

“ *Our ability to leverage technological know-how as a means to explore opportunities that thrive on expertise and agility is a key pillar of our Bank Different philosophy.*

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RISK MANAGEMENT REPORT

RISK MANAGEMENT REPORT

MESSAGE FROM THE HEAD OF RISK

With the diverging pace of vaccination campaigns globally, there has been a more cautious optimism about the recovery trend of the world's economy this past year, FY20/21. While financial markets have rebounded, the impact of the COVID-19 pandemic still affects many sectors, including the banking industry.

Banks have faced heightened risks since the beginning of COVID-19. Extension of several Government measures have been able to help the economic operators in Mauritius to stay afloat so far. The eminent opening of the border is expected to bring back the economy on track in the medium term and cure the market players. Banks have played their part in restructuring loans to match the expected recovery trend in order to sustain the economy and also prevent a systemic risk in the Financial Sector.

Our customer centric approach at AfrAsia Bank Limited has helped us to remain close to our clients, actively engaged with them, guided and supported them. At the same time, we proactively managed the balance sheet and other risks so as to protect the Bank's capital. Due to the global pandemic and its impact on the macroeconomic landscape, we revisited the Bank's IFRS 9 framework to re-calibrate our models in order to factor in the prevailing market uncertainties. We established new approaches, methodologies and processes to properly recognise the change in the underlying risks of our exposures as part of our robust and dynamic IFRS 9 framework.

We reviewed our risk appetite and devised new liquidity deployment strategies. This pandemic has pushed us to revisit our strategy and in turn resulted in a stronger and more resilient balance sheet.



RAKESH SEESURN
Head of Risk

RISK MANAGEMENT REPORT

RISK MANAGEMENT STRATEGY

Risk management is the process of identifying, evaluating and managing the impact of uncertain events, and monitoring the consequences at acceptable levels. The risk-management cycle is comprised of four phases:

- establishing objectives by identifying the strategic goals and determining constraints;
- analyzing the risks;
- selecting controls and assessing the alternatives to address the risks; and
- implementing the alternatives and monitoring the progress and results.

OUR RISK APPETITE FRAMEWORK

The Bank's risk appetite is defined by a risk appetite framework set by the Board. It aids to emphasise its strong risk culture and helps define thresholds, processes and controls to manage aggregate risks through an acceptable scale.

In line with Bank of Mauritius Guidelines on Credit Concentration, Country Risk Management and Cross-Border Exposures, the Board has established a set of policies and procedures in respect of cross-border activities, which clearly translate to the Bank's strategic goals within approved risk parameters.

Stress-Testing

Stress-testing ("ST") is an integral part of the Bank's risk management process as it consists of both sensitivity analysis and scenario analysis.

Stress testing is a fundamental tool to

- facilitate a view of the organisation's **forward risk profile** as a result of portfolio effects and/or changes in macroeconomic conditions;
- **Identify potential vulnerability** to unprecedented but plausible events; and
- **Determine appropriate management actions or contingency plans** to limit the impact of such events on the entity.

Results of stress testing must impact decision making, including strategic business decisions via

- Strategic planning and budgeting;
- Internal Capital Adequacy Assessment Process ("ICAAP"), including capital planning and management, and the setting of capital buffers;
- Informing the setting of risk appetite statements;
- Liquidity planning and management; and
- Identifying and proactively mitigating risks through actions such as reviewing and changing risk limits, limiting exposures and hedging.

Universal Perspective on Stress-Testing in COVID-19 context

Both the local and global economies were severely impacted since the outbreak of the COVID-19 pandemic and this impacted the capital adequacy and stress test requirements of banks. In this current economic environment, similar to other banks, it was quite challenging for ABL to conduct stress-tests and estimate provisions under the IFRS 9 standard; as forward-looking judgement on possible losses from loans remains very challenging and uncertain.

The process organises information about the possibility of a spectrum of undesirable outcomes into an inclusive, orderly structure that helps decision makers to make informed choices about their organisation's ability to manage risks.

The various type of scenario analysis performed at ABL are as follows:

Scenario analysis

- Changing **multiple risk inputs simultaneously** with the **source of the stress event being well defined**;
- Macroeconomic stress testing involves the creation of a **severe but plausible macroeconomic scenario** and assessing the **impact of key macroeconomic risk drivers** (e.g. GDP, interest rates, inflation) **on key risk inputs** (e.g. PD, LGD and EAD);
- Other hypothetical or historical scenarios: "what-if"; and
- Assessing the impact on statement of profit or loss and other comprehensive income, statements of financial position and capital ratios.

Sensitivity analysis

- **Adjusting of a risk parameter**, or a small number of very closely related risk parameters to understand the impact on a risk position; and
- It is important to note that the **event** that gives rise to the movements in the parameters is **hypothetical**.

Reverse stress testing

- **Assessing scenarios and circumstances** that would **render its business model unviable**, thus **identifying potential business vulnerabilities**:
 - Starts from the point of failure of the Bank's business model and then working backwards to identify circumstances or scenarios under which this might occur; and
 - Point of failure is considered as **significant financial losses** that impact the Bank's **capital or lack of liquidity** to such an extent that the **existing business model would no longer be viable** or where **material supervisory intervention** would result.

Notwithstanding the above challenges, the Bank has been guided by its Board in designing and implementing solutions and also conducting a number of "Stress-Test Scenarios" or "What-If Scenarios" in order to assess potential balance sheet and profit or loss impact in the current environment.

The mitigations are in line with the regulatory Internal Capital Adequacy Assessment Process ("ICAAP") mitigation plan. ICAAP is an internal review requirement that evaluates capital adequacy, capital management and planning at banks with a specific focus on core risk factors.

RISK MANAGEMENT REPORT

RISK GOVERNANCE AND OVERSIGHT STRUCTURE

The independent status of the Risk Management function is supported by a governance structure that provides for escalation of risk issues to senior management, Board sub-committees and the Board of Directors, as appropriate.

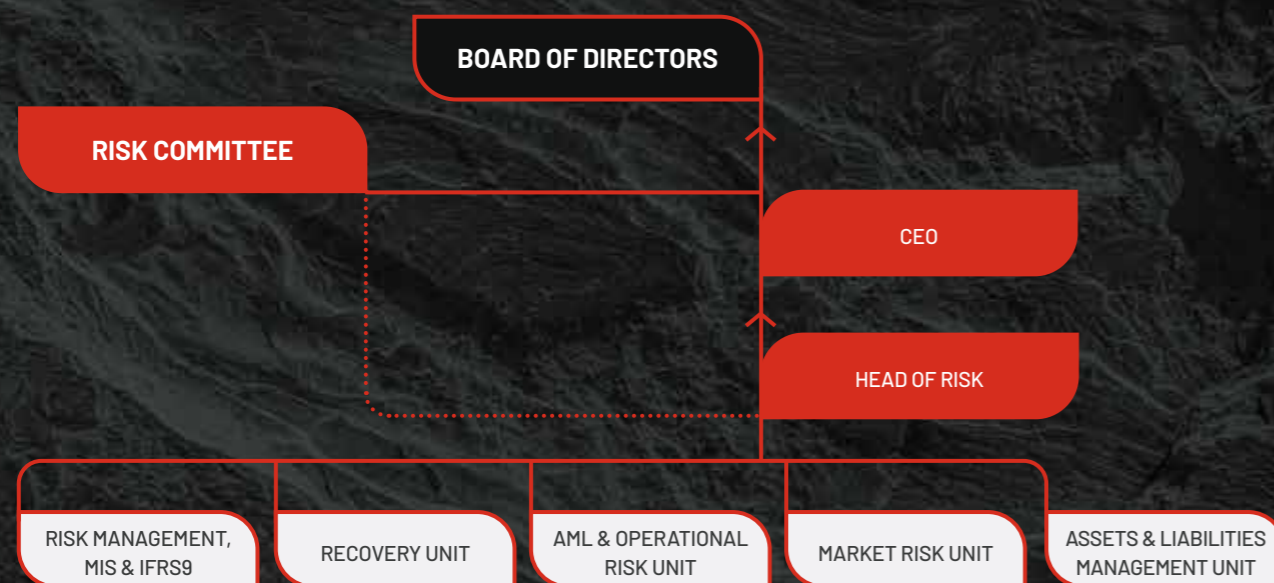
The chart below illustrates the Board of Directors' and key senior management-level committees in the Firm's risk governance structure.



¹ Risk Management Committee

— Direct reporting to the Committee/CEO
 - - - - - Operationally reporting to Board Committee

RISK MANAGEMENT STRUCTURE



— Fixed Line - Direct reporting to the Committee/CEO
 - - - - - Dotted Line - Operationally reporting to Board Committee

RISK MANAGEMENT REPORT

COMMITTEES ESTABLISHED BY MANAGEMENT

Management Credit Committee ("MCC")

- The MCC is the senior management credit decision-making committee with a defined delegated authority (up to MUR 50m) as determined by the Board of Directors through the Credit Committee and Risk Committee from time to time.
- The purpose of the MCC is to
 - assist the Board to formulate, approve and implement Credit policies, guidelines and credit practices of the Bank.
 - exercise responsibility for the independent assessment, approval, review and monitoring of all credit risk assets relating to the Bank's business; and
 - ensure that the origination and management of the assets in the portfolio are done in terms of the Bank's policy.

Assets and Liabilities Committee ("ALCO")

- This committee comprises of the Chief Executive Officer, Chief Financial Officer, Head of Risk, the General Manager, Senior Executive - Head of Corporate Banking, Senior Executive - Head of Global Business, Senior Executive - Treasury and Markets, Head of Treasury and the Head of Credit Risk who meet at least once a month.
- ALCO's overall responsibility is to ensure that the Bank's overall asset and liability structure including its liquidity, currency and interest rate risks are managed within the risk appetite set by the Risk Committee.

Impairment Management Committee ("IMC")

- The Bank's IMC consist of the Chief Executive Officer, the Chief Financial Officer and the Head of Risk and they meet at least once in a quarter or as and when required. The duties of the Committee are as follows:
 - Review updates on top non performing accounts.
 - Review and approve all files, which warrant new/additional specific provision.
 - Approve proposals for restructure of facilities and settlement of liabilities including one-time settlement.
 - Review new NPAs and new accounts downgraded to Watchlist.
 - Review and approve accounts showing Significant Increase in Credit Risk (S.I.C.R).
 - Take cognizance of recoveries and write backs.
 - Review and validate list of accounts proposed for write off.

Risk Management Committee ("RMC")

- This committee includes the Chief Executive Officer, Chief Technology & Operating Officer, Chief Financial Officer, Head of Risk, Head of Compliance and Head of Group Legal as voting members. The members meet at least quarterly or as required to discuss and oversee the overall risk management and internal controls of the Bank.
- The key responsibilities of RMC are to
 - implement, review and manage risks in line with the risk tolerance limit in the Risk Appetite Framework.
 - review risk implications of new business, projects and products.
 - review high risk issues such as financial liquidity & capital risk.
 - ensure compliance with guidelines and mitigate regulatory/compliance/legal/AML risk.
 - report to the Risk Committee on the above.

RISK MANAGEMENT REPORT

MANAGEMENT OF KEY RISK AREAS

Risk can be defined as the uncertainty of an event to occur in the future. In the banking context, it is the exposure to the uncertainty of an outcome, where exposure could be defined as the position/stake banks take in the market. The main type of risks faced by the Bank are as follows:

Type of Risk	Description	Mitigating Actions
Credit Risk	It is the risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due. It is composed of obligor risk and concentration risk.	<ol style="list-style-type: none"> 1. Policies & Procedures 2. Regulatory Guidelines 3. Control & Monitoring 4. Key Resources with technical expertise 5. Allocation of delegated limit for approval at various levels 6. Regular Credit Committee (CC) meetings held to deliberate on credit files 7. Quarterly review by Credit Committee
Country Risk	Country risk, also referred to as cross-border country risk, is the uncertainty that obligors (including the relevant sovereign, and the group's branches and subsidiaries in a country) will be able to fulfil obligations due to the group given political or economic conditions in the host country.	<ol style="list-style-type: none"> 1. Regular Country Review 2. Cap in terms of Country Risk Limit 3. Quality Review by Board 4. In line with Risk Appetite Framework
Market Risk	Market risk is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.	<ol style="list-style-type: none"> 1. Work around solution (manually) 2. Market Risk Policy 3. Process & level of acceptance 4. Tolerance limit 5. System Implementation
Funding and liquidity Risk	Funding risk is the risk associated with the impact on a project's cash flow from higher funding costs or lack of availability of funds. Liquidity risk is defined as the risk that an entity, although solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.	<ol style="list-style-type: none"> 1. Liquidity risk is managed in line with the Bank's internal liquidity risk management framework and the Bank of Mauritius ("BoM") Guideline on Liquidity Risk Management. 2. Daily reporting of liquidity metrics and monitoring of Liquidity Early Warning Indicators.
Interest rate Risk	The risk arising from changes in interest rates or the prices of interest rate related securities and derivatives, impacting on the Bank's earnings or economic value of equity.	Monitoring of interest rate risk exposure in line with the Bank's internally prescribed limits.

RISK MANAGEMENT REPORT

MANAGEMENT OF KEY RISK AREAS (Cont'd)

Type of Risk	Description	Mitigating Actions
Operational Risk	Operational risk is the risk of loss suffered as a result of the inadequacy of, or failure in, internal processes, people and/or systems or from external events.	<ol style="list-style-type: none"> 1. Documented policies, procedures and processes 2. Implementation of systems and internal controls 3. Training
Compliance Risk	Compliance Risk is the risk of legal or regulatory sanction, financial loss or damage to reputation that the group may suffer as a result of its failure to comply with laws, regulations and codes of conduct and standards of good practice applicable to its financial services and banking.	<ol style="list-style-type: none"> 1. Policies and Procedures in line with regulatory requirements and standards 2. Internal controls 3. Trained and qualified staff 4. Appropriate system and tools
Information Risk	The risk of accidental or intentional unauthorized use, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity or availability of information.	<ol style="list-style-type: none"> 1. Documented policies, processes and procedures 2. Implementation of systems and internal controls 3. Awareness Training and best practices.
Cyber Risk	The Risk of failure, unauthorized or erroneous use of information systems resulting into financial loss, disruption or damage to the reputation of the Bank.	<ol style="list-style-type: none"> 1. Educate Employees and stakeholders on Information Security including Cyber Security measures 2. End point Security on Devices including Encryption and Anti-virus Protection 3. Ensure efficient Patch Management on information systems 4. Cyber Threat detection and online monitoring 24/7, 365/365 5. Distributed denial-of-service (DDoS) monitoring services
Business Strategic Risk	Business strategic risk is the risk of earnings variability, resulting in operating revenues not covering operating costs after excluding the effects of market risk, credit risk, structural interest rate risk and operational risk.	<ol style="list-style-type: none"> 1. Documented policies, procedures and processes 2. Implementation of systems and internal controls 3. Training 4. Ensure that the Bank adheres to its Risk Appetite 5. Ensure that Business strategy is embedded in the Risk Appetite Framework
Reputational risk	Reputational risk is the risk of potential or actual damage to the group's image, which may impair the profitability, and/or sustainability of its business.	<ol style="list-style-type: none"> 1. Effective communication, staff training, and HR practices 2. Documented policies, procedures and processes 3. Efficient complaints & feedback handling for continuous improvement of products/services 4. Constant compliance checks and monitoring 5. Information Security

RISK MANAGEMENT REPORT

CREDIT RISK

Credit risk arises from the possibility of financial losses stemming from the failure of clients or counterparties to meet their financial obligations to the Bank. Credit processes control the credit risk of individual and corporate clients. Other sources of credit risk arise from trading activities, including: debt securities, settlement balances with market counterparties, amongst others.

Organisation and Structure

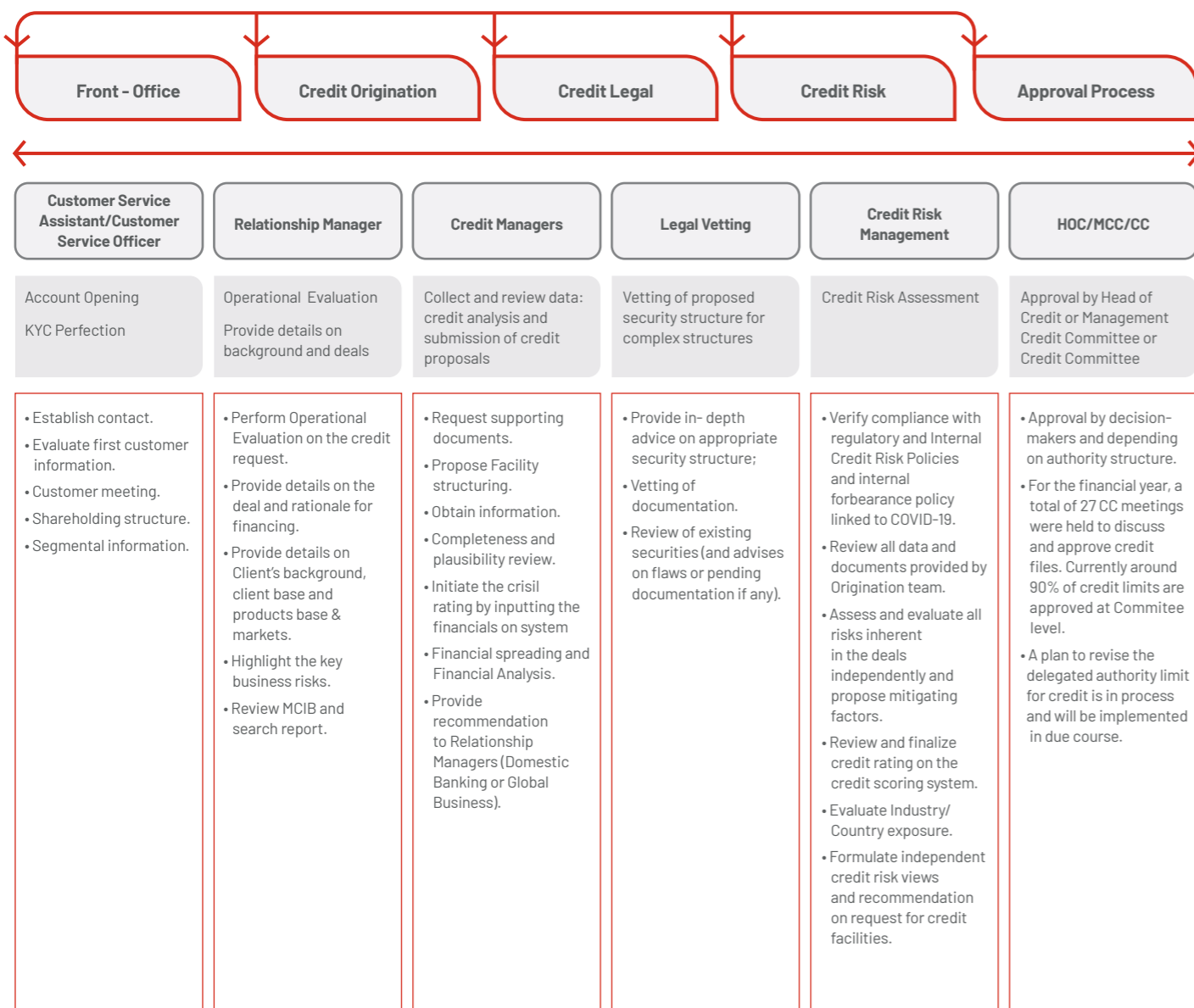
The Bank has structured the responsibilities of credit risk management so that the Credit Risk department performs an independent function and ensures all risks are properly mitigated and ring-fenced. Credit policies and

The credit risk management objective is to maintain a rigorous and effective integrated risk management framework to ensure that all controls are in line with risk processes based on international best practices.

processes are in place to ensure the effective monitoring and managing of credit risk in compliance with the Bank of Mauritius guidelines and AfrAsia Bank's risk appetite.

CREDIT RISK POLICIES

CREDIT APPROVAL PROCESS



RISK MANAGEMENT REPORT

IMPACT OF IFRS 9 FINANCIAL INSTRUMENTS (“IFRS 9”)

AfrAsia Bank Limited has run a centrally managed IFRS 9 programme since 2018, which included business functions and subject matter experts on methodology, data sourcing and modelling, and reporting. The adoption of IFRS 9 has enabled AfrAsia Bank to enhance its internal control system with a better end-to-end management on an ongoing basis, which is critical to avoid unintended consequences. In addition, IFRS 9 has allowed the Bank to analyze high frequency market data to enhance the risk assessment of our portfolios; while still delivering a consistent customer experience within set risk parameters.

The Bank also complies with the macro-prudential policy measures as set out in the Guideline on Credit Impairment Measurement and Income Recognition to compute Portfolio Provisioning. In the event IFRS 9 provisioning is lower than General Provisioning, the difference is accounted in the general banking reserve.

OUR CREDIT RATING

The CRISIL models are used to rate companies including small and medium enterprises & large corporates and global & domestic banks, while the CRISIL Retail Scoring Solution (“CRESS”) is used to rate retail customers. CRISIL is a global analytical company and is one of India's leading ratings agency and provider of high-end research to the world's largest banks and leading corporations. CRISIL is majority owned by S&P Global Inc.

The system uses the following criteria in determining the credit rating:

- financial information;
- financial/non-financial securities;
- credentials of the counterparty;
- details of facilities; and
- qualitative assessment of industry of operation (Industry risk, business risk, market position, financial risk, management risk and account conduct risk).

CRISIL rating grades and descriptions for each grade are as follows:

Rating Grades		
AAA	Investment Grade - Highest Safety	Borrowers rated AAA are judged to offer highest safety of timely payment.
AA+	Investment Grade - High Safety	Borrowers rated AA+ are judged to offer high safety of timely payment.
AA	Investment Grade - High Safety	Borrowers rated AA are judged to offer high safety of timely payment. They differ in safety from AA+ only marginally.
A	Investment Grade - Adequate Safety	Borrowers rated A are judged to offer adequate safety of timely payment.
BBB	Investment Grade - Moderate Safety	Borrowers rated BBB are judged to offer moderate safety of timely payment of interest and principal for the present.
BB	Investment Grade - Moderate Safety	Borrowers rated BB are judged to offer moderate safety of timely payment of interest and principal for the present. There is only a marginal difference in the degree of safety provided by borrowers rated BBB.
B	Investment Grade - Minimum Safety	Borrowers rated B are judged to carry minimum safety of timely payment of interest and principal for the present.
CC	Sub-Investment Grade - Inadequate Safety	Borrowers rated CC are judged to carry inadequate safety of timely payment.
C	Sub-Investment Grade - High Risk	Borrowers rated C have a greater susceptibility to default.
D	Highly Susceptible to Default/ Default	Borrowers rated D are in default or are expected to default on maturity.

RISK MANAGEMENT REPORT

CREDIT MONITORING

Credit risk exposures are managed through a robust post disbursement monitoring process. This involves regular portfolio reviews and detection of any early warning signals. Exposures showing signs of deterioration are put on watch list and the files are reviewed at least monthly to ensure prompt actions are taken. Regular and ad-hoc checks are performed to ensure that guidelines and policies set by the Board are adhered to. With the implementation of IFRS 9, all borrowers, regardless of financial health, are subject to a full review of all facilities on at least an annual basis; more frequent interim reviews may be undertaken should circumstances dictate to identify any significant increase in credit risk.

COVID-19 poses a challenge to the country that goes far beyond monetary and financial stability. In response to the COVID-19 pandemic, the Bank has reviewed its Credit Risk Policy and has set up a Forbearance Policy for COVID-19 impacted sectors. Clients falling under those impacted sectors are being closely monitored by the Bank.

In light of the impact of the pandemic on our business activities, the Bank also enhanced its Significant Increase in Credit Risk (SICR) assessment framework based on several factors in a view to better manage the portfolio and trigger early warning signs.

GROSS LOANS AND ADVANCES TO BANKS				
External Rating Grade	Stage 1	Stage 2	Stage 3	TOTAL
	MUR'000	MUR'000	MUR'000	MUR'000
Performing:				
Credit Rating AAA	-	-	-	-
Credit Rating AA+ to AA-	-	-	-	-
Credit Rating A+ to A-	2,217,104	-	-	2,217,104
Credit Rating BBB+ to BBB-	1,702,874	-	-	1,702,874
Credit Rating BB+ to BB-	2,110,731	-	-	2,110,731
Credit Rating B+ to B-	637,607	-	-	637,607
Credit Rating CCC+ to C	-	-	-	-
Total gross carrying amount	6,668,316	-	-	6,668,316

GROSS LOANS AND ADVANCES TO CUSTOMERS				
Internal Rating Grade	Stage 1	Stage 2	Stage 3	TOTAL
	MUR'000	MUR'000	MUR'000	MUR'000
Performing:				
Credit Rating AAA	662,221	-	-	662,221
Credit Rating AA+ to AA-	1,106,069	13,901	-	1,119,970
Credit Rating A+ to A-	4,632,049	667,179	-	5,299,228
Credit Rating BBB+ to BBB-	7,583,046	464,097	-	8,047,143
Credit Rating BB+ to BB-	2,822,297	54,328	-	2,876,625
Credit Rating B+ to B-	325,262	267,849	-	593,111
Credit Rating CCC+ to C	-	17,401	-	17,401
Non Performing:				
Credit rating D	-	-	2,817,098	2,817,098
Total gross carrying amount	17,130,944	1,484,755	2,817,098	21,432,797

During the financial year ended 30 June 2021, AfrAsia Bank has taken active steps in prudently managing its exposures and ensuring that its loan book is judiciously diversified, while periodically conducting stress

tests to assess the resilience of its portfolio in case of unfavorable events. Over the years, the Bank has been keeping a close attention on its credit concentration to ensure it meets regulatory requirements.

RISK MANAGEMENT REPORT

CONCENTRATION OF RISK

The key focus of the Bank's credit risk management approach is to avoid any undue concentrations in its credit portfolio, whether it is in terms of counterparty, group, portfolio, and country. The Bank has always kept its large exposures within the regulatory limits. For instance, our concentration

ratio of large exposures above 10% of Tier 1 Capital was 219.69% as at 30 June 2021, well within the regulatory limit as shown below:

Regulatory Credit Concentration Limit	As at 30 June 2021
Credit exposure to any single customer shall not exceed 25% of the Bank's Tier 1 Capital	Highest single customer: 16.27%*
Credit exposure to any group of closely-related customers shall not exceed 40% of the Bank's Tier 1 Capital	Highest Group of closely related customer: 34.70%
Aggregate large credit exposures to all customers and Banks of closely related customers above 10% of Bank's Tier 1 Capital shall not exceed 800% of Bank's Tier 1 Capital	219.69%

* PSEs are exempted from the credit concentration ratio in line with the Standardized Approach to Credit Risk Guideline

Furthermore, economic reports, country and industry analysis are prepared and submitted to the Risk Committee to highlight trade developments and risks to the Bank's credit portfolio. These reports are used to define

strategies for both our industry portfolio, and individual counterparties within the portfolio.

Industry Concentration

The Bank's financial assets, without taking account of any collateral held or other credit enhancements, is as follows:

Sectorwise distribution of credit	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Agriculture	979,158	1,278,888	509,649
Construction, Infrastructure and Real estate	1,849,854	1,980,120	1,119,041
Financial and Business services	136,141,751	100,868,753	121,014,380
Government and Parastatal bodies	32,201,281	35,021,623	479,419
Information, Communication and Technology	1,274,563	1,100,878	16,516
Manufacturing	3,934,486	5,867,227	2,725,894
Personal	2,785,392	2,373,536	1,912,148
Tourism	4,919,289	4,528,383	3,165,754
Traders	3,794,823	4,452,605	1,550,713
Others	4,173,774	4,598,874	8,700,323
Total	192,054,371	162,070,887	141,193,837

RISK MANAGEMENT REPORT

CONCENTRATION OF RISK (Cont'd)

Concentration by Geography

The Bank's financial assets before considering any collateral held or other credit enhancements, can be analysed as follows:

COUNTRY OF EXPOSURE	MUR'000	%
Africa		
Mauritius	74,699,016	39%
Other African countries	8,676,615	4.5%
North America	54,254,420	28%
Europe	21,568,983	11%
Asia & Pacific	32,269,714	17%
Others	585,623	0.3%
	192,054,371	100%

Geographical Exposure (%)



Country Risk Assessment

Assessment of country risk involves the determination of the nature of risks associated with individual country exposure and the evaluation of country conditions. In this connection, the Bank conducts a thorough evaluation of risks associated with its cross-border operations and which have the possibility to adversely affect its risk profile.

The aim is to identify the risk of a potential shock, such as an economic crisis or a sudden change in the political environment that would affect those conducting business within a country.

Country risks also arise where borrowers in a particular country are, or are expected to be, unwilling and unable to fulfil their foreign obligations for reasons beyond the usual risk that arise in relation to lending. Political, social and economic factors may give rise to instability in these markets. Thus, in order to mitigate those risks, a country risk assessment is undertaken by ABL to determine the level of risk on a case-to-case basis but within each assigned country limit. The Risk Appetite Framework is set in line with BOM's Guidelines for Country Risk Management (April 2010).

RISK MANAGEMENT REPORT

CONCENTRATION OF RISK (Cont'd)

Country Risk Assessment (Cont'd)

According to ABL's Risk Appetite Framework, the Board of Directors sets exposure limits for individual countries in order to manage and monitor country risk. Country exposure limits are applied to all on and off-balance sheet exposures to foreign borrowers.

Country risk ratings issued by external credit agencies (S&P, Moody's or BMI research) are also used by the Bank to evaluate the risk exposure of each country. The Bank utilises two other types of approach:

1. A bottom-up approach: analysis of the country risk pertaining in each cross-border by counterparty and product;
2. A top-down approach:
 - Analysis of the concentration/diversification of country risk in the Bank's portfolio; and
 - Analysis of the global or regional economic and political movements and their adverse effects on the country risk profiles.

Country Limit

An appropriate structure of limits is set for each individual country exposure. The determination of limits is based on the following:

- The overall strategy and commercial opportunities;
- The relation with Bank's capital base;
- The perceived economic strength and stability of the borrowing country;
- The degree of perceived risk; and
- The diversification of the Bank's international lending and investment portfolio.

The Board of Directors validates the structure and value of the limits. The Bank's operations are performed strictly within the approved limits.

CREDIT RISK MITIGATION

As a fundamental credit principle, the Bank does not generally grant credit facilities solely on the basis of the collateral provided. All credit facilities are based on the credit rating, source of repayment and debt-servicing ability of the borrower. Collaterals are taken when required by the Bank to mitigate the credit risk. The collateral is monitored on a regular basis with the frequency of the valuation depending on the liquidity and volatility of the collateral value.

Enforcement legal certainty of enforceability and effectiveness is another technique used to enforce the risk mitigation. Where a claim on counterparty is secured against eligible collateral, the secured portion of the claim is weighted according to the risk weight of the collateral and the unsecured portion against the risk weight of the counterparty. To mitigate counterparty risk, the Bank also requires close out netting agreements. This enables the Bank to offset the positive and negative replacement values of contracts if the counterparty defaults. The Bank's policy is to promote the use of closeout netting agreements and mutual collateral management agreements with an increasing number of products and counterparties in order to reduce counterparty risk.

As an indication, claims secured by cash and other charges represent 63% of total loans and advances, whilst unsecured portions account for 37%. The value of collateral and other credit enhancements received on loans and advances as at 30 June 2021 is MUR 17.4bn (2020: MUR 18.4bn and 2019: MUR 14.7bn).

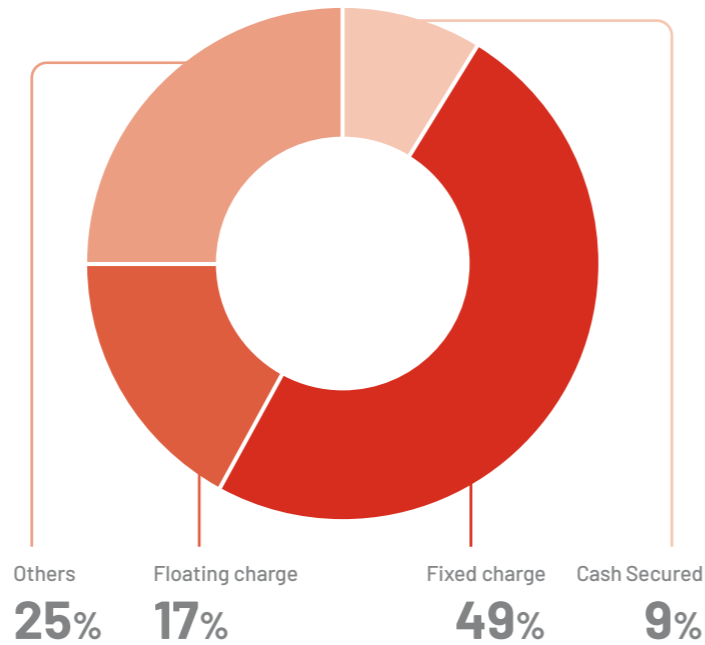
RISK MANAGEMENT REPORT

CREDIT RISK MITIGATION (Cont'd)

The main types of collateral obtained are as follows:

Collateral Details	Total	Total
	MUR'000	%
Cash Secured	1,593,416	9%
Fixed Charge	8,487,397	49%
Floating Charge	2,901,074	17%
Others	4,397,893	25%
Total	17,379,779	100%

The Group and the Bank also request for personal guarantees from promoters, directors, shareholders and also corporate and cross guarantees from parent and sister companies.



RELATED PARTY TRANSACTIONS, POLICIES AND PRACTICES

The Bank adheres to the Guideline on Related Party Transactions issued by the Bank of Mauritius (BOM) in December 2001 and which was last reviewed in June 2015. In line with this Guideline, the Board of Directors has set up a Conduct Review Committee ("CRC") to review and approve related party transactions.

The Bank's policy on related party transactions sets out the

- rules governing the identification of related parties,
- terms and conditions applicable to transactions entered into with them and
- reporting procedures to the governance Committees.

All related party transactions are reviewed and approved at the level of the Conduct Review Committee, which ensures that market terms and conditions are on arm's length basis.

During the normal course of business throughout the year, the Bank entered into a number of banking transactions with its related parties. These included placements or loans to/from Banks, deposits as well as other normal banking transactions. As at 30 June 2021, related party exposure was within regulatory guidelines at 23.03% (Cat 1 and Cat 2).

The Bank has complied with all requirements of the Bank of Mauritius Guideline on Related Party Transactions. Related party reporting to the Bank of Mauritius is made on a quarterly basis. Moreover, all related party transactions are monitored and reported to the Conduct Review Committee at least once a quarter or as and when required.

RISK MANAGEMENT REPORT

MARKET RISK

Also known as position or price risk, market risk is the risk of losses in on and off-balance sheet positions arising from movements in market prices. The prices include Foreign exchange rates, interest rates, equity prices, commodity prices and include implied volatilities (for options). The key drivers of market risk that the Bank is exposed to are mainly associated with fluctuations in interest rates and foreign exchange rates.

Market risk, also known as "systematic risk", typically affects the entirety of a market. As such, this risk cannot be fully eliminated through diversification but may be reduced using the various hedging products and techniques such as options and futures.

The Bank has in place a sound risk management framework to monitor and manage the market risks that the Bank is exposed to on a daily basis; a framework of limits and triggers as approved and regularly reviewed by ALCO and the Risk Committee, which is in line with the Bank's risk appetite and complement the regulatory limits as established by the central Bank.

Interest rate risk

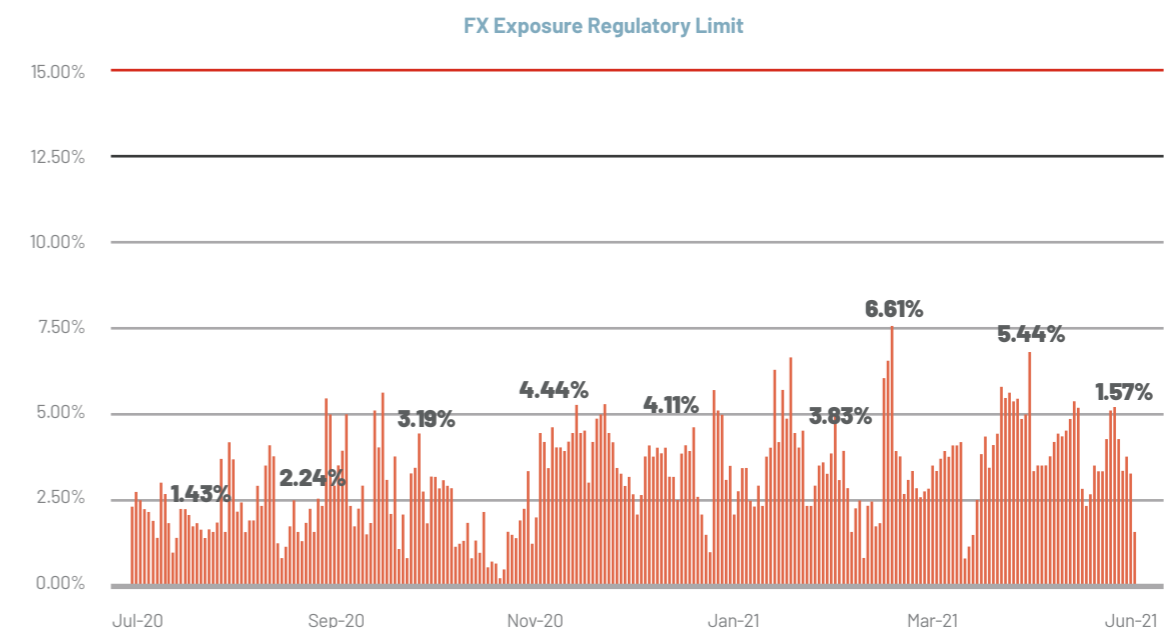
Interest rate risk arises from the likelihood that movements in interest rates will affect future cash flows and the market value of financial instruments. The main approach adopted by the Bank to measure this risk is through a gap analysis and sensitivity analysis.

Foreign Exchange Risk

Foreign exchange or currency risk is the risk that exchange rate fluctuations may result in adverse changes in the value of current holdings and future cash flows that are denominated in currencies other than the base currency. This risk affects the Bank due to the multi-currency investing and lending activities.

The Market Risk unit, being responsible in identifying and monitoring the Bank's exposure to market risks, works in partnership with business lines to efficiently define market risk policies and procedures. As part of the independent risk management structure, the Market Risk unit reports to the Bank's Head of Risk. The objective of market risk management is to help identify, assess and control risks, facilitate risk-return decision-making, reduce volatility in operating performance and provide transparency into the Bank's market risk profile to senior management, the Board of Directors and regulators.

For the financial year ended 30th June 2021, the Bank maintained a daily net FX Open position against the Mauritian rupee that were well under the regulatory limit of 15% of Tier 1 capital as prescribed by the Bank of Mauritius.



FX Exposure for the Financial Year ended 30th June 2021

RISK MANAGEMENT REPORT

MARKET RISK (Cont'd)

Market Risk Monitoring and Controls

The Bank uses a variety of risk measures to estimate the size of potential losses for both moderate and more severe scenarios, under both short-term and long-term time horizons.

Not all activities necessarily to have the same limit structure, and as a result, adequate market risk limits are established in accordance with the complexity of the activity and risks undertaken.

Value at Risk ("VaR")

The Value at Risk is a statistical measure of risk that is used to quantify risks across products, per types of risks and aggregate risk on a portfolio basis, from individual trading desks up to the Bank level. VaR models provide an estimate of the potential future loss of a position over a specified horizon, given a required degree of confidence in the estimate.

The Bank has adopted a parametric approach (Variance-Covariance method) to compute the VaR at a 99 percent confidence level using a 10-days daily volatility change. The holding period used is one day due to the fluid composition of the portfolio so as to proactively manage the underlying risk on a day-to-day basis.

Sensitivity Limits

Sensitivity limits are used to monitor the risk incurred due to changes in several pricing parameters. These measurements include Portfolio Duration limits and PV01 limits.

The PV01 is a measure of sensitivity to a 1bp (basis point) change in interest rates. The outcomes may be positive or negative reflecting the percentage change in value for a 1bp or a 100bp (PV100) rise or fall in interest rates.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk that the Bank will be unable to meet its daily cash and financial obligations as they fall due or do so at materially significant costs. Liquidity risk arises from mismatched cash flows related to the Bank's assets and liabilities as well as the characteristics of some products with ambiguous maturities.

The Bank's primary objective as a financial institution is to manage liquidity such that it supports the Bank's business strategy and allows it to honour its commitments when they come due, even under stress. This is done primarily by implementing a liquidity risk policy framework approved by the Board, which establishes a risk appetite, triggers, risk indicators, monitoring structures and escalation trees.

Short-term liquidity risk management	Structural (longer-term) liquidity risk management	Contingency Liquidity Risk Management
Managing intra-day liquidity positions	Identification of structural liquidity mismatches against tolerance limits and breaches are escalated to ALCO	Setting of appropriate early warning indicators
Monitoring daily and short-term cash flow requirements	Managing term lending capacity by taking into account behavioural profiling of ambiguous maturity assets and liabilities	Undertaking liquidity stress testing and scenario analysis
Setting up of interbank and repo lines	Monitoring depositor concentration against internal limits and holding sufficient marketable assets against the Bank's deposit base	Ensuring a contingency funding plan is in place with appropriate action plans and escalation process
Setting of deposit rates according to market conditions and ALCO approved targets	Managing long-term cash flows	

Market risk reports are regularly communicated to Senior Management, ALCO and the Risk Committee, whereby all market risk matters are highlighted and relevant issues are promptly escalated.

Gross Position Limits and Transaction Limits

Absolute gross position limits are set up to mitigate concentration risk, thus restricting the maximum exposure which the Bank can be exposed to vis-a-vis one particular market, sector, or instrument.

These limits are usually referred to as portfolio restrictions upon creation of the portfolio. Many trading portfolios have limits on the amount of certain products that can be held in the portfolio and these are often due to liquidity issues (e.g. limits on the maximum \$ amount or percentage of portfolio in corporate bonds, etc.)

Maturity Limits

The majority of fixed income products are contracts that expire at a certain date. In general, the marked-to-market valuations of these products are more difficult to obtain if the products have long-term maturity, low liquidity or low credit rating. Maturity limits are established for portfolios that trade those types of products.

The Bank's Asset and Liability Committee (ALCO), under guidance from the Risk Committee is responsible for the assessment, monitoring and management of the Bank's liquidity risk and strategy and ensuring compliance with both internal and regulatory limits.

As per the principles outlined in the Bank's liquidity risk policy, the following approach is adopted to manage liquidity risk both under a business-as-usual and stressed scenario.

RISK MANAGEMENT REPORT



LIQUIDITY AND FUNDING RISK (Cont'd)

Regulatory Environment

The Bank works closely with the central bank to implement regulatory liquidity standards. The Bank adapts its processes and policies to reflect the Bank's liquidity risk appetite towards these new requirements.

Liquidity Coverage Ratio ("LCR")

The Bank of Mauritius, in line with Basel principles, issued Liquidity Coverage Ratio requirements for banks in November 2017, as part of the Guideline on Liquidity Risk Management.

The LCR was introduced primarily to ensure banks maintain an adequate stock of unencumbered high quality liquid assets (HQLA), that consist of cash or assets convertible into cash at little or no loss of value in private markets, to meet liquidity needs for a 30 calendar day time period, under a severe liquidity stress scenario.

$$LCR = \frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 calendar days}}$$

The Bank publishes the LCR on a quarterly basis and reports to the Bank of Mauritius on a fortnightly basis.

The Bank of Mauritius adopted a phased in approach to the LCR requirement. As from 31st Jan 2020, banks are required to hold minimum LCR ratios of 100% for local currency, material foreign currencies and on a consolidated basis.

The following table provides average LCR data, calculated using month end data for the quarter ended 30th June 2021. The Bank's average LCR was 288%, well above the 100% regulatory requirement, demonstrating a robust liquidity position.

RISK MANAGEMENT REPORT

LIQUIDITY AND FUNDING RISK (Cont'd)

LCR Disclosure Requirements

(Consolidated in MUR)	TOTAL UNWEIGHTED VALUE (quarterly average of monthly observations) ¹	TOTAL WEIGHTED VALUE (quarterly average of monthly observations) ¹
HIGH-QUALITY LIQUID ASSETS		
1 Total high-quality liquid assets (HQLA)	52,614,033,731	52,551,509,138
CASH OUTFLOWS		
2 Retail deposits and deposits from small business customers, of which:	25,425,422,781	2,542,542,278
3 Stable deposits	0	0
4 Less stable deposits	25,425,422,781	2,542,542,278
5 Unsecured wholesale funding, of which:	125,939,482,978	68,476,449,488
6 Operational deposits (all counterparties)	0	0
7 Non-operational deposits (all counterparties)	125,939,482,978	68,476,449,488
8 Unsecured debt	0	0
9 Secured wholesale funding	0	0
10 Additional requirements, of which:	0	0
11 Outflows related to derivative exposures and other collateral requirements	0	0
12 Outflows related to loss of funding on debt products	0	0
13 Credit and liquidity facilities	808,243,407	65,405,924
14 Other contractual funding obligations	0	0
15 Other contingent funding obligations	2,290,858,425	1,947,803,747
16 TOTAL CASH OUTFLOWS	154,464,007,591	73,032,201,437
CASH INFLOWS		
17 Secured funding (e.g. reverse repos)	0	0
18 Inflows from fully performing exposures	62,227,039,106	61,325,437,524
19 Other cash inflows	1,965,641,429	1,965,641,429
20 TOTAL CASH INFLOWS	64,192,680,535	63,291,078,953
		TOTAL ADJUSTED VALUE
21 TOTAL HQLA		52,551,509,138
22 TOTAL NET CASH OUTFLOWS		18,258,050,359
23 LIQUIDITY COVERAGE RATIO (%)		288%
24 QUARTERLY AVERAGE OF DAILY HQLA²	36,167,406,703	

¹The quarterly average of monthly observations is based on April to June 2021 month end figures.

²The quarterly average of daily HQLA is based on close of day figures over the 1st April 2021 to 30th June 2021 period.

RISK MANAGEMENT REPORT

LIQUIDITY AND FUNDING RISK (Cont'd)

LCR Disclosure Requirements (Cont'd)

Liquidity stress tests and Contingency Funding Plan

On a monthly basis and as part of its annual ICAAP process, the Bank runs various liquidity stress scenarios, with different severity levels, to assess the adequacy of its stock of liquid assets. These scenarios simulate stressed depositor outflow situations and factor in both bank specific and systemic risk.

In assessing the adequacy of its stock of liquid assets, the Bank applies a haircut on the market value of its liquid assets to reflect forced sale discounts.

Liquidity Risk Appetite

The Bank monitors a range of liquidity risk limits and ratios against an internally approved risk appetite. The Bank's liquidity risk appetite is based on the following principles:

- ensuring the Bank has a sufficient amount of unencumbered liquid assets to cover its financial requirements, in both normal and stressed conditions;
- ensuring the Bank keeps a liquidity buffer above the minimum regulatory requirements and
- ensuring the Bank maintains diversified and stable sources of funding.

Liquid Assets

To protect depositors from unexpected crisis situations, the Bank holds a portfolio of unencumbered liquid assets that can be readily liquidated to meet financial obligations. The majority of unencumbered liquid assets are held in MUR or U.S. dollars. Moreover, all assets that can be quickly monetised are considered liquid assets. The Bank's liquid assets do not factor in the availability of the Bank of Mauritius' overnight borrowing quota.

In line with Bank of Mauritius requirements, the Bank maintains a comprehensive liquidity contingency funding plan with well-defined action plans and an approved escalation tree in the event of a liquidity crisis. Qualitative and quantitative liquidity early warning indicators are tracked and reported at ALCO on a monthly basis.

The table below provides a breakdown of the Bank's eligible liquid and marketable instruments as defined by the Basel Committee on Banking Supervision and the Banking Act 2004.

As at 30th June 2021, the Bank's liquid assets ratio was 84% against an internal limit of 25%.

As at 30 th June 2021 (MUR'm)	Bank-owned liquid assets ¹	Liquid assets received ²	Total Liquid assets	Encumbered liquid assets ³	Unencumbered liquid assets
Cash and deposits with financial institutions	95,399	0	95,399	0	95,399
Securities					0
Issued or guaranteed by US Treasury	17,273	0	17,273	0	17,273
Issued or guaranteed by local government/central bank	19,371	23,363	42,733	0	42,733
Other debt securities	367	0	367	0	367
Total	132,411	23,363	155,773	0	155,773

¹Bank-owned liquid assets include assets for which there are no legal or geographic restrictions.

²Securities received as collateral with respect to reverse repo transactions.

³Encumbered assets relate to assets pledged as collateral against bank borrowing.

RISK MANAGEMENT REPORT

LIQUIDITY AND FUNDING RISK (Cont'd)

Funding Mix & depositor concentration ratio

The Bank aims to maintain an adequate balance of its funding base through appropriate diversification of its funding sources. The Bank also diversifies its funding by currency, geography and maturity. Management's objective is to achieve an optimal balance between demand and term deposits in line with the Bank's asset deployment strategy.

The last financial year was marked by Mauritius being placed on the EU Blacklist and FATF Greylist. However, funding and liquidity levels remained sound and robust throughout the year and as of the end of the current financial year, the Bank does not foresee any event, commitment or demand that might have a significant impact on its funding and liquidity risk position.

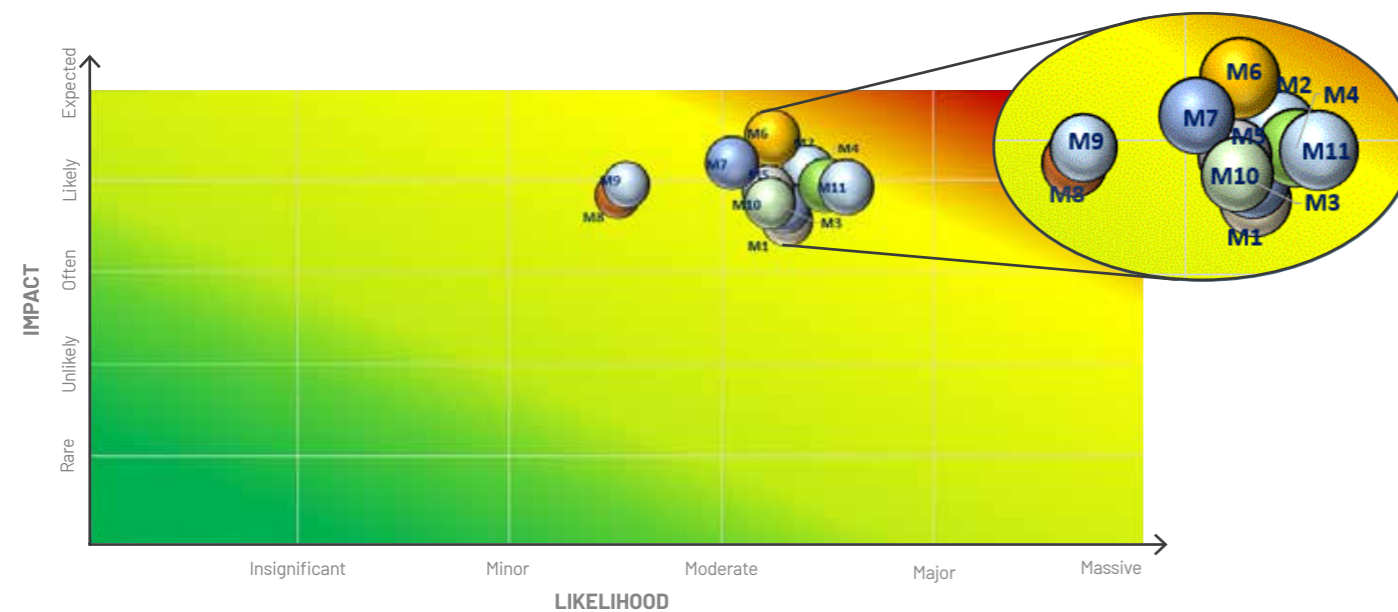
As at 30th June 2021, the Bank's short-term depositor concentration ratios were as follows:

Depositor Concentration

MUR deposits	
Single depositor/ Group of related counterparties	7.7%
Top 10 depositors/ Group of related counterparties	21.5%
FCY deposits	
Single depositor/ Group or related counterparties	5.9%
Top 10 depositors/ Group of related counterparties	15.1%

ENTERPRISE RISK MANAGEMENT

The Major Risks of the Bank have been evaluated, where all departments were requested to provide their assessment through a rating exercise with regards to their actual business activities. The snapshot below depicts the inherent risks of the Major risks in terms of likelihood and impact.



1	M6	Cyber Security	↑
2	M11	Pandemic Risk	↑
3	M2	Regular Changes in Regulatory Guidelines	↔
4	M4	Existing IT Platforms	↑
5	M7	Fight against Financial Crime	↓
6	M5	Digital Transformation	↔
7	M3	Operational Challenges	↑
8	M10	Talent Management and Employee Retention	↑
9	M1	Challenging Economic Environment	↓
10	M9	Responsible Financing	↓
11	M8	Fair Dealing	↓

RISK MANAGEMENT REPORT

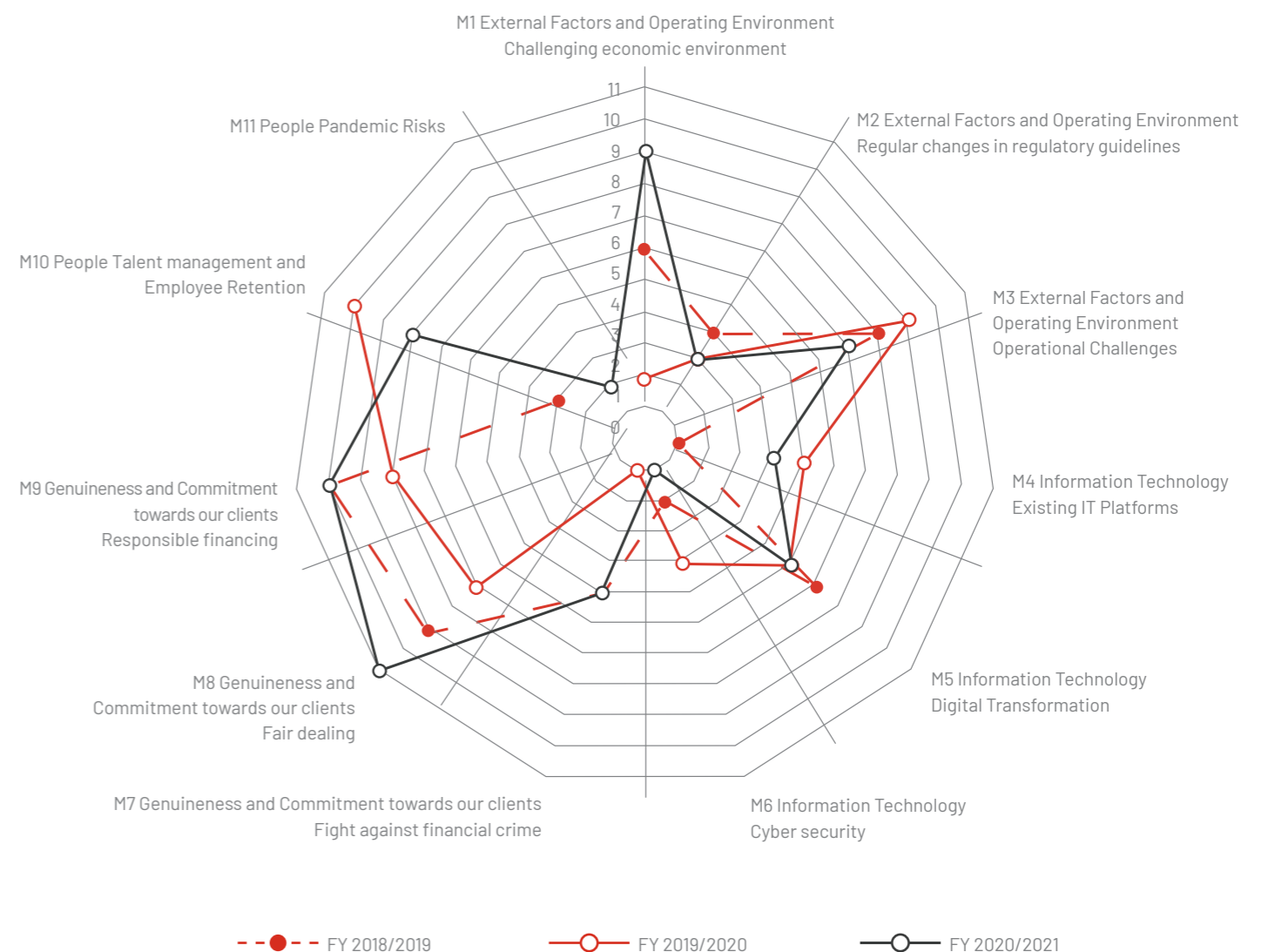
ENTERPRISE RISK MANAGEMENT (Cont'd)

The diagram below depicts the trends of the Major Risks between the FY 2018/2019, FY 2019/2020 and FY 2020/2021. For this Financial Year, a new risk related to Pandemic Risk of COVID-19 has been introduced in the Enterprise Risk Management. Risk associated to Cyber Security, Pandemic risk and Regular Changes in Regulatory guidelines have been perceived among the heightened risks during this financial year and positioned themselves first, second and third in Top Enterprise Risk respectively.

On the other side, risks associated with Existing IT Platform, Fight against crimes, and Digital Transformation are placed in the middle of the table of Major Risks. The risk associated with Challenging Economic Environment has shifted from the second place rated in previous Financial year to the ninth position during this financial year exercise. This is mainly due to the facts that the Bank has adapted to the new normal way of doing business by working from home and leveraging on technologies.

Talent Management has been upgraded from the tenth in previous Financial Year to the eighth place while Fair Dealing has been downgraded to the eleventh place in the Major Risks during this financial year. The Bank is taking appropriate actions to mitigate the inherent risk in these areas. No major movement observed for the other remaining risks identified and they are containable within the Bank's risk profile.

TRENDS ANALYSIS OF ENTERPRISE RISK LAST 3 YEARS



RISK MANAGEMENT REPORT

OPERATIONAL RISK MANAGEMENT

AfrAsia always promotes a culture where Operational Risk is Everyone's Responsibility. Operational Risk (OR) is the risk of achieving our strategy or objectives as a result of inadequate or failed internal processes, people, and systems or from external events, which can lead to adverse customer impact, reputational damage, litigation or financial loss. Operational risk is inherent in the day-to-day operations, activities and products and services which the Bank offered.

The Bank has a well-defined structure for operational risk that complies with regulatory and best practice requirements and is aligned with the risk culture and the risk profile of its activities. This is supplemented through an operational risk charter and operational risk framework which include the three lines of defense (BUs, Control Units, and Internal/External Auditors) and involvement of senior management ensuring the coverage that all operational risks are efficiently managed across its activities.

The OR framework includes a risk control self-assessment ("RCSA") process, risk impact likelihood matrix, key risk and control indicators, Early Warning Indicators (EWIs), a robust operational risk event management tool and escalation process, scenario analysis, audit recommendations, external information sources (external events or industry reports) and operational losses process.

AfrAsia continuously improves operational control procedures to keep pace with new regulation and best practice in the market through holistic follow-up of risks and their mitigating controls.

OPERATIONAL RISK MANAGEMENT FRAMEWORK



RISK MANAGEMENT REPORT



OPERATIONAL RISK MANAGEMENT (Cont'd)

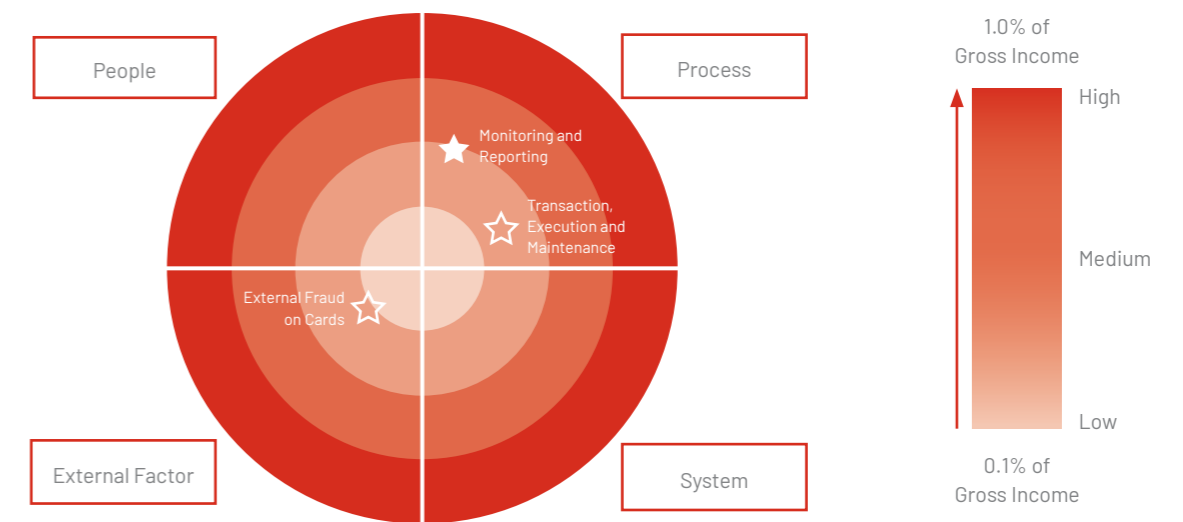
AfrAsia fosters awareness and knowledge of operational risks at all levels of organisations through its risk pro-culture. During the financial year 20/21, number of different training sessions were conducted using the e-learning platform (LMS) and face-to-face sessions, which addressed general knowledge of Operational Risk.

AfrAsia calculates its minimum (Pillar I) operational risk capital requirement using the Basic Indicator Approach (BIA) where the capital charge is 15% of average gross income over the last 3 years.

AfrAsia has an Early Warning Indicators (EWIs) for Operational Risk Loss which is 0.1% to 1.0 % of Gross income. For this Financial Year 20/21, ABL has an Operational losses below 0.1% of Gross Income i.e in the low area.

The Operational risk radar depicts the position of Operational Risk incidents with Operational losses according to the Basel Event Classification under the four quadrant people, process, system and external factors vis-a-vis the Early Warning Indicators (EWIs) set.

OPERATIONAL RISK RADAR

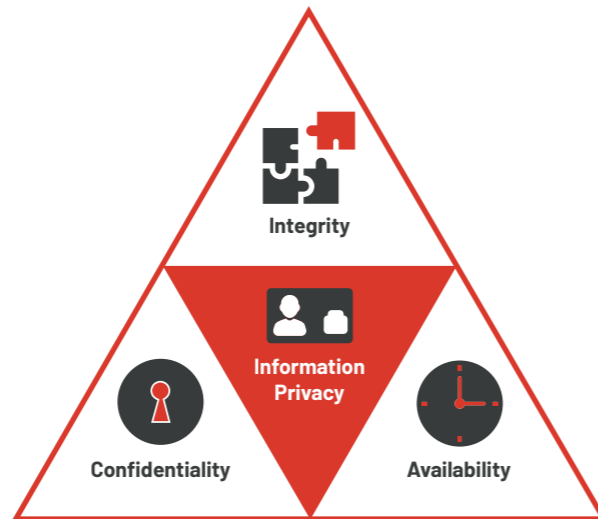


RISK MANAGEMENT REPORT

INFORMATION TECHNOLOGY

At AfrAsia, Information Technology is more geared towards enabling sophisticated product development, better market infrastructure, and helps the Bank reach geographically-distant and diversified markets. The Bank leverages maximum effort on FinTech to keep pace in the digitalised market while keeping aligned to its IT Security policies.

Data and information: Effective deployment of data and information assets is in the form of Management information system, business intelligence / analytics, decision support and forecasting. Data and information being among the most valuable assets of the organisation, the information strategy of the Bank focuses not only on the above but also on data governance, to ensure integrity and consistency of data at every stage of the data lifecycle, maintaining adherence to the Data Privacy rules including Mauritius Data Protection Act (DPA) 2017, the General Data Protection Regulation (GDPR) 2018 and POPI Act 2020. AfrAsia is committed to ensure that privacy rights and entitlements are adequately protected in relation to the techniques used to capture, transmit, manipulate, record or store data relating to individuals.

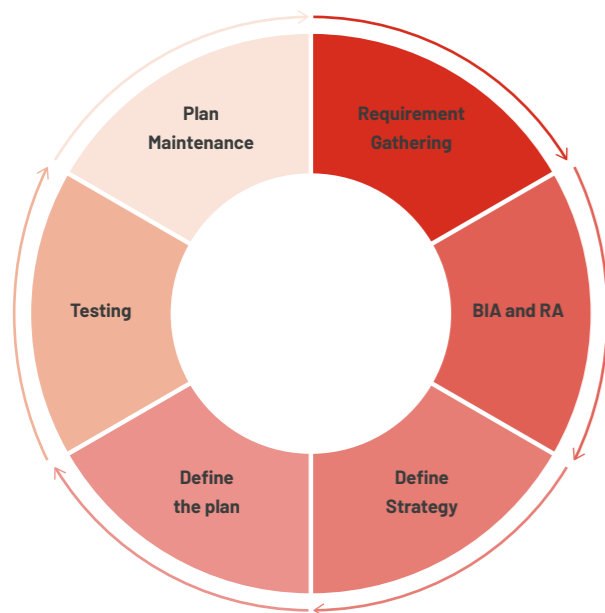


Technology, Infrastructure and Security: With technology evolving faster than ever, the primary challenge for an enabling technology is to ensure that the Bank is adequately prepared and equipped to sustain the rigorous and continuous evolution of requirements for new technologies in the era of digital innovation and artificial intelligence, whilst managing the costs and the associated risks.

The Bank's Information Technology (IT) and Information Security (IS) frameworks are built on global standards like ITIL, ISO 27001 etc. and the governance principles are modeled along the lines of COBIT, ISO/IEC 27014:2013. The practice of governance includes regular reviews with executive management and extends up to the Board with regular updates and feedback to and from the Board. Internal, external and regulatory audits play a crucial role in the governance cycle with intermittent checks on the policies and implementation of same.

Information Risk: Information Risk aims to maintain the confidentiality, integrity and availability of information assets when being stored, processed and transmitted. Management focus is oriented to ensure that all measures converge towards adopting the best practices including governance through frameworks & standards, and establish efficiency and consistency of protections.

Globally, the monthly volume of all categories of cyber-attacks have witnessed an increase during the COVID-19 pandemic. Being aware of the risks and impact associated with cyber-attacks, our controls were continuously reviewed and we have ventured into new IT security solutions to further secure the Bank's IT infrastructure and information.



RISK MANAGEMENT REPORT

MANAGING CYBER SECURITY RISK

As part of its response to the evolving nature of cyber threats, ABL's IT Security team has implemented a comprehensive set of policies for information security, cyber security and technology risks that protect the confidentiality, integrity and availability of information created, processed, transmitted, stored and disposed by the Bank.

Financial sectors have been impacted globally during the COVID-19 pandemic leading to an increase in the number and sophistication of cyber threat actors. Hence, the need for a systematic approach to manage 'Cyber Risk'.

TOP CYBERSECURITY RISKS

MITIGATING SECURITY CONTROLS & TECHNOLOGY IN PLACE

Phishing emails / Domain impersonation attacks

- Email Security services protect users from spam, malware, and other phishing threats thanks to cybersecurity features like filtering and warning labels.

Malware / Ransomware attacks

- Employees are trained through simulated phishing attacks to identify and resolve these malicious email attacks, preventing them from interacting with such messages.

Man-In-the-Middle attacks

- We also perform continuous scanning of our IT infrastructure and application landscape to identify any potential issues.

Zero-day vulnerabilities

- The Bank has a 24x7 Security Operation Centre (SoC) for monitoring and surveillance of IT systems.
- The Bank has Data Leakage/Loss Prevention (DLP) to identify potential data breaches/data ex-filtration transmissions and prevents them by monitoring while in-motion (network traffic and in-use (endpoint actions).

Breach of sensitive and confidential information/ Insider Threats

- Brand abuse monitoring platform.
- We ensure that employees have up-to-date antivirus software on their devices.
- The Bank has implemented a VPN (Virtual Private Network) based on a zero-trust network with two-factor authentication.
- The Bank is using encryption software to protect Bank's data by barring access from any unauthorised users of those devices.
- To exert control over the elevated ("privileged") access, Bank is using a Privileged access management system.

Denial of Service attack

- Network perimeter security controls in place (two-layered firewalls) to protect the Bank's network from external cyber attacks.
- Database activities are monitored.
- On-demand distributed denial-of-service (DDoS) monitoring services.

RISK MANAGEMENT REPORT

BUSINESS CONTINUITY MANAGEMENT

Business Continuity Management (BCM) Policy includes plans to mitigate operational risks, and as a commitment to continue business to our shareholders, customers and employees. Business Impact Analysis, Business Recovery Strategies and Emergency Response plans are defined and implemented to provide for a Disaster Recovery site with data being updated as per preset recovery time objectives. This minimises operational, financial, legal, reputational and other material consequences arising from any disruption to the primary IT infrastructure.

The BCM policy reviewed in Jan 2021 is in line with the Business Continuity Institute Good Practice Guidelines 2018 (BCI GPG 2018), which is built on ISO requirements namely ISO 22301:2012 for business continuity management and ISO/TS 22317:2015 for Business Impact Analysis (BIA).

The management team of the Bank is committed to the following statement:

"We will take all necessary measures to ensure the continuity of business operations and to minimise recovery time in the case of disaster (natural or otherwise) or in the event of an emergency."

The Bank has a BCM Steering Committee to review the processes after each testing exercise and to review the policy every year with a view to continuously improve resilience. The ultimate objective is to cater for any eventual disruption of operations to be restored within a minimum lapse of time such that the Bank resumes normal operations within a reasonable time frame.

At least one BCM test is performed annually for all critical infrastructure involving all functions and user groups of the Bank to ensure the effectiveness of the processes and the readiness of the infrastructure and people. The Bank has adopted a cyclical approach residing on the four pillars: Readiness, Prevention, Response and Recovery/Resumption to continuously improve on the BCM and attain an efficient and acceptable level. Rigorous administration and maintenance, as well as any event experienced, will necessitate revisions and/or plan additions. The strategy adopted for an efficient BCM is to continuously test, train, evaluate and maintain our BCP. The Bank has taken the second wave lockdown scenario as part of its BCP testing in a work-from-home scenario and documentation purposes. Over and above, a dry run on the Cyber Response Plan was conducted with the ICT Security Team and certain adjustments were done to better manage an eventual related incident.

The BCM policy is in place for moving towards a better resilient framework to protect the interest of all stakeholders of the Bank. During the second wave of COVID-19 lockdown period, the Bank followed its BCM policy, the Government of Mauritius and World Health Organization protocols. The Bank also adapted our customer services among others, to be more geared towards technology, while maintaining our controls to run the Bank's operations. Furthermore, we applied strict sanitary measures and perpetuated our usual awareness campaign to keep our staffs informed about the evolving situation and kept employee welfare.



RISK MANAGEMENT REPORT

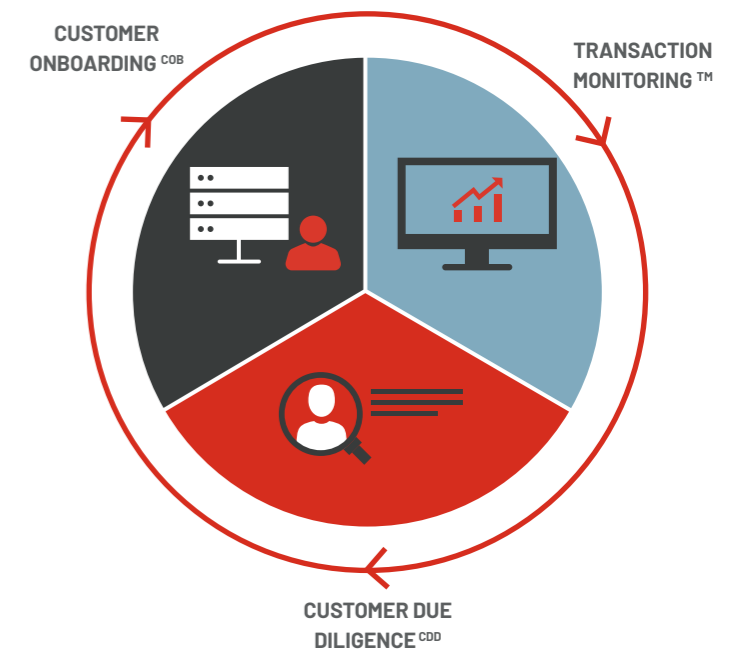
CUSTOMER RISK MANAGEMENT

Customer Risk is the risk associated to the Customer profile, product and services/transactions, channels, jurisdictions and segmentation among others. To better address and effectively manage ML and FT Risks, the AML Desk has been revamped and attached under the risk management arena.

The AML Desk, as a second line of defense, ensures that the Bank has adequate processes, systems and controls to render its services inaccessible to criminals, including money laundering and financial terrorism while tracking down suspicious activities.

The Bank is continuously enhancing its processes on a risk-based approach to tackle customer due diligence requirements, apply best practices for customer onboarding, leverage on tools and techniques to efficiently monitor transactions and detect any anomalies.

To perform its daily activities effectively, the Bank depends on in-house and external technology to ensure that customer risks are captured and mitigated accordingly.



RISK MANAGEMENT REPORT

COMPLIANCE

Internal control and risk mitigation measures are put in place and implemented to ensure compliance with the relevant laws, regulations and internal policies and procedures.

As per the Compliance Plan approved by the Board of Directors, Compliance reviews of department are conducted on a regular basis. Reports/findings are duly submitted to Senior Management, Audit Committee of the Board and the Board of Directors.

Moreover, the Compliance Function is responsible to provide assurance and advise the Management and staff of the Bank concerning Compliance and regulatory matters.

The Compliance function monitors and overviews the following:

Regulatory Compliance and Interaction

1. Review of Policies & Procedures of the Bank
2. Implementation of Corporate Governance
3. Liaison with Regulators and Authorities
4. Report Compliance issues
5. Ensure implementation of recommendations and regulatory changes
6. Compliance/Regulatory Advisories to Senior Management and Sales Departments

Monitoring and Testing

1. Monitoring – AML Software/ Transaction Monitoring
2. Compliance advisories
3. Compliance Control and Testing – conduct KYC checks and other checks
4. Replying to Request for Information from investigative/regulatory authorities
5. Investigation and reporting
6. Risk Based Supervision Reporting concerning AML/CFT

Financial Crime

1. Fraud identification, investigation and reporting
2. AML Training/Compliance workshop and circulation of regulatory changes
3. Financial Crime and Investigations of Suspicious Transactions
4. Review of transactions
5. File Suspicious Transactions
6. Swift Sanction Screening monitoring
7. Reply to queries from Correspondent banks
8. KYC/AML/Sanctions advisory to Sales team and AML team
9. Enterprise Wide Risk Assessment on AML/CFT

RISK MANAGEMENT REPORT



CLIMATE CHANGE AND ENVIRONMENTAL RISKS

According to The Global Risks Report 2021¹, climate action failure has been identified as one of the highest likelihood risks as well as one of the highest impact risks of the next decade. "Risks to financial stability from climate change can be divided into physical and transition risks. The value of financial assets/liabilities could be affected either by the actual or expected economic effects of a continuation in climate change (physical risks), or by an adjustment towards a low-carbon economy (transition risks)."² International communities have made an urgent call for actions in terms of climate change adaptation and mitigation both by the public and the private sectors.

In this vein, the Bank of Mauritius (BoM) joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)³, and will help build the framework for the management of environment and climate risks for the financial sector. Additionally, BoM will be working to facilitate the support for the transition towards a sustainable economy.

Supported by the SUNREF Program, AfrAsia Bank is also striving to work towards the Sustainable Development Goal (SDG) 13 – Climate Action. As a financial institution, we understand that we are well positioned to mobilise financing for climate friendly and environmentally friendly projects. Through the SUNREF Program and our partnership with the Agence Française de Développement, we, as a Bank, will be implementing an Environmental and Social Management System. Through the implementation of this system, we aim to apply policies, procedures, tools and develop internal capacity to identify and manage our exposure to the environmental and social risks of our credit portfolio. We are also increasingly providing sustainable financial alternatives to our clients through our various offerings: Green Car Loan, Istoxx Global Cities of Tomorrow Select 30, Blackrock ESG Multi-Asset Fund VT 8%.

¹http://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2021.pdf

²<https://www.bom.mu/media/media-releases/media-release-bank-mauritius-joins-network-central-banks-and-supervisors-greening-financial-system>

³<https://www.fsb.org/wp-content/uploads/P231120.pdf>



RISK MANAGEMENT REPORT

CAPITAL STRUCTURE AND ADEQUACY

AFRASIA BANK LIMITED	2021	2020	2019	
	MUR'000	MUR'000	MUR'000	
Common Equity Tier 1 capital: instruments and reserves				
Share Capital	3,641,049	3,641,049	3,641,049	
Statutory reserve	1,051,915	920,631	692,398	
Retained earnings	2,664,794	2,297,788	1,836,242	
Accumulated other comprehensive income and other disclosed reserves	251,890	198,526	108,365	
Common Equity Tier 1 capital before regulatory adjustments	7,609,648	7,057,994	6,278,054	
Common Equity Tier 1 capital: regulatory adjustments				
Other intangible assets	(288,679)	(269,914)	(243,398)	
Deferred Tax	(149,593)	(124,388)	(100,953)	
Total regulatory adjustments to Common Equity Tier 1 capital	(438,272)	(394,302)	(344,351)	
Common Equity Tier 1 capital (CET1)	7,171,376	6,663,692	5,933,703	
Additional Tier 1 capital: instruments				
Instruments issued by the Bank that meet the criteria for inclusion in Additional Tier 1 capital (not included in CET1)	1,365,601	1,323,265	1,323,552	
Additional Tier 1 capital (AT1)	1,365,601	1,323,265	1,323,552	
Tier 1 capital (T1 = CET1 + AT1)	8,536,977	7,986,957	7,257,255	
Tier 2 capital: instruments and provisions				
Provisions or loan-loss reserves (subject to a maximum of 1.25 percentage points of credit risk-weighted risk assets calculated under the standardised approach)	555,833	399,896	463,159	
Tier 2 capital (T2)	555,833	399,896	463,159	
Total Capital (capital base) (TC = T1 + T2)	9,092,810	8,386,853	7,720,414	
Risk weighted assets				
Credit Risk	51,055,154	49,912,135	43,810,049	
Market Risk	107,997	245,359	499,978	
Operational Risk	5,045,198	5,205,652	4,404,267	
Total risk weighted assets	56,208,349	55,363,146	48,714,294	
Capital ratios (as a percentage of risk weighted assets)				
	Regulatory Limits			
CET1 capital ratio	9.38%	12.76%	12.04%	12.18%
Tier 1 capital ratio	10.88%	15.19%	14.43%	14.90%
Total capital ratio	12.88%	16.18%	15.15%	15.85%

RECONCILIATION WITH AFRASIA BANK'S AUDITED FINANCIAL STATEMENTS

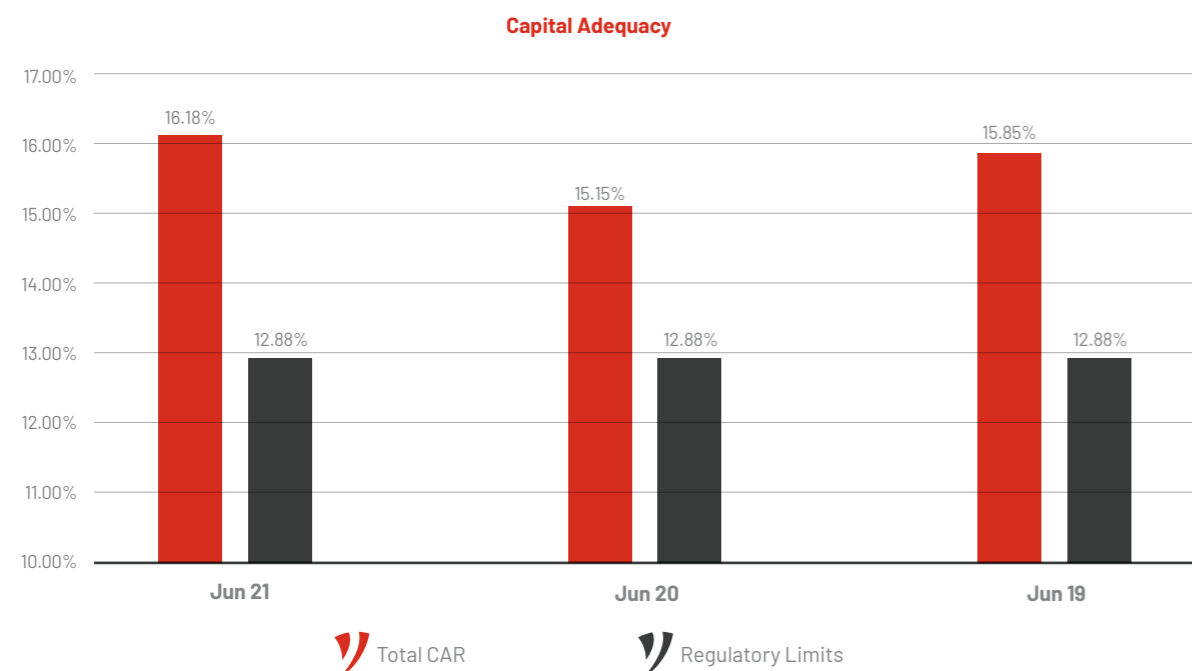
	30 June 2021	
	Statement of Financial Position as in published financial statements	Statement of Financial Position as per Basel III
ASSETS	MUR'000	MUR'000
Cash and cash equivalents	97,810,099	99,970,485
Due from banks	17,974,090	17,977,444
Derivative financial instruments	407,880	407,880
Loans and advances to banks	6,638,835	6,668,316
Loans and advances to customers	18,749,929	19,146,511
Investment securities	45,410,195	45,451,398
<i>Financial assets held for trading measured at fair value through profit or loss</i>	5,534,813	5,534,813
<i>Debt instruments measured at amortised cost</i>	39,859,873	39,901,076
<i>Equity Investments designated at fair value through other comprehensive income</i>	13,804	13,804
<i>Equity Investment measured at fair value through profit or loss</i>	1,705	1,705
Property and equipment	137,437	137,437
Intangible assets	288,679	288,679
Right of use assets	44,518	44,518
Deferred tax assets	149,593	149,593
Other assets	2,471,954	315,696
TOTAL ASSETS	190,083,209	190,557,957
LIABILITIES AND EQUITY		
Due to banks	1,000,122	1,000,122
Deposits from banks	364,726	364,726
Deposits from customers	178,846,558	178,846,558
Derivative financial instruments	210,392	210,392
Retirement benefit obligations	73,189	73,189
Current tax liabilities	85,647	85,647
Lease liabilities	47,658	47,658
Provisions	-	504,325
<i>of which: Provision reflected in regulatory capital</i>	-	504,325
Other liabilities	407,993	378,416
TOTAL LIABILITIES	181,036,285	181,511,033
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		
Ordinary Shares	3,641,049	3,641,049
<i>of which amount eligible for CET1</i>		3,641,049
Class A shares	1,385,768	1,385,768
<i>of which amount eligible for AT1</i>		1,385,601
Retained earnings	2,664,794	2,664,794
Other reserves	1,355,313	1,355,313
<i>of which: Provision reflected in regulatory capital</i>	-	51,508
TOTAL EQUITY	9,046,924	9,046,924
TOTAL LIABILITIES AND EQUITY	190,083,209	190,557,957

RISK MANAGEMENT REPORT

CAPITAL ADEQUACY RATIO

The capital adequacy ratios are computed in line with the "Guideline on Scope of Application of Basel III and Eligible Capital (June 2021)". The Bank of Mauritius (BoM), as part of its number of measures set to mitigate the effects of COVID-19 on the Banking sector, has deferred the implementation of the last tranche of the capital conservation buffer to April 2022. Additionally, in compliance with the "Guideline for dealing with Domestic-Systemically Important Banks ("D-SIB")", the Bank is subject to an additional buffer of 1.00% for the calendar year 2021, following the yearly assessment carried out by BOM.

The capital adequacy ratio of the Bank stood at 16.18% under Basel III as at end of June 2021, witnessing an increase of 103 basis points as compared to 15.15% as at end of the previous financial year. The Bank remains well capitalised with its capital adequacy ratio being above the regulatory limit of 12.88% for the calendar year 2021.

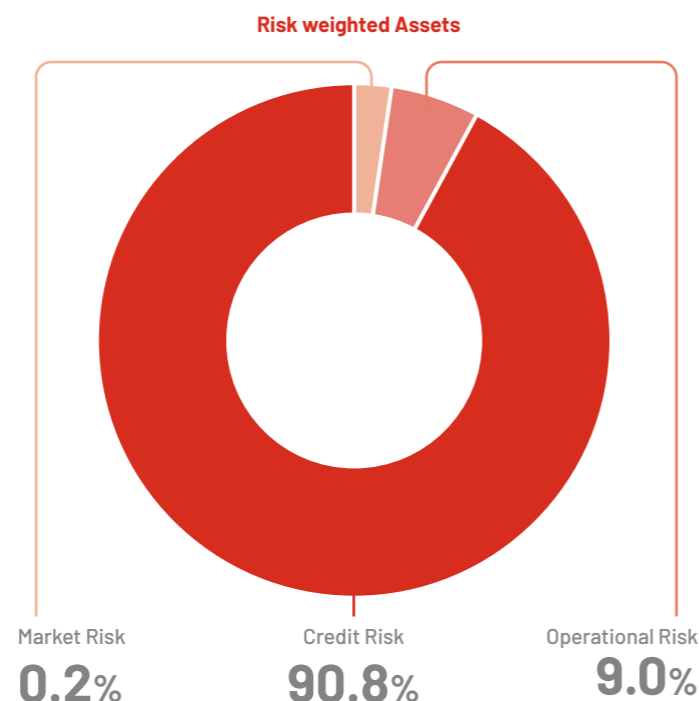


RISK WEIGHTED ASSETS

In order to determine the risk weightage for its exposures, the Bank uses the ratings assigned by Moody's Investors Service and Care Ratings. The risk weightages are calculated in accordance to the "Guideline on Standardised Approach to Credit Risk (Feb 2018)". As at end of June 2021, the total risk weighted assets for the Bank grew by 1.5% to reach MUR 56.2bn in comparison to MUR 55.4bn for the previous financial year owing to an increase in business activities.

Analysis by risk type:

- Credit Risk MUR 51.1bn
- Market Risk MUR 0.1bn
- Operational Risk MUR 5.0bn



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated and separate financial statements of the Group's and the Bank's operations in Mauritius presented in this annual report have been prepared by Management, which is responsible for their integrity, consistency, objectivity and reliability. International Financial Reporting Standards of the International Accounting Standards Board as well as the requirements of The Companies Act 2001 of Mauritius, The Banking Act 2004 (amended August 2021) and the guidelines issued by the Bank of Mauritius, have been applied in the preparation and fair presentation of the financial statements for the year ended 30 June 2021 and management has exercised its judgement and made best estimates where deemed necessary.

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

The Bank's Board of Directors, acting in part through the Audit Committee, Conduct Review Committee, Corporate Governance Committee, Credit Committee, Risk Committee and Technology, Digitalization and Platforms Committee, which comprise non-executive and independent directors, oversee management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

The Bank's Internal Auditors, who have full and free access to the Audit Committee, conduct a well-designed program of internal audits. In addition, the Bank's compliance function maintains policies, procedures and programs directed at ensuring compliance with regulatory requirements.

Pursuant to the provisions of The Banking Act 2004 (amended August 2021), the Bank of Mauritius makes such examination and inquiry into the operations and affairs of the Bank as it deems necessary.

The Bank's external auditors, Deloitte, have full and free access to the Board of Directors and its committees to discuss the audit and matters arising therefrom, such as their observations on the fairness of financial reporting and the adequacy of internal controls.

INDERJIT SINGH BEDI
Chairperson

THIERRY VALLET
Interim Chief Executive Officer

JOAN JILL WAN BOK NALE
Director

Date: 17 September 2021