1. GENERAL INFORMATION

1A. CORPORATE INFORMATION

AfrAsia Bank Limited ("the Bank") is a public company incorporated and domiciled in the Republic of Mauritius. The principal activity of the Bank and of its subsidiary (together referred to in this report as "the Group") is the provision of financial services in the Indian Ocean region. Its registered office is at 10, Dr Ferrière Street, Port Louis, Mauritius.

The Bank has one offshore representative office in Johannesburg. The relevant costs and income derived from this office have been included in these financial statements.

1B. IMPACT OF COVID-19 OUTBREAK

The continued spread of coronavirus presents immense challenges in credit and financial market locally and internationally. All industries and sectors of the global economy are impacted by the COVID-19 outbreak. Some industries like Tourism, including SMEs linked to the hospitality sector, Airlines and Construction and Real Estate are heavily impacted as these sectors will not only depend on the success of the local outbreak containment but also on the global situation and recovery. Given that Mauritius is heavily dependent on the tourism sector and the export industry, the negative impact on the Mauritian economy is more pronounced. By June 2021, the economy showed signs of improvement despite the second lockdown in March 2021.

The vaccination programme started in February 2021 and the Government expects at least 60% of the population to be vaccinated by October 2021. The Mauritian borders have been partially opened and the full reopening is planned for October.

In light of the above, the Government of Mauritius has announced various measures to support businesses and households, like relief on housing loan interest and moratorium periods. The implementation of the new Impairment Guideline has been put on hold and exemptions will be applicable for reliefs/loans extended by Banks. However, the assessment on the implications from an IFRS 9 perspective is still ongoing. Facilities granted to companies in the tourism sector are likely to be restructured to help the industry during the difficult period.

Government support measures

As part of its ongoing assistance to Mauritian businesses across all economic sectors, households and individuals, the Bank of Mauritius (BOM) extended specific measures under its existing COVID-19 Support Programme.

(a) The moratorium on loans granted to economic operators, SMEs, households and individuals impacted by COVID-19 has been extended to 30 June 2022.

(b) The Special Relief Amount facility of Rs 5.0 Billion made available to banks by the Bank of Mauritius has also been extended to 30 June 2022. This amount aims at meeting cash flow and working capital requirements of economic operators directly impacted by COVID-19. Disbursement will continue to be effected through commercial banks and interest rate on these advances to impacted economic operators remains capped at the fixed rate of 1.5% per annum.

(c) The reduction of the Cash Reserve Ratio applicable to commercial banks from 9% to 8% has equally been extended to 30 June 2022. This reduction will further support banks to assist businesses which are being directly impacted by COVID-19.

Key impacts on financial reporting

COVID-19 outbreak is expected to significantly disrupt the operating environment of financial institutions. Following are some of the key accounting and financial reporting considerations:

Loans and advances to banks and customers

Credit-risk forbearance policy

COVID-19 pandemic has necessitated the Bank to introduce stricter credit assessment measures to protect the financial stability of the Bank. In order to manage the credit risk properly, the Bank has in place a forbearance policy which defines the criteria that needs to be considered when assessing credit risk in the current economic situation.

1B. IMPACT OF COVID-19 OUTBREAK (Cont'd)

Key impacts on financial reporting (Cont'd)

Impact on Expected credit losses ("ECL")

Considering COVID-19, the Bank revisited its ECL framework to cater for the higher level of uncertainty in markets both locally and across borders. Moreover, management ensured that while doing so, the Bank remains in line with the statements released by local and international body with regards to IFRS 9 in a COVID-19 context, mainly the Bank of Mauritius and IASB – factoring in the government support measures being implemented.

Key factors that were impacted by COVID-19 include the Probability of Default (PD), Loss Given Default (LGD), staging and bucketing parameters, forbearance measures, relief programmes, as well as forward-looking information and scenario-weights allocations.

The Bank has adopted a probabilistic approach based on forward looking scenarios given uncertainties prevailing across markets. As such, the Bank has defined 3 scenarios (upside, baseline/most likely and downside) and assigned weights suggesting the likelihood of such event occurring based on assessments of economic and market conditions in the context of COVID-19. The scenarios assumed were very bearish to properly reflect the current and projected global economic environment. The baseline scenario was derived through the CDS curves movement of different countries, and a more refined proxy has been derived for Segment A assets.

In spite of all the positive outlooks observed both from financial markets and revised predictions of the multilateral organisations, the Bank has maintained the high severity levels in its forward-looking scenarios matrix for June 2021, similar to last year at the peak of COVID-19 uncertainties.

The Bank also enhanced its Significant Increase in Credit Risk (SICR) assessment framework using more objective and subjective factors to adapt to this unprecedented situation. Further in-depth analysis was performed independently on the different portfolios at 3 levels i.e. Business, Credit and the Watchlist Monitoring Committee.

Tourism sector being directly impacted by COVID-19 benefited to some extent from prolonged repayment period as per the forbearance policy of the Bank and as such these exposures were not transferred to stage 2. The Bank has applied a post-model adjustment on the restructured accounts in tourism sector and the ECL impact on loans and advances in this sector were to the tune of MUR 200.9m for an outstanding amount of MUR 4.0bn categorised in stage 1 representing an ECL percentage of 5.01%.

Stage 3 assets have been reassessed considering COVID-19 impact and appropriate provisions has been made at 30 June 2021.

Investment securities

Following the changes in the interest rates and the depreciation of Mauritian rupee against other currencies, the fair value of bills, bonds and notes that are measured at fair value through profit or loss will tend to rise. Any adverse changes in market rates included interest rates and foreign currency exchange rates as well as changes in credit quality of the instruments will have an impact on the fair value.

Deposits

Our deposit base bore testimony of the continued confidence that our customers have in us. As at 30 June 2021, there was an important growth in major foreign currency-based deposits, moreover, this growth was further magnified by an increase in exchange rate, with the net impact being an inflated deposit base when retranslated into MUR equivalent.

Property and equipment and intangible assets

The recognition and measurement of existing, or additions to, property and equipment and intangible assets may be significantly affected by changes resulting from coronavirus. The Bank had assets under 'work in progress'. Due to the outbreak, there were delays in various projects to go 'live', and thus were not capitalized. The Bank plans to continue works on these projects in the coming months.

Right of use assets

The Bank has leased building floors (expiry date: Oct 2023 with renewal option) together with parking slots which was recognized as right of use assets in its statement of financial position. These assets are not impacted by COVID-19 and hence not subject to impairment. No rent concessions were provided by landlords for these leases. The right of use assets are measured at its carrying amount (after accumulated depreciation).

Retirement benefits obligations

The significant economic uncertainty associated with the COVID-19 pandemic affects the measurement of retirement benefit obligations and plan assets, particularly when quoted prices in active markets for identical assets do not exist. The methodology used is to derive a yield curve based on available local government bonds with terms ranging from 0.25 to 20 years from which the discount rate commensurate with the duration of liabilities. The discount rate is one of the actuarial assumptions. Compared to prior year, the discount rate decreased from 3.70% to 3.50%.

Taxes

The pandemic could affect future profits as a result of direct and indirect (effect on customers, suppliers, service providers) factors. Deferred tax assets are recognized for deductible temporary differences that exist at each reporting date. Based on the budget exercise for the next 12 months, despite the outbreak will have an impact on the Bank's operations, it is probable that future taxable profits will be available against which the deductible temporary difference can be utilised.

Government support

The Bank monitored government actions and legislations to identify all assistance given amid COVID-19 outbreak that may meet the definition of a government grant. The Bank has not opted to receive any government grants that may have an impact on financial reporting.

1B. IMPACT OF COVID-19 OUTBREAK (Cont'd)

Key impacts on financial reporting (Cont"d)

Liquidity risk

The Bank's internal and regulatory liquidity ratios demonstrate a healthy liquidity position at 30 June 2021. The Bank's average Liquidity Coverage Ratio (LCR) was 288% which is well above the current regulatory minimum LCR requirement of 100%, demonstrating a robust liquidity position. The LCR is a stressed liquidity measure as it applies stressed outflow rates on depositor balances and haircuts on liquidation of High-Quality Liquid Assets (HQLAs) and cash inflows. As part of its stress testing framework, the bank applies low, moderate and severe stress scenarios on its LCR on a monthly basis.

Interest rate risk

As an emergency COVID-19 response, the Bank of Mauritius and United States Federal Reserve both cut their respective policy rates. The Bank's statement of financial position being predominantly USD and MUR based was adversely impacted in term of the Net Interest Income by the decline in the Bank's Net Interest Margin during the financial year under review.

Capital adequacy ratio ("CAR")

The Bank remains well capitalised with all 3 regulatory ratios within the limit set by the Bank of Mauritius ("BOM") as set out in table below:

Components	Ratios	Regulatory Limits 2021
Common Equity Tier 1 Capital	12.76%	9.38%
Tier 1 Capital	15.19%	10.88%
Capital Adequacy Ratio	16.18%	12.88%

BOM has maintained the capital conservation buffer ("CCB") of 1.875% until the 31 of March 2022 which aimed to address the challenges posed by the COVID-19 pandemic. This measure has helped release more capital whilst also allowing greater flexibility in terms of funding capacity and support which can be provided to customers. The implementation of the last tranche of the CCB amounting to 0.625% is being deferred to 1 April 2022. In compliance with the "Guideline for dealing with Domestic-Systemically Important Banks ("D-SIB")", the Bank is further subject to additional buffer of 1.0% for FY 2021, following a yearly assessment carried out by BOM.

The Bank closely monitors the evolution of its CAR and carries stress testing on a regular basis using several scenarios.