2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

In the current year, the Group and the Bank have applied all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 01 July 2019.

New and revised Standards that are effective for the current year

The following relevant revised Standards have been applied in these financial statements. Except for IFRS 16, their application has not had any significant impact on the amounts reported for the current and prior periods but may affect the accounting treatment for future transactions or arrangements.

IAS 12	Income Taxes – Amendments resulting from Annual Improvements 2015-2017 Cycle (income tax consequences of dividends)
IAS 19	Employee Benefits – Amendments regarding plan amendments, curtailments or settlements
IFRS 3	Business Combinations – Amendments resulting from Annual Improvements 2015-2017 Cycle (remeasurement previously held interest)
IFRS 9	Financial Instruments – Amendments regarding pre-payment features with negative compensation and modifications of financial liabilities

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

New and revised Standards that are effective for the current year (Continued)

IFRS 16	Leases – Original issue
IFRIC 23	Uncertainty over Income Tax Treatments

Impact of initial application of IFRS 16 Leases

In the current year, the Group and the Bank have applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Group's and the Bank's financial statements is described below. The date of initial application of IFRS 16 for the Group and the Bank is 01 July 2019. The Group and the Bank have applied IFRS 16 using the cumulative catch-up approach (option 2B) which:

- requires the Group and the Bank to measure the right-of-use assets at amount equal to the lease liability at the date of initial application; and
- does not permit the restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

(a) Impact of the new definition of a lease

The Group and the Bank have made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or modified before 01 July 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group and the Bank applied the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or modified on or after 01 July 2019 (whether it is a lessor or a lessee in the lease contract). The new definition in IFRS 16 has not significantly changed the scope of contracts that meet the definition of a lease for the Group and the Bank.

(b) Impact on Lessee Accounting (former operating leases)

IFRS 16 changes how an entity accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16, for all leases (except as noted below), an entity:

(i) Recognise right-of-use assets and lease liabilities in the consolidated and separate statements of financial position, initially measured at the present value of the future lease payments, with the right-of-use adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);

(ii) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated and separate statements of profit or loss and other comprehensive income;

(iii) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated and separate statements of cash flows.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

New and revised Standards that are effective for the current year (Continued)

Impact of initial application of IFRS 16 Leases (Continued)

(b) Impact on Lessee Accounting (former operating leases) (Continued)

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36, Impairment of assets.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Group and the Bank have opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other operating expenses in profit or loss.

The Group and the Bank have used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

(i) The Group and the Bank have applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

(ii) The Group and the Bank have elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.

(iii) The Group and the Bank have excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

(iv) The Group and the Bank have used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change, the Group has reclassified certain of its operating sublease agreements as finance leases and accounted for them as new finance leases entered into at the date of initial application. As required by IFRS 9, an allowance for expected credit losses has been recognised on the finance lease receivables.

(d) Financial impact of the initial application of IFRS 16

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the statement of financial position on 01 July 2019 is 6.18%.

The following table shows the operating lease commitments disclosed applying IAS 17 at 30 June 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

New and revised Standards that are effective for the current year (Continued)

Impact of initial application of IFRS 16 Leases (Continued)

(d) Financial impact of the initial application of IFRS 16 (Continued)

	THE GROUP AND THE BANK
	MUR'000
Operating lease commitments at 30 June 2019	101,631
Effect of discounting the above amounts	(9,467)
Present value of the variable lease payments that depend on a rate or index	602
Lease liabilities recognised at 01 July 2019	92,766

The Group and the Bank have recognized MUR 93m of right-of-use assets and MUR 93m of lease liabilities upon transition to IFRS 16 with no impact on retained earnings at 01 July 2019.

New and revised Standards in issue but not yet effective

At the date of authorisation of these financial statements, the following relevant Standards were in issue but effective on annual periods beginning on or after the respective dates as indicated:

IAS 1	Presentation of Financial Statements – Amendments regarding the definition of material (effective 1 January 2020)
IAS 1	Presentation of Financial Statements – Amendments regarding the classification of liabilities (effective 1 January 2023)
IAS 1	Presentation of Financial Statements – Amendments to defer the effective date of the January 2020 amendments (effective 1 January 2023)
IAS 8	Accounting Policies, Change in Accounting Estimates and Errors – Amendments regarding the definition of material (effective 1 January 2020)
IAS 16	Property, Plant and Equipment – Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produces while the company is preparing the asset for its intended uses (effective 1 January 2022)
IAS 37	Provisions, Contingent Liabilities and Contingent Assets – Amendments regarding the costs to include when assessing whether a contract is onerous (effective 1 January 2022)
IFRS 3	Business Combinations – Amendments to clarify the definition of a business (effective 1 January 2020)
IFRS 3	Business Combinations – Amendments updating a reference to the Conceptual Framework (effective 1 January 2022)
IFRS 7	Financial Instruments: Disclosures – Amendments regarding pre-replacement issues in the context of the IBOR reform (effective date 1 January 2020)
IFRS 9	Financial Instruments – Amendments regarding pre-replacement issues in the context of the IBOR reform (effective date 1 January 2020)
IFRS 9	Financial Instruments – Amendments resulting from Annual Improvements to IFRS Standards 2018-2020 (fees in the '10 per cent' test for derecognition of financial liabilities) (effective date 1 January 2022)
IFRS 16	Leases – Amendment to provide lessees with an exemption from assessing whether a COVID-19-related concession is a lease modification (effective 1 June 2020)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2020

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

New and revised Standards in issue but not yet effective (Continued)

Conceptual Framework - Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regards to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework (effective 1 January 2020)

The directors anticipate that these Standards and Interpretations will be applied in the Group's and the Bank's financial statements at the above effective dates in future periods. The directors have not yet had the opportunity to consider the potential impact of the application of these amendments.