STRETCHING YOUR **POSSIBILITIES**

OUR STRATEGY

OUR REVENUE GENERATORS

RETAIL BANKING (RBD)

The year 2019 was pivotal for the RBD segment. The implementation of the revamped sales, service and innovation led strategy, which started in late 2018 and which is still ongoing, has started to bring interesting results. RBD assets book grew by a strong 43% during the year. The funding base has grown organically by 17% in its deposit base. The division has undergone some changes and fully re-engineered itself to segregate its operations into three distinct sub-segments: elite, mass retail and SME banking.

The principal contributors for RBD's asset growth has been the consumer and housing segments, for both the elite and mass sub-segments, as a result of the new offers, improved service quality and short turnaround time demarking RBD on the competitive edge. On the SME side, with the revamp of the product suites and reinforcement of the team, a commendable growth of 50% has been achieved. The impetus on deposits came from the elite banking proposition launch, which provides customised and value loaded offering to the elite banking sub-segment, with unmatched prioritised service. Deposits from local individuals as well as SMEs also contributed to this growth.

Innovation at the heart of our retail banking strategy

Our cards offerings have been revisited and enhanced with more attractive features. A new state of the art and first of its kind cashback credit card that is free for life, based on spend, was launched. Furthermore, Bank One cards have been contactless enabled, providing customers with the best card payment technology.

In addition to cashback credit card and elite banking launch, RBD further set its foundations for growth by launching its new ONE alliance club, direct sales and telesales, as well as re-invigorating its SME channels. The internet and mobile banking platforms were also enhanced, with digital desks made accessible in every branch, thereby promoting digital as opposed to paper-based transactions.

Overcoming challenges to successfully grow

The year 2019 came with its own set of external challenges, the major of which relates to the Bank of Mauritius' silver bond, issued during the second semester of 2019. Despite this bond resulting in a significant transfer of funds from the Bank, our retail business model has remained resilient and even experienced a commendable growth.

For the year to come, RBD will continue this transformation journey through the review of its distribution channels as well as the improvement of its digital offerings. With the team now in place under the leadership of Shehryar Bakht Ali, RBD will be a serious challenging force for the other segments in terms of percentage contribution to the Bank's bottom line.

CORPORATE BANKING (CBD)

Similar to the previous year, the local business environment has remained rather uncertain in 2019, with challenges for several sectors remaining unaddressed. Overall, the difficult economic conditions across our major markets and the heightened competitive environment internationally, have had a direct impact on our key GDP contributing sectors.

Despite the modest growth reflected in several key sectors and the many challenges identified on the local economic market, CBD managed to grow its deposits book by 31% year on year. CBD has been able to further diversify its deposit sources, with several new names added to its client base this year. CBD deposits today represent 15% of the Bank's total deposits. The corporate liabilities market experienced a major change with the introduction of the Government of Mauritius Treasury Certificates (GMTC) product, targeted to parastatal bodies for deposit placements. The GMTC introduction resulted in a decrease in placement of term deposits from government-owned institutions into commercial banks, thereby creating higher competition for remaining market-fixed placements at higher deposit rates.

On the other hand, given the lacklustre and unclear business environment with the elections held in November 2019, the assets growth for the segment has been moderate, at 6%. CBD has been very selective in building its assets book, keeping a very close eye on the assets being onboarded. With a diversified sectorial assets portfolio, CBD today contributes 32% to the bank's gross loans and advances book. The excess liquidity has been persisting in the local market, putting pressure on yields as never before. Furthermore, the change in BOM guidelines, pertaining to single/group exposure limits, remains a challenge to asset growth on Top 100 Corporates, at the risk of facing buyout from competitor banks.

The global economy is facing increased risk of stagnation in 2020. The events happening internationally will definitely have an impact on the local business environment and its pace of growth. The strategy for CBD will remain the consolidation of its assets base, while at the same time exploring opportunities to reduce the risk sitting on its balance sheet.

INTERNATIONAL BANKING (IBD)

IBD remains the mainstay of the Bank, representing 46% of its total deposits. In pursuance of its diversification strategy, IBD has been able to acquire new geographies under its portfolio. Moreover, the division reviewed its portfolio mix to strike the appropriate balance between short-term liquid and longer term less liquid assets.

Through various initiatives to diversify its sources of funding, IBD targeted new jurisdictions and streamlined the client onboarding process to extract fresh liquidity pools. These twin efforts enabled the liabilities side of the business to grow by 27% in 2019. The fresh deposits were a combination of low tenor/low cost and longer tenor/higher cost funds.

One of the key priorities of IBD remains further de-risking its assets portfolio. To this end, a risk defeasance strategy was deployed, combining more investment grade assets and introducing capital light structures like credit insurance-backed transactions, which started well and yielded positive results. IBD also introduced several new value-added products into its suite, in response to clients' demands and the requirements of a dynamic market environment.

This business line is actively pursuing other mandates with several business partners, to work jointly for calculated risk sharing. Our origination capabilities on the sub-continent have created a lot of positive attention among peer banks on the Mauritian market, who are indicating keen interest to participate alongside Bank One, as we have clearly carved out a niche for ourselves in this space

The setting up of a desk to deal with financial institutions forms part of IBD's strategy and is now a reality. During the second semester of 2019, IBD onboarded an experienced professional to head this section. We look forward to leveraging on his vast experience and deep networks across Sub Saharan Africa, in order to build a robust financial institutions proposition to better serve our mid-tier African financial institutions with an intermediary correspondent banking solution.

PRIVATE BANKING AND WEALTH MANAGEMENT AND SECURITIES SERVICES (PBWM)

The year 2019 has been another eventful and successful year for the PBWM segment, with the implementation of the strategy adopted in 2017-18 carrying on delivering prosperous results. PBWM assets book has more than doubled during the year under review. Its deposits book – comprising mainly foreign currencies –, has grown by an impressive +200%, while its customer base has experienced a 35% increase. During the year 2019, the assets under custody portfolio have grown by 119%, significantly contributing to its non-interest income.

Going the technological route

The enhancement of the custody application with value-add features and new offerings demarked this segment from its competitors on the local market. The online portal has also helped grasping a significant part of the market share of assets under custody. This tool sends automatic and secured valuation reports to clients (External Asset Managers) over an IP address in .csv/.txt format. Today, the portfolio under PBWM comprises not only High Net Worth Individuals (HNWI) and External Asset Managers, but also Collective Investment Scheme (CIS) funds, pension funds, family offices and Business Introducers.

On another note, the Bank's internal approval and documentation processes have been enhanced to ensure efficient service to our customers, with quicker turnaround and more flexibility. The PBWM team has been beefed up with experienced and qualified resources to meet clients' quality expectations. Members have made considerable efforts to place the team on the frontline during 2019, in order to help Bank One become more and more visible as a brand.

Despite the increasingly competitive business environment, PBWM and its new team and tools now in place is set to achieve remarkable results in 2020.

TREASURY OPERATIONS

Treasury remains one of the core contributors to the Bank's non-interest income, with a share of 33% for the year ended December 2019. Despite the tough competition and the pressure on margins, the segment managed to show a 34% growth on its trade-related income, closing at MUR 138 million for the year under review.

On the local front, conditions remained challenging with acute competition putting pressure on margins. The surplus of foreign currency on the market persisted till the third quarter of 2019, during which the market witnessed a sudden squeeze that pushed the Bank of Mauritius to sell US dollars to the market. The Bank of Mauritius sold USD 76.8 million during that intervention, as opposed to purchases of USD 490 million made during the year. The BOM MERI2 Index, based on the currency distribution of the merchandise trade and tourism earnings, showed a depreciation of the Mauritian rupee by 5.65%. The Mauritian rupee depreciated against the three major currencies, with a 5.5% drop against the US dollars, 4.0% against the European euro and 10.33% against the British pound sterling. Fortunately, treasury has been able to achieve a good performance through the proper management of its position, backed by decent flows from the segment B business.

Regarding the interest rate, we have seen the central bank reducing the Key Repo Rate (KRR) by 15 basis points to 3.35% in August. Liquidity remained a prevalent issue throughout the year, because of both the government and the central bank. The government came up with the issuance of the silver savings and retirement bonds, which absorbed MUR 6.4 billion, and treasury certificates aimed at non-financial public sector bodies, which locked in MUR 5.35 billion from the market. On the other hand, the central bank continued to issue its own securities to mop up the excess liquidity. The Bank of Mauritius also issued for the first time short-term 28-day BOM bills, available to all banks. Activities through the BOM open market operations reached MUR 118 billion, as opposed to MUR 95 billion a year ago. Yields on treasury bills hovered in the range of 1.92%-3.68% throughout the year.

On the international front, with a slowdown in global economy, many countries resorted to reducing their key interest rates. Treasury, thanks to a good pool of liquidity from the Bank's liabilities book, has been able to book decent returns on its investments through proper liquidity management.

E-BUSINESS

The year 2019 has been a positive year overall, with e-commerce's operating income growing by 8% compared to the previous year. While major e-commerce markets in East Asia demonstrated growth, the United States of America (USA)-China trade war affected business volumes in general, resulting is slower growth than projected.

Re-engineering our e-commerce strategy

With the dynamic environment in international trade and the payments and fintech industry, Bank One's e-commerce team re-engineered its strategy to respond to changes in the business environment and capture the opportunities arising with such change.

The diversification strategy continued to further expand major business markets, targeting emerging African and Asian countries experiencing growth in business over the internet. Possibilities of partnerships with high-end fintechs are currently being explored to offer alternative payment methods other than credit cards. The Bank has also extended its services to international electronic payment providers, in order to facilitate global settlements, cross-currency conversions and worldwide remittances. The vision for this segment is to become a multi-faceted value addition partner to payments companies and e-commerce businesses worldwide.

The e-commerce team is ready for the forthcoming challenges that are expected in 2020, tapping into the opportunities arising from advances in technology, evolving consumer behaviour and internet penetration in emerging markets, to succeed.

OUR MAIN BUSINESS ENABLERS

HUMAN CAPITAL

Understanding and responding to the trends shaping the future of work enables us to create the best possible environment for our workforce. In 2019, Bank One built on a number of initiatives to improve existing HR systems and processes, as well as develop new tools to enhance employee's experience. These efforts, detailed below, spanned from recruitment and employer brand, talent development, engagement, performance and recognition, leadership and succession.

RECRUITMENT AND EMPLOYER BRAND

Ensuring Bank One attracts and retains the best talent.

Fostering career mobility

Career mobility continues to play a vital role for Bank One in retaining talents and providing attractive career opportunities. At the same time, it helps us develop leaders who have experience in multiple areas. This contributes to operational stability by retaining expertise, providing business performance continuity, reducing costs and helping to mitigate succession risk.

In accordance with our Hiring Policy, all open positions are advertised to internal employees first and exclusively, for at least one week before any external candidates are sought. We enable our employees to change roles both within and across divisions.

Employer brand

In the context of rapid change taking place both within our organisation and among our clients and society, we created a new Employee Value Proposition (EVP) in 2018, outlining what current and future employees may expect from the Bank in terms of career opportunities, culture and people aspects. In 2019, the new EVP was reflected on our refreshed careers portal and social media channels, as well as in our recruitment campaigns, pivoting around authentic storytelling. Our employees shared their experiences and career stories, helping attract new talent to Bank One.

As we seek to reach and engage with potential employees via their preferred platforms and channels – and build on our existing social media strategy –, the Yammer channel was launched to further encourage internal information sharing. By December 2019, our LinkedIn careers page had surpassed the 12-month growth projection, amassing 20% new followers and earning us the title of winner of the 2019 LinkedIn Talent Awards in the Best Employer Brand Category in Sub-Saharan Africa, among companies having less than 500 employees on LinkedIn.

DEVELOPMENT

Enabling our people to reach their potential.

Digital Learning | LearnzONE

As part of our wider commitment to digitalisation, we have taken significant steps to ensure our employees have a more engaging learning experience. While we have established an extensive training offering for many years, our new learning platform, LearnzONE, has enabled us to completely transform our employees' experience. It delivers learning in line with modern accessibility standards, making learning available to all employees across several behavioural and management topics, and comprises over 13,500 learning courses guiding employees to articles, audiobooks, TED Talks, podcasts, videos and book abstracts, as well as virtual training sessions.

Additionally, the Bank runs two mandatory management fundamentals programmes for managers and aspiring talents: the management development programme and the leadership development programme. Both programmes are built around three key areas, namely managing self, managing people and managing the business.

ENGAGEMENT

Promoting two-way communication with our people.

As we strive to improve our employees' experience at work and to support an open culture in which people feel confident to speak up, we regularly run our bank-wide "Pulse Survey". This allows us to measure workforce commitment and enablement, identify trends and develop relevant actions to address gaps.

In July 2019, all Bank One employees were invited to participate in the survey, which was conducted in July of the same year. With a 93% response rate, the survey helped us measure our team members' perception regarding the implemented initiatives and their impact on employee experience.

PERFORMANCE AND RECOGNITION

Creating an environment of sustainable delivery.

COMPREHENSIVE PERFORMANCE MANAGEMENT

To achieve a sustainable performance culture, our employees need to know what is expected of them and understand what the desired standards of delivery, behaviour and conduct are. Essential ingredients to succeed in an environment where people can do their best work and speak up include trust, accountability and collaboration.

Strong and open relationships are key in this regard, which is why regular manager-employee conversations are at the heart of the Bank's approach to managing and developing performance (i.e. total performance). Furthermore, we rolled out a balanced scorecard with bank-wide measures of success for the Bank and collective objectives for management, which aims to provide clarity around expectations as well as closer collaboration across different areas of the organisation.

WORKFORCE

REWARDING EMPLOYEES

Our compensation strategy is focused on supporting a client-centric banking model, reinforced by safe and sound compensation practices that operate within the Bank's capital, liquidity and risk-bearing capacity. Our compensation framework aims to promote and reward sustainable performance and contributions at all organisational levels. It provides a clear structure of compensation composition across the Bank.

In 2019, we continued to embed the compensation framework and have created increased transparency with the grading structure, market alignment and individual letter, with a total remuneration view.

OUR MAIN BUSINESS ENABLERS

CUSTOMER EXPERIENCE

The Bank's ambition is to make customer experience a competitive differentiator that will contribute to helping us become the "one bank of choice" for all customers. In 2019, great efforts were made on fixing the basics before setting out to transform the customer's journey. The focus was especially on integrating the Voice of the Customer (VoC) in the Bank's various activities, to create and enforce a customer-centric culture across the Bank. As such, we maintained progress on our customer experience strategy and its four pillars of process, touchpoint experience, customer experience culture and communication.

In continuation to the process re-engineering exercise that kicked off in 2018 with the onboarding journey of individual customers, the exercise was extended to corporate customers in 2019. Three other key processes have also been reviewed, namely payments, loan and branch operations. Our customers' needs were assessed based on feedback sought, which was subsequently used to design the journeys from a customer perspective. Our efforts converged towards the elimination of non-value adding activities and the simplification of existing ones, before moving on to a digital journey.

Another effort to enhance customer journey was the definition of key touchpoints across those journeys and their monitoring on a periodical basis, through distinct indicators that allowed us to take the relevant remedial actions. A crucial ingredient in keeping this formula working was through continuous surveys and encouraging feedback from customers, which helped defining the standards of service determined by customers themselves, thereby making customer insights actionable.

To build up the customer-centric culture across the Bank, specific actions like customer experience awareness and training sessions were delivered to enhance the capability of our people to better engage with customers and keep pace with their expectations. Sensitisation also took the form of a gamification campaign to build up interest around the customer. A monthly forum was set up to track and monitor the priority actions defined by business to improve customer experience. This forum allowed decisions to be taken promptly, based on customers' requirements.

The way we choose to communicate with our customers is of utmost importance and we adopted a number of initiatives upfront to improve their experience. Bank forms have been reviewed, simplified and made user-friendly. Similarly, alerts triggered to customers have also been reassessed to ensure they can stay connected on-the-go with their repayment notifications. A detailed user-guide was also created, catering for the needs of individual customers and helping them navigate the internet banking platform independently. Additionally, a help centre was set up on the Bank's website, comprising a range of items like tutorial videos, FAQs and general banking information, to facilitate the experience of customers who favour the digital platform.

Year-on-year, our performance in customer experience is measured through the Customer Satisfaction Index (CSI) and Net Promoter Score (NPS). We note that, over the past few years, the Bank sustained a relatively stable CSI and NPS. The initiatives enumerated earlier are expected to improve these metrics in the forthcoming surveys.

TRANSFORMATION

The Bank embarked on a transformation journey during the course of 2018, aiming to drive customer experience and transform the business and its operating models. Customer journeys being at the core of Bank One's strategy, focus in 2019 was geared towards fixing the fundamentals parallel to kick starting the transformation exercise, built around data, architecture, processes and team. Significant progress was made as we evolved on the various pillars and efficiency brought to processes. We also recorded an increase in customer satisfaction and have noted a decrease in service time.

In our quest to standardise exchanges, provide a consistent service level and ultimately create a delightful experience, the journey towards implementing the enabling technology capabilities is now underway. We aim at providing seamless interaction with customers and partners, allowing the workforce to make better and quicker decisions, as well as improving visibility and efficiency across departments. At the same time, emphasis is geared towards data analytics and self-service tools, as we aim at embedding the use of data in the day-to-day operations paving the way towards a data-driven organisation.

As we progress in this journey, communication and interaction with colleagues remain key to a proper embedment, while engaging more and simplifying and revolutionising the way we communicate with colleagues at the Bank. We have, in this respect, launched a number of tools such as an enterprise social network, enabling easy access and opportunity for all to share news, participate in polls and events, and chat with colleagues.

At the same time, the transformation office was set up while both the innovation programme and innovation lab were launched. The innovation programme encourages collaboration between colleagues to come up with new ideas and participate in the implementation phase of same, using design thinking and agile methodologies. On the other hand, the innovation lab offers a physical platform where teams and customers are welcomed in a pleasant and conducive environment, facilitating co-creation amongst customers, colleagues and partners. Lab visits and roadshows are ongoing, constituting a first step towards a culture of change and transformation.

Pivotal to "Life at Bank One", these initiatives are proving to be key factors in creating a more productive and enjoyable working environment for our colleagues.

COMMUNICATION

Banking is a relationship business and nothing helps building stronger relations than face-to-face interactions. To that end, Bank One hosted and sponsored a selection of events in 2019, both new and in continuation of previous years.

ONE RECOGNITION AWARDS

On 4 July 2019, we launched the first edition of the One Recognition Awards. Aimed at recognising exceptional team members who are role models when it comes to living our corporate values, the awards covered four categories: One team, customer delight, innovation and employee excellence.

BUDGET BREAKFAST

Under the aegis of Bank One International Banking, we sponsored the 2019 Budget Breakfast panel discussion, hosted by the Association of Trust and Management Companies (ATMC) and Global Finance Mauritius (GFM). Held on 14 June 2019 at the Hennessy Park Hotel in Ebène, the event welcomed over a hundred stakeholders from the financial services sector, including banks, management companies, accounting firms, law firms, institutional investors and government agencies.

FERNEY TRAIL

It is now customary for Bank One to sponsor the Ferney Trail 20-Km race. Ferney Trail, organised by CIEL group, is one of the oldest and most favoured trails in Mauritius, regrouping over 3,500 participants each year at Ferney La Vallée. We are proud to have been associated with Ferney Trail from its inception and adhere to what it represents in terms of sportsmanship, environment protection and celebration of our Mauritian identity.

BANK ONE LEADERSHIP DISCUSSIONS (BOLD)

Bank One organised the inaugural edition of BOLD on 10 September 2019 at the Hennessy Park Hotel in Ebène, in front of an audience consisting of thought leaders from various economic sectors. Our aim is to establish BOLD as a platform to stimulate quality discussions on key areas affecting the Mauritian economy. BOLD's first edition saw the participation of Pratibha Thaker, editorial and regional director Middle East and Africa at the Economist Intelligence Unit, as the keynote speaker on global economy. Also present was Ben Lim, CEO of Intercontinental Trust Ltd, and François Eynaud, CEO of Sun Resorts, as local speakers covering global business and tourism sectors respectively.

INVESTOR CIRCLE

Investor's circle, which is a bi-annual event hosted by Bank One private banking and wealth management & securities services, took place on 23 May and 30 October 2019. This initiative offers private investors, institutions, asset managers and financial service providers, with a unique platform to connect, exchange ideas and do business together.

DRIVER CUP

Our private banking and wealth management & securities department, alongside other prestigious sponsors, including Necker Gestion Privée, also sponsored the first edition of the Driver Cup, the very first amateur team golf championship in Mauritius. At the end of 10 qualifying tournaments played on different golf courses across the island, 72 players were qualified to play against each other for 3 days, based on the format of the famous Ryder Cup – i.e. in doubles, singles and match play. The very first edition in 2019 saw a win for the Mauritian team, against the rest of the world, in an exciting finale at Mont Choisy Le Golf, an 18-hole course designed by Peter Matkovich.

MAURITIUS U20 NATIONAL FOOTBALL TEAM

The Bank proudly supports the Mauritius U20 National Football team. A one-year partnership was signed between Bank One and the Mauritius Football Association at a ceremony held at Bank One's headquarters in Port Louis on 18 November 2019. Soon after, the team flew to Zambia to take part in the COSAFA U20 2019 Championship. Our aim is to support talented young players, giving them a chance to succeed on and off the field.

RISK MANAGEMENT

The report focusses on the holistic process involved in integrated risk management of the Bank and its resultant outcomes, contributing to the Bank reaching its strategic objectives in a sound and controlled risk environment.

RESPONSIBILITY OF THE BOARD

The Bank's Board of Directors (the Board) remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored. The Board ensures proper governance is in place to allow for healthy risk discussions to take place in a forward-looking manner, while also learning from past risk events. The Board approves the Bank's risk appetite statement and ensures risks are managed within the set tolerance levels.

The Board and its Committees are kept informed of the Bank's risk status through the Chief Risk Officer (CRO). The CRO reports both to the Chief Executive Officer (CEO) and to the Board Risk Management Committee (BRMC), and as such, he has direct access to the Board and its risk committees without any impediment.

RISK DEFENCE MODEL

The Bank currently employs a three-level defence model whereby:

- Business lines and functional units take ownership of the risks from end-to-end within their respective domain.
- Independent risk oversight is obtained through permanent action of the various empowered risk functions.
- Internal audit periodically reviews and assesses risks and controls.

The Bank continues to embed an objective-centric enterprise risk management approach to ensure the risk and control functions add value in reaching the Bank's strategic objectives.

RISK MANAGEMENT FRAMEWORK

The Bank's fundamental approach to risk management ensures both value preservation and value creation are promoted through the consistent implementation of the risk culture statement, as adopted by the Board. The risk culture journey is complemented by a measurable risk appetite statement and quarterly monitored via Board-approved risk appetite and risk culture metrics.

The Board approves the risk policies and guidelines, while the Bank's management has the responsibility of the effective execution of these policies through the implementation of appropriate procedures.

The Board and its relevant Committees monitor the risk profile of the Bank on a quarterly basis. Limits on the quantum of compliance risk, credit risk, market risk, liquidity risk operational risk and country risk, are set within prudent guidelines. Other non-quantifiable risks such reputational risk and strategic risk are assessed and monitored on a qualitative basis.

The Board's responsibilities include:

- Approval of the risk management strategy and policies to confirm that all risks are correctly managed at both portfolio and client level.
- Regular reviews of the policies and key performance indicators.
- Analysis of the Bank's ongoing financial performance against forecasts and budgets.

In 2019, the Bank has implemented a Management Integrated Risk Committee (MIRC) that meets quarterly, and holistically assesses and manages the Bank's risks, in complementarity with various management committees dedicated to specific subjects (ALCO, EXCO, Special Assets Committee). The various risk functions escalate any issues and/or limit breaches to the relevant approval authorities, in line with the Bank's escalation matrix.

These risk functions operate as independent units, which are segregated appropriately from the business supported functions. Qualified and experienced team members lead the following areas:

- Compliance
- Credit risk management
- Information Security and Cyber resilience
- Market risk
- Operational risk and sustainability

The Bank uses the Internal Capital Adequacy Assessment Process (ICAAP) to assess its optimal capital requirements. The Bank's Asset and Liability Management Committee (ALCO) is responsible for the management of the bank-wide liquidity, portfolio composition, risk weighted assets measurement and optimal capital allocation. The Bank adopts the Basel standardised approach for the calculation of regulatory capital, taking into consideration the macro-prudential policy measures introduced by the Bank of Mauritius.

CREDIT RISK MANAGEMENT

DEFINITION	The risk of loss arising from a client or counterparty failing to fulfil its financial obligations primarily arises from wholesale and retail loans & advances. Counterparty risk stems mainly from derivative contracts.
GOVERNANCE	The Board Credit Committee (BCC) sets the credit strategy and approves the Credit Policy. The BCC monitors the credit risk to be within the risk appetite and provisions target, and is proactive to any operating environment changes. Management credit approval rests with the CEO and a credit forum is called to discuss certain deals that require enhanced deliberations. The CRO has a veto right for management credit approval and, upon exercising same, the BCC's approval is required. Credit portfolio risks are further discussed on a regular basis at the quarterly MIRC and at the BCC. Proper governance is achieved through an independent credit risk assessment and the oversight by internal audit is further supplemented by regular reporting to the BCC, as well as the ICAAP simulation.
MORE INFORMATION	Various credit management controls are in place, such as credit policies, data analytics, models and risk indicators, to guide the decision-making process, based on agreed principles and risk appetite levels. The impact of the following key aspects are considered: probability of default (PD), exposure at default (EAD), loss given default (LGD), provisions, and the return on risk-adjusted capital (RORAC).

Credit risk mitigation

The primary credit risk mitigation comprises accurate data and information, together with value added research to make an informed decision regarding the obligor's repayment ability. The sustainability of the cash flow generation over the contract period is critically assessed to ensure proper servicing of the debt.

As an additional mitigation for credit risk, collateral and guarantees are taken to make the risk and reward equitable in line with the Bank's risk appetite.

Off-balance sheet Credit-related commitments

Off-balance sheet credit-related commitments include bank guarantees, documentary letters of credit, standby letters of credit and undrawn commitments on committed facilities. The relevant capital charges of the various instruments are calculated based on the criteria set in the BOM guidelines on the standardised approach to credit risk.

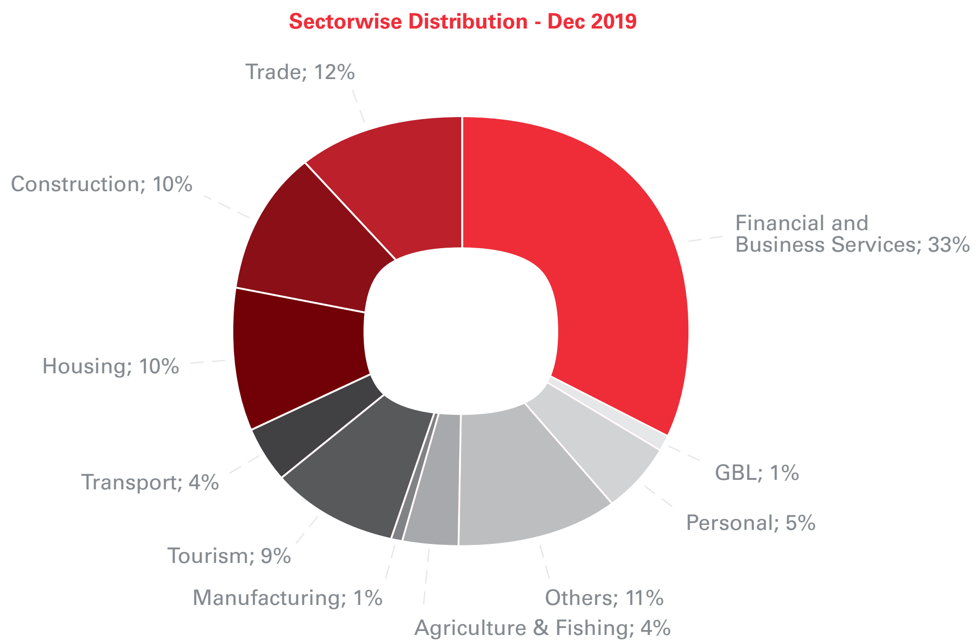
Credit-related commitments	Year ended Dec-17 MUR 000	Year ended Dec-18 MUR 000	**Year ended Dec-19 MUR 000**
Bank guarantees and other contingent liabilities	467,162	614,037	**760,284**
Undrawn credit-related commitments	2,336,517	1,806,382	**4,018,557**

Bank placements and lending

These instruments are normally of a better credit quality, by the virtue of the regulated market in which these counterparties operate. External credit rating agencies' reports on the credit quality of rated banks are utilised as an additional input to the Bank's independent internal credit assessment, together with obtaining an internal credit rating for all bank obligors using the Moody's RiskCalc Bank model.

RISK MANAGEMENT

SECTORWISE DISTRIBUTION



As shown in the chart above, the risk is well spread and acceptable in terms of the Bank's exposure to riskier sectors. The largest concentration is on financial and business services at 33% (2018: 32%), where the bulk of the exposure is in reality to other banks. This reflects the continued strategy to decrease the level of risk, by taking exposures on well-regulated entities within the banking sector. No major variance in the other sectors occurred during the financial year 2019.

Note 15 (c) of the Financial Statements, which can be found on page 170, discloses the contractual maturity of the portfolio.

CONCENTRATION RISK

The Bank's credit risk portfolio remains adequately diversified. Maximum exposure limits are set for individual counterparties, countries and sectors, to maximise any potential diversification benefits in compliance with the BOM guidelines on credit concentration risk.

The top five groups and single borrower exposures as at 31 December 2019 have shown an improvement over the prior year:

Group	2019		2018	
	Exposure MUR 000	% of tier 1 capital	Exposure MUR 000	% of tier 1 capital
1	960,158	29.97	1,002,487	41.59
2	939,333	29.31	911,748	37.83
3	789,707	24.65	760,408	31.55
4	705,000	22.00	671,190	27.85
5	651,708	20.34	654,353	27.15

Borrower	2019		2018	
	Exposure MUR 000	% of tier 1 capital	Exposure MUR 000	% of tier 1 capital
1	579,700	18.09	584,359	24.24
2	575,000	17.95	563,081	23.36
3	550,228	17.17	525,000	21.78
4	546,450	17.06	516,300	21.42
5	546,450	17.06	512,190	21.25

Herfindahl-Hirschman Index (HHI) and concentration risk level

The Bank uses the HHI to assess the concentration of its depositors and borrowers. The following table relates the HHI with the level of risk as at 31 December 2019:

HHI	Risk level	Top 10 individuals	Top 10 groups	Top 10 industries	Top 10 depositors
< 1 000	Low risk	→	→	→	→
1 000 – 1 800	Moderate risk	—	—	—	—
> 1 800	High risk	—	—	—	—

As at 31 December 2019, all portfolios remained in the low risk category.

RELATED PARTY TRANSACTIONS

The Bank complies with the BOM guidelines on related party transactions. The Conduct Review and Corporate Governance Committee (CRCGC) approves every related party transaction and ensures they are at standard market conditions, by application of the arm's length principle.

The aggregate on balance sheet-related party exposure of the Bank amounted to MUR 1,048 million (2018: MUR 1,021 million), which represents 33% of tier 1 capital (2018: 42.4%). The facilities range from bank placements to overdrafts and loans. Collateral is taken for the facilities, except for bank placements which are bank senior unsecured risk. Settlement of facilities will be from the underlying obligor's operating cash flow, and arm's length terms and conditions apply.

The off-balance sheet aggregate related party exposure of the Bank was zero as at year-end (2018: MUR 187 million).

None of the loans advanced to related parties were classified as non-performing as at 31 December 2019.

The table below sets out the five largest related party exposures and the respective percentages of the Bank's tier 1 capital:

Related party	2019		2018	
	Exposure MUR 000	% of tier 1 capital	Exposure MUR 000	% of tier 1 capital
1	380,000	11.86	380,000	15.8
2	201,853	6.30	257,299	10.7
3	100,156	3.13	240,940	10.0
4	87,432	2.73	82,608	3.4
5	400	0.01	5,400	0.2

CREDIT QUALITY

Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes under international accounting standard IFRS 9 international accounting standard and the relevant BOM guidelines. The Bank is compliant with the BOM guidelines on credit impairment measurement and income recognition. An independent valuation from a qualified appraiser validates the net realisable value of collateral.

IFRS 9

The IFRS 9 standard requires the Bank to utilise the best estimates of three components, namely Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to arrive at an Expected Credit Loss (ECL). These components are estimated using both internal and external models, together with respecting the relevant guidelines. External auditors have validated the internal models and tools for the purpose of IFRS 9.

The Bank is well prepared to adopt the new guidelines on credit impairment measurement and income recognition, issued by the Bank of Mauritius and effective as from January 2020.

RISK MANAGEMENT

Collection and recovery process

The Bank's philosophy is to resolve recovery matters through negotiations in the first instance. If no agreement is reached, legal action is pursued with urgency for the timely recovery of all non-performing assets.

For 2019, the non-performing assets portfolio increased marginally by 5%. The driver was the impairment of an offshore account, though all indications are that this would be repaid in 2020. The provisions coverage ratio continues improving from 64% in 2018 to 74% in 2019.

Restructured facilities

Restructured loans are loans that have been renegotiated due to deterioration in the borrower's financial position and cash flow. In such cases, where the request for amendments is assessed genuine, the Bank reviews the terms and conditions by allowing concessions viz extending the maturity, changing the frequency of interest servicing, revising downwards the interest rate, or amending some of the loan covenants. In all cases, the Bank observes the BoM's' guidelines on credit impairment and income recognition on restructured facilities.

For the year under review, three credit facilities were restructured for an amount of MUR 3.9 million. These loans are being regularly repaid and the balance reduced to MUR 3.4 million as at 31 December 2019.

Stage 1 and 2 outstanding balance contribution

Loan and advances stage 1 and stage 2	As at 31 December 2019			As at 31 December 2018		
	Individual retail and mortgages	Corporate entities	Total loan and advances to customers	Individual retail and mortgages	Corporate entities	Total loan and advances to customers
	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000	MUR 000
Stage 1	97%	98%	98%	96%	93%	94%
Stage 2	3%	2%	2%	4%	7%	6%

The proactive and effective monitoring of the loans & advances portfolio continues to yield benefits as 98% of the performing book remains within the stage 1 bucket (2018: 94%). Through effective engagement within the Bank as well as client education, stage 2 now only contributes 2% to the overall performing portfolio. The flow rate from stage 2 to stage 3 is then effectively well controlled and kept to the minimum.

Properties in Possession (PIPs)

As at December 2019, the Bank held five PIPs in its books, with an assessed total value of MUR 9.1 million (2018: MUR 9.1 million), included in the "Other Assets" figure *(please consult note 21 of the Financial Statements, which can be found on page 184).* No new properties were added in the year under review. As at December 2019, the carrying value of these properties did not differ materially from the estimated market value. The Bank's policy regarding the PIPs is to dispose of them as soon as practically possible, in line with banking legislation.

The policy of the Bank is to recognise the assets repossessed at the lower of the carrying value and the fair value less cost to resell.

MARKET RISK

DEFINITION	The risk of a potential decrease in value, resulting from adverse changes in market prices and FX rates and interest rates that negatively affect assets and liabilities.
GOVERNANCE	Market risk exposure for different types of transactions is managed within risk limits and guidelines approved by the Board and monthly monitored via the ALCO, which reports quarterly to MIRC and the Board Risk Management Committee (BRMC). The risk analytics team monitors and reports daily on limit compliance.
MORE INFORMATION	The treasury department monitors the debt securities book on a weekly basis, reporting monthly to ALCO and quarterly to the BRMC.

Market risk arising from the trading book

The Bank measures market risk from the trading book using the VaR technique (historical approach at a 99% confidence level over a one-day holding period) and controls market risk exposures within prudent risks limits set by the Board, in line with the Bank's risk appetite. The Market risk unit monitors the respect of limits on a daily basis.

Market risk arising from the banking book

Various thresholds are established, to provide early alerts to management on the different levels of exposures of the banking book activities relative to foreign exchange risk, interest rate risk and liquidity risk. Sensitivity analysis and stress testing – covering the impact of shocks and shifts in interest rates may have on the Bank's on-and-off balance sheet positions , as well as liquidity drift under institution-specific and general market crisis scenarios, are regularly performed to gauge and forecast the market risk inherent in the banking book portfolio.

(I) FOREIGN EXCHANGE RISK

The Bank has limited net foreign exchange exposure, as foreign exchange positions and foreign currency balances arising from customer transactions are normally matched against other customer transactions or through cover transactions with the market. The net open exposure positions, both by individual currency and in aggregate, are managed by the treasury department within established limits (both internal and regulatory) and reported to BOM on a daily basis.

A daily report goes to senior management to notify any underlying breach in limits. A similar report is submitted monthly to ALCO and to BRMC. Any breaches has to be notified to senior management and simultaneously escalated to the relevant sanctioning authority as per the Bank's escalation matrix.

<u>During 2019, the Bank operated well within the regulatory limits regarding Net Open Positions.</u>

Accordingly, as at 31 December 2019, the VaR limits against the actual potential loss have decreased since the prior year:

VaR limit vs actual position December 2019	USD	EUR	GBP
Limit	MUR 800,000	MUR 500,000	MUR 200,000
Potential loss	MUR 291,000	MUR 86,000	MUR 20,000

(II) INTEREST RATE RISK

The Bank considers the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. The Board sets limits on the level of mismatch of interest rate (implying the relative vulnerability of the Bank's books to re-pricing) that may be accepted. Exposure against these limits is reported monthly report to ALCO and quarterly to BRMC.

The framework adopted by the Bank to measure interest rate risk exposures is consistent with the BOM guidelines for assessing and reporting the same, which consists principally of interest rate sensitivity analysis and stress testing.

Interest rate sensitivity analysis

A detailed analysis of the interest rate sensitivity analysis as at 31 December 2019 is given in note 2 (f) of the Financial Statements, which can be found on page 142.

The Earnings at Risk methodology is used to assess the impact of various interest rate change scenarios on Net Interest Income over a 12-month horizon, as required under the domestic and global regulatory guidelines.

RISK MANAGEMENT

MUR and USD earnings at risk analysis as at 31 December 2019

Interest rate movement 2019	Impact on earnings on account of interest basis (MUR million)	Impact on earnings on account of interest basis (USD million)
+ 25 bps	0.00	0.57
-25 bps	0.00	(0.57)
+ 50 bps	0.01	1.14
- 50 bps	-0.01	(1.14)
+ 75 bps	0.01	1.70
-75 bps	-0.01	(1.70)
+ 100 bps	0.02	2.27
-100 bps	-0.02	(2.27)
+ 200 bps	0.03	4.55
-200 bps	-0.03	(4.55)

The Bank is able to absorb potential interest shocks. A negative 200bps shock on both the MUR and the USD. The USD impact would amount to about 25% of the Bank's yearly profit

LIQUIDITY RISK

DEFINITION	The risk of not having cash to honour commitments when falling due.
GOVERNANCE	Treasury is responsible for the daily management of liquidity and provides daily reporting to senior management. The ALCO oversees the activities of treasury on a monthly basis and reports quarterly to the MIRC and the BRMC.
MORE INFORMATION	The Bank manages its liquidity on a prudent and proactive basis, and ensures the statutory minimum cash reserve requirements are maintained throughout the year. No statutory limits have been breached during the year, including the Liquidity Coverage Ratio (LCR). A Liquidity Contingency Plan is in place to prepare for any extreme liquidity stress scenario.

The ALCO reviews monthly, or on ad hoc basis if required, the Bank's liquidity position. Appropriate limits on liquidity and maturity mismatch are set, and sufficient liquid assets are held to ensure the Bank can meet all its short-term funding requirements.

The Bank's funding comprises mainly customer deposits and borrowings, both short- and long-term. Short-term interbank deposits are accepted on a limited basis.

The table in note 2(g) of the Financial Statements, which can be found on pages 145 to 149, analyses the Bank's assets and liabilities into relevant maturity buckets.

The Bank monitors liquidity gaps on static, cumulative and dynamic bases. Under the dynamic scenario, the Bank arranges assets and liabilities into different maturity ranges, according to BOM guidelines on liquidity risk management, taking into account the historical behavioural pattern of these assets and liabilities. Stress testing and scenario analysis form an important part of the Bank's liquidity management process. The Bank has set up a liquidity contingency plan, which is regularly updated to ensure that it can be executed seamlessly if so required.

Liquidity Coverage Ratio (LCR)

The LCR is computed as the percentage of high-quality liquid assets to total net cash outflows, over the next 30 days under a severe stress scenario. As at December 2019, the Bank was well above the minimum consolidated liquidity requirements, as shown in the table below:

LIQUIDITY COVERAGE RATIO - QUARTER ENDING DECEMBER 2019

(Consolidated in MUR 000)	TOTAL UNWEIGHTED VALUE (quarterly average of monthly observations)	TOTAL WEIGHTED VALUE (quarterly average of monthly observations)
HIGH-QUALITY LIQUID ASSETS		
Total High-Quality Liquid Assets (HQLA)	7,299,517	7,299,517
CASH OUTFLOWS		
Retail deposits and deposits from small business customers, of which:		
Less stable deposits	15,874,166	1,587,417
Unsecured wholesale funding, of which:		
Non-operational deposits (all counterparties)	14,959,251	5,987,700
Unsecured debt	1,738,483	1,738,483
Additional requirements, of which:		
Credit and liquidity facilities	1,412,254	1,087,632
Other contractual funding obligations	1,118,228	1,118,228
Other contingent funding obligations	775,169	38,758
TOTAL CASH OUTFLOWS	3,305,650	2,244,618
CASH INFLOWS		
Secured funding	7,080,847	7,080,847
Inflows from fully performing exposures	2,635,818	1,317,909
Other cash inflows	1,492,254	1,492,254
TOTAL CASH INFLOWS	11,208,918	9,891,009
		TOTAL ADJUSTED VALUE
TOTAL HQLA		7,299,517
TOTAL NET CASH OUTFLOWS		2,472,752
LIQUIDITY COVERAGE RATIO (%)		295%
QUARTERLY AVERAGE OF DAILY HQLA		6,419,239

Notes: The reported values for "quarterly average of monthly observations" are based on October, November and December 2019 month end figures. The reporting values for "quarterly average of daily HQLA" are based on business days figures over the 1 October 2019 to 31 December 2019 period.

Comments: As at end of December 2019, the Bank's quarterly average LCR stood at 295%, indicating a healthy liquidity position significantly above the 100% minimum, and similar to December 2018 (287%). The Bank is proactively managing the ratio through an ongoing monitoring of the stock of HQLA, in order to meet future liquidity requirements through repos or outright sale. The actual and forecasted ratios are reviewed and deliberated at the monthly ALCO.

OUR STRATEGY

RISK MANAGEMENT

OPERATIONAL RISK

DEFINITION	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
GOVERNANCE	The management of operational risk within Bank One is based on the enterprise risk management approach, in accordance with the Basel Committee's guidance on "sound practice for the management and supervision of operational risk" and the Bank of Mauritius' guidelines on operational risk management. The operational risk function monitors risks on a monthly basis and reports to the MIRC and BRMC quarterly.
MORE INFORMATION	Focus is on sustainably reducing the Bank's material risks exposures consistent with its risk appetite, as well as on scanning and analysing emerging risks to which the Bank must demonstrate resiliency.

In line with the Bank's vision, the operational risk management framework has been further enhanced to cater for the underlying risk principles, which are:

- Disciplined risk taking and proactive risk management
- Risk and control culture with clear ownership and accountability.
- Sound and sustainable risk and control environment.

For this purpose, risk management concepts including operational risk appetite, three lines of defence model, key risk indicators, risk and control self-assessments, control issues monitoring and internal control programme, are the fundamentals of the operational risk strategy. Focus is on sustainably reducing the Bank's material risk exposures in consistency with its risk appetite, as well as scanning and analyzing emerging risks to which the Bank must demonstrate resiliency.

The Risk and Control Self-Assessment (RCSA) programme is an integral part of the operational risk strategy, which aims at enhancing the roles and responsibilities of the first line of defence in identifying and managing key risks in their respective activities. Fraud preventative and detective controls have also been identified as part of this exercise, to support the internal control programme from a fraud monitoring perspective. The RCSA programme ultimately targets to cover all key processes across the Bank from an end-to-end perspective, by adopting a risk-based approach.

The operational risk incident management process has shifted from mere reporting to in-depth incidents analysis, with appropriate response and monitoring. Resulting impacts, both financial and non-financial, are now assessed against the newly developed operational loss appetite, which caters for quantitative and qualitative measurements.

Business continuity remains a key focus area for the Bank, with the existing framework further enhanced to cater for the newly developed scenario-based approach and the expectations of having short-, medium- and long-term plans to reinforce the Bank's resiliency in contingent situations, whichever the length of the latter. Criteria and underlying assumptions for determining the Bank's critical activities and expected resources are now well defined with the business impact analysis having been refreshed to re-prioritise the rapid resumption of critical activities, while optimising the use of the recovery site. Testing of contingency plans, comprising both scenario-based simulation exercises on a surprise basis and planned testing of the disaster recovery servers, are undertaken twice yearly to assess the Bank's readiness and ability to resume operations of its critical activities within the set recovery time objectives.

The Operational risk unit continues to play a second line of defence role, with checks and challenges on the operational risk management activities undertaken by the first line of defence, while ensuring that the operational risk framework is embedded and complied with across the Bank. Training and awareness remain vital in reinforcing the risk and control culture, with emphasis on the first line of defence responsibilities when it comes to identifying and managing risks with appropriate controls for a sustainable business environment.

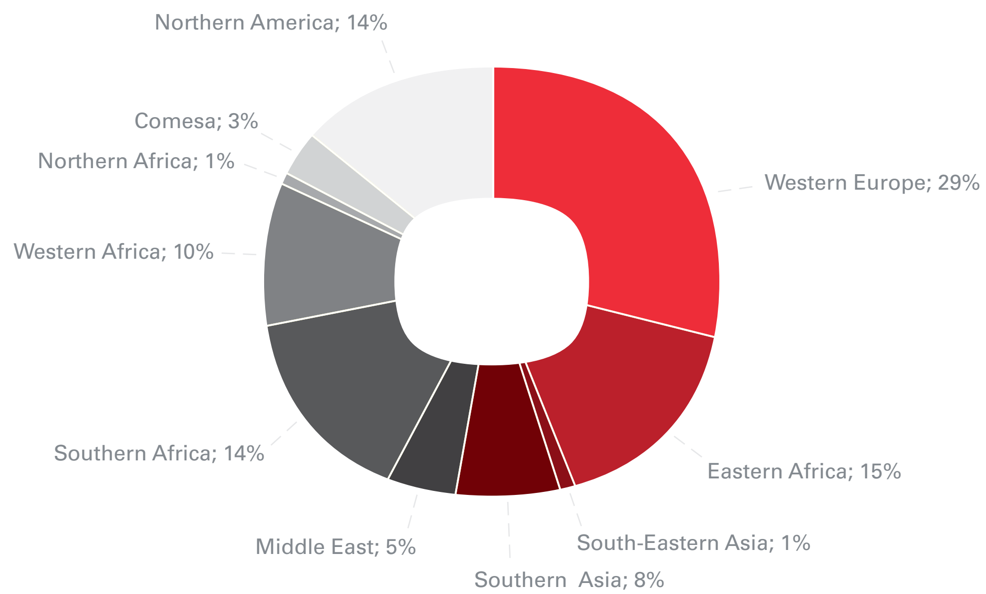
Combined assurance is now a reality, with close collaboration among operational risk, compliance and internal audit. This approach aims at maximising oversight, minimising duplication and optimising overall assurance to management and the Board, without jeopardising the independence of internal audit to carry out its audit activities in an unbiased manner.

COUNTRY RISK

DEFINITION	The risk of investing or lending in a foreign country, arising from possible changes in the business environment that may adversely affect the ability of the obligor in the country to repay the capital and interest due to the Bank.
GOVERNANCE	Risk analytics provides weekly information on the limits and headroom to the limits, to senior management. The MIRC and the BRMC have a quarterly oversight on the country risk portfolio, and the BRMC approves all country limits. The frequency of country limit reviews is on a risk-based approach.
MORE INFORMATION	Wherever possible, "on the ground information" is obtained from group or associate companies operating in such jurisdictions.

Country risk exposures by region as at 31 December 2019 are disclosed in the chart below:

Exposure by Region (%)



The historical reliance on Eastern Africa has been significantly de-risked and now accounts for 15% of the country risk exposure (2018: 31%). The Bank has diversified its country risk portfolio in a deliberate strategy to have a more balanced portfolio between investment grade and non-investment grade countries. As a result, North America's exposure increased from 0.3% in 2018 to 14% in 2019, while Western Europe's has increased from 20% to 29% throughout the same period.

BUSINESS/STRATEGIC RISK

DEFINITION	The risk of non-attainment of the planned strategic and business objectives, due to the consequences of inappropriate strategies, their inappropriate execution or the decline in sales or prices that negatively affect profitability.
GOVERNANCE	The Board Strategy Committee has oversight of the business risk. Exco manages business risk operationally and strategic risk is debated quarterly at the MIRC.
MORE INFORMATION	All business units have defined a 3-year strategy and business plan, which is revised from time to time. The strategic direction of the Bank is reviewed once a year and forms part of the Bank's annual business budget and operating plan.

RISK MANAGEMENT

CYBER RESILIENCE

DEFINITION	The ability of a firm to avoid, detect or manage cyber or data breaches whilst continuing to conduct its business activities as usual.
GOVERNANCE	The policies and procedures have been set up to ensure global best practices are in place to cater for governance progress, projects progress, prevention capability, detection capability and response capability. The corresponding cyber resilience KPI are reported quarterly to the MIRC and the BRMC.
MORE INFORMATION	A dedicated team of IT security specialists are employed, and various cyber resilience testing and trainings are carried out regularly.

REPUTATION RISK

DEFINITION	The current or potential risk to earnings and capital driven by the adverse perception of Bank One on the part of the market clients, counterparties, employees or regulators.
GOVERNANCE	The Exco directly manages the reputational risk and reports quarterly to the MIRC and BRMC.
MORE INFORMATION	The Bank continues to dynamically assess and monitor reputational risk on a qualitative basis. Overall, reputation risk in 2019 remained acceptable and stable from prior years.

COMPLIANCE RISK

DEFINITION	The risk of potential for losses and legal penalties due to failure to comply with laws and/or regulations.
GOVERNANCE	The compliance team reports compliance matters to the MIRC on a quarterly basis. The BRMC has oversight over the Bank's compliance risks.
MORE INFORMATION	The Bank has a Whistleblowing Policy in place to ensure any issues can be reported without fear of subsequent victimisation, discrimination or disadvantage.

RISK CAPITAL MANAGEMENT

Bank One's capital management policies and practices support its growth strategy. The Bank ensures it is adequately capitalised to withstand any macroeconomic downturns, including a significant buffer over regulatory thresholds. The Bank strives for continual enhancement of shareholder value by efficiently using capital in order to maximise the return on equity.

CAPITAL ADEQUACY ASSESSMENT

As per Basel III guidelines, the Bank is required to maintain a minimum Capital Adequacy Ratio (CAR) of 11.875%.

The Bank has computed its CAR as on 31 December 2019, in compliance with the requirements of the regulatory guidelines under Basel III as well as the macro-prudential measures introduced by BOM, effective since July 2014.

The capital charge for operational risk is calculated under the basic indicator approach, whereas the capital charge for credit and market risk is calculated under the standardised approach.

As at December 2019, the Bank's CAR stood at 14.71% (against a regulatory requirement of 11.875%), out of which the Common Equity Tier 1 (CET 1) CAR was 10.97% (against minimum regulatory requirement of 6.5%).

UNDER BASEL III

	Dec-17	Dec-18	Dec-19
	MUR 000	MUR 000	MUR 000
CORE CAPITAL (TIER 1 CAPITAL)			
Paid up capital	856,456	856,456	**1,156,456**
Statutory reserve	247,950	306,969	**401,538**
Retained earnings	1,239,958	1,488,632	**1,875,669**
Deductions			
Intangibles	(41,580)	(156,539)	**(138,466)**
Deferred tax	(71,766)	(46,980)	**(51,277)**
Investment in other bank	(37,053)	(38,286)	**(40,395)**
Total tier 1 capital	2,193,965	2,410,252	**3,203,526**
SUPPLEMENTARY CAPITAL (TIER 2 CAPITAL)			
Reserves arising from revaluation of assets	41,520	43,791	**43,791**
Portfolio provision	206,656	272,400	**284,954**
General banking reserves	67,803	37,030	**47,882**
Subordinated debt	500,567	679,636	**673,831**
Fair value gains	8,537	-	**42,534**
Total tier 2 capital	824,083	1,032,855	**1,092,991**
Total capital base	3,018,048	3,443,109	**4,296,517**
RISK-WEIGHTED ASSETS FOR:			
Credit risk	21,876,694	24,754,303	**27,280,266**
Market risk	60,734	63,498	**46,133**
Operational risk	1,405,912	1,688,973	**1,876,059**
Total risk-weighted assets	23,343,340	26,506,774	**29,202,458**
Tier 1 ratio	9.40%	9.09%	**10.97%**
Capital adequacy ratio	12.93%	12.99%	**14.71%**

RISK MANAGEMENT

RISK WEIGHTED ON BALANCE SHEET ITEMS

			Dec-17	Dec-18	Dec-19
		Risk weight		Risk weighted	
	MUR 000	%	MUR 000	MUR 000	MUR 000
Cash in hand & with central bank	1,892,410	0-50%	-	117,524	54,068
Balance and placements with banks	8,488,431	20-100%	1,021,408	1,716,609	2,427,330
Balance in process of collection	30,494	20%	11,211	5,080	6,099
Treasury bills and GOM bills	5,351,989	0%	-	-	-
Other investment	12,102,402	0-100%	468,416	468,430	1,725,469
Fixed and other assets	581,025	100%	548,744	478,009	581,025
Loans and advances	27,211,785	0 - 100%	19,596,138	21,726,856	22,197,502
	55,658,536		21,645,917	24,512,508	26,991,494

RISK WEIGHTED OFF BALANCE SHEET ITEMS

			Dec-17	Dec-18	Dec-19
	Credit conversion factor (%)	Risk weight		Risk weighted	
		%	MUR 000	MUR 000	MUR 000
Acceptances and bill of exchange	100%	100%	177,603	119,792	209,860
Guarantees, bonds etc.	50%	100%	33,187	102,721	61,451
Letter of credit	20%	100%	5,567	9,682	2,493
Foreign exchange contracts	1% to 7.5%	20-100%	14,420	9,600	14,968
			230,777	241,795	288,772

RISK-WEIGHTED EXPOSURES

	Dec-17	Dec-18	Dec-19
	MUR 000	MUR 000	MUR 000
Risk weighted on balance sheet assets	21,645,917	24,512,508	26,991,494
Risk weighted off balance sheet exposures	230,777	241,795	288,771
Risk weighted on market risk	60,734	63,498	46,133
Risk weighted on operational risk	1,405,912	1,688,973	1,876,059
Total risk weighted assets	23,343,340	26,506,774	29,202,458

RISK-WEIGHTED ASSETS FOR MARKET RISK

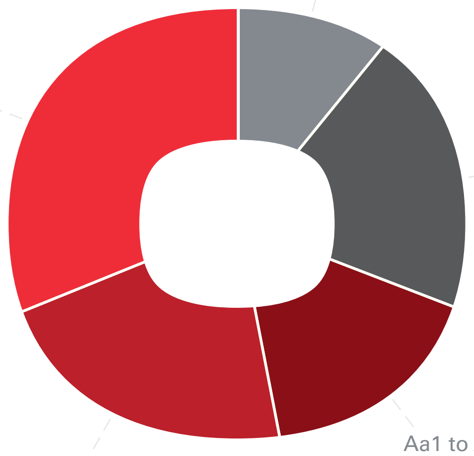
	Dec-17	Dec-18	Dec-19
	MUR 000	MUR 000	MUR 000
Foreign exchange risk	60,734	63,498	46,133
Interest rate risk	-	-	-
Equivalent risk-weighted assets	60,734	63,498	46,133

RISK-WEIGHTED ASSETS FOR OPERATIONAL RISK

	Dec-17	Dec-18	Dec-19
	MUR 000	MUR 000	MUR 000
Average gross income for last 3 years	937,275	1,125,982	1,250,706
Capital charge	140,591	168,897	187,606
Equivalent risk-weighted assets	1,405,912	1,688,973	1,876,059

In line with the Bank of Mauritius' guidelines on the recognition and use of the External Credit Assessment Institutions (ECAI)[1], the ratings from the 4 following agencies: Moody's, Standard & Poor's, Fitch and CARE Ratings have been used in computing the relative risk weights for balance with foreign banks, lending to foreign entities, and banks and other foreign investments.

EXPOSURES BY RISK GRADE

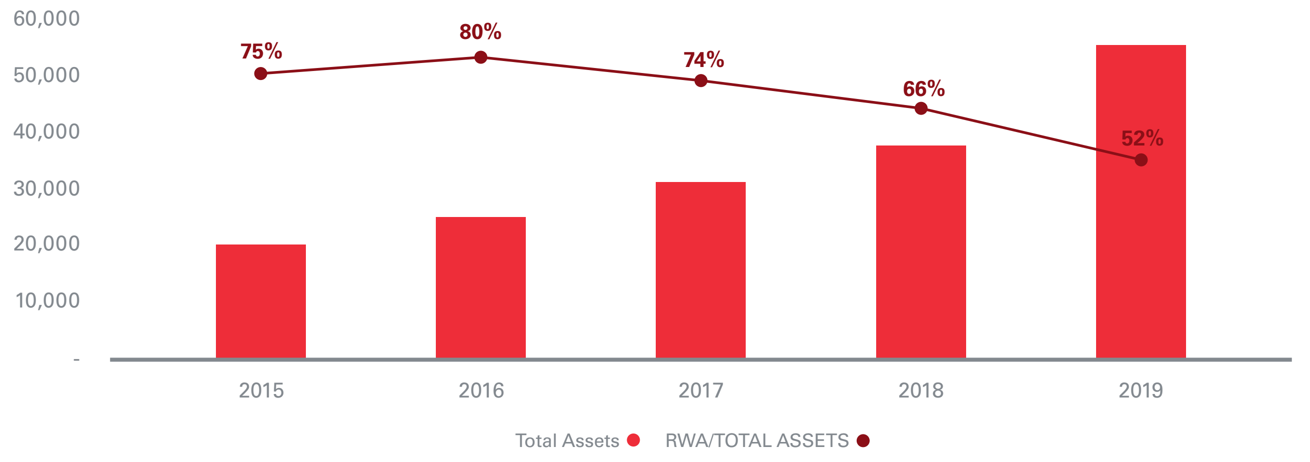


Note: For each exposure, we have selected Moody's assignment for the different ratings.

The Bank has reviewed its portfolio to ensure that a proper mix of assets classes is maintained from a risk and tenor point of view.

RISK MANAGEMENT

RISK-WEIGHTED ASSETS/TOTAL ASSETS



The above graph reflects the success in the strategy of the Bank to reduce the level of risks sitting in its balance sheet.

FUTURE CAPITAL REQUIREMENTS

In view of the continuous growth of Bank One's assets portfolio, associated with new products, markets and activities, the Bank intends to raise additional capital either through injection by its main shareholders, or through other eligible instruments qualifying as tier I or tier II in the years to come.

INTERNAL CAPITAL ADEQUACY ASSESSMENT AND SUPERVISORY REVIEW PROCESS

ICAAP is a simulation exercise carried out to inform the Board on the Bank's risks and their impact on the Bank's business and capital position. It consists of numerous business and risk processes that assess and ensure that the Bank has adequate resilience in terms of capital. With this exercise, the Bank is in a better position to prepare mitigating measures to counter the negative impact that may arise in case the conditions relating to the risks materialise.

The Bank's ICAAP is conducted on an annual basis, or more frequently if warranted, where the level of capitalisation of Bank One is determined using different types of plausible and unexpected stress scenarios.

Stress testing forms an integral part of the ICAAP. It is performed monthly to assess the impact for market risks, and reported to ALCO. The process involves various techniques which are used to evaluate the potential negative impact on the available capital, impact caused by specific event or movement in risk factors and ranging from plausible to extreme conditions. The same exercise is carried out more intensively on an annual basis, including other risks not included in the actual capital computations and reported in the ICAAP report.

Moreover, the supervisory review and evaluation process is used to evaluate the Bank's risk profile, including an assessment of the level of risk and the risk management systems for the main risk like credit, operational, market, liquidity, strategic and reputation risks.

Methodology and assumptions	
Risk type	**Assessment methodology**
Compliance risk	Quantitative and qualitative assessment
Concentration risk	HH index and stress testing
Country risk	Quantitative and qualitative assessments
Credit risk	Moody's Risk Analyst & Risk Calc models for institutional obligors and banks
Interest rate risk in banking book	Gap analysis and stress testing
Liquidity risk	Ratio analysis and stress testing
Operational risk	Risk and control self-assessment
Reputational risk	Qualitative assessment
Strategic risk	MIRC and Board Committee created to assess risks and opportunities

SUSTAINABILITY

Bank One acknowledges the necessity of integrating sustainability into its business strategies, with the ever-increasing impact of environmental and social factors across businesses. The integration of sustainability into the bank's decision-making process will take two key directions:

- Ensuring environmental and social responsibility in Bank One's own operations, through environmental (such as reduction of operations waste and improvements in energy footprint) and socially responsible initiatives (such as improved human resources practices and Corporate Social Responsibility (CSR) initiatives of the Bank); and
- Integrating sustainability into the Bank's core business decisions, through the integration of environmental and social criteria (E&S) into its clients- and other stakeholders-related decision-making processes.

The second category described above has the potential to influence Bank One's clients on a much larger scale. Integrating E&S criteria into the Bank's risk decision-making process means the latter's support to environmentally and socially responsible projects and sustainable companies.

Although Bank One does not have a large direct environmental and social impact through its own operations, it is evident that providing funding to companies that have significant environmental and social impacts indirectly affects the environment. Bank One will therefore address all its efforts by having a robust Environmental and Social Management System (ESMS) to ensure greater environmental and social efficacy among its customers, especially for its medium- to high-risks clients.

In this context, a dedicated sustainability manager has been onboarded. Bank One has also embarked into a sustainability journey with the support of an expert in the subject matter, as recommended by one of our partners. The objective is to attain the best global environmental and social practices, and bring Bank One's ESMS to a world class level. The project has kick started late last year and more details will be made available on progress going forward.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Bank One provides support to both community and environmental projects that help in removing social, environmental and economic barriers. The Bank encourages its team members to fully participate in such activities and support their efforts to make a difference. Over the past years, the Bank has remained committed towards improving the life of local communities for a more sustainable society. It has also provided continued financial and non-financial support to those in need. Our 2019 key initiatives are listed below.

EMPOWERING YOUNG PEOPLE AT NATIONAL LEVEL

In collaboration with NGO Junior Africa Mascareignes (JAM) and the Mauritius Institute of Training and Development (MITD), trainings were provided to 202 students (aged 16 to25) across eight MITD Centres, in order to upskill and improve their employability rate.

WOMEN EMPOWERMENT PROGRAMME AT SOLITUDE

With the support of La Caz Lespwar (Caritas Solitude), a workshop was organised to help women lacking adequate financial support and technical guidance in achieving their entrepreneurial project.

BANK ONE'S IN-HOUSE DONATION DRIVE

In association with NGO The Good Shop, Bank One held its first-ever in-house donation drive across all its operations, between 9 and 13 December 2019. A total of 234 items, with an estimated weight of 22.134 lbs., were collected and distributed to the children of Ami De Don Bosco Orphanage, situated in Baie du Tombeau, on 24 December.