3A. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the consolidated and separate financial statements are set out below.

(a) Basis of preparation

The consolidated and separate financial statements of the Group and the Bank have been prepared on a historical cost basis, except as modified by the fair valuation of certain financial instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group and the Bank take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

Statement of compliance

The consolidated and separate financial statements of the Group and the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and in compliance with the Mauritius Companies Act 2001, the Guidelines and Guidance Notes issued by the Bank of Mauritius, the Financial Reporting Act 2004 and the Banking Act 2004.

Presentation of financial statements

The financial statements are presented in Mauritian Rupees ('MUR') and all values are rounded to the nearest thousand except when otherwise indicated.

The Group and the Bank present their statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 37 (c).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Bank controls an investee if and only if the Bank has:

(i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

(ii) Exposure, or rights, to variable returns from its involvement with the investee; and

(iii) The ability to use its power over the investee to affect its returns.

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) The contractual arrangement with the other vote holders of the investee;

(ii) Rights arising from other contractual arrangements;

(iii) The Bank's voting rights and potential voting rights; and

(iv) A combination of (i) – (iii).

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

(i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and

(ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 (previously IAS 39), when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Foreign currency translation

The consolidated and separate financial statements are presented in Mauritian Rupees ('MUR'). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date and all differences are recognised in profit or loss.

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

(ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Mauritian Rupees at the rate of exchange prevailing at the reporting date. The income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period. The exchange differences arising on translation for consolidation are recognised in 'Other comprehensive income'. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

(d) Recognition of income and expenses

(i) Net interest income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in profit or loss using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the year in 'Net trading income'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument 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. The future cash flows are estimated taking into account all the contractual terms of the instrument. The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Recognition of income and expenses (Continued)

(ii) Net fee and commission income

Fee and commission income and expense include fees other than those that are an integral part of EIR. The Group and the Bank earn fee and commission income from a diverse range of services being provided to its customers. Fee income can be categorised as follows:

Fee income earned from services provided
These fees include commission income, asset management, custody and other management and advisory fees. The fees are recognised as the related services are provided. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis. A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the performance obligations.

Fee and commission expense
Fee and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held-for-trading.

(iv) Dividend income

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

(e) Financial instruments

Policy applicable after 01 July 2018

Financial assets and financial liabilities

Financial assets and financial liabilities are recognised in the statement of financial position when the Group and the Bank become a party to the contractual provisions of the instrument. Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable after 01 July 2018 (Continued)

Financial assets and financial liabilities (Continued)

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

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

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

The Group and the Bank have not applied hedge accounting to its financial instruments during the years ended 30 June 2018, 2019 and 2020.

Financial assets

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

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

Specifically:

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable after 01 July 2018 (Continued)

Financial assets (Continued)

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

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

The Group and the Bank have not designated any debt instruments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

Debt instruments measured at amortised cost or at FVTOCI

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

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI. For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

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

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

The Group and the Bank have more than one business model for managing their financial instruments which reflect how they manage their financial assets in order to generate cash flows. The business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group and the Bank consider all relevant information available when making the business model assessment.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable after 01 July 2018 (Continued)

Debt instruments measured at amortised cost or at FVTOCI (Continued)

However, this assessment is not performed on the basis of scenarios that the Group and the Bank do not reasonably expect to occur, such as 'worst case' or 'stress case' scenarios. The Group and the Bank take into account all relevant evidence available such as:

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

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

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Financial assets measured at FVTPL

Financial assets at FVTPL are:

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

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

Equity instruments designated at FVTOCI

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

A financial asset is held for trading if:

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable after 01 July 2018 (Continued)

Equity instruments designated at FVTOCI (Continued)

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

Cash and cash equivalents

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

Reclassifications

If the business model under which the entity holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the financial assets. During the current financial year there was no change in the business model under which the Group and the Bank hold financial assets and therefore no reclassifications were made.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost, exchange differences are recognised in profit or loss;
- for debt instruments measured at FVTOCI, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss and other exchange differences are recognised in the OCI in fair value reserve;
- for financial assets measured at FVTPL, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in the OCI in the fair value reserve.

Financial guarantees

In the ordinary course of business, the Group and the Bank give financial guarantees, consisting of letters of credit, bank guarantees and acceptances.

Financial guarantee contracts issued by an entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the entity's revenue recognition policies.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable after 01 July 2018 (Continued)

Impairment of financial assets

The Group and the Bank recognise loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- loans and advances to banks and customers;
- due from banks;
- debt instruments at amortised cost;
- debt instruments at FVTOCI;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments designated at FVTOCI.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instruments that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instruments (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in Note 37 (b).

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the entity under the contract and the cash flows that the entity expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the entity if the holder of the commitment draws down the loan and the cash flows that the entity expects to receive if the loan is drawn down.

For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the entity expects to receive from the holder, the debtor or any other party.

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

More information on measurement of ECLs is provided in Note 37.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable after 01 July 2018 (Continued)

Credit impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets.
Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group and the Bank assess whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group and the Bank consider factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

The Group and the Bank do not have purchased or originated credit impaired financial assets.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see Note 37 (b)).

The Group and the Bank consider the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group and the Bank; or
- the borrower is unlikely to pay its credit obligations to the Group and the Bank in full.

This definition of default is used by the Group and the Bank for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable after 01 July 2018 (Continued)

Definition of default (Continued)

When assessing if the borrower is unlikely to pay its credit obligation, the Group and the Bank take into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group and the Bank use a variety of sources of information to assess default which are either developed internally or obtained from external sources. More details are provided in Note 37. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore credit impaired assets will include defaulted assets, but will also include other non-defaulted asset given the definition of credit impaired is broader than the definition of default.

Significant increase in credit risk (SICR)

The Group and the Bank monitor all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group and the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. The Group's and the Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Group and the Bank monitor all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group and the Bank compare the risk of default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group and the Bank consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group and the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's and the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail lending, forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. The Group and the Bank allocate their counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable after 01 July 2018 (Continued)

Significant increase in credit risk (SICR) (Continued)

The PDs used are forward-looking and the Group and the Bank use the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Group and the Bank still consider separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending, there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending, the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, sale of assets.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD. As a back-stop when an asset becomes 30 days past due, the Group and the Bank consider that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. In addition, loans that are individually assessed and are included on a watch list are in stage 2 of the impairment model. As noted, if there is evidence of credit impairment, the assets are moved to stage 3 of the impairment model.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group and the Bank renegotiate loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness), change in interest rates and amendments to covenants. The Bank has established a forbearance policy during the current financial year. When a financial asset is modified, the Group and the Bank assess whether this modification results in derecognition. In accordance with the Group's and the Bank's policy, a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms, the Group and the Bank consider the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable after 01 July 2018 (Continued)

Modification and derecognition of financial assets (Continued)

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest rate. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the Group and the Bank consider the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the entity considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation. In the case where the financial asset is derecognized, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification.

The Group and the Bank monitor credit risk of modified financial assets by evaluating qualitative and quantitative information, as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the entity determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the ability to collect the modified cash flows taking into account the previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Group and the Bank perform an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit-impaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition, the Group and the Bank calculate the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account. Then the Group and the Bank measure ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable after 01 July 2018 (Continued)

Modification and derecognition of financial assets (Continued)

The Group and the Bank derecognise a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group and the Bank neither transfer nor retain substantially all the risks and rewards of ownership and continue to control the transferred asset, the Group and the Bank recognise their retained interest in the asset and an associated liability for amounts it may have to pay. If the Group and the Bank retain substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Bank continue to recognise the financial asset and also recognise a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss. On derecognition of a financial asset other than in its entirety (e.g. when the Group and the Bank retain an option to repurchase part of a transferred asset), the Group and the Bank allocate the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer.

The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write-off

Loans and debt securities are written off when the Group and the Bank have no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group and the Bank determine that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group and the Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's and the Bank's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss.

Presentation of allowance for ECL in the statements of financial position

Loss allowances for ECLs are presented in the statements of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statements of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the fair value reserve;
- for loan commitments and financial guarantee contracts: as a provision; and

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable after 01 July 2018 (Continued)

Presentation of allowance for ECL in the statements of financial position (Continued)

- where a financial instrument includes both a drawn and an undrawn component, and the entity cannot identify the ECL on the loan commitment component separately from those on the drawn component: the entity presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Financial liabilities and equity

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

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group and the Bank are recognised at the proceeds received, net of direct issue costs. Repurchase of the Group's and the Bank's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's and the Bank's own equity instruments.

Ordinary shares are classified as equity.

The Bank's Class A shares are classified as equity as they are calleable at the option of the Bank. These shares carry non-cumulative dividends which are payable at the discretion of the Board. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

Financial liabilities

Financial liabilities include deposits from banks, deposits from customers, due to banks, debts issued and other liabilities and are initially measured at fair value, net of transaction costs. These financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable after 01 July 2018 (Continued)

Financial liabilities measured at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. The Group has financial liabilities held for trading which are measured at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability.

Derecognition and modification of financial liabilities

The Group and the Bank derecognise financial liabilities when, and only when, the Group's and the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss. When the entity exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. To determine if the modified terms of a liability are substantially different to the original terms a similar process with modification of financial assets is followed. The modification is assessed at first on a qualitative basis, factors such as a change in currency or the introduction of a non-closely related embedded derivative that significantly modifies the cash flows are regarded as substantially different.

If it is not clear from the qualitative assessment that a modification has resulted in a substantial change in a financial liability, a quantitative assessment is applied. It is assumed that the terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the Group and the Bank recalculate the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The Group and the Bank recognise any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification. The financial liability modification gain/loss is not significant for the Group and the Bank. Modification gains are presented in 'other operating income' and modification losses are presented in 'other operating expenses' in profit or loss.

Policy applicable prior to 01 July 2018

Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable prior to 01 July 2018 (Continued)

Financial instruments - initial recognition and subsequent measurement (Continued)

(ii) Initial measurement of financial instruments

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

(iii) Derivatives recorded at fair value through profit or loss

The Group and the Bank use derivatives such as forward foreign exchange contracts and options on foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value are included in Net trading income.

(iv) Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held-for-trading are recorded in the statements of financial position at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to receive the income /make the payment has been established. Included in this classification are debt securities, which have been acquired principally for the purpose of selling or repurchasing in the near term.

(v) 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group and the Bank immediately recognise the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the statements of profit or loss and other comprehensive income when the inputs become observable, or when the instrument is derecognised.

(vi) Held-to-maturity (HTM) financial assets

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

(vii) Available-for-sale (AFS) financial investments

Available-for-sale investments include equity securities and investment in preference shares. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. The Group and the Bank have not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive income and accumulated in equity in the fair value reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Where the Group and the Bank hold more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. The losses arising from impairment of such investments are recognised in profit or loss and removed from the fair value reserve.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable prior to 01 July 2018 (Continued)

Financial instruments - initial recognition and subsequent measurement (Continued)

(viii) Due from banks, loans and advances to banks and customers and other assets

'Due from banks', 'Loans and advances to banks' and customers' and 'other assets' include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group and the Bank intend to sell immediately or in the near term and those that the Group and the Bank, upon initial recognition, designate as at fair value through profit or loss;
- Those that the Group and the Bank upon initial recognition, designate as available-for-sale;
- Those for which the Group and the Bank may not recover substantially all of their initial investment, other than because of credit deterioration.

After initial measurement, these financial assets are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the statements of profit or loss and other comprehensive income. The losses arising from impairment are recognised in profit or loss in 'Net impairment loss on financial assets'.

The Group and the Bank may enter into certain lending commitments where the loan on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the Group and the Bank, and not sold in the short term, the commitment is recorded only when the commitment is an onerous contract that is likely to give rise to a loss (e.g., due to a counterparty credit event).

(ix) Cash and cash equivalents

Cash and cash equivalents as referred to in the statements of cash flows comprise cash in hand, non-restricted current accounts with the central bank and amounts due from banks on demand or with an original maturity of three months or less, net of bank overdrafts.

(x) Debts issued

Financial instruments issued by the Group and the Bank that are not designated at fair value through profit or loss, are classified as liabilities under 'Debts issued' where the substance of the contractual arrangement results in the Group and the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, debts issued and other borrowed funds are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. An analysis of the Group's and the Bank's issued debt is disclosed in Note 25 to the financial statements.

(xi) Effective interest rate

The effective interest method is a method of calculating the cost of a financial asset/financial liability and of allocating interest income/cost over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction cost and other premiums or discounts) through the expected life of financial asset/financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable prior to 01 July 2018 (Continued)

Financial instruments - initial recognition and subsequent measurement (Continued)

(xii) Impairment of financial assets

The Group and the Bank assess at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; default or delinquency in interest or principal payments; the probability that they will enter bankruptcy or other financial reorganisation; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The following sets out the policies of the Group and the Bank regarding the impairment of specific classes of assets:

Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Group and the Bank first assess individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. Loans together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and the Bank.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statements of profit or loss and other comprehensive income. The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Group or the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable prior to 01 July 2018 (Continued)

Financial instruments - initial recognition and subsequent measurement (Continued)

(xii) Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's and the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group and the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For available-for-sale financial investments, the Group and the Bank assess at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss, is removed from equity and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in the fair value after impairment are recognised in 'Other comprehensive income'.

Financial liabilities

Financial liabilities include deposits from customers and due to banks, debts issued and other liabilities and are initially measured at fair value, net of transaction costs. These financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" below.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (Continued)

Policy applicable prior to 01 July 2018 (Continued)

Derecognition of financial assets and financial liabilities

(i) Financial assets

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

- the contractual rights to receive cash flows from the asset have expired; or
- the Group or the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
    a. the Group or the Bank has transferred substantially all the risks and rewards of the asset, or
    b. the Group or the Bank has neither transferred nor retained substantially all the risks and rewards on the asset, but has transferred control of the asset.

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

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

(ii) Financial liabilities

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

(f) Derivative financial instruments

The Group and the Bank enter into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to interest rate risk; credit risk; and foreign exchange rate risk. Derivative held include forward contracts, spot position, Option linked notes, Index linked notes, swaps and option contracts. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Dividend payable

Dividends on ordinary shares and Class A shares are recognised as a liability and deducted from equity when they are approved by the Bank's directors and the Bank of Mauritius. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(h) Equity reserves

The reserves recorded in equity on the statement of financial position include:

- 'Equity–settled share-based payments' reserve relates to expenses arising from equity-settled share-based payment transactions;
- 'Fair value reserve' relates to the gain or loss arising from changes in the fair value of debt instruments measured at FVTOCI;
- 'Statutory reserve' which represents 15% of the net profit transferred in accordance with the Banking Act 2004 until the amount equals the stated capital of the Group and the Bank; and
- 'General banking reserve' which comprises amounts set aside for general banking risks including country risk.
- 'Foreign currency translation reserve' which arises on retranslation of foreign operations on consolidation.

(i) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statements of financial position.

Income and expense will not be offset in the statements of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies.

(j) Fair value measurement

The Group and the Bank measure financial instruments, such as, derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 32 (b).

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

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

The principal or the most advantageous market must be accessible to the Group and the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Fair value measurement (Continued)

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

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

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

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

For the purpose of fair value disclosures, the Group and the Bank have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and further details as to how they are measured is provided in Note 32 (a).

(k) Investment in a subsidiary

Investment in a subsidiary is accounted at cost in the Bank's separate financial statements, less any accumulated impairment in value.

(l) Asset held for distribution

The Group classifies non-current assets and disposal groups as held for distribution if their carrying amounts will be recovered principally through a distribution of the shares held rather than through continuing use. Non-current assets classified as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable, and the asset or disposal group is available for immediate distribution in its present condition. Management must be committed to the plan to distribute the asset and the distribution is expected to be completed within one year from the date of classification.

(m) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Business combination and goodwill (Continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with changes in fair value recognised in profit or loss. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(n) Property and equipment

Property and equipment are stated at cost excluding the costs of day-to-day servicing, less subsequent accumulated depreciation and subsequent accumulated impairment in value.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

	Rate
Improvement to buildings	10%
Furniture and fittings	10% - 20%
Office equipment	10% - 20%
Motor vehicles	14.29% - 20%
Computer equipment	25% - 33.33%

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statements of profit or loss and other comprehensive income in the year the asset is derecognised. Residual values and useful lives are reviewed at least at each financial year end. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Intangible assets (excluding goodwill)

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group or the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the statements of profit or loss and other comprehensive income. Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

	Rate
Computer software	25%
Banking software	14.29%
Customer relation	13% - 20%
Other	33.33%

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statements of profit or loss and other comprehensive income when the asset is derecognised.

(p) Leases

The Group and the Bank have applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 July 2019

The Group and the Bank as a lessee

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

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Leases (Continued)

Policies applicable from 1 July 2019 (Continued)

The Group and the Bank as a lessee (Continued)

Lease payments included in the measurement of the lease liability comprise:
- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

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

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

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

The Group and the Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the Group and the Bank incur an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37.

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

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Leases (Continued)

Policies applicable from 1 July 2019 (Continued)

The Group and the Bank as a lessee (Continued)

The Group and the Bank apply IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property and Equipment' policy. Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Other operating expenses' in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The lease contracts do not have lease and non-lease components and hence the Group and the Bank have not used this practical expedient.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(q) Impairment of non-financial assets

The Group and the Bank assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group and the Bank estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Group and the Bank assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group and the Bank estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group and the Bank estimate the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Provisions and other contingent liabilities

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

The Group and the Bank operate in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, they are involved in various litigation, arbitration and regulatory investigations and proceedings both in local and in other jurisdictions, arising in the ordinary course of the Group's and the Bank's business. When the Group and Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group and the Bank record a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group and the Bank are of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group and the Bank do not include detailed, case-specific disclosures in their financial statements. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group and the Bank take into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

(s) Pension benefits

(i) Defined contribution pension plan

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

(ii) Retirement and other benefit obligations

The present value of retirement gratuities under The Workers' Rights Act 2019 is recognised in the statement of financial position as a liability. Re-measurement, comprising actuarial gains and losses, is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Re-measurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorised as follows:

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

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

State plan

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Taxation

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current tax also includes any tax arising from dividends. The Bank is subject to the Advance Payment System (APS) whereby it pays income tax on a quarterly basis.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

(ii) Deferred Tax

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

- except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3A. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Taxation (Continued)

(iii) Corporate Social Responsibility

The Corporate Social Responsibility ('CSR') was legislated by the Government of Mauritius in July 2009. In terms of the legislation, the Bank is required to allocate 2% of its chargeable income of the preceding financial year under Segment A.

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

(u) Special Levy

The Bank is liable to pay a special levy on its leviable income [Net interest income + other income from banking transactions with residents, before deduction of expenses] at the rate of 5.5% if the leviable income is less than MUR 1.2bn or at 4.5% if the leviable income exceeds MUR 1.2bn.

The special levy is currently included in other operating expenses and other liabilities in the financial statements.

(v) 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. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

The Bank has prepared its separate financial statements in line with the requirements of the Bank of Mauritius Guideline on 'Segmental Reporting under a Single Banking Licence Regime' and Bank of Mauritius Guideline on 'Public Disclosure of Information' which require that segment information should be provided by Segment A and Segment B banking businesses.

Segment A

Segment A activity relates to all banking business other than Segment B activity. The financial services provided under Segment A may be funded and/or non-fund based. Segment A business will essentially consist of transactions with residents of Mauritius, both on the liability side and asset side.

Segment B

Segment B activity essentially relates to the provision of international financial services that give rise to 'foreign source income'. Such services may be fund based and/or non-fund based. Segment B assets will generally consist of placements with and advances to foreign resident companies, institutions as well as individuals including stocks and debt instruments and claims on non-resident and/or entities holding Global Business Licence ('GBLs'). Segment B liabilities will normally arise from deposits, borrowings, funds deposited by non-residents and GBLs.

(w) Comparatives

Where necessary, comparative figures are reclassified to conform to the current year's presentation.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3B. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements in accordance with IFRS requires the directors and management to exercise judgement in the process of applying the accounting policies. It also requires the use of accounting estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Judgements and estimates are continuously evaluated and re based on historical experience and other factors, including expectations and assumptions concerning future events that are believed to be reasonable under the circumstances. The actual results could, by definition therefore, often differ from related accounting estimates.

Where applicable, the notes to the financial statements set out areas where management has applied a higher degree of judgement that have a significant effect on the amounts recognised in the financial statements, or estimations and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Judgements

Going concern

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

Determination of functional currency

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

Deferred tax assets

Recognition of deferred tax assets depends on management's intention of the Group and the Bank to generate future taxable profits which will be used against temporary differences and to obtain tax benefits thereon. The outcome of their actual utilisation may be different.

Business model assessment

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3B. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (Continued)

Calculation of ECL allowance

- Significant increase of credit risk: ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group and the Bank take into account qualitative and quantitative reasonable and supportable forward-looking information.
- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 3 for details of the characteristics considered in this judgement. The Group and the Bank monitor the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differs.
- Models and assumptions used: The Group and the Bank use various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Determination of lease term

In determining the lease term, management considers all fact and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, there was no revision of lease terms.

Estimates and assumptions

Fair value of financial instruments

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

Useful lives of property and equipment and intangible assets

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

3B. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimates and assumptions (Continued)

Provision for retirement benefit

Retirement benefit obligation has been valued by Actuary on accounting estimates and as per provision of the Workers' Rights Act 2019. Management considers that they have used their best estimates to value the retirement benefit obligation provisions. Actual results may be different from their estimates.

Provisions and other contingent liabilities

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

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

Impairment losses on financial assets

The Group's and the Bank's ECL calculation are output of complex models with underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting estimates include:

- Forward looking information: When measuring ECL the Bank and Group use reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 37 for more details.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical information, assumptions and expectations of future conditions. Refer to Note 37 for more details.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Refer to Note 37 for more details.

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

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