 236,530 | 23,908 | 812,455 |
| Disposal | - | - | (9,919) | - | (9,919) |
| Balance at 31 December 2017 | 3,189,084 | 606,129 | 1,293,149 | 47,442 | 5,135,804 |
| Depreciation for the year | 265,041 | 74,694 | 216,885 | 27,326 | 583,946 |
| Balance at 31 December 2018 | **3,454,125** | **680,823** | **1,510,034** | **74,768** | **5,719,750** |
| Depreciation for the year | **299,124** | **79,645** | **277,612** | **25,053** | **681,434** |
| Disposal | **(1,612,577)** | **(85,746)** | **(15,497)** | **-** | **(1,713,820)** |
| **Balance at 31 December 2019** | **2,140,672** | **674,722** | **1,772,149** | **99,821** | **4,687,364** |
| ***Carrying Amounts*** | | | | | |
| ***Balance at 31 December 2019*** | **858,138** | **280,149** | **2,676,496** | **101,087** | **3,915,870** |
| *Balance at 31 December 2018* | 859,513 | 146,651 | 2,045,283 | 126,140 | 3,177,587 |
| *Balance at 31 December 2017* | 701,120 | 214,927 | 967,922 | 153,466 | 2,037,435 |

| | Segment A | Segment B | Bank |
|---|---|---|---|
| | USD | USD | USD |
| **2019** | | | |
| **Depreciation** | **(37,707)** | **(643,727)** | **(681,434)** |
| **Carrying amounts** | **216,686** | **3,699,184** | **3,915,870** |
| 2018 | | | |
| Depreciation | - | (583,946) | (583,946) |
| Carrying amounts | - | 3,177,587 | 3,177,587 |
| 2017 | | | |
| Depreciation | - | (812,455) | (812,455) |
| Carrying amounts | - | 2,037,435 | 2,037,435 |

## 14. INTANGIBLE ASSETS

| | Computer Software | Other Intangible Assets | Total |
|---|---|---|---|
| | USD | USD | USD |
| **Bank –Total** | | | |
| ***Cost*** | | | |
| Balance at 1 January 2017 | 177,467 | 14,925 | 192,392 |
| Acquisitions | 98,841 | 19,800,814 | 19,899,655 |
| Balance at 31 December 2017 | 276,308 | 19,815,739 | 20,092,047 |
| Acquisitions | 12,321 | - | 12,321 |
| Balance at 31 December 2018 | **288,629** | **19,815,739** | **20,104,368** |
| Acquisitions | **-** | **255,591** | **255,591** |
| Disposals | **(154,861)** | **-** | **(154,861)** |
| **Balance at 31 December 2019** | **133,768** | **20,071,330** | **20,205,098** |
| ***Amortisation and Impairment Losses*** | | | |
| Balance at 1 January 2017 | 163,188 | - | 163,188 |
| Amortisation for the year | 14,868 | 396,412 | 411,280 |
| Balance at 31 December 2017 | 178,056 | 396,412 | 574,468 |
| Amortisation for the year | 24,888 | 1,361,764 | 1,386,652 |
| **Balance at 31 December 2018** | **202,944** | **1,758,176** | **1,961,120** |
| **Amortisation for the year** | **22,352** | **1,366,024** | **1,388,376** |
| **Disposals** | **(154,861)** | **-** | **(154,861)** |
| **Balance at 31 December 2019** | **70,435** | **3,124,200** | **3,194,635** |
| ***Carrying amount at 31 December 2019*** | **63,333** | **16,947,130** | **17,010,463** |
| *Carrying amount at 31 December 2018* | 85,685 | 18,057,563 | 18,143,248 |
| *Carrying amount at 31 December 2017* | 98,252 | 19,419,327 | 19,517,579 |

There were no capitalised borrowing costs related to the acquisition of software during the year (2018: Nil).

| | Segment A | Segment B | Bank |
|---|---|---|---|
| | USD | USD | USD |
| **2019** | | | |
| Depreciation | **(76,826)** | **(1,311,550)** | **(1,388,376)** |
| Carrying amounts | **941,278** | **16,069,185** | **17,010,463** |
| 2018 | | | |
| Depreciation | - | (1,386,652) | (1,386,652) |
| Carrying amounts | - | 18,143,248 | 18,143,248 |
| 2017 | | | |
| Depreciation | - | (411,280) | (411,280) |
| Carrying amounts | - | 19,517,579 | 19,517,579 |

## 15. LEASES

**(i) Amounts recognised in statement of financial position**

The statement of financial position shows the following amounts relating to leases:

| | 31 December 2019 USD | 1 January 2019 USD |
|---|---|---|
| **Right-of-use assets** | | |
| Buildings | 2,799,711 | 3,355,178 |
| Others | 506,548 | 582,920 |
| | 3,306,259 | 3,938,098 |
| **Lease liabilities** | | |
| Current | 627,296 | 550,318 |
| Non-Current | 2,760,484 | 3,387,780 |
| | 3,387,780 | 3,938,098 |

Additions to the right-of-use assets (buildings) during the 2019 financial year were USD 44,819.

**(ii) Amounts recognised in the statement of profit or loss**

The statement of profit or loss shows the following amounts relating to leases:

| | 2019 USD | 2018 USD |
|---|---|---|
| **Depreciation charge of right-of-use assets** | | |
| Buildings | (599,909) | - |
| Others | (105,647) | - |
| | (705,556) | - |
| Interest expense (note 25) | (204,502) | - |
| Expense relating to short-term lease (note 32) | (136,076) | - |

The Total cash outflow for leases in 2019 was USD 828,344.

| 2019 | Segment A USD | Segment B USD | Bank USD |
|---|---|---|---|
| Depreciation | (39,042) | (666,514) | (705,556) |
| Carrying amounts of right-of-use assets | 182,953 | 3,123,306 | 3,306,259 |
| Lease liabilities | 187,464 | 3,200,316 | 3,387,780 |

## 16. DEFERRED TAX LIABILITIES

The movement on the deferred tax amount is as follows:

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Bank -Total** | | | |
| At 1 January | (760,000) | (38,000) | 300,000 |
| Impact of IFRS 9 adjustment | - | 15,000 | - |
| Balance after IFRS 9 adjustment | (760,000) | (23,000) | 300,000 |
| Income statement credit/ (charge) | 325,000 | (737,000) | (338,000) |
| **At 31 December** | (435,000) | (760,000) | (38,000) |
| **Segment A** | | | |
| At 1 January | (87,340) | 237,660 | 308,912 |
| Impact of IFRS 9 adjustment | - | (13,000) | - |
| Balance after IFRS 9 adjustment | (87,340) | 224,600 | 308,912 |
| Income statement credit/ (charge) | 25,340 | (312,000) | (71,252) |
| Deferred tax (liability)/asset as at 31 December | (62,000) | (87,340) | 237,660 |
| **Segment B** | | | |
| At 1 January | (672,660) | (275,660) | (8,912) |
| Impact of IFRS 9 adjustment | - | 28,000 | - |
| Balance after IFRS 9 adjustment | (672,660) | (247,660) | (8,912) |
| Income statement credit/ (charge) | 299,660 | (425,000) | (266,748) |
| Deferred tax liability as at 31 December | (373,000) | (672,660) | (275,660) |
| Deferred income tax assets and liabilities are attributable to the following items: | | | |
| **Deferred tax assets:** | | | |
| Expected credit losses | 425,000 | 175,000 | 185,000 |
| Other temporary differences | 26,000 | 35,000 | 85,000 |
| Impact of IFRS 9 adjustment | - | 15,000 | - |
| | 451,000 | 225,000 | 270,000 |
| **Deferred tax liabilities:** | | | |
| Accelerated depreciation | (886,000) | (985,000) | (308,000) |
| | (886,000) | (985,000) | (308,000) |
| The deferred tax (release) / charge in profit or loss comprise the following differences: | | | |
| Expected credit losses | (235,000) | 10,000 | 6,000 |
| Other temporary differences | 9,000 | 50,000 | 85,000 |
| Accelerated depreciation | (99,000) | 677,000 | 247,000 |
| | (325,000) | 737,000 | 338,000 |

## 17. OTHER ASSETS

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| Mandatory balances with central bank | **7,150,640** | 8,687,635 | 7,442,747 |
| Other | **911,696** | 1,098,011 | 603,871 |
| | **8,062,336** | 9,785,646 | 8,046,618 |
| **Segment A** | | | |
| Mandatory balances with central bank | **7,150,640** | 8,687,635 | 7,442,747 |
| Other | **723,345** | 703,286 | 221,717 |
| | **7,873,985** | 9,390,921 | 7,664,464 |
| **Segment B** | | | |
| Other | **188,351** | 394,725 | 382,154 |
| | **188,351** | 394,725 | 382,154 |
| Current | **8,062,336** | 9,785,646 | 8,046,618 |

1. Deposits are placed with the Central Bank for the purpose of reserve requirements and are therefore not available for use.

2. Other consists of prepayment, stock for stationery, sundry debtor vendor and withholding tax.

## 18. DEPOSITS FROM BANKS

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Bank – Total** | | | |
| Money Market Deposits | **35,238,690** | 30,041,705 | 56,044,617 |
| Other deposits from banks | **53,163,940** | 4,674,694 | 4,850,643 |
| | **88,402,630** | 34,716,399 | 60,895,260 |
| **Segment A** | | | |
| Money Market Deposits | **20,230,089** | 20,038,889 | 20,020,372 |
| Other deposits from banks | **-** | 4,611,702 | 4,795,460 |
| | **20,230,089** | 24,650,591 | 24,815,832 |
| **Segment B** | | | |
| Money Market Deposits | **15,008,601** | 10,002,816 | 36,024,245 |
| Other deposits from banks | **53,163,940** | 62,992 | 55,183 |
| | **68,172,541** | 10,065,808 | 36,079,428 |
| Current | **88,402,630** | 34,716,399 | 60,895,260 |

## 19. DEPOSITS FROM CUSTOMERS

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Bank-Total** | | | |
| **Corporates** | | | |
| Demand deposits | | | |
| - Current accounts | **349,356,964** | 373,479,903 | 306,599,787 |
| -Savings accounts | **20,089** | 6,175,472 | 10,074,574 |
| - Call accounts | **529,250,397** | 598,151,869 | 540,946,042 |
| Time deposits | | | |
| - Up to 3 months | **247,015,629** | 366,119,430 | 211,863,104 |
| - Over 3 months and up to 6 months | **7,118,952** | 17,526,263 | 20,342,634 |
| - Over 6 months and up to 12 months | **71,062,812** | 21,584,165 | 13,688,993 |
| - Over 1 year and up to 5 year | **7,272,633** | 4,594,086 | - |
| - Over 5 years | **-** | - | - |
| | **1,211,097,476** | 1,387,631,188 | 1,103,515,134 |
| **Segment A** | | | |
| Demand deposits | | | |
| - Current accounts | **27,523,920** | 22,858,584 | 36,147,436 |
| - Savings accounts | **20,089** | 6,175,472 | 10,074,574 |
| - Call accounts | **18,134,041** | 24,897,192 | 15,683,215 |
| Time deposits | | | |
| - Up to 3 months | **9,276,027** | 41,886,767 | 11,551,619 |
| - Over 3 months and up to 6 months | **554,322** | 4,736,515 | 2,068,659 |
| - Over 6 months and up to 12 months | **29,816,355** | 1,433,009 | 208,302 |
| - Over 1 year and up to 5 years | **-** | - | - |
| - Over 5 years | **-** | - | - |
| | **85,324,754** | 101,987,539 | 75,733,805 |
| **Segment B** | | | |
| Demand deposits | | | |
| - Current accounts | **321,833,044** | 350,621,319 | 270,452,351 |
| - Call accounts | **511,116,356** | 573,254,677 | 525,262,827 |
| Time deposits | | | |
| - Up to 3 months | **237,739,602** | 324,232,664 | 200,311,485 |
| - Over 3 months and up to 6 months | **6,564,630** | 12,789,747 | 18,273,975 |
| - Over 6 months and up to 12 months | **41,246,457** | 20,151,156 | 13,480,691 |
| - Over 1 year and up to 5 years | **7,272,633** | 4,594,086 | - |
| - Over 5 years | **-** | - | - |
| | **1,125,772,722** | 1,285,643,649 | 1,027,781,329 |
| **Current assets** | **1,203,824,843** | 1,383,037,102 | 1,103,515,134 |
| **Non-current assets** | **7,272,633** | 4,594,086 | - |

## 20. OTHER BORROWED FUNDS

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Bank-Total** | | | |
| Borrowings from Banks | **470,766** | 1,412,299 | 4,097,627 |
| **Bank-Segment A** | | | |
| Borrowings from Banks | **-** | - | 1,502,213 |
| **Bank-Segment B** | | | |
| Borrowings from Banks | **470,766** | 1,412,299 | 2,595,414 |
| Current | **470,766** | 1,412,299 | 2,595,414 |

Segment B borrowings from banks represent long term unsecured funding for one facility from Standard Bank Isle of Man. The funds are repayable in a single instalment at maturity. The funding of USD 470,766 earns a coupon payment of 3.97% and will mature on 30 June 2020.

## 21. CURRENT TAX LIABILITIES

| | | | |
|---|---|---|---|
| **Bank - Total** | | | |
| Income tax based on chargeable income | **1,175,000** | 1,194,000 | 1,306,000 |
| Advanced payments made | **(298,219)** | (520,738) | (675,687) |
| | **876,781** | 673,262 | 630,313 |
| **Segment A** | | | |
| Income tax based on chargeable income | **318,000** | 356,000 | 761,000 |
| Advanced payments made | **(155,847)** | (162,163) | (367,391) |
| | **162,153** | 193,837 | 393,609 |
| **Segment B** | | | |
| Income tax based on chargeable income | **857,000** | 838,000 | 545,000 |
| Advanced payments made | **(142,372)** | (358,575) | (308,296) |
| | **714,628** | 479,425 | 236,704 |

## 22. OTHER LIABILITIES

| | | | | |
|---|---|---|---|---|
| Accrued expense | | **1,945,216** | 1,960,546 | 1,856,848 |
| Unsettled money market transactions[1] | | **2,908,320** | 35,956,035 | 4,729,258 |
| Retirement benefit obligations | 31(c) | **751,580** | - | - |
| Other liabilities & provisions | | **1,007,628** | 1,280,002 | 240,650 |
| Sundry Creditors | | **1,220,288** | 1,398,360 | 1,052,659 |
| Others[2] | | **4,290,628** | 3,918,960 | 3,406,552 |
| | | **12,123,660** | 44,513,903 | 11,285,967 |
| **Segment A** | | | | |
| Accrued expense | | **107,640** | 136,143 | 210,231 |
| Retirement benefit obligations | | **41,562** | - | - |
| Other liabilities & provisions | | **1,007,628** | 1,005,547 | 525,629 |
| Sundry Creditors | | **1,220,288** | 1,398,360 | 1,052,659 |
| Others[2] | | **2,460,940** | 3,255,960 | 2,110,909 |
| | | **4,838,058** | 5,796,010 | 3,899,428 |

## 22. OTHER LIABILITIES (CONTINUED)

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Segment B** | | | |
| Accrued expense | **1,837,576** | 1,824,403 | 1,646,617 |
| Unsettled money market transactions[1] | **2,908,320** | 35,956,035 | 4,729,258 |
| Retirement benefit obligations | **710,018** | - | - |
| Other liabilities & provisions | **-** | 274,455 | (284,979) |
| Others[2] | **1,829,688** | 663,000 | 1,295,643 |
| | **7,285,602** | 38,717,893 | 7,386,539 |
| Current | **11,263,242** | 43,649,703 | 10,740,271 |
| Non-Current | **860,418** | 864,200 | 545,696 |

[1] Relate to uncleared balances on nostro accounts for money market transactions with value date after trade date. These are usually cleared within 2 business days.

[2] Others comprise of clearance settlement, credit in transit, VAT and provision for off balance sheet.

## 23. SHARE CAPITAL

| | | | |
|---|---|---|---|
| Authorised capital | | | |
| Ordinary (40,000,000 shares of USD 1 each) | **40,000,000** | 40,000,000 | 40,000,000 |
| Issued and paid capital | | | |
| Ordinary (35,000,000 shares of USD 1 each) | **35,000,000** | 35,000,000 | 35,000,000 |
| Unissued capital | | | |
| Ordinary (5,000,000 shares of USD 1 each) | **5,000,000** | 5,000,000 | 5,000,000 |

## 24. CONTINGENT LIABILITIES

| | | | |
|---|---|---|---|
| Guarantees on account of customers | **22,504,859** | 21,424,246 | 17,091,418 |
| Letters of credit and other obligations on account of customers | **7,209,848** | 14,807,646 | 16,512,923 |
| | **29,714,707** | 36,231,892 | 33,604,341 |
| Less IFRS 9 provision on Off-balance sheet exposures | **(21,406)** | (34,219) | - |
| | **29,693,301** | 36,197,673 | 33,604,341 |
| **Segment A** | | | |
| Guarantees on account of customers | **1,010,758** | 763,875 | 1,254,947 |
| Letters of credit and other obligations on account of customers | **630,960** | 662,112 | 3,055,734 |
| | **1,641,718** | 1,425,987 | 4,310,681 |
| Less IFRS 9 provision on Off-balance sheet exposures | **(2,212)** | (4,604) | - |
| | **1,639,506** | 1,421,383 | 4,310,681 |
| **Segment B** | | | |
| Guarantees on account of customers | **21,494,101** | 20,660,371 | 15,836,471 |
| Letters of credit and other obligations on account of customers | **6,578,888** | 14,145,534 | 13,457,189 |
| | **28,072,989** | 34,805,905 | 29,293,660 |
| Less IFRS 9 provision on Off-balance sheet exposures | **(19,194)** | (26,615) | - |
| | **28,053,795** | 34,779,290 | 29,293,660 |

## 24. (A) RECONCILIATION OF THE ALLOWANCE FOR EXPECTED CREDIT LOSS FOR "OFF BALANCE SHEET" EXPOSURES, BY CLASS

*31 December 2019*

| | | Transfers between stages | | | | Income statement movement | | | | Closing ECL balance |
|---|---|---|---|---|---|---|---|---|---|---|
| | O/B | Trf to/from Stage 1 | Trf to/from Stage 2 | Trf to/from Stage 3 | Total | Originated "New" impair-ments raised | Subsequent changes in ECL | De-recognition | Total | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Stage 1** | | | | | | | | | | |
| Letters of credit | 1,275 | - | - | - | - | 3,041 | 1,393 | - | 4,434 | 5,709 |
| Guarantees | 32,944 | - | - | - | - | 13,729 | (30,976) | - | (17,247) | 15,697 |
| **Total** | 34,219 | - | - | - | - | 16,770 | (29,583) | - | (12,813) | 21,406 |

*31 December 2018*

| | | Transfers between stages | | | | Income statement movement | | | | Closing ECL balance |
|---|---|---|---|---|---|---|---|---|---|---|
| | O/B | Trf to/from Stage 1 | Trf to/from Stage 2 | Trf to/from Stage 3 | Total | Originated "New" impairments raised | Subsequent changes in ECL | De-recognition | Total | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Stage 1** | | | | | | | | | | |
| Letters of credit | 62 | - | - | - | - | 1,275 | (62) | - | 1,213 | 1,275 |
| Guarantees | 55,298 | - | - | - | - | 26,346 | (48,700) | - | (22,354) | 32,944 |
| **Total** | 55,360 | - | - | - | - | 27,621 | (48,762) | - | 21,141 | 34,219 |



## 25. NET INTEREST INCOME

**Bank- Total**

**Interest income measured at amortised cost**

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| Loans and advances to banks | 27,066,873 | 25,556,655 | 21,445,556 |
| Loans and advances to customers | 13,562,851 | 9,626,721 | 6,096,619 |
| Financial investments | 3,753,411 | 2,042,933 | 149,300 |
| Other (IFRS Unwinding) | 233,218 | 180,676 | 675,832 |
| Total interest income | 44,616,353 | 37,406,985 | 28,367,307 |
| **Interest Income on items measured at fair value through OCI** | | | |
| Financial investments | 262,629 | 506,597 | 114,257 |
| Total | 44,878,982 | 37,913,582 | 28,481,564 |
| **Interest expense** | | | |
| **Interest expense on items measured on an amortised cost basis** | | | |
| Deposits from banks | (1,261,543) | (1,094,473) | (983,911) |
| Deposits from customers | (11,012,804) | (8,114,109) | (5,010,291) |
| Subordinated liabilities | - | - | (1,024,157) |
| **Other:** | | | |
| Interest on lease liabilities | (204,502) | - | - |
| Total interest expense | (12,478,849) | (9,208,582) | (7,018,359) |
| **Net interest income** | 32,400,133 | 28,705,000 | 21,463,205 |
| **Segment A** | | | |
| **Interest income measured at amortised cost** | | | |
| Loans and advances to banks | 124,050 | 109,212 | 113,437 |
| Loans and advances to customers | 566,282 | 567,983 | 544,425 |
| Total interest income | 690,332 | 677,195 | 657,862 |
| **Interest Income on items measured at fair value through OCI** | | | |
| Financial investments | 262,629 | 239,483 | 83,742 |
| Total | 952,961 | 916,678 | 741,604 |
| **Interest expense** | | | |
| **Interest expense on items measured on an amortised cost basis** | | | |
| Deposits from banks | (575,770) | (402,886) | (26,161) |
| Deposits from customers | (498,953) | (620,225) | (577,564) |
| **Other:** | | | |
| Interest on lease liabilities | (204,502) | - | - |
| Total interest expense | (1,279,225) | (1,023,111) | (603,725) |
| **Net interest (expense)/income** | (326,264) | (106,433) | 137,879 |

## 25. NET INTEREST INCOME (CONTINUED)

**Segment B**

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Interest income measured at amortised cost** | | | |
| Loans and advances to banks | **26,942,823** | 25,447,443 | 21,332,119 |
| Loans and advances to customers | **12,996,569** | 9,058,738 | 5,552,194 |
| Financial investments | **3,753,411** | 2,042,933 | 149,300 |
| Other (IFRS Unwinding) | **233,218** | 180,676 | 675,832 |
| **Total** | **43,926,021** | 36,729,790 | 27,709,445 |
| **Interest income on items measured at fair value through OCI** | | | |
| Financial investments | **-** | 267,114 | 30,515 |
| **Total interest income** | **43,926,021** | 36,996,904 | 27,739,960 |
| **Interest expense on items measured on an amortised cost basis** | | | |
| Deposits from banks | **(685,773)** | (691,587) | (957,750) |
| Deposits from customers | **(10,513,851)** | (7,493,884) | (4,432,727) |
| Subordinated liabilities | **-** | - | (1,024,157) |
| **Total interest expense** | **(11,199,624)** | (8,185,471) | (6,414,634) |
| **Net interest income** | **32,726,397** | 28,811,433 | 21,325,326 |

## 26. NET FEE AND COMMISSION INCOME

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Fee and commission income** | | | |
| Corporate banking customer fees | **4,570,726** | 4,746,472 | 4,619,174 |
| Corporate banking credit related fees | **1,728,839** | 1,791,748 | 1,377,577 |
| Investment banking fees | **295,304** | 33,284 | 615,429 |
| Custody fees | **336,527** | 577,460 | 576,231 |
| Total fee and commission income | **6,931,396** | 7,148,964 | 7,188,411 |
| Fee and commission expense | **(311,241)** | (407,468) | (373,345) |
| **Net fee and commission income** | **6,620,155** | 6,741,496 | 6,815,066 |
| **Segment A** | | | |
| **Fee and commission income** | | | |
| Corporate banking customer fees | **71,595** | 51,085 | 70,817 |
| Corporate banking credit related fees | **60,201** | 48,586 | 74,373 |
| Custody fees | **336,527** | 577,460 | 576,231 |
| Total fee and commission income | **468,323** | 677,131 | 721,421 |
| Fee and commission expense | **(311,241)** | (407,468) | (373,345) |
| **Net fee and commission income** | **157,082** | 269,663 | 348,076 |
| **Segment B** | | | |
| **Fee and commission income** | | | |
| Corporate banking customer fees | **4,499,131** | 4,695,387 | 4,548,357 |
| Corporate banking credit related fees | **1,668,638** | 1,743,162 | 1,303,204 |
| Investment banking fees | **295,304** | 33,284 | 615,429 |
| Total fee and commission income | **6,463,073** | 6,471,833 | 6,466,990 |
| **Net fee and commission income** | **6,463,073** | 6,471,833 | 6,466,990 |

## 27. NET TRADING INCOME

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| Fixed Income / Money Market | **59,557** | (434,531) | 196,394 |
| Foreign exchange | **7,331,860** | 11,980,973 | 9,575,647 |
| Other | **8,200** | 63,745 | 349,619 |
| | **7,399,617** | 11,610,187 | 10,121,660 |
| **Segment A** | | | |
| Fixed Income / Money Market | **59,557** | (434,531) | 168,842 |
| Foreign exchange | **2,322,217** | 2,814,958 | 3,093,709 |
| Other | **-** | 63,745 | 349,619 |
| | **2,381,774** | 2,444,172 | 3,612,170 |
| **Segment B** | | | |
| Fixed Income / Money Market | **-** | - | 27,552 |
| Foreign exchange | **5,009,643** | 9,166,015 | 6,481,938 |
| Other | **8,200** | - | - |
| | **5,017,843** | 9,166,015 | 6,509,490 |

## 28. NET INCOME FROM OTHER FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

| | | | |
|---|---|---|---|
| **Bank-Total and Segment A** | | | |
| Government Bonds / Treasury Bills | **40,066** | 105,647 | 2,151 |
| Other | **-** | 710 | 5,287 |
| | **40,066** | 106,357 | 7,438 |

## 29. OTHER OPERATING INCOME

| | | | |
|---|---|---|---|
| **Bank-Total and Segment A** | | | |
| Intergroup recharges | **336,855** | 316,141 | 273,897 |

## 30. NET IMPAIRMENT (CHARGE)/ GAIN ON FINANCIAL ASSETS

| | | | |
|---|---|---|---|
| **Bank-Total** | | | |
| Loans and advances to customers* | **(5,038,450)** | (1,415,964) | 169,029 |
| Loans and advances to banks & cash and cash equivalents | **27,423** | (29,518) | - |
| Financial investments | **(1,524)** | 1,858 | - |
| Non-funded facilities** | **(148,810)** | (11,717) | 14,314 |
| Recoveries on loans and advances previously written off | **770** | - | - |
| | **(5,160,591)** | (1,455,341) | 183,343 |
| **Segment A** | | | |
| Loans and advances to customers | **12,551** | (57,595) | 610,366 |
| Loans and advances to banks & cash and cash equivalents | **(311)** | (146) | - |
| Financial investments | **(6)** | 303 | - |
| Non-funded facilities | **(10,861)** | (13,468) | 2,384 |
| Recoveries on loans and advances previously written off | **770** | - | - |
| | **2,143** | (70,906) | 612,750 |
| **Segment B** | | | |
| Loans and advances to customers | **(5,051,001)** | (1,358,369) | (441,337) |
| Loans and advances to banks & cash and cash equivalents | **27,734** | (29,372) | - |
| Financial investments | **(1,518)** | 1,555 | - |
| Non-funded facilities** | **(137,949)** | 1,751 | 11,930 |
| | **(5,162,734)** | (1,384,435) | (429,407) |

* Loans and advances to customers include unwind time value of money USD 131,701.

** Impairment charge relates to off-balance sheet exposures.

## 31. (a) PERSONNEL EXPENSES

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Bank-Total** | | | |
| Wages and salaries | **5,087,752** | 4,880,071 | 3,782,858 |
| Other personnel expenses | **3,051,083** | 3,012,636 | 2,806,139 |
| Compulsory social security obligations | **23,060** | 20,460 | 20,471 |
| Contributions to defined contribution plans | **523,361** | 508,193 | 464,601 |
| Retirement benefit cost | **502,159** | - | - |
| Share based payment - cash settled | **347,850** | 260,380 | 251,857 |
| | **9,535,265** | 8,681,740 | 7,325,926 |
| **Segment A** | | | |
| Wages and salaries | **281,532** | 311,423 | 428,292 |
| Other personnel expenses | **168,833** | 192,252 | 317,709 |
| Compulsory social security obligations | **1,276** | 1,306 | 2,317 |
| Contributions to defined contribution plans | **28,960** | 32,431 | 52,602 |
| Retirement benefit cost | **27,787** | - | - |
| Share based payment - cash settled | **19,248** | 16,616 | 28,515 |
| | **527,636** | 554,028 | 829,435 |
| **Segment B** | | | |
| Wages and salaries | **4,806,220** | 4,568,648 | 3,354,566 |
| Other personnel expenses | **2,882,250** | 2,820,384 | 2,488,430 |
| Compulsory social security obligations | **21,784** | 19,154 | 18,154 |
| Contributions to defined contribution plans | **494,401** | 475,762 | 411,999 |
| Retirement benefit cost | **474,372** | - | - |
| Share based payment - cash settled | **328,602** | 243,764 | 223,342 |
| | **9,007,629** | 8,127,712 | 6,496,491 |

## 31. (b) SHARE BASED PAYMENTS

The Bank has an equity-settled scheme, namely the Group Share Incentive Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the Standard Bank Group share price at the date the option is granted. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights.

The scheme has five different sub-types of vesting categories as illustrated by the table below:

| | Year | % vesting | Expiry |
|---|---|---|---|
| Type A | 3, 4, 5 | 50, 75, 100 | 10 Years |
| Type B | 5, 6, 7 | 50, 75, 100 | 10 Years |
| Type C | 2, 3, 4 | 50, 75, 100 | 10 Years |
| Type D | 2, 3, 4 | 33, 67, 100 | 10 Years |
| Type E | 3, 4, 5 | 33, 67, 100 | 10 Years |

## 31. (b) SHARE BASED PAYMENTS (CONTINUED)

**(i) Share Incentive Scheme**

| | Option price range (cents) | Number of Options 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **Share Incentive Scheme reconciliation** | | | | |
| Options outstanding at beginning of year | | **23,125** | 26,188 | 44,283 |
| Transfers | | **-** | - | (14,000) |
| Exercised | 98.80 | **(23,125)** | (3,063) | (4,095) |
| Options outstanding at end of year | | **-** | 23,125 | 26,188 |

The weighted average SBG share price for the period to 31 December 2019 year end was ZAR 183.51 (2018: ZAR 192.35).

1. During the year, 23,125 (2018: 1,486 shares were issued to settle the outstanding appreciated rights value.

2. At 31 December 2019, the Bank issued 23,125 (2018: 1,486) SBG shares to settle outstanding appreciated rights value.

All options granted to employees had been exercised at 31 December 2019.

The following options granted to employees had not been exercised at 31 December 2018:

| Number of ordinary shares | Option price range (cents) | Weighted average price (cents) | Option Expiry date |
|---|---|---|---|
| 23,125 | 9.880 | 9.880 | Year to 31 December 2021 |
| 23,125 | | | |

The following options granted to employees had not been exercised at 31 December 2017:

| Number of ordinary shares | Option price range (cents) | Weighted average price (cents) | Option Expiry date |
|---|---|---|---|
| 2,500 | 6.239 | 6.239 | Year to 31 December 2019 |
| 23,688 | 9.880 | 9.880 | Year to 31 December 2021 |
| 26,188 | | | |

Total expenses recognised in staff costs for 2019 was NIL (2018: NIL).

**(ii) Deferred bonus scheme (DBS)**

In 2012, changes were made to the existing DBS to provide for a single global incentive deferral scheme across the regions. The purpose of the Deferred Bonus Scheme 2012 is to encourage a longer-term outlook in business decision-making and closer alignment of performance with long-term value creation.

All employees granted an annual performance award over a threshold have part of their award deferred. The award is indexed to the group's share price and accrues notional dividends during the vesting period, which are payable on vesting. The awards vest in three equal amounts at 18 months, 30 months and 42 months from the date of award. The final pay-out is determined with reference to the group's share price on vesting date.

The final value is calculated with reference to the number of units multiplied by the Standard Bank Group share price and is delivered in cash in Mauritius. The award also accrues notional dividends during the vesting period, payable at vesting.

The provision in respect of liabilities at 31 December 2019 and the amount charged for the year under the scheme amounts to USD 257,129. Total expenses recognised in staff costs for 2019 was USD 347,850 (2018: USD 260,380).

## 31. (b) SHARE BASED PAYMENTS (CONTINUED)

**(ii) Deferred bonus scheme (DBS) (continued)**

| | Units 2019 | Units 2018 |
|---|---|---|
| **Reconciliation** | | |
| Units outstanding at beginning of year | 7,189 | 18,812 |
| Granted | - | - |
| Transferred out | - | - |
| Exercised | (7,189) | (11,623) |
| Lapsed | - | - |
| | - | 7,189 |
| **Units outstanding at end of the year** | | |
| Weighted average fair value at grant date (R) | n/a | n/a |
| Expected life (years) | n/a | n/a |
| Risk-free interest rate (%) | n/a | n/a |

**(iii) Cash settled deferred bonus scheme (CSDBS)**

Employees granted an annual performance award over a threshold have part of their award deferred. In addition, the group makes special awards of CSDBS to qualifying employees.

The award units are denominated in employee's host countries' local currency, the value of which moves parallel to the changes in the price of the SBG shares listed on the JSE and accrue notional dividends over the vesting period which are payable on vesting.

Awards vest in three equal tranches at 18 months, 30 months and 42 months from the date of award. Final pay-out is determined with reference to SBG share price on vesting date.

**31 December 2019**

| Currency | Weighted average fair value at grant date | Expected life at grant date (years) | Opening balance (Unit) | Granted (Unit) | Forfeited (Unit) | Exercised (Unit) | Transferred between group companies (Unit) | Outstanding (Unit) |
|---|---|---|---|---|---|---|---|---|
| MUR | 182.43 | 2.51 | 80,379 | 66,189 | - | (32,358) | 1,132 | 115,342 |

31 December 2018

| Currency | Weighted average fair value at grant date | Expected life at grant date (years) | Opening balance (Unit) | Granted (Unit) | Forfeited (Unit) | Exercised (Unit) | Transferred between group companies (Unit) | Outstanding (Unit) |
|---|---|---|---|---|---|---|---|---|
| MUR | 220.97 | 2.51 | 46,745 | 49,214 | - | (15,580) | - | 80,379 |

## 31. (c) RETIREMENT BENEFITS

The Bank participates in a defined contribution (DC) pension plan. Its contribution for DC employees are expensed to the statement of profit or loss and amounted to USD 523,361 for December 2019 (2018: USD 508,193).

The pension plan has recognised a net defined liability of USD 751,580 as at 31 December 2019 in respect of employees whose benefits from the DC plan are not expected to fully offset the Bank's retirement gratuity obligations under the Workers' Rights Act (WRA) 2019 and in respect of any retirement and death gratuities for employees who are not members of any pension plan. The Bank is subject to an unfunded defined benefit plan for its employees. The plan exposes the Bank to normal risks described below:

**Interest Risk:** A decrease in the bond interest rate will increase the plan liability; however, this may be partially offset by an increase in the return on the DC plan debt's investments and a decrease in inflationary pressures on salary and pension increases.

**Salary Risk:** The plan liability is calculated by reference to the future projected salaries of plan participants. As such, an increase in the salary of the plan participants above the assumed rate will increase the plan liability whereas an increase below the assumed rate will decrease the liability.

The Bank has a residual obligation imposed by WRA 2019 on top of its DC plan. It is therefore particularly exposed to investment under-performance of the DC plan.

There has been no plan amendment, curtailment or settlement during the year.

| | 2019 USD |
|---|---|
| **Reconciliation of Net Defined Benefit Liability** | |
| Opening Balance | - |
| Amount recognised in profit or loss | 502,159 |
| Amount recognised in other comprehensive income | 249,421 |
| **Closing Balance** | 751,580 |
| **Reconciliation of Present Value of Defined Benefit Obligation** | |
| Opening Balance | - |
| Current service Cost | 477,913 |
| Interest expense | 24,246 |
| Liability experience loss | 205,764 |
| Liability loss due to change in financial assumptions | 43,657 |
| **Closing Balance** | 751,580 |
| **Components of amount recognised in profit or loss** | |
| Current service cost | 477,913 |
| Net interest on net defined benefit liability | 24,246 |
| | 502,159 |
| **Components of amount recognised in other comprehensive income** | |
| Liability experience loss | 205,764 |
| Liability loss due to change in financial assumptions | 43,657 |
| | 249,421 |

During the year, there was no payment or benefit paid for the unfunded scheme. The Bank anticipates to make payment of USD 134,675 in the coming 12 months to employees reaching retirement age in the unfunded plan. Four males and four females have been assumed to be retiring in the next reporting year.

## 31. (c) RETIREMENT BENEFITS (CONTINUED)

| **Principal assumptions used at end of year** | |
|---|---|
| Discount rate | 5.60% |
| Rate of salary increases | 2.80% |
| Average retirement age (ARA) | 60 |

| **Sensitivity analysis on defined benefit obligation at end of year** | **USD** |
|---|---|
| Increase due to 1% decrease in discount rate | 225,175 |
| Decrease due to 1% increase in discount rate | 185,885 |

The above sensitivity analysis has been carried out by recalculating the present value of obligation at end of period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation.

**Future cashflows**

The funding policy is to pay benefits out of the reporting entity's cashflow as and when due.

| | |
|---|---|
| Weighted average duration of the defined benefit obligation | 16 years |

## 32. OPERATING LEASE EXPENSES

| | **2019 USD** | 2018 USD | 2017 USD |
|---|---|---|---|
| **Bank-Total** | | | |
| Operating lease expense | **136,076** | 776,865 | 651,227 |
| **Segment A** | | | |
| Operating lease expense | **7,530** | 49,576 | 73,731 |
| **Segment B** | | | |
| Operating lease expense | **128,546** | 727,289 | 577,496 |

| | | | |
|---|---|---|---|
| **Operating lease commitments** | | | |
| The future minimum lease payments under non-cancellable operating lease are as follows: | | | |
| **Bank- Total** | | | |
| **Buildings** | | | |
| Less than one year | **6,140** | 907,455 | 292,582 |
| Between one and five years | **-** | 3,825,322 | - |
| | **6,140** | 4,732,777 | 292,582 |
| **Bank-Total** | | | |
| **Equipment** | | | |
| Less than one year | **38,109** | 88,221 | 132,991 |
| Between one and five year | **4,489** | 7,411 | 117,927 |
| | **42,598** | 95,632 | 250,918 |

From 1 January 2019, the Bank has recognised right of use assets for most of its operating lease. The operating lease commitments comprise mainly of rental of PC's, laptop and Photocopiers. The lease terms make provision for a yearly charge in the operating lease charges as per the rental agreement.

## 33. OTHER EXPENSES

| | **2019 USD** | 2018 USD | 2017 USD |
|---|---|---|---|
| **Bank-Total** | | | |
| Software licensing and other information technology cost | **1,560,177** | 1,459,583 | 731,163 |
| Professional Fees | **1,720,320** | 1,587,336 | 1,516,618 |
| Marketing & Advertising | **266,056** | 404,295 | 362,720 |
| Bank Charges | **996,786** | 832,103 | 779,182 |
| Other | **1,584,239** | 3,007,004 | 3,257,252 |
| | **6,127,578** | 7,290,321 | 6,646,935 |
| **Segment A** | | | |
| Software licensing and other information technology cost | **86,333** | 93,144 | 80,084 |
| Professional Fees | **99,096** | 129,857 | 166,115 |
| Marketing & Advertising | **14,722** | 25,800 | 39,729 |
| Bank Charges | **55,157** | 53,101 | 85,343 |
| Other | **(384,826)** | 191,893 | 356,764 |
| | **(129,518)** | 493,795 | 728,035 |
| **Segment B** | | | |
| Software licensing and other information technology cost | **1,473,844** | 1,366,439 | 651,079 |
| Professional Fees | **1,621,224** | 1,457,479 | 1,350,503 |
| Marketing & Advertising | **251,334** | 378,495 | 322,991 |
| Bank Charges | **941,629** | 779,002 | 693,839 |
| Other | **1,969,065** | 2,815,111 | 2,900,488 |
| | **6,257,096** | 6,796,526 | 5,918,900 |

## 34. INCOME TAX EXPENSE

| | | | |
|---|---|---|---|
| **Bank-Total** | | | |
| Net profit before income taxes | **23,061,950** | 27,304,316 | 23,016,786 |
| Current tax based on adjusted profit | **976,400** | 1,079,753 | 1,161,044 |
| Non-allowable expenses | **(117,509)** | 17,854 | 25,172 |
| Tax rate differentials | **(204,663)** | 418,701 | (28,562) |
| (Over)/ under provision in previous years | **(109,250)** | (290,714) | 6,794 |
| Under provision of tax in current year | **18,285** | 21,693 | 2,406 |
| Special Levy | **177,486** | 392,999 | 483,941 |
| Absorbed Value Added Tax | **17,522** | 39,304 | 29,326 |
| Other taxes | **49,982** | 51,828 | 50,326 |
| | **808,253** | 1,731,418 | 1,730,447 |
| **Segment A** | | | |
| Net profit before income taxes | **2,032,433** | 1,861,595 | 3,361,009 |
| Current tax based on adjusted profit | **345,514** | 316,471 | 571,371 |
| Non-allowable expenses | **(136,327)** | 5,751 | 10,286 |
| Tax rate differentials | **(39,509)** | 135,900 | (32,806) |
| Over provision in previous years | **(84,165)** | (340,065) | - |
| (Over)/ under provision of tax in current year | **(53,378)** | 96,811 | (535) |
| Special Levy | **177,486** | 131,872 | 281,683 |
| Absorbed Value Added Tax | **970** | 3,256 | 3,321 |
| Other taxes | **2,766** | 4,290 | 5,698 |
| | **213,357** | 354,286 | 839,018 |

## 34. INCOME TAX EXPENSE (CONTINUED)

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Segment B** | | | |
| Net profit before income taxes | **21,029,517** | 25,442,721 | 19,655,777 |
| Current tax based on adjusted profit | **630,886** | 763,282 | 589,673 |
| Non-allowable expenses | **18,818** | 12,103 | 14,886 |
| Tax rate differentials | **(165,154)** | 282,801 | 4,244 |
| (Over)/ under provision in previous years | **(25,085)** | 49,351 | 6,794 |
| Under/ (over) provision of tax in current year | **71,663** | (75,118) | 2,941 |
| Special Levy | **-** | 261,127 | 202,258 |
| Absorbed Value Added Tax | **16,552** | 36,048 | 26,005 |
| Other taxes | **47,216** | 47,538 | 44,628 |
| | **594,896** | 1,377,132 | 891,429 |

## 35. STATUTORY AND OTHER RESERVES

| | Credit Risk Reserves | Fair Value Reserves | Share Based Payment | Employee Benefits Reserves | Total |
|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD |
| Balance at 1 January 2017 | 67,559 | 54 | 33,033 | - | 100,646 |
| Net loss on available for sale financial investments | - | (15,008) | - | - | (15,008) |
| Share based payment | - | - | (3,673) | - | (3,673) |
| Transfer to credit risk reserve | 48,107 | - | - | - | 48,107 |
| Balance at 1 January 2018 | 115,666 | (14,954) | 29,360 | - | 130,072 |
| Net gain on fair value of debt instruments | - | 14,276 | - | - | 14,276 |
| Share based payment | - | - | 94,373 | - | 94,373 |
| Transfer from credit risk reserve | (115,666) | - | - | - | (115,666) |
| **Balance at 1 January 2019** | **-** | **(678)** | **123,733** | **-** | **123,055** |
| **Net gain on fair value of debt instruments** | **-** | **22,474** | **-** | **-** | **22,474** |
| **Remeasurement of defined benefit liabilities** | **-** | **-** | **-** | **(249,421)** | **(249,421)** |
| **Share based payment** | **-** | **-** | **2,137** | **-** | **2,137** |
| **Transfer to credit risk reserve** | **1,456,926** | **-** | **-** | **-** | **1,456,926** |
| | **1,456,926** | **21,796** | **125,870** | **(249,421)** | **1,355,171** |

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| Statutory reserves | **22,458,581** | 19,120,527 | 15,284,592 |
| Other reserves | **1,355,171** | 123,055 | 130,072 |
| Statutory & other reserves | **23,813,752** | 19,243,582 | 15,414,664 |

**Credit Risk Reserves**

The Bank used to make an appropriation from retained earnings to credit risk reserves to comply with the prudential guideline issued.

**Fair Value Reserves**

The fair value reserves include the cumulative net change in the fair value of other comprehensive income for financial investments, including impairment losses until the investment is derecognised and IFRS 9 transition.

**Share Based Payments**

The fair value of share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve.

## 36. COMMITMENTS

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Bank-Total** | | | |
| **Loans and other facilities** | | | |
| Undrawn credit facilities | **144,347,386** | 103,075,445 | 2,500,000 |
| *Less Stages 1 and 2 ECL Collective Allowance* | **(131,665)** | (116,240) | - |
| *Less Stage 3 Specific Allowance* | **(146,198)** | - | - |
| | **144,069,523** | 102,959,205 | 2,500,000 |

| | | Transfers between stages | | | | Income statement movement | | | | Currency translation and other movements | Closing ECL balance |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance | Transfer to/ from Stage 1 | Transfer to/from Stage 2 | Transfer to/ from Stage 3 | Total | Originated "New" impairments raised | Subsequent changes in ECL | Derecognition | Total | | |
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| **Stage 1** | | | | | | | | | | | |
| Irrevocable facilities | 116,240 | - | - | - | - | 6,744 | 8,513 | - | 15,257 | - | 131,497 |
| **Stage 2** | | | | | | | | | | | |
| Irrevocable facilities | - | - | - | - | - | - | 168 | - | 168 | - | 168 |
| **Stage 3** | | | | | | | | | | | |
| Irrevocable facilities | - | - | - | - | - | - | 146,198 | - | 146,198 | - | 146,198 |
| **Total** | 116,240 | - | - | - | - | 6,744 | 154,879 | - | 161,623 | - | 277,863 |

## 37. RELATED PARTIES

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **Emoluments:** | | | |
| Full time directors | **1,042,774** | 1,009,068 | 865,871 |
| Non-executive directors | **130,344** | 104,470 | 74,376 |
| Key management personnel | **1,794,696** | 1,816,400 | 1,414,935 |
| **Emoluments – Key Management Personnel** | | | |
| Short Term Employee Benefits | **1,717,491** | 1,871,765 | 1,574,811 |
| Recharges | **-** | (113,166) | (215,300) |
| Deferred bonus scheme | **77,205** | 57,801 | 55,424 |
| | **1,794,696** | 1,816,400 | 1,414,935 |
| **Long Term Employment Benefit** | | | |
| Full time directors | **43,588** | 45,248 | 44,846 |
| Key management personnel | **96,257** | 87,118 | 80,339 |

The following transactions were carried out with related parties:

| | | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|---|
| (i) | **Balances and placements with Parent** | | | |
| | At 1 January | **824,848,382** | 712,416,023 | 1,136,319,834 |
| | Made during the year | **31,672,205,611** | 45,540,353,552 | 74,311,264,854 |
| | Repaid during the year | **(31,901,142,541)** | (45,427,921,193) | (74,735,168,665) |
| | At 31 December | **595,911,452** | 824,848,382 | 712,416,023 |
| | **Analysis by related party** | | | |
| | Standard Bank of South Africa | **595,911,452** | 824,848,382 | 712,416,023 |
| | **Loans and Advances to Parent** | | | |
| | At 1 January | **-** | - | 5,000,000 |
| | Repaid during the year | **-** | - | (5,000,000) |
| | At 31 December | **-** | - | - |
| | Loans and advances related to Standard Bank of South Africa. | | | |
| | Interest received from parent during the year | **21,719,315** | 21,817,300 | 18,441,749 |
| | **Analysis by related party** | | | |
| | Standard Bank of South Africa | **21,719,315** | 21,817,300 | 18,441,749 |
| | Accrued interest receivable from parent at 31 December | | | |
| | **Analysis by related party** | **2,959,160** | 3,108,649 | 2,131,874 |
| | Standard Bank of South Africa | **2,959,160** | 3,108,649 | 2,131,874 |

## 37. RELATED PARTIES (CONTINUED)

| | | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|---|
| (ii) | **Balances and placements with Other Related parties** | | | |
| | At 1 January | **89,804,042** | 100,293,240 | 157,983,040 |
| | Repaid during the year | **(87,790,055)** | (10,489,198) | (57,689,800) |
| | At 31 December | **2,013,987** | 89,804,042 | 100,293,240 |
| | **Loans and advances to other related parties** | | | |
| | At 1 January | **8,169,551** | 65,740,618 | 66,369,045 |
| | Repaid during the year | **(1,256,854)** | (57,571,067) | (628,427) |
| | At 31 December | **6,912,697** | 8,169,551 | 65,740,618 |
| | **Analysis by related party** | | | |
| | Stanbic Bank Kenya Limited | **6,912,697** | 8,169,551 | 15,740,618 |
| | Stanbic Bank Uganda Limited | **-** | - | 50,000,000 |
| | | **6,912,697** | 8,169,551 | 65,740,618 |
| | Interest received from other related entities during the year | **438,389** | 1,090,569 | 2,419,837 |
| | **Analysis by related party** | | | |
| | Stanbic Bank Kenya Limited | **438,389** | 758,769 | 723,549 |
| | Stanbic Bank Uganda Limited | **-** | 331,800 | 1,696,288 |
| | | **438,389** | 1,090,569 | 2,419,837 |
| | Accrued interest receivable from other related entities at 31 December | **1,122** | 121,862 | 283,476 |
| | **Analysis by related party** | | | |
| | Stanbic Bank Kenya Limited | **1,122** | 121,862 | 283,476 |
| | None of the facilities provided during the year under review was non-performing. | | | |
| (iii) | **Borrowings from Parent** | | | |
| | At 1 January | **1,412,143** | 2,595,414 | 4,018,000 |
| | Repaid during the year | **(941,429)** | (1,183,271) | (1,422,586) |
| | At 31 December | **470,714** | 1,412,143 | 2,595,414 |
| | **Analysis by related party** | | | |
| | Standard Bank of South Africa | **470,714** | 1,412,143 | 2,594,571 |
| | Interest paid during the year | **47,082** | 87,198 | 139,438 |
| | Interest payable at 31 December | **52** | 156 | 843 |
| | Interest paid and payable during the year relate to Standard Bank of South Africa. | | | |
| (iv) | **Deposits from other related parties** | | | |
| | At 1 January | **10,108,450** | 35,998,522 | 44,101,805 |
| | Received during the year | **790,000,000** | 1,288,000,000 | 1,334,000,000 |
| | Repaid during the year | **(733,511,319)** | (1,313,890,072) | (1,342,103,283) |
| | At 31 December | **66,597,131** | 10,108,450 | 35,998,522 |
| | Interest paid on deposits | **638,692** | 604,389 | 614,520 |
| | Interest payable at 31 December | **8,653** | 2,972 | 25,087 |
| (v) | **Deposits from Parent** | | | |
| | At 1 January | **1,790,188** | 3,764,686 | 1,560,163 |
| | Received during the year | **-** | - | 2,204,523 |
| | Repaid during the year | **(532,611)** | (1,974,498) | - |
| | At 31 December | **1,257,577** | 1,790,188 | 3,764,686 |
| | Interest paid on deposits | **-** | - | - |
| | Balances relate to vostro accounts from Standard Bank of South Africa. | | | |
| (vi) | **Subordinated liabilities** | **-** | - | - |
| | Interest paid | **-** | - | 1,024,157 |

## 37. RELATED PARTIES (CONTINUED)

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **(vii) Deposits from Directors** | | | |
| At 1 January | **266,185** | 304,289 | 196,355 |
| Received during the year | **283,893** | 638,665 | 216,627 |
| Repaid during the year | **(550,078)** | (676,768) | (108,693) |
| At 31 December | **-** | 266,186 | 304,289 |
| Interest paid during the year | **1,057** | 5,542 | 8,440 |
| **(viii) Recharges** | | | |
| Recharges to other related entities | **765,138** | 865,759 | 175,316 |
| Recharges to parent | **79,953** | 85,415 | 28,842 |
| **(ix) Expenses** | | | |
| Management fees paid to parent | **1,403,973** | 1,424,293 | 1,163,656 |
| Other expenses paid to parent | **1,049,112** | 1,764,241 | 1,004,047 |
| Other expenses paid to other related entities | **-** | 2,100 | - |
| | **2,453,085** | 3,190,634 | 2,167,703 |

Most of the other expenses paid to parent relate to IT support costs.

| | 2019 USD | 2018 USD | 2017 USD |
|---|---|---|---|
| **(x) Amounts accrued but not yet paid for services rendered by parent** | | | |
| Management Fees | **319,974** | 367,396 | 291,813 |
| IT Support Services | **748,595** | 875,843 | 760,846 |
| License Fee | **148,564** | 148,564 | - |
| Others | **2,660** | 6,560 | - |
| | **1,219,793** | 1,398,363 | 1,052,659 |
| **(xi) Dividend paid to owner** | **10,000,000** | - | 12,000,000 |

Dividend per share was USD0.29 for the year ended 31 December 2019 (2018: nil, 2017: USD0.34).

**(xii) Foreign Exchange transactions**

The Bank conducts foreign exchange transactions with Group entities, in the hedging of its currency risk.

**(xiii)** The Bank did not have any non-performing related party exposure as at 31 December 2019 (2018: nil and 2017: nil).

As at 31 December 2019, the bank's top six exposures to related parties was USD 607m which was 6 times the Bank's Tier I Capital.

## 38. PARENT COMPANIES

The immediate parent company is Stanbic Africa Holdings Ltd, a company incorporated in the United Kingdom and the ultimate parent company is Standard Bank Group, a company incorporated in South Africa.

## 39. EVENTS AFTER THE REPORTING PERIOD

At the time of preparing this report the existence of novel coronavirus (Covid-19) was confirmed and had begun spreading more rapidly across the globe. During this outbreak, protecting the health and well-being of our staff, clients and other key stakeholders is at the centre of our response plans. Precautionary measures have been put in place and are consistent with protocol from the World Health Organisation and Standard Bank group policies. We have activated our business continuity plans to ensure continued performance of essential functions even under stressed conditions and identified appropriate mitigating initiatives to address the challenges being faced. We are also working with the Central Bank, Government and other key partners to identify appropriate interventions that will support our clients through this challenging time and ensure the continued stability and smooth operations of the financial system. The bank is well capitalised and liquid. We are also working closely with our clients to identify and remediate any potential challenges and are confident that the right attention is being applied across the spectrum of risks that need to be managed.

Given that the outbreak occurred post year-end, this is considered a non-adjusting post reporting date event. At this time, the situation is still evolving and the impact on communities and business activities is difficult to quantify. The impact will be considered and included in strategy, long and short-term budget plans as well as the 2020 macroeconomic forecasts that are incorporated into the IFRS 9 expected credit loss provisions, as well as the impact on the Bank's retirement benefit obligations and all other financial estimates.

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