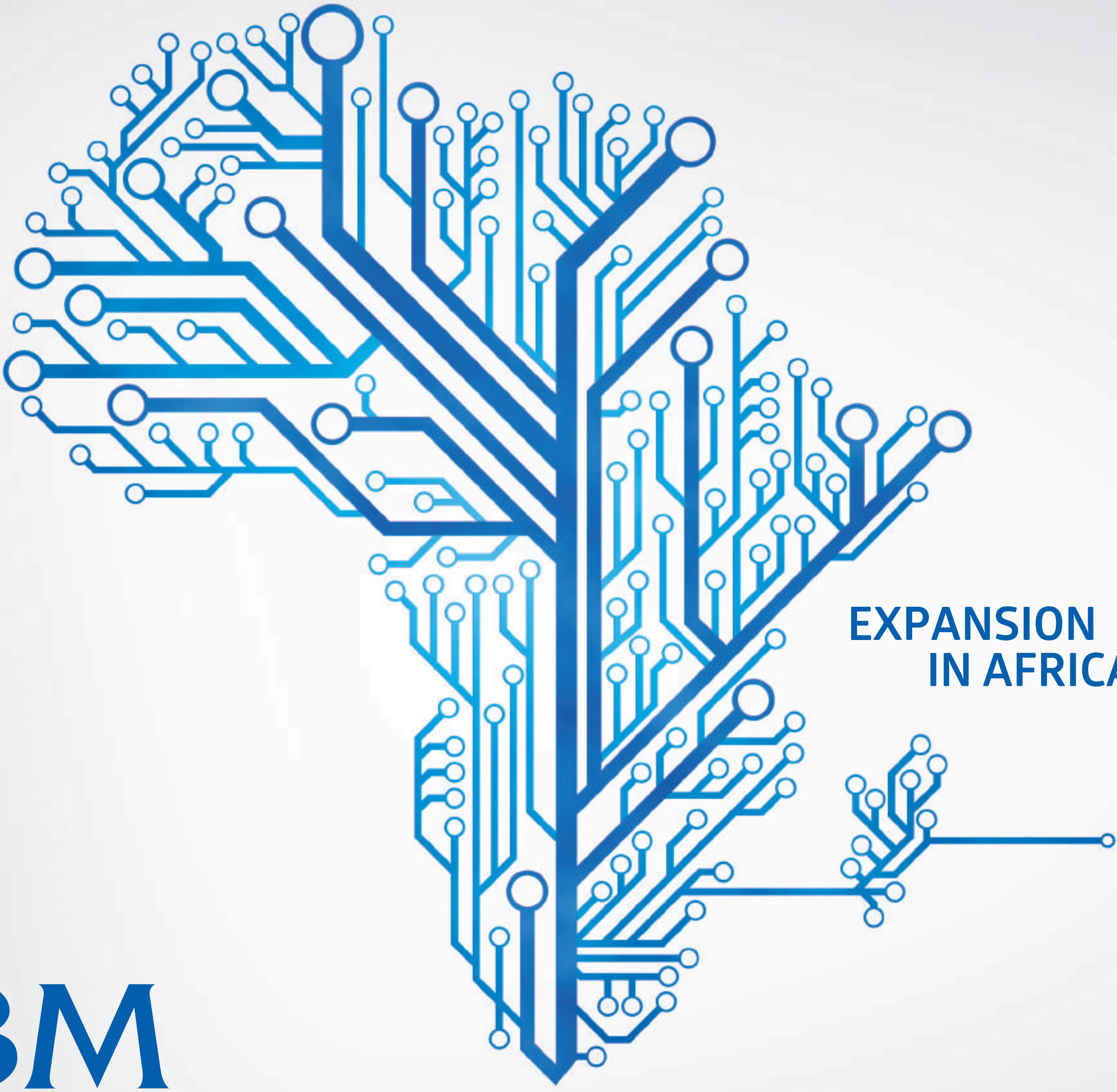
SBM BANK (MAURITIUS)LTD



EXPANSION
IN AFRICA

SBM

ANNUAL REPORT 2017

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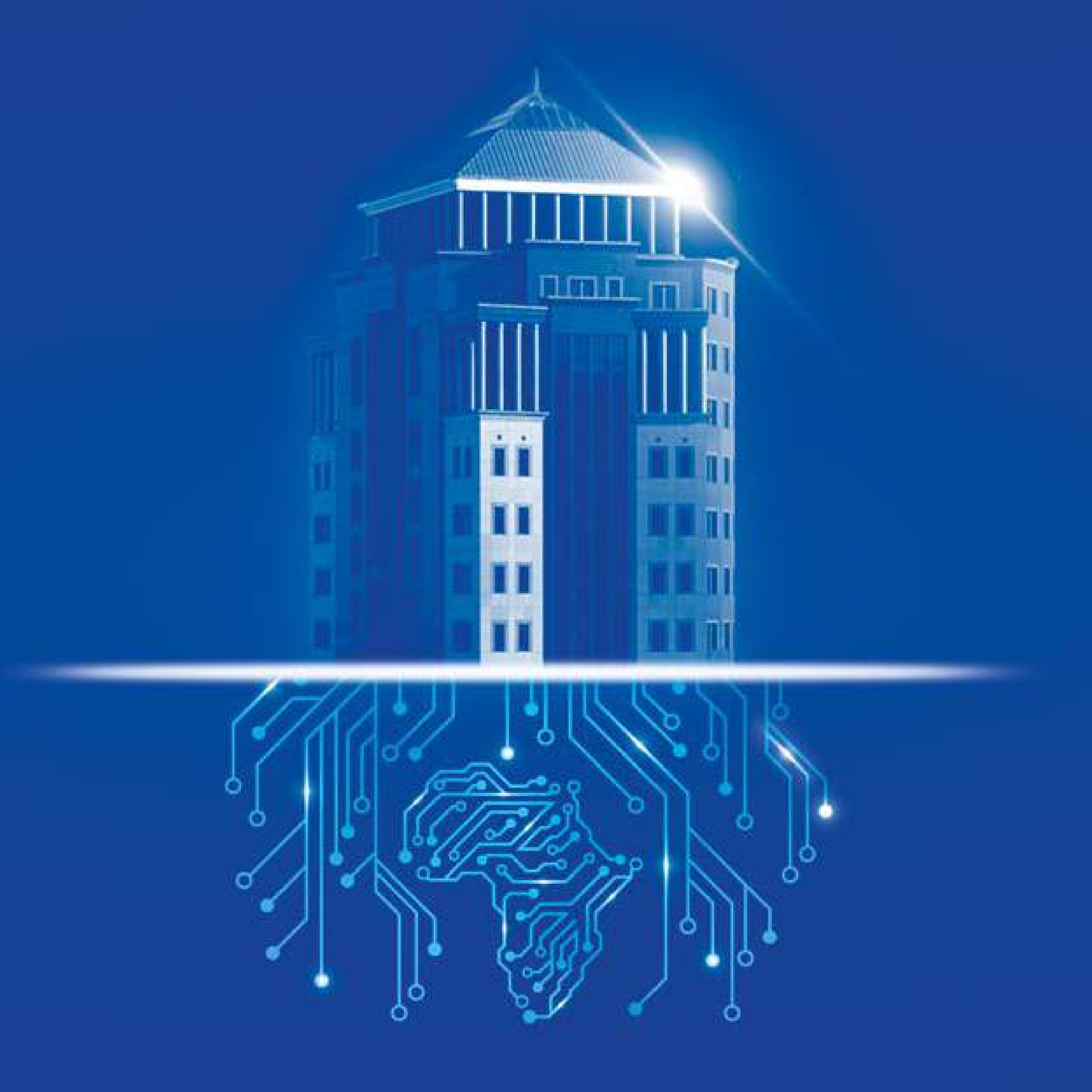


“OUR VISION IS TO BE THE LEADING AND MOST TRUSTED FINANCIAL SERVICES PROVIDER IN MAURITIUS AND BEYOND”

Corporate Information

DIRECTORS

Mr Nayen Koomar Ballah
Mr Philip Ah-Chuen
Mr Mahmadally Burkutoola
Mr Rajakrishna Chellapermal
Mr Raj Dussoye
Mr Ishwar Anoopum Gaya
Mr Rishikesh Hurdoyal
Mr Michel Moothoosamy
Mrs Veronique Lim Hoye Yee

SECRETARY

Mrs Manuela Permal
Ms Preshnee Ramchurn
SBM Tower
1,Queen Elizabeth II Avenue
Port Louis
Mauritius

REGISTERED OFFICE

SBM Bank (Mauritius) Ltd
SBM Tower
1 Queen Elizabeth II Avenue
Place D'Armes
Port Louis
Mauritius

AUDITORS

Ernst & Young
9th Floor, Tower 1
NeXTeracom
Cybercity
Ebene, Mauritius

Key Financial Highlights

	12 months December 2017	12 months December 2016	12 months December 2015	12 months December 2014	12 months December[a] 2013	18 months December 2013	12 months June 2012
Shareholder's equity (MUR m)	18,357	15,754	13,599	14,494	14,391	14,391	13,335
Capital adequacy ratio (%)	13.75	14.85	14.88	18.75	18.49	18.49	17.53
Tier 1 Capital adequacy ratio (%)	12.15	12.93	12.86	16.72	16.40	16.40	16.28
Profit before income tax (MUR m)	3,172	2,862	1,753	2,239	3,288	5,006	4,534
Profit for the year / period (MUR m)	2,611	2,209	1,345	1,589	2,729	4,136	3,972
Return on average assets (%)[a]	1.66	1.72	1.14	1.46	2.68	2.77	4.25
Return on average risk-weighted assets (%)[a]	2.70	2.82	1.85	2.27	3.86	4.05	6.40
Return on average shareholder's equity (%)[a]	15.31	15.05	9.57	11.01	19.29	19.84	29.40
Return on average Tier 1 capital (%)[a]	21.60	21.85	12.56	13.68	23.26	24.81	41.46
Credit deposit ratio (%)	73.58	69.44	69.31	75.75	87.07	87.07	83.68
Cost to income (%)	41.77	41.78	36.82	51.83	37.80	36.01	25.28
Gross impaired advances to gross advances (%)	3.20	6.53	5.05	2.11	1.96	1.96	0.92
Net impaired advances to net advances (%)	1.16	2.65	1.87	0.96	0.90	0.90	0.29
Electronic to gross transactions (%)	87	93	93	91	89	89	87

Note:
[a] Averages are calculated using year-end balances.

Chairman's Letter

Dear Valued Stakeholders

We are pleased to present the annual report of SBM Bank (Mauritius) Ltd ("SBM" or the "Bank") for the financial year ended 31 December 2017.

In the last few years, financial services companies around the world have experienced several different challenges. We are proud of our successful track record of balancing the interests of our stakeholders, including shareholders, customers, employees and the communities in which we live and work. In this jubilee year of our beloved country we are proud to say that we have played our part in building this nation.

In all aspects of the Bank's operations, our commitment to stakeholders extends far beyond taking deposits and providing credit facilities. We are full partners in making a positive impact in the lives of our customers, to the communities in which we operate and to our country.

We have made a commitment to conduct our business to the highest standard. To this end we have made a dedicated and concerted effort to become fully compliant to all aspects of the National Code of Corporate Governance for Mauritius ("the Code"). We may not have met all the aspects of all of the eight principles by year end but I am happy to report that as of the time of my writing this to you we have obtained full compliance. We do not simply want to be a good bank, we want to be the bank for the people, that is of the highest global standard and we will not rest until we achieve this goal.

As you continue to read this report I would like to thank my fellow Board members, the Chief Executive and all the wonderful people in the bank who continue to work tirelessly and with great dedication towards the success of our Bank.

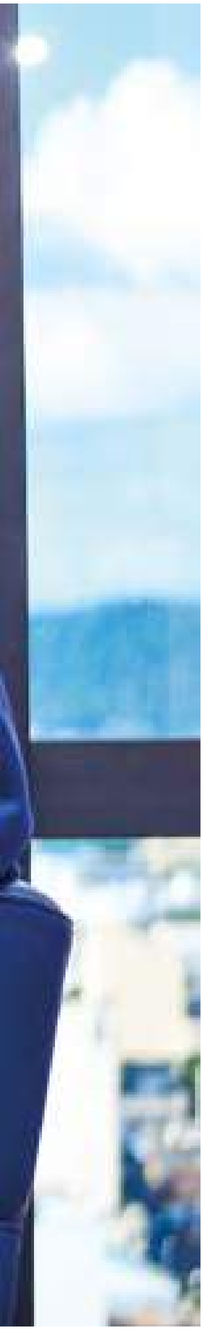
Sincerely,

Mr N.K Ballah, *G.O.S.K*
Chairman

Nayen Koomar Ballah, *G.O.S.K*
Chairman

Letter of the CEO

Raj Dussoye
Chief Executive



Dear Customers and Valued Partners

It is my pleasure to write to you in this forty fifth year of operation of the Bank which marks also the 50th anniversary of Independence of Mauritius. We were established in 1973 to be a bank for the Mauritian people and we continue to be a bank focussed on serving you as our fellow citizens.

2017 was a productive year for SBM and I look forward to sharing with you on the financial performance, performance against strategy and the important steps we are taking to make this bank even better. Before we get into those details I would like to share a few highlights from this past year.

Regional and international presence

Over the past year, we met with many of our shareholders, customers, key stakeholders and employees around the world. These interactions made it clear that the Bank is widely viewed as having a strong position with excellent prospects for growth. Our strategy is clear and well understood. Our customers appreciate the knowledge, expertise and commitment of our people. And there is great pride in being the national bank of our beloved Mauritius and also around the globe.

Our commitment to stakeholders

We are proud of our successful track record of balancing the interests of our stakeholders, including shareholders, customers, employees and the communities in which we live and work.

We have built a solid reputation of integrity, trust, and ethical behaviour in all of our businesses. This strong foundation allows us to prudently lend to individuals as well as businesses of all sizes. By doing so, we create jobs, drive economic opportunity and, more critically, assist our customers to be financially stronger.

In all aspects of the Bank's operations, our commitment to stakeholders extends far beyond our various product offerings. We are full partners and we are committed to having a positive impact in the communities in which we live and work. The Bank employs nearly one thousand and five hundred highly trained and dedicated people. Our branches that are nationwide ensure that we have a positive impact on all the communities that we serve. We are anchored into the DNA of our nation.

> "Profit after tax for the year ended 31 December 2017 increased to MUR **2,611 million**"

At SBM we are committed to sustainable business practices, to our environmental footprint and to good corporate governance. Where we have the opportunity, the Bank takes a leadership position on important social issues such as the support for education, development of sport and the support of small and medium term enterprise. Our staff members have been personally involved in community enrichment initiatives through our employee volunteering schemes whereby they devoted their time and energy to support the society with the support of the bank.

FY 2017 has been a very challenging yet rewarding year for SBM Bank in various areas. SBM remains a strong financial institution in the Mauritian landscape with 43 branches including counters nationwide.

Despite difficult operating conditions marked by persisting excess liquidity, the performance of the Bank improved in 2017 as compared to the previous year. Operating income increased by 16.21 percent from MUR 6,146 million in 2016 to MUR 7,143 million. Profit after tax for the year ended 31 December 2017 increased to MUR 2,611 million compared to MUR 2,209 million for previous year. This represents an increase of 18.23 percent compared to the financial year 2016. The higher profits were mainly driven by higher interest income from Segment B loans and advances, higher gains in trading income and dealings in financial instruments mitigated by slightly higher credit impairment charges and a full year amortisation of the software following going live of IT systems in September 2016, and higher personal costs.

Letter of the CEO (cont'd)

Cost to income ratio stood at 41.77 percent for the year ended 31 December 2017 (2016: 41.78 percent).

Deposits from banks and non-bank customers increased by MUR 31,422 million or 28.30 percent to reach MUR 142,436 million as at December 2017 from MUR 111,014 million at 31 December 2016. This increase was from a mix of both low cost savings and current accounts and foreign currency term deposits.

The Bank's total assets grew by MUR 45,593 million or 34.00 percent, from MUR 134,091 million as at 31 December 2016 to reach MUR 179,684 million at 31 December 2017, mainly on account of an increase in net loans and advances of MUR 29,681 million or 41.71 percent, investment securities of MUR 2,740 million and loans and placements with banks of MUR 4,250 million.

The shareholder's equity stood at MUR 18,357 million as at 31 December 2017 (2016: MUR 15,754 million). The capital adequacy ratio (CAR) and Tier 1 capital to risk weighted assets ratio reached 13.75 percent and 12.15 percent respectively, as at 31 December 2017. Both ratios were above the minimum regulatory requirement including the Domestic-Systemically Important Banks (D-SIBs).

Operational achievements

I am very proud of our achievements in daily operations. In the Operations Centre ,we employ 226 key staff who work tirelessly to making banking faster, easier and more efficient. The figures below relate to transactions processed daily at Operations Centre, endorsing our dedication to serve our customers.

1. Over 13,000 cheques processed daily
2. Over 20,000 domestic Bank transfers daily
3. Over 1,500 international Bank transfers daily
4. Over 147,000 daily Transactions across our network of 119 ATMs and over 1,900 transactions on Non- SBM ATMs.
5. Over 21,250 POS transactions across our network of 4890 POS and around 1.2 million monthly POS transactions
6. Over 71,000 Standing orders / Direct Debits processed daily mainly for utility bills payment, TV Subscriptions payment, school fees, insurance payment.

Creating long term shareholder value

In 2017, we set out to focus on those areas that will have the greatest impact and drive long-term value creation for our shareholders. We refer to these areas as our three focus priorities:

1. *Being more focused on our customers.* Last year we worked towards the setup of SBM Microfinance which started operations in January 2018. We will target a specific business segment – micro enterprises with annual turnover not exceeding MUR 2million, and entertain requests from individual borrowers or group of borrowers for Microfinance credit facilities ranging from MUR 15K to MUR 600K.

   SBM is also the first bank to introduce an innovative concept in the field of microfinance – the Joint Liability Group Financing Model, highly successful in India, whereby credit facilities will be provided to group of 3 potential borrowers, on the same terms and conditions, and each will act as guarantor for the others. We are currently carrying out a pilot testing of our microfinance offering. We have set up dedicated SME desks in key regions within our SBM branches: Rose Hill, Quatre Bornes, Curepipe, Central Flacq, Triolet, Goodlands, Vacoas and Rose Belle.

2. *Enhancing our employee capabilities, deployment and diversity.* We have set up our Training Academy to provide opportunities for our staff to upgrade their skills and develop their career path to bring SBM to newer heights.

3. *Increased engagement.* We conducted an employee survey to gauge the level of employee engagement to help understand how staff feel about working at SBM. Feedback has been taken into consideration in our HR strategy for 2018 so as to improve employees' experience with SBM. These include amongst others, doing away with jobs on contractual basis in a phased manner, better recognition and financial rewards and providing clear career paths.

Awards

SBM Bank (Mauritius) Ltd was awarded the 'Best Retail Bank – Mauritius' Award by the Banker Africa Magazine in May 2017. This yearly award by the Banker Africa magazine aims to reward excellence and best practices in the African banking and financial industry.

Economic outlook

In 2017, we expected to benefit from our cohesive operating model, which is designed to mitigate the impact of volatility in any one market. Even though we have faced heightened competition we continue to strive for the best outlook for all our stakeholders.

The implementation of major public infrastructure projects, as well as an expected uptick in private sector investment, should provide some support to credit offtake in 2018. In parallel, planned initiatives by the Bank of

Mauritius to absorb excess liquidity should help uphold margins. The Bank is well positioned to take advantage of opportunities arising in the external environment, and sustain its market share in the domestic market with focus on improved service quality. At the same time, the Bank expects to continue to develop its international business, expand its private wealth activities and exploit cross-selling opportunities within the Group.

Regulatory framework

The financial services industry has been subject to increased regulation over the past several years, and we are optimistic that we are on top of any changes in IFRS standards and governance and regulatory changes. We are optimistic that new reporting requirements will make our processes and operations more transparent and therefore more robust.

Continuing to build on a strong foundation

The Bank has a great foundation to continue to build from: we have a strong culture; we have a shared pride in our performance, we have a successful history and our footprint is unique. Throughout the Bank, employees place great value on working together and they share a genuine desire to serve our customers. We are confident that our strategy is sound. By executing our strategy well, and making meaningful progress against our focus priorities, the Bank will be in a good position to perform within the ranges of our medium-term performance objectives and create longer-term shareholder value.

Thanks

In closing, I would like to thank our valued customers for their business and the continued trust they place in the Bank. It is a privilege for us to serve our customers well. I also want to thank our shareholders and the Board of Directors for their confidence and valuable support. And finally, I want to recognize all staff who daily assist our customers in building their future. Together, our future is exceedingly bright.

Raj Dussoye
Chief Executive

Board of **Directors**

Ishwar Anoopum Gaya

Raj Dussoye

Veronique Lim Hoye Yee

Rishikesh Hurdoyal

Philip Ah-Chuen

Nayen Koomar Ballah

Rajakrishna Chellapermal

Michel Moothoosamy

Mahmadally Burkutoola

The Board of Directors

Board Focus Areas

The Board's main focus areas during the Financial Year ended 31 December 2017 were:

Strategy	· Reviewed and approved the strategic plans and appraised the performance of the company against key performance indicators
Finance	· Reviewed and approved the operating budget of the Bank · Reviewed the Audit Report and approved audited financial statements · Approved declaration of dividend · Reviewed the reports from Internal Audit and Fraud Risk
Governance & Risk	· Established new Board Committees · Reviewed and Approved the Board and Committee Charters · Discussed on the National Code of Corporate Governance for Mauritius and adoption of same in the Company · Reviewed and approved the policies of the Bank · Reviewed the related party transactions on a quarterly basis · Approved the recruitment of Senior Officers and the Man Power Plan
Other recurrent items	· Took note of reports from the Chairman of Committees · Took note of the developments within the operating environment

The Board of Directors comprises of 7 Non-Executive Directors and 2 Executive Directors including the Chief Executive Officer.

The Directors who served on the Board during the Financial Year 2017 are provided below:

Members	Date of Appointment	Category
Mr Nayen Koomar Ballah, G.O.S.K.	June 2015	Non-Executive Director Chairman of the Board and Chairman of the Remuneration & Nomination Committee and Strategy Committee
Mr Philip Ah-Chuen	June 2015	Independent Director & Chairman of the Corporate Governance & Conduct Review Committee
Mr Chandradev Appadoo	December 2011 *Ceased to be a director on 04.12.2017*	Executive Director
Mr Mahmadally Burkutoola	June 2015	Independent Director & Chairman of Board Credit Committee
Mr Rajakrishna Chellapermal	June 2015	Independent Director & Chairman of Risk Management Committee
Mr Raj Dussoye	August 2016	Chief Executive and Executive Director
Mr Ishwar Anoopum Gaya	June 2016	Independent Director & Chairman of Audit Committee
Mr Rishikesh Hurdoyal	June 2015	Independent Director & Chairman of Procurement Committee
Mr Michel Arnaud Moothoosamy	June 2017	Independent Director & Chairman of Finance Committee
Mrs Veronique Lim Hoye Yee	February 2018	Executive Director

Profile of the Board of Directors:

Chairman of the Board and Chairman of the Remuneration & Nomination Committee and Strategy Committee

Mr Ballah has made it his life's priority to serve the people of the Republic of Mauritius. He is currently serving as Secretary to Cabinet and Head of the Civil Service - Prime Minister's Office, a position he holds since September 2016. As Chairman of the Board, Mr Ballah brings with him almost forty years of working experience, most of which has been as a public servant. He has held many leadership positions spanning several ministries in government and is known for his level headed thinking, trust worthiness and hard work ethics.

He was recently awarded the title of Grand Officer of the Star and Key of the Indian Ocean by the President of Mauritius.

Besides his position of Chairman of the Bank, Mr Ballah is also a Chairperson/Director on the following boards:
Mauritius Revenue Authority – Chairperson
Air Mauritius Ltd – Director
Mauritius Telecom Ltd – Chairperson
Mauritius Duty Free Paradise Ltd – Director
Multi Carrier (Mauritius) Ltd - Chairperson

Mr Philip Ah-Chuen

Chairman of the Corporate Governance & Conduct Review Committee

Mr Ah-Chuen holds a Master's degree in Industrial Administration from Aston University, UK. He is the executive director of Allied Motors Co. Ltd and a non-executive director of Chue Wing and Company Ltd. Mr Ah-Chuen has spent most of his professional career supporting and guiding education and upliftment initiatives in Mauritius and Rodrigues and is known for his uncompromising ethics and his humility.

His experience in business has proved invaluable to the board as has his knowledge of corporate governance and ethics. He was appointed as Commissioner of the Public Service Commission by the President in November 2015.

Mr Mahmadally Burkutoola

Chairman of the Board Credit Committee

Mr Burkutoola is an Associate of the Institute of Chartered Secretaries and Administrators ('ACIS'). He is currently working as a Management Consultant and Project Manager. He started his career as a Semi Senior Auditor with Deloitte Kemp Chatteris and moved through various areas in the financial, banking, insurance, ICT/ BPO, quality assurance, logistics, and aviation sectors; he has occupied senior positions abroad and locally.

Mr Burkutoola is passionate about customer service and the systems and processes needed to ensure that the customer experience is ever evolving. He is known for his systematic and dedicated work ethic.

Mr Rajakrishna Chellapermal

Chairman of Risk Management Committee

Mr Chellapermal has a career that spans both the public and the private sector where he has occupied top executive posts. In the private sector, he has served as the Trade Promotion Officer at the Mauritius Chamber of Commerce and Industry and senior Marketing Manager at the Mauritius Freeport Development. In the public sector, he has served as Deputy Director General and Director General of the Mauritius Freeport Authority, a free trade zone and logistics platform, where he was instrumental in its creation. He was also Director at the Board of Investment, with responsibility for the Freeport and logistics sector.

Mr Chellapermal is a regular consultant of the International Finance Corporation (IFC) of the World Bank Group. His assignments embrace a whole range of investment climate projects in Africa namely the setting up of Investment Promotion Agencies as well as capacity building related to trade and investment promotions.

Mr Chellapermal is committed to the sustained growth and development of the bank whilst upholding the highest ethical standards.

Profile of the Board of Directors (cont'd)

Mr Raj Dussoye

Chief Executive

Mr Dussoye is an experienced and seasoned banker with broad based experience from start-ups, running existing operations and carrying turn-around. Strategic thinker with focused execution capabilities, he has accumulated over thirty-six years of experience in the financial sector since his qualification in banking and his admission to the Association of Chartered Bankers in the UK.

Mr Dussoye has been an integral part of SBM over the years and although he left the bank for a few years whilst improving his skills, knowledge and expertise, he returned to SBM in August 2016.

Mr Dussoye is valued for his strong strategic thinking skills and depth of industry knowledge.

Mr Ishwar Anoopum Gaya

Chairman of Audit Committee

Mr Gaya has degrees in Economics and Optometry and is an independent director of the Board. Known for his structured, logical approach, Mr Gaya uses his skills and knowledge to weigh up matters concerning the bank very carefully.

Highly ethical and serious, Mr Gaya has enjoyed a successful career in the private sector which gives him a unique perspective of small to medium business owners in Mauritius. He has served as a director on a number of boards over the years that span a variety of industries. He is a valuable member of the board.

Mr Rishikesh Hurdoyal

Chairman of Procurement Committee

Mr Hurdoyal is a practising Barrister at Law. He has been admitted to the Bar both here and in the UK and is a very energetic independent director. He uses his skills and knowledge in the legal field to advise the board on legal matters where they arise.

Highly focussed and very discerning Mr Hurdoyal has proved himself to be a valuable member of the board. He has good knowledge of civil, criminal, public, bankruptcy, and administrative law, as well as a solid understanding of contracts, government regulations and corporate law.

Mr Michel Arnaud Moothoosamy

Chairman of Finance Committee

Mr Moothoosamy is an independent director with a strong background in the finance sector. He is a Fellow of the International Institute for Book Keepers and has over twenty-five years of experience. Having held various positions in the Small and Medium Industry Development, Mr Moothoosamy has a strong focus on both sustainability and capturing the future markets that would be the customers of tomorrow.

Mr Moothoosamy has served as the President of the SME Federation and has represented Mauritius in many different global forums for small to medium sized business and in youth development. He is highly optimistic about the future of the Bank and Mauritius.

Mrs Veronique Lim Hoye Yee

Mrs Lim Hoye Yee started her banking career at SBM Bank (Mauritius) Ltd as Senior Officer in Credit Underwriting in 2001. Subsequently, she has held positions of increasing responsibilities within the bank over a span of 11 years, including Head of Credit Underwriting, Head of Intensive Care and Research, Head of Risk Management and Head of Credit Administration.

In August 2012, she took the position of Head of Credit Underwriting and Risk at ABC Banking Corporation Ltd where she played an instrumental role in setting up the risk management framework and implementing risk management practices before returning to SBM Bank (Mauritius) Ltd in September 2016 as Head of Credit Risk Team.

Mrs Veronique Lim Hoye Yee holds a Bsc (Hons) in Economics and Accounting from University of Bristol, UK, MSc in Economics and Finance from University of Bristol, UK and CFA Charterholder from CFA Institute, US. She has been appointed as executive director of SBM Bank (Mauritius) Ltd on 22 February 2018.

Strategy

The board has worked very hard in the last year with the senior management team to derive a strategy in line with the overall strategic orientations of the Group that will enhance shareholder value and ensure sustainability.

We have successfully implemented a series of strategic initiatives that have contributed to the consolidation and diversification of our business, and to an improvement in the conditions of our employees.

One of our key objectives for 2017 was to digitalize our services with a view to providing a quicker and more convenient channel. Although much remains to be done, notable progress has been achieved in 2017.

Improved our customer experience through digitalization:

- Launch of Mobile Banking application
- Online Loan application
- Signature Pad – a device that allows the bank to go on a complete paperless mode with respect to customer requests such as account opening or changes to their existing accounts among others. SBM is the first banking institution in Mauritius which has launched this new technology
- eStatement initiative
- Strategic partnership with AliPay – we are the first bank to partner with the leader of digital financial services and lifestyle platform Alipay, which is operated by Ant Financial Services, a sister company of Alibaba
- Launch of SBM Now - a key value proposition that fulfils our customers' expectation for excellent service quality
- Launch of LoungeKey program for our Platinum Credit Cardholders - a card-based airport lounge program with over 650 lounges worldwide
- Launch of the Group's new website in October 2017 offering a holistic overview of our activities and services.

We made steady progress towards building the Bank of the future and enhancing our customer offering.

Overall, we have made good progress in 2017 and we start 2018 in a better position than we have been for several years.

Financial review

Caution regarding forward-looking statements

Within this report, SBM Bank (Mauritius) Ltd (the Bank) has made various forward-looking statements with respect to its financial position, business strategy and objectives of management. Such forward-looking statements are identified by the use of words such as 'expects', 'estimates', 'anticipates', 'believes', 'intends', 'plans', ' forecasts', 'projects' or words or phrases of a similar nature.

By their nature, forward-looking statements require the Bank to make assumptions and are subject to inherent risks and uncertainties. There is a significant risk that predictions and other forward-looking statements may not prove to be accurate. Readers of this report are thus cautioned not to place undue reliance on forward-looking statements as a number of factors could cause future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed therein.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to interest rate and currency value fluctuations, local and global industry, economic and political conditions, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Bank operates, as well as management actions and technological changes. The foregoing list of factors is not exhaustive and when relying on forward looking statements to make decisions with respect to the Bank, investors and other parties should carefully consider these factors, as well as the inherent uncertainty of forward-looking statements and other uncertainties and potential events. The Bank does not undertake to update any forward-looking statement that may be made, from time to time, by the organisation or on its behalf.

Results

Profit after tax for the year under review amounted to MUR 2.61 billion, representing an increase of 18.23 percent compared to 2016.

Revenue Growth

The main revenue streams are (i) Net Interest Income (Interest Income less Interest Expense), (ii) Non-Interest Income or fee income comprising mainly fees and commission, income from card business and exchange income and (iii) trading income representing gain on sale of securities and gain on dealings in financial instruments. Total revenue or operating income for 2017 registered a growth of 16.21 percent to reach MUR 7.14 billion compared to MUR 6.15 billion in 2016, representing an overall increase of MUR 996 million. All the revenue verticals witnessed satisfactory growth as described below.

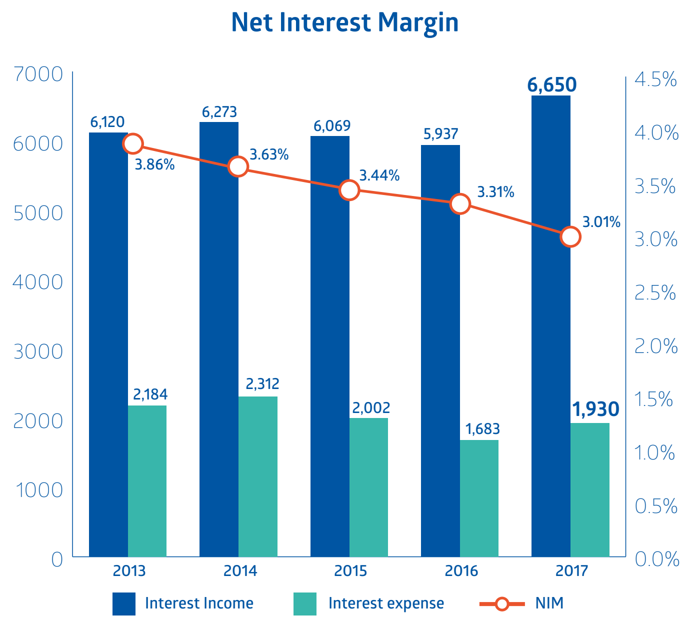
Net Interest Income

The economic conditions have continued to remain subdued during 2017. The excess liquidity in the domestic banking system made it very challenging to grow the loan book and to increase interest income thereon. The Bank focused more on Segment B business to increase its loan portfolio thereby maintaining a reasonable growth in the interest income. Segment B advances grew from MUR 14.45 billion in 2016 to reach MUR 35.41 billion in 2017 explaining mainly the increase in interest income from MUR 5.94 billion in 2016 to MUR 6.65 billion in 2017 representing an increase of 12 percent. The excess liquidity in the market resulted in higher growth in deposits impacting credit to deposit ratio which stood at 74 percent for 2017. The Bank has therefore been investing the surplus funds in gilt-edged securities, foreign bonds and short term placements with foreign banks. These are lower interest earning assets. However, the average yield on the portfolio of investments for 2017 increased minimally to 4.11 percent compared to 3.81 percent in 2016.

The Bank has been able to properly manage its liabilities through lower cost Savings and Current Account deposits (CASA) which accounted for 78.07 percent of total deposits at 31 December 2017 (2016: 84.81 percent).

Interest income over average earning assets decreased from 5.15 percent in 2016 to 4.67 percent in 2017 mainly explained by drop in the Bank's PLR from 6.25 percent to 5.85 percent in November 2017. The impact was partly compensated by higher volumes of advances and investment securities. The loans and advances portfolio only started growing in the second half of the financial year, thereby explaining a lower interest income earned in this financial year as compared to the growth in earning assets. Interest expense increased by MUR 246.52 million from MUR 1.68 billion in 2016 to MUR 1.93 billion in 2017 mainly attributable to the growth in deposit book. The average cost of deposit fell from 1.52 percent in 2016 to 1.43 percent in 2017.

The above combined effect resulted in a decrease in the net interest margin to 3.01 percent for the year ended 31 December 2017 compared to 3.31 percent for the year 2016.



Non-Interest Income

Non-interest income witnessed an increase from MUR 1.89 billion for the year ended 31 December 2016 to MUR 2.42 billion for the year ended 31 December 2017, or 28.02 percent. The growth was driven by profit on sale of investment securities, notably treasury bills/notes and foreign bonds and through dealings in financial assets. The table below shows the main components of the Bank's non-interest income.

	Year	Year		
	Dec-17	Dec-16	Variance	
	MUR' million	MUR' million	MUR' million	%
Foreign exchange gain	**455.67**	498.18	(42.51)	(8.53)
Net fee and commission income	**684.92**	543.21	141.71	26.09
Card income including e-commerce income	**313.52**	429.54	(116.02)	(27.01)
Gain on sale of investment securities	**968.41**	417.24	551.17	132.10
Others	**-**	4.2	(4.20)	(100.00)
Total	**2,422.52**	1,892.37	530.15	28.02

The two key drivers in the growth of the non-interest income are (i) New financial instruments proposed by our Treasury Team leading to an increase in the trading gain by MUR 544.54 million and (ii) an increase in dealings in gilt-edged securities, the Bank being one of the four primary dealers in Mauritius.

E-commerce and card income experienced a decrease of 27.01 percent against last year as a result of risk measures and controls put in place.

Net fee and commission income increased by MUR 141.71 million in line with Segment B loans disbursed during the year.

The ratio of non-interest income to average assets stood at 1.54 percent for 2017 against 1.47 percent for 2016. Non-interest income as a percentage of gross revenue was 33.92 percent for 2017 against 30.79 percent for 2016.

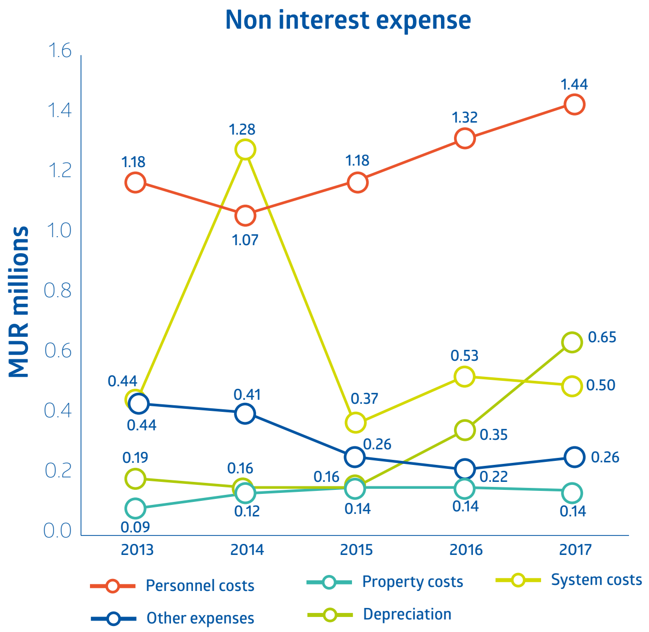
Financial review (cont'd)

Non-Interest Expense

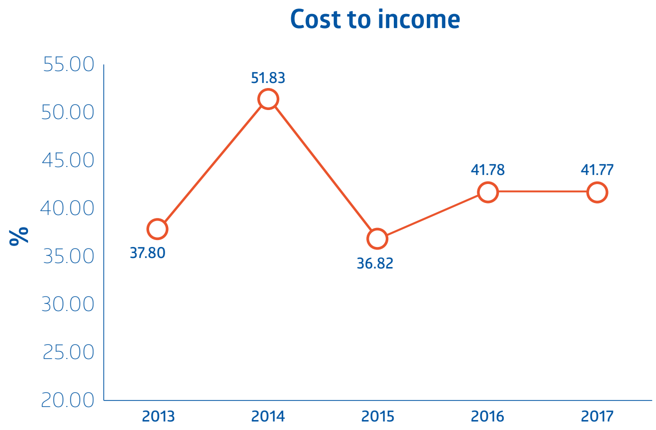
Non-interest expense amounted to MUR 2.98 billion for the year 2017 compared to MUR 2.57 billion for 2016, an increase of 16.18 percent. This increase was mainly due to a whole year amortisation of the Technology Transformation Platform as compared to 2016 when the amortisation was only for a period of 3 months. Personnel costs also increased due to revision in salary and increase in staff force. The Bank has also been converting employees on contract of determinate duration (CDD) to contract of indeterminate duration (CID), leading to additional costs.

The table below shows the components of operating expenses.

	Year	Year		
	Dec-17	Dec-16	Variance	
	MUR million	MUR million	MUR' million	% change
Personnel costs	**1,435.18**	1,323.37	111.81	8.45
Property costs (including depreciation)	**225.74**	231.41	(5.67)	(2.45)
System costs (including depreciation and amortisation)	**1,061.77**	789.10	272.67	34.55
Other expenses	**260.90**	224.29	36.61	16.32
Total	**2,983.59**	2,568.17	415.42	16.18



Cost to income ratio computed as non-interest expenses over operating income stood at 41.77 percent in 2017 compared to 41.78 percent in 2016. The significant increase in gains on financial instruments helped to mitigate the increase in personnel and system costs.



Net impairment loss on financial assets

Net credit impairment loss amounted to MUR 987.26 million for the year ended 31 December 2017 against MUR 716.74 million for the year 2016. Credit impairment was mainly on account of the Indian Operations. Furthermore, with an increase in the loan portfolio, a charge of MUR 237.34 million was booked in respect of portfolio provisioning. Specific provision was made principally in the books of Indian Operations while provisioning in the Mauritius books was contained.

Loans and advances

Gross advances increased by MUR 29.05 billion or 38.63 percent to reach MUR 104.26 billion as at 31 December 2017. The increase was largely contributed by growth in our international banking/segment B portfolio of clients. Our domestic advances market share increased from 21.94 percent as at 31 December 2016 to 23.39 percent as at 31 December 2017.

Advances at our overseas operations grew from MUR 3.32 billion in 2016 to MUR 6.62 billion in 2017. Advances denominated in foreign currency increased to 45.23 percent at 31 December 2017 compared to 30.62 percent at 31 December 2016. A breakdown of the credit portfolio by economic sectors and level of provisions held has been disclosed in Note 8 to the Financial Statements.

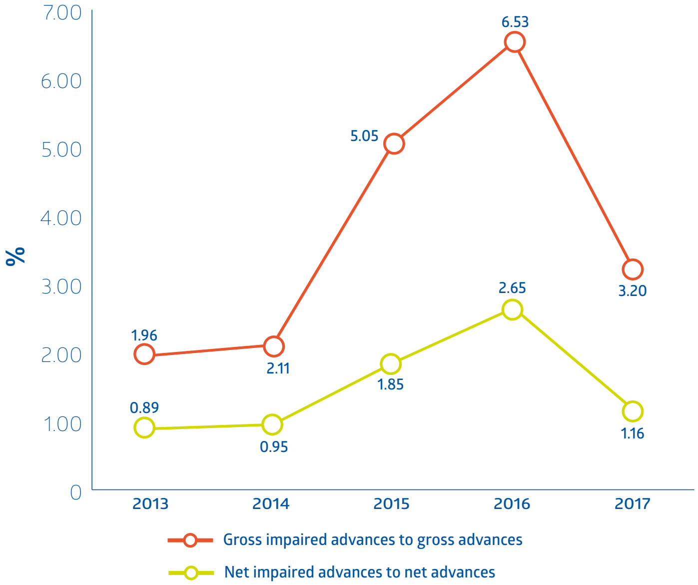
Credit Quality

Impaired advances stood at MUR 3.33 billion, lower by MUR 1.58 billion compared to 31 December 2016. The overseas operations accounted for 27.83 percent of the total impaired advances. Specific impairment charges have decreased from MUR 3.03 billion as at 31 December 2016 to MUR 2.16 billion as at 31 December 2017, representing provision coverage ratio of 64.77 percent, against 61.60 percent at 31 December 2016. The uncovered portion is adequately covered by collateral, suitably discounted to reflect prevailing market conditions and expected time of recovery.

The ratio of gross impaired advances to gross advances stood at 3.20 percent at 31 December 2017 compared to 6.53 percent as at 31 December 2016. The amelioration is mainly explained by write offs of few impaired loans during this financial year accompanied by an increase in loans disbursed during the year.

Net impairment ratio improved from 2.65 percent in 2016 to 1.16 percent in 2017.

Non interest expense



Investment Securities and Placements

Given the excess market liquidity and lower credit take off in the domestic market, funds were invested in fixed income gilt-edged securities, foreign bank bonds, corporate bonds and short term placements with banks. Investment securities increased by MUR 2.74 billion or 7.96 percent to reach MUR 37.15 billion as at 31 December 2017. The average yield on the investment securities portfolio for the current year was lower at 4.11 percent against 3.81 percent for the year 2016. The Bank has focused more on foreign bonds and corporate bonds to obtain a higher interest income. As for the gilt-edged securities, being a primary dealer for the Bank of Mauritius (BOM), the Bank has been able to trade the treasury bills and bonds issued by the BOM at competitive rates thereby increasing its profits.

Financial review (cont'd)

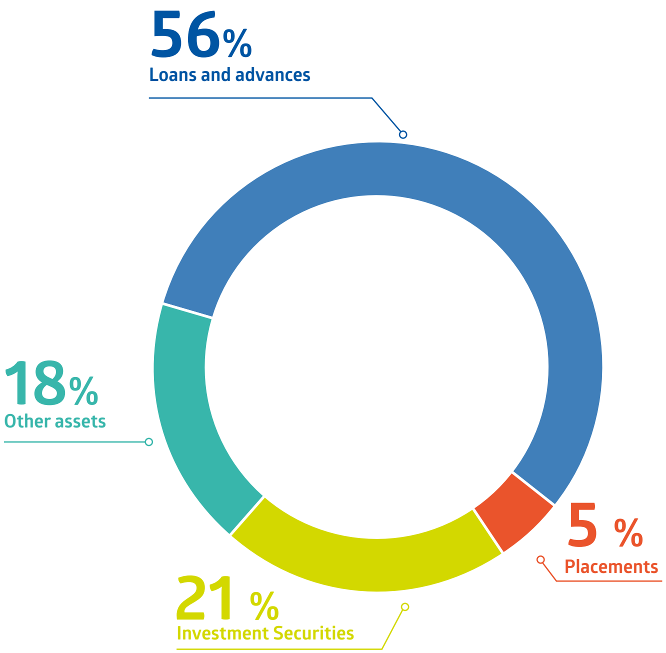
As at 31 December 2017, financial assets classified as held-for-trading investment securities stood at MUR 6.68 billion (2016: Nil). This represents mainly the investments in gilt edged securities earmarked to be traded on the primary market.

Furthermore, the Bank doubled its investments in short term loans and placements with other banks. Loans and placements with banks amounted to MUR 8.90 billion as at 31 December 2017 compared to MUR 4.65 billion as at 31 December 2016. These were funds awaiting deployment into higher yield advances.

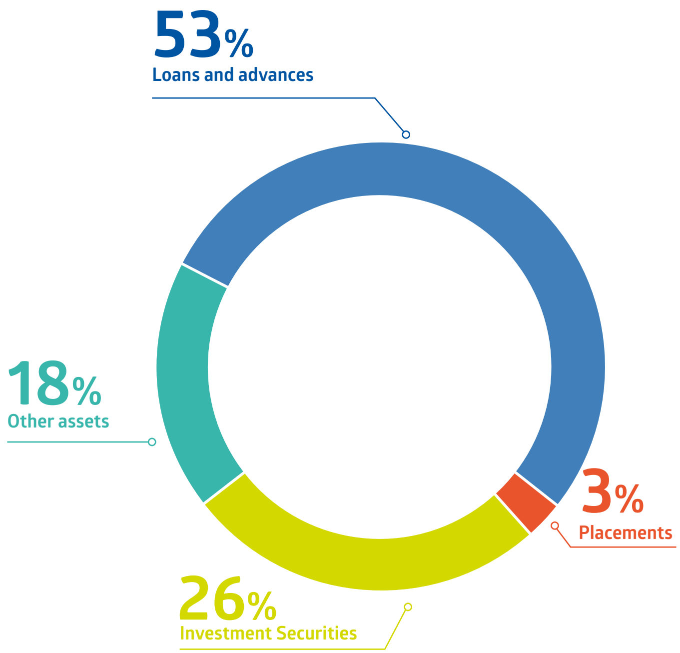
Other Assets

Other assets increased by MUR 323.14 million mainly explained by an increase in accounts receivable by MUR 332.13 million mitigated by a fall in tax paid in advance by MUR 30.38 million. The increase in accounts receivable is explained by bad debt recoverable from a single group of customer.

Assets Mix 2017



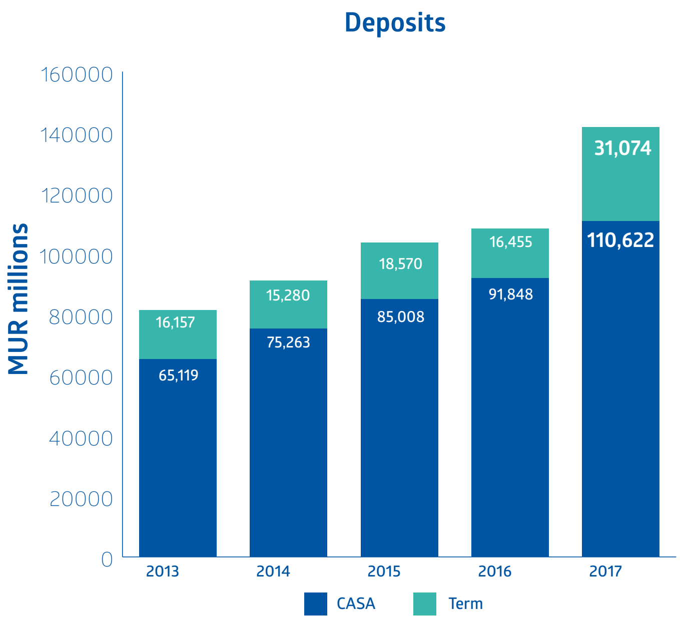
Assets Mix 2016



Deposits and Borrowings

Total deposits from non-bank customers increased by 30.83 percent from MUR 108.3 billion as at 31 December 2016 to reach MUR 141.70 billion as at 31 December 2017. The growth was driven by an increase in CASA by MUR 18.77 billion and also by an increase in term deposits by MUR 14.62 billion. CASA deposits accounted for 78.07 percent of total deposits as at 31 December 2017 (2016: 84.81 percent).

The growth in term deposits is explained by an increase in FCY term deposits from MUR 16.45 billion to MUR 31.07 billion over the same period.



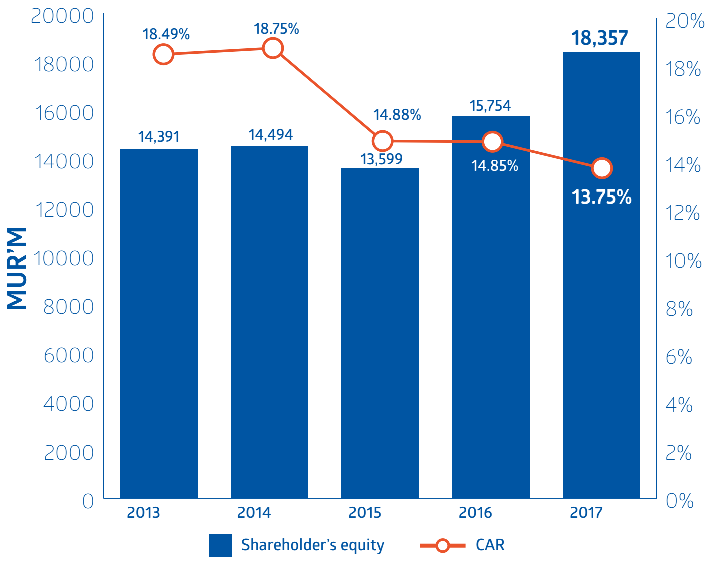
Other Borrowed Funds

Other borrowed funds increased by MUR 8.58 billion to reach MUR 13.12 billion as at 31 December 2017. The bulk of the borrowings were in USD and Euro from foreign financial/development institutions at competitive pricing. These borrowings are mainly used to finance certain specific loans disbursed by the Bank.

Shareholder's Fund

Shareholder's fund increased by 16.52 percent from MUR 15.75 billion at 31 December 2016 to reach MUR 18.36 billion at 31 December 2017 mainly explained by a capital injection of MUR 1.0 billion made by the holding company in the last quarter of the financial year 2017 and a profit of MUR 2.61 billion recorded during this year mitigated by dividend distribution of MUR 1.0 billion. Return on average shareholder's equity stood at 15.31 percent at 31 December 2017 compared to 15.05 percent at 31 December 2016 due to higher profits for the year under review. The Bank maintained adequate capitalisation levels, including capital adequacy ratio of 13.75 percent, with Common Equity Tier 1 capital (CET1) making 12.15 percent.

Refer to the Capital Management section for more details.



Financial review (cont'd)

Performance 2017 against objectives - SBM Bank (Mauritius) Ltd

Indicator	Target for 2017	Perfomance 2017
Return on Average Assets	With the implementation of a series of initiatives, the Bank is projecting an improvement in its ROA which should attain at least 2% for 2017.	Whereas the growth in average assets was in line with expectations, at 22.06%, PAT growth was well below target – albeit remaining appreciable at 18.23% - due to a few unforeseen events. These include higher than expected impairment charge and lower credit margins than earlier anticipated. As a result, ROA for 2017 stood at 1.66%.
Return on Average Equity	Return on Average equity is expected to increase in the coming years, with a minimum of 18% for 2017.	Return on average equity improved from 15.05% in 2016 to 15.31% in 2017, but was below the target level, in line with the lower projected PAT growth.
Operating Income (Excluding Dividend)	The Bank is projecting a 2 digit growth rate in net interest income for 2017 with more focus on asset management and targeted increase in loan book, more specifically from Global business. Likewise, the Bank foresees a growth of at least 25% in non-interest income with anticipated increase in loan portfolio coupled with targeted increase in income from Treasury Products.	The Bank achieved a year-on-year growth of 16.21% in Operating income driven by an uplift of 10.96% (MUR 466 million) in net interest income compared to 2016 with substantial growth in business volumes. In addition, non interest income (excluding dividend) increased by 28.02% or MUR 530 million mostly driven by higher income from Treasury products. Fee-based income also went up appreciably, following growth in business volumes.
Operating Expense	Operating expenses is expected to grow by at least 25% for 2017 with amortisation of the full fledged new information technology platform and also as the Bank continues its investment in capacity building.	Operating expenses rose by 16.18% as per expectation with the full year amortisation of the new information technology platform and continued investment in capacity building resulting in a rise of 8.45% in personnel expenses.
Advances	Considering the Mauritian economy is expected to grow around 4%, the Bank is targeting an increase of at least 10% in its rupee loan portfolio while more focus will be laid on growing the Overseas / Segment B portfolio with a double digit growth rate.	The Bank registered a growth of 38.63% (MUR 29,050 million) in gross advances compared to December 2016 with growth mostly emanating from its Cross Border / Segment B porfolio. Moreover, the Domestic segment also did fairly well with a year-on-year growth of 13.32% and further growth in market share.
Deposits	The focus will be on growing low cost deposits, especially in foreign currency, to fund the targeted growth in loan portfolio. MUR deposits is expected to grow by at least 12%	Deposits from non-bank customers grew by 30.83% or MUR 33,393 million compared to December 2016 mainly in low cost deposits. Foreign currency deposits increased by 48.44% while MUR deposits grew by 21.27%.
Assets Quality	Net impaired ratio is expected to fall below 2% with targeted growth in advances.	Net impaired ratio improved to 1.16% from 2.65% as at December 2016 with significant growth in advances and write off of loans made during the year.
Cost to Income Ratio	A slight improvement in the cost to income ratio is expected for 2017 turning around 40% with targeted growth in Operating Income outpacing growth in operating expenses. CI ratio projected to go furhter down thereafter as the Bank reaps the full benefit of its investment in system and capacity building.	Cost to income ratio stood at 41.77% for 2017, with growth in operating income faintly outpacing growth in operating expense in 2017.

Objectives 2018 - SBM Bank (Mauritius) Ltd (Mauritius Operations)

Indicator	Target for 2018
Return on Average Assets (ROA)	To keep ROA for 2018 to atleast 1.90%.
Return on Average Equity	To achieve a minimum of 16% in 2018.
Operating Income (excluding Dividend)	To grow by at least 25% in 2018 driven by increased business volumes which will help to strengthen net interest income as well as fee based income.
Operating Expense	Operating expenses likely to grow further in 2018 in line with the expansion plan and also as the Bank continues to invest in capacity building.
Cost to Income ratio	The CI ratio in 2018 to be contained below 40%.
Net profit for the year	Growth of at least 5%
Advances	A double digit growth in advances with a smooth growth in MUR loan portfolio and more focus in growing the cross border loan portfolio.
Deposits	A moderate increase in MUR deposits is projected in line with the current low interest rate environment and higher growth in Foreign currency deposit base to fund the fast growing FCY assets book.
Assets Quality	Net impairment ratio expected to be below 1.5%.

The table above does not take into consideration the performance of the Indian Operation which is in process of becoming a wholly owned subsidiary of SBM Holdings Ltd.

“ALL ORGANISATIONS SHOULD BE HEADED BY AN EFFECTIVE BOARD.

RESPONSIBILITIES AND ACCOUNTABILITIES WITHIN THE ORGANISATION SHOULD BE CLEARLY IDENTIFIED.”

CORPORATE GOVERNANCE REPORT

- Principle One – Governance Structure
- Principle Two – The Structure of the Board and its Committees
- Principle Three – Directors Appointment Procedures
- Principle Four – Directors Duties, Remuneration and Performance
- Principle Five – Risk Governance and Internal Control
- Principle Six – Reporting with Integrity
- Principle Seven – Audit
- Principle Eight – Relations with Shareholders and Other Key Stakeholders

Corporate Governance Report

Dear Shareholders and Valued Partners,

I am extremely delighted to present to you this report on Corporate Governance for financial year 2017.

The Board of SBM is a Board of skilled, knowledgeable and experienced professionals carefully selected to be highly effective in the governance of the Bank. It assumes full responsibility for leading and controlling the organisation and for meeting, to the best of its knowledge, all requirements laid down by law in the Republic of Mauritius.

As a public interest entity, the Board of Directors has made a concerted effort to be an example and to become full adopters of the new National Code of Corporate Governance in its belief that good governance is not simply a matter of compliance but also a lever for growth and sustainability. The Board has followed the guidance notes to the Code closely and has paid careful attention to each principle found therein. The Board of SBM has sought to be as transparent and complete as possible in its disclosures and in its reporting. All Board policies and documents are reviewed by the Corporate Governance & Conduct Review Committee on an annual basis.

I wish to thank the members of the Board, the Company Secretary and the staff for their work and commitment this year towards excellence in Corporate Governance.

On behalf of the Committee,

Philip Ah-Chuen

Chairman

Corporate Governance & Conduct Review Committee

Corporate Governance Report (cont'd)

Principle One – Governance Structure

The Board takes its fiduciary responsibilities very carefully. Each director is appointed with the understanding of the amount of time and care that they will need to devote to the Board and to the organisation in order for it to prosper.

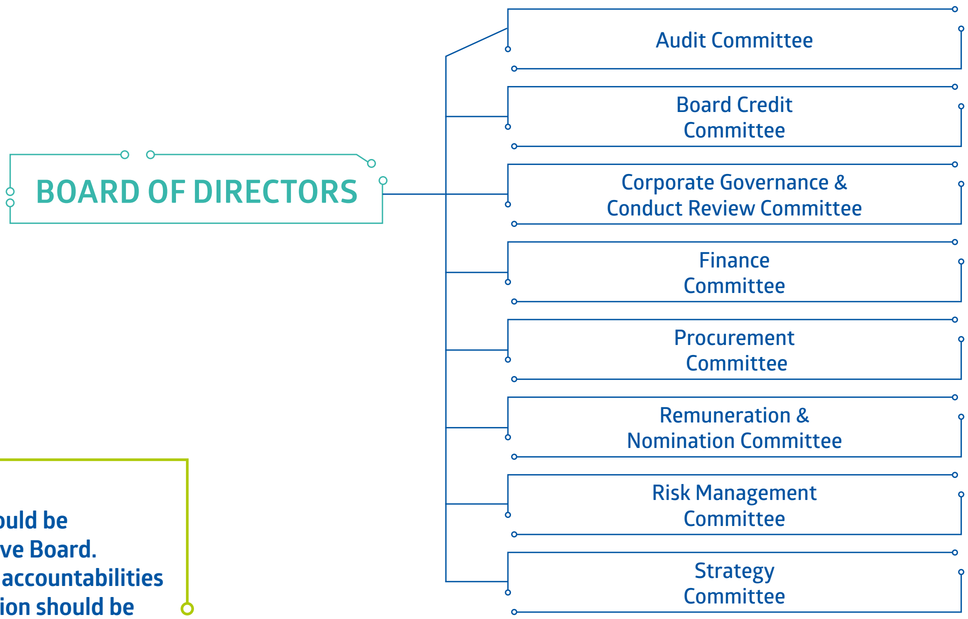
SBM Bank (Mauritius) Ltd is led by a unitary Board, which is collectively accountable and responsible for leading and controlling the Bank. The Board assumes its responsibility for meeting all legal and regulatory requirements of the Bank.

The following key governance documents are available on the company website:

- Code of Ethics
- Board Charter
- Organisation chart

These documents have been drafted with the skills, knowledge and expertise of the Board who have not only been fully involved but have unanimously approved these important documents and seek to adhere to them.

Board Structure



All organisations should be headed by an effective Board. Responsibilities and accountabilities within the organisation should be clearly identified.

Key Governance Responsibilities

The Board takes particular note of the following key governance positions which are critical to the Board performing against its strategy and achieving a high level of good governance. The Board has approved job description for key governance positions:

Chairman of the Board

The position of the Chairman of the Board is to hold as key responsibilities the following:

- The Chair of the Board of Directors provides leadership to the Board to ensure it functions effectively. The Board believes that it is in the best interests of all stakeholders for the Board to have the flexibility to determine the appropriate individual to serve as Chair of the Board;
- Plan the Board's annual schedule of meetings and agendas, in consultation with the Chief Executive, Company Secretary and other directors as appropriate;
- Coordinate with the Company Secretary to ensure that the Board receives the appropriate quantity and quality of information in a timely manner to enable it to make informed decisions;
- Chair all meetings of the Board and ensure that meetings are conducted efficiently and effectively;
- Call special meetings, where required;
- Facilitate full and candid Board discussions, ensure all directors exercise their skills, knowledge and expertise on key Board matters and assist the Board in achieving a consensus;
- Develop teamwork and a cohesive Board culture and facilitate formal and informal communication with and among directors;
- Help ensure that action items established by the Board are tracked and appropriate follow-up action is taken as necessary;
- Make recommendations to the Remuneration & Nomination Committee as to Committee membership and Committee Chairs, for approval by the Board;
- Work with committee chairs to ensure that each committee functions effectively and keeps the Board apprised of actions taken;
- Chair annual and special meetings of shareholders;
- Collaborate with the Remuneration & Nomination Committee in identifying and recruiting new Board members;
- Collaborate with the Remuneration & Nomination Committee on the performance and structure of the Board of Directors and its committees, including the performance of individual directors;
- Ensure that an annual Board evaluation exercise is carried out; and
- Maintain a close working relationship with the Chief Executive Officer and any other key senior staff.

Chief Executive

The Chief Executive (CE) is responsible for leading the development and execution of the Bank's long term strategy with a view to creating shareholder value. As per the Bank of Mauritius Guideline on Corporate Governance, the CE's leadership role also entails being ultimately responsible for all day-to-day management decisions and for implementing the Bank's long and short term plans. The CE acts as a direct liaison between the Board and management of the Bank and communicates to the Board on behalf of management. The CE also communicates on behalf of the Bank to shareholders, employees, Government authorities, other stakeholders and the public.

The position of the CE is to hold as key responsibilities the following:

- to lead, in conjunction with the Board, the development of the Bank's strategy;
- to lead and oversee the implementation of the Bank's long and short term plans in accordance with its strategy;
- to ensure the Bank is appropriately organized and staffed and to have the authority to hire and terminate staff as necessary to enable it to achieve the approved strategy;
- to ensure that expenditures of the Bank are within the authorised annual budget of the Bank;
- to assess the principal risks of the Bank and to ensure that these risks are being monitored and managed;
- to ensure effective internal controls and management information systems are in place;
- to ensure that the Bank has appropriate systems to enable it to conduct its activities both lawfully and ethically;
- to ensure that the Bank maintains high standards of corporate citizenship and social responsibility wherever it does business;
- to act as a liaison between management and the Board;
- to communicate effectively with shareholders, employees, Government authorities, other stakeholders and the public;
- to keep abreast of all material undertakings and activities of the Bank and all material external factors affecting the Bank and to ensure that processes and systems are in place to ensure that the CE and management of the Bank are adequately informed;
- to ensure that the Directors are properly informed and that sufficient information is provided to the Board to enable the Directors to form appropriate judgments;
- to ensure the integrity of all public disclosure by the Bank;
- in concert with the Chairman and Company Secretary, to develop Board agendas;
- to request that special meetings of the Board be called when appropriate;

Corporate Governance Report (cont'd)

- in concert with the Chairman and Company Secretary, to determine the date, time and location of the annual meeting of shareholders and to develop the agenda for the meeting;
- to sit on some committees of the Board where appropriate as determined by the Board; and
- to abide by specific internally established control systems and authorities, to lead by example and encourage all employees to conduct their activities in accordance with all applicable laws and the Bank's standards and policies, including its Environmental, Social, and Health & Safety policies.

Chairman of the Risk Management Committee

The Chair of the Risk Management Committee works in close co-operation with, and provides support and advice to the Chairman of the Board. He has the following additional responsibilities:

- To provide risk expertise to the Risk Management Committee;
- To ensure compliance with the terms of the regulatory framework in Mauritius to act for the Risk Management Committee;
- To chair the Risk Management Committee;
- To guide and advise the Board in the approval of an appropriate risk management framework;
- To ensure that an update report of each Risk Management Committee meeting is presented to the Board; and
- To ensure that appropriate risk management training for Directors and senior management is available and effective.

Chairman of the Corporate Governance & Conduct Review Committee

The Chair of the Corporate Governance & Conduct Review Committee works in close co-operation with, and provides support and advice to, the Chairman of the Board. He has the following additional responsibilities:

- To provide expertise in the areas of corporate governance and ethical conduct;
- To ensure the Board is up to standard with global and national good governance standards;
- To ensure that the policies around conduct and ethical standards are regularly upheld and transparently adhered to by the Board and Senior Management;
- To ensure that an update of each Corporate Governance & Conduct Review Committee meeting is presented to the Board;
- To ensure that the Board receives regular and ongoing training and development;
- To oversee the production of the Bank's annual report each year; and
- To ensure that an evaluation of the Board is carried out each year and that the recommendations from that evaluation are implemented.

Chairman of the Board Credit Committee

The Chair of the Corporate Board Credit Committee ('BCC') works in close co-operation with, and provides support and advice to the Chief Executive and to the Chairman of the Board. He has the following additional responsibilities:

- To gain assurance from Senior Management that the Bank's Credit Risk Policy & Procedures are implemented and applied consistently across all business units;
- With the other members of the committee, review and approve credit applications which have been submitted to BCC for consideration as required by the escalation criteria under the Bank's Credit Risk Policy;
- To lead the committee with regards to the review and approval of all facilities exceeding the delegated authority of the Bank's Management Credit Forum ("MCF") as set out in the Bank's Credit Risk Policy;
- With the Committee review and approve the restructure/ reschedulement of credit facilities in accordance with the Bank's Credit Risk Policy;
- To ensure that concentrations of risks are within the risk tolerance of the Bank; and
- To ensure that an update of each Board Credit Committee meeting is presented to the Board.

Other Key Governance Positions

Head of Finance

Reporting to the CE, the Head of Finance has the following responsibilities:

- Proactively manage cash flows in a leveraged environment;
- Manage financial capital; communicate capital requirements/ implications of business decisions to CE, merchandisers and Board;
- Conduct meaningful proactive analysis to improve key business decisions focusing on management of working capital;
- Grow equity value – increase gross profit and reduce debt;
- Ensure efficient capital expenditures and minimises taxes;
- With direction from the Board, to define the financial strategy;
- Provide useful financial insights to help make better decisions about formulating and executing business strategy;
- Establish internal control processes required to manage and grow the business;
- Anticipate and correct problems in advance;
- Drive the annual budget process and the monthly reporting;
- Effectively lead the finance / accounting team by hiring and retaining top-grade talent;
- Develop and coach existing team and proactively replace underperformers as needed;
- Develop and implement a risk management policy;
- Ensure controls are in place to manage commodity positions and trading;
- Develop processes and disciplines around monitoring and assessing risk in positions;
- Expand financial reporting systems to determine daily and weekly gross profit estimates;
- Drive effective internal and external communication interactions;
- Effectively manage sponsor, bank, Board of director and financial advisor relationships;
- Structure, negotiate, and finalize purchase agreements; and
- Lead systems integration efforts.

Head of Human Resources

Reporting to the CE, the Head of Human Resource has the following responsibilities:

- Assist the CE in providing leadership and direction for the Bank and its employees regarding personnel matters by managing a comprehensive human resource administration including recruitment, employment, and retention services, benefits management and counselling, salary administration and job evaluation, training and development, records management, departmental budgeting, labour and employee relations, succession planning, and human resource information systems;
- Coordinate with functional leads within Human Resources (HR) to ensure efficient and effective collaboration to effectively support the organisation's various initiatives;
- Ensure consistent and equitable application of personnel policies and government regulations throughout the organisation by helping to advise senior managers about the applicable policies and regulations and enforcing the labour rules and regulations of the Organisation;
- Counsel employees and supervisors regarding disciplinary and grievance procedures by providing information on personnel policies and regulations, recommending a plan of action, and resolving misunderstandings;
- Develop and recommends personnel policies, practices, and procedures for approval by the CE and Board by determining causes of personnel concerns, reviewing and analysing reports and surveys, applicable regulations, professional literature, and statistical data concerning all aspects of personnel administration;
- Review and analyse data to evaluate the effectiveness of existing HR processes and recommends improvements or actions as appropriate;
- Contribute to the enhancement of the quality of the work environment within the Bank by advising and leading the implementation of various programmes and managing complex projects;
- Design and develop new HR processes to improve the efficiency of HR operations and administration and recommend new approaches/ procedures to effect continual improvement of operations performed;
- Promote a positive image of the Bank by participating in community organisations, as well as national, state and local professional associations;
- Promote effective employer-employee relations with bargaining unit employees by helping to provide direction on contract interpretations and participating in labour negotiations and grievance resolutions with relevant labour representatives and unions;
- Assist in managing the HR budget;
- Contribute to a work environment that encourages knowledge of, respect for, and development of skills to engage with those of other cultures or backgrounds;
- Remain competent and current on best Human Resources practices through self-directed professional reading, developing professional contacts with colleagues, attending professional development courses, and attending training and/or courses as directed by the CE; and
- Contribute to the overall success of the Bank by performing all other duties and responsibilities as assigned.

Corporate Governance Report (cont'd)

Our Senior Management Team

Mr Raj Dussoye

Chief Executive

Skills and Experience

Mr Dussoye joined as Chief Executive, Banking and executive director of SBM Bank (Mauritius) Ltd on 16 August 2016. Mr Dussoye is a seasoned banker with 36 years of banking experience including 26 years spent at SBM. He has a broad based experience spanning from Retail, Corporate, International and Private Banking. He has been the CEO of Bank One Limited and a Consultant at AXYS Group Ltd. He holds an MBA from the Heriot Watt University Edinburg and is an Associate of the Chartered Institute of Bankers, UK.

Mrs Veronique Lim Hoye Yee

Head of Credit **Risk Team**

Skills and Experience

Mrs Lim Hoye Yee started her banking career at SBM Bank (Mauritius) Ltd as Senior Officer in Credit Underwriting in 2001. Subsequently, she has held positions of increasing responsibilities within the bank over a span of 11 years, including Head of Credit Underwriting, Head of Intensive Care and Research, Head of Risk Management and Head of Credit Administration.

In August 2012, she took the position of Head of Credit Underwriting and Risk at ABC Banking Corporation Ltd where she played an instrumental role in setting up the risk management framework and implementing risk management practices before returning to SBM Bank (Mauritius) Ltd in September 2016 as Head of Credit Risk Team.

Mrs Veronique Lim Hoye Yee holds a Bsc (Hons) in Economics and Accounting from University of Bristol, UK, MSc in Economics and Finance from University of Bristol, UK and CFA Charterholder from CFA Institute, US. She has been appointed as executive director of SBM Bank (Mauritius) Ltd on 22 February 2018.

Mr Parvataneni Venkateswara Rao

Head of Financial Markets

Skills and Experience

Mr P .V. Rao has joined SBM on 03 December 2010 as Head of Treasury Indian Operations. He has 31 years of experience in banking with SBM & Indian Banks. Prior to joining SBM, he was Head–FX, Global Markets Group, IndusInd Bank Ltd. Mr P. V. Rao is currently Head of Financial Markets Division.

Mr Kabirsingh Baboolall

Acting Chief Financial Officer

Skills and Experience

Mr Baboolall is a finance professional with a career spanning almost 15 years and is a fellow member of the Institute of Chartered Accountants in England and Wales (FCA). He is currently the Head of Project Implementation & Capital Management for SBM Holdings Ltd and has been seconded as interim Chief Finance Officer for SBM Bank (Mauritius) Ltd since September 2017. He has gained extensive exposure in the UK investment banking sector with HSBC and has run his own company advising/managing projects for 2 European investment banks, the Royal Bank of Scotland and UBS before relocating to Mauritius.

Mr Samir Khare

Chief Information Officer

Skills and Experience

Mr Khare is a senior banking professional with extensive experience in the Banking, Financial services and Insurance (BFSI) domain across design, implementation, program management and technology infrastructure. He has a deep understanding of banking and financial products across corporate, retail and microfinance banking. He has substantial exposure on emerging technologies in the space of Social, Mobility, Analytics and Cloud computing and cybersecurity. Previously, Samir has been the Director, CRISIL Risk Solutions (a Standard & Poors global company), India's premier rating and risk solutions company and Chief Information Officer of Fullerton India Credit Company, a Temasek Holdings entity and one of India's leading NBFCs. Prior to Fullerton, he was with Citibank Global Corporate & Investment bank as a part of EMEA Technology Office. Samir holds a Masters in Management Studies (Finance) and a Bachelor of Engineering from the University of Mumbai.

Vikram Dabee

Head of International Banking

Skills and Experience

Mr Dabee is a Chartered Banker (London) and also holds an MBA from University of Leicester. He has broad based experience in Commercial Banking with focus on Corporate Finance .He started his career at SBM , held various key position till 2008 when he left to join other local banks in senior management position. He again joined SBM in September 2016 and is currently heading International Banking with focus on African market.

Kris Jhurry

Head of Financial Institutions

Skills and Experience

Mr Jhurry holds a Maîtrise-es-Sciences Economiques from University of Bordeaux I, France.

He started his career in 1988 at SBM Group and has subsequently worked at the Bank of Mauritius and Afrasia Bank. He is currently heading the Financial Institutions department at SBM Bank (Mauritius) Ltd.

During his long career, Mr Jhurry has acquired a vast experience in the banking sector ranging from Trade Finance, Syndications and Global Business. One of his major contributions has been to set up and to establish strong relationships with international banks.

Ibrahim Malleck

Head of Structured Trade Finance

Skills and Experience

Mr Malleck is currently heading the Structured Trade Finance division of the Group, a post he took up in October 2016. He was previously the Senior Manager, HSBC Ltd, Middle East and North Africa. He holds a BSc in Management Sciences – Economics and an MSc in International Trade and Finance from Lancaster University.

Anil Gujjalu

Head of Retail Banking (as from 21 May 2018)

Skills and Experience

Mr Gujjalu has over 20 years working experience in consulting and services industry, with over 10 years in the banking sector. Since joining SBM in 2012 he has occupied various senior positions including Head of Operations and Trade Finance function. Prior to joining SBM he was the Chief Operating Officer at Barclays Bank in Mauritius. He has a BA (Hons) in Business Information Technology and an MBA from Cranfield School of Management, both from the UK.

Sanjaiye Rawoteea

Head of Private Banking/Private Wealth

Skills and Experience

Mr Rawoteea is a banker who has worked over 18 years in this sector. With extensive experience in Retail Private Banking, he occupied positions such as Senior Private Banker and Branch Manager in many reputational organisations. He was the Head of Sales and Marketing of SBM (NBFC) Holdings Ltd.

Corporate Governance Report (cont'd)

Names of other key members of the Bank are as follows:

Mr Jude Thierry Coret
Head of Marketing & Communications

Mr Sudhir Dabeedooal
Team Leader Credit Risk

Mr Shyam Damree
Team Lead Credit Risk

Mr Seeamdath Dosieah
Head of Facilities Management

Mrs Ragini Gowreesunkur
Head of Custody

Mr Dharmendranath Hurkoo
Head of Special Assets

Mr Ratan Kumar Jankee
Head of Small and Medium Enterprise

Miss Anita Deorani Khelawon
Team Leader Finance

Mr Kwon Li Pak Man
Head of Risk Management

Mr Amrit Gayan
Head of Operations

Mr Deenesh Ghurburrun
Head of Compliance

Mrs Rita Devi Persand-Gujadhur
Head of Performance Management Team

Mr Dipesh Pockraj Jhowry
Head of Legal & Corporate Affairs

Mr Shomika Luchmun
Head of Global Business (Liabilities)

Mr Rajnish Lutchmah
Team Leader Corporate Banking

Mr Veeren Manikion
Head of E-Business

Mr Girish Mehta
Head IT Security

Mr Ajit Prakash Mewasingh
Head of Private Banking

Mr Nandrajen Mooneesawmy
Head of Credit Administration

Mr Darma Rajan Mooroogan
Head of Technology Operations

Mr Vikash Peerun
Head of Anti-Fraud

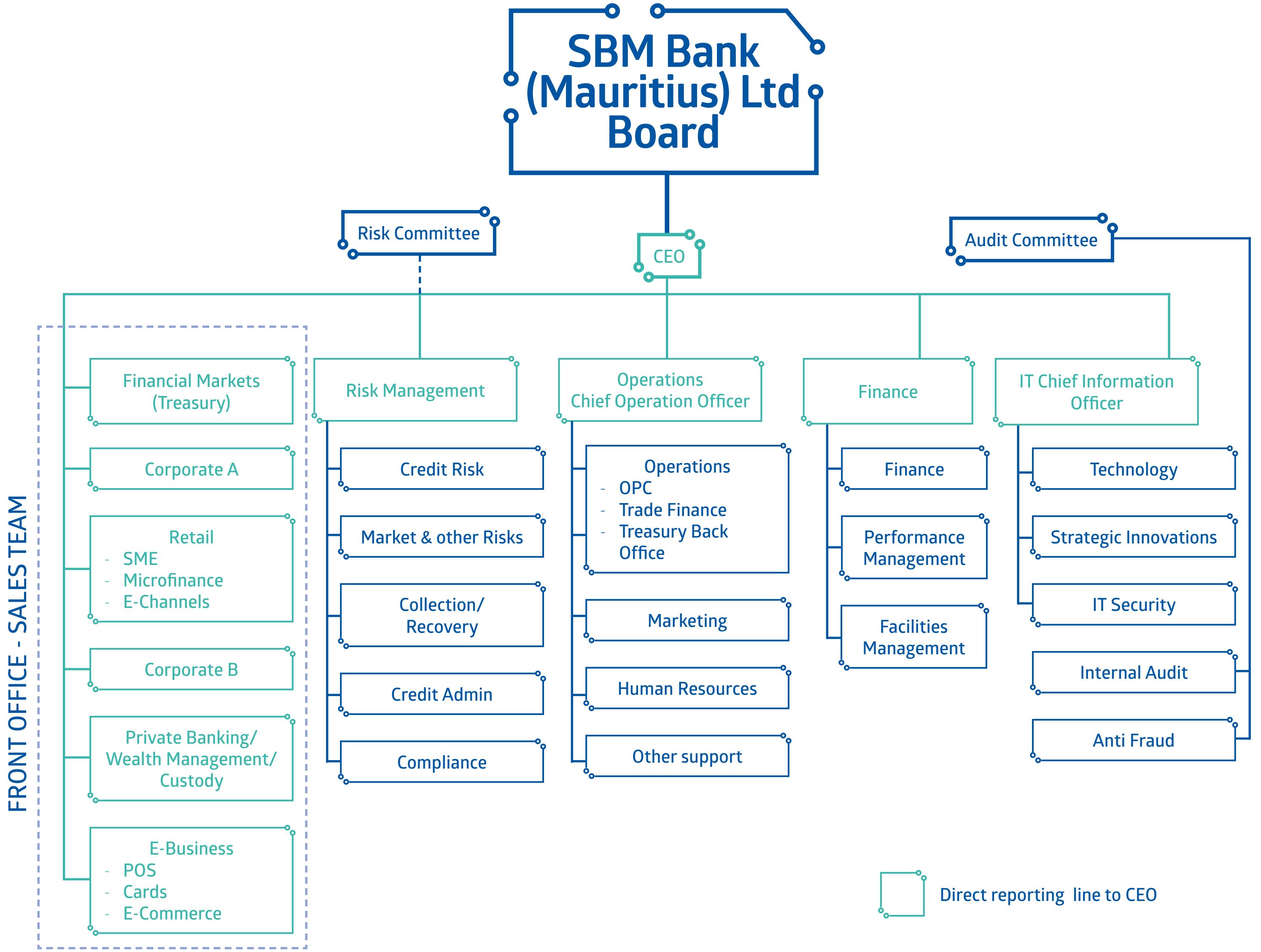
Mr Jacques M Sylvain Prefumo
Head of Business Continuity Planning

Mrs Malinee Devi Ramlagun
Team Leader Credit Risk

Mr Neelesh Sharma Sawoky
Head of Internal Audit

Organisation Chart

The organisation chart of the Bank is as follows:



Corporate Governance Report (cont'd)

Principle Two – The Structure of the Board and Its Committees

The Board of SBM has attempted to create the right balance and composition in such a way as to best serve the company. The Board comprises 9 members and has an appropriate mix of gender, experience, diversity and all directors wholly endorse the belief in diversity which is expressed both in the Board Charter and in the Code of Ethics. The Board is a unitary board and is led by Mr. Nayen Koomar Ballah, G.O.S.K. Only Board members attend each Board meeting for the duration with other officers of the Bank, advisors and other subject matter experts only attending on invitation for as long as it is deemed necessary by the Chairman. All directors are resident in Mauritius and the use of alternate directors is discouraged. This is made possible by the careful drafting of the annual board calendar that is set out each year by the Chairman of the Board with the assistance of the Company Secretary.

The Chairman of the Board and the Chairmen of the Board committees are all carefully selected for their relevant knowledge and experience in these key governance roles.

Out of the 9 members of the Board, 6 are independent and 1 is a non-executive director. The non-executive directors do not have involvement in the operations of the Bank.

Independence	
Independent non-executive	**6**
Executive	**2**
Non-executive	**1**
Total	**9**

The Profile of the Board members are found on pages 16 to 19 of this annual report.

Company Secretary

The critical role that the Company Secretary plays in ensuring the success of the Board is wholly acknowledged. The Company Secretary is appointed by the Board in accordance with its Constitution.

Mrs Manuela Permal and Ms Preshnee Ramchurn have been appointed by the Board as Company Secretaries for SBM Bank (Mauritius) Ltd.

The Board should contain independently minded directors. It should include an appropriate combination of executive directors, independent directors and non-independent non-executive directors to prevent one individual or a small group of individuals from dominating the Board's decision taking. The Board should be of a size and level of diversity commensurate with the sophistication and scale of the organisation. Appropriate Board committees may be set up to assist the Board in the effective performance of its duties.

Profile of Company Secretaries:

Mrs Manuela Permal

Mrs Manuela Permal is an Associate of the Institute of Chartered Secretaries and Administrators (UK) since 2005 and was appointed as Company Secretary of SBM Bank (Mauritius) Ltd in December 2016. After having worked for more than 10 years in the company secretarial department of KPMG and 4 years in the company secretarial arm of ENL Group, Mrs Permal has worked for a private bank for a year prior to joining the Bank. Her experience covers extensively the role of a Company Secretary and Corporate Governance matters.

Ms Preshnee Ramchurn

Ms Preshnee Ramchurn is an Associate of the Institute of Chartered Secretaries and Administrators (UK) and was appointed as Company Secretary of SBM Bank (Mauritius) Ltd in March 2017. She has good knowledge of corporate secretarial practice and Corporate Governance and prior experience in Risk Management and Compliance. She has worked in one of the Big 4 accounting firms prior to joining the Bank.

Reporting to the Chairman of the Board, the responsibilities of the Company Secretary are as follows:

1. Provide the Board with guidance as to its duties, responsibilities and powers;
2. Inform the Board of all legislation relevant to or affecting meetings of shareholders and directors and reporting at any meetings and the filing of any documents required of the Bank and any failure to comply with such legislation;
3. Ensure that minutes of all meetings of shareholders and directors are properly recorded in accordance with paragraph 8 of the Fifth Schedule and paragraph 6 of the Eighth Schedule of the Companies Act 2001 (the "Act") respectively as well as all statutory registers be properly maintained;
4. Certify in the annual financial statements of the Bank that the Bank has filed with the Registrar all such returns as are required of the Bank under the Act; and
5. Ensure that a copy of the Bank's annual financial statements and where applicable the annual report is sent in accordance with sections 219 and 220 to every person entitled to such statements or report in terms of the Act.

Corporate Governance Report (cont'd)

Directors attendance at Board and Committee Meetings

Details of the number of Board and Board Committee Meetings held during the year under review and Directors' attendance at these meetings are set out below:

	SBM Bank (Mauritius) Ltd	Board Meetings	Audit Committee	Risk Management Committee	Corporate Governance & Conduct Review Committee	Remuneration & Nomination Committee	Strategy Committee	Board Credit Committee	Finance Committee	Procurement Committee
	No. of Meetings held during year ended 31 Dec 2017	**16**	**5**	**5**	**4**	**10**	**4**	**53**	**1**	**-**
	Directors									
Non-Executive	Nayen Koomar BALLAH[1] (Chairman)	13	-	2	3	8	3	21	-	-
Independent	Philip AH-CHUEN	15	5	-	4	9	3	-	1	-
	Mahmadally BURKUTOOLA[2]	16	3	-	4	10	4	53	1	-
	Rajakrishna CHELLAPERMAL[3]	15	2	5	-	-	3	52	1	-
	Anoopum Ishwar GAYA[4]	15	5	5	-	4	-	-	1	-
	Rishikesh HURDOYAL	16	-	5	4	-	-	53	-	-
	Michel MOOTHOOSAMY[5]	11	2	-	-	4	-	-	1	-
Executive	Chandradev APPADOO[6]	7	-	1	-	-	2	33	-	-
	Raj DUSSOYE	15	-	5	4	10	4	52	1	-
	In attendance:									
	Chandradev APPADOO	-	4	1	-	-	-	-	-	-
	Raj DUSSOYE	-	5	-	-	-	-	-	-	-
	Anoopum Ishwar GAYA	-	-	-	-	-	3	-	-	-
	Rishikesh HURDOYAL	-	-	-	-	-	3	-	-	-
	Michel MOOTHOOSAMY	-	-	-	-	-	1	-	-	-

Note:

[1] Mr Ballah ceased to be a Member of BCC on 27.06.2017

[2] Mr Mahmadally Burkutoola ceased to be Member of Audit Committee on 27.06.2017

[3] Mr Rajakrishna Chellapermal ceased to be member of Audit Committee on 27.06.2017

[4] Mr Gaya was appointed a Member of Remuneration & Nomination Committee on 27.06.2017

[5] Mr Moothoosamy was appointed as Board Member on 22.06.2017 and Member of Audit Committee and Remuneration & Nomination Committee on 27.06.2017

[6] Mr Appadoo ceased to be Member of Risk Management Committee on 23.03.2017 and Member of the Board on 04.12.2017

During the year under review, the Board meetings were held on quarterly basis, in addition to adhoc meetings, to approve quarterly accounts of the Bank and declaration of dividends. In addition to regular Board and Committee meetings, the Board also took time to discuss the strategy of the Bank which included:

1. Key risks facing the Bank and mitigation factors;
2. Overarching strategy and objectives for the upcoming year;
3. Strategy of each division within the Bank;
4. New ventures for the upcoming year; and
5. Key Corporate Governance initiatives.

Board Committees

Board committees have been established in order to assist the Board in its mandate and to enhance its efficacy. The Board has established the following committees to assist it in the discharge of its responsibilities:

1. Audit Committee
2. Board Credit Committee
3. Corporate Governance & Conduct Review Committee
4. Finance Committee
5. Procurement Committee
6. Remuneration & Nomination Committee
7. Risk Management Committee
8. Strategy Committee

Each Board committee has its own terms of reference, approved by the Board and reviewed on an annual basis.

Audit Committee

Role and Responsibilities

The Audit Committee consists of 3 independent non-executive directors. The main responsibilities of the Committee include the following:

- Critically review and examine the quality and integrity of quarterly results and audited financial statements of the Bank prior to submission and approval of the Board;
- Consider the appropriateness of the accounting policies applied and whether they are prudent and consistent with prior practice and comply with regulations and legal requirements;
- Review critical accounting issues and ensure the capital adequacy and internal control;
- Review adequacy of provisions including provision for credit impairment losses;
- Discuss with the senior management and the external auditors the overall results of the audit, the quality of financial statements and any concerns raised by the external auditors;
- Make recommendations to the Board for the appointment, re-appointment and retention of external auditors;
- Review the objectives of the internal audit function and the annual plan of action; and
- Review the systems of internal controls to ascertain its adequacy and effectiveness.

Members	Category
Mr Anoopum Ishwar GAYA (Chairman)	Independent Non-Executive Director
Mr Philip AH-CHUEN	Independent Non-Executive Director
Mr Michel Arnaud MOOTHOOSAMY	Independent Non-Executive Director

Board Credit Committee

Role and Responsibilities

The Board Credit Committee consists of 3 members. All the members of the Committee are independent non-executive directors. The main responsibilities of the Committee include the following:

- Ensure that the Bank's Credit Risk Policy & Procedures are implemented and applied consistently across all business units;
- Review and approve appropriate counterparty exposure limits across all lines of business;
- Review and approve all facilities exceeding the delegated authority of the Bank's Management Credit Forums as set out in the Bank's Credit Policy;
- Review and approve the restructure/reschedule of credit facilities in accordance with the Bank's Credit Policy;
- Review Non-Performing Accounts and ensure adequacy of provisioning as per Regulatory norms; and
- Ensure that concentrations of risks are within the risk tolerance of the Bank.

Members	Category
Mr Mahmadally BURKUTOOLA (Chairman)	Independent Non-Executive Director
Mr Rajakrishna CHELLAPERMAL	Independent Non-Executive Director
Mr Rishikesh HURDOYAL	Independent Non-Executive Director

Corporate Governance & Conduct Review Committee

Role and Responsibilities

The Corporate Governance & Conduct Review Committee consists of 6 members with a majority of independent non-executive directors. The main responsibilities of the Committee include the following:

- Advise the Board on all aspects of corporate governance and recommend the adoption of best practices
- Determine and develop the Bank's general policy on corporate governance in accordance with the applicable Code of Corporate Governance and international best practices
- Review the Corporate Governance report to be published in the annual report
- Monitor developments in the area of corporate governance and recommend initiatives to maintain the highest standards of corporate governance
- Give recommendations on situation involving breach of Code of Ethics
- Ensure accurate disclosure of directors remunerations and ensure that related party transactions are carried out at arm's length
- Review credit exposures to related parties

Members	Category
Mr Philip AH-CHUEN (Chairman)	Independent Non-Executive Director
Mr Nayen Koomar BALLAH	Non-Executive Director
Mr Mahmadally BURKUTOOLA	Independent Non-Executive Director
Mr Rajakrishna CHELLAPERMAL	Independent Non-Executive Director
Mr Raj DUSSOYE	Executive Director
Mr Rishikesh HURDOYAL	Independent Non-Executive Director

Finance Committee

Role and Responsibilities

The Finance Committee consists of 7 members out of which 6 are independent non-executive directors. The main responsibilities of the Committee include the following:

- Scrutinise the annual budget and operational plan of the Bank;
- Evaluate the management accounts and monitor performance against the financial and resource objectives approved in operational plan on monthly basis;
- Analyse line of business performance against budget and operational plans;
- Analyse and review the financial strategy and advise the Board; and
- Monitor and review the efficiency and effectiveness of the financial systems.

Members	Category
Mr Michel Arnaud MOOTHOOSAMY (Chairman)	Independent Non-Executive Director
Mr Philip AH-CHUEN	Independent Non-Executive Director
Mr Mahmadally BURKUTOOLA	Independent Non-Executive Director
Mr Rajakrishna CHELLAPERMAL	Independent Non-Executive Director
Mr Raj DUSSOYE	Executive Director
Mr Anoopum Ishwar GAYA	Independent Non-Executive Director
Mr Rishikesh HURDOYAL	Independent Non-Executive Director

Procurement Committee

Role and Responsibilities

The Procurement Committee consists of 5 members out of which 4 are independent non-executive directors. The main responsibilities of the Committee include the following:

- Ensure that the Bank's expenditure is appropriate in the pursuit of the Bank's operations;
- Review the Procurement Policy and procedures of the Bank;
- Approve revenue and capital expenditures under delegated authority;
- Review and make appropriate recommendations to the Board as regards major procurement contracts and expenditure exceeding its approving authority;
- Review the expenses approved by the Executive Forum (Management level) and Chief Executive of the Bank; and
- Evaluate and make recommendation to the Board on any acquisition or disposal and/or any undertaking or part of any undertaking of the Bank.

Members	Category
Mr Rishikesh HURDOYAL (Chairman)	Independent Non-Executive Director
Mr Rajakrishna CHELLAPERMAL	Independent Non-Executive Director
Mr Mahmadally BURKUTOOLA	Independent Non-Executive Director
Mr Raj DUSSOYE	Executive Director
Mr Anoopum Ishwar GAYA	Independent Non-Executive Director

Remuneration & Nomination Committee

Role and Responsibilities

The Remuneration & Nomination Committee consists of 6 members out of which 5 are non-executive directors. The main responsibilities of the Committee include the following:

- Review on an annual basis the remuneration policy and HR related policies of the Bank;
- Review and recommend performance based remuneration against objectives and key performance indicators;
- Identify qualified candidates for Board membership and position of chairperson of the Board, its committees and their members;
- Recommend recruitment and/or promotion of senior officers and above, and recommend their remuneration, benefits and other terms and conditions of employment;
- Review and recommend salary revisions and service conditions of employees; and
- Determine the total remuneration package of executive directors of the Bank and level of Board fees for directors, for recommendation to Board and shareholders, where applicable.

Members	Category
Mr Nayen Koomar BALLAH (Chairman)	Non-Executive Director
Mr Philip AH-CHUEN	Independent Non-Executive Director
Mr Mahmadally BURKUTOOLA	Independent Non-Executive Director
Mr Raj DUSSOYE	Executive Director
Mr Anoopum Ishwar GAYA	Independent Non-Executive Director
Mr Michel Arnaud MOOTHOOSAMY	Independent Non-Executive Director

Risk Management Committee

Role and Responsibilities

The Risk Management Committee consists of 6 members with a majority of independent non-executive directors. The Chief Executive is also a member of the Committee. The main responsibilities of the Committee include the following:

- Ensure that the Bank has a solid and effective risk management infrastructure in place;
- Adopt the risk appetite for the Bank, as recommended to and approved by the Board;
- Establish and review the adequacy of risk management control techniques and methodologies and monitor their effectiveness;
- Monitor the Bank's risk profile – its on-going and potential exposure to risks of various types;
- Review the Bank's risk profile particularly the risk trends, risk concentrations and key performance indicators;
- Review Bank policies for management of risks particularly in areas of credit, market, interest rate, liquidity, operational and technological risks; and
- Monitor material legal cases brought against the Bank and major events of fraud and irregularities.

Members	Category
Mr Rajakrishna CHELLAPERMAL (Chairman)	Independent Non-Executive Director
Mr Nayen Koomar BALLAH	Non-Executive Director
Mr Mahmadally BURKUTOOLA	Independent Non-Executive Director
Mr Raj DUSSOYE	Executive Director
Mr Anoopum Ishwar GAYA	Independent Non-Executive Director
Mr Rishikesh HURDOYAL	Independent Non-Executive Director

Strategy Committee

Role and Responsibilities

The Strategy Committee consists of 6 members with a majority of non-executive directors. The main responsibilities of the Committee include the following:

- Review and recommend the strategic plans, business plans, annual or quarterly corporate objectives and budgets;
- Review effectiveness of the Bank's strategies;
- Review performance against set KPIs and targets;
- Review issues of fundamental importance and proposals from management related to Bank's long term objectives and goals;
- Recommend large projects to the Board;
- Ensure effective capital management; and
- Consider and review the type of organisational structures and functions necessary for implementing strategic plans.

Members	Category
Mr Nayen Koomar BALLAH (Chairman)	Non-Executive Director
Mr Philip AH-CHUEN	Independent Non-Executive Director
Mr Mahmadally BURKUTOOLA	Independent Non-Executive Director
Mr Rajakrishna CHELLAPERMAL	Independent Non-Executive Director
Mr Raj DUSSOYE	Executive Director
Mrs Veronique LIM HOYE LEE	Executive Director

The terms of reference for the above committees are available on the website www.sbmgroup.mu.

Principle Three – Directors Appointment Procedures

Appointment

As part of its mandate the Board carefully considers the needs of the organisation in appointing directors onto the Board. The following factors are carefully considered:

- Skills, knowledge and expertise required on the Board;
- Skills, knowledge and expertise of the candidate;
- Previous experience as a director;
- Specific roles required on the Board such as Chairman of a Committee;
- Balance required on the Board such as gender and age;
- Independence where required;
- Reputation of the candidate;
- Amount of time the candidate is able to devote to the business of the Board;
- Conflicts of interests.

To this end, a transparent procedure is in place to vet the prospective directors according to this rubric.

Thereafter, the members of the Remuneration & Nomination Committee will interview each prospective director and will make their recommendations to the Board. The Board will agree on each appointment. Once a prospective director has been selected, his/her appointment will be put forward to the shareholders at the Annual Meeting by way of ordinary resolution for approval.

Once a prospective non-executive director has accepted a seat on the Board, he/she is requested to sign a letter of appointment which carefully outlines the following:

1. Term of office as per the requirements of the Banking Act;
2. Time commitment expected from each director;
3. Confidentiality;
4. Conflicts of Interests;
5. Directors liability insurance;
6. Right to independent advice;
7. Induction program;
8. Training and development program; and
9. Board policies & procedures.

Directors are re-elected each year at the Annual Meeting of shareholders.

There should be a formal, rigorous and transparent process for the appointment, election, induction and re-election of directors. The search for Board candidates should be conducted, and appointments made, on merit, against objective criteria (to include skills, knowledge, experience, and independence and with due regard to the benefits of diversity on the Board, including gender). The Board should ensure that a formal, rigorous and transparent procedure be in place for planning the succession of all key officeholders.

Corporate Governance Report (cont'd)

Succession planning

The Board considers its succession very carefully in its annual strategy session.

The Board has a defined succession planning policy which is applicable for succession planning of the following personnel:

1. CE;
2. Independent and other Non-Executive Directors on the Board;
3. Senior management team; and
4. Any other positions within the Bank at the discretion of the Chairman and CE in consultation with the Board.

The Remuneration & Nomination Committee shall oversee and review succession plans from time to time and recommend the same to the Board. The Committee shall proactively review the succession requirements for the Board and carryout the due diligence process to determine the suitability of every person who is being considered for being appointed or re-appointed as a Director of the Board based on his educational qualification, experience and track record. The proposed candidate shall be evaluated by Remuneration & Nomination Committee to determine the eligibility and fit and proper criteria as per the Banking Act 2004 and thereafter such candidature shall be recommended to the Board for its consideration and approval.

Succession Plan for The Senior Management Team is based on the inputs received from the Head of Human Resource and the CE. The Committee shall periodically review any vacancy or probable vacancy in the position of Senior Management team which may arise on account of retirement, resignation, death, removal or incapacity whether temporary or permanent or otherwise. The Board shall strive to fill such vacancy from within internal modes through elevation or otherwise subject to availability and in case no suitable candidate is available to fill the position, external candidates shall be considered. The Board shall, in consultation with the Chairman of the Board and the Chairman of Remuneration & Nomination Committee, evaluate the suitability of any such person based on factors such as experience, age, health and leadership intelligence and recommend his or her candidature to the Board well before such vacancy arises to facilitate smooth transition.

The Committee may also resolve to engage the services of such retired executive on a contractual or consultant basis or otherwise subject to his or her proven track record and his willingness to serve the organisation in such capacity. The prevailing HR standards for promotions and/or transfers shall be designed in such a way that the existing or proposed senior managerial personnel shall get all-round exposure in various domains to facilitate career progression, and to prepare them for administrative responsibilities for discharging their functions effectively.

Every member of the senior management team shall always endeavour to add capability in-house and mentor subordinates with potential, working under him to handle his responsibility in his absence by exposing him to all aspects of work being handled by him. In the event of any unexpected occurrence in respect of any member in the core management team, the next person as per the organisation chart shall take interim charge of the position, pending a regular appointment in terms of the succession plan.

Principle Four – Directors Duties, Remuneration and Performance

Legal Duties

All of the Directors on the Board including any alternate Directors are fully appraised of their fiduciary duties as laid out in the Act both at the time of their induction and through ongoing director development training.

Code of Ethics

The Code of Ethics was drafted by the Board in consultation with the staff and management of the various entities and it is published on the website. Both directors and staff are made aware of this Code and the consequences of not complying with it.

Training sessions are held periodically throughout the Bank to ensure full compliance to this Code. The Code of Ethics is available on the Group's website.

Induction

All new Board members are inducted by way of a formal induction programme which is overseen by the Chairman of the Board, the Chairman of the Corporate Governance & Conduct Review Committee, and the Company Secretary.

Topics covered by the inductions are:

1. Shareholders' agreement, Constitution and Board Charter;
2. The BOM Guideline on Corporate Governance;
3. Code of Ethics;
4. Regulatory framework of Mauritius;
5. Directors duties;
6. The new Code for Corporate Governance in Mauritius;
7. Risk management framework;
8. Directors & Officers Liability Insurance;
9. Organisation chart;
10. Operations of the Bank ; and
11. Introduction to key stakeholders including staff, legal and Board advisors.

Directors should be aware of their legal duties. Directors should observe and foster high ethical standards and a strong ethical culture in their organisation. Conflicts of interest should be disclosed and managed. The Board is responsible for the governance of the organisation's information, information technology and information security. The Board, committees and individual directors should be supplied with information in a timely manner and in an appropriate form and quality in order to perform to required standards. The Board, committees and individual directors should have their performance evaluated and be held accountable to appropriate stakeholders. The Board should be transparent, fair and consistent in determining the remuneration policy for directors and senior executives.

Corporate Governance Report (cont'd)

Continuous Development Programme

This year the Director Development Programme was designed specifically for this Board.

The following topics are being covered:

1. Principal functions and responsibilities of the Board;
2. Setting the Company strategic direction;
3. Making a difference as a Director;
4. How to avoid capture: a guide to conflicts of interest;
5. Shareholder relationship management;
6. CSR & corporate governance links;
7. The effective Board: proven case studies;
8. Board approaches to strategic risk management;
9. Holding Board committees to account;
10. Fraud, Whistleblowing, Anti-bribery, and Anti-corruption;
11. Family Owned and/or Controlled Corporations and Related Topics;
12. The Dragonfly perspective: Better decision-making by Boards;
13. Corporate governance trends in Africa;
14. Building your Bank's ESG Capital: an investment success;
15. Tensions in value creation: which goals, how and for whom?
16. 360-degree evaluation for director strengths and development opportunities; and
17. IT Security Governance: what every Board should know.

Independent Board Evaluation

Although not done in 2017, the Board has appointed in 2018 an independent board evaluator to evaluate the performance of the Board, its committees, individual directors and its policies and procedures.

The evaluation process is comprised of:

1. The Consultant reviewing all relevant board documentation;
2. Each Director completing a comprehensive questionnaire;
3. A one on one interview with each Board member and the Evaluator; and
4. A final report of findings plus recommendations.

In 2018, the evaluation was carried out by Reverend K. Andersen, an independent evaluator with expertise in corporate governance and the local business landscape who made the following findings and recommendations:

- Succession planning of all key positions in the bank should be carefully monitored as a key risk;
- Retention of key staff should be a key focus area for the coming year;
- Attendance of all directors at all board meetings;
- Creating further synergies between the bank and the holding company; and
- Deepening and enhancing a positive risk culture.

The recommendations of this report will be followed up as a matter of priority and all issues therein have been comprehensively addressed.

Conflicts of Interests

As a Public Interest Entity, SBM makes every effort to ensure that Directors declare any interest and report to the Chairman and the Company Secretary any related party transactions. A full register of conflicts of interests is kept by the Company Secretary and is updated on a regular basis. The register is also available to the shareholder of the Bank upon request to the Company Secretary.

The Bank has put in place a Conflict of Interests policy and Related Party Transactions policy to assist the Board in identifying and disclosing actual and potential conflicts, and help ensure the avoidance of conflicts of interest where necessary.

Remuneration

Each year the remuneration of the Board is reviewed by the Remuneration & Nomination Committee which makes its recommendations to the Board. Remuneration of both directors and the senior management team is based on performance and effort. No directors at SBM have received shares in lieu of remuneration.

Remuneration Policy

Introduction

Pursuant to the requirements of the Code of Corporate Governance in Mauritius, the Board of Directors of a company is required to define general guidelines for the company's remuneration to the Board of Directors and Executive Management, which must be approved by the Board before a specific agreement on incentive pay with any member of the company's Board of Directors or Executive Management is entered into.

According to recommendations on Corporate Governance, the Board of Directors is also recommended to adopt a Remuneration Policy applicable to the Board of Directors and the Executive Management and the Policy is tabled for Board's approval on an annual basis. The recommendations are based on corporate governance best practices and apply to the members of the Board of Directors and Executive Management of SBM. Any agreements between SBM and the Board of Directors or the Executive Management concerning fixed remuneration or incentive pay must be subject to this policy.

Board of Directors

The ordinary members of the Board of Directors receive a monthly fixed base fee as consideration for their Board duties. In addition, the Board members also receive a fixed fee for their work on Committees established by the Board of Directors. The aim of the Board of Directors is that the remuneration of directors meet the standards in the market and that the remuneration reflects demands to competencies and efforts in light of the scope of their work and the attendance of Board meetings.

Executive Management

Fixed salary

The aim with the fixed salary of the Executive Management is to attract and retain the best qualified members to the Executive Management. The elements of the fixed remuneration are determined based on market standards and the Bank's specific needs from time to time. As a part of the fixed salary, the Bank may offer other standard benefits, such as a travel allowance and free telephone.

The Board of Directors, the Remuneration & Nomination Committee and the Executive Management evaluate the fixed salary of senior management team annually based on the results from the previous period and with due consideration to the trend within the market.

The total fees earned by Directors this year in their capacity as Board members is listed below:

(a) Directors' Emoluments - Non-Executive Directors

Name of Non-Executive Director	2017 (MUR '000)
Mr Nayen Koomar BALLAH	1,920
Mr Philip AH-CHUEN	900
Mr Rajakrishna CHELLAPERMAL	1,080
Mr Mahmadally BURKUTOOLA	1,170
Mr Ishwar Anoopum GAYA	630
Mr Rishikesh HURDOYAL	840
Mr Michel Arnaud MOOTHOOSAMY[1]	240
Total	**6,780**

Note: [1] Appointed as director on 22 June 2017

(b) Directors' Emoluments - Executive Directors

As per the Bank's policy, no directorship fees are paid to the executive directors, and any fees received by the Bank's executives serving on the Board of related companies in which SBM Holdings Ltd or its subsidiaries have an equity stake are credited to the statement of profit or loss of the Bank or the Holding Company. The remuneration and benefits received by the executive directors during the financial year were as follows:

Name of Executive Director	2017 (MUR)
Mr Chandradev APPADOO[1]	**8,531,743**
Mr Raj DUSSOYE	**15,356,965**
Total	**23,888,708**

Note: [1] Ceased to be director on 04 December 2017

Corporate Governance Report (cont'd)

Information Technology and Information IT Security

The Board of Directors realises that in today's era of technology, it is important to have a strategic alignment of information security with business strategy in order to achieve organisational goals. As such, the Board ensures that appropriate resources are allocated for the implementation of an information and IT security framework within the organisation. The Bank has in place an Information Security policy and an IT Risk policy which are regularly reviewed by the Risk Management Committee and the Board. The Risk Management Committee is mandated by the Board to ensure that adequate controls and information systems are in place to implement the Bank's policies. Moreover, the Bank has established a risk management register to ascertain that risks are systematically identified and mitigated so as to minimise the potential impact on information resources. Management of IT risks is detailed in the Risk Management Report on pages 82 to 131.

The SBM Group has established an IT Committee, comprised of directors of the holding company and of the Bank. The primary responsibilities of the Committee are to identify IT project priorities, to provide strategic planning, direction and to approve IT projects of the Bank as well as SBM Group. The IT Committee regularly monitors and evaluates the Bank's and Group's significant expenditures on information technology to ensure that IT strategic plans are delivered within agreed budget and timeframe.

The Bank is also embracing technological change and is working towards having its digital information on cloud. This is as part of the strategy to cater for the growth of the organisation across multiple physical locations and to ensure business continuity. Furthermore, the Bank has implemented multiple security policies to ensure that data is safeguarded both within its premises as well as those hosted on the cloud including access rights granted only to authorised personnel, password expiry and complexity policy has been applied and backup process for digital information.

As part of the planning and budgeting exercise, all IT expenditures are identified.

A copy of an information and security governance guidelines is available on the website.

Principle Five – Risk Governance and Internal Control

Board

The Board remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The board discharges its duty either directly or through its committees to ensure decision making is aligned with the board's approved policies and frameworks.

Board sub-committees and Executive management

Executive management, together with a number of sub-committees, manages the business through a system of internal controls functioning throughout each entity. This promotes an awareness of risk and good governance in every area of the business and instils a culture of compliance. In short, they are responsible for translating the high-level overall guidance from the Board into operational aspects and then monitoring and reporting them back periodically to the Board/Board Committees.

The Risk Management Committee has the responsibility to monitor and evaluate the spectrum of risks faced by the Bank. Further details on the management of risk are given in the Risk Management Report on pages 82 to 131.

Risk management

The risk management team provides the day-to-day oversight on management of risk and promotes the risk culture across the Bank. It is responsible to create and maintain the risk practices across the SBM Group as defined by group risk and to ensure that controls are in place for all risk categories.

The risk management team maintains its objectivity by being independent of operations. The Head of Risk Management has direct access to the Board Chairman and the Risk Management Committee without impediment

The risk function is subject to internal audits on an annual basis where it is assessed for each of the different types of risk. Internal audit provides an annual assessment on the adequacy and effectiveness of the Bank's processes for controlling its activities, managing its risks and ensuring good governance. It reports and provides recommendations on significant issues related to the risk management, control and governance processes within the Bank.

The internal audit conducts periodical review of the risks and control functions as per plan approved by the Audit Committee. All the observations have been promptly attended and weaknesses have been addressed ensuring a water-tight control function.

Internal Control

The Risk Management Committee which approves the Bank's policies, ensures that risks are maintained within approved limits and any deviation is reported timely and duly authorized. The Audit Committee on the other hand reviews both internal and external audit reports on systems and controls in place to manage those risks.

The Bank has an integrated and robust risk management framework which aligns strategy, policies, people, process, technology and business intelligence to identify, assess, manage and report risks in a reliable and consistent manner. This risk management framework is founded on the three lines of defence model which ensures that risk is managed in line with the Bank's risk appetite, as defined by the Board.

The 1st line of defence, i.e., the Business units, is responsible for owning and managing risks through appropriate internal controls. The 2nd line of defence, i.e., Risk Management and Compliance, ensure that the controls are working effectively and limits being adhered to through regular checks. The 3rd line of defence, i.e., Internal Audit, provides independent assurance to Management and the Board on the systems of Internal Controls in place at the Bank.

The audit plan for the Bank covers all key areas of activities, including IT. Any deviation in policies and non-performance of internal control are duly reported and discussed at large at Management & Audit Committee level. Corrective actions are promptly taken & regular follow ups as well as reporting performed by Internal Audit until complete resolution.

During the year under review, there was no major control breakdown. Through regular audits, the internal control system is evaluated with respect to the risk environment.

Whistle-blowing

The Bank has established a whistle-blowing policy which sets out the procedures for whistle blowing. A copy of the whistle blowing policy is also available on the website of the Bank.

The Board should be responsible for risk governance and should ensure that the organisation develops and executes a comprehensive and robust system of risk management. The Board should ensure the maintenance of a sound internal control system.

Principle Six – Reporting with Integrity

Financial

The financial review is set out on pages 22 to 29 of the Annual Report. The Annual Report is published in full on the Bank's website.

Human Resources Report

Supporting the 2020 strategy of the Bank is at the heart of the HR division's objectives. Our human capital is for the most called upon to positively contribute to the success of the set strategy and same cannot be achieved without their unfailing commitment and professionalism. The HR Division, as a strategic partner, has a number of initiatives under its agenda for the coming periods.

Amongst the core strategic initiatives stand the recruitment and retention of our talents - the Bank strives at recruiting the top talents through its thorough recruitment and selection process where it ensures the high potentials and professionals are selected. In FY 17, the Group onboarded 165 new recruits. Besides, as part of the Human Capital strategy the division launched a number of strategic initiatives such as the job evaluation project which aims at ensuring a fair, equitable and transparent process for comparing the relative size of jobs thus promoting equal opportunities. Besides, an Employee Engagement Survey conducted in May 2017 yielded an overall engagement index of 26% against a global benchmark of 33 %. The results of this critical organizational survey have allowed Management and the HR Division to gauge the engagement level and identify both the strengths of the Bank in terms of HR Management as well as the areas of improvement.

Going forward and in the pipeline is the talent management strategy which will have as core intent to rapidly:

- address critical talent gaps to deliver new strategies alongside the development;
- and implementation of long term talent management strategy.

Also, another long awaited strategy would be the launch of an organizational culture transformation which should assist in supporting the delivery of new strategies through concrete management practices, skill building and senior management role modelling.

The Bank has successfully launched the SBM Training Academy (as referenced below) with the vision of linking the learning activities directly to the strategy of the Group while concurrently creating a safeguard of organizational culture. One of the Human Capital strategy is to be able to retain, motivate and grow our talents, which will help us translate the strategic initiatives into viable actions. Inculcating the best banking practices to our employees through such support as onboarding programs, continuing professional development, leadership development programs, training needs analysis, career and development plans.

The HR Division has also embarked on the project of strengthening its performance management system whereby competencies matrix will be included in the appraising of colleagues' performance. A 360 degree feedback exercise has been carried out with our Senior Management team in view of gaining an insight of their current leadership styles, amongst other elements. Additionally, the Bank has recently expressed its intent of formalizing the succession planning exercise through adequate selection parameters which will result in the identification and creation of a pool of high potentials for next level roles. This exercise has started already.

The newly revised HR policy will also add to the employee satisfaction index in as much as enhanced benefits. The HR division has also been converting the employment status of staff on contractual basis to permanent basis since October 2017. The HR Division is also working on a wellness programme for all employees in view of promoting work life balance.

The Board should present a fair, balanced and understandable assessment of the organisation's financial, environmental, social and governance position, performance and outlook in its annual report.

Training and Development

In the year under review the team has worked very hard to establish and open the SBM training Academy. SBM values its staff and understand that its stakeholders expect a workforce that is competent.

- Certification Level Training – Year 2017;

ACI Dealing Certificate

ACI Operations Certificate

Certified Fraud Examiners

- AML Mandatory Training - online using Graphic Intelligent Electronic Operating Manual (GIEOM), learning platform, for refresher course;
- AML Assessment – online GIEOM; and
- Set up of SBM Academy (3 training rooms with projectors, 125 seating space, and 50 PCs).

In the next year we will be strategically focused on training and developing our staff with the following initiatives:

- Training Need Analysis – Conducted across the group
- Review of the Induction Program (10 days)
- Upon the opening of the Academy we will be focusing on the following objectives:
  - Develop and facilitate professional learning activities and programs (technical and soft skills) to maintain competence and enhance performance of the actual workforce.
  - Promote and facilitate a Knowledge Sharing Platform.
  - Provide Training Needs Analysis and identification of adequate training programs for the Bank.
  - Define and implement a competency framework in conjunction with HR.
  - Define and carry out talent identification program in order to ensure a succession plan.
  - Develop and carry out Leadership Development Programs.
  - Develop and Carry out Monitoring and Coaching Program.
  - Facilitate Research & Innovation through collaboration with local and international training institutions.
  - Enhance the Organizational Learning & Development (RD) Culture of the Bank.
  - Facilitate and implement regular events with external stakeholders.
  - Review on a regular basis the training programs based on the nature of work and its evolution, with the advent of new tools, including digital.

Corporate Governance Report (cont'd)

Environmental Report

As a national bank with global presence SBM strongly feels that we should set the example when it comes to protecting and sustaining the environment. Our island is small compared to the rest of the world but it is ours and it should be the duty of each Mauritian to do his/her part. SBM being an environment-conscious organization has embarked and implemented various sustainable and environmentally friendly projects through replacement of its lifts and air conditioning system at SBM Tower and service units, recycling of paper, LED technology lightings and fuel efficient generators.

The Bank has implemented mainly the following projects:

- Replacement of all lifts at SBM Tower with inverter technology types, thereby allowing efficient use of electricity in driving the lifts compared to the direct drive technology.
- Replacement of the building's main chillers with more energy efficient and eco-friendly ones. The new chillers make use of inverter technology and R410 gas as refrigerant, a gas which is ozone friendly compared to the previous one which made use of R22 gas which is harmful to the environment. It is to be noted that R22 gas is planned to phase out by 2020. Furthermore, the new installation has already provided for the synchronization with the DOWA (Deep Ocean Water Applications) setup; thus once DOWA project is operational, SBM Tower will be a sustainable building, operating with the use of eco-friendly Sea Water Air Conditioning.
- Besides, all R22's air-conditioning units installed at the various branches are being replaced with equipment making use of inverter technology and R410 gas as refrigerant; project which is expected to be completed by June 2018.
- Recycling of used/waste papers and documents which have reached their end of records retention period. This initiative consists of collecting the obsolete documents by a recycling company, whose responsibility is to shred, compact and export the shredded materials to be converted to usable paper thus contributing meaningfully to the "circular economy" in which materials are used and reused to provide ongoing value. This is in line with the waste management strategy whereby the three Rs (Reduce, Reuse and Recycle) are respected which is the most preferable option rather than disposing.
- At our branches, we are gradually replacing our light fittings with LED technology which uses less electricity (75 % less) and which has a service life of 25 times longer and emitting more light on a rupee-to-rupee basis than traditional incandescent bulbs. LED is a highly energy efficient lighting technology which has the potential to primarily change the future of lighting.
- Furthermore, as part of our asset replacement plan, we are substituting all our generators with more fuel efficient ones; thus helping in reducing our carbon footprint.
- We have also embarked on an e-archiving project to reduce paper consumption and paper storage

Health & Safety Report

At the moment, the Facilities Management Team follows on the building/infrastructure issues. HR is kept in the loop accordingly. We are currently in the process of finalizing recruitment for a Full Time Health & Safety Officer. Nonetheless, a report on the fire drill exercise carried out last year on 16 October 2017 was submitted to the Board.

The last Risk Assessment was conducted in 2015 and the next one was due in 2017, which has not been conducted yet since the former Health & Safety Officer resigned from his position. A new recruit is scheduled to be onboarded by mid-April 2018. The Risk Assessment will be one of her core duty for Quarter 2, whereby risks will be uncovered and assessed accordingly.

As the Bank employs more than 1,500 employees, the Safety and Health Committee has been set up consisting of both management representatives and employee representatives to participate in the decision-making process. This enables both parties to have regular feedback and communication whereby consultation and training are then conducted to create awareness and undertake initiatives.

Corporate Social Responsibility Report

1. THE GROUP CORPORATE SOCIAL RESPONSIBILITY (CSR) STRATEGY

To recall, the Group Corporate Social Responsibility (CSR) strategy revolves around supporting high impact sustainable projects, targeted at needy and vulnerable groups, with a focus on education and empowerment, on providing tools, promoting employability and combatting social ills with a view to alleviating poverty.

The Group contributes 1% of its chargeable income to CSR initiatives through the SBM Foundation which is an entity operated by SBM Group. The Foundation was set up in 2016 to spearhead all CSR initiatives within the Group to maximise impact.

The Group is convinced that education is a very important means of empowerment for our citizens to become active participants in the transformation of the society, and that education is also an essential path to get out of poverty. In this context, the main part of the Group's CSR funding has been channelled to the unique SBM Scholarship Schemes since 2010; in addition to funding of projects from social partners.

1. CSR INITIATIVES FOR FY 2017

CSR initiatives for FY 2017 are spread into 3 main sections:

I. The SBM Scholarship Scheme

II. Funding of projects from NGO partners (mainly in the fields of education and empowerment)

III. SBM staff involvement initiatives

Corporate Governance Report (cont'd)

(I) THE SBM SCHOLARSHIP SCHEME

The SBM Scholarship Scheme for bright and needy students was set up in 2010 through the SBM Education Fund with the aim to provide bright students, from low income households, with the opportunity to pursue further studies and thus be in a position to aspire for a brighter future. Since 2016, the scheme is being run under the newly set up SBM Foundation.

The SBM Scholarship Scheme is the flagship CSR initiative of the Group. We are the single largest provider of scholarships in the Republic of Mauritius. We have allocated nearly 2,250 scholarships (including some 50 students from Rodrigues Island) since 2010, with some 1,100 scholarships for the tertiary sector and some 1,100 for the vocational and technical sector.

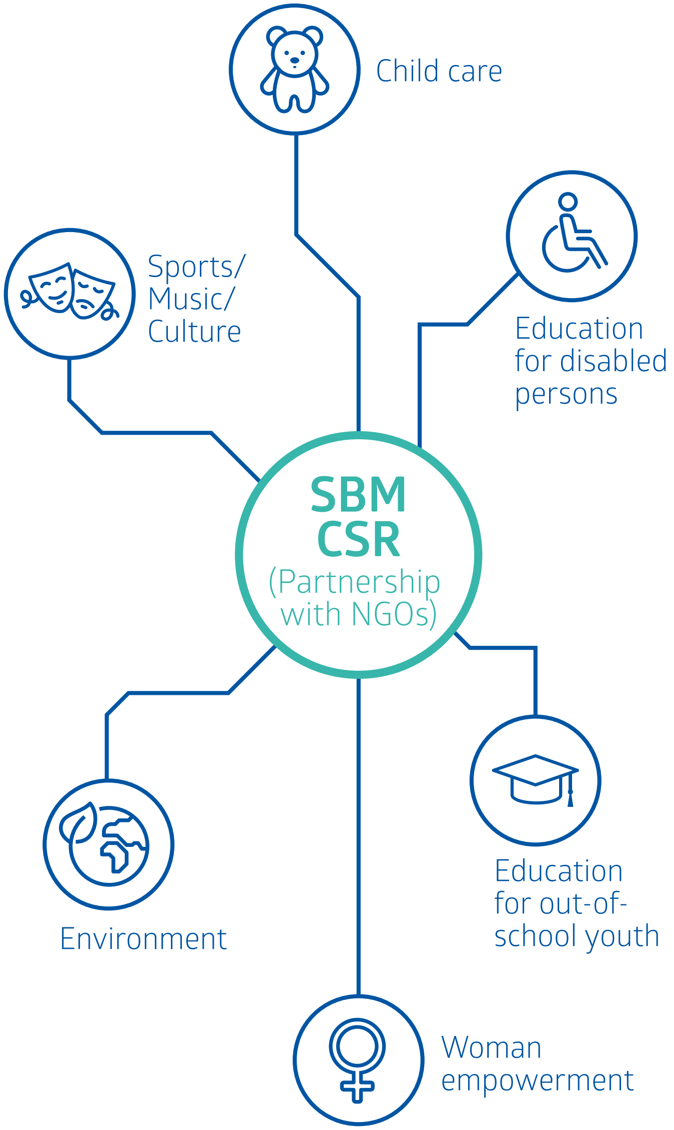
The Scheme covers full-time undergraduate courses in Tertiary Education Commission (TEC) recognised institutions in Mauritius as well as vocational courses run at any of the Mauritius Institute of Training and Development (MITD) Centres.

For more information please visit our website.

Teen Hope

This NGO which is funded by SBM, provides educational facilities to out of school children who are victims of domestic violence, abuse and extreme poverty. Teen Hope provides a centre for eighty adolescents to give them access to educational facilities. This includes a daily breakfast. At SBM we realise that these young people are the hope of our nation's future.

(II) FUNDING OF PROJECTS FROM NGO PARTNERS (MAINLY IN THE FIELDS OF EDUCATION AND EMPOWERMENT)



A. Making use of Sports/ Music/Culture as a learning tool for getting out of poverty

Projects in this category make use of an area of interest to the child (e.g. sports or music) as a pedagogical tool to impart knowledge. The concept is based on "learning through play". In addition, an educational support system can be added to this concept to ensure follow up of academic results at school as well as a social support system to the family members.

SBM Foundation has already supported 3 such projects in the past, namely Abaim, Atelier Sa Nou Vize and Sailing Pour Tous, which were renewed in 2017.

In addition, SBM Foundation identified 4 other similar projects in sub-urban / poverty areas, namely:

- Mo'Zar in Roche Bois;
- Vent d'un Rêve in Cité Mangalkhan;
- Centre of Learning in Cité Barkly;
- Sainte Croix Judo Club in Sainte Croix and Cité La Cure.

A.1 Abaim

Abaim is one of the oldest NGO partners of the Group, prior to CSR being regulated. Abaim adopts a holistic approach to poverty alleviation, empowerment and acquisition of skills through music. Their concept is based on learning through play. Abaim is presently considered as a leading NGO in Mauritius, with strong ties at grassroots level and a high level of professionalism in their approach. SBM Foundation renewed its support for the running of the Saturday Care project and the running of the musical workshop for some 120 beneficiaries.

A.2 Mouvement Forces Vives, Quartier EDC, Rose Belle (Atelier Sa Nou Vize)

The NGO was founded in 2000, and it has been very active on poverty alleviation projects in Rose Belle region, with successful projects in social housing.

The idea is to use music and sports, two fields of interest to children, to capture their attention with the objective of inculcating life skills, basic numeracy and literacy skills.

SBM Foundation is supporting this initiative through the provision of boxing and music classes to their children as well as the purchase of some equipment.

A.3 Sailing Pour Tous

Sailing Pour Tous is an NGO which aims at helping needy children to discover the pleasures of sailing in a complete and secured environment. It mainly targets children from 7 to 14 years old from vulnerable groups.

The NGO furthermore educates these children on the necessary skills related to their training and increase their awareness about the safety measures.

They presently have 50 beneficiaries. One of their beneficiaries is a professional on a Cruise ship.

A.4 Mo'Zar Espace Artistic

This association has been set up in 1996 by late José Thérèse and is one of the pioneers in making use of music to enable youngsters to acquire skills and get out of poverty. What differentiates this association from others is that its beneficiaries take part in the prestigious exams of the Royal School of Music.

SBM Foundation supported this initiative through the provision of music classes, exam fees as well as the purchase of some musical equipment.

A.5 Vent d'un Rêve

This association has been set up in 2012 and operates at Residence Mangalkhan, Floreal. The concept is similar to Abaim, Mo'Zar and Atelier Sa Nou Vize, i.e. making use of music to enable youngsters to acquire skills and get out of poverty.

They presently cater for some 150 beneficiaries.

A.6 Centre of Learning

This association which operates under Caritas Ile Maurice caters mainly for children and youngsters of Cité Barkly and its vicinity. Similar to Abaim and Atelier Sa Nou Vize, they use music as a tool to impart knowledge to get youngsters out of poverty, coupled with a school accompaniment. They also provide computer literacy courses and adult literacy programmes.They presently have some 400 beneficiaries.

A.7 Sainte Croix Judo Club

Similar to the previous organisations mentioned above, this association makes use of sports / Judo to educate children from the deprived regions of Sainte Croix and Cité La Cure.

B. Provision of Child Care services to infants and toddlers while promoting the employability of mothers

Young mothers, especially those with low level skills from poor families, are unable to undertake paid employment as the cost of a nursery is not proportionate to their expected income. With a view to breaking the vicious cycle of poverty, quality nursery facilities are being provided free of charge, thus enabling the mothers to undertake paid employment and support their family financially.

In addition, and as agreed by professionals, providing quality care at a younger age has a positive incidence on the educational possibilities of the child. And, working with their parents since an early age enables building of trust, which enhances supporting and solving social issues as well as educational follow-up in the long-term.

We are supporting 3 such projects with 3 different NGOs, in 3 different regions:

B.1 SOS Poverty ("Les Abeilles" Day Care Centre)

Since 2001, SOS Poverty has been successful in implementing various empowerment projects in Vallée Pitot and the surrounding regions. It continues to provide its support services to enhance the economic conditions of young children and adults.

One of their projects is the Day Care Centre which aims to provide free quality childcare to vulnerable groups of children from 3 months to 3 years old in a safe and stimulating environment. It caters for some 15 children.

B.2 Terre de Paix

Please see page 068 for more information.

B.3 Association des Amis de Don Bosco (AADB)

La Maison de l'Enfance is a Day Care Centre (crèche) for Early Childhood Development with some 30 vulnerable children from 3 months to 3 years old. This project aims at promoting the holistic development of children and, at the same time, provides an opportunity to the mothers from low income family to undertake income generating activities.

Shabnaz KOODORUTH

I have been a beneficiary of the SBM scholarship scheme for the past 3 years and presently a final year Occupational Therapy student at the University of Mauritius.

It is an honour for me to seize this opportunity to thank SBM for their trust in me and for their constant support. This scholarship has not only provided me with financial assistance for my studies but has also helped relieve an enormous burden from my parents' shoulders. I have always wished to pursue a career in the health sector and today, thanks to SBM, I am in the process of fulfilling this dream through my studies in Occupational Therapy.

I would like to express my deepest gratitude to the whole team at SBM for giving so many students, every year, the opportunity to access tertiary education thus paving their way to a successful career. Nelson Mandela said "Education is the most powerful weapon which you can use to change the world" and through its scholarship scheme, SBM is helping hundreds of young adults every year to arm themselves against upcoming challenges and to make a difference, a change in this world divided by wars, conflicts, corruption and discrimination. I would thus encourage all bright and needy students to apply for this scholarship and would like to end by congratulating SBM for this wonderful work they are doing and would urge them to continue this project for many years to come as "An investment in knowledge pays the best interest" (Benjamin Franklin)

C. Provision of educational facilities to disabled children

The following projects cater for NGOs running a specialised school for disabled children across the island. SBM Foundation supported 8 such projects, namely:

- APRIM - Association des Parents pour La Réhabilitation des Infirmes Moteurs ;
- Joie De Vivre Universelle;
- CEPEH - Centre pour l'Education et le Progrès des Enfants Handicapés ;
- ADSP - Association of Disability Service Providers;
- Angel Special School and Welfare Association;
- APEIM - Association de Parents d'Enfants Inadaptés de l'Ile Maurice ;
- Autisme Maurice; and
- EDYCS Epilepsy Group.

Our support catered mainly for the provision of professional services like Occupational Therapists, Physiotherapists and/ or Psychologists as there is presently a gap in the disability sector for services of professionals. We expect such an initiative will also help bring these NGOs to a higher level.

C.1 APRIM

APRIM was founded in 1987 and provides day care facilities presently for 27 children and young adults who are affected by cerebral palsy.

SBM Foundation had organised a CSR event on the occasion of the Mandela Day in 2016 at APRIM, together with the High Commissioner of South Africa, in the presence of the Chairman of SBM Holdings Ltd.

C.2 Joie de Vivre Universelle

The NGO, operating in Beau Bassin and Quatre Bornes, launched a Therapy Centre in 2014. The aim of the project is to provide appropriate educational opportunities for 11 children with intellectual impairments through specialised education. The targeted audience consists mainly of children suffering from Down syndrome, Autistic Spectrum Disorder or Attention Deficit Hyperactivity Disorder.

C.3 CEPEH

The centre was set up in 1996, and aims at providing necessary care for children with mental retardation based on a special programme. It presently caters for some 65 beneficiaries. SBM Foundation is supporting this NGO financially for the services of professionals as well as the setting up of a multi-sensory room.

C.4 ADSP

ADSP operates since 2003 at Long Mountain. They presently have some 80 beneficiaries. SBM Foundation supported the professional services of Occupational Therapists, Speech and Language Therapists as well as educational equipment and furniture.

C.5 Angel Special School and Welfare Association

This NGO operates since 2009 in the Southern region. They presently cater for some 60 students in their special school and their therapy centre. We supported them through Physiotherapists and Speech Therapists, as well as hydrotherapy sessions, provision for a shelter and a follow up of their services in Rodrigues Island.

C.6 APEIM

APEIM has been set up in 1970 and is a leading organisation in the disability field. They usually impart training to teachers of other special schools across the island.

One of their services is the «Intervention Précoce» which has as objective to identify disability at a younger age as it is easier, less costly and more effective the earlier a child is diagnosed and taken care of. They also educate/train/support parents in this critical phase as well as encourage a follow-up with the local preschool.

The Group supported this project mainly through the services of the professionals, transport and equipment. This project is reaching out to 110 beneficiaries plus their parents through six regional centres.

C.7 Autisme Maurice

Autisme Maurice has been set up in 2010. They presently operate 2 schools, namely in Quatre Bornes and Notre Dame with 38 beneficiaries as well as a diagnosis centre to enable identification at an early age for 150 persons. They are the only organisation in Mauritius catering exclusively for autistic children. In addition, they provide support and training to parents.

The Group supported this initiative through the services of Speech and Occupational Therapists and equipment/furniture.

C.8 EDYCS Epilepsy Group

EDYCS operates since 1997. They presently cater for nearly 1,500 beneficiaries through various services, namely medical, psychological and therapeutic support, a special school, community educational services, entrepreneurship program, amongst others.

They are the only organisation in Mauritius catering exclusively for epilepsy patients. SBM Foundation supported their schooling services and thus enabled 24 beneficiaries to attend school.

SBM Foundation has funded the provision of specialised personnel and equipment.

D. Provision of educational facilities to out-of-school youth

The youth represents the future of the country and with the present educational system, there is also a need to support the out-of-school children In addition to the scholarships provided to the vocational sector through the MITD, the Group moved one step further to support associations feeding students to these centres.

D.1 Adolescent Non Formal Education Network (ANFEN)

ANFEN exists since year 2000; it is a network of 19 centres which promotes informal education for school drop-outs. An inclusive pedagogy is proposed to bridge the gap and enhance the integral development of the adolescents. In parallel, support is provided to the families and the beneficiaries through a psycho-social strategy.

The adolescents in the centres have not been able to adapt to the formal academic pedagogy. This has created a high rate of drop outs. ANFEN looks after 1,177 "out of school" adolescents directly, and the number of indirect beneficiaries is approximately 5,000 persons in 23 localities.

SBM Foundation has been supporting this NGO since 2015 and has noted a better profiling of beneficiaries, an improvement in the quality of interactions with Social Workers and more referrals to other NGOs and Authorities for auxiliary services.

In addition, SBM Foundation encouraged and supported ANFEN into rethinking its mission, its modus operandi and its services after 17 years of good work, mainly in line with the educational reform in Mauritius.

D.2 DLD Teen Hope School Project

DLD Teen Hope School Project, being under the responsibility of the Noyau Social Cité La Cure, has a mission to support poor children victims of neglect and violence to become responsible citizens.

The NGO caters for boys and girls between 12 and 16 years old not attending school (mainly those having failed CPE twice), aiming to give all of them a basic education in literacy, numeracy and life skills so that they become responsible citizens.

The Group enabled 80+ adolescents to have access to educational facilities (including a daily breakfast to the students).

D.3 Gandhian Basic School (GBS)

GBS, which functions under the aegis of the Mahatma Gandhi School (MGI), provides pre-vocational education to around 120 teenagers (having failed CPE and residing in the region of Moka).

The partnership with GBS started in 2010 with the setting up of a hydroponics project and the provision of a balanced meal to some 120 needy students attending GBS.

As far as the "balanced meal project" is concerned, the latter has brought about a positive change in the attendance rate of students: from a low 35% before the start of the project to above 80%, and has thus been renewed for subsequent years.

E. Women Empowerment at the grassroots level

In line with the Group's strategy to empower vulnerable groups and the intention to promote entrepreneurship, SBM Foundation supported 2 projects aiming at women empowerment.

E.1 Gender Links Mauritius

Gender Links Mauritius operates since 2008. It has a special focus on empowering women in general. It has been running an entrepreneurship program for women in underprivileged areas for the last couple of years including mentoring from successful entrepreneurs. SBM Foundation supported the running of a similar programme for 60 women from 4 different regions.

E.2 Falcon Citizen League

Falcon Citizen League operates in Bois Pignolet (near Notre Dame) since 2004. It makes use of agriculture as a means to help people get out of poverty. It has been running backyard or kitchen gardening programmes for women from underprivileged regions in the vicinity. It also works towards food security.

They are training 30 women in bio farming, which is a niche market.

I am actually a Year 2 student at the University of Mauritius, pursuing a degree in BSc (Hons) Business Economics and Investment Analysis.

Being an ex-student of Rodrigues, it was a dream for me to pursue my tertiary education in Mauritius but due to financial instability prevailing at that time it was quite difficult for my family to allow me to go abroad. HSC results announced, it was time for me to decide which path to take, whether to go to Mauritius for further studies or to let my financial condition take control of my future. Few weeks after the results' announcement, I came across with the SBM scholarship advert which was proposing voluntarily to finance full degree courses. It was obviously an opportunity that I couldn't neglect, so I decided to apply and some time later it was with great pleasure and relief that I received my letter of acceptation.

Without a doubt, this scholarship plays a key role in achieving my dream. Because of your generosity, the financial burden placed on me to pursue my study is now reduced. This means I can now spend more time studying and worrying less about my finances.

Moreover I would like to express my greatest appreciation and gratitude to the SBM Scholarship Scheme Team for taking such a good initiative. These scholarships may be unnoticed for high class individuals but for the needy one it is meaningful. Without this scholarship, actually I would still be in Rodrigues, not only me but also many other beneficiaries would have not been able to pursue their educational path.

On my part I would like to encourage students to apply for the scholarship. "A quality education grants us the ability to fight the war of arrogance and poverty" (Charles Rangel)

Thank you for trusting in me.

Anne Sophie Charline CLAIR

Corporate Governance Report (cont'd)

F. Environment and Conservation	F.1 Mauritian Wildlife Foundation (MWF)
SBM Foundation also supported one environmental project.	MWF exists since 1984 and is a landmark organisation in the field of environment and conservation on the island with recognition at international level for its laudable work. One of the activities of MWF is the conservation of our islets namely Ile Aux Aigrettes, Ile Aux Phares and Ile Ronde. The project consists of the cleaning, weeding and conservation project along with the involvement of staff members from the Group as from 2018.

(III) SBM STAFF INVOLVEMENT INITIATIVES

As part of the Group's strategy to encourage staff members to adopt a culture of sharing with those in need, staff members were requested to participate during festive seasons. For example, the CSR Team facilitated the sales of more than 4,000 Divali lamps to SBM staff members. The lamps are manufactured by the intellectually impaired young adults from the centre of APEIM (Association des Parents d'Enfants Inadaptés de l'Ile Maurice).

Christmas was also celebrated with some 75 elderly persons at Mère Teresa Home in Port Louis on 24 December. Refreshments and snacks were served to the persons, in addition to distribution of non-perishable items.

Terre de Paix

Terre de Paix is an NGO that provides childcare services to infants and toddlers to assist and promote employability for young mothers. SBM has partnered with this important initiative in a bid to contribute to the economic enhancement of families in Mauritius.

Out of the twenty one mothers that the NGO has assisted, nineteen have been able to find employment.

Besides childcare, the children are given a balanced meal and the trained staff engage the children in age appropriate games to provide a fun and stimulating environment. Terre de Paix is also committed to building the family unit


SBM
SBM

Corporate Governance Report (cont'd)

Principle Seven – Audit

Directors' responsibilities

The directors are responsible for the preparation and fair preparation of the financial statements in accordance with International Financial Reporting Standards and all the requirements of the Companies Act 2001, the Banking Act 2004 and Financial Reporting Act 2004 and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Any deviations on the above will be reported by the independent auditor's report attached to the financial statements.

Proof of proper process in appointing Auditors

We launched a tender exercise in early 2015 to the Big 4 audit firms in Mauritius along with requests for questions. The queries were combined and responded to all firms for submission of proposal with a reasonable timeframe. We (management and some directors) went through a selection process and interviews with each audit firm whereby the current audit firm was selected and recommended by management and audit committee to the board for approval.

Each quarter, the external auditors meet the members of the Audit Committee without the presence of management, during which meeting the financial statements of the Bank and the accounting principles adopted are discussed.

Each year the Audit Committee evaluates the external auditor in fulfilling their duty to make an informed recommendation to the Board whether to retain the auditor. The evaluation encompasses an assessment of the qualifications and performance of the auditor; the quality and candor of the auditor's communications with the Audit Committee and the Bank; and the auditor's independence, objectivity and professional scepticism.

Organisations should consider having an effective and independent internal audit function that has the respect, confidence and cooperation of both the Board and the management. The Board should establish formal and transparent arrangements to appoint and maintain an appropriate relationship with the organisation's auditors.

External Auditors

The current auditors, Ernst & Young, are in office for the last 3 consecutive years for the audit of the financial statements for years 2015, 2016 and 2017. The Bank will comply with the Banking Act and will ensure that the auditors are rotated after a period of 5 years.

Auditors' fees and fees for other services

	2017 Audit MUR'000	2017 Other Services MUR'000	2016 Audit MUR'000	2016 Other Services MUR'000
Ernst & Young				
SBM Bank (Mauritius) Ltd				
Statutory Audits and quarterly reviews	7,133	-	7,536	-
Other auditors				
SBM Bank (Mauritius) Ltd (Indian Operations)				
S R Batliboi & Associates	1,533	-	999	-
Total	8,666	-	8,535	-

The report of Ernst & Young, external auditors is annexed to the Financial Statements of the Bank.

Internal Audit

The role of the Internal Audit function at SBM Bank (Mauritius) Ltd is to provide independent and objective assurance to Management and to the Board of Directors through the Audit Committee. By following a systematic and disciplined approach, Internal Audit helps the bank to accomplish its objectives by evaluating and recommending improvements to operations, internal controls, risk management systems, and governance process.

The Internal Audit department is governed by an Internal Audit charter approved by the Audit Committee. Internal Audit reports directly and functionally to the Audit Committee while it reports administratively to the Chief Executive of the Bank. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee. Moreover, the Head has regular meetings with the Chairman of the Audit Committee, in the absence of Management representatives, thereby further establishing Internal Audit's independence. Also in order to maintain objectivity, Internal Audit is not involved or responsible for any area of operations. The structure and key members profile of the internal audit is available on the website of the Bank.

The Audit Committee reviews and approves Internal Audit's plan and resources, and evaluates the effectiveness of the function. All areas of activity of the Bank fall under the scope of Internal Audit. Audits are conducted following a risk-based audit methodology which is in line with global best practices. The very basic principle is that high risk areas are audited on a more frequent basis. All key processes at the Bank are audited to identify key risks and to assess control adequacy and effectiveness. Audit procedures are designed in response to the risks identified. Audit findings are discussed and finalized with the respective Heads of Departments and Management. A summary of the audit reports is thereafter tabled at the Audit Committee, on a quarterly basis. The findings as well as the methodologies are reviewed and discussed at large with the Chairman and other members of the Audit Committee.

The Internal Audit team at SBM Bank (Mauritius) Ltd is composed of auditors with a mix of banking and auditing experience. Senior team members are fully qualified auditors/accountants, while the other members are pursuing their studies in that direction. In addition, Internal Audit has certified information systems auditors to audit the information technology used by SBM. Since 2016, Internal Audit is equipped with Pentana Audit Work System (PAWS), which is an audit software designed to manage and automate a wide range of audit operations.

Corporate Governance Report (cont'd)

During the year 2017, over and above the IT Audit cluster, 3 other clusters (Credit, Operations & Others) were set up within the department. The objective is to have Internal Auditors specializing in specific areas, thus enhancing the quality and depth of audits being performed. Going forward, each cluster will be under the responsibility of an Audit Lead, who will in turn report to the Head.

During the year under review, Internal Audit completed 33 out of the 35 core audits planned, representing over 90% completion. Key risk areas such as Credit, Treasury, Finance or Operations were fully covered. All the Service units (branches), including Rodrigues branch, were covered at least once. Quarterly reviews on key risk areas were introduced during the year, with the objective of highlighting areas of potential concern and thereby raising early warning signals for timely corrective actions. The IT Audit team has completed 70% of its approved plan. The critical systems were covered. A higher completion rate could not be achieved due to staffing issues.

Internal Audit also extended its capabilities and specialisation to non-audit services such as conducting analytics, validation of interest computation on specific accounts and investigations amongst other special assignments. In 2017, 16 investigations were completed by the team.

In 2018, Internal Audit intends to build up on its momentum. The 2018 audit plan will follow the same risk based approach, however with greater coverage. New areas such as IFRS 9 and common reporting standard reviews have been included. One of the key initiatives for Internal Audit will be the implementation of a data analytic tool, which will allow analysis of large volumes of data in order to detect anomalies up to the transaction level in near real time. Another important initiative will be to strengthen the IT Audit team with qualified and experiences resources.

In the years to come, along with the Bank's targeted growth, Internal Audit will be called upon to be an important player in this strategic objective.

Principle Eight – Relations with Shareholders and Other Key Stakeholders

Shareholders

The immediate holding company of the Bank is SBM (Bank) Holdings Ltd which is wholly owned by SBM Holdings Ltd. The Bank holds its Annual Meeting every year and the shareholders receive Notice of Annual Meeting and a copy of the annual report of the Bank timely prior to the Meeting.

Stakeholders

The Bank has defined its stakeholders as those groups which significantly influence or are influenced by the economic, environmental and social performance of SBM. The Bank has identified its stakeholders based on the risks and opportunities for its business performance, strategy execution and strategic objectives relevant to the national landscape.

SBM continuously engages with its stakeholders to understand their priorities and concerns through benchmarking, sector meetings, client surveys and direct contacts. SBM's key stakeholder groups, and its interactions with those stakeholders are:

Clients

SBM is in daily conversation with its clients about project expectations and projections. In addition, SBM organises client meetings to share knowledge, best practices and innovation within its value chain.

Financial Partners

Communication with investors, financial institutions and the financial community in general is actively pursued and usually takes place through investor meetings and presentations, investment meetings and press releases. The main recurring topics of discussion are financial performance, transparency and control.

Employees

SBM's employees are the company's most important asset. As part of SBM's performance management process, the personal learning and development plans of employees are evaluated annually between manager and employee. The most important discussion points are development plans and expectations.

Suppliers

SBM engages with suppliers with due process ensuring that the best service is rendered with value for money. Wherever possible local suppliers are contracted for work in a further effort to support the local economy.

Community

By its nature, the banking activity of SBM has an impact on local communities, residents and other users of buildings and on infrastructure and society as a whole. We take our responsibility very seriously. For more information, please refer to the Environment and Social Sections contained within this report.

The Board should be responsible for ensuring that an appropriate dialogue takes place among the organisation, its shareholders and other key stakeholders. The Board should respect the interests of its shareholders and other key stakeholders within the context of its fundamental purpose.

Corporate Governance Report (cont'd)

Regulators

We view our relationships with the regulators as critical to the success of our bank and the sustainability of our brand. We view these relationships as strategic partnerships to ensure that we uphold and maintain global best practices with full transparency

Below is a table depicting the activity relating to stakeholder management for the period under review:

HOW DO WE ENGAGE WITH OUR STAKEHOLDER	THEIR CONTRIBUTION TO VALUE CREATION	WHAT OUR STAKEHOLDERS EXPECT FROM US AND KEY ISSUES RAISED	OUR RESPONSE TO STAKEHOLDER'S CONCERN
Shareholders, debt holders and investment analysts			
• Integrated Annual reports • Published interim results on a quarterly basis • Regular presentation and roadshows • Annual General Meeting • Analyst briefings and regular investor presentation • Stock Exchange Announcements • SBM Website • External newsletters • Electronic communication • Reviews by rating agencies	Investors, shareholders and debt holders are a key source of financial capital to support the business operations and sustain growth.	• Sustainable and attractive return on investment realised over time through dividends, interest and share price growth • Strong leadership which provides strategic direction and execution • Focus on exemplary corporate governance and ethics • Managing risk, capital and liquidity within an appropriate risk appetite	• Management has clear financial targets which are communicated. These targets are being monitored by top management to increase profitability and improve key operational ratios via improvement in product offerings in banking sector, diversification of non-banking segment, developing international business in under-banked high-growth geographies, well contained cost to income ratio, growth in advances and deposits amongst others. • The Board and its various sub-committees have oversight responsibilities in relation to risk management, ensure good corporate governance is in place, adherence to internal policies and will ensure that the proper strategies and decisions are being adopted and taken respectively for long term value creation. • No major shareholder's influence on operations.

HOW DO WE ENGAGE WITH OUR STAKEHOLDER	THEIR CONTRIBUTION TO VALUE CREATION	WHAT OUR STAKEHOLDERS EXPECT FROM US AND KEY ISSUES RAISED	OUR RESPONSE TO STAKEHOLDER'S CONCERN
Customers			
• Promotional and marketing campaigns • Relationship managers, customer meetings and site visits • Customer service • Media (including social media and website) • Roadshows • Delivery channels • Surveys and focus group to measure quality of service and listening to customer's concerns • Events • Communication including electronic, phone calls amongst others. • Give aways	Customers purchase our products and services to achieve their financial goals and provide the basis for our continued growth.	• Reliable client service, experience and quick turn-around time • Enhanced customer-staff interactions • Proper handling of complaints • Access to financial services that are cost-effective, easy to use and convenient. • Offering innovative and tailor-made products that meet their financial needs. • Trading fairness • Protection against fraud and safety of personal data (customer privacy and data security) • Timely direct communications on changes • Physical infrastructure	• We aim to provide "unique customer service experience" via investment in technology, which will help us to raise the level of service. • We have articulated expected employee behaviours and are rolling out related training programs in that respect. • We are investing into new product and services offerings based on customer feedback, market insights and we ensure that they are easily accessible. • We have a dedicated contact centre and complaints desk. • We continually increase customers' and clients' awareness of cyber threats and how to prevent them. On the other hand, we invest significantly in secured IT systems.

Corporate Governance Report (cont'd)

HOW DO WE ENGAGE WITH OUR STAKEHOLDER	THEIR CONTRIBUTION TO VALUE CREATION	WHAT OUR STAKEHOLDERS EXPECT FROM US AND KEY ISSUES RAISED	OUR RESPONSE TO STAKEHOLDER'S CONCERN
Employees, Management and Directors			
• Integrated Annual Report • Induction course • Talent retention programme and scholarship schemes • Conferences, team engagement sessions and performance management discussions • On-going training and team building • Regular internal meetings and workshops • CEO and other executive members roadshows (Examples town-hall events) • Welfare activities such as SBM park • Electronic communication via SBM intranet sites, social media and emails • Internal newsletter • Cultural events • Team members surveys and feedback • Supporting communities • Trade Union and Collective Bargaining Agreement	• Employees and management supply the necessary skills and expertise to deliver on our promises to stakeholders.	• A safe, stimulating and rewarding work environment with open communication with management • Fair remuneration and benefits • Opportunities for career and personal development • Effective performance management and recognition	• Provide competitive remuneration and benefits packages to be the employer of choice • Provide on-going training and education • Open communication between employees and management • Employee wellness programmes aligned to local and international best practice • Integration of performance management into key development programmes for skills and personal development. • Use the findings of our employee survey to create tailored action plans to address areas needing improvements. • Collective bargaining agreement in place.

HOW DO WE ENGAGE WITH OUR STAKEHOLDER	THEIR CONTRIBUTION TO VALUE CREATION	WHAT OUR STAKEHOLDERS EXPECT FROM US AND KEY ISSUES RAISED	OUR RESPONSE TO STAKEHOLDER'S CONCERN
Government and regulators			
• Onsite visits and compliance inspections • Written communications • Filing of returns and reports with all regulators • Regulatory Dialogue Programme which invites regulators to address our executive team views on emerging regulation. • Participation in forums, conferences and workshops • Regular meetings with regulators	• Government and regulators provide us with our licence and regulatory framework in which to operate.	• Compliance with relevant legislation and operating in a transparent manner.	• Engage constructively on new policies and regulations affecting Group operations • Compliance with existing rules and regulations • Transparency in disclosures of any relevant information • Ensure on-time filing of reports& returns and payment of relevant fees and taxes. • Proper composition and well defined duties of the Board and Board Committees in place • Fair business practices
Suppliers and Strategic Partners			
• Expression of interests • Vendor assessments • Tender process • Contract management and renewal • Ongoing supplier relationship management, supplier visits and one-to-one meetings. • Fairs and exhibitions • Incident handling and escalation	• Suppliers are critical for our business by delivering high quality and innovative products and services to sustain growth. • Critical to support our systems and fixing issues • New services so that our services are faster and improved.	• Fair and reasonable contract terms • Timely payment and renewal of contract • Trade fairness • Participation in events • Timely decisions • Work in a spirit of partnership • Understanding of business roadmap • Good supplier relationship	• Fair payment practices

Corporate Governance Report (cont'd)

HOW DO WE ENGAGE WITH OUR STAKEHOLDER	THEIR CONTRIBUTION TO VALUE CREATION	WHAT OUR STAKEHOLDERS EXPECT FROM US AND KEY ISSUES RAISED	OUR RESPONSE TO STAKEHOLDER'S CONCERN
Communities			

• CSR programmes
• Donations
• Media coverage and other social networks
• Sponsorships
• Staff engagement
	• Being engaged actively in the community is an effective way to hear from the people that we serve and this will enable us to grow further and achieve our goals
	• Communities act as a brand ambassador
		• Helping to provide a sound environment through job creation and undertaking community development programmes in areas of need
		• Helping the communities at large to
		  • Empowerment
		  • job creation
		  • development of the country
			• Provision of tools and opportunities to vulnerable groups
			• Investment in CSR projects
			• Sponsorships

Remediation

As previously stated the board has taken steps to remediate the aspects of Corporate Governance to which they have not complied namely;

- Addressing the gender balance on the board
- Conducting an independent board evaluation

Gender balance on the board

For the year under review the board under the leadership of the Corporate Governance & Conduct Review Committee took cognisance of the requirements of the new Code for Corporate Governance. It sets about looking for a suitable candidate who had the correct knowledge, skills and expertise required to add value to the board.

Although a suitable candidate was found in Mrs Lim Hoye Yee towards the end of 2017 the Bank found it critical to follow due and appropriate appointment processes. Thus, her appointment to the board as per the Bank of Mauritius requirements was only confirmed in February 2018. As at the time of the production of this report, the Board is compliant with all aspects of Principle Two.

Conducting an Independent Board Evaluation

In December 2017 the SBM Group approved a proposal for an independent board evaluation for the entities of the Group.

In January 2018, the Board contracted the services of Reverend K Andersen, a professional board evaluator to conduct a full independent board evaluation. This has been done and the Board will seriously consider the findings and recommendations contained in the final report.

Other Statutory Disclosures

Directors' service contract

Mr Dussoye as Chief Executive is on a service contract of three years starting 16 February 2018.

Significant Contract

No contract of significance other than loans and credit facilities granted in the ordinary course of business subsisted during the year under review between the Bank/Group and any director of the Bank either directly or indirectly.

Directors and Officers Liability Insurance

The Bank has subscribed to a Directors & Officers Liability Insurance policy in respect of legal action or liability that can arise against its directors and officers. The cover does not provide insurance against fraudulent, malicious or wilful acts or omissions.

Charitable and Political Donations Report

SBM does not make any political donations to any party or any politically affiliated organisation. The donations for the year 2017 was awarded to :

Donations	2017 (MUR'000)
Contribution to SBM Staff Children Education Fund	1,545
	1,545

Corporate Governance Report (cont'd)

Statement of Compliance

Name of Public Interest Entity: SBM Bank (Mauritius) Ltd

Reporting Period: 1 January 2017 to 31 December 2017

We, the directors of SBM Bank (Mauritius) Ltd, confirm that to the best of our knowledge the Bank has not complied with principles two and four of the Code. Reasons for non-compliance have been annexed to this statement of compliance on page 78.

NAYEN KOOMAR BALLAH, G.O.S.K

Chairman

PHILIP AH-CHUEN

Chairman – Corporate Governance & Conduct Review Committee

22 March 2018

RISK MANAGEMENT REPORT

- Why does risk management matter?
- Executive Summary
- How are risks managed?
- A snapshot of the Principal Risks
- Credit and Counterparty Risk Management
- Market Risk Management
- Operational Risk Management
- Capital Management

Managing Risk in a structured and proactive way in delivering our Strategy

“We value a **RIGOROUS** risk management as an integral part of our **GROWTH STRATEGY** across all lines of business. It is a means to ensure **SUSTAINABLE** value is created in a responsible manner for all stakeholders and investors. SBM aims at a **BALANCED RISK** and **REWARD RELATIONSHIP** within set risk appetite as the organization acknowledges there is **NO REWARD WITHOUT RISK**.”

Why does risk management matter?

Risk Management has been transformed over the past decade, largely in response to regulations that emerged from global financial crisis and to various types of continuously changing risks such as financial and non-financial risks that are inherent in its business activities.

As a diversified financial institution, SBM Bank (Mauritius) Ltd embraces risk management as a core competency of its strategy to support business in delivering sustainable growth and help to reinforce its resilience by adopting **a holistic and forward-looking approach to risk management**.

> At SBM, risk is a shared responsibility and is an intrinsic part of all decision-making.

An essential part of the Bank's risk management process is to proactively identify, assess, monitor and manage a broad spectrum of top and emerging risk through the risk management framework which assists the Bank in managing its risk-taking activities and ensuring they are within our risk appetite to maximize sustainable shareholder value.

These risk management framework elements are discussed in more detail on page 88.

Executive Summary

2017 was a year of considerable challenges in terms of regulatory changes and difficult operating environment. With a prudent risk appetite framework, taking into account the IFRS 9 and Basel III requirements, the Bank observed a continued progress in the management of risk, underpinned by optimised use of capital and strong balance sheet management with all metrics above regulatory thresholds as illustrated below.

1. Comprehensive and consistent risk frameworks

PROGRESS IN 2017

> A constructive and holistic approach to enhance the risk management framework with appropriate governance and oversight whilst embedding ownership and responsibility for conduct across all entities in a systematic and sustainable manner

> Aligning the risk appetite statements with the Bank's strategy by balancing growth and controls through a simplified business model

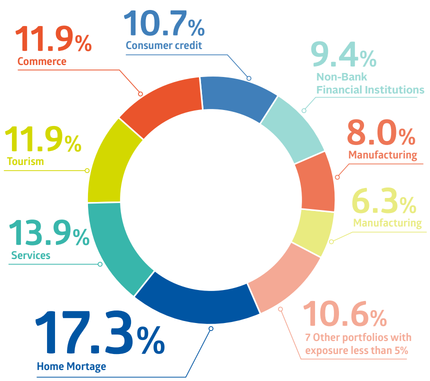
> Driving diversity and promoting initiatives such as upskilling employees and senior management via workshops or webinars to adapt to the changing operating environment due to the rise of new regulatory changes, digitisation and automation

FOCUS FOR 2018

> Instil a culture of excellence by improving the expertise and enhancing the skills of our people and how we work together to enhance and strengthen our risk culture

> Improving process efficiency and productivity by establishment of clear roles and responsibilities and to serve clients better

2. A diversified credit portfolio



PROGRESS IN 2017

> Adjusting our Bank credit risk appetite to reflect concentration risk limits by country, industry, bank counterparty, single and group borrower

> Calibrated risk rating tool to reflect the economic business environment in which the customers operate

> Developing internal country and bank risk frameworks at Bank level and assess its effectiveness through stress testing capabilities

> Diversify our portfolio by reinforcing our presence in new markets

FOCUS FOR 2018

> Conduct a risk-based approach by considering IFRS 9 impact while maintaining a good balance between risk and return

> Proactively manage risks to assess the impact of future macroeconomic events

Executive Summary (cont'd)

	PROGRESS IN 2017	FOCUS FOR 2018
3. A strong balance sheet management LOAN TO DEPOSIT RATIO **71.17 %** **(Dec 16: 69.3%)** LIQUIDITY COVERAGE RATIO **127.48 %** **(Dec 16: 115.59%)** NET STABLE FUNDING RATIO (MAURITIUS OPS) **111.71 %** **(Dec 16: 125.34%)**	> Balance sheet remained resilient, both in terms of its stability given the difficulties our clients faced and in meeting our various regulatory requirements > Maintained disciplined cost management > Proactive management of the liquidity coverage ratio and net stable funding ratio with a pragmatic approach > Monitoring investments in High Quality Liquid Assets to continuously meeting the Liquidity Coverage Ratio requirement > Bank's core MUR deposits represented over 90% of the total funding, unchanged from previous year, which is adequate to mitigate the related liquidity and funding risk	> Actively manage the balance sheet and optimise risk-weighted assets for better returns > Increased focus to deliver positive shareholder value through diversification of revenue sources and encourage small business to grow, thus contributing positively towards the welfare of the economy

4. Sound capital and liquidity management
 	
Tier 1
12.15 %
(Dec 16: 12.93%)
 	
Capital Adequacy Ratio
13.75 %
(Dec 16: 14.85%)
	> Capital remained adequate, taking into account risk appetite, its growth and strategic targets with the following capital ratios above the minimum regulatory requirement;
	  > CET1 of 12.15%, above the minimum regulatory requirement of 6.50%
	  > Total CAR at 13.75%, within the minimum regulatory requirement of FY17: 11.125, FY18: 12.375%
		> Enhance capital efficiency while maintaining a strong risk oversight and further improve the quality of our funding base
		> Optimising geographic portfolios by selectively reshaping sub-scale unprofitable markets and prioritising more profitable markets
		> Further enhanced our systems to ensure compliance with liquidity regulations, focusing specifically on daily liquidity reporting across all entities

	PROGRESS IN 2017	FOCUS FOR 2018
5. Prudent provisioning coverage **Net Impaired Advances as a % of Net Advances** **1.1%** **(Dec 16: 2.60%)** **Specific Coverage Ratio** **64.1 %** **(Dec 16: 62.14%)**	> Continued focus on prudent risk management and enhanced the effectiveness of our recovery capability > Our provisioning remains prudent and our write-off policy remains unchanged > The total provisioning as a percent of total advances stood stable at 3.28%	> Implementation of the IFRS 9 requirement and adoption of a proactive risk management and selective origination > Focus on early warning signals to manage any areas of weaknesses on a proactive basis > Continued prudence in provisioning
6. Stable non-financial risk environment	> Continuous monitoring of operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Bank > Investing in measures against cyber-risk, data security and fraud to manage financial crime risk > Roll-out of new risk self-assessment process and controls throughout the organisation > Enhancement of the reputational risk model and elements used to mitigate it > Adoption of green building principles and measures to reduce the environmental impact of activities	> Enhance controls, systems and processes to adapt to the evolving financial crime landscape and new challenges associated with digitalisation > Adopting an integrated compliance approach to address the demands of the changing regulatory environment > Enhance the environmental and social risk appraisal system and broadening the remit of the environmental and social risk business unit to strengthen our capacity to identify, mitigate and manage associated impacts

How are risks managed?

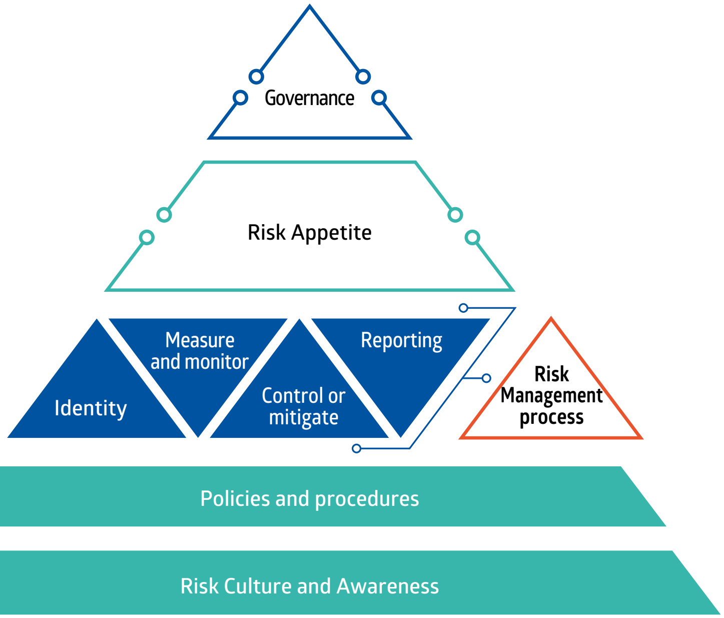
The Bank risk management ensures that the full spectrum of risks faced by the Bank are properly identified, assessed, measured and managed in the pursuit of its goals.

The Bank has adopted a risk and governance framework that enables management to maximise risk adjusted returns while remaining within the Board-approved risk appetite and risk tolerance levels. This approach ultimately ensures the protection of the Bank's reputation and is consistent with its objective of increasing shareholder value. The material types of risks the Bank faces are detailed on page 98.

The following section details key elements of how risks are managed at SBM;

A robust risk management framework

The Bank has an integrated and robust risk management framework which aligns strategy, policies, people, processes, technology and business intelligence to identify, assess, manage and report risks and risk-adjusted returns in a reliable and consistent manner.



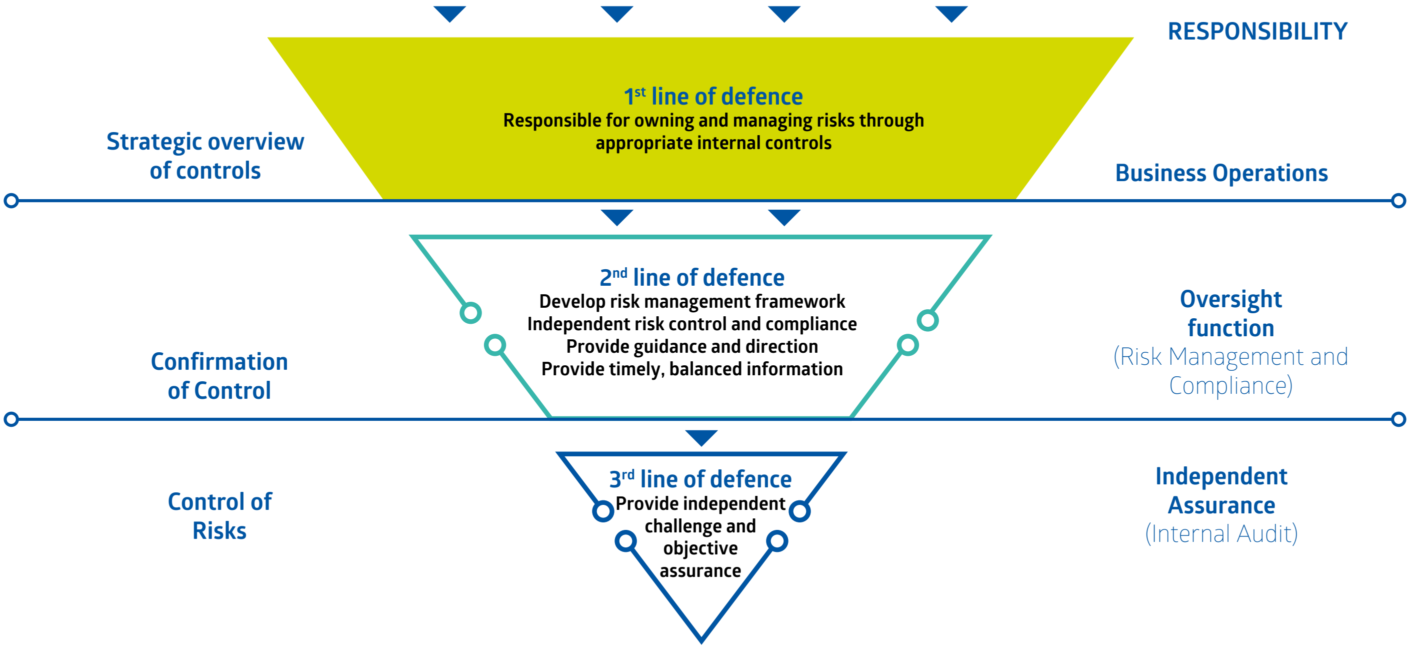
“The framework is based on transparency, management accountability, independent oversight which is comprehensive enough to capture all risks that the Bank is exposed to and has flexibility to accommodate any change in business activities in line with the Bank’s efforts to maximise sustainable shareholder value. The framework is subject to constant evaluation to ensure it meets the challenges and requirements of global markets in which it operates including meeting the regulatory requirements and industry best practices.”

How are risks managed? (cont'd)

The three lines of defence

The Bank's philosophy is that responsibility for risk management resides at all levels within the organisation and therefore uses the three lines of defence model which promotes transparency, accountability and consistency through clear identification and segregation of risks.

The Bank's risk management framework is founded on the three lines of defence principle which ensures that risk is managed in line with the risk appetite as defined by the Board and the importance of its management is effectively cascaded throughout the Bank.



The **First line of defence** has the responsibility to identify and manage risks on a day-to-day basis at an operational level in accordance with agreed appetite, policies and controls.

The **Second line of defence** functions provide independent oversight and assurance and ensure that specific risks are managed effectively as close to the source as possible. It sets the frameworks within the parameters and risk appetite set by the Board and reports to the management and Board governance committees.

The **Third line of defence** is the Audit function which provides an independent and objective assurance to the Board and senior management on the effectiveness of the first and second lines of defence.

A risk-awareness culture

SBM's risk culture provides a guiding principle for the behaviours expected from all stakeholders when managing risk. It is embedded in its business operations and people's mindset

During the year, Board has approved some high-level statements to create a disciplined approach to risk management and to ensure we only accept risk for which we are adequately compensated.

Main elements of the risk culture:

Tone from Top

Directors and employees are required to consistently demonstrate professional and ethical conduct in accordance with the principles of integrity, accountability and transparency, thus promoting and maintaining trust throughout the organisation.

Focus on Principal and Emerging Risks

This enables creating proactive approach on the key risks and mitigating strategies in place to manage such risks and making front liners more accountable. This facilitates more dynamic risk identification and enables the Bank to establish a clear linkage between decision making and risk management as well as identifying and managing correlations across risk types.

Robust Risk Governance

This ensures that regulatory and business requirements are fully embedded in our business processes and governance frameworks, aligned with the risk appetite incorporating training processes at all levels, robust control mechanisms and a complete and detailed framework of the policies and processes for managing and controlling risks.

"For 2018, the Bank plans to strengthen the conduct environment by engaging in risk culture awareness initiatives throughout the organisation as it expects front-liners to demonstrate a high-level awareness of risk and control by self-identifying issues and managing them in a manner that will deliver positive change."

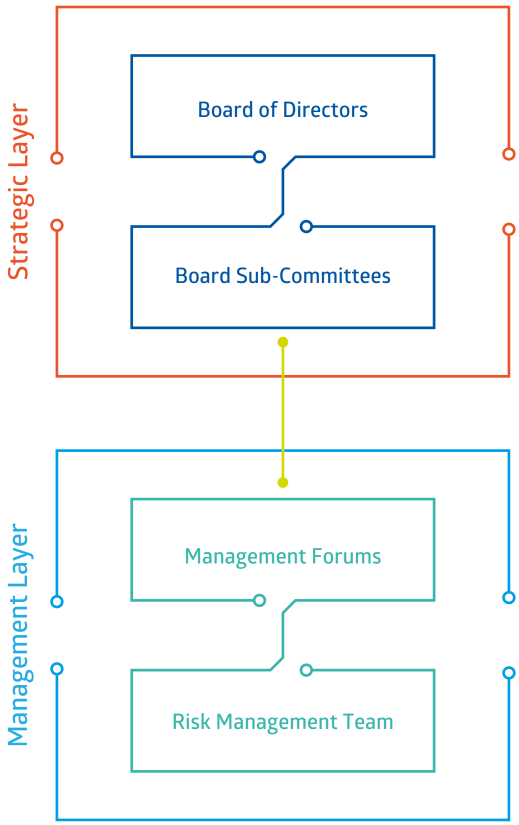
How are risks managed? (cont'd)

A well-structured Risk Governance

The Bank has a well-established risk governance structure which facilitates identification and escalation whilst providing assurance to the Board. The governance structure is supported by an active and engaged Board of Directors and a risk management function that is independent of the business units.

The Head of Risk Management has direct access to the Board Chairman and the Risk Management Committee without impediment.

The chart below illustrates the inter-relationship between the Board, Board Committees and management committees that have the majority of risk oversight responsibilities for the Bank and their corresponding roles.



Constitution	Responsibilities
Both Executive and Independent directors	The Board remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The Board discharges its duty either directly or through its committees to ensure decision making is aligned with the board's approved policies and frameworks.
A mixture of independent, experts and executive directors whenever allowed	The Board sub-committees which include primarily Audit, Risk Management, Strategy, Corporate Governance and Conduct Review are responsible to advise Board on the effectiveness of the risk profile, risk culture, risk appetite, risk strategy and risk management framework.
Key members of senior management including the Chief Executive	The senior management manages the business through some management forums to promote an awareness of risk and good governance in every area of the business and instils a culture of compliance. In short, they are responsible for translating the high-level overall guidance from the Board into operational aspects and then monitoring and reporting them back periodically to the Board/Board Committees.
Portfolio and credit Risk Team, Market Risk Team, Operational Risk Team	The risk management team provides the day-to-day oversight on management of risk and promotes the risk culture across the Bank. It is responsible to create and maintain the risk practices across the Bank and to ensure that controls are in place for all risk categories.

"Risk governance continues to ensure that regulatory and business requirements are fully embedded in our business processes and governance frameworks across all risk functions. Hence, in addition to ensuring adequacy of credit risk governance, it fully incorporates operational risk, market risk and liquidity risk. This role falls under the responsibility of the Head of Risk management. More so, the compliance team proactively supports the senior management and business through effective compliance risk management practices to ensure the business is within statutory, supervisory and regulatory requirements thereby mitigating regulatory sanctions and reputational risk."

How are risks managed? (cont'd)

A comprehensive Risk Appetite Framework

The Bank maintains a comprehensive risk appetite framework, providing a structured approach to the identification, measurement, and control of risk. It encompasses a suite of policies, processes, controls and systems for assessing the appropriate level of risk appetite required to constrain its overall risk profile.

The risk appetite framework bolsters effective risk management by promoting sound risk-taking and ensures emerging risks and risk-taking activities that would be out of the approved risk appetite are identified, assessed, escalated and addressed in a timely manner. The framework is guided by the following strategic risk objectives:
- Early identification and control of all types of possible risks.
- Maintaining adequate capital buffer under stressed conditions to absorb losses, if any.
- Promoting stability of earnings to avoid unexpected losses.

The Bank risk appetite is determined in conjunction with the overall strategy and capital planning process on an annual basis, based on Board-driven strategic risk objectives and risk appetite. Scenario stress-testing of financial and capital plans is an essential element in the risk appetite calibration process.

> "Effective communication of risk appetite is essential in embedding appropriate risk-taking into the Bank's risk culture."

Risk appetite is communicated across the Bank through risk appetite statements which provide clarity on the scale and type of activities that can be undertaken in a manner that is easily conveyed to all stakeholders. Some of the approved risk appetite statements are as follows;

1. The Bank only takes risks for which it is appropriately compensated.
2. The Bank will seek to maintain an optimal balance of risk and return across all businesses.
3. The Bank will grow sustainably and ensure a sound capital management is in place and is supported by long-run capital planning.
4. The Bank will only enter sectors where there is a clear financial advantage and manage its exposures following the principle of diversification across products, geographies, client segments and industry sectors
5. The Bank will adhere to all policies and regulatory requirements and strives to demonstrate that we "Do The Right Thing" in the way we conduct business.
6. The Bank will not knowingly engage in financing activities with companies purposefully operating in material violation of applicable environmental and social laws.
7. The Bank aims to manage risks, with the objective of maximising risk-adjusted returns while remaining within approved risk appetite which is regularly reviewed to adapt to the challenging economic and regulatory requirements.

The following chart provides an overview of the key components of the risk appetite framework comprising of the risk universe;

RISK APPETITE FRAMEWORK

Risk Universe

Category	Financial Risk			Non-Financial Risk			
Primary Risk Drivers	Credit Risk	Market Risk	Liquidity Risk	Operational Risk	Reputational Risk	Business & Strategic Risk	Other Risks
Secondary Risk Drivers	· Borrower · Counterparty credit · Industry · Country · Sovereign	· Trading Book · Banking Book	· Currency · Legal Entity	· Process · People · IT · Compliance	· Macroeconomic environment · Competitive environment · Regulatory environment		· Legal · Model · Environmental and Social

RISK CONTROL MECHANISM

It encompasses frameworks, guidelines including best practices and guiding principles, policies including contingency plans and limits based on the following components:

Credit Risk Management Framework	Market Risk Management Framework	Liquidity risk management framework	Operational Risk Management Framework	Reputational Risk Management Framework	Other risk framework covering legal, model risks

Risk Capital Strategy components

Risk- bearing capacity	Risk bearing capacity represents the ability to bear risk in terms of available capital, and ability to raise additional capital. It also covers strength of operational processes and operating culture in the organisation.
Risk Appetite Statement	Risk appetite Statement is an articulation and allocation of the risk capacity or quantum of risk the Bank is willing to accept in pursuit of its strategy, duly set and monitored by the Board, and integrated into the Bank's strategy, business, risk and capital plans.
Risk Tolerance	Risk tolerance refers to the limits in operational terms such as concentration limits, stop loss limits to ensure that the risk is within the defined risk appetite. Any breach thereof would lead to a control and/or mitigation action.
Risk Target	Risk Target is the optimal level of risk that the Bank wants to take in pursuit of a specific goal. Setting the risk target should be based on the desired return, on the risks implicit in trying to achieve those returns and on SBM's capability of managing those risks.
Risk Limits	Risk limit determines thresholds to monitor that actual risk exposure does not deviate too much from the desired optimum. Breaching risk limits will typically act as a trigger for corrective action at the process level.

How are risks managed? (cont'd)

Internal Policies and Limits

Policies related to specific types of risk or activities are used to manage risk exposures. Recommendations of risk management, internal audit, business units and senior executive management, industry best practices and regulatory requirements are factored into the policies.

Internal Prudential limits and tolerances are set as a prudent approach to manage risks. Limit setting establishes accountability for key activities within the risk-taking activities and establishes the conditions under which transactions may be approved or executed.

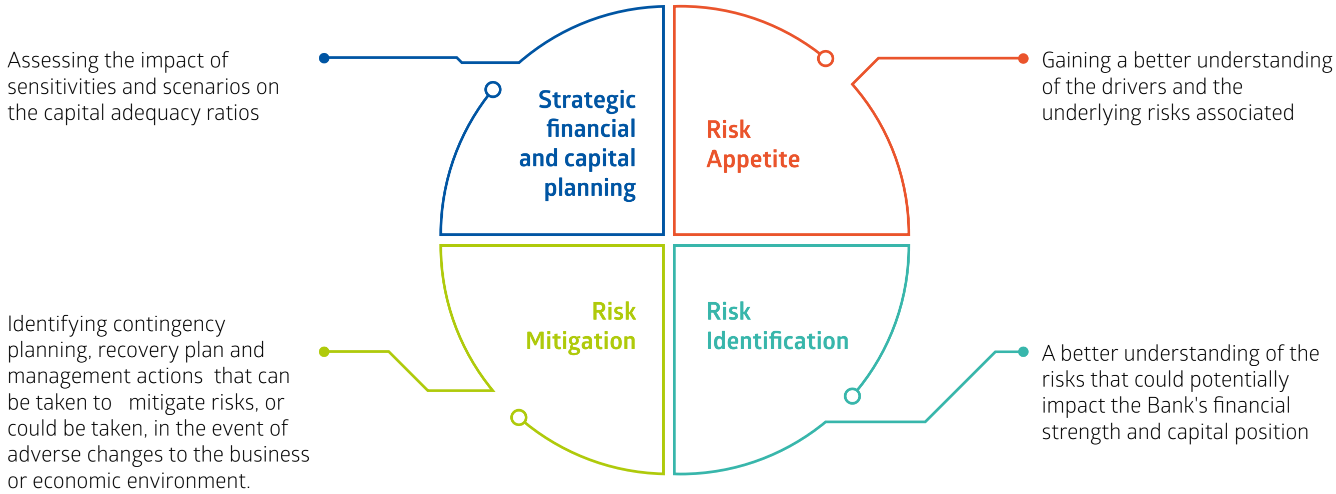
The Board approves all the policies which have clear accountability and ownership and the management is responsible and accountable for the effective implementation and monitoring of risk appetite.

Risk Bearing Capacity and Stress testing

Effective management of risks is a critical component to the long-term success of the Bank. As part of a strong risk management framework, the Bank emphasizes on the importance to pay attention to changes in economic or other circumstances that can lead to deterioration in the standing of a counterparty that would undermine the capital position of the Bank.

The Bank, through a proper stress testing approach estimates the impact of potential shocks to evaluate whether the bank can withstand a crisis without breaching regulatory thresholds. Stress testing output facilitates business planning and budgeting and provides comfort on the overall health of the organisation reported in the Internal Capital Adequacy Assessment Process (ICAAP).

Key areas of stress testing usage are summarized in the diagram below;



As from 1 Jan 2018, International Financial Reporting Standard (IFRS) 9 has changed the way the Bank calculates its Expected Credit Losses by incorporating life-time expected credit loss for assets that deteriorates in credit quality through stage classification; thus, reshaping the way to conduct statutory stress testing.

The chart below illustrates an overview of the stress testing process;

Determine Stress Scenarios	Risk Profiling	Impact Assessment	Result Assessment including implications	Reporting and Agree on management actions
Develop the appropriate stress scenarios that are relevant to the nature of business of SBM including significant movement in credit ratings, interest rates, exchange rates, counterparty stage classification and recovery rates at different level of severity (Mild, Moderate, Severe).	Translate these scenarios into loss levels on various types of risks such as Credit, Market and Liquidity risk. For Credit risk, ECL computation involves classifying counterparty in 3 stages under IFRS9 before stressing on different parameters.	Calculates the solvency needs, combined with buffer requirement and the capital adequacy under each scenario and assess their impact on the Profit or Loss and capital level.	All the results and methodology are evaluated and documented including the contingency plans and mitigating actions appropriate.	The Board Risk Committee annually reviews the Bank's risk appetite and then analyses the impacts of stress scenarios on the Bank's capital forecast in order to understand and manage the Bank's projected capital adequacy.

A snapshot of the Principal Risks

In pursuing its goals and objectives the Bank is confronted with various types of risks that cannot be addressed individually but require a holistic approach to risk management. These key risks can be categorized as follows:

Key Risks	Arising from	Measurement, Monitoring and Management of Risk
Credit Risk		
Credit Risk is defined as the risk that the Bank will suffer economic loss due to a Single/ Group borrower or counterparty failing to fulfil its financial or other contractual obligations	Credit risk arises when funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on- or off-balance sheet. Amongst the risks faced by SBM, credit risk generates the largest regulatory capital requirement.	Credit risk is: · **measured** as risk weighted exposures for performing and non-performing exposures. · **monitored** within regulatory and prudential limits by borrowers, portfolios, country and bank, approved by the Board within a framework of delegated authorities. Regular review of portfolio to proactively manage any delinquency and minimising any undue credit concentrations. · **managed** through a robust risk control framework which outlines clear and consistent policies, principles and guidance.
Market Risk		
Market Risk is the risk of loss that arises due to changes in market conditions that may adversely impact the value of assets or liability, or otherwise negatively impact earnings.	Market risk losses arise from variations in the market value of trading and non-trading positions resulting from changes in interest rate risk, foreign exchange risk and price risk, and in their implied volatilities.	Market risk is: · **measured** in terms of value at risk, which is used to estimate potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence, augmented with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables; · **monitored** using measures including the sensitivity of net interest income and the sensitivity of structural foreign exchange which are applied to the market risk positions within each risk type; and · **managed** using risk limits approved by the Board.
Funding and Liquidity Risk		
The inability to meet contractual and contingent financial obligations, on and off balance sheet as they may come due. Our primary liquidity objective is to provide adequate funding for our business throughout market cycles, including periods of financial stress.	Liquidity risk arises from mismatches in the timing of cash flows. Funding risk arises when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.	Liquidity and funding risk is: · **measured** using internal metrics including stressed cash flow projections, coverage ratios and advances to core funding ratios; · **monitored** against liquidity and funding risk framework and overseen by the Asset and Liability Management Committee ('ALCO') of the Bank and the Board Risk Management Committee; and · **managed** on a stand-alone basis with no reliance on any Bank entity.

Key Risks	Arising from	Measurement, Monitoring and Management of Risk
Operational Risk		
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.	Operational risk arises from human error, inappropriate conduct, failures in systems, processes and controls or natural and man-made disasters. It is inherent to all products, activities, processes and systems and is generated in all business & support areas.	Operational risk is: · **measured** using the risk and control assessment process which allows identification and evaluation of risks and effectiveness of controls; · **monitored** through regular risk assessment procedures, key risk indicators and internal loss database; and · **managed** through a conducive control environment with robust operational risk policies, processes, systems as well as appropriate risk culture within the organisation which contribute in maintaining a low operational loss experience over the years.
Business and Strategic Risk		
The risk of loss resulting from incorrect assumptions about external or internal factors, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic or competitive environments.	Strategic risks are risks that affect or are created by an organisation's business strategy and strategic objectives, which are critical to the growth and performance of the Bank. Pursuing an unsuccessful business plan represents a possible source of loss to the Bank.	Business and Strategic Risk is: · **measured** by using several key internal indicators and metrics as a yardstick which enable us to measure the progress against fulfilling the objective; and · **monitored** against our risk appetite set out by the Board whilst taking into consideration our internal capabilities and growth prospects; and · **managed** by the Board who sets the objectives for the Bank in terms of growth orientation in consultation with our strategy team.
Reputational Risk		
The potential that negative perceptions of the Bank's conduct or business practices may adversely impact its profitability or operations through an inability to establish new or maintain existing customers/clients relationships.	Reputational risk arises from failure to meet stakeholder expectations as a result of any action, event or situation caused by the Bank or its employees that can adversely impact on the Bank's reputation.	Reputational risk is: · **measured** by reference to our reputation as indicated by our dealings with all relevant stakeholders, including media, regulators, customers and employees; · **monitored** through analysis of root cause for justified complaints and reporting to appropriate forums/committees; and · **managed** through a framework where all employees are responsible for identifying and managing reputational risk that may occur within their respective areas of business. These responsibilities form part of SBM Code of Conduct.

Credit and Counterparty Risk Management

Credit risk remains one of our core risk areas and a significant part of our capital is allocated to this risk category. It is the risk arising from potential loss due to the failure of obligors, endorser, guarantor or counterparty to repay a loan or honour another predetermined financial or contractual obligations when due.

Counterparty credit risk (CCR) creates a bilateral risk of loss because the market value of a transaction can be positive or negative for either counterparty. CCR exposures are subject to the same credit oversight; limit framework and approval process as outlined below. However, given the nature of the risk, CCR exposures are also monitored through the market risk framework and many are collateralized.

Credit Risk Governance

The objective of our credit risk management framework is to ensure all material credit risks to which the enterprise is exposed are identified, measured, managed, monitored, mitigated and reported on a consistent basis.

This requires careful consideration of proposed extensions of credit, the setting of specific limits, monitoring during the life of the exposure, active use of credit mitigation tools and a disciplined approach to recognizing credit impairment.

The Bank's **credit processes** are designed with the aim of combining an appropriate level of authority in its credit approval processes with timely and responsible decision making and customer services. Within the powers to act granted by the Board of directors, credits are approved by decision making authorities at different levels in the organisation depending on the risk categorization and the credit exposure of the customer. An overview of credit approval process and procedures is depicted below:

Credit Origination

Sales Team :

- Initiate and manage sales of products
- Follow client-boading standards
- Receive and check applications
- Assist customers with information
- Execute account - monitoring tasks
- Input Risk Rating tools
- Analyse the risks and prepare the sales note for approval.

Credit Appraisal

Credit Risk Team:

- Screening of all applications forwarded by sales team
- Assessment of obligor
- Recommend to the appropriate authority for approval

Credit Approval

Credit Approval Authority:

- Board Credit Committee
- Management Credit Committee
- Credit RiskTeam
- Decision making tool for certain retail exposures

Documentation & Disbursement

Credit Service Unit:

- Credit Administration
- Credit Documentation
- Credit Disbursement

Review & Monitoring

Risk Management :

- Monitoring of both prudential and regulatory limit for all credit exposures

Recovery & Workout

Recovery and Workout :

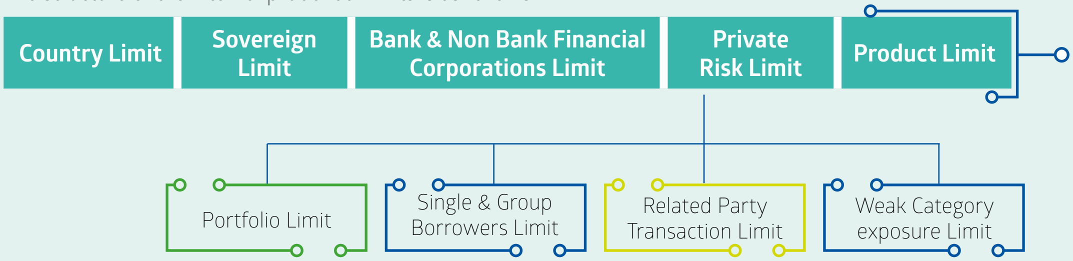
- Ongoing management of impaired loans
- Recovery of loans and advances due by impaired borrowers

> All credit applications are subject to a rigorous lending qualification process and operate in a disciplined environment with clear delegation of decision-making authority. Internal prudential limits which are reviewed at least annually are more prudent than regulatory limits and are in place to manage individual counterparty credit risk and to address concentration risk in the portfolio, including a comprehensive set of country limits, product limits and sectoral limits.

1. Credit Origination	Lending officers are responsible for recommending credit decisions based on the completion of appropriate due diligence and they assume accountability for the risks. This entails analyzing the customer's credit quality, risk operations, solvency and profitability to be obtained on the basis of the risk assumed. Credit ratings are assigned while on-boarding customers which is supplemented by the expert advice of the credit officers. The ratings given to customers are regularly reviewed, incorporating the latest available financial information and customer's experience in the business.
2. Credit Appraisal	Credit Officers approve these credit decisions and are accountable for providing both an objective assessment of the lending recommendations and independent oversight of the risks assumed by the lending officers.
3. Credit Approval	The credit decision-making is made within the Board approved delegated authority which is appropriate to the size and risk of each transaction in accordance with comprehensive corporate policies, standards and procedures governing the conduct of activities in which credit risk arise.
4. Credit Risk Mitigation	Collateral is used for credit risk mitigation purpose to minimize losses that would otherwise be incurred in the event of a default. Depending on the type of borrower or counterparty, the assets available and the structure and term of credit obligations, collateral can take various forms: · Financial and other collateral, which enables the Bank to recover all or part of the outstanding exposure by liquidating the collateral asset provided, in cases where the borrower is unable or unwilling to fulfil its primary obligations. · The Bank in some cases holds guarantees, letters of credit and similar instruments from third parties which enable it to claim settlement from them in the event of default on the part of the counterparty. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. · Netting agreements are utilised in accordance with relevant regulatory and internal policies and require a formal agreement with the customer to net the balances. The Bank has an acceptable list of collaterals for each operation in line with their host regulatory guidelines. The list undergoes periodic valuation ensuring their continuous legal enforceability and realization value. The policies and processes for collateral valuation and management are driven by legal documentation that is agreed with our counterparties and the credit services unit. The Bank also seeks credit insurance to transfer the credit risk to the insurance counterpart.

Credit and Counterparty Risk Management

5. Review	All credit exposures are subject to regular monitoring. Performing accounts are reviewed on a regular basis, at least annually. The frequency of review increases in accordance with the likelihood and size of potential credit losses, with deteriorating higher-risk situations referred to the Special Asset Team for closer attention, when appropriate.
6. Monitoring	The Risk management team monitors the portfolio and credit concentration risks against a set of internal prudential limits which are reviewed at least annually to align with industry norms while adhering to regulatory limits. Any deviation from the tolerance limits would be brought to the attention of Management and reported to the Risk Management Committee for appropriate actions. In addition, regular stress testing and scenario analysis based on current economic credit cycle, are integral part of risk assessment and monitoring. The structure of the internal prudential limits is as follows:



7. Reporting	Reporting is provided at least monthly to the Portfolio and Credit risk forum, and quarterly to Board/Risk Management Committee in order to keep them informed of credit risk developments in our portfolios, including changes in credit risk concentrations, and quality of the portfolio including watch list accounts, non-performing loans, allowances for credit losses, or any breach that needs to be brought under the attention of the committees to facilitate any measures or action plans that they may decide to take, when necessary. More so, each entity is required to report concentration risk to their respective Board / Risk Management Committee.

Credit Risk Profile as at 31 December 2017

SBM's loan book continues to be well-diversified by industry and geographic region with an average weighted risk rating of 5.29 (equivalent to an external rating of Baa1 – Baa3).

Total credit risk weighted exposures were USD 3.1Bn as at 31 Dec 2017 (December 2016: USD 2.1Bn), comprised of both funded and non-funded exposures.

This represents an increase of USD 991.5M or 50.7% from the prior year.

7.61

TIMES TO BANK TIER 1

(Dec 16: 7.01)

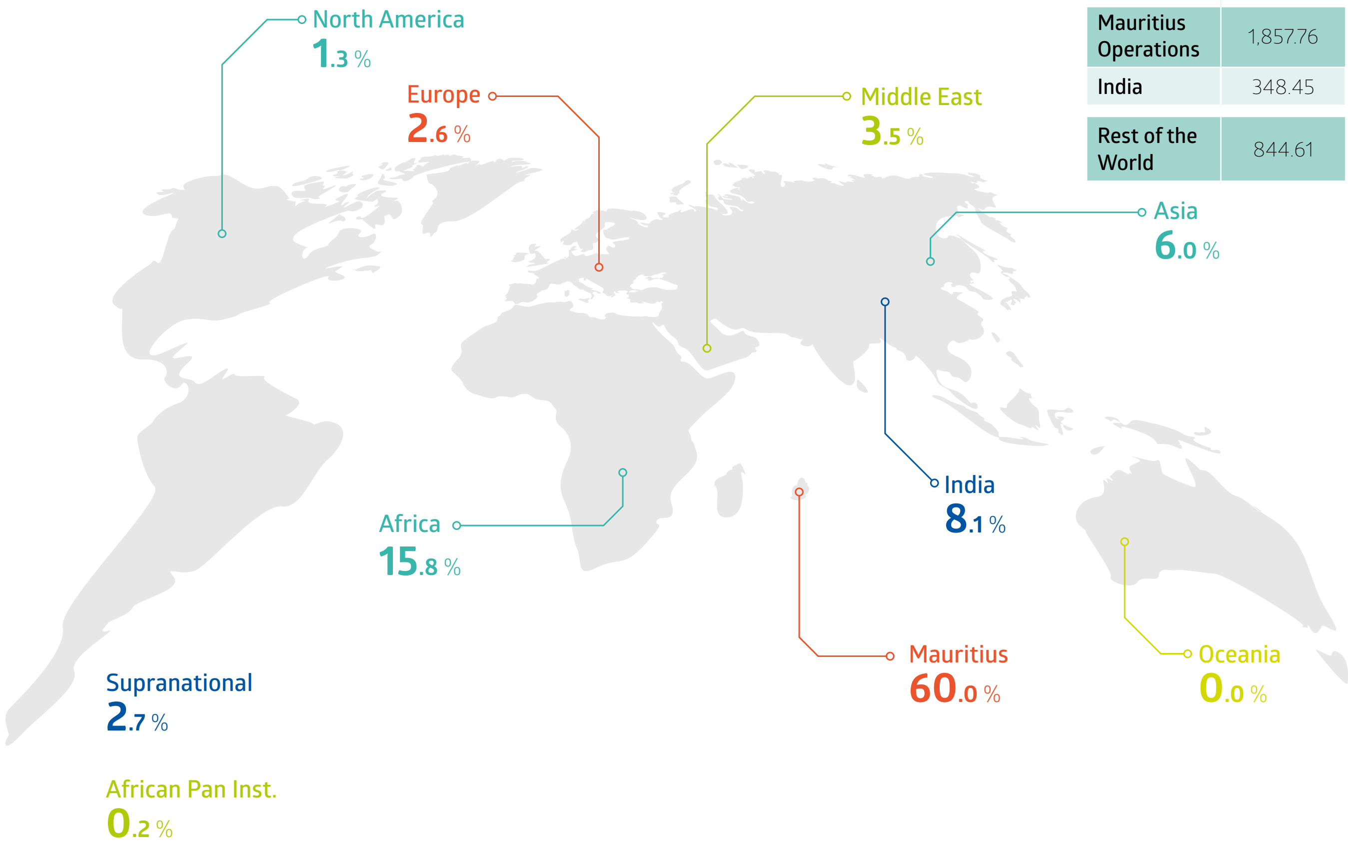
A GROWTH OF

50.7 %

Aggregation of Credit risk weighted exposures

The following sections detail the sub-category of credit risk;

USD'M	Total Risk Weighed Exposured
Mauritius Operations	1,857.76
India	348.45
Rest of the World	844.61



Credit and Counterparty Risk Management

Country Risk

Country risk is a component of credit risk in all cross-border credit operations for circumstances different to the usual commercial risk. Its main elements are sovereign risk, the risk of transfer and other risks that could affect the ability of the counterparties to fulfil their obligations, resulting in a financial loss for the Bank.

As part of the Bank's strategy, the total risk weighted exposures to cross border lending increased by USD 631M from prior year, which accounted to 222.8% of Bank Tier 1 capital (December 2016: 87.9%).

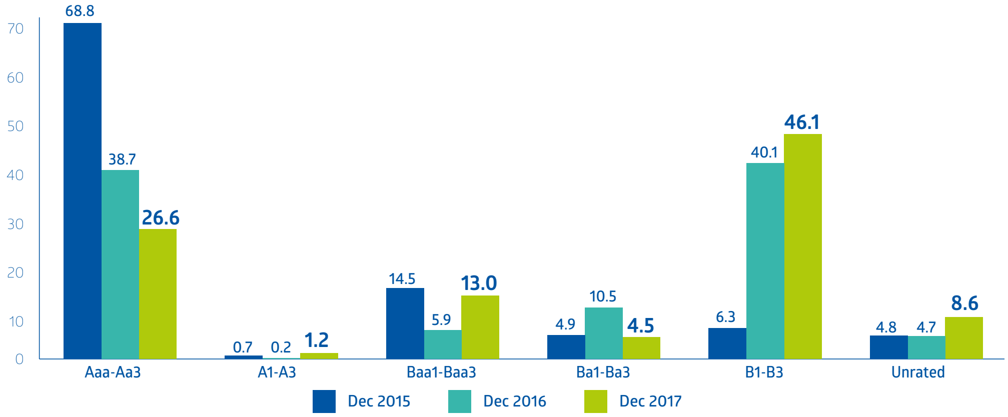
RWE AS A % BANK TIER 1

222.8 %

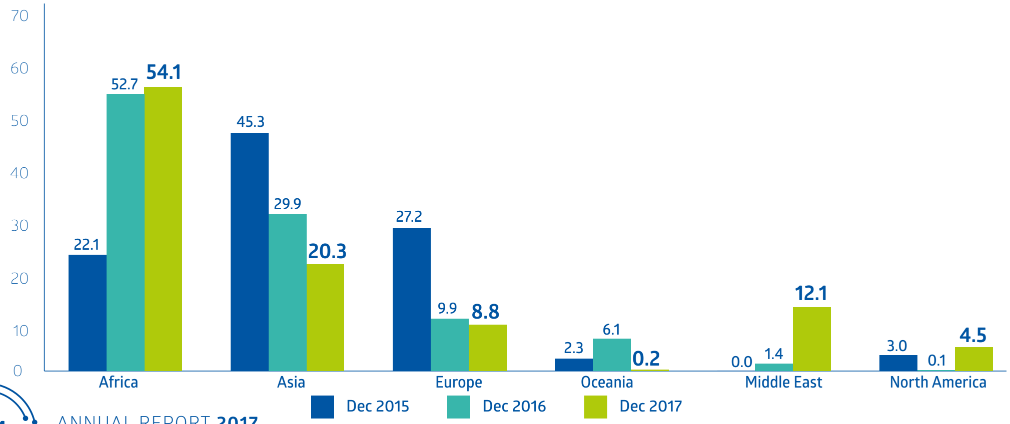
(Dec 16: 87.9%)

Breakdown of cross-border risk weighted exposures;

Distribution by Rating (as a % of total cross border risk weighted exposures)



Distribution by Region (as a % of total cross border risk weighted exposures)



> The principles of country risk management continued to follow maximum prudence; the Bank will only enter geographies where there is a clear financial advantage

Sovereign Risk

Sovereign risk is contracted in transactions with a central bank and other government bodies. Sovereign risk arises in case a government defaults on its debts or other financial obligations.

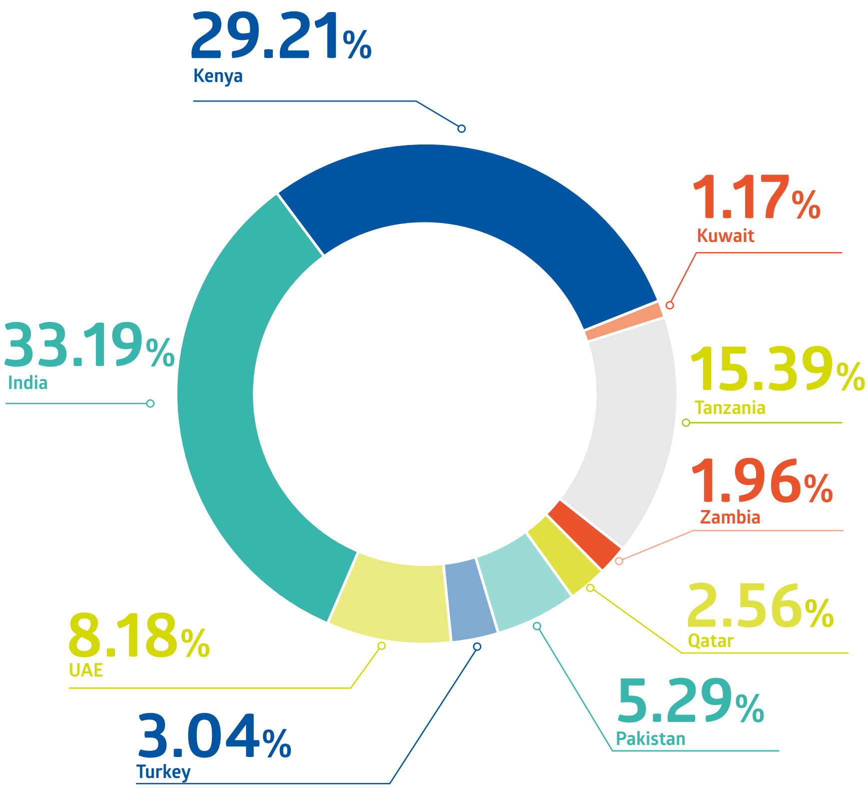
In general, the total exposure to sovereign risk has remained at adequate levels

The following chart depicts the distribution of sovereign exposures to the Bank (excluding Mauritius).

RWE AS A % BANK TIER 1

30.3 %

(Dec 16: 7.9%)



> The investment strategy for sovereign risk also takes into account the credit quality of each country when setting the maximum exposure limits.

The Bank has exposures to governments mainly in countries where the SBM Group has physical presence.

As at 31 December 2017, total sovereign exposures stood at MUR 22 billion, representing 162 percent of the Bank Tier 1 capital (December 2016: MUR 19.6 billion, 186 percent) with the highest exposure pertaining to the Government of Mauritius amounting to MUR 17.57 billion. On a risk-weighted basis, the sovereign risk-weighted exposures were MUR 4.1 billion, representing 30.3 percent of the Bank's Tier 1 capital. (December 2016: MUR 1.2 billion, 11.6 percent)

Credit and Counterparty Risk Management

Bank Counterparty Risk

Bank risk is the risk that a bank could default on its debt or other obligations.

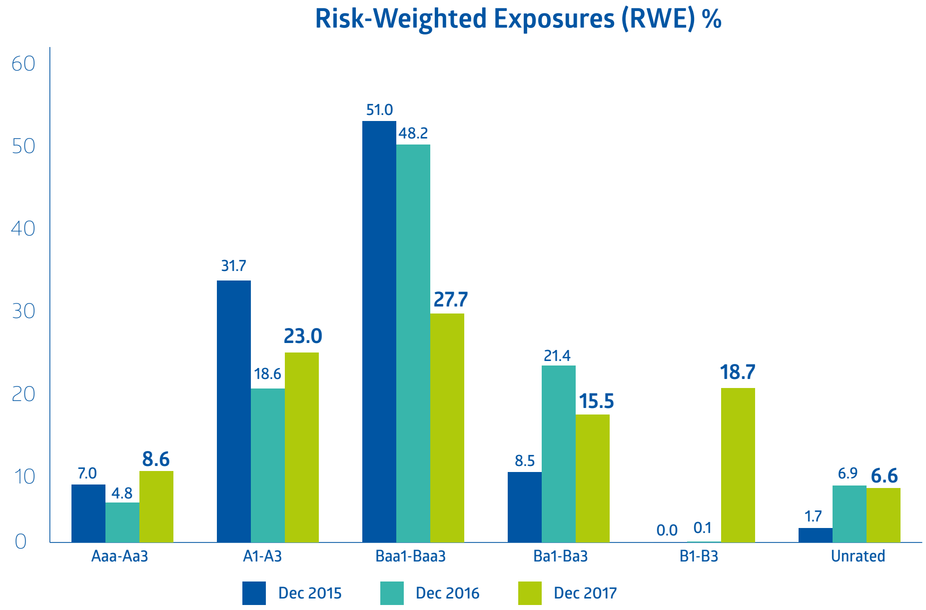
The following chart depicts the distribution of the risk-weighted exposures to the bank counterparty

RWE AS A % BANK TIER 1

75.5 %

(Dec 16: 121.6%)

Bank Risk-Weighted Exposures by Rating as at 31 December 2017



> "The Bank has concentration to banks with rating range Baa1-Ba3 primarily in countries where SBM has physical presence."

Rating

As at 31 December 2017, total risk-weighted exposures to bank counterparty stood at USD 307.9 million, representing 0.76 times the Bank's Tier 1 capital (December 2016: USD 357 million, 1.22 times).

Private Risk

1. Portfolio Concentration

The Bank maintains a well-diversified portfolio through internal portfolio limits set for each operations to ensure that the Bank is not impacted drastically due to significant concentration in a particular portfolio.

The charts below show risk-weighted exposures of top 5 portfolios as a percentage of total risk-weighted exposure by country of operations.

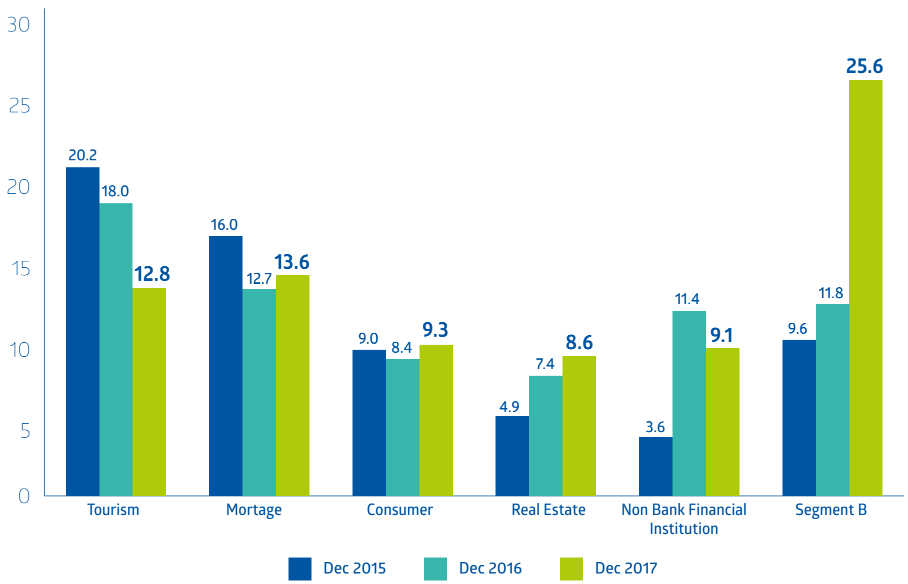
RWE OF TOP 5 PORTFOLIOS AS A % OF BANK TIER 1

308.99 %

(Dec 16: 168.30%)

Mauritius Operations – Top 5 portfolios by Risk-Weighted Exposure (%) + Segment B

as a % of total RWE



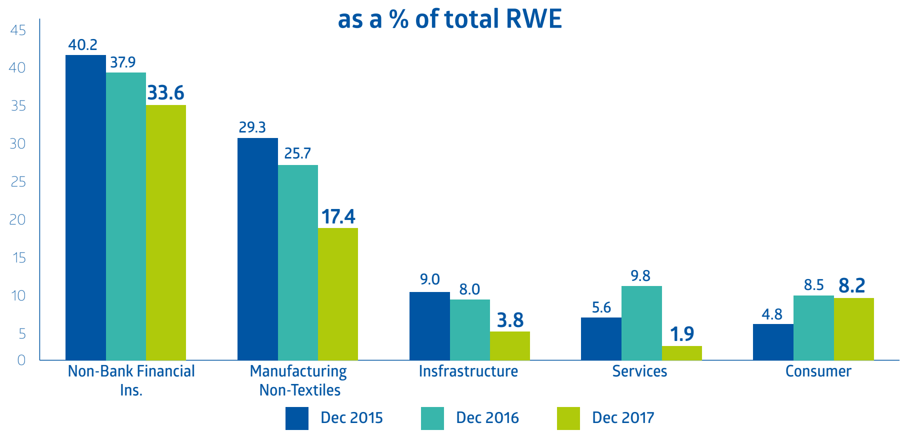
> This strongly justifies our strategy to establish a strong market position in different parts of Africa while maintaining a well-diversified portfolio

Segment A loan portfolio remains well-diversified with reducing concentrations. Loans and advances to the tourism and mortgage sector are 12.8% and 13.6% of total portfolio respectively. All other industry concentrations are at below 10%.

In relation to the Bank's cross-border activities, concentration in Segment B has increased from 11.8% in 2016 to 25.6% in 2017 while still staying well below the internal limit set, with customers mainly in Africa and India. Despite increasing competition and more severe regulations, Africa is set to witness a fast growing economy, driven by an improvement in its banking sector through better financial infrastructure, banking penetration and revenue growth.

Credit and Counterparty Risk Management

Indian Operations – Top 5 portfolios by Risk-Weighted Exposure (%)



India Ops has a medium concentration sectoral risk.

> Further diversification of the portfolio is expected over the year, in line with the Bank's risk appetite.

Private Risk

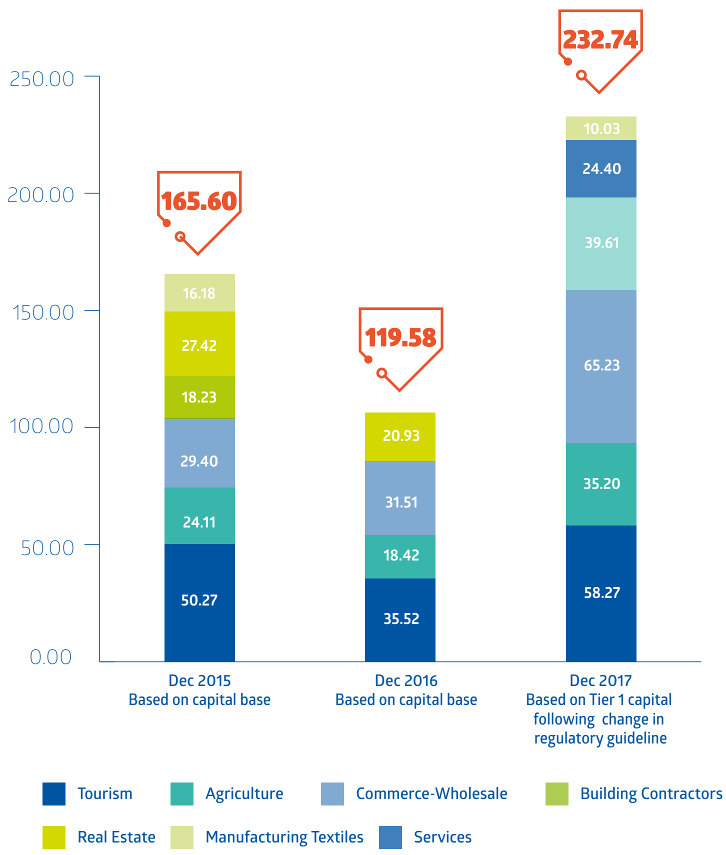
2. Customer Concentration

The Bank monitors single large exposures, groups of closely related exposures and aggregate of large exposures above 10 percent of Tier 1 Capital against regulatory limits as per the guidelines issued by the regulator.

Regulatory limits have been revised by the Bank of Mauritius in December 2017 where the concentration is henceforth based on Tier 1 Capital instead of Capital Base which is more prudent. This explained the increase in aggregate large exposures as illustrated in the chart below.

Regulatory Credit Concentration Limit – Mauritius Operations	As at 31 Dec 2017
Credit exposure to any single consumer shall not exceed 25% of the Bank's Tier 1 Capital	Highest single customer: **17.2 %**
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: **27.3 %**
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	**232.7 %**

Net Exposure as a % of Capital



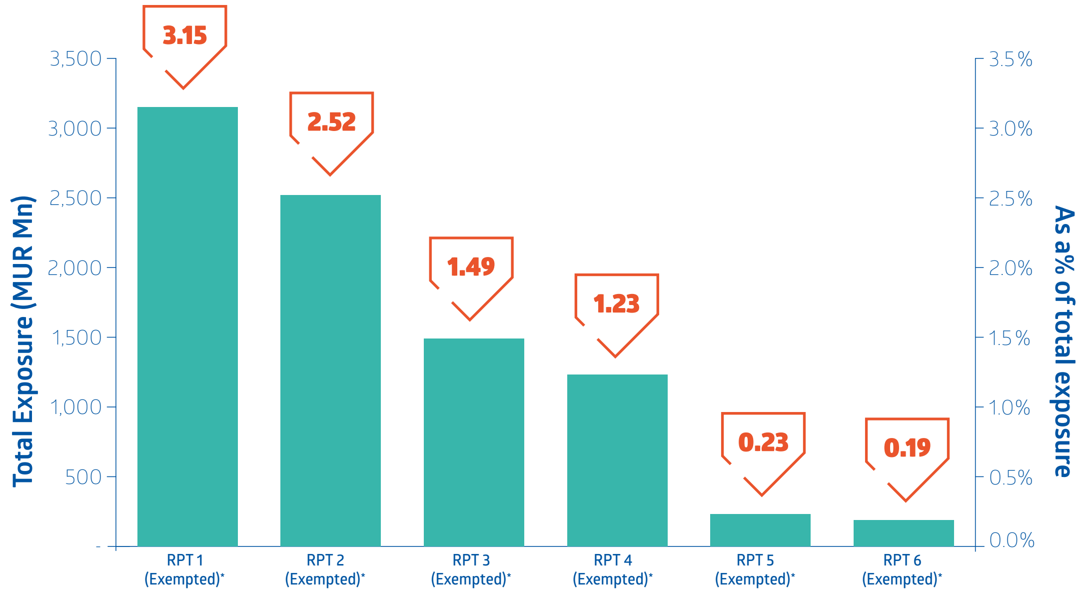
Credit and Counterparty Risk Management

Private Risk

3. Related Party Transactions

All exposures to related parties are reported to the Corporate Governance and Conduct Review Committee as per the Bank of Mauritius Guideline on Related Party Transactions.

As at 31 December 2017, the aggregate of non-exempted exposures to related parties represented 10.50% of the Bank's Tier 1 capital, which is within the regulatory limit of 60% for category 1 and within the regulatory limit of 150% for category 1 & 2 (Dec 16: 12.36%).



Note: (*) Exempted from Regulatory Limits as per the BOM Guideline on Related Party Transactions

Credit Quality

4. Impairment

The Bank adopts a sound framework for the timely monitoring of non-performing assets with an early-stage tracking of clients failing to meet contractual obligation.

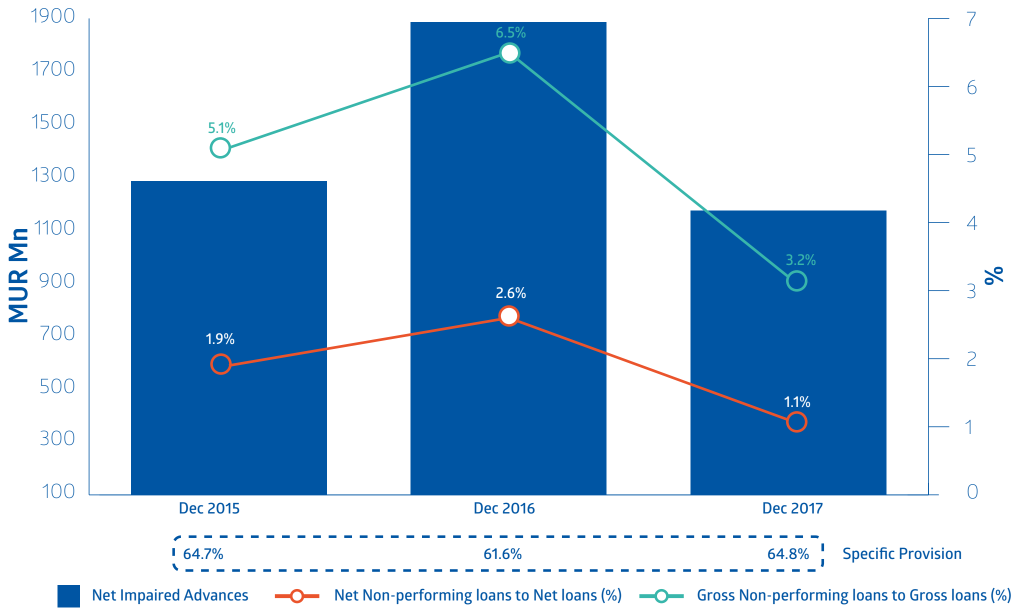
Provision for impaired loans, where instalment of principal and interest are due and remain unpaid for 90 days, is maintained in accordance with the Bank of Mauritius guideline on Credit Impairment Measurement and Income Recognition. Moreover, an in-depth recovery strategic plan is adopted to maximize collection in case of impairment.

NET IMPAIRMENT AS A % NET ADVANCES

1.1 %

(Dec 16: 2.6%)

Impairment Trend



Net non-performing loan as a percentage of net loans is on a downward trend, from 2.6% in December 2016 to 1.1% in December 2017 as the Bank engages in an expansion of the loan book with enhanced credit quality exposures from both the local and international market. Monitoring of impairment by sector remains a key index for fuelling the growth strategy.

Credit and Counterparty Risk Management

Credit Quality

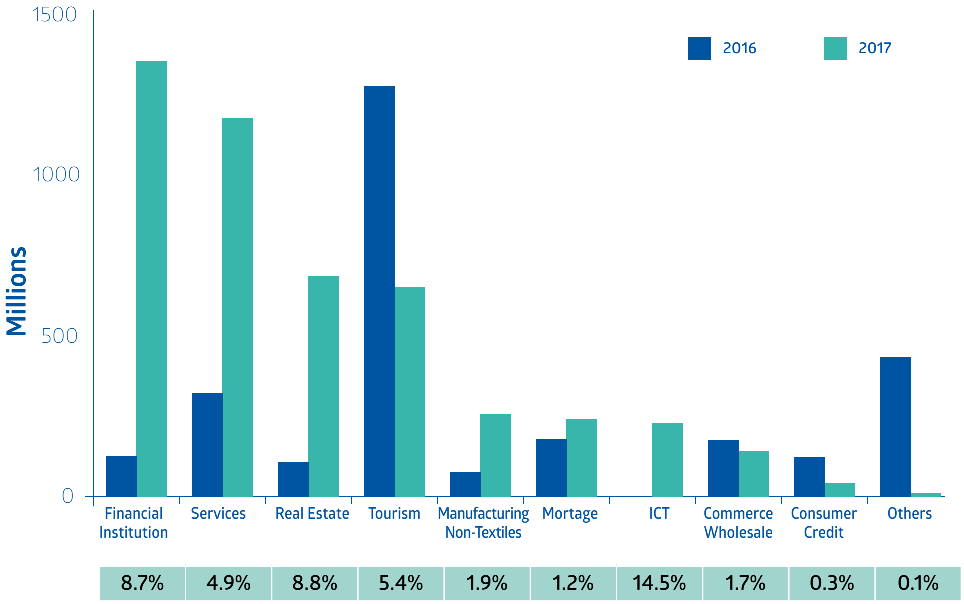
5. Rescheduled advances

Rescheduling refers to changing the original terms of the loan contract, as formally agreed by both the client and SBM.

Rescheduling is used as an effective and pro-active mechanism to assist arrears. More so, it is an approach to assist customers who have changed their pay frequency or employer may be experiencing a temporary cash flow problem and who may require relief due to a more permanent change in their circumstances.

As at 31 December 2017, total rescheduled loans stood at 3.67% of total credit portfolio, compared to 4.34% in December 2016.

A breakdown of the rescheduled loan by portfolio is illustrated in the diagram below;



TOTAL RESCHEDULED LOANS AS A % OF TOTAL CREDIT PORTFOLIO

3.67

(Dec 16: 4.34%)

> Rescheduling performance is continuously monitored to ensure that the performance of these loans remains within the risk appetite of the Bank; risk appetite regarding credit quality and provisioning are reviewed accordingly.

Market Risk Management

The Bank has a sound and well-informed strategy to manage market risk. The objective of market risk management is to control market risk exposures to optimise return while maintaining risk at acceptable levels.

Market risk arises from both trading and non-trading business activities. The classification of assets into trading book and Banking book portfolios determines the approach for analysing the market risk exposure.

Market Risk Governance & Oversight

The Board approves the market risk appetite which is defined in terms of the splits between domestic and international markets, foreign currency and interest rate exposures, percentage exposure allocation for position-taking and percentage target splits in terms of maturities of exposure. It also approves new products after having gone through an independent assessment by the Risk Management team ensuring the products are within the policy and risk appetite as well as ensuring the processes defined, system readiness and the resources are adequately trained.

The Bank has an independent market risk team to identify, control and monitor the market risk exposures against a set of prudential limits approved by the Board. The limits are sufficiently granular to conduct an effective control of various market risk factors on which an exposure is maintained. Product control procedures and analysis are made of changes in portfolios, in order to detect possible incidents for their immediate correction.

Business units must at all times comply with the Board approved limits and the risks on derivatives are continually reviewed to ensure that complexities of the products are adequately monitored and controlled. In the event of a limit being exceeded, the business units have to explain the reasons for the excess and provide the action plan to correct the situation, which in general can consist of reducing the position until it reaches the prevailing limits or set out the strategy that justifies an increase in limits.

Market Risk Profile

Interest Rate Risk

Interest rate risk is the exposure of the Bank's financial condition to the variability of interest rates due to re-pricing and/or agreed maturity mismatches, changes in underlying rates and other characteristics of assets and liabilities in the normal course of business. Interest rate risks mainly include repricing risk, yield curve risk, benchmark rate risk and option risk.

The Bank's interest rate risk management is aimed at maximising the risk-adjusted net interest income within the tolerable level of interest rate risk and risk appetite.

The Net Interest Income (NII) is expected to rise in a increasing rate scenario and fall in decreasing rate scenario.

(Repricing Gap figures are provided in Note 36(d) to the Financial Statements)

Impact of 200 bps parallel Rate change on NII	
Rise in rate	**Decline in rate**
3.68% (Increase of MUR 217 million)	**3.68%** (Decrease of MUR 217 million)
1.85% EaR as a % of Tier 1 Capital	**1.85%** EaR as a % of Tier 1 Capital

Market Risk Management (cont'd)

The interest rate risk in the Banking book is managed by controlling interest rate sensitivities, which measure the immediate effects of interest rate changes on the assets, liabilities and off-balance sheet items. With the composition of the Balance Sheet as at 31 December 2017, the Bank expected the Net Interest Income (NII) to rise in a increasing rate scenario and fall in a decreasing rate scenario. An increase of 200 bps in interest rate would result in a decline of 3.68% in NII (1.85% of Tier 1 capital) whereas a decrease of 200 bps in rate would result in an increase of 3.68% in NII (1.85% of Tier 1 capital).

(Repricing Gap figures are provided in Note 36(d) to the Financial Statements)

Foreign Exchange Risk

Foreign exchange risk is the likelihood that movements in exchange rates might adversely affect the foreign currency holdings in Mauritian Rupee terms thus impinging on the Bank financial condition.

FX VALUE AT RISK

MUR

1.2 Mn

NOT MATERIAL RELATIVE TO THE BANK'S TIER 1 CAPITAL

In order to manage transactional foreign currency exposures, the Bank operates within regulatory parameters and also within more conservative prudential limits approved by the Board including the intraday/overnight open position limits (both aggregate and currency-wise), deal size limit, and stop losses limits. Moreover, we manage the counterparty exposure arising from market risk on our OTC derivative contracts by using collateral agreements with counterparties.

For the financial year under review, Mauritius Operations maintained an average Aggregate FX Open Position of MUR 255m and operated within the regulatory limit of 15% of Tier 1 Capital.

For the Indian Operations, the Aggregate FX Open Position stood at INR 4.2 million well under the limit.

Exposures in foreign currency are given in Note 36 (d) of the Financial Statements.

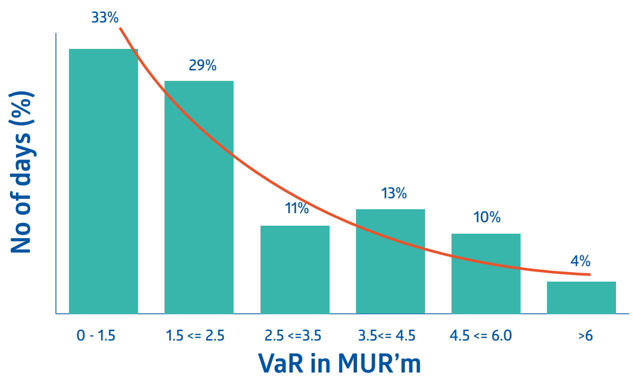
Value at Risk (VaR)

Value at Risk measures the foreign exchange risk based upon a common confidence interval and time horizon. The methodology used to calculate VaR is based on parametric method which assumes that historical returns in the foreign exchange market are representative of future movements. VaR is computed by using a ten-day holding period and based on a 99 percent one-tailed confidence interval. This implies that only once in every 100 days, one would expect to incur losses greater than the VaR estimates, or about two to three times a year.

The VaR values for Mauritius Operations were not material relative to the Bank's Tier 1 capital, MUR 1.23 million as at 31 December 2017 (31 December 2016: MUR 0.75 million, 31 December 2014: MUR 1.27 million).

The chart below depicts the distribution of average Foreign Exchange risk in terms of VaR for the year in review for Mauritius Operations. The positively skewed distribution is characterized by many small losses and a few extreme losses.

Mauritius Operations



To ensure the continued integrity of the VaR model, back-testing is conducted to confirm the consistency of actual daily trading revenue against the model's statistical assumptions. The Bank also simulates for a one-day time horizon at 99 percent confidence level that would best reflect the market environment. The rationale behind this principle is that it is assumed open foreign currency positions can be liquidated in the market over one single day.

Price Risk

Price risk is the risk that arises from fluctuations in the market value of trading and non-trading positions resulting in adverse movements on the value of relevant portfolios.

There are various measures of price risk. The Bank makes use of the Price Value of a Basis Point (PVBP), also known as DV01. It is the absolute value of the change in price of an instrument for one basis point change in yield. The DV01 is computed for all instruments in the trading book, which includes bonds and derivatives.

During the year under review, the change in the value of the Bank's portfolio was within the prudential limits and stop loss limits set by the board.

The Bank is exposed to risks in respect of both locally and internationally quoted securities, which are controlled by Board-approved policies and limits. The portfolio is managed by the Financial Markets Division under the strategic direction of ALCO and Investment Committee. Besides the local Gilt-edged securities and other High Quality Liquid Assets Bonds denominated in USD, the Bank maintains a well-diversified portfolio comprising primarily of investment grade.

The Bank had recourse to Interest Rate Swaps (IRS) to hedge the rising USD interest rates.

In addition to the bond trading, the Mauritius Operations has started to grow its derivatives trading book. The Bank has experienced dealers within the Financial Markets Division who operates within internal prudential limits as approved by the Board.

Liquidity & Funding Risk

The risk that the Bank will be unable to meet its contractual and contingent obligations as and when it falls due or that it does not have the appropriate amount, composition and tenor of funding and liquidity to support its assets and liabilities.

Liquidity Management is a basic element in the Bank's business strategy and a fundamental pillar, together with Capital, in supporting its balance sheet strength.

Liquidity has gained importance in the last few years because of the tensions in financial markets against the backdrop of the global financial crisis. The liquidity risk framework remains robust and no material changes were brought to policies and practices for the management of liquidity and funding risks in 2017.

LCR

127.48 %

Above the Bank of Mauritius requirement of 100%

NSFR (MAURITIUS OPS)

111.71 %

Above the Basel III requirement of 100%

Liquidity profile

The Bank has a decent liquidity position. The Bank's liquid assets echo a sound liquidity standing, adequate to counterbalance the impact of a stressed funding environment. It is capable of utilising its own resources extensively and to invest in higher yielding assets. The primary tools that the Group uses to monitor and manage liquidity risk are: the Basel Liquidity Ratios namely Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR) and the Gap analysis.

Basel III Liquidity Ratios

The Bank has implemented the Basel III Liquidity Ratios ahead of guidelines issued by local regulators. The Bank of Mauritius introduced the LCR for reporting currency (MUR), significant currency (USD) and Consolidated effective as from November 2017. It is expected that the NSFR would also be required by the Bank of Mauritius during the year 2018. Proactively, the Bank is already implementing NSFR in the liquidity risk framework.

Mauritius and India Operations were in compliance with both the LCR and NSFR which were above the Basel III requirement of 100%.

The Basel III Liquidity Ratios are shown in the following table:

Basel III Liquidity Ratios	2017	2016	Minimum threshold as per Basel III
Mauritius Operations			
NSFR	112%	125%	100%
LCR	127%	116%	100%

For Mauritius Operations, the LCR ratios for MUR, USD and consolidated were all above the limits set out by the Bank of Mauritius since November 2017.The monthly average of Consolidated LCR for Mauritius and India Operations was 115%, by considering two data monthly points, i.e end month of November and December 2017. The daily average High Quality Liquid Assets amounts to MUR 29.4bn for the period November to December 2017. The Bank's portfolio of HQLA is mostly highly A-rated sovereign and Multilateral Development Banks (MDBs) bonds.

Liquidity Gaps

Mauritius

MUR Million	Day 1	Day 2-1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-Maturity	TOTAL
31 December 2017									
Financial Assets									
Cash and cash equivalents	9,674	4,802	-	-	-	-	-	-	14,476
Mandatory balances with Central Banks	221	136	220	221	203	271	7,222	-	8,494
Loans to and placements with banks	-	1,262	170	422	1,920	4,787	334	-	8,896
Trading assets	-	3,868	638	638	287	244	1,002	1,299	7,976
Loans and advances to non-bank customers	867	7,524	12,172	6,711	7,225	19,578	40,840	219	95,136
Investment securities	1,113	424	2,235	4,039	2,373	7,890	9,709	2,936	30,718
Other assets	-	-	-	-	-	-	-	6,683	6,683
	11,875	18,017	15,435	12,031	12,007	32,770	59,107	11,137	172,379
Financial liabilities									
Deposits from banks	668	7	43	-	-	-	-	-	718
Deposits from non-bank customers	5,642	4,937	6,650	5,076	4,732	3,332	104,016	-	134,385
Other borrowed funds	-	200	4,727	2,705	531	3,676	675	-	12,515
Trading liabilities	-	-	-	-	-	-	-	1,297	1,297
Subordinated debts	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	23,464	23,464
	6,310	5,145	11,420	7,781	5,263	7,008	104,691	24,761	172,379
Liquidity Gap	5,565	12,872	4,015	4,250	6,744	25,762	(45,584)	(13,624)	-

Liquidity & Funding Risk (cont'd)

India

MUR Million	Day 1	Day 2-1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-Maturity	TOTAL
31 December 2017									
Financial Assets									
Cash and cash equivalents	81	-	-	-	-	-	-	-	81
Mandatory balances with Central Banks	4	49	40	21	83	19	2	-	218
Loans to and placements with banks	1,094	-	-	-	-	-	-	-	1,094
Trading assets	-	-	-	-	-	-	-	58	58
Loans and advances to non-bank customers	66	360	1,070	745	637	2,222	1,441	(838)	5,703
Investment securities	-	130	802	454	620	157	529	-	2,692
Other assets	-	-	-	-	-	-	-	425	425
	1,244	539	1,913	1,220	1,340	2,398	1,972	(355)	10,271
Financial liabilities									
Deposits from banks	52	-	-	-	-	-	-	-	52
Deposits from non-bank customers	150	1,641	1,351	696	2,786	636	51	-	7,310
Other borrowed funds	228	27	347	-	-	-	-	-	602
Trading liabilities	-	-	-	-	-	-	-	38	38
Subordinated debts	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	2,269	2,269
	430	1,667	1,698	696	2,786	636	51	2,307	10,271
Liquidity Gap	814	(1,128)	215	524	(1,446)	1,761	1,921	(2,661)	-

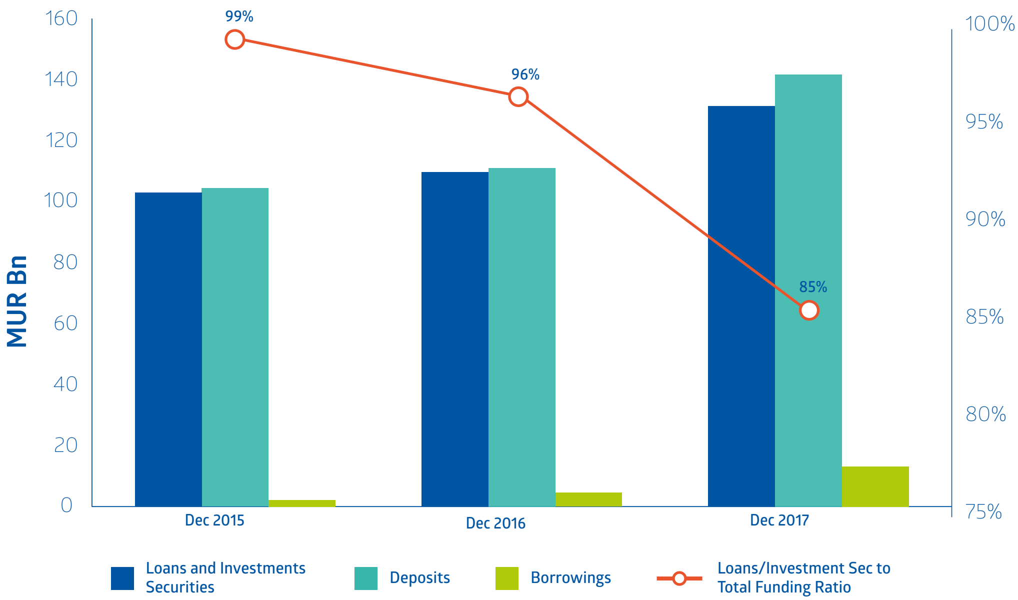
Funding Risk

The Bank ensures that its funding sources are well diversified and that the funding source concentrations are regularly monitored and analysed. It has its principal sources of funding from capital, core deposits from retail, local and international clients.

The Bank maintains deposit concentration limits to ensure that it does not place undue reliance on a single entity as a funding source. Funding ratios are monitored. The table below depicts the funding ratios are per banking operations:

	Loans to Total Deposits		Loans to Total Funding	
	2017	2016	2017	2016
Mauritius Operations	71%	66%	65%	63%
India Operations	78%	55%	72%	55%

The Loan to Deposit ratios are conservative across the Bank. During 2017, the Bank's core MUR deposits represented over 90% of the total funding, unchanged from previous year, which is adequate to mitigate the related liquidity and funding risk.



Liquidity & Funding Risk (cont'd)

Scenario analysis and Stress Testing

An array of liquidity scenarios, covering a series of explicit events, are developed, analysed, and reported to the ALCO and Board Risk Management Committee. In the case of a potential or actual crisis, the Bank has a formal contingency plan in place that clearly sets out the process, responsibilities and strategies for addressing liquidity shortfalls in unexpected situations.

The below table depicts some scenarios of stress testing for Mauritius Operations:

	Stress Conditions				Funding Gap	
	Current Accounts - % withdrawal	Savings Accounts - % withdrawal	Term Deposits - % Early Termination	Advances - % Impairment	In MUR Bn	as a % of available funding
Scenario 1	10%	10%	10%	0%		
Amount MUR Bn	(1.9)	(8.5)	(2.4)	-	(4.45)	13%
Scenario 2	30%	30%	30%	0%		
Amount MUR Bn	(5.8)	(25.4)	(7.1)	-	(29.57)	89%
Scenario 3	0%	0%	0%	10%		
Amount MUR Bn	-	-	-	(10)	1.70	5%
Scenario 4	0%	0%	0%	40%		
Amount MUR Bn	-	-	-	(39)	(26.78)	80%
Scenario 5	10%	10%	10%	10%		
Amount MUR Bn	(2)	(8)	(2)	(10)	(4.55)	14%
Scenario 6	30%	30%	30%	40%		
Amount MUR Bn	(6)	(25)	(7)	(39)	(29.98)	90%

In addition to the above scenarios, the Bank has adequate available funding in the unlikely event that a major portion of the deposits of segment B customers is withdrawn without notice on the day, assuming a run-off of 40% of the USD Segment B deposits.

Operational Risk Management

The Bank has a sound operational risk management framework enhanced by the three lines of defence in line with good governance practices and approved by the Board of Directors.

The framework intends to protect the bank against financial losses, physical and reputational damages in an efficient and practical manner based on the following principles:
1. Implementation of data protection mechanism in compliance with internal policies and laws;
2. Definition and segregation of the roles and responsibilities of the three lines of defence;
3. Clearly defined and accepted risk appetite statement (RAS);
4. The definition and monitoring of key risk indicators;
5. The reporting of key risk metrics to senior management and the Board;
6. The formulation and approval of policies by the Board;
7. Monitoring of business environment and geo-political configuration;
8. Performance of scenario analysis forecasting worst case scenarios; and
9. Strong risk culture driven by the Board and senior management.

> "Risk management is embedded at the very inception of products, systems and growth strategies to ensure risks remain within defined risk appetite to bring the desired return on investment and value creation to stakeholders. The framework ensures that high impact risks are addressed at the earliest."

The Bank has an independent risk management team which assesses, manages and reports risks monthly to the Operational Risk Forum and quarterly to the Board Risk Management Committee.

Operational Risk is the risk of losses linked with processes, systems, people and external events like riots, legal claims or acts of God, in order to contain operational risks within acceptable limit while meeting regulatory requirements and ensuring continued service delivery and value creation

The Bank developed and adapted internal policies and procedures, implemented appropriate segregation of duties, restricted system access, defined operational limits, implemented business & system disaster recovery plans, contracted insurance policies and implemented robust risk monitoring mechanisms to contain operational risks within acceptable limit and meet regulatory requirements, whilst ensuring continued service delivery and value creation.

The following tools allow the identification and monitoring of operational risk:
- The capture and analysis of loss data;
- The development of a risk register;
- The definition and monitoring of Key Risk Indicators (KRI);
- The conduct of Risk and Conduct Self-Assessment (RCSA); and
- The review of process through performance of control attestation.

1. Information Technology Risk

Information Technology is a key enabler for achieving our business objectives and strategies to reach out to and meet customer needs.

The systems implemented as part of the major technology transformation in 2016 have now been stabilised. The majority of our technology platforms are currently hosted and managed by our IT strategic partner. We are conscious of the risks associated with this kind of outsourcing arrangements with regards to data protection, system performance, service delivery and time to market new products. There is close monitoring of the performance of the IT systems as well as independent review by specialized team as part of the overall IT risk management practices.

Operational Risk Management (cont'd)

The existing Information Technology Risk Management framework is supported by IT policies and standards, control processes and the following risk mitigation strategies:

- Security awareness to staff and customers;
- Security tools to detect and prevent cyber-attacks from outside;
- A dedicated IT Security team and incident response capabilities;
- Strong access control;
- Regular independent vulnerability testing; and
- Backup systems to ensure business continuity.

> "We are continuously monitoring development in new technologies and the digitization trend which are capable of disrupting our ability to adapt to the evolving customer demand. Digitization has become one of the priorities of the bank and we are on the outlook to ensure associated risks are identified and managed."

2. Business Continuity Management

Any incident, large or small, natural, accidental or deliberate has the potential to cause major disruption to the Bank's operations and its ability to deliver products and services. In addition, the Bank is also conscious of the changing climatic environment and threats such as extreme weather conditions and for which the Bank has over time developed response mechanisms to protect our assets and people.

The Bank has a dedicated full time experienced team for Business Continuity Management which falls under the leadership of the Head of Risk. The team is fully involved with the development of proactive arrangements and procedures that ensure the resiliency of the Bank.

The Business Continuity framework is regularly tested and corrective actions are taken to ensure that fundamental strategies and tactics remain effective. It should be noted that the Bank has reached the advanced stage in terms of Business Continuity for technology.

Furthermore, the Bank understands that a crisis situation is unpredictable and that each situation requires a dynamic response.

A Crisis Management Team, under the leadership of the Chief Executive, takes prompt action to minimize impact on service delivery and to build a communication channel with key stakeholders

3. Regulatory Compliance Risk

The Bank continuously monitors and accommodates regulatory changes and failure to comply with applicable laws and regulations could result in regulatory sanctions, financial loss or damage to the reputation of the Bank.

The Bank has an independent Regulatory Compliance team which assesses compliance risk and also manages the risk of breaches and sanctions relating to Anti-Money Laundering and Combatting the Financing of Terrorism. The Regulatory Compliance team acts as a contact point within the Bank and delivers timely advice in relation to compliance queries.

The Compliance function is equipped with specialized software which allows enhanced monitoring of transactions to combat money laundering and terrorist financing.

4. Fraud Risk

All employees and Directors within the Bank are expected to act with integrity at all times to safeguard the Bank's reputation, protect customers and company resources.

The Bank has a Board approved Fraud Management Policy which comprises of four major pillars – Deterrence, Detection, Mitigation and Response to fraud. The dedicated Anti-Fraud Department (AFD) was set up since 2015 to cater for the four pillars. The department is totally independent and reports directly to the Audit Committee.

The Bank follows the following key guiding principles:

- A zero tolerance towards staff fraud;
- Stringent control procedures;
- Timely disclosure of fraudulent activities;
- Training and awareness programme;
- Whistleblowing; and
- Human resource policy including code of ethics and business conduct and conflict of interest.

Since the inception of the AFD, the main focus has been on “prevention” through Fraud Awareness Campaigns to various departments within the Bank. Parallel to the preventive approach, the AFD has also conducted investigations into potential fraud, malpractices and irregularities cases within the Bank.

In addition, the Bank has a Proactive Risk Management team which constantly monitors card transactions on a 24/7 basis. The team has successfully prevented over 400 cards related frauds, some of which could have been caused significant loss to the customers and the Bank.

5. Reputational Risk

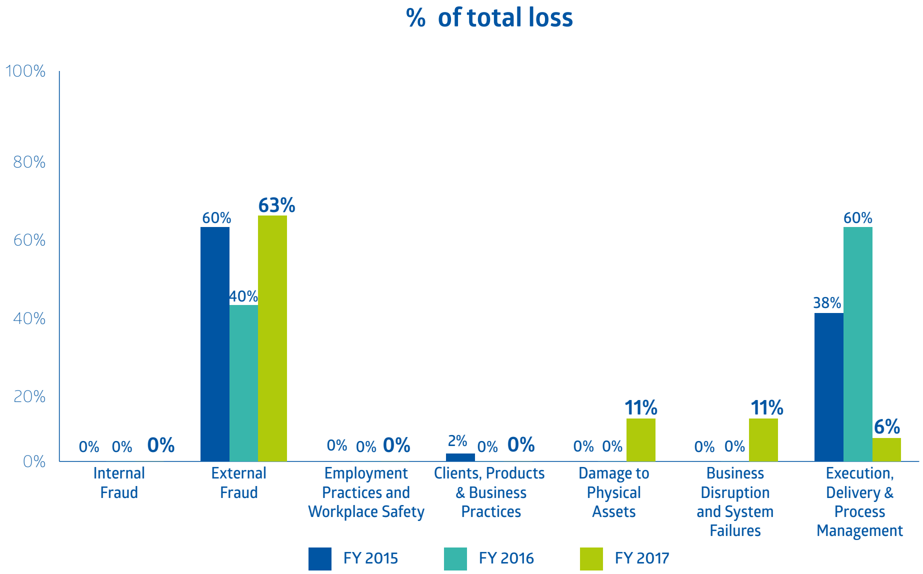
Reputational risk is the risk that the Bank’s reputation is damaged by one or more than one reputation event, as reflected from negative publicity about its business practices, conduct or financial condition. Such negative publicity, whether true or not, may impair public confidence in the Bank, resulting in costly litigation, or lead to a decline in its customer base, business or revenue. The Bank closely and continuously assesses and monitors reputational risk and reports to the Risk Management Committee on a quarterly basis.

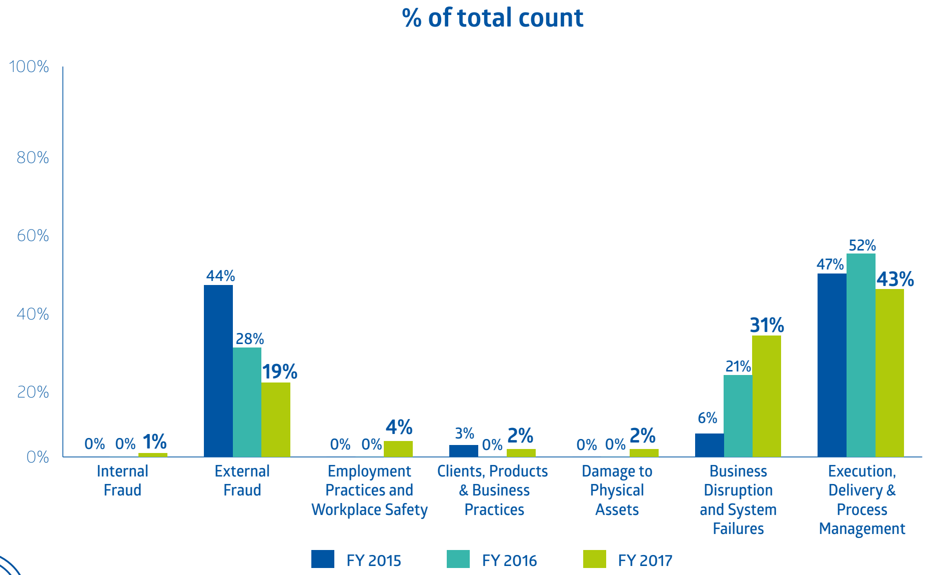
A dedicated complaints handling team remains alert and sensitive to customer complaints and ensures all complaints are treated with the utmost sincerity, confidentiality and fairness. More so, the Bank has a Complaints Committee comprising of senior executives as members which meet on regularly basis to ensure appropriate actions are taken to address the complaints. A report on the complaints is submitted on a quarterly basis to the Corporate Governance and Conduct Review Committee.

Operational Risk Management (cont'd)

Operational Risk Profile as at 31 December 2017

Operational Loss





There has been an increase in the absolute loss amount attributed to external fraud. 2017 witnessed a robbery at one of our service units by a well-organized gang. This incident triggered a comprehensive review of the physical security by an external expert and the monitoring and controls have since been further enhanced.

Financial loss associated with Business Disruption and System Failures has been minimal. However during the year we have not been spared with some unfortunate system downtimes which have since been resolved following the prompt intervention of the IT team and the Business Continuity Management team.

Capital Management

SBM Bank manages its capital position to:

- ensures that the Bank has, at any time, a capital adequacy ratio corresponding to at least the regulatory minimum
- safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders
- maintain a capital position necessary for its long term financial health
- support the development of its business

Capital Sufficiency

The requirement for capital typically takes the form of a ratio of capital compared to a defined exposure amount having to exceed a minimum percentage.

There are two types of capital ratios based on different exposure types :

Ratio	Exposure Type	Description
Capital Adequacy Ratio	**Risk Weighted Assets**	Assesses capital held against both size and inherent riskiness of on and off-balance sheet exposures
Leverage Ratio	Leverage Exposure	Assesses capital held against the size of on and off-balance sheet exposures (largely based on accounting value with some adjustments)

Capital Adequacy Ratio

Capital adequacy ratio is the ratio which protects banks against excess leverage, insolvency and keeps them out of difficulty. It is defined as the ratio of bank's eligible capital in relation to its risk weighted assets. An appropriate level of capital adequacy ensures that the bank has sufficient capital to expand its business, while at the same time its net worth is enough to absorb any financial downturns without becoming insolvent. It is the ratio which determines banks capacity to meet risks such as credit risk, market risk and operational risk.

As per Bank of Mauritius norms, Mauritian banks should have a minimum CAR of 10% (excluding buffers) i.e., 2% more than stipulated by Basel Norms.

Regulatory capital

Basel III is a framework that sets out global regulatory rules for bank capital and liquidity and consists of three mutually reinforcing pillars:

Pillar 1	Minimum Capital Requirement (Credit Risk, Market Risk and Operational Risk)
Pillar 2	Supervisory Review and Evaluation Process
Pillar 3	Market Discipline (Pillar 3) consists of set of disclosures on capital adequacy and risk management framework of Bank.

Capital Management (cont'd)

SBM adheres to Basel III rules as contained in the Bank of Mauritius Guideline on Scope of Application of Basel III and Eligible Capital, which came into effect as from July 2014, for determination of its capital while to manage its Credit and Market risk exposures, it uses the Basel II Standardised Approach to Credit Risk and the Alternative Standardized Approach for Operational Risk.

Bank of Mauritius guidelines provides for additional capital requirements that phase in over time:

(i) Capital Conservation Buffer

(ii) Domestic Systemically Important Bank (D-SIB Buffer)

These requirements must be satisfied entirely with capital that qualifies as Common Equity Tier 1.

The Capital Conservation Buffer (CCB) aims at promoting the conservation of capital and the build-up of adequate buffers above the minimum during normal times (i.e outside periods of stress) which can be drawn down as losses are incurred during a stressed period. CCB began to phase in on January 01, 2017 and will continue to do so in increments of 0.625% per year until it reaches 2.5% of risk-weighted assets on January 01, 2020.

SBM also complies with the Guideline for dealing with Domestic-Systemically Important Banks (DSIBs) due to its systemic importance, which is based on the assessment of five factors, namely size, exposure to large groups, interconnectedness, complexity and substitutability. As per this guideline, banks qualifying as DSIBs are required to hold a capital surcharge ranging from 1.0% to 2.5%, depending on their systemic importance. The assessment for determining DSIBs is carried out by Bank of Mauritius on a yearly basis on end-June figures.

The D-SIB buffer also began to phase in on January 01, 2016 and will continue to do so through January 01, 2019.

The following table summarises the minimum ratios of capital to RWAs that SBM is expected to maintain once all currently adopted regulation is fully implemented by 1 January 2020.

MINIMUM REGULATORY RATIOS APPLICABLE TO SBM							
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
	1 July	**1 Jan**	**1 Jan**	**1 Jan**	**1 Jan**	**1 Jan**	**1 Jan**
Minimum CET 1 CAR	5.5%	6.0%	6.5%	6.5%	6.5%	6.5%	6.5%
Minimum Tier 1 CAR	6.5%	7.5%	8.0%	8.0%	8.0%	8.0%	8.0%
Capital Conservation Buffer (CCB)				0.625%	1.25%	1.875%	2.5%
D-SIB Buffer : Minimum additional loss absorbency			0.375%	0.50%	1.125%	1.500%	1.500%
Minimum Tier 1 CAR plus CCB + DSIBs	6.5%	7.5%	8.375%	9.125%	10.375%	11.375%	12.000%
Minimum Total CAR plus CCB + DSIBs	**10.0%**	**10.0%**	**10.375%**	**11.125%**	**12.375%**	**13.375%**	**14.000%**

Note: SBM Indian Operations also adhere to all stipulated rules and regulations as per their host regulator, Reserve Bank of India

Constituents of capital held

The determination of what instruments and financial resources are eligible to be counted as capital is laid down in the BOM Guideline on Scope of Application of Basel III and Eligible Capital.

Capital is categorized under two tiers (Tier 1 and Tier 2) according to their ability to absorb losses, degree of permanency and the ranking of absorbing losses. There are three broad categories of capital across these two tiers:

1. CET 1 capital.

CET 1 capital must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. CET 1 capital absorbs losses before other types of capital and any loss absorbing instruments. CET1 primarily consists of Shareholders' Equity (share capital, retained earnings, foreign currency translation and other reserves), less goodwill and other prescribed adjustments.

2. Additional Tier 1 Capital.

This is the second form of loss absorbing capital and must be capable of absorbing losses on a going concern basis.

3. Tier 2 Capital.

Tier 2 capital is the supplementary capital that provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum maturity of five years, revaluation reserves on fixed assets and general loan loss provision restricted to a threshold.

Capital Management (cont'd)

The following table below details the composition of the regulatory capital of the Bank along with a summary of the capital requirement for credit, market and operational risk as on 31 December, 2015, 2016 and 2017

Figures in MUR'million	**31 Dec 2017**	31 Dec 2016	31 Dec 2015
Common Equity Tier 1 Capital			
Share Capital	**310**	310	310
Capital Contribution	**9,063**	8,063	8,063
Statutory Reserves	**530**	530	530
Retained Earnings	**7,856**	6,194	3,905
Accumulated other comprehensive income and other disclosed reserves	**(583)**	(561)	(495)
Other Intangible Assets	**(3,457)**	(3,770)	(2,370)
Deferred Tax	**(95)**	(215)	(277)
Common Equity Tier 1 Capital	**13,624**	10,551	9,667
Additional Tier 1	**-**	-	-
Tier 1 capital (T1 = CET1 + AT1)	**13,624**	10,551	9,667
Tier 2 Capital			
Other Reserves	**531**	548	578
Portfolio Provision	**1,263**	1,020	939
Tier 2 Capital	**1,794**	1,568	1,517
Total Regulatory capital	**15,418**	12,119	11,184
Risk-Weighted Assets			
Credit risk	**101,954**	74,956	68,927
Market risk	**2,755**	436	439
Operational risk	**7,402**	6,214	5,775
Total Risk-Weighted Assets	**112,111**	81,606	75,142
Common Equity Tier 1 capital ratio (%)	**12.15**	12.93	12.86
Tier 1 capital ratio (%)	**12.15**	12.93	12.86
Total capital ratio (%)	**13.75**	14.85	14.88

Both Common Equity Tier 1 capital and Tier 1 capital remain ahead of the minimum regulatory limits as at end of December 2017 at 12.15 per cent. Capital Adequacy ratio stood at 13.75 per cent with 263 basis points above the minimum required, but down by 110 basis points compared to December 2016, on account of a notable rise of 37.3% in risk weighted assets on the back of substantial growth in loan portfolio coupled with significant increase in Derivatives transactions.

Risk Weighted Assets

The risk-weighted assets are worked out by applying risk weights from prescribed risk parameters, classified according to its nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty. As regards risk weights applicable to its claims on banks and sovereigns, SBM uses ratings assigned by Eligible Credit Assessment Institutions (ECAIs), namely Standard & Poor's, Moody's Investors Service and Fitch, as approved by the BOM. In addition to these ECAIs, BOM has also authorized banks to use the credit ratings assigned by CARE Ratings (Africa) Private Ltd, for risk-weighting of claims on Corporates as from 31st October 2017. .

The following tables provide figures for the RWAs after credit mitigation for both on-balance sheet and off-balance sheet assets:

SBM Bank (Mauritius) Ltd - On Bal Sheet Credit risk-weighted assets

MUR million	**31 Dec 2017**			31 Dec 2016	31 Dec 2015
On-Balance Sheet assets	**Amount MUR M**	**Weight %**	**Risk Weighted Assets MUR M**	Risk Weighted Assets MUR M	Risk Weighted Assets MUR M
Cash Items	**2,100**	**0-20**	**0**	1	30
Claims on Sovereigns	**35,781**	**0-100**	**3,055**	1,030	535
Claims on Central banks and International Institutions	**12,044**	**0-50**	**772**	365	447
Claims on Multilateral Dev Banks	**2,745**	**0**	**0**	-	-
Claims on Banks	**25,758**	**20-150**	**12,355**	9,459	6,830
Claims on non-central government public sector entities	**517**	**0-100**	**196**	408	524
Claims on Corporates	**51,879**	**20-100**	**51,414**	36,537	32,913
Claims on Retail segment	**7,655**	**75**	**5,741**	6,379	6,868
Claims secured by Residential Property	**19,894**	**35-125**	**8,054**	5,925	6,277
Claims secured by Commercial Real Estate	**2,988**	**100**	**2,988**	3,456	4,461
Past Due Claims	**1,099**	**50-150**	**1,250**	2,083	1,341
Other Assets	**9,035**	**100**	**9,035**	6,073	5,756
Total On Balance Sheet	**171,494**		**94,860**	71,716	65,982

Capital Management (cont'd)

Off-balance sheet assets - MUR million	31 Dec 2017 Credit Conversion Factor (%)	Nominal Amt	Credit Equivalent Amt	Weight %	Risk Weighted Assets	31 Dec 2016 Risk Weighted Assets	31 Dec 2015 Risk Weighted Assets
Direct Credit Substitutes	**100**	**3,241**	**3,241**	**0-100**	**3,219**	1,075	274
Transaction-Related Contingent items	**50**	**4,170**	**2,085**	**0-100**	**1,985**	1,524	2,009
Trade-Related Contingencies	**20**	**2,357**	**471**	**0-100**	**478**	229	170
Other Commitments	**0-20**	**14,239**	**1,493**	**0-100**	**1,412**	411	492
Total non-market-related risk-weighted assets		**24,006**	**7,290**		**7,094**	3,240	2,945
Interest Rate contracts	**0-1.5**	**5,030**	**43**	**20-100**	**22**	47	52
Foreign Exchange contracts	**1-5**	**94,668**	**2,183**	**20-100**	**1,863**	170	194
Credit Derivatives contracts		**334**	**67**	**150**	**100**	-	-
Total market-related risk-weighted assets		**100,032**	**2,293**		**1,985**	217	246
Total Off Balance Sheet		**124,038**	**9,583**		**9,079**	3,457	3,191

SBM remained well capitalized to absorb future shocks and maintain its future growth trajectory. Capital Adequacy Ratio of the Bank stood at 13.75 per cent as at end of December 17 with a growth of 27 per cent in Capital Base and 37 per cent in risk weighted assets. Tier I Capital of the Bank has increased from MUR 10,551 million to MUR 13,624 million which is 29 per cent increase in FY 2017 over FY 2016. The increase is on account of retained profit after tax earned during the financial year 2017 and capital injection of Rs1.0 billion from the Holding Company in quarter four 2017 while the increase in total exposures is mainly driven by growth in cross border advances.

Both CET 1 ratio and Tier 1 ratio stood at 12.15 per cent well above the minimum regulatory requirement of 7.625 per cent and 9.125 per cent respectively.

The capital position of our India Operations on a stand-alone basis, was also strong with a CAR ratio of 26.8 per cent as at 31 December 2017.

Market Risk Capital

SBM adheres to the Standardised Approach as outlined by BOM in its Guideline on Measurement and Management of Market Risk for computation of capital on market risk. As per this methodology, which is closely aligned with Basel II Standardised Measurement Method, a bank is required to hold additional capital whenever its overall position in trading book activities exceeds 5 per cent or more of its total assets. A bank is encouraged to hold a capital buffer that adequately covers the interest rate risk exposures arising from non-trading activities.

During the year under review, SBM has started to grow its derivatives book on behalf of its customers and those positions were hedged accordingly.

The Bank made use of interest rate and currency swaps to hedge future interest or currency payments, so-called cash flow hedges.

For the computation of risk-weighted off-balance sheet credit exposures arising from market-related transactions, all market-related transactions held in the banking and trading books which give rise to off-balance sheet credit risk are included. The credit risk on off-balance sheet market-related transactions is the cost to the bank of replacing the cash flow specified by the contract in the event of counterparty default.

The total market-related off balance sheet RWA increased significantly during the year under review and amounted to MUR 1.9 billion as at 31 December 2017 compared to MUR 217 million a year ago.

The table below provides the comparative figures for the aggregate net open foreign exchange position for the Bank.

Aggregate Net Open Foreign Exchange Position

MUR million	**Dec 2017**	Dec 2016	Dec 2015
Aggregate net open foreign exchange position	**328**	219	194

Operational Risk Capital

Operational risk is the risk of incurring a loss due to inadequate or failed internal processes, or due to external events, whether deliberate, accidental or natural occurrences. SBM Bank has adopted the Alternative Standardized Approach for the computation of capital for operational risk.

SBM's capital charge for Operational Risk is increasing year on year, in line with growing business volumes and gross income.

The table below sets out, at the date indicated the operational risk capital charge for SBM Bank.

Capital Charge for Operational Risk:

MUR million	**Dec 2017**	Dec 2016	Dec 2015
Capital charge for Operational Risk	**740**	621	578

Leverage Ratio

Leverage ratio requirements do not consider the riskiness of the Bank's positions unlike capital adequacy ratios. The Bank has to hold a minimum amount and quality of capital to satisfy this ratio.

The leverage exposure is broadly aligned to the accounting value of the Bank's on and off-balance sheet exposures but subject to certain adjustments for trading positions, repurchase agreements and off balance sheet exposures.

As at 31 December 2017, the leverage ratio for the Bank stood at 6.7% against the Basel Committee on Banking Supervision (BCBS) recommended minimum of 3%. As at date, there is no regulatory requirement to compute the leverage ratio.

Looking Ahead

A key focus for the year ahead will be to ensure that the Bank remains adequately capitalised and positioned to respond to higher capital requirements prescribed by the regulatory authority.

SBM will continue to pursue its strategy of prudently managing its financial capital to provide an appropriate balance between debt and equity and the associated costs.

"THE BANK REPORTS WITH INTEGRITY AND TRANSPARENCY. THE AUDITORS PROVIDE INDEPENDENT ASSURANCE ON THE FINANCIAL STATEMENTS"

Statement of Directors' Responsibility

FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of Directors of SBM Bank (Mauritius) Ltd is appointed to act on behalf of its sole shareholder, SBM (Bank) Holdings Ltd. A professional management team is appointed to run the business of SBM Bank (Mauritius) Ltd (the 'Bank') under the oversight of the Board of Directors. The Board is directly accountable to the shareholder and each year the Bank holds an Annual Meeting at which the directors report to the shareholder on the performance of the Bank and its future plans and strategies. They also submit themselves for re-election as directors at the Annual Meeting, as laid out in the Constitution and the Code of Corporate Governance for Mauritius.

The Board of Directors' key purpose is to ensure the Bank's prosperity by collectively directing its affairs via delegated authority, whilst meeting the appropriate interests of its stakeholders. In addition to business and financial issues, the Board of Directors is also called upon to deal with the challenges and issues relating to corporate governance, corporate social responsibility and corporate ethics. The Board must ensure that appropriate internal controls and risk management processes are set in place for the proper running of the business.

The Risk Management Committee has the responsibility to set the risk strategy, advise the Board on risk issues and monitor the risk management processes. Amongst others, it sets and reviews policies for the management of risks particularly in the areas of credit, market, interest, liquidity, operational and technological risks including legal, reputational and strategic risks, ensuring that adequate procedures and limits as well as appropriate methodologies and systems are in place.

The Audit Committee critically reviews the financial and interim reports, prospectus and other financial circulars/ documents and is responsible, amongst others, for reviewing the systems of internal controls to ascertain their adequacy and effectiveness. It reviews and discusses any material weaknesses identified in controls and deficiencies in system, and if necessary, recommends additional procedures to enhance the system of internal controls.

An internal audit function, whose Head also reports directly to the Audit Committee, is in place to ensure that the Bank's operations are conducted according to the established practices by providing an independent and objective assurance, and by advising on best practices. The Audit Committee reviews reports from internal and external auditors and monitors relevant actions taken by management.

The Risk Management section contained in the Annual Report provides further details on the processes for risk management and internal controls.

The directors confirm, to the best of their knowledge and belief, that:

(i) an effective system of internal controls and robust risk management practices, including compliance, has been put in place to safeguard the assets and for the prevention and detection of fraud and other irregularities;

(ii) the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations in the foreseeable future;

(iii) the Financial Statements give a true and fair view of the state of affairs of the Bank for the year ended 31 December 2017 and have been prepared in accordance with the International Financial Reporting Standards and the requirements of the Banking Act 2004, Companies Act 2001 and the Financial Reporting Act 2004 and applicable Bank of Mauritius (BOM) guidelines and those of other Central Banks, where the Bank has operations, and appropriate accounting policies. These were supported by reasonable and prudent judgments, and estimates have been used consistently;

(iv) they continuously review the implications of corporate governance best practices and are of the opinion that the Bank complies with the requirement of the Code of Corporate Governance for Mauritius in all material aspects or has explained non-compliance; and

(v) proper accounting records have been kept, in accordance with the requirements of the Companies Act 2001 and are free from misstatements.

The external auditors, Ernst & Young have independently given their opinion in their audit report as set out on pages 137 to 138.

Raj Dussoye
Chief Executive

Ishwar Anoopum Gaya
Chairman, Audit Committee

Nayen Koomar Ballah, *G.O.S.K.*
Chairman

22 March 2018

Statement of Management's Responsibility for Financial Reporting

FOR THE YEAR ENDED 31 DECEMBER 2017

The financial statements of the Bank have been prepared by management, which is responsible for their integrity, consistency, objectivity and reliability. International Financial Reporting Standards, as well as the requirements of the Banking Act 2004 and the guidelines issued thereunder, have been applied and management has exercised its judgement and made best estimates where deemed necessary.

The Bank has 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 the communication of the Bank's policies, procedures manuals and guidelines of the Bank of Mauritius throughout the Bank.

The Bank's Board of Directors, acting in part through the Audit Committee, Corporate Governance & Conduct Review Committee and Risk Management Committee, which are comprised mostly of independent directors, oversees 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 auditor, who has full and free access to the Audit Committee, conducts 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, 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, Ernst & Young, 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.

Raj Dussoye
Chief Executive

Ishwar Anoopum Gaya
Chairman, Audit Committee

Nayen Koomar Ballah, *G.O.S.K.*
Chairman

22 March 2018

Company Secretary's Certificate

FOR THE YEAR ENDED 31 DECEMBER 2017

We certify to the best of our knowledge and belief that the Bank has filed with the Registrar of Companies all such returns as are required of the Bank under the Companies Act 2001 in terms of Section 166 (d).

Manuela Permal / Preshnee Ramchurn
Company Secretaries

22 March 2018

Independent Auditors' Report

To the member of SBM BANK (MAURITIUS) LTD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SBM Bank (Mauritius) Ltd (the "Bank") set out on pages 139 to 204 which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the financial statements give a true and fair view of, the financial position of the SBM Bank (Mauritius) Ltd as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act 2001 and Financial Reporting Act 2004.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act 2001, Banking Act 2004 and Financial Reporting Act 2004 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Other Information

The directors are responsible for the other information. The other information comprises the Statement of Directors' responsibility, Report from the Company Secretary as required by the Companies Act 2001, Statement of Management's responsibility for financial reporting, Management Discussion and Analysis, Supplementary information as required by Bank of Mauritius and Corporate Governance Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditors' Report

To the member of SBM BANK (MAURITIUS) LTD

Report on the Audit of the Financial Statements (Continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other matter

This report is made solely for the Bank's member in accordance with Section 205 of the Companies Act 2001. Our audit work has been undertaken so that we might state to the Bank's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's member, for our audit work, for this report, or for the opinions we have formed.

Report on Other Legal and Regulatory Requirements

Companies Act 2001

We have no relationship with or interests in the Bank other than in our capacity as auditors and dealings in the ordinary course of business.

We have obtained all the information and explanations we have required.

In our opinion, proper accounting records have been kept by the Bank as far as it appears from our examination of those records.

Banking Act 2004

In our opinion, the financial statements have been prepared on a consistent basis and are complete, fair and properly drawn up and comply with the Banking Act 2004 and the regulations and guidelines of the Bank of Mauritius.

The explanations or information called for or given to us by the officers or agents of the Bank were satisfactory.

Financial Reporting Act 2004

The directors are responsible for preparing the Corporate Governance Report. Our responsibility is to report on the extent of compliance with the Code of Corporate Governance as disclosed in the annual report and whether the disclosure is consistent with the requirement of the Code.

In our opinion, the disclosures in the Corporate Governance Report are consistent with the requirements of the Code.

ERNST & YOUNG
Ebène, Mauritius

PATRICK NG TSEUNG, A.C.A.
Licensed by FRC

Date: 22 March 2018

Statement of Financial Position

AS AT 31 DECEMBER 2017

	Notes	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2015 MUR' 000
ASSETS				
Cash and cash equivalents	5	**15,620,778**	9,423,941	8,978,486
Mandatory balances with Central Banks		**8,712,062**	6,945,570	6,894,736
Loans to and placements with banks	6	**8,895,860**	4,645,911	1,208,945
Derivative financial instruments	7	**1,356,774**	165,997	144,117
Loans and advances to non-bank customers	8	**100,839,231**	71,158,114	68,377,264
Investment securities	9	**37,150,731**	34,410,974	31,079,244
Equity investments	9	**370**	4,058	370
Property and equipment	10	**2,631,782**	2,750,051	2,779,766
Intangible assets	11	**3,457,061**	3,769,919	2,370,391
Deferred tax assets	17b	**95,461**	215,320	276,767
Other assets	12	**923,892**	600,752	865,953
Total assets		**179,684,002**	134,090,607	122,976,039
LIABILITIES				
Deposits from banks	14	**739,926**	2,711,364	798,636
Deposits from non-bank customers	15	**141,695,769**	108,302,387	103,577,789
Other borrowed funds	16	**13,116,593**	4,540,509	2,132,497
Derivative financial instruments	7	**1,334,584**	182,406	120,756
Current tax liabilities		**105,869**	358,908	371,242
Deferred tax liabilities	17b	**170,905**	-	-
Other liabilities	18	**4,163,207**	2,240,596	2,376,326
Total liabilities		**161,326,853**	118,336,170	109,377,246
SHAREHOLDER'S EQUITY				
Stated capital	19	**310,000**	310,000	310,000
Capital contribution	19	**9,063,106**	8,063,106	8,063,106
Retained earnings		**7,855,520**	6,193,747	3,940,391
Other reserves	37	**1,128,523**	1,187,584	1,285,296
Total equity		**18,357,149**	15,754,437	13,598,793
Total equity and liabilities		**179,684,002**	134,090,607	122,976,039

Approved by the Board of Directors and authorised for issue on 22 March 2018.

Raj Dussoye
Chief Executive

Ishwar Anoopum Gaya
Chairman, Audit Committee

Nayen Koomar Ballah, *G.O.S.K.*
Chairman

The notes on pages 144 to 204 form an integral part of these financial statements.

Statement of Profit or Loss

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2015 MUR' 000
Interest income		**6,649,890**	5,937,265	6,069,197
Interest expense		**(1,929,686)**	(1,683,162)	(2,002,186)
Net interest income	25	**4,720,204**	4,254,103	4,067,011
Fee and commission income		**1,023,061**	996,119	971,051
Fee and commission expense		**(24,621)**	(23,367)	(27,330)
Net fee and commission income	26	**998,440**	972,752	943,721
Other income				
Profit arising from dealing in foreign currencies		**455,673**	498,180	458,080
Net gain/(loss) from financial instruments	28	**516,538**	(25,107)	(2,057)
Dividend income	27	**-**	-	14
Net gain on sale of securities		**451,793**	442,347	270,584
Other operating income		**79**	4,200	2,782
		1,424,083	919,620	729,403
Non-interest income		**2,422,523**	1,892,372	1,673,124
Operating income		**7,142,727**	6,146,475	5,740,135
Personnel expenses	29	**(1,435,185)**	(1,323,372)	(1,184,869)
Depreciation and amortisation		**(648,027)**	(345,840)	(158,991)
Other expenses	30	**(900,380)**	(898,960)	(769,582)
Non-interest expense		**(2,983,592)**	(2,568,172)	(2,113,442)
Profit before net impairment loss on financial assets		**4,159,135**	3,578,303	3,626,693
Net impairment loss on financial assets	31	**(987,262)**	(716,742)	(1,873,364)
Profit before income tax		**3,171,873**	2,861,561	1,753,329
Tax expense	17a	**(560,580)**	(652,949)	(408,801)
Profit for the year		**2,611,293**	2,208,612	1,344,528

The notes on pages 144 to 204 form an integral part of these financial statements.

Statement of other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2015 MUR' 000
Profit for the year		**2,611,293**	2,208,612	1,344,528
Other comprehensive (loss) / income :				
Items that will not be reclassified subsequently to profit or loss (net of deferred tax):				
Increase / (decrease) in revaluation of property		-	1,480	(2,680)
Adjustment to revaluation reserve on disposal of property		-	(190)	-
Underprovision of deferred tax assets on revaluation of property in prior years		-	(24,817)	-
Remeasurement of defined benefit pension plan	13 & 17(b)	**(32,881)**	1,599	(10,858)
		(32,881)	(21,928)	(13,538)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations		**(28,403)**	(76,609)	221,053
Movement in fair value of available-for-sale investments		**182,180**	233,005	62,571
Fair value re-cycled on disposal of available-for-sale investments		**(175,477)**	(187,436)	(134,940)
		(21,700)	(31,040)	148,684
Total other comprehensive (loss) / income		**(54,581)**	(52,968)	135,146
Total comprehensive income for the year		**2,556,712**	2,155,644	1,479,674

The notes on pages 144 to 204 form an integral part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Stated capital	Capital contribution	Retained earnings	Statutory reserve	Available-for-sale reserve	Property revaluation reserve	Foreign currency translation reserve	Total equity
		MUR' 000	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**
At 01 January 2015		310,000	8,063,106	4,937,346	528,145	1,385	1,334,322	(680,085)	14,494,219
Profit for the year		-	-	1,344,528	-	-	-	-	1,344,528
Other comprehensive (loss)/income for the year		-	-	(10,858)	-	(72,369)	(2,680)	221,053	135,146
Total comprehensive income/(loss) for the year		-	-	1,333,670	-	(72,369)	(2,680)	221,053	1,479,674
Transfer to retained earnings		-	-	46,720	-	-	(46,720)	-	-
Transfer to statutory reserve		-	-	(2,245)	2,245	-	-	-	-
Dividend	20	-	-	(2,375,100)	-	-	-	-	(2,375,100)
At 31 December 2015		310,000	8,063,106	3,940,391	530,390	(70,984)	1,284,922	(459,032)	13,598,793
At 01 January 2016		310,000	8,063,106	3,940,391	530,390	(70,984)	1,284,922	(459,032)	13,598,793
Profit for the year		-	-	2,208,612	-	-	-	-	2,208,612
Other comprehensive income/(loss) for the year		-	-	1,599	-	45,569	(23,527)	(76,609)	(52,968)
Total comprehensive income/(loss) for the year		-	-	2,210,211	-	45,569	(23,527)	(76,609)	2,155,644
Transfer to retained earnings		-	-	43,145	-	-	(43,145)	-	-
At 31 December 2016		310,000	8,063,106	6,193,747	530,390	(25,415)	1,218,250	(535,641)	15,754,437
At 01 January 2017		**310,000**	**8,063,106**	**6,193,747**	**530,390**	**(25,415)**	**1,218,250**	**(535,641)**	**15,754,437**
Profit for the year		**-**	**-**	**2,611,293**	**-**	**-**	**-**	**-**	**2,611,293**
Other comprehensive (loss)/income for the year		**-**	**-**	**(32,881)**	**-**	**6,703**	**-**	**(28,403)**	**(54,581)**
Total comprehensive income/(loss) for the year		**-**	**-**	**2,578,412**	**-**	**6,703**	**-**	**(28,403)**	**2,556,712**
Capital contribution received during the year	19	**-**	**1,000,000**	**-**	**-**	**-**	**-**	**-**	**1,000,000**
Transfer to retained earnings		**-**	**-**	**37,361**	**-**	**-**	**(37,361)**	**-**	**-**
Dividend	20	**-**	**-**	**(954,000)**	**-**	**-**	**-**	**-**	**(954,000)**
At 31 December 2017		**310,000**	**9,063,106**	**7,855,520**	**530,390**	**(18,712)**	**1,180,889**	**(564,044)**	**18,357,149**

The notes on pages 144 to 204 form an integral part of these financial statements.

Statement of Cashflows

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2015 MUR' 000
Net cash (used in) / from operating activities	32	**(1,891,999)**	(265,084)	7,547,259
Cash flows from / (used in) financing activities				
Increase / (decrease) in other borrowed funds		**8,576,084**	2,408,011	(2,980,508)
Capital contribution received during the year	19	**1,000,000**	-	-
Dividend paid on ordinary shares	20	**(954,000)**	-	(2,375,100)
Net cash from / (used in) financing activities		**8,622,084**	2,408,011	(5,355,608)
Cash flows used in investing activities				
Acquisition of property and equipment		**(37,521)**	(126,947)	(208,568)
Acquisition of intangible assets	11	**(183,952)**	(1,600,238)	(1,126,454)
Disposal of property and equipment		**-**	824	4,077
Net cash used in investing activities		**(221,473)**	(1,726,361)	(1,330,945)
Net change in cash and cash equivalents		**6,508,612**	416,566	860,706
Net foreign exchange difference		**(311,775)**	28,889	-
Cash and cash equivalents at start of year		**9,423,941**	8,978,486	8,117,780
Cash and cash equivalents at end of year		**15,620,778**	9,423,941	8,978,486

The notes on pages 144 to 204 form an integral part of these financial statements.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

SBM Bank (Mauritius) Ltd (formerly known as State Bank of Mauritius Ltd) ("the Bank") is a public company incorporated and domiciled in Mauritius. The address of its registered office is SBM Tower, 1 Queen Elizabeth II Avenue, Port Louis, Mauritius. The Bank operates in the financial services sector, principally commercial banking.

2. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (IFRS)

In the current year, the Bank has 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 January 2017.

Although these new standards and amendments were applied for the first time in 2017, they did not have a material impact on the financial statements of the Bank.

The nature and the impact of each new standard or amendment are described below:

Amendments to IAS 12 Income Taxes – effective 01 January 2017

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment did not have a material impact on the financial statements.

Amendments to IAS 7 Statement of Cash Flows – effective 01 January 2017

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities were required to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (gains and losses due to foreign currency movements). Amendments were made to the disclosures in the statement of cash flows.

Standards issued but not yet effective

	Effective for accounting period beginning on or after
IFRS 9 Financial Instruments	01 January 2018
IFRS 15 Revenue from Contracts with Customers	01 January 2018
IFRS 16 Leases	01 January 2019

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* and will be effective as from 01 January 2018. IFRS 9 includes requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The impairment requirements will lead to significant changes in the accounting for financial instruments for the Bank. The Bank will not restate comparatives on initial application of IFRS 9 on 01 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7 *Financial Instruments: Disclosures*. Any change in the carrying value of financial instruments upon initial application of IFRS 9 will be recognised in equity.

2. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (IFRS) (CONT'D)

Standards issued but not yet effective (Cont'd)

IFRS 9 Financial Instruments (Cont'd)

Based on analysis performed, the impact of the new classification and measurement requirements under IFRS 9 will have significant impact on the financial statements of the Bank.

The Bank has a jointly accountable risk and finance implementation and governance programme with representation from all impacted departments. The parallel run of IFRS 9 and IAS 39 impairment models started since September 2017 and it included model, process and output validation, testing, calibration and analysis.

The Bank has exercised the accounting policy choice to continue to apply the rules under IAS 39 hedge accounting until the project on accounting for macro hedging is completed, if not earlier. The Bank will however implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 *Financial Instruments: Disclosures* for the year ending 31 December 2018.

Impairment

IFRS 9 introduces a revised impairment model which requires entities to recognise Expected Credit Losses ('ECL') based on unbiased forward-looking information. This replaces the existing IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred and would measure the loss based on the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. This presents a change from the scope of the IAS 39 impairment model which excludes loan commitments and financial guarantee contracts (these were covered by IAS 37*: Provisions, Contingent Liabilities and Contingent Assets*).

The measurement of expected credit loss will involve increased complexity and judgement including estimation of probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk.

Exposures would be divided into 3 stages as follows:

Stage 1: Exposures for where a significant increase in credit risk has not occurred since origination. For these exposures a 12 months expected credit loss will be recognised.

Stage 2: Exposures for which a significant increase in credit risk has occurred since origination. The Bank will assess whether a significant increase in credit risk has occurred based on qualitative and quantitative drivers; as well as exposures that are more than 30 days past due contractual payment date. Lifetime expected credit losses will be recognised for these assets.

Stage 3: Exposures which meet the definition of default. The Bank has aligned its definition of default with the guideline issued by the Bank of Mauritius on Credit Impairment Measurement and Income Recognition, which considers exposures that are more than 90 days past due, forbearance, as well as indicators that an exposure is unlikely to pay. Lifetime expected credit losses will be recognized for these assets.

2. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (IFRS) (CONT'D)

Standards issued but not yet effective (Cont'd)

IFRS 9 Financial Instruments (Cont'd)

Impairment (Cont'd)

The revised impairment model is expected to have a material financial impact on the recognition of impairment losses going forward, as well as existing impairment provisions previously recognised in terms of the requirements of IAS 39. Impairment provisions are expected to increase from IAS 39 provisioning as a result of:

- The removal of the emergence period that was necessitated by the incurred loss model of IAS 39. All stage 1 assets will carry a 12 months expected credit loss provision. This differs from IAS 39 where unidentified impairments were typically measured with an emergence period of between 3 to 12 months.
- The provisioning for lifetime expected credit losses on stage 2 assets; where some of these assets would not have attracted a lifetime expected credit loss measurement per IAS 39.
- The implementation of a default definition for exposures that are more than 90 days past due, as well as for certain indicators that an exposure or obligor is unlikely to pay.
- The inclusion of forecasted macroeconomic scenarios into the expected credit losses of a portfolio;
- The inclusion of expected credit losses on items that typically would not have been impaired under IAS 39, such as loan commitments.

The adoption of IFRS 9 at 01 January 2018, by applying the accounting policies and ECL measurement methodologies outlined above, is expected to result in the following movements:

	MUR'000
Increase in allowance for credit losses	300,000 to 330,000
Increase in deferred tax assets	51,000 to 56,100
Decrease in shareholder's equity	249,000 to 273,900

Classification and measurement

IFRS 9 will require financial assets to be classified on the basis of two criteria:

1) The business model within which financial assets are managed; and

2) Their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest').

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest.

Other financial assets are measured at fair value through profit and loss. There is an option to make an irrevocable election for non-traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition and impairment is not recognised in profit or loss.

2. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (IFRS) (CONT'D)

Standards issued but not yet effective (Cont'd)

IFRS 9 Financial Instruments (Cont'd)

The accounting for financial liabilities is largely unchanged.

An assessment of potential changes to financial assets has been conducted, including an assessment of business models across various portfolios, and a review of contractual cash flow features for complex financial assets.

The initial application of the Bank's new classification and measurement policies on 01 January 2018 is not expected to result in any material changes to the measurement of the Bank's financial assets and financial liabilities.

Hedge accounting

IFRS 9 contains revised requirements on hedge accounting, which are more closely aligned with a bank's risk management strategies and risk management objectives. The new rules would replace the current quantitative effectiveness test with a simpler version, and requires that an economic relationship exist between the hedged item and the hedging instrument. Under the new rules, voluntary hedge de-designations would not be allowed.

The Bank will continue to apply IAS 39 hedge accounting, although it will implement the amended IFRS 7 hedge accounting disclosure requirements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank plans to adopt the new standard on the required effective date using the full retrospective approach.

IFRS 15 will require change to the Bank's accounting policy in respect to "Accounting for loyalty programme". The Bank has assessed the impact of the new standard and there will be no significant effect when applied.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use of assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short term' leases and leases of 'low-value' assets.

Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the *statement of profit or loss*. IFRS 16 is effective for annual periods beginning on or after 01 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Bank does not anticipate early adoption of IFRS 16 and is currently evaluating its impact.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with IFRS requires the directors and management to exercise judgement in the process of applying the accounting policies. It also requires the use of accounting estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Actual results could differ as a result of changes in these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The notes to the financial statements include areas where management has applied judgements that have a significant effect on the amounts recognised in the financial statements and include the classification of financial instruments into the fair value through profit or loss (FVTPL) category, loans and receivables (L&R) category, held for trading (HFT) category and available-for-sale (AFS) category. The estimations and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

(i) Fair value of equity investments: Note 9 Investment securities

(ii) Fair value of other financial assets and liabilities: Note 36 Risk management, Part (a) fair values

(iii) Specific allowance for credit impairment: Note 8 (c) Allowance for credit impairment

(iv) Portfolio allowance for credit impairment: Note 8 (c) Allowance for credit impairment

(v) Defined benefit pension plan: Note 13 Pension liability

(vi) Intangible assets: Note 11 Assessment of useful lives

4. ACCOUNTING POLICIES

The principal accounting policies adopted by the Bank are as follows:

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for certain property and equipment and financial instruments that are measured at revalued amounts or fair value as explained in the accounting policies. The financial statements are presented in the Mauritian Rupee, which is the Bank's functional and presentation currency. All values are rounded to the nearest thousand (MUR'000), except where otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using valuation technique. In estimating the fair value of an asset or liability the Bank takes into account the characteristics of the asset or liability if market participants would take into account those characteristics when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

4. ACCOUNTING POLICIES (CONT'D)

(b) Statement of compliance

The financial statements have been prepared on the basis of preparation as explained above and in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB) and in compliance with the Companies Act 2001.

(c) Foreign currency translation

Assets, liabilities, income and expense items denominated in other currencies are translated into Mauritian Rupees, the currency of the primary economic environment in which the entity operates ('functional currency') in accordance with IAS 21.

(i) Transactions denominated in foreign currency are converted at the rate prevailing at the date of the transactions.

(ii) Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into Mauritian Rupees at the rates of exchange ruling at that date.

(iii) Non-monetary assets and liabilities denominated in foreign currency are reported using the exchange rates at the date of the transactions, if carried at cost, or the exchange rates that existed when the fair values were determined, if carried at fair value.

(iv) Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the *statement of profit or loss* and *other comprehensive income* ('OCI') for the period. When a gain or loss on a non-monetary item is recognised in equity, any exchange component of that gain or loss shall be recognised in equity. Conversely, when a gain or loss on a non-monetary item is recognised in the *statement of profit or loss* and *other comprehensive income*, any exchange component of that gain or loss shall be recognised in the *statement of profit or loss* and *other comprehensive income*.

(v) Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at closing rate. Exchange differences arising are recognised in *other comprehensive income*.

(vi) The assets and liabilities of the overseas branches denominated in foreign currencies are translated into Mauritian Rupees at the rates of exchange ruling at the reporting date, as follows:

	31 December 2017	31 December 2016	31 December 2015
USD / MUR	**33.413**	35.902	35.91
INR / MUR	**0.5231**	0.5291	0.543

The average rates for the following years are:

	31 December 2017	31 December 2016	31 December 2015
USD / MUR	**34.46**	36.43	35.69
INR / MUR	**0.529**	0.545	0.559

The *statement of profit or loss* is translated into Mauritian Rupees at weighted average rates. Any differences arising on retranslation of the foreign operation are recognised in *other comprehensive income* and accumulated in equity. On disposal of a foreign entity, such translation differences are recognised in the *statement of profit or loss* as part of other operating income in the period in which the foreign entity is disposed of.

4. ACCOUNTING POLICIES (CONT'D)

(d) Financial instruments

Financial assets and liabilities are recognised when an entity becomes a party to the contractual provisions of the instruments. Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(e) Other financial assets

Other financial assets, including placements and other receivables, that have fixed or determinable payments and that are not quoted in an active market are classified as loans and receivables. They are measured at amortised cost, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial. Interest accrued on placements is accounted for in the *statement of profit or loss* as "Interest income".

(f) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cashflows from the asset expire or the asset and the risks and rewards of ownership of the assets are transferred to another entity. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(g) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss (FVTPL), are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For available-for-sale (AFS) equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered to be impaired, its carrying amount is reduced by the impairment loss directly for all financial assets with the exception of loans and advances to customers where the carrying amount is reduced through the use of an allowance account. Cumulative gains or losses previously recognised in "Other comprehensive income" are reclassified to the *statement of profit or loss*.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, any increase in fair value subsequent to an impairment loss is recognised in "Other comprehensive income" and accumulated under the Available-for-sale reserve.

4. ACCOUNTING POLICIES (CONT'D)

(h) Financial liabilities and equity instruments

(i) Classification as debt or equity

Debt and equity instruments issued by the Bank are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

(iii) Financial liabilities

Financial liabilities include deposits from banks and non-bank customers, other borrowed funds, subordinated liabilities and other liabilities. Financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when the Bank's obligations are discharged, cancelled or they expire.

(iv) Financial guarantee contract

Liabilities under financial guarantees are recorded initially at their fair value and subsequently measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

(v) Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(i) Borrowing costs

All borrowing costs are charged to the *statement of profit or loss* in the period in which they are incurred.

(j) Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

(k) Comparative figures

Where necessary, comparative figures are restated or reclassified to conform to the current year's presentation and to the changes in accounting policies.

(l) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the *statement of financial position* when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

5. CASH AND CASH EQUIVALENTS

Accounting policy

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition.

For the purpose of the *statement of cash flows*, cash and cash equivalents comprise cash and balances with banks and central banks excluding mandatory balances with central banks, loans to and placements with banks having an original maturity of up to 3 months. Cash and cash equivalents are measured at amortised cost.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Cash in hand	**1,804,128**	1,706,637	1,893,360
Foreign currency notes and coins	**294,863**	287,812	263,108
Unrestricted balances with central banks [1]	**1,286,638**	-	1,336,727
Loans and placements with banks[2]	**5,895,943**	3,453,523	1,537,714
Balances with banks	**6,339,206**	3,975,969	3,947,577
	15,620,778	9,423,941	8,978,486

[1] Unrestricted balances with central banks represent amounts above the minimum cash reserve requirement.

[2] The balances relate to loans and placements with banks having an original maturity of up to three months.

6. LOANS TO AND PLACEMENTS WITH BANKS

Accounting policy

Loans to and placements with banks are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest method, less any impairment.

	31 December 2017	31 December 2016	31 December 2015
Loans to and placements with banks:	MUR' 000	MUR' 000	MUR' 000
- in Mauritius	**1,104,288**	451,829	271,645
- outside Mauritius	**7,791,572**	4,194,082	937,300
	8,895,860	4,645,911	1,208,945
Remaining term to maturity			
Up to 3 months	**1,438,472**	179,715	377,467
Over 3 months and up to 6 months	**403,974**	1,903,777	152,568
Over 6 months and up to 12 months	**1,910,982**	71,457	678,910
Over 1 year and up to 2 years	**3,150,402**	1,078,904	-
Over 2 years and up to 5 years	**1,992,030**	1,052,470	-
Over 5 years	**-**	359,588	-
	8,895,860	4,645,911	1,208,945

7. DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policy

Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and are remeasured to fair value at subsequent reporting dates. The resulting gain or loss is recognised in the *statement of profit or loss* immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Fair value hedges

Fair value hedges are particularly used to hedge interest rate risk on fixed rate assets and liabilities, both for identified financial instruments (loans and deposits) and for portfolios of financial instruments (in particular term deposits and fixed rate loans).

Changes in the fair value of hedging instruments that are designated and qualify as fair value hedges are recognised in the *statement of profit or loss*, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If a hedging relationship no longer meets the criteria for fair value hedge, the cumulative adjustment to the carrying amount of the hedged item is amortised to the *statement of profit or loss* over the residual period to maturity based on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is released to the *statement of profit or loss* immediately.

7. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Assets			
Derivative assets	**1,356,774**	165,997	144,117
Liabilities			
Derivative liabilities	**1,334,584**	182,406	120,756

The fair values of derivative instruments are further analysed as follows:

	Notional Principal Amount	-------------Fair Values-------------		
		Assets	Liabilities	Net
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2017				
Foreign exchange contracts*	**33,999,244**	**268,858**	**(249,698)**	**19,160**
Interest rate swap contracts	**8,348,656**	**5,566**	**(5,426)**	**140**
Cross currency swaps	**1,747,584**	**1,220**	**(1,220)**	**-**
Option contracts	**67,643,651**	**1,081,130**	**(1,078,240)**	**2,890**
	111,739,135	**1,356,774**	**(1,334,584)**	**22,190**
31 December 2016				
Foreign exchange contracts*	15,578,685	98,281	(85,388)	12,893
Interest rate swap contracts	2,184,507	7,460	(27,742)	(20,282)
Cross currency swaps	729,218	33,163	(44,218)	(11,055)
Other derivative contracts	1,906,937	27,093	(25,058)	2,035
	20,399,347	165,997	(182,406)	(16,409)
31 December 2015				
Foreign exchange contracts*	14,583,179	85,826	(62,791)	23,035
Interest rate swap contracts	2,878,916	48,930	(48,604)	326
Other derivative contracts	496,200	9,361	(9,361)	-
	17,958,295	144,117	(120,756)	23,361

* Foreign exchange contracts include forward and spot contracts and swaps.

8. LOANS AND ADVANCES TO NON-BANK CUSTOMERS

Accounting policy

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

8. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

Accounting policy (Cont'd)

Loans and advances to non-bank customers are classified under loans and receivables and are measured at amortised cost, less allowance for credit impairment. In cases where, as part of the Bank's asset and liability management activity, fair value hedge accounting is applied to loans and advances measured at amortised cost, their carrying amount is adjusted for changes in fair value related to the hedged exposure – refer to note 7 (Derivative financial instruments) for further details on hedge accounting. Allowance for credit impairment consists of specific and portfolio allowances.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
1. Governments	**2,458,655**	-	1
2. Retail customers	**31,990,963**	28,099,055	28,097,412
2.1. Credit cards	**559,351**	539,910	529,939
2.2. Mortgages	**19,834,763**	17,315,922	17,271,142
2.3. Other retail loans	**11,596,849**	10,243,223	10,296,331
3. Corporate customers	**38,364,068**	37,012,499	33,935,970
4. Entities outside Mauritius (including offshore/ Global Business license holders)	**31,446,393**	10,098,489	9,755,334
	104,260,079	75,210,043	71,788,717
Less allowance for credit impairment	**(3,420,848)**	(4,051,929)	(3,411,453)
	100,839,231	71,158,114	68,377,264

a Remaining term to maturity

	31 December 2017	31 December 2016	31 December 2015
Up to 3 months	**13,716,387**	11,753,409	11,666,725
Over 3 months and up to 6 months	**5,618,303**	3,640,541	2,480,940
Over 6 months and up to 12 months	**11,677,239**	5,085,778	4,727,500
Over 1 year and up to 2 years	**6,525,561**	5,082,157	4,957,006
Over 2 years and up to 5 years	**22,653,075**	13,825,322	15,914,279
Over 5 years	**44,069,514**	35,822,836	32,042,267
	104,260,079	75,210,043	71,788,717

b Net investment in finance leases

Accounting policy

Amounts due from lessees under finance leases are recorded as loans and advances at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

The amount of net investment in finance leases included in loans and advances to non-bank customers and the associated allowance for credit impairment are as follows:-

	Up to 1 year	After 1 year and up to 5 years	After 5 years	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2017				
Gross investment in finance leases	**419,939**	**822,981**	**78,637**	**1,321,557**
Less: Unearned finance income	**(63,613)**	**(91,106)**	**(4,083)**	**(158,802)**
Present value of minimum lease payments	**356,326**	**731,875**	**74,554**	**1,162,755**
Allowance for credit impairment				**(38,373)**
				1,124,382

8. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

b Net investment in finance leases (Cont'd)

	Up to 1 year	After 1 year and up to 5 years	After 5 years	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2016				
Gross investment in finance leases	451,572	684,966	31,023	1,167,561
Less: Unearned finance income	(62,419)	(72,437)	(1,503)	(136,359)
Present value of minimum lease payments	389,153	612,529	29,520	1,031,202
Allowance for credit impairment				(70,490)
				960,712
31 December 2015				
Gross investment in finance leases	541,203	930,981	33,928	1,506,112
Less: Unearned finance income	(99,111)	(84,699)	(1,762)	(185,572)
Present value of minimum lease payments	442,092	846,282	32,166	1,320,540
Allowance for credit impairment				(73,548)
				1,246,992

Finance lease contracts give the lessees the option to purchase the assets for a residual value at the conclusion of the lease arrangements. The term of lease contracts generally ranges from five to seven years. Finance leases are secured mainly by charges on the leased assets and / or corporate/personal guarantees.

c Allowance for credit impairment

Accounting policy

Specific allowances are made on impaired advances and are calculated as the shortfall between the carrying amounts of the advances and their recoverable amounts. The recoverable amount is the present value of expected future cash flows discounted at the original effective interest rate of the advance.

A portfolio allowance for credit losses is maintained in accordance with the guidelines of the Bank of Mauritius. These guidelines require that the Bank maintains a provision for credit impairment on all unimpaired loans and advances of not less than 1%. In addition, the Bank of Mauritius also imposes additional macro-prudential provisioning up to 1% on exposures to certain sectors of the economy. The changes in portfolio allowance are charged or credited to the *statement of profit or loss* at the end of each period.

Allowance for credit impairment in respect of on-balance sheet items is deducted from the applicable asset whereas the allowance for credit impairment in respect of off balance sheet items is included in *Other liabilities* in the *statement of financial position*. Changes in the carrying amount of the allowance accounts are recognised in the *statement of profit or loss*. When an advance is uncollectible, it is written off against the specific allowance. Subsequent recoveries of amounts previously written off are credited to "*Net impairment loss on financial assets*" in the *statement of profit or loss*.

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Significant accounting estimates and judgements

The calculation of specific allowance for credit impairment requires management to estimate the recoverable amount of each impaired asset, which is the estimated future cash flows discounted at the original effective interest rate of the advance. Where cash flows for large credits include the realisable value of collateral securing the credit, the value of such collateral is based on the opinion of independent and qualified appraisers.

The Bank's allowance for portfolio impairment is determined based on the guidelines of the Bank of Mauritius. The guidelines require the Bank to make portfolio provision of not less than 1% on unimpaired loans and advances which is generally higher than the historical loss rate of the loan portfolio of the Bank. However, the Directors have estimated that the resulting impairment charge to the *statement of profit or loss* is not materially different from what would have resulted had the Bank determined its portfolio provisioning based on the incurred loss model under IAS 39.

8. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

c Allowance for credit impairment (cont'd)

	Specific allowance for credit impairment	Portfolio allowance for credit impairment	Total
	MUR' 000	MUR' 000	MUR' 000
At 01 January 2015	803,511	827,594	1,631,105
Exchange difference	7,335	3,909	11,244
Loans written off	(114,363)	-	(114,363)
Allowance for credit impairment for the year *(Note 31)*	1,645,960	237,507	1,883,467
At 31 December 2015	**2,342,443**	**1,069,010**	**3,411,453**
At 01 January 2016	2,342,443	1,069,010	3,411,453
Exchange difference	(1,649)	(3,087)	(4,736)
Loans written off	(4,606)	-	(4,606)
Allowance for credit impairment for the year *(Note 31)*	688,972	(39,154)	649,818
At 31 December 2016	**3,025,160**	**1,026,769**	**4,051,929**
At 01 January 2017	**3,025,160**	**1,026,769**	**4,051,929**
Exchange difference	**(10,212)**	**(1,148)**	**(11,360)**
Loans written off	**(1,749,383)**	**-**	**(1,749,383)**
Allowance for credit impairment for the year *(Note 31)*	**892,335**	**237,327**	**1,129,662**
At 31 December 2017	**2,157,900**	**1,262,948**	**3,420,848**

d Allowance for credit impairment by industry sectors

	31 December 2017					31 December 2016	31 December 2015
	Gross amount of loans	Impaired loans	Specific allowance for credit impairment	Portfolio allowance for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Agriculture and fishing	**4,209,947**	**290**	**62**	**42,079**	**42,141**	100,355	79,318
Manufacturing	**6,087,198**	**1,551,283**	**1,075,376**	**76,220**	**1,151,596**	386,369	130,078
of which EPZ	***1,013,525***	***23,207***	***1,014***	***42,529***	***43,543***	*38,542*	*19,282*
Tourism	**11,203,631**	**9,961**	**3,136**	**212,286**	**215,422**	202,253	235,894
Transport	**1,320,433**	**12,731**	**9,042**	**13,079**	**22,121**	497,186	412,170
Construction	**6,737,120**	**233,420**	**105,574**	**122,203**	**227,777**	235,842	238,764
Financial and business services	**13,340,546**	**11,721**	**8,335**	**114,118**	**122,453**	534,665	519,273
Traders	**18,660,538**	**346,768**	**141,212**	**114,073**	**255,285**	230,261	242,777
Personal	**30,850,053**	**885,807**	**627,761**	**468,332**	**1,096,093**	1,174,362	1,034,983
of which credit cards	***559,351***	***87,249***	***87,249***	***7,029***	***94,278***	*93,622*	*69,544*
Professional	**1,756,708**	**89,674**	**89,674**	**16,283**	**105,957**	2,086	1,762
Global Business Licence holders	**2,438,163**	**65,498**	**-**	**15,918**	**15,918**	5,354	5,055
Others	**7,655,742**	**124,325**	**97,728**	**68,357**	**166,085**	683,196	511,379
	104,260,079	**3,331,478**	**2,157,900**	**1,262,948**	**3,420,848**	4,051,929	3,411,453

Total impaired loans for 2016 for the Bank were MUR 4,911 million (2015: MUR 3,622 million).

9. INVESTMENT SECURITIES

Accounting policy

Financial assets are recognised when an entity becomes a party to the contractual provisions of the instruments.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in the *statement of profit or loss*.

Financial assets are classified into the following specified categories: financial assets at fair-value-through-profit-or-loss ("FVTPL"), loans-and-receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

Held for trading investments

Financial assets are classified in the FVTPL category when they are either held for trading or are designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the *statement of profit or loss*. Interest earned on the financial asset is included in *Interest income* line.

The fair values of the investment securities at FVTPL are determined based on quoted market prices in active markets.

Available-for-sale (AFS) investments

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The fair values of the AFS investment securities are subsequently remeasured based on quoted market prices in active markets or estimated using dividend growth, discounted cash flows or net assets value. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates are recognised in the *statement of profit or loss*. Other changes in the carrying amount of AFS investment securities are recognised in *other comprehensive income* and accumulated under the heading of available-for-sale reserve.

When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the available-for-sale reserve is reclassified to the *statement of profit or loss*.

Dividends on AFS equity instruments are recognised in the *statement of profit or loss* when the Bank's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Refer to note 8 for accounting policy on loans and receivables.

Significant accounting estimates and judgements

The fair value of equity investments that are quoted on active markets are based on the quoted prices for these instruments. Valuation techniques used to estimate the fair value of unquoted equity investments include the dividend growth model, discounted cash flows and net assets value. Management has made certain assumptions for inputs in the models, such as risk free rate, risk premium, dividend growth rate, future cash flows, weighted average cost of capital, and earnings before interest depreciation and tax based on information available at the reporting date, which may be different from actual.

9. INVESTMENT SECURITIES (CONT'D)

Remaining term to maturity

	31 December 2017									31 December 2016	31 December 2015
	Up to 3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years	No specific maturity	Total	Total	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
(a) Held-for-trading investment securities											
Government bonds and treasury notes	-	-	-	-	-	421,162	549,432	-	970,594	-	-
Treasury bills	89,504	134,508	378,805	341,005	-	-	-	-	943,822	-	-
Bank of Mauritius bills / bonds	153,826	450,043	65,295	1,278,275	-	-	-	-	1,947,439	-	-
Bank bonds	250,978	477,499	-	123,188	73,398	725,164	-	-	1,650,227	-	-
Corporate bonds	399,711	140,990	-	170,833	187,754	265,119	-	-	1,164,407	-	-
	894,019	1,203,040	444,100	1,913,301	261,152	1,411,445	549,432	-	6,676,489	-	-
(b) Loans and receivables - investment securities											
Government bonds and treasury notes	4,686	648,457	222,267	-	2,445,816	3,489,980	1,853,700	-	8,664,906	14,218,481	11,825,692
Treasury bills	1,917,379	2,268,326	197,252	49,086	-	-	-	-	4,432,043	3,242,761	1,925,990
Bank of Mauritius bills / notes	653,610	1,286,433	396,019	204,260	272,175	731,689	-	-	3,544,186	5,342,047	3,538,594
Corporate bonds	-	200,982	-	-	-	1,398,358	965,737	-	2,565,077	1,394,551	400,260
	2,575,675	4,404,198	815,538	253,346	2,717,991	5,620,027	2,819,437	-	19,206,212	24,197,840	17,690,536
(c) Available-for-sale investment securities											
Government bonds	60,168	100,268	202,574	49,923	1,437,042	1,125,876	463,178	-	3,439,029	970,159	1,295,323
Treasury bills / notes	647,666	228,759	567,543	146,530	-	-	-	-	1,590,498	178,414	162,908
Bank of Mauritius bills / bonds	184,085	297,444	125,587	342,903	-	75,390	-	-	1,025,409	-	96
Equity shares of companies:											
- Equity investments	-	-	-	-	-	-	-	370	370	4,058	370
Bank bonds	-	155,572	52,053	-	71,589	254,213	-	-	533,427	6,808,465	9,219,215
Corporate paper and preference shares	232,143	102,169	-	92,406	-	12,672	11,770	-	451,160	2,071,193	2,300,176
Corporate bonds	12,191	94,228	156,930	167,274	618,445	3,179,439	-	-	4,228,507	184,903	410,990
	1,136,253	978,440	1,104,687	799,036	2,127,076	4,647,590	474,948	370	11,268,400	10,217,192	13,389,078
Total investment securities	4,605,947	6,585,678	2,364,325	2,965,683	5,106,219	11,679,062	3,843,817	370	37,151,101	34,415,032	31,079,614

(d) Investment securities - loans and receivables

Analysed as follows:

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
- Investment securities	37,150,731	34,410,974	31,079,244
- Equity investments	370	4,058	370
	37,151,101	34,415,032	31,079,614

10. PROPERTY AND EQUIPMENT

Accounting policy

Property and equipment are stated at cost (except for freehold and leasehold land and buildings) less accumulated depreciation and any cumulative impairment loss. Land is stated at revalued amounts and buildings are stated at revalued amounts less accumulated depreciation and any impairment loss.

It is the Bank's policy to revalue its freehold land and buildings and leasehold buildings at least every five years by independent valuers. Any revaluation surplus is credited to the *Property revaluation reserve*. Any revaluation decrease is first charged directly against any property revaluation reserve held in respect of the respective asset, and then to the *Statement of profit or loss*.

Work in progress is carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other tangible fixed assets, commences when the assets are ready for their intended use.

Depreciation is calculated to write off the cost or revalued amounts of tangible fixed assets over their estimated useful lives on a straight-line basis. Depreciation is calculated from the month the asset is capitalised. No depreciation is provided on freehold land.

The estimated useful lives of property and equipment are as follows:

Buildings	50 years
Plant, machinery, furniture, fittings and computer equipment	3 to 10 years
Motor vehicles	5 years

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset. These are included within *Other operating income* in the *Statement of profit or loss*.

Each year, the difference, net of the impact of deferred tax, between the depreciation based on the revalued carrying amount of the asset (the depreciation charged to the *statement of profit or loss*) and the depreciation based on the asset's original cost is transferred from the *property revaluation reserve* to *Retained earnings*.

Assets held under finance leases are recognised as assets at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments and are depreciated over their estimated useful lives. The corresponding liability to the lessor is included in Other borrowed funds on the *statement of financial position*. Lease finance charges are charged to the *statement of profit or loss* over the term of the leases so as to produce a constant periodic rate of interest on the outstanding obligations under finance leases.

Impairment of non-financial assets

The carrying amounts of assets are assessed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated, being the higher of the asset's net selling price and its value in use, to determine the extent of the impairment loss, if any, and the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognised as an expense immediately, unless the asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

	Freehold land and buildings	Buildings on leasehold land	Other tangible fixed assets	Motor vehicles	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cost or Valuation					
At 01 January 2015	930,918	1,571,647	1,611,789	18,321	4,132,675
Translation adjustment	12,657	-	2,455	98	15,210
Revaluation	(2,680)	-	-	-	(2,680)
Additions	15,029	-	188,788	-	203,817
Disposals	-	-	(22,762)	(12,445)	(35,207)
At 31 December 2015	955,924	1,571,647	1,780,270	5,974	4,313,815
Translation adjustment	(4,383)	-	(887)	(33)	(5,303)
Transfer	-	-	(3,282)	-	(3,282)
Additions	853	1,235	140,797	5,132	148,017
Disposals	(300)	-	-	-	(300)
Write off	-	-	(202,200)	-	(202,200)
At 31 December 2016	**952,094**	**1,572,882**	**1,714,698**	**11,073**	**4,250,747**
Translation adjustment	**(1,892)**	**-**	**(385)**	**(14)**	**(2,291)**
Additions	**-**	**-**	**44,312**	**901**	**45,213**
Write off	**-**	**-**	**(58,748)**	**-**	**(58,748)**
At 31 December 2017	**950,202**	**1,572,882**	**1,699,877**	**11,960**	**4,234,921**

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10. PROPERTY AND EQUIPMENT (CONT'D)

	Freehold land and buildings	Buildings on leasehold land	Other tangible fixed assets	Motor vehicles	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Accumulated depreciation					
At 01 January 2015	25,623	17,321	1,421,210	11,361	1,475,515
Translation adjustment	1,650	-	1,848	90	3,588
Disposals	-	-	(22,734)	(10,331)	(33,065)
Charge for the year	15,769	51,949	79,832	2,988	150,538
At 31 December 2015	43,042	69,270	1,480,156	4,108	1,596,576
Translation adjustment	(778)	-	(949)	(29)	(1,756)
Transfer	-	-	(3,259)	-	(3,259)
Revaluation	(1,480)	-	-	-	(1,480)
Write off	-	-	(201,687)	-	(201,687)
Charge for the year	13,699	51,976	86,780	1,302	153,757
At 31 December 2016	**54,483**	**121,246**	**1,361,041**	**5,381**	**1,542,151**
Translation adjustment	**(370)**	**-**	**(408)**	**(22)**	**(800)**
Write off	**-**	**-**	**(58,687)**	**-**	**(58,687)**
Charge for the year	**14,314**	**51,996**	**86,082**	**1,846**	**154,238**
At 31 December 2017	**68,427**	**173,242**	**1,388,028**	**7,205**	**1,636,902**
Net book value					
At 31 December 2017	**881,775**	**1,399,640**	**311,849**	**4,755**	**2,598,019**
Progress payments on tangible fixed assets					**33,763**
					2,631,782
At 31 December 2016	897,611	1,451,636	353,657	5,692	2,708,596
Progress payments on tangible fixed assets					41,455
					2,750,051
At 31 December 2015	912,882	1,502,377	300,114	1,866	2,717,239
Progress payments on tangible fixed assets					62,527
					2,779,766

Other tangible fixed assets, included within Property and equipment, consist of plant, machinery, furniture, fittings and computer equipment.

Details of the Bank's land and buildings and information about the fair value hierarchy are as follows:

Valuation carried forward:	31 December 2017	31 December 2016	31 December 2015
Level 2 fair value	**MUR' 000**	MUR' 000	MUR' 000
Freehold land and buildings	**950,202**	952,094	955,924
Buildings on leasehold land	**1,572,882**	1,572,882	1,571,647
	2,523,084	2,524,976	2,527,571

The carrying amounts of land and buildings, that would have been included in the financial statements had the assets been carried at cost, are as follows:

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Freehold land and buildings	**508,905**	515,142	543,381
Buildings on leasehold land	**374,232**	387,557	399,648
	883,137	902,699	943,029

10. PROPERTY AND EQUIPMENT (CONT'D)

The freehold land and buildings are periodically valued based on market value by independent valuation surveyor. Buildings on leasehold land in Mauritius were revalued in September 2014 by an independent Chartered Valuation Surveyor, on an open market value basis. The freehold land and building in India were revalued in March 2014 by independent Chartered Valuation Surveyors, on an open market value basis.

11. INTANGIBLE ASSETS

Accounting policy

Intangible assets with finite useful lives, that are acquired separately, are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight line basis over their estimated useful lives of 3 to 10 years. Costs directly associated with the production of identifiable and software products controlled, that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Significant accounting estimates and judgements

Assessment of useful lives

Determining the carrying amount of intangible assets requires an estimation of the useful lives of these assets which carry a degree of uncertainty. Management has used historical information relating to the Bank and the industry in which it operates in order to best determine the useful lives of intangible assets.

(a) Assets under construction

The Bank had embarked on a business aligned technology transformation programme since 2012. All costs incurred in respect of this project; namely the "Flamingo Project" were capitalised under "asset under construction". In September 2016, all the assets under construction were transferred to "Software" as the project went live and are now being amortised over their useful lives.

(b) Intellectual property rights

The Bank entered into an agreement in respect of Business Process Engineering and Business Transformation Initiatives to align both its strategies and processes with the Technology Transformation Initiative namely Flamingo Project and also high performance banks. The costs incurred in respect of these initiatives were capitalised as intellectual property rights and are being amortised following the project going live in September 2016.

(c) WIP Software

The Bank is developing few softwares. These costs will be transferred under "Software" as soon as they will be in use at the Bank.

	Software	WIP Software (Note c)	Intellectual Property (Note b)	Assets under construction (Note a)	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cost					
At 01 January 2015	900,526	3,317	417,848	806,331	2,128,022
Translation adjustment	1,347	-	-	-	1,347
Additions	2,898	6,201	107,876	1,013,899	1,130,874
Transfers	-	(4,420)	-	-	(4,420)
At 31 December 2015	**904,771**	**5,098**	**525,724**	**1,820,230**	**3,255,823**
Translation adjustment	(478)	-	(5,197)	(37)	(5,712)
Additions	16,609	2,450	62,609	1,518,570	1,600,238
Write off	(129,829)	-	-	-	(129,829)
Transfers	3,341,410	257,712	(260,359)	(3,338,763)	-
At 31 December 2016	**4,132,483**	**265,260**	**322,777**	**-**	**4,720,520**
Translation adjustment	**(217)**	**(2,954)**	**-**	**-**	**(3,171)**
Additions	**50,532**	**133,420**	**-**	**-**	**183,952**
Transfers	**312,963**	**(312,963)**	**-**	**-**	**-**
At 31 December 2017	**4,495,761**	**82,763**	**322,777**	**-**	**4,901,301**

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11. INTANGIBLE ASSETS (CONT'D)

	Software	WIP Software	Intellectual Property	Assets under construction	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Accumulated amortisation					
At 01 January 2015	875,740	-	-	-	875,740
Translation adjustment	1,240	-	-	-	1,240
Charge for the year	8,452	-	-	-	8,452
At 31 December 2015	885,432	-	-	-	885,432
Translation adjustment	(343)	-	-	-	(343)
Write off	(129,830)	-	-	-	(129,830)
Transfers	3,259	-	-	-	3,259
Charge for the year	135,100	-	56,983	-	192,083
At 31 December 2016	**893,618**	**-**	**56,983**	**-**	**950,601**
Translation adjustment	**(148)**	**-**	**-**	**-**	**(148)**
Charge for the year	**436,804**	**-**	**56,983**	**-**	**493,787**
At 31 December 2017	**1,330,274**	**-**	**113,966**	**-**	**1,444,240**
Net book value					
At 31 December 2017	**3,165,487**	**82,763**	**208,811**	**-**	**3,457,061**
At 31 December 2016	3,238,865	265,260	265,794	-	3,769,919
At 31 December 2015	19,339	5,098	525,724	1,820,230	2,370,391

12. OTHER ASSETS

Accounting policy

Other assets and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as loan and receivables. They are measured at amortised cost, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Accounts receivable[1]	**547,003**	214,873	217,906
Balances due in clearing	**56,083**	38,166	186,151
Tax paid in advance[2]	**75,708**	106,085	98,162
Licence fees prepaid	**-**	-	271,160
Others[3]	**245,098**	241,628	92,574
	923,892	600,752	865,953

[1] Accounts receivable are generally receivable within three months.

[2] The tax paid in advance relates to the Indian Operations. The amount is shown net of current tax payable.

[3] Under 'others', repossessed assets have been included. It is the Bank's policy to dispose of such assets as rapidly as the Bank permits.

13. PENSION LIABILITY

Accounting policy

(i) Pension benefits for eligible participating employees

Eligible participating employees are entitled to retirement pensions under the SBM Group Pension Fund, a defined benefit scheme. The average retirement age is 65. The assets of the scheme are managed presently by the SBM Mauritius Asset Managers Ltd.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets, is reflected immediately in the *statement of financial position* with a charge or credit recognised in *other comprehensive income* in the period in which they occur. Remeasurement recognised in *other comprehensive income* is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in the *statement of profit or loss* in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense or income and remeasurement.

The retirement benefit obligation recognised in the *statement of financial position* represents the actual deficit or surplus in the Bank's defined benefits plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

(ii) Pension benefits for employees under term contracts and all employees who joined after 31 December 2004

Employees who joined after 31 December 2004 are entitled to defined contribution retirement benefit pension arrangements. Employer contributions are expensed in the *statement of profit or loss* in the period in which they fall due. The defined contribution benefit replaced the defined benefit pension plan as from 01 January 2005. Employees who were initially in the defined benefit pension plan remained in the said plan.

(iii) Travel tickets/allowances

Employees are periodically entitled to reimbursements of overseas travelling and allowances up to a certain amount depending on their grades. The expected costs of these benefits are recognised in the *statement of profit or loss* on a straight-line and undiscounted basis over the remaining periods until the benefits are payable.

(iv) Equity compensation benefits for senior executives

The Bank issued to certain employees, phantom share options which are share appreciation rights that require the Bank to pay the intrinsic value of the phantom share option at the date of exercise. A phantom share option liability equal to the portion of the services received is recognised at the current fair value determined at each reporting date. No such options have been issued since the year 2008 and all options vested were fully exercised during the year. There are no phantom share options outstanding.

Significant accounting estimates and judgements

The Bank operates a defined benefit pension plan for its employees. The amount shown in the *Statement of financial position* in respect of retirement benefit obligations is subject to estimates in respect of periodic costs which would be dependent on returns on assets, future discount rates, rates of salary increases and inflation rate in respect of the pension plan. The value of the defined benefit pension fund is based on report submitted by an independent actuarial firm on an annual basis.

13. PENSION LIABILITY (CONT'D)

The amount included in the *statement of financial position* arising from the Bank's obligation in respect of its defined benefit plans is as follows:

	31 December 2017	31 December 2016	31 December 2015
Reconciliation of net defined benefit liability	**MUR' 000**	MUR' 000	MUR' 000
Present value of funded defined benefit obligation	**1,035,648**	912,437	871,757
Fair value of planned assets	**(943,867)**	(844,673)	(782,827)
Net liability arising from defined benefit obligation *(Note 18)*	**91,781**	67,764	88,930
Reconciliation of net defined benefit liability			
Balance at start of the year	**67,764**	88,930	75,573
Amount recognised in statement of profit or loss *(Note 29)*	**26,422**	30,030	33,201
Amount recognised in other comprehensive income	**39,616**	(1,881)	12,774
Less employer contributions	**(42,021)**	(49,315)	(32,618)
Balance at end of the year	**91,781**	67,764	88,930
Reconciliation of fair value of planned assets			
Balance at start of the year	**844,673**	782,827	761,332
Interest income	**54,941**	55,581	57,323
Employer contributions	**42,021**	49,315	32,618
Benefits paid	**(40,867)**	(26,551)	(24,989)
Return on planned assets excluding interest income	**43,099**	(16,499)	(43,457)
Balance at end of the year	**943,867**	844,673	782,827
Reconciliation of present value of defined benefit obligation			
Balance at start of the year	**912,437**	871,757	836,905
Current service cost	**23,362**	25,502	28,895
Interest expense	**58,001**	60,109	61,779
Past service cost	**-**	-	(150)
Other benefits paid	**(40,867)**	(26,551)	(24,989)
Liability experience loss	**-**	84,856	-
Liability gain due to change in demographic assumptions	**-**	(103,306)	-
Liability loss / (gain) due to change in financial assumptions	**82,715**	70	(30,683)
Balance at end of the year	**1,035,648**	912,437	871,757
Components of amount recognised in statement of profit or loss			
Service cost	**23,362**	25,502	28,895
Past service cost	**-**	-	(150)
Net interest on net defined benefit liability	**3,060**	4,528	4,456
Total expense as above *(Note 29)*	**26,422**	30,030	33,201

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13. PENSION LIABILITY (CONT'D)

	31 December 2017	31 December 2016	31 December 2015
Components of amount recognised in other comprehensive income	**MUR' 000**	MUR' 000	MUR' 000
Return on planned assets below interest income	**(43,099)**	16,499	43,457
Liability experience loss	**-**	84,856	-
Liability experience gain due to change in demographic assumptions	**-**	(103,306)	-
Liability experience loss / (gain) due to change in financial assumptions	**82,715**	70	(30,683)
Total	**39,616**	(1,881)	12,774

	31 December 2017	31 December 2016	31 December 2015
Allocation of planned assets at end of year	**%**	%	%
Equity - Overseas quoted	**30**	30	28
Equity - Local quoted	**30**	32	34
Equity - Local unquoted	**7**	-	3
Debt - Overseas quoted	**-**	3	1
Debt - Overseas unquoted	**6**	-	-
Debt - Local quoted	**2**	-	-
Debt - Local unquoted	**21**	23	23
Property - Local	**-**	1	-
Cash and other	**4**	11	11
Total	**100**	100	100
Allocation of planned assets at end of year			
Reporting entity's own transferable financial instruments	**6.0%**	6.0%	7.0%
Principal assumptions used at end of year			
Discount rate	**5.5%**	6.5%	7.0%
Rate of salary increases	**4.0%**	4.5%	5.0%
Rate of pension increases	**1.0%**	1.5%	2.0%
Average retirement age (ARA)	**65**	65	62
Average life expentancy for:			
- Male at ARA	**15.9 years**	15.9 years	18.0 years
- Female at ARA	**20.0 years**	20.0 years	22.5 years
Sensitivity Analysis on defined benefit obligation at end of year			
Increase due to 1% decrease in discount rate	**187,452**	158,457	183,941
Decrease due to 1% increase in discount rate	**150,169**	127,506	88,919

The above sensitivity analysis has been carried out by recalculating the present value of obligation at end of period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation.

13. PENSION LIABILITY (CONT'D)

Future cashflows

The funding policy is to pay contributions to an external legal entity at the rate recommended by the entity's actuary.

The Bank expects to make a contribution of around MUR 67.46 million to the SBM Group Pension Fund for the next financial year and the weighted average duration of the defined benefit obligation is 16 years.

Pension amounts and disclosures have been based on the report dated 12 February 2018 submitted by an independent firm of Actuaries and Consultants.

The Bank sponsors a final salary defined benefit pension plan for a category of its employees. The Bank has recognised a net defined benefit liability of MUR 91.78 million as at 31 December 2017 for the plan (31 December 2016: MUR 67.76 million).

The plan exposes the Bank to normal risks associated with defined benefit pension plans such as investment, interest, longevity and salary rise risks.

Investment risk

The plan liability is calculated using a discount rate determined by reference to government bond yields; if the return on plan assets is below this rate, it will create a plan deficit and if it is higher, it will create a plan surplus.

Interest risk

A decrease in the bond interest rate will increase the plan liability; however, this may be partially offset by an increase in the return on the plan's debt investments and a decrease in inflationary pressures on salary and pension increases.

Longevity risk

The plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan liability.

Salary risk

The plan liability is calculated by reference to the future projected salaries of plan participants. As such, an increase in the salary of the plan participants above the assumed rate will increase the plan liability whereas an increase below the assumed rate will decrease the liability.

There has been no plan amendment, curtailment or settlement during the year.

14. DEPOSITS FROM BANKS

Accounting policy

Deposits from banks are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the Bank's obligations are discharged, cancelled or they expire.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Demand deposits	**739,926**	2,711,364	798,636

15. DEPOSITS FROM NON-BANK CUSTOMERS

Accounting policy

Deposits from non-bank customers are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the Bank's obligations are discharged, cancelled or they expire.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
(i) Retail customers			
Current accounts	**16,416,802**	10,452,176	13,616,483
Savings accounts	**50,728,520**	42,858,273	40,405,183
Time deposits with remaining term to maturity:			
Up to 3 months	**1,667,654**	1,339,913	1,366,017
Over 3 months and up to 6 months	**2,285,051**	770,196	1,254,137
Over 6 months and up to 12 months	**6,037,766**	2,452,510	3,485,729
Over 1 year and up to 5 years	**3,223,918**	4,416,910	5,679,182
Over 5 years	**2,826**	4,528	1,400
Total time deposits	**13,217,215**	8,984,057	11,786,465
Total deposits from retail customers	**80,362,537**	62,294,506	65,808,131
(ii) Corporate customers			
Current accounts	**33,252,693**	28,071,601	24,089,753
Savings accounts	**4,287,772**	6,492,061	3,294,850
Time deposits with remaining term to maturity:			
Up to 3 months	**12,053,734**	2,410,070	4,734,198
Over 3 months and up to 6 months	**1,993,033**	2,041,533	322,129
Over 6 months and up to 12 months	**1,527,776**	1,935,567	1,330,658
Over 1 year and up to 5 years	**889,135**	1,081,791	393,480
Over 5 years	**-**	359	-
Total time deposits	**16,463,678**	7,469,320	6,780,465
Total deposits from corporate customers	**54,004,143**	42,032,982	34,165,068
(iii) Government			
Current accounts	**3,027,269**	1,895,307	1,747,833
Savings accounts	**2,908,506**	2,078,167	1,853,931
Time deposits with remaining term to maturity:			
Up to 3 months	**22,397**	-	112
Over 3 months and up to 6 months	**1,357,224**	400	406
Over 6 months and up to 12 months	**12,961**	925	2,242
Over 1 year and up to 5 years	**732**	100	66
Total time deposits	**1,393,314**	1,425	2,826
Total deposits from the government	**7,329,089**	3,974,899	3,604,590
Total deposits from non-bank customers	**141,695,769**	108,302,387	103,577,789

16. OTHER BORROWED FUNDS

Accounting policy

Loans and borrowings are recognised initially at fair value, net of directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in the *statement of profit or loss* when the liabilities are derecognised as well as through the EIR amortisation process.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Borrowings from central banks			
- For refinancing	**104,190**	147,921	203,758
Other financial institutions			
- For refinancing	**4,546,840**	687,074	1,885,189
Borrowings from banks			
- In Mauritius	**4,198,169**	1,537,781	43,550
- Abroad	**4,267,394**	2,167,733	-
	13,116,593	4,540,509	2,132,497
Remaining term to maturity			
Up to 3 months	**5,537,753**	2,273,183	-
Over 3 months and up to 6 months	**2,515,486**	-	-
Over 6 months and up to 12 months	**389,290**	211,169	43,550
Over 1 year and up to 5 years	**3,979,498**	585,067	759,518
Over 5 years	**694,566**	1,471,090	1,329,429
	13,116,593	4,540,509	2,132,497

17. TAXATION

Accounting policy

Income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Corporate social responsibility (CSR)

Corporate social responsibility (CSR) was legislated by the Government of Mauritius in July 2009. In terms of the legislation, the Bank is required to allocate 2% of its Segment A chargeable income of the preceding financial year to government approved CSR NGOs. As from July 2017, following amendments to the Finance Act 2017, the Bank will now be required as from 01 January 2017 to 31 December 2018 to remit to the Director General at least 50% of the CSR contribution. After 01 January 2019, the Bank will be required to remit to the Director General at least 75% of the CSR contribution. This is recorded as part of income tax expense.

Bank levy

SBM Bank (Mauritius) Ltd is liable to pay a special levy of 10% on chargeable income of segment A operations and 3.4% on book profit plus 1% on operating income of segment B operations. The special levy is included in the income tax expense and current tax liabilities in the financial statements.

The applicable income tax rate in Mauritius is 15% (2016 and 2015: 15%). An additional charge is applicable in respect of Corporate Social Responsibility and Special Levy on Banks as mentioned above in the accounting policy. The applicable tax rate for India is 43.26% (2016 and 2015: 43.26%). A deemed tax credit of 80% is applicable for segment B income.

17. TAXATION (CONT'D)

17a. TAX EXPENSE

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Profit before tax	**3,171,873**	2,861,561	1,753,329
Tax on accounting profit at 15%	**475,781**	429,234	262,999
Non-allowable expenses	**200,317**	630	18,627
Exempt income	**(39,062)**	(34,001)	(24,179)
Over provision in previous years	**(66,445)**	(5,004)	(56,619)
Special levy on banks	**142,325**	235,544	219,589
Corporate Social Responsibility contribution	**37,811**	77,002	50,002
	750,727	703,405	470,419
Tax paid/(refund)	**11,608**	-	(10,837)
Foreign tax credit	**(201,755)**	(50,456)	(50,781)
Total tax expense	**560,580**	652,949	408,801
The total tax expense can also be analysed as being incurred as follows:			
Income tax expense	**226,134**	544,629	450,308
Deferred tax charge/(income) *(Note 17b)*	**296,635**	31,318	(91,509)
Corporate Social Responsibility contribution	**37,811**	77,002	50,002
Total tax expense	**560,580**	652,949	408,801
- In Mauritius	**494,135**	632,160	423,290
- Overseas	**66,445**	20,789	(14,489)
Total tax expense	**560,580**	652,949	408,801

17. TAXATION (CONT'D)

17a. TAX EXPENSE (CONT'D)

Accounting policy

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Current tax and deferred tax relating to items recognised outside profit or loss are recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in *other comprehensive income* or directly in equity.

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

17b. DEFERRED TAX (ASSETS)/LIABILITIES

	MUR' 000
At 01 January 2015	(171,433)
Exchange difference	(11,909)
Deferred tax income *(Note 17a)*	(91,509)
Deferred tax on retirement benefit obligations	(1,916)
At 31 December 2015	(276,767)
At 01 January 2016	(276,767)
Exchange difference	5,030
Deferred tax income *(Note 17a)*	31,318
Deferred tax on retirement benefit obligations	282
Underprovision of deferred tax liability in prior years	24,817
At 31 December 2016	(215,320)
At 01 January 2017	**(215,320)**
Exchange difference	**864**
Deferred tax charge *(Note 17a)*	**296,635**
Deferred tax on retirement benefit obligations	**(6,735)**
At 31 December 2017	**75,444**

17. TAXATION (CONT'D)

17b. DEFERRED TAX (ASSETS)/LIABILITIES (CONT'D)

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Deferred tax assets	**(95,461)**	(215,320)	(276,767)
Deferred tax liabilities	**170,905**	-	-
	75,444	(215,320)	(276,767)
Analysed as follows:			
Mauritius Operations	**170,905**	(52,550)	(88,180)
Indian Operations	**(95,461)**	(162,770)	(188,587)
	75,444	(215,320)	(276,767)
Analysed as resulting from:			
Accelerated capital allowances	**420,080**	134,439	51,002
Allowances for credit impairment	**(438,390)**	(433,455)	(373,149)
Carried forward losses	**(137,810)**	(139,391)	(137,126)
Revaluation of property	**253,118**	241,813	229,448
Other provisions	**(21,554)**	(18,726)	(46,942)
	75,444	(215,320)	(276,767)

18. OTHER LIABILITIES

Accounting policy

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation, which has arisen as a result of past events and for which a reliable estimate can be made.

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Bills payable	**171,969**	130,464	102,253
Accruals for expenses	**352,180**	331,740	320,822
Accounts payable	**728,973**	837,925	486,492
Deferred income	**322,876**	268,120	227,893
Balance due in clearing	**2,110**	1,587	147,450
Balances in transit	**413,460**	52	106,336
Pension liability *(Note 13)*	**91,781**	67,764	88,930
Others	**2,079,858**	602,944	896,150
	4,163,207	2,240,596	2,376,326

19. STATED CAPITAL

Accounting policy

(i) *Share issue costs*

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(ii) *Treasury shares*

Where the Bank purchases its own equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

	Number	MUR' 000
Issued and paid up share capital		
At 31 December 2015, 2016 and 2017	**31,000,000,000**	**310,000**
Capital Contribution		
At 01 January 2017		**8,063,106**
Capital contribution received during the year		**1,000,000**
At 31 December 2017		**9,063,106**
At 31 December 2015 and 2016		8,063,106

Fully paid ordinary shares carry one vote per share and the right to dividend.

The capital contribution refers to additional capital over and above the actual stated capital. It is fully paid up, unsecured, interest free and is perpetual with no maturity date. The shareholder shall not demand, sue for or receive payment of the whole or any part of the capital contribution or claim any set-off which would result in the principal amount of the capital contribution outstanding to be reduced. The Bank reserves the right to issue ordinary shares against the amount of capital contribution at any time at prevailing market rates.

20. DIVIDEND

Accounting policy

Dividends on ordinary shares are recognised in equity in the period in which they are authorised by the directors. Dividends that are declared after the reporting date are dealt with in the *notes to the financial statements*.

	Dividend payable		
	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Dividend declared during the year:			
2017: 3.08 cents and 2015: 7.7 cents per share of nominal 1 cent	**954,000**	-	2,375,100
Less dividend paid (2017: 3.08 cents; and 2015: 7.7 cents per share)	**(954,000)**	-	(2,375,100)
Dividend payable	**-**	-	-
Dividend declared after the reporting date:			
2017: 1.13 cents & 2016: 0.65 cents per share of nominal 1 cent	**350,300**	201,500	-

Notes to the financial statements

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21. MEMORANDUM ITEMS

Accounting policy

Acceptances

Acceptances are obligations to pay on due date the bills of exchange drawn on customers. It is expected most of these acceptances will be honoured by the customers on due dates. Acceptances are accounted for as off-balance sheet items and are disclosed under memorandum items.

Contingent liabilities

Contingent liabilities which include certain guarantees and letters of credit pledged are possible obligations that arise from past events whose existence will be confirmed by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at fair value, which is generally the fee received or present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation and the best estimate of the expenditure required to settle the obligations.

		31 December 2017	31 December 2016	31 December 2015
		MUR' 000	MUR' 000	MUR' 000
a	**Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers**			
	Acceptances on account of customers	**768,827**	138,697	206,639
	Guarantees on account of customers	**7,443,126**	4,598,267	4,543,260
	Letters of credit and other obligations on account of customers	**1,975,267**	1,195,338	775,455
	Other contingent items	**-**	-	945
		10,187,220	5,932,302	5,526,299
b	**Commitments**			
	Undrawn credit facilities	**14,238,833**	6,787,125	7,472,081
c	**Other**			
	Inward bills held for collection	**183,979**	174,811	251,025
	Outward bills sent for collection	**1,920,084**	2,075,466	1,525,909
		2,104,063	2,250,277	1,776,934
	Total	**26,530,116**	14,969,704	14,775,314

The Bank is subject to various legal claims from former employees and customers with claims totalling MUR 132.3 million (2016: MUR 53.2 million). The Bank has not made any provision for those claims on the basis that it is not probable that these actions will succeed.

22. ASSETS PLEDGED

The aggregate carrying amount of assets that have been pledged to secure the credit facilities of the Bank with Central Banks and with Clearing Corporation of India Limited are as follows:

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Treasury bills / Government bonds	**2,077,648**	549,811	2,000,000
Other	**52,909**	-	-
	2,130,557	549,811	2,000,000
Analysed as:			
- In Mauritius	**1,694,900**	400,000	2,000,000
- Overseas	**435,657**	149,811	-
	2,130,557	549,811	2,000,000

23. CAPITAL COMMITMENTS

Approved and contracted for	**58,934**	39,752	2,155,594
Approved and not contracted for	**64,757**	138	7,078

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24. OPERATING LEASE

Accounting policy

Rentals payable under operating leases are charged to the *statement of profit or loss* on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

	31 December 2017	31 December 2016	31 December 2015
Leasing arrangements - The Bank as lessee	**MUR' 000**	MUR' 000	MUR' 000
Operating lease expense	**50,465**	59,233	41,609

Operating lease payments represent rentals payable for property, equipment and motor vehicles for the entire contract period. Operating lease contracts contain renewal clauses in the event that the Bank exercises its option to renew the contracts. The Bank does not have an option to purchase the assets at the expiry of the lease period.

The future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Up to 1 year	**36,867**	35,576	93,022
After 1 year and before 5 years	**49,481**	55,909	120,952
After 5 years and up to 25 years	**42,063**	30,363	30,271
	128,411	121,848	244,245

25. NET INTEREST INCOME

Accounting policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

For all financial instruments measured at amortised cost and interest-earning financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revise their estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Interest income			
Cash and cash equivalents	**129,908**	53,166	40,798
Loans to and placements with banks	**145,540**	53,496	25,393
Loans and advances to non-bank customers	**5,159,670**	4,588,572	4,911,832
Investment securities	**1,253,572**	1,287,246	1,127,372
Trading assets	**(44,812)**	(46,590)	(38,661)
Other	**6,012**	1,375	2,463
Total interest income	**6,649,890**	5,937,265	6,069,197

25. NET INTEREST INCOME (CONT'D)

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Interest expense			
Deposits from customers	**(1,805,235)**	(1,650,631)	(1,915,572)
Other borrowed funds	**(109,043)**	(31,146)	(86,614)
Other	**(15,408)**	(1,385)	-
Total interest expense	**(1,929,686)**	(1,683,162)	(2,002,186)
Net interest income	**4,720,204**	4,254,103	4,067,011

26. NET FEE AND COMMISSION INCOME

Accounting policy

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan processing fees are deferred and recognised accordingly.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Fee and commission income			
Retail banking customer fees	**336,007**	304,724	340,651
Corporate banking customer fees	**373,531**	261,854	232,735
Card income	**313,523**	429,541	397,665
Total fee and commission income	**1,023,061**	996,119	971,051
Fee and commission expense			
Interbank transaction fees	**(14,099)**	(17,688)	(17,545)
Other	**(10,522)**	(5,679)	(9,785)
Total fee and commission expense	**(24,621)**	(23,367)	(27,330)
Net fee and commission income	**998,440**	972,752	943,721

27. DIVIDEND INCOME

Accounting policy

Dividend is recognised when the bank's right to receive the payment is established, which is generally when the dividend is declared.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Available-for-sale securities	**-**	-	14
	-	-	14

28. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS

Accounting policy

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

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Net gain/(loss) from trading instruments	**519,417**	(25,120)	(1,951)
Investment securities at fair value through profit or loss	**(2,506)**	(5)	(125)
Other	**(373)**	18	19
	516,538	(25,107)	(2,057)

29. PERSONNEL EXPENSES

Accounting policy

Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:
(a) wages, salaries and social security contributions;
(b) paid annual leave and paid sick leave;
(c) bonuses; and
(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.
(b) as an expense, unless another IFRS requires or permits the inclusion of the benefits in the cost of an asset.

The Bank operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under personnel expenses. Unpaid contributions are recorded as a liability. Refer to note 13 for accounting policy on defined benefit plans.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Wages and salaries	**1,104,915**	990,950	843,826
Other social security obligations	**17,723**	16,177	13,494
Contributions to defined contribution plans	**94,102**	74,957	66,197
Cash-settled share-based payments	**-**	580	2,542
Increase in liability for defined benefit plans *(Note 13)*	**26,422**	30,030	33,201
Staff welfare cost	**18,072**	14,316	15,641
Management and professional charges	**8,499**	17,895	36,581
Other*	**165,452**	178,467	173,387
	1,435,185	1,323,372	1,184,869

** Includes mainly travelling expenses, security expenses, cleaning expenses, training and mileage costs.*

30. OTHER EXPENSES

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Software licensing and other information technology cost	**461,057**	494,988	356,690
Auditors' remuneration (audit and other services):			
-Principal auditors	**8,666**	8,535	6,202
-Other auditors	**-**	-	173
Utilities	**55,171**	52,658	54,897
Professional charges	**37,671**	58,021	126,772
Marketing costs	**69,703**	43,702	44,550
Rent, repairs and maintenance	**80,739**	90,160	87,978
Licence and other registration fees	**22,124**	17,643	20,547
Other*	**165,249**	133,253	71,773
	900,380	898,960	769,582

** Includes mainly printing, stationery, subscription and other operational costs.*

31. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

Accounting policy

Financial assets, other than those at fair value through profit or loss (FVTPL), are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For available-for-sale (AFS) equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered to be impaired, its carrying amount is reduced by the impairment loss directly for all financial assets with the exception of loans and advances to customers where the carrying amount is reduced through the use of an allowance account.

Cumulative gains or losses previously recognised in *other comprehensive income* are reclassified to the *statement of profit or loss*.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity investments, any increase in fair value subsequent to an impairment loss is recognised in *other comprehensive income* and accumulated under the *available-for-sale reserve.*

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Portfolio and specific provisions:			
- On-balance sheet advances *(Note 8c)*	**1,129,662**	649,818	1,883,467
Bad debts written off for which no provisions were made	**-**	70,029	1,347
Recoveries of advances written off	**(142,400)**	(3,169)	(6,593)
Other	**-**	64	(4,857)
	987,262	716,742	1,873,364
Of which:			
Credit exposure	**987,262**	716,678	1,878,221
Other financial assets	**-**	64	(4,857)
	987,262	716,742	1,873,364

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32. NET CASH (USED IN) / FROM OPERATING ACTIVITIES

	31 December 2017	31 December 2016	31 December 2015
Cash flows from operating activities	**MUR' 000**	**MUR' 000**	**MUR' 000**
Profit for the year	**2,611,293**	2,208,612	1,344,528
Adjustments to determine net cash flows:			
Depreciation of property and equipment	**154,238**	153,757	150,538
Amortisation of intangible assets	**493,787**	192,083	8,452
Pension expense	**26,422**	30,030	33,201
Net impairment loss on financial assets	**987,262**	716,742	1,873,364
Exchange difference	**280,049**	(89,703)	210,376
Net (gain) / loss from dealings in trading securities	**(30,726)**	25,486	1,330
Impairment of equity investments	**3,413**	-	-
Net gain on disposal of property and equipment	**(79)**	(503)	(1,963)
Tax expense	**560,580**	652,949	408,801
Dividend income	**-**	-	(14)
Operating profit before working capital changes	**5,086,239**	3,889,453	4,028,613
Change in operating assets and liabilities			
(Increase) / decrease in derivative financial assets	**(1,160,051)**	(47,365)	59,691
Increase in loans to and placements with banks	**(4,249,949)**	(3,436,966)	(506,812)
Increase in loans and advances to non-bank customers	**(30,658,733)**	(3,492,897)	(3,310,277)
Increase in gilt-edged investment securities	**(5,412,419)**	(5,373,200)	(681,585)
Decrease / (increase) in other investment securities	**2,679,365**	2,087,039	(4,853,294)
Increase in mandatory balances with central banks	**(1,766,492)**	(50,834)	(560,994)
(Increase) / decrease in other assets	**(365,691)**	232,933	192,419
(Decrease) / increase in deposits from banks	**(1,971,438)**	1,912,728	178,302
Increase in deposits from non-bank customers	**33,393,382**	4,724,598	13,035,356
Increase / (decrease) in derivative financial liabilities	**1,152,178**	61,650	(25,792)
Increase / (decrease) in other liabilities	**1,898,594**	(114,564)	216,626
Other dividend received	**-**	-	14
Income tax paid	**(516,984)**	(657,659)	(225,008)
Net cash (used in) / from operating activities	**(1,891,999)**	(265,084)	7,547,259

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33. CAPITAL MANAGEMENT

The Bank manages its capital to ensure that it will be able to continue as a going concern and maximise returns to shareholders. It also ensures that adequate capital is maintained to support its growth strategies, its risk appetite and depositors' confidence, while complying with statutory and regulatory requirements. The capital resources of the Bank are disclosed in the *statement of changes in equity*.

The Bank has met the respective minimum capital requirements set out by the relevant regulatory body and, where applicable, appropriate transfers have also been made to statutory reserves, ranging from 10% to 25% of annual profits.

The Bank has also met its respective minimum capital adequacy ratio requirements. Banks in Mauritius are required to maintain a ratio of eligible capital to risk weighted assets of at least 10%, whereas for India the minimum ratio is set at 9%.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Tier 1 capital	**13,623,736**	10,550,945	9,666,712
Eligible capital base	**15,418,085**	12,119,233	11,184,196
Risk weighted assets	**112,111,396**	81,606,009	75,141,544
Capital adequacy ratio (%)	**13.75**	14.85	14.88

34. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors regard SBM Holdings Ltd, a company incorporated in Mauritius as its ultimate holding company and SBM (Bank) Holdings Ltd, a company incorporated in Mauritius as its immediate holding company. SBM Holdings Ltd is a public company, domiciled in Mauritius and listed on the Stock Exchange of Mauritius. The address of the registered office of both SBM Holdings Ltd and SBM (Bank) Holdings is SBM Tower, 1 Queen Elizabeth II Avenue, Port Louis, Mauritius.

35. RELATED PARTY DISCLOSURES

Accounting policy

For the purposes of these financial statements, parties are considered to be related to the Bank if they have the ability, directly or indirectly, to control the Bank or exercise significant influence over the Bank in making financial and operating decisions, or vice versa, or if they and the Bank are subject to common control. Related parties may be individuals or other entities.

		Key management personnel including directors			Associates and other entities in which the Group has significant influence			Immediate holding company and entities under common control			Entities in which directors, key management personnel and their close family members have significant influence		
		31 Dec 2017	31 Dec 2016	31 Dec 2015	**31 Dec 2017**	31 Dec 2016	31 Dec 2015	**31 Dec 2017**	31 Dec 2016	31 Dec 2015	**31 Dec 2017**	31 Dec 2016	31 Dec 2015
		MUR' 000	MUR' 000	MUR' 000	**MUR' 000**	MUR' 000	MUR' 000	**MUR' 000**	MUR' 000	MUR' 000	**MUR' 000**	MUR' 000	MUR' 000
(a)	Credit facilities												
(i)	*Loans*												
	Balance at beginning of year	**100,297**	30,901	20,279	**-**	-	-	**-**	-	-	**1,320,812**	194,906	224,882
	Loans of directors / entities who ceased to be related parties during the year	**(3,799)**	(7,961)	(7,492)	**-**	-	-	**-**	-	-	**-**	(194,906)	(98,305)
	Existing loans of new related parties	**-**	9,256	448	**2,868,421**	-	-	**3,205**	-	-	**4,101,901**	63,701	-
	Other net movements	**74,445**	68,101	17,666	**-**	-	-	**-**	-	-	**27,692**	1,257,111	68,329
	Balance at end of year	**170,943**	100,297	30,901	**2,868,421**	-	-	**3,205**	-	-	**5,450,405**	1,320,812	194,906
(ii)	*Off-balance sheet obligations*												
	Balance at end of year	**100**	100	-	**768,315**	-	-	**12,000**	-	-	**50,600**	23,414	-
(b)	Deposits at end of year	**154,318**	99,057	109,831	**2,142,657**	546,792	323,732	**284,721**	250,952	352,740	**3,948,271**	59,247	36,250
(c)	Interest income	**8,054**	3,493	1,616	**54,306**	-	-	**83,239**	404	15	**260,205**	49,020	13,862
(d)	Interest expense	**1,251**	644	1,336	**27,239**	498	3,405	**2,126**	2,976	3,831	**11,345**	-	89
(e)	Other income	**36**	225	127	**13,828**	1,803	9,018	**1**	2,011	2,752	**44,384**	6,430	1,943
(f)	Purchase of goods and services	**9,264**	6,143	433	**-**	-	-	**-**	-	-	**-**	-	-
(g)	Emoluments	**31,749**	34,566	108,632	**-**	-	-	**-**	-	-	**-**	-	-
(h)	Dividends paid	**-**	-	-	**-**	-	-	**954,000**	-	2,375,100	**-**	-	-

Short term benefits amounted to MUR 31.75 million at the reporting date (2016: MUR 34.57 million and 2015: MUR 108.63 million) and long term benefits was nil at the reporting date (2016 and 2015: nil).

35. RELATED PARTY DISCLOSURES (CONT'D)

Related party transactions in relation to Post Employment Benefit plans are as follows:

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Deposits at end of year	**63,809**	148,576	136,606
Interest expense	**-**	250	782
Other income	**-**	213	463
Contributions paid	**100,591**	88,052	84,017
Transactions of the Bank with the ultimate holding company and the subsidiaries within the Group are disclosed below:			
Non-interest expense	**900**	900	900
Transfer / disposal of investment securities	**-**	-	2,335,207

Credit facilities to key management personnel and executive directors are as per their contract of employment. All other transactions with key management personnel and directors, whether credit facilities, deposits or purchase of goods and services, are at market terms and conditions and will be settled in cash. Credit facilities are secured except for credit card advances and some personal loans which are granted under an unsecured loan scheme in the normal course of business.

36. RISK MANAGEMENT

The Board of Directors oversees the risk management framework and ensures decision making is aligned with the Board-driven strategic risk objectives and risk appetite. Boards approve the risk policies and a set of prudential limits and risk tolerance limits, besides regulatory limits, within which the Bank operates. The Senior Management monitors risks totally on an ongoing basis at regular intervals as necessary and is accountable to ensure its operations are within approved policies, prudential limits besides regulatory limits and risk appetite approved framework. Any deviation and non-compliance are reported to Board Risk Committee. The principal risks arising from financial instruments to which the Bank is exposed include credit risk, liquidity risk, market risk, operational risk, strategic risk and reputational risk.

a (i) Categories of financial assets and liabilities

	31 December 2017	31 December 2016	31 December 2015
Financial assets	MUR' 000	MUR' 000	MUR' 000
Loans and receivables*	**153,950,460**	116,751,433	103,560,955
Held-for-trading *(Note 9(a))*	**6,676,489**	-	-
Available-for-sale *(Note 9 (b))*	**11,268,398**	10,217,192	13,389,078
Fair value through profit or loss *(Note 7)*	**1,356,774**	165,997	144,117
	173,252,123	127,134,622	117,094,150
Financial liabilities			
Measured at amortised cost	**157,497,195**	117,689,000	108,769,054
Fair value through profit or loss *(Note 7)*	**1,334,584**	182,406	120,756
	158,831,779	117,871,406	108,889,810

* Include cash and cash equivalents, mandatory balances with central banks, loans to and placements with banks, loans and advances to non-bank customers, investments securities and other assets classified as loans and receivables.

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36. RISK MANAGEMENT (CONT'D)

a (ii) Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments held at the reporting date.

	31 December 2017		31 December 2016		31 December 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cash and cash equivalents	**15,620,778**	**15,620,778**	9,423,941	9,423,941	8,978,486	8,978,486
Mandatory balances with central banks	**8,712,062**	**8,712,062**	6,945,570	6,945,570	6,894,736	6,894,736
Loans to and placements with banks	**8,895,860**	**8,895,860**	4,645,911	4,645,911	1,208,945	1,208,945
Derivative financial instruments	**1,356,774**	**1,356,774**	165,997	165,997	144,117	144,117
Loans and advances to non-bank customers	**100,839,231**	**100,768,119**	71,158,114	71,605,501	68,377,264	68,305,190
Investment securities	**37,150,731**	**39,582,150**	34,410,974	34,264,654	31,079,244	30,801,570
Equity investments	**370**	**370**	4,058	4,058	370	370
Other assets	**676,317**	**676,317**	380,057	380,057	410,988	410,988
	173,252,123	**175,612,430**	127,134,622	127,435,689	117,094,150	116,744,402
Financial liabilities						
Deposits from banks	**739,926**	**739,926**	2,711,364	2,711,364	798,636	798,636
Deposits from non-bank customers	**141,695,769**	**141,700,386**	108,302,387	108,308,034	103,577,789	103,632,974
Other borrowed funds	**13,116,593**	**13,116,593**	4,540,509	4,540,509	2,132,497	2,132,497
Derivative financial instruments	**1,334,584**	**1,334,584**	182,406	182,406	120,756	120,756
Other liabilities	**1,944,907**	**1,944,907**	2,134,740	2,134,740	2,260,132	2,260,132
	158,831,779	**158,836,396**	117,871,406	117,877,053	108,889,810	108,944,995

For loans and advances to non-bank customers, all the fixed loans and advances maturing after one year has been fair valued based on the current prevailing lending rate.

For investment securities, all the government bonds and Bank of Mauritius bonds have been fair valued based on the latest weighted yield rate.

For deposits from non-bank customers, all the term deposits maturing after one year has been fair valued based on the current prevailing savings rate.

Except for the levels in which the financial assets and financial liabilities are shown in table 36 (a)(iii), the fair values of the other financial assets and financial liabilities are categorised in level 3.

Significant accounting estimates and judgements

The determination of fair values, estimated by discounting future cash flows and by determining the relative interest rates, is subjective. The estimated fair value was calculated according to interest rates prevailing at the reporting date and does not consider interest rate fluctuations. Given other interest rate assumptions, fair value estimates may differ.

36. RISK MANAGEMENT (CONT'D)

a (iii) Fair value measurement hierarchy

Significant accounting estimates and judgements

The fair value of equity investments that are quoted on active markets are based on the quoted prices for these instruments. Valuation techniques used to estimate the fair value of unquoted equity investments include the dividend growth, discounted cash flows and net assets. Management has made certain assumptions for inputs in the models, such as risk free rate, risk premium, dividend growth rate, future cash flows, weighted average cost of capital, and earnings before interest depreciation and tax, which may be different from actual. Inputs are based on information available at the reporting date.

The determination of fair values, estimated by discounting future cash flows and by determining the relative interest rates, is subjective. The estimated fair value was calculated according to interest rates prevailing at the reporting date and does not consider interest rate fluctuations. Given other interest rate assumptions, fair value estimates may differ.

Fair value measurements of financial instruments can be grouped into level 1 to 3 based on the degree to which the fair value is observable, namely:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The table below analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1	Level 2	Level 3	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2017				
Derivative assets	**-**	**1,356,774**	**-**	**1,356,774**
Loans and advances at fair value	**-**	**-**	**39,201**	**39,201**
Investment securities - available-for-sale	**7,035,681**	**3,439,029**	**793,690**	**11,268,400**
Investment securities - held-for-trading	**5,705,895**	**970,594**	**-**	**6,676,489**
	12,741,576	**5,766,397**	**832,891**	**19,340,864**
Derivative liabilities	**-**	**1,334,584**	**-**	**1,334,584**
31 December 2016				
Derivative assets	-	165,997	-	165,997
Loans and advances at fair value	-	-	856	856
Investment securities - available-for-sale	8,141,942	-	2,075,251	10,217,193
	8,141,942	165,997	2,076,107	10,384,046
Derivative liabilities	-	182,406	-	182,406
31 December 2015				
Derivative assets	-	144,117	-	144,117
Loans and advances at fair value	-	-	5,438	5,438
Investment securities - available-for-sale	11,088,532	-	2,300,546	13,389,078
	11,088,532	144,117	2,305,984	13,538,633
Derivative liabilities	-	120,756	-	120,756

Loans and advances at fair value relate to the fair value of hedged assets *(Note 36(d)(ii))*.

Except for the equity investment of MUR 0.37 million as disclosed in note 9, the level 3 available-for-sale investment securities are carried at cost due to absence of market and track records for such similar instruments.

Reconciliation for Level 3 fair value measurements:

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Balance at start of year	**2,076,107**	2,305,984	1,236,705
Additions	**39,093**	3,688	1,077,400
Disposals	**(1,277,873)**	(231,911)	-
Impairment	**(3,688)**	-	-
Movement in fair value	**(748)**	(1,654)	(8,121)
Balance at end of year	**832,891**	2,076,107	2,305,984

There was no transfer between Level 1 and 2 during the year.

36. RISK MANAGEMENT (CONT'D)

b Credit risk

The Bank is exposed to credit risk through its lending, trade finance, treasury, asset management and leasing activities. Credit risk is the risk of loss arising from the failure of a counterparty to fulfil its contractual or financial obligations to the Bank as and when they fall due. The Bank's credit risk is managed through a portfolio approach with prudential limits set across country, bank, industry, group and individual exposures. The credit risk team, independent of the origination process, ensures the accumulation of assets within acceptable risk norms using internal and external rating systems for the standardisation of credit assessment. The Bank has a tiered credit sanctioning process depending on the credit quality, exposure type and amount. Credit exposures and risk profile are monitored by the Credit Risk Management unit and reported regularly to the Board Risk Management Committee.

(i) Maximum credit exposure

The maximum exposure to credit risk at the reporting date without taking account of any collateral held and other credit enhancements is as disclosed below:

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Fund-based exposures:			
Cash and cash equivalents	**13,521,787**	7,429,491	6,822,018
Mandatory balances with central banks	**8,712,062**	6,945,570	6,894,736
Loans to and placements with banks	**8,895,860**	4,645,911	1,208,945
Derivative financial instruments	**1,356,774**	165,997	144,117
Loans and advances to non-bank customers	**104,260,079**	74,698,412	70,533,003
Investment securities including equity investments	**37,151,101**	34,410,974	31,079,244
Other assets	**676,317**	380,057	410,988
	174,573,980	128,676,412	117,093,051
Non-fund based exposures:			
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	**12,291,283**	8,182,579	7,303,233
Credit commitments	**14,238,833**	6,787,125	7,472,081
	26,530,116	14,969,704	14,775,314

(ii) Credit quality

Corporate borrowers are assigned a Customer Risk Rating using Moody's Risk Advisor which is based on the borrower's financial condition and outlook, industry and economic conditions, access to capital and management strength. For the small and medium enterprises, the rating is derived from the Small Business Underwriting Matrix which is primarily based on the customer's financial position / debt repayment capacity and quality of collateral. Individuals are rated using LOS origination system based on a set of personal attributes including income and repayment capacity. The Bank is in the process of enhancing its rating model as part of the business-aligned technology transformation, which would better reflect the economic environment.

An analysis of credit exposures, including non-fund based facilities, for advances to non-bank customers that are neither past due nor impaired using the Bank's credit grading system is given below:

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Grades:			
1 to 3 - Strong	**53,443,458**	30,689,604	39,694,942
4 to 6 - Satisfactory	**36,472,979**	32,521,214	24,821,639
7 to 10 (including unrated) - weak	**33,344,743**	17,722,958	14,735,322
	123,261,180	80,933,776	79,251,903

Grade 1 includes customers with low credit risk factors, strong financial conditions and excellent repayment capacities whereas grade 10 includes unrated customers which have been defaulted to 10 on a prudent basis.

The carrying amounts of loans and advances whose terms have been renegotiated during the year amounted to MUR 4,082.77 million (2016: MUR 2,952.1 million and 2015: MUR 5,548.1 million) for the Bank.

All cash and cash equivalents, loans and placements with banks and loans and receivables – investment securities are held with financial institutions having grades 1 to 5.

36. RISK MANAGEMENT (CONT'D)

b Credit risk (Cont'd)

(iii) Collateral and other credit enhancements

The use of credit risk mitigants is an integral part of the credit risk management process and is documented in the Bank's Credit Risk policy. The amount and type of collateral required depend on the counterparty's credit quality and repayment capacity. The principal collateral types taken include:

- Fixed / floating charge on assets of borrowers
- Pledge of deposits / securities / life insurance policy / shares
- Government guarantee / bank guarantee / corporate guarantee / personal guarantee
- Lien on vehicle
- Letter of comfort

(iv) Ageing of receivables that are past due but not impaired:

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Up to 1 month	**458,128**	108,109	149,022
Over 1 month and up to 3 months	**96,517**	121,561	119,235
	554,645	229,670	268,257

(v) Impaired financial assets

Loans and advances are assessed for impairment when objective evidence, such as default or delinquency in interest or principal payments, significant financial difficulty of the counterparty or evidence that the borrower will enter bankruptcy or financial re-organisation, indicate that the account may be impaired.

The carrying amount of impaired financial assets and specific allowance held are shown below:

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Loans and advances *(Note 8d)*	**3,331,478**	4,911,294	3,621,971
Specific allowance held in respect of impaired advances *(Note 8d)*	**2,157,900**	3,025,160	2,342,443
Fair value of collaterals of impaired advances	**3,137,676**	1,715,886	1,227,730

(vi) Credit concentration of risk by industry sectors

Total outstanding credit facilities, net of deposits where there is a right of set off, including guarantees, acceptances, and other similar commitments extended by the Bank to any one customer or group of closely-related customers for amounts aggregating more than 15% of its capital base, classified by industry sectors:

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Portfolio			
Agriculture	**2,478,382**	2,509,798	2,695,992
Building Contractors	**1,339,133**	-	2,039,169
Commerce- Wholesale	**5,737,095**	4,292,431	3,287,651
Manufacturing Non Textiles	**6,824,441**	-	-
Manufacturing Textiles	**-**	-	1,809,589
Real Estate	**5,396,668**	2,850,895	3,066,204
Services	**4,666,734**	-	-
Tourism	**7,937,415**	4,839,141	5,622,342
	34,379,868	14,492,265	18,520,947

Notes to the financial statements

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36. RISK MANAGEMENT (CONT'D)

c Liquidity risk

Liquidity risk is the potential earnings volatility arising from being unable to fund assets at reasonable rates over required maturities. The Bank ensures that sufficient liquidity is maintained to fund its day-to-day operations, meet deposit withdrawals and loan disbursements. Liquidity risk is managed by setting prudential limits on maturity mismatches, liquid assets ratios, concentration of deposits by type and by entity. Liquidity gap analysis is used to measure and monitor the mismatches by time bucket and currency under realistic and stress scenarios.

(i) The tables below show the expected timing of cash flows for financial assets and liabilities of the Bank, slotted as per the rules defined by the Bank of Mauritius.

	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non Maturity	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2017								
Financial Assets								
Cash and cash equivalents	15,617,137	-	3,641	-	-	-	-	15,620,778
Mandatory balances with central banks	722,018	460,563	341,585	382,030	229,542	6,576,324	-	8,712,062
Loans to and placements with banks	1,262,067	170,400	421,797	1,919,980	4,787,486	334,130	-	8,895,860
Derivative financial instruments	-	-	-	-	-	-	1,356,774	1,356,774
Loans and advances to non-bank customers	8,823,609	13,242,178	7,449,780	7,861,906	21,799,715	42,281,274	(619,231)	100,839,231
Investment securities	5,534,858	3,675,260	5,130,547	3,279,502	8,290,520	11,240,044	-	37,150,731
Equity investments	-	-	-	-	-	-	370	370
Other assets	676,317	-	-	-	-	-	-	676,317
	32,636,006	17,548,401	13,347,350	13,443,418	35,107,263	60,431,772	737,913	173,252,123
Financial liabilities								
Deposits from banks	739,926	-	-	-	-	-	-	739,926
Deposits from non-bank customers	12,369,821	8,000,945	5,772,211	7,517,625	3,968,162	104,067,005	-	141,695,769
Other borrowed funds	455,561	5,073,881	2,704,546	531,128	3,676,334	675,143	-	13,116,593
Derivative financial instruments	-	-	-	-	-	-	1,334,584	1,334,584
Other liabilities	1,944,907	-	-	-	-	-	-	1,944,907
Total financial liabilities	15,510,215	13,074,826	8,476,757	8,048,753	7,644,496	104,742,148	1,334,584	158,831,779
Liquidity Gap	17,125,791	4,473,575	4,870,593	5,394,665	27,462,767	(44,310,376)	(596,671)	14,420,344
31 December 2016								
Financial assets	15,776,190	8,756,059	11,211,736	12,496,159	32,905,099	45,815,710	173,669	127,134,622
Financial liabilities	10,320,927	4,149,429	3,451,668	4,595,800	7,227,079	87,944,097	182,406	117,871,406
Liquidity Gap	5,455,263	4,606,630	7,760,068	7,900,359	25,678,020	(42,128,387)	(8,737)	9,263,216
31 December 2015								
Financial assets	17,312,753	6,593,852	7,222,060	12,990,487	32,932,586	43,309,378	(3,266,966)	117,094,150
Financial liabilities	11,746,773	2,988,055	2,269,544	5,166,261	6,994,336	79,604,085	120,756	108,889,810
Liquidity Gap	5,565,980	3,605,797	4,952,516	7,824,226	25,938,250	(36,294,707)	(3,387,722)	8,204,340

(ii) The table below shows the remaining contractual maturities of financial liabilities:

	On Demand	Up to 3 months	3-6 months	6-12 months	1-2 years	Over 2 years	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Financial liabilities							
Deposits	110,515,561	14,248,415	5,770,667	7,517,625	2,048,627	1,594,874	141,695,769
Derivative financial instruments	-	1,334,584	-	-	-	-	1,334,584
Other borrowed funds	-	5,529,442	2,682,563	531,128	3,438,047	935,413	13,116,593
Other liabilities	-	1,944,907	-	-	-	-	1,944,907
31 December 2017	110,515,561	23,057,348	8,453,230	8,048,753	5,486,674	2,530,287	158,091,853
31 December 2016	91,849,699	8,960,126	2,778,732	4,438,995	4,770,435	2,935,581	115,733,568
31 December 2015	85,004,764	1,394,831	136,476	365,599	10,673,057	5,409,593	102,984,320

36. RISK MANAGEMENT (CONT'D)

d Market risk

Market risk is the risk of loss resulting from adverse movement in market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank's market risks are monitored by the Market Risk Team and reported to the Market Risk Forum and Board Risk Committee on a regular basis.

(i) Interest rate risk

The Bank's interest rate risk arises mostly from mismatches in the repricing of its assets and liabilities. The Bank uses an interest rate gap analysis to measure and monitor the interest rate risk. Prudential limits for currency wise gaps, expressed as a percentage of assets, have been set for specific time buckets and earnings at risk is calculated based on different shock scenarios across major currencies.

The table below analyses the Bank's interest rate risk exposure in terms of the remaining period to the next contractual repricing date or to the maturity date, whichever is the earlier. The 'up to 3 months' column include the financial assets and liabilities which have floating rates of interest that do not reprice at set dates, but rather reprice whenever the underlying interest rate index changes.

31 December 2017	Up to 3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Non-Interest Sensitive	Total
Assets	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**
Cash and cash equivalents	**5,528,646**	**334,264**	-	-	-	-	**9,757,868**	**15,620,778**
Mandatory balances with central banks	-	-	-	-	-	-	**8,712,062**	**8,712,062**
Loans to and placements with banks	**2,535,094**	**565,881**	**1,422,930**	**3,146,852**	**1,202,121**	-	**22,982**	**8,895,860**
Derivative financial instruments	-	-	-	-	-	-	**1,356,774**	**1,356,774**
Loans and advances to non-bank customers	**70,623,026**	**15,153,563**	**3,882,084**	**848,017**	**8,015,204**	**2,284,169**	**33,168**	**100,839,231**
Investment securities	**5,173,775**	**6,604,435**	**5,295,095**	**5,030,955**	**11,102,665**	**3,674,374**	**269,432**	**37,150,731**
Equity investments	-	-	-	-	-	-	**370**	**370**
Other assets	-	-	-	-	-	-	**676,317**	**676,317**
Total assets	**83,860,541**	**22,658,143**	**10,600,109**	**9,025,824**	**20,319,990**	**5,958,543**	**20,828,973**	**173,252,123**
Liabilities								
Deposits from banks	**20,185**	-	-	-	-	-	**719,741**	**739,926**
Deposits from non-bank customers	**77,788,682**	**4,849,926**	**4,097,166**	**490,214**	**901,366**	**6,971**	**53,561,444**	**141,695,769**
Other borrowed funds	**7,655,680**	**1,939,946**	**360,636**	**3,103,703**	-	-	**56,628**	**13,116,593**
Derivative financial instruments	-	-	-	-	-	-	**1,334,584**	**1,334,584**
Other liabilities	-	-	-	-	-	-	**1,944,907**	**1,944,907**
Total liabilities	**85,464,547**	**6,789,872**	**4,457,802**	**3,593,917**	**901,366**	**6,971**	**57,617,304**	**158,831,779**
On balance sheet interest rate sensitivity gap	**(1,604,006)**	**15,868,271**	**6,142,307**	**5,431,907**	**19,418,624**	**5,951,572**	**(36,788,331)**	**14,420,344**
Off balance sheet interest rate sensitivity gap	**2,908,933**	**(1,822,351)**	**299,689**	**(1,654,476)**	**(1,008,871)**	**(106,064)**	-	**(1,383,140)**
	1,304,927	**14,045,920**	**6,441,996**	**3,777,431**	**18,409,753**	**5,845,508**	**(36,788,331)**	**13,037,204**
31 December 2016								
Total assets	62,719,959	13,423,198	6,867,932	10,036,612	17,385,764	2,490,872	14,210,285	127,134,622
Total liabilities	19,624,879	3,450,951	2,838,013	190,071	2,805,861	51,272,240	37,689,391	117,871,406
On balance sheet interest rate sensitivity gap	43,095,080	9,972,247	4,029,919	9,846,541	14,579,903	(48,781,368)	(23,479,106)	9,263,216
Off balance sheet interest rate sensitivity gap	691,753	19,644	47,392	(39,212)	-	-	-	719,577
	43,786,833	9,991,891	4,077,311	9,807,329	14,579,903	(48,781,368)	(23,479,106)	9,982,793
31 December 2015								
Total assets	62,806,530	6,674,898	5,973,872	5,591,330	19,299,099	5,020,783	11,727,638	117,094,150
Total liabilities	59,903,139	2,112,620	2,068,258	2,529,205	302,438	1,461	41,972,689	108,889,810
On balance sheet interest rate sensitivity gap	2,903,391	4,562,278	3,905,614	3,062,125	18,996,661	5,019,322	(30,245,051)	8,204,340
Off balance sheet interest rate sensitivity gap	507,882	-	(296,864)	(157,004)	(54,014)	-	-	-
	3,411,273	4,562,278	3,608,750	2,905,121	18,942,647	5,019,322	(30,245,051)	8,204,340

Various scenarios are used to measure the effect of the changing interest rates on net interest income including the standardised approach of 200bp parallel shock over a 12-month period assuming a static balance sheet, as shown below.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Increase in profit	**230,620**	9,647	136,902

36. RISK MANAGEMENT (CONT'D)

d Market risk (Cont'd)

(ii) Fair value hedges

The Bank establishes fair value hedge accounting relationships for interest rate risk on some of its fixed rate customer loans. At 31 December 2017, the aggregate notional principal of interest rate swaps designated as fair value hedges was MUR 1,989.13 million (2016: MUR 161.5 million and 2015: MUR 540.6 million) with a net fair value liability of MUR 1.72 million (2016: MUR 0.96 million and 2015: MUR 6.5 million). The hedge was more than 80% effective in hedging the fair value exposure to interest rates movements and as a result the carrying amount of the loans being hedged was adjusted by MUR 1.71 million, which was included in the *statement of profit or loss* at the same time that the fair value of the interest rate swap was included.

(iii) Currency risk

Foreign exchange risk arises from open and imperfectly offset or hedged positions. Imperfect correlations across currencies and international interest rate markets pose particular challenges to the effectiveness of foreign currency hedging strategies. The Bank exercises strict control over its foreign currency exposures. The Bank reports on foreign currency positions to the Central Bank and has set up conservative internal limits in order to mitigate foreign exchange risk. To manage their foreign currency exposures, dealers operate within prudential limits approved by the Board including intraday/overnight open exposures, stop loss and authorised currencies. These trading limits for Mauritius and Indian Operations are reviewed at least once annually by the Board / Board Risk Management Committee. The Middle Office closely monitors the Front Office and reports any excesses and deviations from approved limits to the Market Risk Forum and to the Board Risk Management Committee.

The tables below show the carrying amounts of the monetary assets and liabilities:

	MUR	USD	GBP	EURO	INR	OTHER	TOTAL
31 December 2017	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**
ASSETS							
Cash and cash equivalents	**2,236,147**	**8,749,056**	**925,116**	**1,802,694**	**1,106,045**	**801,720**	**15,620,778**
Mandatory balances with central banks	**7,570,026**	**632,256**	**46,743**	**245,411**	**217,626**	**-**	**8,712,062**
Loans to and placements with banks	**1,104,066**	**3,736,329**	**-**	**4,055,465**	**-**	**-**	**8,895,860**
Derivative financial instruments	**1,213,730**	**50,905**	**2,834**	**-**	**78,133**	**11,172**	**1,356,774**
Loans and advances to non-bank customers	**52,050,123**	**31,274,057**	**787,892**	**11,549,498**	**5,123,531**	**54,130**	**100,839,231**
Investment securities	**26,820,966**	**6,808,128**	**-**	**403,254**	**3,117,171**	**1,212**	**37,150,731**
Equity investments	**-**	**-**	**-**	**370**	**-**	**-**	**370**
Other assets	**505,254**	**63,019**	**2,784**	**47,547**	**41,560**	**16,153**	**676,317**
Total monetary financial assets	**91,500,312**	**51,313,750**	**1,765,369**	**18,104,239**	**9,684,066**	**884,387**	**173,252,123**
LIABILITIES							
Deposits from banks	**342,958**	**351,152**	**3,046**	**37,488**	**5,282**	**-**	**739,926**
Deposits from non-bank customers	**85,522,163**	**39,602,209**	**1,994,587**	**8,793,129**	**5,285,002**	**498,679**	**141,695,769**
Other borrowed funds	**159,355**	**10,702,645**	**-**	**1,586,411**	**622,022**	**46,160**	**13,116,593**
Derivative financial instruments	**1,158,687**	**110,882**	**2,417**	**-**	**43,313**	**19,285**	**1,334,584**
Other liabilities	**(1,612,161)**	**(1,224,074)**	**(219,236)**	**4,395,254**	**471,097**	**134,027**	**1,944,907**
Total monetary financial liabilities	**85,571,002**	**49,542,814**	**1,780,814**	**14,812,282**	**6,426,716**	**698,151**	**158,831,779**
On balance sheet position	**5,929,310**	**1,770,936**	**(15,445)**	**3,291,957**	**3,257,350**	**186,236**	**14,420,344**
Off balance sheet position	**669,316**	**3,600,673**	**11,227**	**(439,675)**	**(3,746,111)**	**(95,430)**	**-**
Net currency position	**6,598,626**	**5,371,609**	**(4,218)**	**2,852,282**	**(488,761)**	**90,806**	**14,420,344**
31 December 2016							
Total monetary financial assets	79,841,919	27,766,865	2,253,967	9,705,293	6,852,780	713,798	127,134,622
Total monetary financial liabilities	78,377,602	27,886,890	2,157,035	8,818,556	72,261	559,062	117,871,406
On balance sheet position	1,464,317	(120,025)	96,932	886,737	6,780,519	154,736	9,263,216
Off balance sheet position	685,112	3,247	134,314	(334,535)	(404,233)	(83,905)	-
Net currency position	2,149,429	(116,778)	231,246	552,202	6,376,286	70,831	9,263,216
31 December 2015							
Total monetary financial assets	77,319,620	22,532,304	2,026,411	7,872,929	6,560,948	781,938	117,094,150
Total monetary financial liabilities	73,927,822	23,288,593	2,702,331	8,305,783	6,925	658,356	108,889,810
On balance sheet position	3,391,798	(756,289)	(675,920)	(432,854)	6,554,023	123,582	8,204,340
Off balance sheet position	(1,423,201)	952,862	620,230	43,343	(67,961)	(125,273)	-
Net currency position	1,968,597	196,573	(55,690)	(389,511)	6,486,062	(1,691)	8,204,340

36. RISK MANAGEMENT (CONT'D)

d Market risk (Cont'd)

(iii) Currency risk (Cont'd)

Value-at-Risk Analysis

The Bank uses Value-at-Risk (VAR) to estimate the potential foreign exchange loss arising from adverse movements in an ordinary market environment. To calculate VAR, the Bank uses the historical method which assumes that historical changes in market values are representative of future changes. The VAR is based on the previous 12 months data. The Bank calculates VAR using 10 days holding period and an expected tail-loss methodology, which approximates a 99% confidence level. This would mean that only once in every 100 trading days, the Bank would expect to incur losses greater than the VAR estimates, or about two to three times a year. The use of 10 days holding period and a one-year historical observation period are in line with the Basel II recommendation.

The Bank's VAR amounted to:

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Minimum for the year	**630**	168	206
Maximum for the year	**7,331**	4,993	2,593
Year - End	**1,231**	730	747

(iv) Equity price sentivity analysis

The Bank is exposed to equity price risks arising from equity investments. Available-for-sale equity investments are held for strategic rather than for trading purposes and the Bank does not actively trade in these investments. Changes in prices / valuation of these investments are reflected in the *statement of comprehensive income*, except for impairment losses which are reported in the *statement of profit or loss*. Changes in prices of held-for-trading investments are reflected in the *statement of profit or loss*.

A 5% increase in the price of equities held at the reporting date would have resulted in an unrealised gain to the *statement of comprehensive income* or *statement of profit or loss* as reflected below. A 5% decrease would have resulted in an equivalent loss being booked.

	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Statement of comprehensive income	**18**	9,245	18
Statement of profit or loss	**-**	-	-
	18	9,245	18

e Accounting policies

Details of the accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability and equity instruments are disclosed in Note 4 to the financial statements (accounting policies).

37. OTHER RESERVES

Available-for-sale reserve

This reserve comprises fair value movements recognised on available-for-sale financial assets.

Foreign currency translation reserve

The net translation reserve is used to record exchange differences arising from the translation of financial statements of foreign operations.

Statutory reserve

This reserve represents transfers from retained earnings in accordance with the Banking Act 2004. A sum equal to not less than 15% of the profit for the year is transferred each year until the balance is equal to the amount paid as stated capital.

Property revaluation reserve

The net property revaluation reserve is used to record increases in the fair value of land and buildings (net of deferred tax on the revalued asset) and decreases to the extent that such decreases relates to an increase on the same asset previously recognised in equity.

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS

The Bank of Mauritius requires the Bank to disclose its assets and liabilities, income and expenditure classified into Segment A and B. Segment B activity which includes Indian operations is essentially directed to the provision of international financial services that give rise to 'foreign source income'. Segment A activity relates to all banking business other than Segment B activity. Expenditure incurred by the Bank which is not directly attributable to its income derived from Mauritius or its foreign source income is apportioned in a fair and reasonable manner. Segmental reporting is based on the internal reports regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess their performance. The Bank is the only reportable segment.

a. Statement of financial position

		Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank
		31-Dec 2017	31-Dec 2017	31-Dec 2017	31-Dec 2016	31-Dec 2016	31-Dec 2016	31-Dec 2015	31-Dec 2015	31-Dec 2015
	Notes	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
ASSETS										
Cash and cash equivalents	38k	5,283,090	10,337,688	15,620,778	2,110,776	7,313,165	9,423,941	3,328,419	5,650,067	8,978,486
Mandatory balances with Central Banks		8,494,436	217,626	8,712,062	6,808,269	137,301	6,945,570	6,758,533	136,203	6,894,736
Loans to and placements with banks	38l	1,104,288	7,791,572	8,895,860	451,829	4,194,082	4,645,911	271,645	937,300	1,208,945
Derivative financial instruments	38m	1,244,946	111,828	1,356,774	100,808	65,189	165,997	66,251	77,866	144,117
Loans and advances to non-bank customers	38n	66,810,412	34,028,819	100,839,231	58,173,886	12,984,228	71,158,114	57,748,804	10,628,460	68,377,264
Investment securities	38o	27,224,221	9,926,510	37,150,731	24,197,840	10,213,134	34,410,974	17,690,536	13,388,708	31,079,244
Equity investment	38o	-	370	370	-	4,058	4,058	-	370	370
Property and equipment	38p	2,493,316	138,466	2,631,782	2,607,635	142,416	2,750,051	2,629,946	149,820	2,779,766
Intangible assets	38q	3,422,881	34,180	3,457,061	3,509,064	260,855	3,769,919	2,166,157	204,234	2,370,391
Deferred tax assets		-	95,461	95,461	21,817	193,503	215,320	66,356	210,411	276,767
Other assets	38r	656,951	266,941	923,892	296,970	303,782	600,752	637,177	228,776	865,953
Total assets		116,734,541	62,949,461	179,684,002	98,278,894	35,811,713	134,090,607	91,363,824	31,612,215	122,976,039
LIABILITIES										
Deposits from banks	38s	372,709	367,217	739,926	1,948,906	762,458	2,711,364	462,152	336,484	798,636
Deposits from non-bank customers	38t	98,447,966	43,247,803	141,695,769	81,396,999	26,905,388	108,302,387	78,431,300	25,146,489	103,577,789
Other borrowed funds	38u	4,461,913	8,654,680	13,116,593	1,685,702	2,854,807	4,540,509	247,308	1,885,189	2,132,497
Derivative financial instruments	38m	1,174,527	160,057	1,334,584	121,665	60,741	182,406	68,672	52,084	120,756
Current tax liabilities		60,106	45,763	105,869	358,908	-	358,908	371,242	-	371,242
Deferred tax liabilities		184,679	(13,774)	170,905	-	-	-	-	-	-
Other liabilities	38v	1,705,657	2,457,550	4,163,207	1,442,112	798,484	2,240,596	1,259,162	1,117,164	2,376,326
Total liabilities		106,407,557	54,919,296	161,326,853	86,954,292	31,381,878	118,336,170	80,839,836	28,537,410	109,377,246
SHAREHOLDER'S EQUITY										
Stated capital				310,000			310,000			310,000
Capital contribution				9,063,106			8,063,106			8,063,106
Retained earnings				7,855,520			6,193,747			3,940,391
Other reserves				1,128,523			1,187,584			1,285,296
Total equity				18,357,149			15,754,437			13,598,793
Total equity and liabilities				179,684,002			134,090,607			122,976,039

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

b. Statement of profit or loss

	Notes	Segment A 31-Dec 2017 MUR' 000	Segment B 31-Dec 2017 MUR' 000	Bank 31-Dec 2017 MUR' 000	Segment A 31-Dec 2016 MUR' 000	Segment B 31-Dec 2016 MUR' 000	Bank 31-Dec 2016 MUR' 000	Segment A 31-Dec 2015 MUR' 000	Segment B 31-Dec 2015 MUR' 000	Bank 31-Dec 2015 MUR' 000
Interest income		**4,803,869**	**1,846,021**	**6,649,890**	4,794,366	1,142,899	5,937,265	4,875,712	1,193,485	6,069,197
Interest expense		**(1,318,156)**	**(611,530)**	**(1,929,686)**	(1,236,578)	(446,584)	(1,683,162)	(1,533,643)	(468,543)	(2,002,186)
Net interest income	38c	**3,485,713**	**1,234,491**	**4,720,204**	3,557,788	696,315	4,254,103	3,342,069	724,942	4,067,011
Fee and commission income		**707,878**	**315,183**	**1,023,061**	598,870	397,249	996,119	584,779	386,272	971,051
Fee and commission expense		**(4,472)**	**(20,149)**	**(24,621)**	(1,401)	(21,966)	(23,367)	(8,845)	(18,485)	(27,330)
Net fee and commission income	38d	**703,406**	**295,034**	**998,440**	597,469	375,283	972,752	575,934	367,787	943,721
Other income										
Profit arising from dealing in foreign currencies		**309,245**	**146,428**	**455,673**	414,955	83,225	498,180	351,473	106,607	458,080
Net gain/(loss) from financial instruments	38f	**15,066**	**501,472**	**516,538**	(39,358)	14,251	(25,107)	(1,563)	(494)	(2,057)
Dividend income	38e	**-**	**-**	**-**	-	-	-	-	14	14
Net gain on sale of securities		**379,225**	**72,568**	**451,793**	254,293	188,054	442,347	136,722	133,862	270,584
Other operating income		**60**	**19**	**79**	4,204	(4)	4,200	2,784	(2)	2,782
		703,596	**720,487**	**1,424,083**	634,094	285,526	919,620	489,416	239,987	729,403
Non interest income		**1,407,002**	**1,015,521**	**2,422,523**	1,231,563	660,809	1,892,372	1,065,350	607,774	1,673,124
Operating income		**4,892,715**	**2,250,012**	**7,142,727**	4,789,351	1,357,124	6,146,475	4,407,419	1,332,716	5,740,135
Personnel expenses	38g	**(1,192,958)**	**(242,227)**	**(1,435,185)**	(1,135,736)	(187,636)	(1,323,372)	(1,025,944)	(158,925)	(1,184,869)
Depreciation and amortisation		**(591,261)**	**(56,766)**	**(648,027)**	(315,835)	(30,005)	(345,840)	(144,826)	(14,165)	(158,991)
Other expenses	38h	**(756,795)**	**(143,585)**	**(900,380)**	(756,642)	(142,318)	(898,960)	(621,276)	(148,306)	(769,582)
Non-interest expense		**(2,541,014)**	**(442,578)**	**(2,983,592)**	(2,208,213)	(359,959)	(2,568,172)	(1,792,046)	(321,396)	(2,113,442)
Profit before net impairment loss on financial assets		**2,351,701**	**1,807,434**	**4,159,135**	2,581,138	997,165	3,578,303	2,615,373	1,011,320	3,626,693
Net impairment loss on financial assets	38i	**8,074**	**(995,336)**	**(987,262)**	(117,930)	(598,812)	(716,742)	(1,044,098)	(829,266)	(1,873,364)
Profit before income tax		**2,359,775**	**812,098**	**3,171,873**	2,463,208	398,353	2,861,561	1,571,275	182,054	1,753,329
Tax expense	38j	**(423,787)**	**(136,793)**	**(560,580)**	(612,691)	(40,258)	(652,949)	(396,702)	(12,099)	(408,801)
Profit for the year		**1,935,988**	**675,305**	**2,611,293**	1,850,517	358,095	2,208,612	1,174,573	169,955	1,344,528

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

c. Net interest income

	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank
	31-Dec 2017	31-Dec 2017	31-Dec 2017	31-Dec 2016	31-Dec 2016	31-Dec 2016	31-Dec 2015	31-Dec 2015	31-Dec 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Interest income									
Cash and cash equivalents	**9,529**	**120,379**	**129,908**	5,363	47,803	53,166	6,531	34,267	40,798
Loans to and placements with banks	**18,271**	**127,269**	**145,540**	3,480	50,016	53,496	-	25,393	25,393
Loans and advances to non-bank customers	**3,873,066**	**1,286,604**	**5,159,670**	3,974,200	614,372	4,588,572	4,249,603	662,229	4,911,832
Investment securities	**875,982**	**377,590**	**1,253,572**	811,316	475,930	1,287,246	619,578	507,794	1,127,372
Trading assets	**27,021**	**(71,833)**	**(44,812)**	-	(46,590)	(46,590)	-	(38,661)	(38,661)
Other	**-**	**6,012**	**6,012**	7	1,368	1,375	-	2,463	2,463
Total interest income	**4,803,869**	**1,846,021**	**6,649,890**	4,794,366	1,142,899	5,937,265	4,875,712	1,193,485	6,069,197
Interest expense									
Deposits from customers	**(1,271,078)**	**(534,157)**	**(1,805,235)**	(1,232,858)	(417,773)	(1,650,631)	(1,530,287)	(385,285)	(1,915,572)
Other borrowed funds	**(47,078)**	**(61,965)**	**(109,043)**	(3,720)	(27,426)	(31,146)	(3,356)	(83,258)	(86,614)
Other	**-**	**(15,408)**	**(15,408)**	-	(1,385)	(1,385)	-	-	-
Total interest expense	**(1,318,156)**	**(611,530)**	**(1,929,686)**	(1,236,578)	(446,584)	(1,683,162)	(1,533,643)	(468,543)	(2,002,186)
Net interest income	**3,485,713**	**1,234,491**	**4,720,204**	3,557,788	696,315	4,254,103	3,342,069	724,942	4,067,011

d. Net fee and commission income

	Segment A 31-Dec 2017	Segment B 31-Dec 2017	Bank 31-Dec 2017	Segment A 31-Dec 2016	Segment B 31-Dec 2016	Bank 31-Dec 2016	Segment A 31-Dec 2015	Segment B 31-Dec 2015	Bank 31-Dec 2015
Fee and commission income									
Retail banking customer fees	**307,788**	**28,219**	**336,007**	287,419	17,305	304,724	334,991	5,660	340,651
Corporate banking customer fees	**168,412**	**205,119**	**373,531**	114,982	146,872	261,854	153,600	79,135	232,735
Card income	**231,678**	**81,845**	**313,523**	196,469	233,072	429,541	96,188	301,477	397,665
Total fee and commission income	**707,878**	**315,183**	**1,023,061**	598,870	397,249	996,119	584,779	386,272	971,051
Fee and commission expense									
Interbank transaction fees	**-**	**(14,099)**	**(14,099)**	(1)	(17,687)	(17,688)	-	(17,545)	(17,545)
Other	**(4,472)**	**(6,050)**	**(10,522)**	(1,400)	(4,279)	(5,679)	(8,845)	(940)	(9,785)
Total fee and commission expense	**(4,472)**	**(20,149)**	**(24,621)**	(1,401)	(21,966)	(23,367)	(8,845)	(18,485)	(27,330)
Net fee and commission income	**703,406**	**295,034**	**998,440**	597,469	375,283	972,752	575,934	367,787	943,721

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank
	31-Dec 2017	31-Dec 2017	31-Dec 2017	31-Dec 2016	31-Dec 2016	31-Dec 2016	31-Dec 2015	31-Dec 2015	31-Dec 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
e. Dividend income									
Available-for-sale securities	-	-	-	-	-	-	-	14	14
	-	-	-	-	-	-	-	14	14
f. Net gain/(loss) from financial instruments									
Net gain/(loss) from derivatives financial instruments	**1,331**	**518,086**	**519,417**	(39,376)	14,256	(25,120)	(1,582)	(369)	(1,951)
Investment securities at fair value through profit or loss	**13,723**	**(16,229)**	**(2,506)**	-	(5)	(5)	-	(125)	(125)
Other	**12**	**(385)**	**(373)**	18	-	18	19	-	19
	15,066	**501,472**	**516,538**	(39,358)	14,251	(25,107)	(1,563)	(494)	(2,057)
g. Personnel expenses									
Wages and salaries	**904,212**	**200,703**	**1,104,915**	837,697	153,253	990,950	721,317	122,509	843,826
Other social security obligations	**15,581**	**2,142**	**17,723**	14,440	1,737	16,177	12,148	1,346	13,494
Contributions to defined contribution plans	**78,349**	**15,753**	**94,102**	64,008	10,949	74,957	56,961	9,236	66,197
Cash-settled share-based payments	-	-	-	580	-	580	2,542	-	2,542
Increase in liability for defined benefit plans	**24,500**	**1,922**	**26,422**	28,399	1,631	30,030	31,611	1,590	33,201
Staff welfare cost	**16,587**	**1,485**	**18,072**	13,889	427	14,316	14,526	1,115	15,641
Management and professional charges	**7,097**	**1,402**	**8,499**	16,712	1,183	17,895	33,478	3,103	36,581
Other	**146,632**	**18,820**	**165,452**	160,011	18,456	178,467	153,361	20,026	173,387
	1,192,958	**242,227**	**1,435,185**	1,135,736	187,636	1,323,372	1,025,944	158,925	1,184,869

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

h. Other expenses

	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank
	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
	2017	2017	2017	2016	2016	2016	2015	2015	2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Software licensing and other information technology cost	**371,606**	**89,451**	**461,057**	404,554	90,434	494,988	259,612	97,078	356,690
Auditors' remuneration (audit and other services):									
-Principal auditors	**6,169**	**2,497**	**8,666**	6,518	2,017	8,535	5,189	1,013	6,202
-Other auditors	**-**	**-**	**-**	-	-	-	150	23	173
Utilities	**49,550**	**5,621**	**55,171**	47,105	5,553	52,658	48,843	6,054	54,897
Professional charges	**14,943**	**22,728**	**37,671**	37,037	20,984	58,021	108,341	18,431	126,772
Marketing costs	**69,672**	**31**	**69,703**	43,541	161	43,702	44,220	330	44,550
Rent, repairs and maintenance	**75,460**	**5,279**	**80,739**	83,761	6,399	90,160	81,602	6,376	87,978
Licence and other registration fees	**20,662**	**1,462**	**22,124**	15,983	1,660	17,643	18,874	1,673	20,547
Other	**148,733**	**16,516**	**165,249**	118,143	15,110	133,253	54,445	17,328	71,773
	756,795	**143,585**	**900,380**	756,642	142,318	898,960	621,276	148,306	769,582

i. Net impairment loss on financial assets

	Segment A 31-Dec 2017 MUR' 000	Segment B 31-Dec 2017 MUR' 000	Bank 31-Dec 2017 MUR' 000	Segment A 31-Dec 2016 MUR' 000	Segment B 31-Dec 2016 MUR' 000	Bank 31-Dec 2016 MUR' 000	Segment A 31-Dec 2015 MUR' 000	Segment B 31-Dec 2015 MUR' 000	Bank 31-Dec 2015 MUR' 000
Portfolio and specific provisions:									
- On-balance sheet advances	**108,569**	**1,021,093**	**1,129,662**	118,674	531,144	649,818	1,055,040	828,427	1,883,467
Bad debts written off for which no provisions were made	**-**	**-**	**-**	1,260	68,769	70,029	370	977	1,347
Recoveries of advances written off	**(116,643)**	**(25,757)**	**(142,400)**	(2,068)	(1,101)	(3,169)	(6,593)	-	(6,593)
Other	**-**	**-**	**-**	64	-	64	(4,719)	(138)	(4,857)
	(8,074)	**995,336**	**987,262**	117,930	598,812	716,742	1,044,098	829,266	1,873,364
Of which:									
Credit exposure	**(8,074)**	**995,336**	**987,262**	117,866	598,812	716,678	1,048,817	829,404	1,878,221
Other financial assets	**-**	**-**	**-**	64	-	64	(4,719)	(138)	(4,857)
	(8,074)	**995,336**	**987,262**	117,930	598,812	716,742	1,044,098	829,266	1,873,364

j. Tax expense

	Segment A 31-Dec 2017 MUR' 000	Segment B 31-Dec 2017 MUR' 000	Bank 31-Dec 2017 MUR' 000	Segment A 31-Dec 2016 MUR' 000	Segment B 31-Dec 2016 MUR' 000	Bank 31-Dec 2016 MUR' 000	Segment A 31-Dec 2015 MUR' 000	Segment B 31-Dec 2015 MUR' 000	Bank 31-Dec 2015 MUR' 000
Income tax expense	**210,557**	**53,388**	**263,945**	593,253	28,378	621,631	473,722	26,588	500,310
Deferred tax charge / (income)	**213,230**	**83,405**	**296,635**	19,438	11,880	31,318	(77,020)	(14,489)	(91,509)
	423,787	**136,793**	**560,580**	612,691	40,258	652,949	396,702	12,099	408,801

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

k. Cash and cash equivalents

	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank
	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
	2017	2017	2017	2016	2016	2016	2015	2015	2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cash in hand	**1,804,128**	**-**	**1,804,128**	1,706,638	-	1,706,638	1,893,360	-	1,893,360
Foreign currency notes and coins	**293,161**	**1,702**	**294,863**	-	287,812	287,812	-	263,108	263,108
Unrestricted balances with central banks [1]	**1,279,680**	**6,958**	**1,286,638**	-	-	-	1,336,689	38	1,336,727
Loans and placements with banks [2]	**1,906,121**	**3,989,822**	**5,895,943**	404,153	3,049,370	3,453,523	98,370	1,439,344	1,537,714
Balances with banks	**-**	**6,339,206**	**6,339,206**	(15)	3,975,983	3,975,968	-	3,947,577	3,947,577
	5,283,090	**10,337,688**	**15,620,778**	2,110,776	7,313,165	9,423,941	3,328,419	5,650,067	8,978,486

[1] Unrestricted balances with central banks represent amounts above the minimum cash reserve requirement.

[2] The balances above include loans and placements with banks having an original maturity of up to three months.

l. Loans to and placements with banks

	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank
	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
	2017	2017	2017	2016	2016	2016	2015	2015	2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Loans to and placements with banks									
- in Mauritius	**1,104,288**	**-**	**1,104,288**	451,829	-	451,829	271,645	-	271,645
- outside Mauritius	**-**	**7,791,572**	**7,791,572**	-	4,194,082	4,194,082	-	937,300	937,300
	1,104,288	**7,791,572**	**8,895,860**	451,829	4,194,082	4,645,911	271,645	937,300	1,208,945
Remaining term to maturity									
Up to 3 months	**393,748**	**1,044,724**	**1,438,472**	-	179,715	179,715	271,645	105,822	377,467
Over 3 months and up to 6 months	**336,387**	**67,587**	**403,974**	380,372	1,523,405	1,903,777	-	152,568	152,568
Over 6 months and up to 12 months	**221,363**	**1,689,619**	**1,910,982**	71,457	-	71,457	-	678,910	678,910
Over 1 year and up to 2 years	**152,790**	**2,997,612**	**3,150,402**	-	1,078,904	1,078,904	-	-	-
Over 2 years and up to 5 years	**-**	**1,992,030**	**1,992,030**	-	1,052,470	1,052,470	-	-	-
Over 5 years	**-**	**-**	**-**	-	359,588	359,588	-	-	-
	1,104,288	**7,791,572**	**8,895,860**	451,829	4,194,082	4,645,911	271,645	937,300	1,208,945

m. Derivative financial instruments

	Segment A 2017	Segment B 2017	Bank 2017	Segment A 2016	Segment B 2016	Bank 2016	Segment A 2015	Segment B 2015	Bank 2015
Derivative assets	**1,244,946**	**111,828**	**1,356,774**	100,808	65,189	165,997	66,251	77,866	144,117
Derivative liabilities	**1,174,527**	**160,057**	**1,334,584**	121,665	60,741	182,406	68,672	52,084	120,756

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

n. Loans and advances to non-bank customers

	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank
	31-Dec 2017	31-Dec 2017	31-Dec 2017	31-Dec 2016	31-Dec 2016	31-Dec 2016	31-Dec 2015	31-Dec 2015	31-Dec 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Governments	**2,458,655**	**-**	**2,458,655**	-	-	-	1	-	1
Retail customers	**30,468,689**	**1,522,274**	**31,990,963**	27,079,943	1,019,112	28,099,055	28,090,823	6,589	28,097,412
Credit cards	**555,413**	**3,938**	**559,351**	533,788	6,122	539,910	523,350	6,589	529,939
Mortgages	**19,500,247**	**334,516**	**19,834,763**	17,051,622	264,300	17,315,922	17,271,142	-	17,271,142
Other retail loans	**10,413,029**	**1,183,820**	**11,596,849**	9,494,533	748,690	10,243,223	10,296,331	-	10,296,331
Corporate customers	**35,925,905**	**2,438,163**	**38,364,068**	33,681,272	3,331,227	37,012,499	32,129,887	1,806,083	33,935,970
Entities outside Mauritius	**-**	**31,446,393**	**31,446,393**	-	10,098,489	10,098,489	-	9,755,334	9,755,334
	68,853,249	**35,406,830**	**104,260,079**	60,761,215	14,448,828	75,210,043	60,220,711	11,568,006	71,788,717
Less allowance for credit impairment	**(2,042,837)**	**(1,378,011)**	**(3,420,848)**	(2,587,329)	(1,464,600)	(4,051,929)	(2,471,907)	(939,546)	(3,411,453)
	66,810,412	**34,028,819**	**100,839,231**	58,173,886	12,984,228	71,158,114	57,748,804	10,628,460	68,377,264
Remaining term to maturity:									
Up to 3 months	**10,159,091**	**3,557,296**	**13,716,387**	8,230,905	3,522,504	11,753,409	9,092,403	2,574,322	11,666,725
Over 3 months and up to 6 months	**1,311,550**	**4,306,753**	**5,618,303**	3,046,522	594,019	3,640,541	2,085,810	395,130	2,480,940
Over 6 months and up to 12 months	**3,843,591**	**7,833,648**	**11,677,239**	3,746,182	1,339,596	5,085,778	3,006,775	1,720,725	4,727,500
Over 1 year and up to 2 years	**3,360,098**	**3,165,463**	**6,525,561**	3,002,591	2,079,566	5,082,157	3,792,645	1,164,361	4,957,006
Over 2 year and up to 5 years	**14,533,348**	**8,119,727**	**22,653,075**	10,332,575	3,492,747	13,825,322	11,763,741	4,150,538	15,914,279
Over 5 years	**35,645,571**	**8,423,943**	**44,069,514**	32,402,440	3,420,396	35,822,836	30,479,337	1,562,930	32,042,267
	68,853,249	**35,406,830**	**104,260,079**	60,761,215	14,448,828	75,210,043	60,220,711	11,568,006	71,788,717

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

n. Loans and advances to non-bank customers (Cont'd)

Allowance for credit impairment by industry sectors

	31-Dec-17					31-Dec-16	31-Dec-15
Segment A	Gross amount of loans	Impaired loans	Specific allowance for credit impairment	Portfolio allowance for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment	Total allowance for credit impairment
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Agriculture and Fishing	3,567,060	290	62	35,650	35,712	35,904	30,758
Manufacturing	2,828,247	163,838	92,602	59,278	151,880	149,825	78,130
of which EPZ	*1,013,525*	*23,207*	*1,014*	*42,529*	*43,543*	*38,542*	*18,639*
Tourism	10,054,894	9,961	3,136	200,799	203,935	194,475	229,101
Transport	247,118	12,731	9,042	2,346	11,388	13,596	63,356
Construction	6,142,098	233,420	105,574	115,803	221,377	235,842	238,764
Financial and business services	8,811,661	11,721	8,335	32,697	41,032	468,208	456,509
Traders	4,833,818	346,768	141,212	43,050	184,262	229,378	228,408
Personal	28,114,006	844,737	597,878	447,892	1,045,770	1,052,101	1,027,122
of which credit cards	*555,413*	*87,050*	*87,050*	*6,990*	*94,040*	*93,561*	*69,516*
Professional	207,815	89,674	89,674	794	90,468	2,086	1,762
Others	4,046,532	45,623	22,280	34,733	57,013	205,914	117,997
	68,853,249	1,758,763	1,069,795	973,042	2,042,837	2,587,329	2,471,907
Segment B							
Agriculture and Fishing	642,887	-	-	6,429	6,429	64,451	48,561
Manufacturing	3,258,951	1,387,445	982,774	16,942	999,716	236,545	51,947
of which EPZ	-	-	-	-	-	-	*643*
Tourism	1,148,737	-	-	11,487	11,487	7,778	6,792
Transport	1,073,315	-	-	10,733	10,733	483,590	348,815
Construction	595,022	-	-	6,400	6,400	-	-
Financial and business services	4,528,885	-	-	81,421	81,421	66,457	62,764
Traders	13,826,720	-	-	71,023	71,023	883	14,370
Personal	2,736,047	41,070	29,883	20,440	50,323	122,261	7,861
of which credit cards	*3,938*	*199*	*199*	*39*	*238*	*61*	*27*
Professional	1,548,893	-	-	15,489	15,489	-	-
Global Business Licence holders	2,438,163	65,498	-	15,918	15,918	5,354	5,055
Others	3,609,210	78,702	75,448	33,624	109,072	477,281	393,381
	35,406,830	1,572,715	1,088,105	289,906	1,378,011	1,464,600	939,546

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

o. Investment securities

<u>Remaining term to maturity</u>

	31-Dec-17								31-Dec-16	31-Dec-15
Segment A	Up to 3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years	Total	Total	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
(a) Held-for-trading investment securities										
Government bonds and treasury notes	-	-	-	-	-	421,162	549,432	970,594	-	-
Treasury bills	89,504	134,508	378,805	341,005	-	-	-	943,822	-	-
Bank of Mauritius bills / bonds	153,826	450,043	65,295	1,278,275	-	-	-	1,947,439	-	-
	243,330	584,551	444,100	1,619,280	-	421,162	549,432	3,861,855	-	-
(b) Loans and receivables - investment securities										
Government bonds and treasury notes	-	569,968	222,267	-	2,445,816	3,445,019	1,609,012	8,292,082	14,218,481	11,825,692
Treasury bills	1,917,379	2,268,326	197,252	49,086	-	-	-	4,432,043	3,242,761	1,925,990
Bank of Mauritius bills / bonds	653,610	1,286,433	396,019	204,260	272,175	731,689	-	3,544,186	5,342,047	3,538,594
Corporate bonds	-	200,982	-	-	-	1,398,358	965,737	2,565,077	1,394,551	400,260
	2,570,989	4,325,709	815,538	253,346	2,717,991	5,575,066	2,574,749	18,833,388	24,197,840	17,690,536
(c) Available-for-sale investment securities										
Government bonds	-	100,268	202,574	49,923	1,384,604	1,018,771	354,093	3,110,233	-	-
Treasury bills / notes	-	49,584	197,220	146,530	-	-	-	393,334	-	-
Bank of Mauritius bills / bonds	184,085	297,444	125,587	342,903	-	75,390	-	1,025,409	-	-
Total Segment A	184,085	447,296	525,381	539,355	1,384,604	1,094,161	354,093	4,528,976	-	-
Total Segment A	2,998,403	5,357,555	1,785,019	2,411,982	4,102,595	7,090,389	3,478,274	27,224,219	24,197,840	17,690,536

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

o. Investment securities (Cont'd)

Remaining term to maturity (Cont'd)

	31-Dec-17									31-Dec-16	31-Dec-15
Segment B	Up to 3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years	No specific maturity	Total	Total	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
(a) Held-for-trading investment securities											
Bank bonds	250,978	477,499	-	123,188	73,398	725,164	-	-	1,650,227	-	-
Corporate bonds	399,711	140,990	-	170,833	187,754	265,119	-	-	1,164,407	-	-
	650,689	618,489	-	294,021	261,152	990,283	-	-	2,814,634	-	-
(b) Loans and receivables - investment securities											
Corporate bonds	4,686	78,489	-	-	-	44,961	244,688	-	372,824	-	-
	4,686	78,489	-	-	-	44,961	244,688	-	372,824	-	-
(c) Available-for-sale investment securities											
Government bonds	60,168	-	-	-	52,438	107,105	109,085	-	328,796	970,159	1,295,323
Treasury bills / notes	647,666	179,175	370,323	-	-	-	-	-	1,197,164	178,414	162,908
Securities issued by government bodies	-	-	-	-	-	-	-	-	-	-	96
Equity shares of companies:											
- Other equity investments	-	-	-	-	-	-	-	370	370	4,058	370
Bank bonds	-	155,572	52,053	-	71,589	254,213	-	-	533,427	6,808,465	9,219,215
Corporate bonds	12,191	94,228	156,930	167,274	618,445	3,179,439	-	-	4,228,507	2,071,193	2,300,176
Corporate paper and preference shares	232,143	102,169	-	92,406	-	12,672	11,770	-	451,160	184,903	410,990
Total investment securities	952,168	531,144	579,306	259,680	742,472	3,553,429	120,855	370	6,739,424	10,217,192	13,389,078
Total Segment B	1,607,543	1,228,122	579,306	553,701	1,003,624	4,588,673	365,543	370	9,926,882	10,217,192	13,389,078
Total investment securities	4,605,947	6,585,678	2,364,325	2,965,683	5,106,219	11,679,062	3,843,817	370	37,151,101	34,415,032	31,079,614

Analysed into:	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Investment securities:			
- Segment A	27,224,219	24,197,840	17,690,536
- Segment B	9,926,512	10,213,134	13,388,708
	37,150,731	34,410,974	31,079,244
Equity investments:			
- Segment B	370	4,058	370
Total	37,151,101	34,415,032	31,079,614

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

p. Property and equipment

	Freehold land and buildings	Leasehold buildings	Other tangible fixed assets	Motor vehicles	Progress payments	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Net book value at 31 December 2017						
Segment A	**749,087**	**1,399,640**	**306,082**	**4,744**	**33,763**	**2,493,316**
Segment B	**132,688**	**-**	**5,767**	**11**	**-**	**138,466**
Total	**881,775**	**1,399,640**	**311,849**	**4,755**	**33,763**	**2,631,782**
Net book value at 31 December 2016						
Segment A	759,832	1,451,636	349,117	5,678	41,372	2,607,635
Segment B	137,779	-	4,540	14	83	142,416
Total	897,611	1,451,636	353,657	5,692	41,455	2,750,051
Net book value at 31 December 2015						
Segment A	770,013	1,502,377	293,249	1,866	62,441	2,629,946
Segment B	142,869	-	6,865	-	86	149,820
Total	912,882	1,502,377	300,114	1,866	62,527	2,779,766

q. Intangible assets

SOFTWARE	31-Dec 2017	31-Dec 2016	31-Dec 2015
Net Book Value	MUR' 000	MUR' 000	MUR' 000
Segment A	**3,422,881**	3,509,064	2,166,157
Segment B	**34,180**	260,855	204,234
Total	**3,457,061**	3,769,919	2,370,391

r. Other assets

	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank
	31-Dec 2017	31-Dec 2017	31-Dec 2017	31-Dec 2016	31-Dec 2016	31-Dec 2016	31-Dec 2015	31-Dec 2015	31-Dec 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Accounts receivable	**482,167**	**64,836**	**547,003**	163,923	50,950	214,873	129,124	88,782	217,906
Balances due in clearing	**1,065**	**55,018**	**56,083**	3,682	34,484	38,166	148,011	38,140	186,151
Tax paid in advance	**-**	**75,708**	**75,708**	-	106,085	106,085	-	98,162	98,162
Licence fees prepaid	**-**	**-**	**-**	-	-	-	271,019	141	271,160
Others	**173,719**	**71,379**	**245,098**	129,365	112,263	241,628	89,023	3,551	92,574
	656,951	**266,941**	**923,892**	296,970	303,782	600,752	637,177	228,776	865,953

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

s. Deposits from banks	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank
	31-Dec 2017	31-Dec 2017	31-Dec 2017	31-Dec 2016	31-Dec 2016	31-Dec 2016	31-Dec 2015	31-Dec 2015	31-Dec 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Demand deposits	372,709	367,217	739,926	1,948,906	762,458	2,711,364	462,152	336,484	798,636
t. Deposits from non-bank customers									
(i) Retail customers									
Current accounts	13,038,356	3,378,446	16,416,802	9,357,769	1,094,407	10,452,176	11,245,991	2,370,492	13,616,483
Savings accounts	49,133,607	1,594,913	50,728,520	41,407,303	1,450,970	42,858,273	39,064,212	1,340,971	40,405,183
Time deposits with remaining term to maturity:									
Up to 3 months	977,521	690,133	1,667,654	887,190	452,723	1,339,913	967,646	398,371	1,366,017
Over 3 months and up to 6 months	779,619	1,505,432	2,285,051	623,638	146,558	770,196	834,252	419,885	1,254,137
Over 6 months and up to 12 months	1,441,907	4,595,859	6,037,766	1,261,826	1,190,684	2,452,510	1,710,998	1,774,731	3,485,729
Over 1 year and up to 5 years	2,720,835	503,083	3,223,918	2,465,706	1,951,204	4,416,910	3,083,631	2,595,551	5,679,182
Over 5 years	2,752	74	2,826	3,100	1,428	4,528	-	1,400	1,400
Total time deposits	5,922,634	7,294,581	13,217,215	5,241,460	3,742,597	8,984,057	6,596,527	5,189,938	11,786,465
	68,094,597	12,267,940	80,362,537	56,006,532	6,287,974	62,294,506	56,906,730	8,901,401	65,808,131
(ii) Corporate customers									
Current accounts	13,802,626	19,450,067	33,252,693	11,845,761	16,225,840	28,071,601	11,478,210	12,611,543	24,089,753
Savings accounts	4,276,387	11,385	4,287,772	6,204,319	287,742	6,492,061	3,286,960	7,890	3,294,850
Time deposits with remaining term to maturity:									
Up to 3 months	3,396,254	8,657,480	12,053,734	1,134,215	1,275,855	2,410,070	2,527,571	2,206,627	4,734,198
Over 3 months and up to 6 months	563,132	1,429,901	1,993,033	1,195,373	846,160	2,041,533	26,651	295,478	322,129
Over 6 months and up to 12 months	663,607	864,169	1,527,776	353,922	1,581,645	1,935,567	246,674	1,083,984	1,330,658
Over 1 year and up to 5 years	322,274	566,861	889,135	681,619	400,172	1,081,791	353,914	39,566	393,480
Over 5 years	-	-	-	359	-	359	-	-	-
Total time deposits	4,945,267	11,518,411	16,463,678	3,365,488	4,103,832	7,469,320	3,154,810	3,625,655	6,780,465
	23,024,280	30,979,863	54,004,143	21,415,568	20,617,414	42,032,982	17,919,980	16,245,088	34,165,068
(iii) Government									
Current accounts	3,027,269	-	3,027,269	1,895,307	-	1,895,307	1,747,833	-	1,747,833
Savings accounts	2,908,506	-	2,908,506	2,078,167	-	2,078,167	1,853,931	-	1,853,931
Time deposits with remaining term to maturity:									
Up to 3 months	22,397	-	22,397	-	-	-	112	-	112
Over 3 months and up to 6 months	1,357,224	-	1,357,224	400	-	400	406	-	406
Over 6 months and up to 12 months	12,961	-	12,961	925	-	925	2,242	-	2,242
Over 1 year and up to 5 years	732	-	732	100	-	100	66	-	66
Total time deposits	1,393,314	-	1,393,314	1,425	-	1,425	2,826	-	2,826
	7,329,089	-	7,329,089	3,974,899	-	3,974,899	3,604,590	-	3,604,590
	98,447,966	43,247,803	141,695,769	81,396,999	26,905,388	108,302,387	78,431,300	25,146,489	103,577,789

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

38. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

u. Other borrowed funds

	Segment A	Segment B	Bank	Segment A	Segment B	Bank	Segment A	Segment B	Bank
	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
	2017	2017	2017	2016	2016	2016	2015	2015	2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Borrowings from central banks - for refinancing	**104,190**	**-**	**104,190**	147,921	-	147,921	203,758	-	203,758
Other financial institutions - for refinancing	**159,554**	**4,387,286**	**4,546,840**	-	687,074	687,074	-	1,885,189	1,885,189
Borrowings from banks									
- in Mauritius	**4,198,169**	**-**	**4,198,169**	1,537,781	-	1,537,781	43,550	-	43,550
- abroad	**-**	**4,267,394**	**4,267,394**	-	2,167,733	2,167,733	-	-	-
	4,461,913	**8,654,680**	**13,116,593**	1,685,702	2,854,807	4,540,509	247,308	1,885,189	2,132,497

v. Other liabilities

	Segment A 2017	Segment B 2017	Bank 2017	Segment A 2016	Segment B 2016	Bank 2016	Segment A 2015	Segment B 2015	Bank 2015
Bills payable	**153,727**	**18,242**	**171,969**	107,916	22,548	130,464	92,584	9,669	102,253
Accruals for expenses	**333,015**	**19,165**	**352,180**	321,264	10,476	331,740	310,797	10,025	320,822
Accounts payable	**496,527**	**232,446**	**728,973**	658,896	179,029	837,925	284,737	201,755	486,492
Deferred income	**205,816**	**117,060**	**322,876**	193,587	74,533	268,120	202,925	24,968	227,893
Balance due in clearing	**-**	**2,110**	**2,110**	-	1,587	1,587	142,504	4,946	147,450
Balances in transit	**413,460**	**-**	**413,460**	25	27	52	106,336	-	106,336
Pension liability	**91,781**	**-**	**91,781**	67,764	-	67,764	88,930	-	88,930
Others	**11,331**	**2,068,527**	**2,079,858**	92,660	510,284	602,944	30,349	865,801	896,150
	1,705,657	**2,457,550**	**4,163,207**	1,442,112	798,484	2,240,596	1,259,162	1,117,164	2,376,326

w. Memorandum items

a Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers

	Segment A 2017	Segment B 2017	Bank 2017	Segment A 2016	Segment B 2016	Bank 2016	Segment A 2015	Segment B 2015	Bank 2015
Acceptances on account of customers	**184,494**	**584,333**	**768,827**	138,697	-	138,697	201,825	4,814	206,639
Guarantees on account of customers	**6,421,528**	**1,021,598**	**7,443,126**	3,794,867	803,400	4,598,267	3,829,432	713,828	4,543,260
Letters of credit and other obligations on account of customers	**846,547**	**1,128,720**	**1,975,267**	471,096	724,242	1,195,338	393,509	381,946	775,455
Other contingent items	**-**	**-**	**-**	-	-	-	-	945	945
	7,452,569	**2,734,651**	**10,187,220**	4,404,660	1,527,642	5,932,302	4,424,766	1,101,533	5,526,299
b *Commitments*									
Undrawn credit facilities	**8,171,121**	**6,067,712**	**14,238,833**	6,354,415	432,710	6,787,125	6,506,626	965,455	7,472,081
	8,171,121	**6,067,712**	**14,238,833**	6,354,415	432,710	6,787,125	6,506,626	965,455	7,472,081

Abbreviations

ACFE - Association of Certified Fraud Examiners
ACI - Association Cambiste Internationale
ADSP - Association of Disability Service Providers
AFREXIMBANK - African Export-Import Bank
AFS - Available-For-Sale
ALCO - Asset and Liability Management Committee
AML - Anti Money Laundering
ANFEN - Adolescent Non Formal Education Network
APEIM - Association de Parents d'Enfants Inadaptés de l'Ile Maurice
APRIM - Association des Parents pour La Réhabilitation des Infirmes Moteurs
ARA -Average Retirement Age
ATM - Automatic Teller Machine
AUM - Assets Under Management
BCBS - Basel Committee on Banking Supervision
Board - Board of SBM Holdings Ltd
BOM - Bank of Mauritius
BOT - Build-Operate-Transfer
BPS - Basis Points
BSBMM - Banque SBM Madagascar SA
CAR - Capital Adequacy Ratio
CCB - Capital Conservation Buffer
CCR - Counterparty Credit Risk
CDS - Credit Default Swap
CEO - Chief Executive Officer
CEPEH - Centre pour l'Education et le Progrès des Enfants Handicapés
CET1 - Common Equity Tier 1
CFC - Chlorofluorocarbons
CFI - Capital Finance International
CFO - Chief Financial Officer
CGU - Cash Generating Unit
CI - Cost to Income
CIBIL - Credit Information Bureau India Limited
CIS - Collective Investment Scheme
CO_2 - Carbon dioxide
COE - Centre of Excellence
CPE - Certificate of Primary Education
CRM - Credit Risk Mitigation
CRS - Common Reporting Standards
CSR - Corporate Social Responsibility
CASA - Current Account and Savings Account
DCM - Debt Capital Markets
DEM - Development & Enterprise Market
DEMEX - Development & Enterprise Market All Share Index
DEMTRI - Development & Enterprise Market Total Return Index
DOWA - Deep Ocean Water Applications
DRs - Depositary Receipts
DSIB - Domestic Systemically Important Bank
E&S - Environmental & Social
ECAIs - External Credit Assessment Institutions
ECL - Expected Credit Losses
ECM - Equity Capital Markets
EER - Energy Efficiency Ratio
EIR - Effective Interest Rate
EPZ - Export Processing Zone
EUR - Euro
EY - Ernst & Young
FCA - Fellow Member of the Institute of Chartered Accountants
FCCA - Fellow Member of the Association Chartered Certified Accountants
FCY - Foreign Currency
FISCU - Finance and Investment Sector Coordinating Unit
FSA - Fonds de Solidarité Africain
FVTPL - Fair-value-through-profit-or-loss
FY - Financial Year
GBP - Great British Pound
GCEO - Group Chief Executive Officer
GCFO - Group Chief Financial Officer
GEF - Group Executive Forum
GBS - Gandhian Basic School
GRC - Governance, Risk and Control
GROUP - SBM Holdings Ltd and its subsidiaries
HFC - Hydrofluorocarbons
HQLA - High Quality Liquid Asset

HRD - Human Resource Division
HTM - Held To Maturity
IAS - International Accounting Standards
IASB - International Accounting Standards Board
ICAAP - Internal Capital Adequacy Assessment Process
IESBA - International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants
IFRIC - International Financial Reporting Interpretations Committee
IFRS - International Financial Reporting Standards
INR - Indian Rupee
iOS - Apple Operating System
IRS - Interest Rate Swap
ISO - International Organisation for Standardisation
IT - Information Technology
KES - Kenyan Shilling
KPI - Key Performance Indicator
KRI - Key Risk Indicator
L&R - Loans and Receivables
LCR - Liquidity Coverage Ratio
LED - Light Emitting Diode
LOS - Loan Origination System
MDB - Multilateral Development Banks
MGA - Malagasy Ariary
MGI - Mahatma Gandhi School
MIPA - Mauritius Institute of Professional Accountants
MITD - Mauritius Institute of Training and Development
MUR - Mauritian Rupee
MWF - Mauritian Wildlife Foundation
NBFC - Non Banking Financial cluster
NFC - Non Financial cluster
NGO - Non-Governmental Organisation
NII - Net Interest Income
NSFR - Net Stable Funding Ratio
OCI - Other Comprehensive Income
OHSAS - Occupational Health and Safety Assessment Series
PAT - Profit After Tax
POS - Point of Sale
PPA - Purchase Price Allocation
PPP - Public-Private Partnership
PVBP - Price Value of a Basis Point
PwC - Pricewaterhouse Coopers
R&D - Research and Development
RAROC - Risk Adjusted Return on Capital
RAS - Risk Appetite Statement
RBI - Reserve Bank of India
RCSA - Risk Control Self-Assessment
RFP - Request for Proposal
ROA - Return on Average Assets
RWA - Risk Weighted Assets
RWE - Risk Weighted Exposure
SA8000 - Social Accountability International Standard 8000
SADC - Southern African Development Community
SBM MAM - SBM Mauritius Asset Managers Ltd
SBMBM - SBM Bank (Mauritius) Ltd
SBMH or Company - SBM Holdings Ltd
SEM - Stock Exchange of Mauritius
SEM-ASI - Stock Exchange of Mauritius All Share Index
SEMDEX - Stock Exchange of Mauritius Price Index
SEMTRI - Stock Exchange of Mauritius Total Return Index
SME - Small and Medium Enterprises
SPPI - Sole Payment of Principal and Interest
SPV - Special Purpose Vehicle
TEC - Tertiary Education Commission
UNECA - United Nations Economic Commission for Africa
UNIDO - United Nations Industrial Development Organisation
USD - United States Dollar
VAR - Value-at-Risk
VIU - Value-In-Use
WACC - Weighted Average Cost of Capital
WIP - Work In Progress
WOS - Wholly Owned Subsidiary
XBRL - eXtensible Business Reporting Language
ZEP - Zone d'Education Prioritaire

SBM

SBM Bank (Mauritius) Ltd
SBM Tower, 1, Queen Elizabeth II Avenue,
Port Louis, Republic of Mauritius

T : (230) 202 1111
F : (230) 202 1234
E : sbm@sbmgroup.mu

www.sbmgroup.mu