SBM BANK (MAURITIUS) LTD

SBM

ANNUAL REPORT

2018

FOR A SMARTER TOMORROW

CORPORATE INFORMATION

DIRECTORS

Mr Nayen Koomar Ballah, G.O.S.K.

Mr Philip Ah-Chuen

Mr Rajakrishna Chellapermal

Mr Ishwar Anoopum Gaya

Mr Rishikesh Hurdoyal

Mr Michel Arnaud Moothoosamy

Mr Abdool Karrim Namdarkhan

Mr Venkateswara Rao Parvataneni

Mr Visvanaden Soondram

Mrs Veronique Lim Hoye Yee

SECRETARY

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,
Port Louis
Mauritius

AUDITORS

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

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“Our vision is to be the leading and most trusted financial services provider in Mauritius and beyond.”

ABOUT SBM

CHAIRMAN'S LETTER

We are pleased to present the annual report of SBM Bank (Mauritius) Ltd ("SBM" or the "Bank") for the financial year ended 31 December 2018.

Valued Stakeholders

More than 10 years after the onset of the global financial crisis, the operating environment remains tough, with multiple challenges such as pressures on margins, increased regulatory scrutiny and higher compliance costs, among others. Keeping the objectives of our stakeholders in mind and in line with opportunities available in the market, we have enhanced our business model, with focus on expanding our market base and broadening our range of financial solutions offered to clients. Alongside the growth benefits, our strategic orientations have been subject to major risk factors, and we have had some setbacks which we are actively managing. We are responding to these through a reinforcement of our risk management framework that, I believe, will put us on a stronger footing to continue on our growth path.

We remain committed to transparency and best practices. I am glad to report that the Bank has applied all material aspects of the National Code of Corporate Governance for Mauritius ("the Code").

As you go through this annual report, you will learn more about the drivers and challenges relating to our financial performance. We explain our governance pillars and how we adhere to them. Our risk philosophy and metrics are described in detail. We also set out our relationships with our different stakeholders as we thrive to help individuals and businesses prosper while making a difference to communities in which we operate. We continue to put emphasis on talent development and on building a team that will deliver effectively on our strategy.

2018 has been a challenging year. But I am confident that we have set the base to sustain strong performance over the coming years while balancing the needs of our different stakeholders.

I would like to thank my fellow Board members for the valuable support that they have provided during the year as well as the Chief Executive, management and all the employees for their dedication towards the success of the Bank. I am grateful to our customers and other stakeholders for their continued trust and patronage.

Sincerely,

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

CEO'S LETTER

Dear Customers and Valued Partners

In spite of record high revenues, the financial year under review has been challenging in view of pressures on profitability arising from a rise in impairments, particularly in the cross-border business segment B.

At the same time, it has in various ways showcased the financial strength of the Bank – profitability remains in positive territory for the year; liquidity and capital levels are at very strong levels; and customer numbers continue to increase. We are more than ever dedicated in serving our clients in the best possible way to make their banking experience an enjoyable and memorable one.

These few events which have impacted our results negatively have made us think differently and react in a constructive way to resolve the weaknesses identified. We have therefore worked hard in tightening our controls and provided training to our staff on how to assess our potential clients in the international market. We have put in place an extensive remediation plan for our segment B business, which is now substantially complete, enabling us to resume growth in this segment.

In this letter, I will be sharing our financial performance, our strategies to operate in a better manner and our performance against strategy.

Performance

2018 has been a challenging year with a few events affecting profit before tax in a significant manner. However, we take comfort in the continued strength of the Bank's fundamentals and its excellent growth prospects. Setting aside the three major impairments affecting our expected credit losses, the performance of the Bank improved in 2018 compared to the previous year. Operating income increased by 14.74 percent from MUR 6,871 million to MUR 7,883 million. The Bank was able to contain its non-interest expenses although it continued to strive to convert its staff from "Contracts of determinate duration" to "Contracts of indeterminate duration". Profit before credit loss expense increased from MUR 4,025 million to MUR 5,149 million. This represents an increase of 27.91 percent compared to financial year 2017. The higher profits before credit loss expense were mainly driven by higher interest income derived from loans and advances and interest income on financial instruments designated at fair value. With the slow disbursements of loans in Segment B during the second half of the year, pending the substantial completion of the remediation plan, the Bank was only able to marginally increase its net fee and commission income. Profit before income tax stood at MUR 2,138 million as compared to MUR 3,797 million in 2017. The Bank's profit before tax was reduced mainly by the credit loss expense booked on three major groups of clients.

For two of these groups, the Bank was able to secure additional collaterals after year end as well as restructure the loan to ensure maximization of the recoverability of the debt. As for the third client, the Bank has already started legal actions as well as done an insurance claim to ensure recovery of the amount.

The cost to income ratio stood at 34.69 percent for the year ended 31 December 2018 (2017: 41.42 percent).

The Bank, on 30 November 2018, declared a distribution in specie whereby it distributed its Indian Operations to its sole shareholder, SBM (Bank) Holdings Ltd. This was part of the strategy for the restructuring of the SBM Group following SBM India obtaining its full-fledged banking license under a wholly owned subsidiary structure.

SBM India Operations recorded a loss of MUR 221.37 million for the 11 months ended 30 November 2018. The India Operations were affected by two major factors namely a cyber-attack leading to a provisioning of MUR 92 million and an additional provisioning made in respect of one loan account for an amount of MUR 74 million.

Deposits from non-bank customers for the Mauritius Operations increased by 9.78 percent from MUR 134.39 billion as at 31 December 2017 to reach MUR 147.53 billion as at 31 December 2018. This increase was mostly from a mix of low cost current and savings accounts and foreign currency term deposits.

The Bank's total assets for the Mauritius Operations grew by MUR 11,607 million or 6.73 percent, from MUR 172,379 million as at 31 December 2017 to MUR 183,986 million as at 31 December 2018 mainly on account of an increase in investment securities by MUR 13,540 million mitigated by a fall in loans and placements with banks of MUR 2,868 million.

The shareholder's equity stood at MUR 17,467 million as at 31 December 2018 compared to MUR 18,357 million as at December 2017. Derecognition of the Indian Operations was the main factor leading to this fall as the Bank had to deduct MUR 2,535 million from its reserves.

The Bank maintained adequate capitalisation levels, as gauged by a capital adequacy ratio of 15.11 percent (2017: 12.83 percent), and Common Equity Tier 1 capital (CET1) of 13.49 percent (2017: 11.24 percent).

Operational achievements

The Bank operations have grown compared to prior years and I am proud of our continuous growth and achievements in daily operations. Our operations department work almost round the clock to serve our clients and ensure that our banking services are seamless. The figures below relate to transactions processed daily at our operations centre showing our dedication to providing efficient and fast banking services:

1. Over 13,000 cheques processed daily
2. Over 30,000 domestic bank transfers daily
3. Over 39,000 international bank transfers daily
4. Around 40,000 ATM transactions through our network of 119 ATMs
5. Over 52,330 POS transactions across our network of 4,000 POS and around 1.6 million monthly POS transactions
6. Over 75,000 standing orders/direct debits processed daily during average peak periods
7. Over 2.1 million debit cards transactions per day and over 117,000 transactions from our credit cards transactions.

Awards

We are proud to share our achievements which would not have been possible without your trust in our Bank. SBM was awarded Bank of the Year, Mauritius from The Banker, a publication of the Financial Times group. The Bank was also awarded the Best e-Commerce Bank Mauritius 2018 and the Best Retail Bank Mauritius 2018 by the Global Banking & Finance Review. We have also been awarded at the African Banker Awards for being the Best Regional Bank in Southern Africa.

Economic outlook

Economic activity is expected to be supported by ongoing large-scale infrastructure projects. However, private sector initiatives could be dampened by increased uncertainty in respect of the investment climate, particularly considering the spillover effects of risks to global growth. Credit expansion could thus be more subdued than previously anticipated on the domestic market. The focus in the domestic market will remain on enhancing service quality and increasing the share of transactions effected on digital channels for higher efficiency. On the cross-border front, notable progress has been achieved in the implementation of the remediation plan to reinforce the risk management framework and business volumes may be expected to resume growth in the period ahead.

Regulatory framework

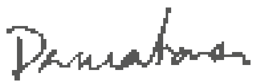
Financial year 2018 marks the implementation of IFRS 9 in our books. Our Risk Management Team has spent more than a year with our external consultants in developing the IFRS 9 modelling and ensuring the smooth implementation of the IFRS 9 tools. Training in IFRS 9 to all our front office staff is an ongoing task. Increased RBS reporting to the Bank of Mauritius will make our processes and operations more transparent to the regulators.

The Bank stronger than ever

There have been a few events which could have affected the Bank's reputation and morale of our staff. However, boosted by the trust that our customers have in the Bank, our employees have renewed efforts to achieve better and better results day by day. We have a successful history and we are ready to create more successful stories in the future. I am proud to see the dedication of our staff to create value in their day to day work and to serve the client in the most simple yet ensuring that the latter enjoys a memorable experience in banking with us. Our remedial actions regarding our Segment B business will allow us to tighten our controls and ensure that we can continue to grow our Segment B business healthily.

Thanking you for your trust

I would like to thank our valued customers and all stakeholders for their continued support and trust in the Bank, even in times of adversity. I would also like to thank our shareholder and the Board of Directors for their valuable support throughout. And finally I would like to thank all staff at the Bank who have ensured the growth in our operations by seamlessly serving our clients. We strongly believe that 2019 will be the start of a strong upturn for SBM.



Parvataneni Venkateswara Rao
Acting Chief Executive

BOARD OF DIRECTORS

Mr Nayen Koomar BALLAH, G.O.S.K.

Mr Philip AH-CHUEN, FMIoD, FMIM

Mr Rajakrishna CHELLAPERMAL

Mr Ishwar Anoopum GAYA

Mr Rishikesh HURDOYAL

Mr Michel Arnaud MOOTHOOSAMY

Mr Abdool Karrim NAMDARKHAN

Mr Visvanaden SOONDRAM

Mr Venkateswara Rao PARVATANENI ("PV Rao")

Mrs Veronique LIM HOYE YEE

BOARD OF DIRECTORS

The Board of Directors

Board Focus Areas

The Board's main focus areas during the Financial Year ended 31 December 2018 were:

Strategy	• Reviewed the strategic plans and appraised the performance of the company against key performance indicators • Facilitated the conversion of SBM's Indian branch into a wholly owned subsidiary of SBM (Bank) Holdings Ltd
Finance	• Reviewed and approved the operating budget of the Bank • Reviewed the Audit Report and approved audited financial statements • Approved the declaration of dividend • Reviewed the reports from Internal Audit and Anti-Fraud • Reviewed and approved SBM brand repositioning and renovation projects along with major maintenance contracts
Governance & Risk	• Approved the revised Composition of the Board and its Sub-Committees • Approved the reinforcement of the risk management framework • Discussed the National Code of Corporate Governance for Mauritius and adoption of same in the Company • Reviewed and approved the policies of the Bank • Reviewed related party transactions on a quarterly basis • Approved man power plan and revised employment conditions for employees along with the recruitment at Management level
Other recurrent items	• Took note of reports from the Chairman of Committees • Took note of the developments within the operating environment • Undertook initiatives to celebrate the 50th Anniversary of the Independence of Mauritius

The Board of Directors comprises 8 Non-Executive Directors and 2 Executive Directors.

Details of the Directors who served on the Board during the Financial Year 2018 are set out below:

Members	Date of Appointment	Category
Mr Nayen Koomar Ballah, G.O.S.K.	June 2015	Non-Executive Director & Chairman
Mr Philip Ah-Chuen	June 2015	Independent Director
Mr Mahmadally Burkutoola	June 2015 *Ceased to be director on 28.02.2019.*	Independent Director
Mr Rajakrishna Chellapermal	June 2015	Independent Director
Mr Raj Dussoye	August 2016 *Ceased to be director & Chief Executive on 16.08.2018*	Executive Director & Chief Executive
Mr Ishwar Anoopum Gaya	June 2016	Independent Director
Mr Rishikesh Hurdoyal	June 2015	Independent Director
Mr Michel Arnaud Moothoosamy	June 2017	Independent Director
Mr Abdool Karrim Namdarkhan	October 2018	Independent Director
Mr Venkateswara Rao Parvataneni	October 2018	Executive Director & Acting Chief Executive
Mr Visvanaden Soondram	November 2018	Non-Executive Director
Mrs Veronique Lim Hoye Yee	February 2018	Executive Director

PROFILES OF THE BOARD OF DIRECTORS OF SBM BANK (MAURITIUS) LTD

Mr Nayen Koomar BALLAH, *G.O.S.K.*, Chairman of the Board and Chairman of the Remuneration & Nomination Committee and Strategy Committee

Mr Nayen Koomar Ballah is the Secretary to Cabinet and Head of the Civil Service - Prime Minister's Office since September 2016. He has previously held many leadership positions spanning several ministries in government, namely, Permanent Secretary at the Prime Minister's Office; Ministry of Arts and Culture; Ministry of Youth and Sports; Ministry of Public Infrastructure, National Development Unit, Land Transport & Shipping; Secretary for Home Affairs at the Prime Minister's Office; Secretary Public & Disciplined Forces Service Commission. Mr Ballah is a holder of a Bachelor of Arts, Political Science and Economics from the University of Punjab India, a Bachelor of Arts-Honours (English) and a Diploma in Public Administration and Management from the University of Mauritius. He was awarded the title of Grand Officer of the Star and Key of the Indian Ocean (G.O.S.K) by the President of the Republic of Mauritius in March 2018.

Mr Ballah brings with him almost forty years of working experience and is known for his level headed thinking, trust worthiness and hard work ethics.

Besides his position of Chairman of the Bank, Mr Ballah is also a Chairperson and/or Director on the following boards:

- Mauritius Revenue Authority
- Air Mauritius Ltd
- Mauritius Telecom Ltd
- Mauritius Duty Free Paradise Ltd
- Multi Carrier (Mauritius) Ltd
- Metro Express Ltd

Mr Ballah is the Chairman of the Board of SBM Bank (Mauritius) Ltd and Chairman of the Remuneration & Nomination Committee and Strategy Committee.

Mr Philip AH-CHUEN *FMIoD, FMIM*
Independent Director and Chairman of the Corporate Governance and Conduct Review Committee

Mr Rajakrishna CHELLAPERMAL
Independent Director and Chairman of Board Credit Committee

Mr Ishwar Anoopum GAYA
Independent Director and Chairman of Audit Committee

Mr Ah-Chuen holds a Master's degree in Industrial Administration from Aston University, UK and is a Fellow of the Mauritius Institute of Directors (FMIoD) and Fellow of the Mauritius Institute of Management (FMIM). Besides his position as Director of the Bank, he is also an executive director of Allied Motors Co. Ltd and 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 strong ethics and his humility. He is also Commissioner of the Public Service Commission since November 2015 and was appointed Chairman of the Utility Regulatory Authority in May 2018.

Mr Ah-Chuen is an Independent Director on the Board of SBM Bank (Mauritius) Ltd and Chairman of the Corporate Governance and Conduct Review 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 an Independent Director on the Board of SBM Bank (Mauritius) Ltd and was appointed as Chairman of Board Credit Committee in March 2019. He previously chaired the Risk Management Committee.

Mr Ishwar Anoopum Gaya is an optometrist who has practiced both in Mauritius and the UK. He is the Managing Director of Gaya Opticians. He has also set up an online shopping platform for eyewear. Mr Gaya is a Member of the General Optical Council, UK and holds a BSc (Hons) in Economics and Finance from the University of East Anglia, UK and a BSc(Hons) in Optometry from the City University, UK . He has previously served as Board Member in various companies across different industries.

Mr Gaya is an Independent Director on the Board of SBM Bank (Mauritius) Ltd and Chairman of the Audit Committee.

PROFILES OF THE BOARD OF DIRECTORS OF SBM BANK (MAURITIUS) LTD (CONT'D)

Mr Rishikesh HURDOYAL
Independent Director and Chairman of Procurement Committee

Mr Michel Arnaud MOOTHOOSAMY
Independent Director and Chairman of Finance Committee

Mr Abdool Karrim NAMDARKHAN
Independent Director and Chairman of Risk Management Committee

Mr Rishikesh Hurdoyal is a practising Barrister at Law and has been admitted to the Bar both in Mauritius and in the UK. He holds a B.A. (Hons) Law & Management from the University of Mauritius, an LLM in International Law with International Relations from the University of Kent UK, and a Postgraduate Diploma in Law from the London Metropolitan University, UK. Besides his position as Director of the Bank, Mr Hurdoyal is presently also acting as Legal adviser in various parastatal bodies and management companies.

Mr Hurdoyal is an Independent Director on the Board of SBM Bank (Mauritius) Ltd and Chairman of the Procurement Committee.

Mr Michel Arnaud Moothoosamy is an independent director with a strong background in the finance sector. He is a Fellow of the International Institute for Book Keepers. Besides his position as Director of the Bank, Mr Moothoosamy also serves as director on the Boards of Cyber Property Investment Limited and the Informatics Park limited and is the former President of the Small and Medium Enterprises Federation.

Mr Moothoosamy is an Independent Director on the Board of SBM Bank (Mauritius) Ltd and Chairman of the Finance Committee.

Mr Abdool Karrim Namdarkhan is a barrister by profession. He was called to the Bar of England and Wales in July 2012 at the Honourable Society of Gray's Inn and was admitted to the Bar of Mauritius in September 2013. He is also a tenant at Basset Chambers and a Member of the Independent Review Panel. Mr Namdarkhan holds an LLB (Hons) in Laws from King's College London and has successfully completed the Bar Professional Training course at the University of Law, London.

Mr Namdarkhan is an Independent Director on the Board of SBM Bank (Mauritius) Ltd and was appointed as Chairman of the Risk Management Committee in March 2019.

Mr Visvanaden SOONDRAM
Non-Executive Director

Mr Visvanaden Soondram is the Director of Economic and Finance at the Ministry of Finance & Economic Development. He has previously served as Accountant, Senior Financial & Management Analyst and Principal Financial & Management Analyst within the same Ministry. He is a Chartered Certified Accountant (FCCA) and holds a Master of Science in Finance.

Mr Soondram is a Non-Executive Director on the Board of SBM Bank (Mauritius) Ltd.

Mr Venkateswara Rao PARVATANENI (“PV Rao”)
Executive Director and
Acting Chief Executive

Mr PV Rao was appointed as Acting Chief Executive of the Bank in August 2018. Prior to taking up this post, he had occupied other key positions within SBM namely, as Head of the Financial Markets division of SBM Bank (Mauritius) Ltd and Head of Treasury of SBM Mumbai. He had previously worked for Syndicate Bank and IndusInd Bank in India and has over 30 years of experience in this field. Mr PV Rao holds a B Sc. (Agrl) from Andhra Pradesh Agricultural University and an MBA from the Indira Gandhi National Open University.

Mr PV Rao is an Executive Director on the Board of SBM Bank (Mauritius) Ltd since October 2018.

Mrs Veronique LIM HOYE YEE
Executive Director

Mrs Veronique Lim Hoye Yee is currently the Head of Credit Underwriting Team at SBM Bank (Mauritius) Ltd and has held positions of increasing responsibilities over a span of 11 years since she joined the Bank in 2001. In August 2012, she took the position of Head of Credit Underwriting & Risk at another local bank before returning to SBM in September 2016 as Head of the Credit Underwriting Team. She is a CFA Charterholder from the CFA Institute, US and holds a BSc (Hons) in Economics and Accounting and an MSc in Economics and Finance, both from University of Bristol, UK .

Mrs Lim Hoye Yee is an Executive Director on the Board of SBM Bank (Mauritius) Ltd since February 2018.

STRATEGY REPORT

STRATEGY REPORT

In line with the Group strategic vision, the management of SBM Bank (Mauritius) Ltd, with the authority of the Board, continued its effort to implement initiatives to improve the customer experience and to consolidate and modernise its operations. In this regard, major milestones have been achieved in 2018 to deliver value to stakeholders, as follows:

A. Customer

- With the launch of ShopnCash customers can use their debit card to withdraw cash when making purchases, giving them the flexibility and convenience of avoiding queueing at ATMs.
- The Bank has deployed new ATMs which allow customers to make cash deposits without envelopes at 17 locations.
- The internet and mobile banking platforms have been revamped for enhanced security and customer experience.
- The Bank is encouraging customers to opt for e-statement which is a secured, convenient, and an environment friendly way to access their bank statements.
- SBM has partnered with AliPay, the world's biggest online and mobile payment company run by Ant Financial Group, an affiliate company of the e-commerce giant, Alibaba Group. Local merchants can now allow Chinese buyers to make payments through this digital wallet. It is secured, quick and easy to use for the merchants and also provides the Chinese tourists a payment system with which they are much comfortable.
- The Bank went live on the Digital Private Wealth Platform MoneyWare, a cross asset front to back solution and have implemented client onboarding, risk profiling, model portfolios and investment limits, trade order management, settlements and fee management
- Another milestone is the launching of its Custody Client Portal. It is an online client portal which provides a clear and interactive interface of the customer's custody account.

B. Employees

- One of the major talent retention achievements was to convert employment contracts to permanent. Another milestone was the introduction of a Group Health Policy with enhanced benefits and covers for staff members.
- To achieve excellence, it is of paramount importance for the Bank to invest in talent development. The SBM Academy was launched during the year to build capacity by preparing employees to live up to the challenges of this growth strategy.

C. Risk management

- In view of the headwinds in Segment B, the Bank took the commitment to deliver on the Remediation plan, a programme consisting of risk management, compliance and organisational measures. This enables us to resume growth in this business in a more targeted and productive manner.
- The Bank, taking stock of achievements, including the lessons learnt, is making further strides toward the achievement of its strategic plan and objectives.

“Improvement of operating income on a strong platform”

FINANCIAL REVIEW

Results

Profit before credit losses registered a growth of 27.91% from MUR 4.03 billion in financial year 2017 to MUR 5.15 billion in this financial year.

Profit after tax from continuing operations for the year under review amounted to MUR 1.46 billion, representing a decrease of 55.76 percent compared to 2017.

There have been some other exceptional events during the year which have led to a significant decrease in the profit for this financial year. However, the Bank is confident that in the coming year, it will be able to turnaround the situation and achieve the desired profits. The Bank will continue to pursue its strategy in the international market and has taken important remedial measures and strengthen the Bank's control around its offshore business.

Credit loss expense on financial assets stood at MUR 3.01 billion for the year ended 31 December 2018 as compared to MUR 0.23 billion for the year ended 31 December 2017 on account of IFRS 9 implementation and three major groups of clients classified as impaired in the year 2018. In the first half of this financial year, the Bank accounted for an impairment of MUR 932 million for an offshore client (Segment B account) while in the last quarter, impairment of MUR 1.5 billion was booked for two related Segment B groups of clients.

On 30 November 2018, the Bank made a distribution in specie of the Indian Operations to the sole shareholder. The Bank therefore accounted for the eleven month results of Indian Operations under "Discontinued Operations". The Bank also had to recycle the translation reserve of this foreign operations amounting to a loss of MUR 686 million.

The Bank thus ended the year with a total profit of MUR 554 million after taking into consideration the above mentioned losses.

Revenue growth

Operating income for 2018 registered a growth of 14.74 percent to reach MUR 7.88 billion compared to MUR 6.87 billion in 2017, representing an overall increase of MUR 1.01 billion. 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 and foreign currency dealings.

Net Interest Income

The economic conditions have continued to remain moderate during 2018. The excess liquidity in the domestic banking market made it very challenging to grow the loan book in 2018 and to further increase interest income thereon. The Bank has witnessed an increase in its interest income in this financial year mainly on account of the increase in the loan book in the second half of the financial year 2017.

The loan portfolio however did not follow the same trend as the deposit book during this financial year for the reason mentioned above. The Bank (Mauritius Operations) witnessed an increase in the deposit book (both from bank and non-bank customers) from MUR 135.10 billion to MUR 148.33 billion; an increase of 9.79 percent, while the gross loan portfolio increased from MUR 97.64 billion in 2017 to MUR 99.80 billion which represents an increase of 2.21 percent year on year.

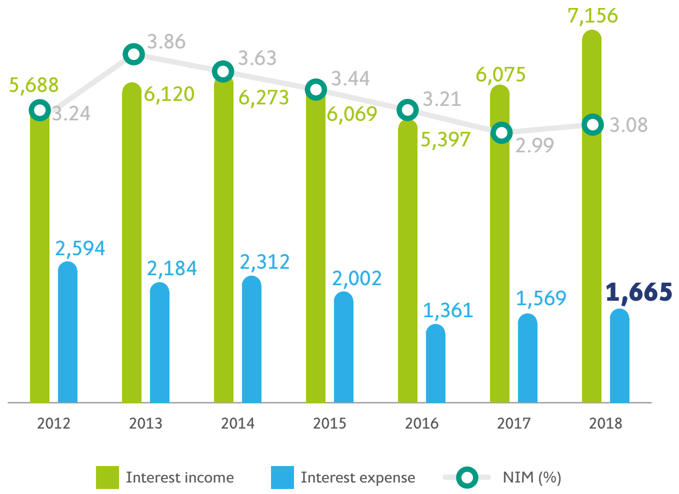
The Bank has therefore been investing the surplus funds in low interest earning assets notably gilt-edged securities, foreign bonds and short-term placements with foreign banks that resulted in lower income for the Bank. The average yield on bonds increased from 3.62% in 2017 to reach 3.90% during this financial year.

The Bank has been able to properly manage its liabilities through lower cost Current and Savings Account deposits (CASA) which accounted for 83.22 percent of total deposits at 31 December 2018 (2017: 81.41 percent).

Interest income over average earning assets decreased from 4.55 percent in 2017 to 4.44 percent in 2018. The impact was due to the fall in the Bank's PLR from 6.25 percent to 5.85 percent in November 2017 which affected interest income for the full financial year 2018 as compared to 2017. Interest expense increased by MUR 95.88 million from MUR 1.57 billion in 2017 to MUR 1.67 billion in 2018 mainly attributable to the growth in deposit book. The average cost of deposit fell from 1.20 percent in 2017 to 0.97 percent in 2018 on account of the low interest earning CASA deposits.

Net interest margin increased to 3.08 percent for the year ended 31 December 2018 compared to 2.99 percent for the year ended 31 December 2017 on account of the increase in the loan book in the second half of the financial year 2017.

Net Interest Margin



Non-Interest Income

Non-interest income witnessed a minimal increase from MUR 2.37 billion for the year ended 31 December 2017 to MUR 2.39 billion for the year ended 31 December 2018, or 1.14 percent.

The table below shows the main components of the Bank's non-interest income.

	Year Dec-18	Year Dec-17	Variance	
	MUR' million	MUR' million	MUR' million	%
Foreign exchange gain	679.74	431.48	248.26	57.54
Net fee and commission income	688.13	667.80	20.33	3.04
Card income including e-commerce income	350.52	315.07	35.45	11.25
Gain on sale of investment securities	673.69	950.79	(277.10)	(29.14)
Total	2,392.08	2,365.14	26.94	1.14

The two key drivers in the growth of the non-interest income are (i) Gain from foreign currency dealings and (ii) increase in card income including e-commerce income. However, this growth was substantially mitigated by the fall in the gain on sale of investment securities. A shortfall in income from disposal of securities as compared to FY 2017 was due to increasing yields in both USD and MUR currencies.

Net fee and commission income increased by only MUR 20.33 million in line with the restrained disbursements of loans in Segment B as the Bank had been focusing on the strengthening of its control in this Segment.

The ratio of non-interest income to average assets stood at 1.34 percent for 2018 against 1.57 percent for 2017. Non-interest income as a percentage of gross revenue was 30.34 percent for 2018 against 34.42 percent for 2017.

Non-Interest Expense

Non-interest expense amounted to MUR 2.73 billion for the year 2018 compared to MUR 2.85 billion for 2017, a decrease of 3.90 percent. This decrease is mainly explained by the continued effort of the Bank to reduce its operational costs.

The table below shows the components of operating expenses.

	Year Dec-18	Year Dec-17	Variance	
	MUR million	*MUR million*	*MUR million*	*% change*
Personnel costs	**1,336.29**	1,363.40	(27.10)	(1.99)
Property costs (including depreciation)	**199.04**	216.69	(17.66)	(8.15)
System costs (including depreciation and amortisation)	**971.47**	1,025.33	(53.85)	(5.25)
Other expenses	**227.93**	240.17	(12.25)	(5.10)
Total	**2,734.73**	2,845.59	(110.86)	(3.90)

Non-Interest Expense

Cost to income ratio stood at 34.69 percent in 2018 compared to 41.42 percent in 2017. The significant increase in profit arising from dealing in foreign currencies and the continuous effort to decrease the other operating costs explains the improvement.

Credit loss expense on financial assets

Credit loss expense amounted to MUR 3,010 million for the year ended 31 December 2018 against MUR 228.02 million for the year 2017. Credit impairment was mainly on account of three major accounts being impaired during this year amounting to MUR 2,397 million and an increase in the stage 1 and 2 provisioning following adoption of IFRS 9 which became effective as from 01 January 2018. It should be highlighted that for the financial year 2017, recoveries of amount previously written off of MUR 116.58 million explains the low credit expense for that financial year.

Discontinued operations

SBM IOPS's loss recorded for the 11 months ended 30 November 2018 amounted to MUR 221.37 million. Two major factors affected the Indian Operations during that period, namely the cyber-attack leading to a provisioning of MUR 92.25 million and an additional provisioning made in respect of one loan account for an amount of MUR 74.00 million.

Financial position

Figures disclosed for 2018, in the Statement of Financial Position relates to the Mauritius Operations only, while for 2016 and 2017, it is for both the Indian and Mauritius Operations.

However for the purpose of this financial review, we are providing the below financial position for 2016-2018 only for the Mauritius Operations.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
ASSETS			
Cash and cash equivalents	11,211,712	14,475,784	8,680,232
Mandatory balances with central banks	8,767,767	8,494,436	6,808,268
Loans to and placements with banks	11,764,358	8,895,860	4,466,195
Derivative financial instruments	762,855	1,299,099	160,984
Loans and advances to non-bank customers	94,296,051	95,135,823	68,301,026
Investment securities	50,934,309	37,394,434	34,127,015
Equity investments	3,411	370	370
Property and equipment	2,458,814	2,493,316	2,607,634
Intangible assets	2,962,920	3,422,881	3,509,063
Deferred tax assets	-	-	52,550
Other assets	823,653	766,600	331,679
Total assets	183,985,850	172,378,603	129,045,016
LIABILITIES			
Deposits from banks	796,117	717,562	2,708,573
Deposits from non-bank customers	147,530,840	134,385,431	103,114,780
Other borrowed funds	11,773,938	12,514,710	4,685,024
Derivative financial instruments	758,642	1,296,836	178,400
Current tax liabilities	474,487	105,869	358,908
Deferred tax liabilities	163,996	170,905	-
Other liabilities	5,020,635	3,917,582	2,052,598
Total liabilities	166,518,655	153,108,895	113,098,283
SHAREHOLDER'S EQUITY			
Stated capital	310,000	310,000	310,000
Capital contribution	11,044,011	9,063,106	8,063,106
Retained earnings	4,817,518	8,487,260	6,135,551
Other reserves	1,295,666	1,409,342	1,438,076
Total equity	17,467,195	19,269,707	15,946,733
Total equity and liabilities	183,985,850	172,378,603	129,045,016

Loans and advances

Gross advances for the Mauritius Operations increased by MUR 2.16 billion or 2.21 percent to reach MUR 99.80 billion as at 31 December 2018. The Bank considerably increased its loan portfolio in the second half of financial year 2017. In financial year 2018, the Bank focused more on tightening its control in Segment B and restrained from increasing its loan book even though the market in this segment is still on a high demand for credit facilities.

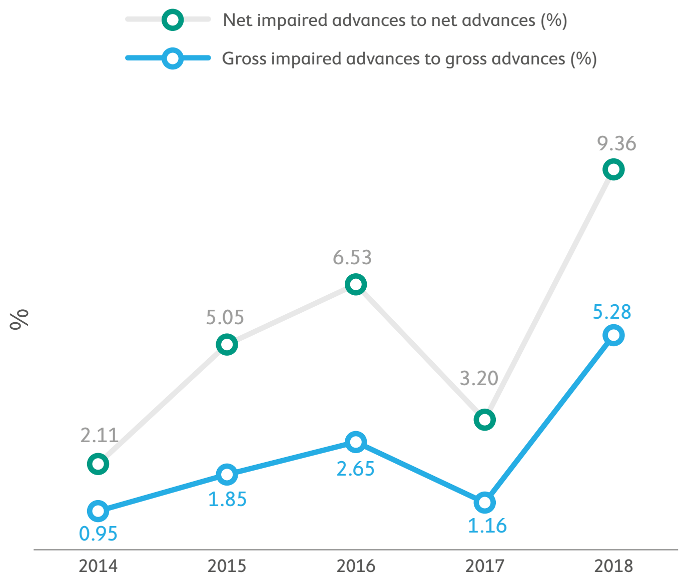
A breakdown of the credit portfolio by economic sectors and level of provisions held has been disclosed in Note 9 of the Financial Statements.

Credit quality

Impaired advances net of cash collaterals stood at MUR 9.02 billion as at 31 December 2018, compared to MUR 2.40 billion as at 31 December 2017. Specific allowance for credit impairment has increased from MUR 1.33 billion as at 31 December 2017 to MUR 4.22 billion as at 31 December 2018, representing provision coverage ratio of 46.81 percent, against 55.42 percent at 31 December 2017. The uncovered portion is adequately covered by collaterals, suitably discounted to reflect prevailing market conditions and expected time of recovery.

The ratio of gross impaired advances net of cash collaterals to gross advances stood at 9.36 percent at 31 December 2018 compared to 3.20 percent as at 31 December 2017. The increase is mainly on account of the three major Segment B accounts mentioned earlier. It should be noted that there was an amelioration in the gross impaired advances to gross advances in 2017 mainly on account of write offs of few impaired loans accompanied by an increase in loans disbursed during the second half of the year.

Net impairment ratio (taking in consideration all cash collaterals) for Mauritius Operations also increased from 1.13 percent in 2017 to 5.28 percent in 2018.



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 13.54 billion or 36.21 percent to reach MUR 50.93 billion as at 31 December 2018.

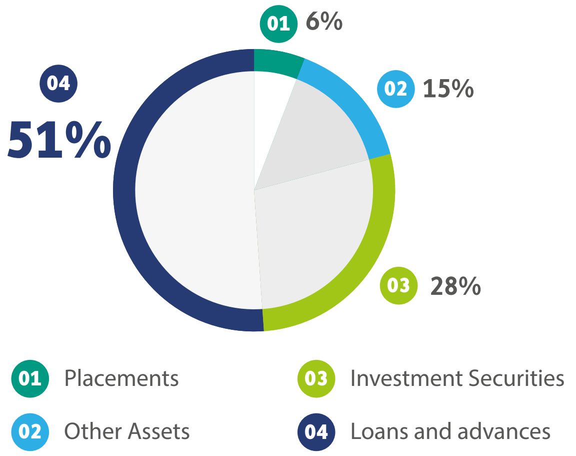
As at 31 December 2018, financial assets classified at fair value through other comprehensive income stood at MUR 27.42 billion (2017: MUR 8.95 billion). This represents mainly the investments in government and bank bonds as well as treasury bills and notes under the banking book.

The Bank continued to increase its investments in short term loans and placements with other banks. Gross loans and placements with banks amounted to MUR 11.76 billion as at 31 December 2018 compared to MUR 8.90 billion as at 31 December 2017.

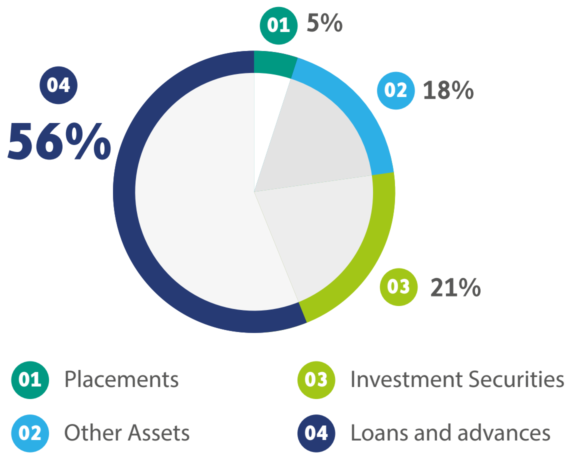
Other Non-Interest Earning Assets

Other non-interest earning assets decreased by MUR 437 million mainly explained by a decrease in balances due in clearing.

Assets Mix 2018



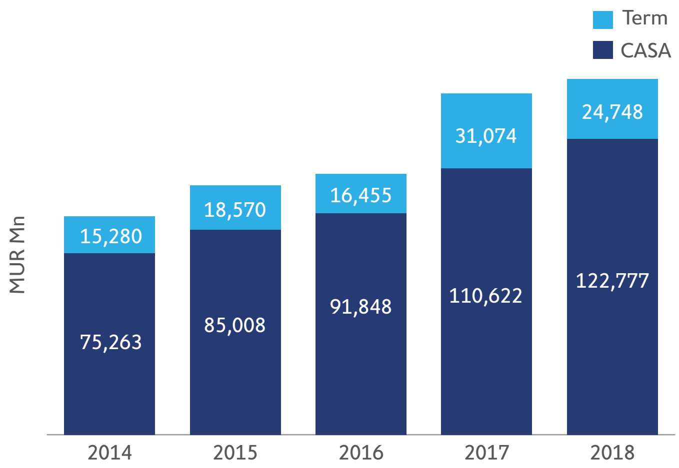
Assets Mix 2017



Deposits and Borrowings

Total deposits from non-bank customers experienced a further increase during this year by 9.78 percent from MUR 134.39 billion as at 31 December 2017 to reach MUR 147.53 billion as at 31 December 2018. The growth was driven by an increase in CASA by MUR 13.37 billion and mitigated by a decrease in term deposits by MUR 230.52 million. CASA deposits accounted for 83.22 percent of total deposits as at 31 December 2018 (2017: 81.41 percent).

Deposits



Other Borrowed Funds

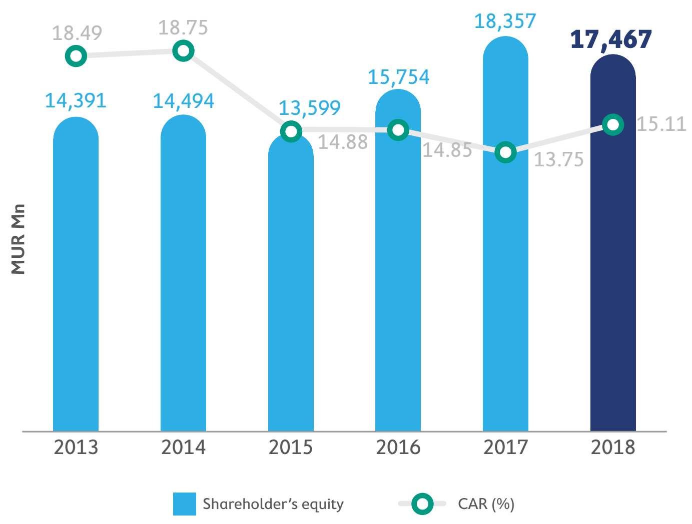
Other borrowed funds decreased by MUR 740.77 million to reach MUR 11.77 billion as at 31 December 2018. The bulk of the borrowings were in USD and Euro from foreign financial/development institutions at competitive pricing. These borrowings are mainly used to finance certain specific loans disbursed by the Bank. The Bank did not enter into any new agreement with these institutions during the financial year 2018. However, the Bank has been actively dealing with such financial institutions and is in negotiation to enter into some new agreements during the financial year 2019.

Shareholder's Fund

Shareholder's fund decreased by 9.35 percent from MUR 19.27 billion at 31 December 2017 to reach MUR 17.47 billion at 31 December 2018 mainly explained by a capital injection of MUR 1.98 billion made by the holding company during the financial year 2018 and a profit of MUR 554 million recorded during this year mitigated by cash dividend of MUR 1.1 billion and a distribution in specie leading to a derecognition of MUR 2.54 billion from reserves. Return on average shareholder's equity stood at 7.97 percent at 31 December 2018 compared to 18.76 percent at 31 December 2017. The profit of the Bank was exceptionally low this year due to impairment of three segment B loan accounts and the recycling of the negative foreign currency translation reserve following derecognition of the Indian Operations with the distribution in specie made in the last quarter of financial year 2018. The Bank maintained adequate capitalisation levels, including capital adequacy ratio of 15.11 percent (2017: 12.83 percent), with Common Equity Tier 1 capital (CET1) making 13.49 percent (2017: 11.24 percent).

Refer to the Capital Management section for more details.

Shareholder's Fund



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

CORPORATE GOVERNANCE REPORT

PHILIP AH-CHUEN
CHAIRMAN
CORPORATE GOVERNANCE AND CONDUCT REVIEW COMMITTEE

Dear Shareholders and Valued Partners,

I am delighted to present to you this report on Corporate Governance for financial year 2018.

As a public interest entity, the Board of Directors has made every effort to apply fully the standards found in 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.

The Board of SBM is a Board of skilled, knowledgeable and experienced professionals carefully selected to be 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.

I wish to thank the members of the Board, the Company Secretary and the staff for their work and commitment this year towards good governance.

On behalf of the Committee,

Philip Ah-Chuen
Chairman
Corporate Governance and Conduct Review Committee

This report is laid out in the same order of the eight principles of the Code for ease of reference:

Principle One – Governance Structure

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

The Board of Directors affirms that:

- the Bank is a public interest entity as defined by law.
- the Bank has applied all material aspects of the National Code of Corporate Governance for Mauritius

The Board treats its fiduciary responsibilities with the utmost diligence. Each director is appointed with the understanding of the amount of time 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 and see to it that the strategies are implemented by Management.

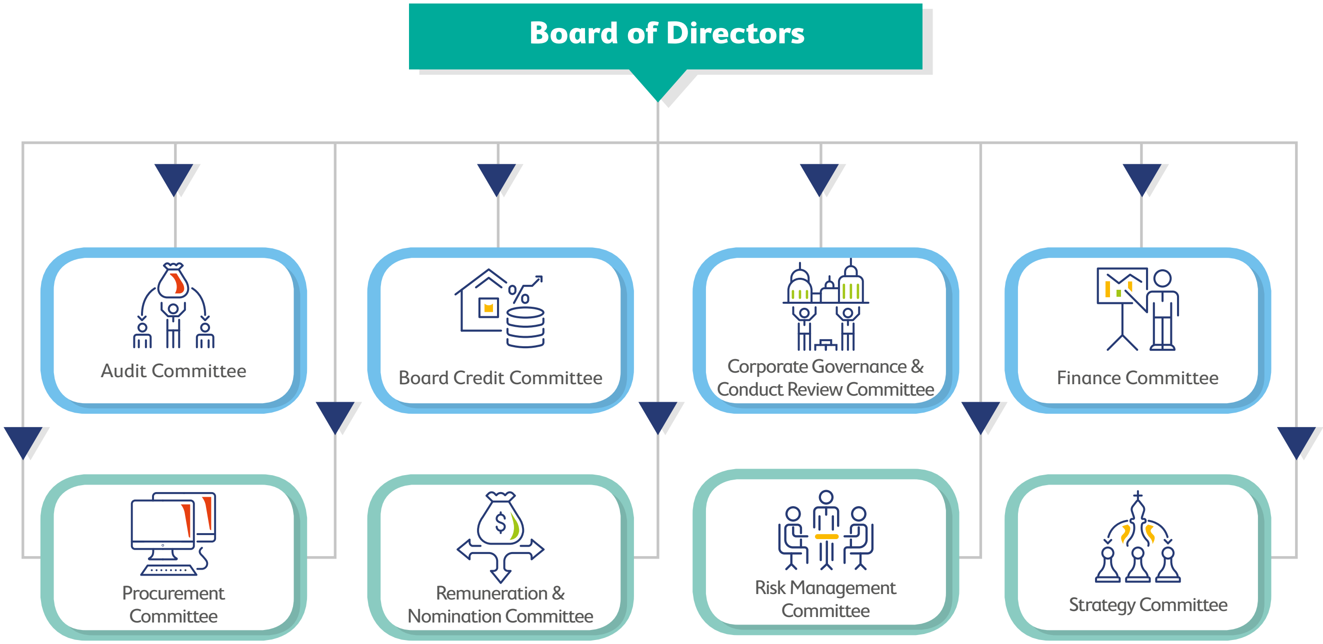
The following key governance documents are available on the company's website:

- Code of Ethics
- Board Charter
- Organisation chart

These documents have been approved by the Board and are reviewed on an annual / regular basis.

Board Structure

In order to discharge its duties and responsibilities effectively, the Board has set up the following sub-committees to provide specific expertise and guidance to the Board in matters affecting the Bank.



Key Roles & 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 descriptions for key governance positions as hereunder. Same is reviewed as and when required.

Directors of the Board

The key responsibilities of the Directors include:

- Bringing effective contribution in the Bank Strategy;
- Monitoring the performance of the Executive Management team thereby ensuring that they are meeting the set objectives;
- Ensuring that there is a robust system of internal control in place;
- Ensuring the accuracy of financial information which is being released to the market;
- Participating in the Board decision-making process and constructively challenge as required;
- Bringing deliberations and experience to the Board decision making process; and
- Being bound by the fiduciary duty and duty of skills and care.

Chairman of the Board

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

- The Chairman as leader of the Board must ensure that it functions effectively;
- Set agenda in conjunction with Company Secretary and ensure that there is sufficient time to discuss all agenda items;
- Ensure that all Directors receive sufficient information to be able to make well informed decision;
- Review composition of Board Committees and ensuring that each committee functions effectively;
- Call special meetings, where required;
- Ensure that there is proper succession planning in order to avoid disruption to the smooth functioning of the Board ;
- Encourage teamwork and a culture of openness so as to promote constructive challenge among the Members;
- Chair annual and special meetings of shareholders;
- Ensure that an annual Board evaluation exercise and evaluation of individual Directors performance is carried out;
- Maintain a close working relationship with the Chief Executive Officer and any other key senior staff members; and
- Ensure there is effective communication with shareholders.

Chief Executive

The Chief Executive (CE) is responsible for leading the development and execution of the Bank's strategic plans with a view to creating shareholder value. As per the Bank of Mauritius Guideline on Corporate Governance, the CE's leadership role entails being ultimately responsible for all day-to-day management decisions and for implementing the Company's strategic plans.

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

- to manage the day to day operations of the Bank;
- to implement strategy as proposed by the Board of Directors;
- to work in conjunction with the Chairman on strategic issues;
- to provide leadership and guidance to Senior Management Team;
- to act as an intermediary between the Board and Management;
- to ensure that there is a robust system of internal control in place; and
- to communicate effectively with shareholders, employees, Government authorities, other stakeholders and the public.

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 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 collaboration 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 Board practices are aligned to 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 key issues discussed at the Corporate Governance & Conduct Review Committee meeting are reported 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.

Head of Legal & Corporate Affairs

The main accountabilities of the Head of Legal & Corporate Affairs include:

> Providing the various Boards with guidance on its duties, responsibilities and powers;

> Implementing best practice governance structures within the SBM Group;

> Ensuring Group regulatory disclosure requirements are met in a timely manner;

> Providing legal advice to business units and ensuring legal risk is effectively managed throughout the Group; and

> Reporting and managing group litigation and external law firm panels.

Company Secretary

The main responsibilities of the Company Secretary include:

> Providing the Board with guidance as to its duties, responsibilities and powers;

> Statutory filings;

> Ensuring 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 are properly maintained;

> Certifying in the annual financial statements of the Bank that the Bank has filed with the Registrar all such returns of the Bank as are required under the Act;

> Ensuring 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, and

> Playing a leading role in governance of the Bank by supporting the Chairman and helping the Board and its committees to function effectively

Members of Executive Forum / Senior Management

Parvataneni Venkateswara (PV) Rao

Executive Director- Acting Chief Executive

Mr. PV Rao is the Acting Chief Executive of SBM Bank (Mauritius) Ltd. He has more than 33 years of banking experience in India and Mauritius. Mr PV Rao joined SBM 6 years ago. Formerly, he worked for Syndicate Bank and IndusInd Bank in India. He has 20 years of experience in Treasury and has also worked in rural Agriculture and Retail Banking.

He is an Executive Director and the Acting Chief Executive of SBM Bank (Mauritius) Ltd.

Veronique Lim Hoye Yee

Head of Credit Underwriting team

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.

Sanjaiye Rawoteea

Division Leader of Private Banking & Wealth Management

Sanjaiye is a seasoned banker with more than 20 years of banking experience including 10 years in Private Banking & Wealth Management. He has been working for both local and international banks. Sanjaiye join SBM group in 2009 where he held numerous positions including Senior Relationship Manager in Private Banking & Head of Sales & Marketing in SBM Non-Banking Financial Cluster. In 2017 he set up the Private Wealth Division within the bank which offers Wealth Management Solution to Ultra High Net worth clients.

Sanjaiye holds an MBA in Investment Finance & Corporate Finance from Management College of Southern Africa and B.com Finance and Business Administration from University of Natal, Durban, South Africa.

Norman Fon Sing

Head of Corporate & Institutional Banking – Segment A

Norman is currently the Head of Corporate & Institutional Banking – Segment A and is responsible for overseeing and growing the overall Corporate and Institutional Banking Assets and Liabilities in Segment A. He holds a Bachelor of Science Honours in Actuarial Science and is a Chartered Financial Analyst (CFA). He has a rich professional experience of 11+ years in the Banking Sector during which he has held various strategic positions, from heading Business Development functions to Domestic Corporates and Customer Relationship Management.

Members of Executive Forum / Senior Management

Amrit Gayan
Head of Operations Management

Mr. Amrit Gayan is currently the Head of Operations Management at SBM Bank (Mauritius) Ltd. Prior to heading the Operations Management Team at the Bank, he held other important positions namely Head of Strategic Innovation and Head of the Program Management Office for the Banking Transformation Program. He has over 17 years of experience working for high-profile companies in the areas of Customer Service, IT and Informatics, Consultancy, Business Development & Quality Management at Senior level and has worked in various countries in the region (Mauritius, Reunion and Seychelles) as well as in the Middle East (Dubai, Qatar and Saudi Arabia). Prior to joining SBM Group, he was Project Manager for Banque des Mascareignes - Groupe BPCE. Mr. Gayan has a Postgraduate Diploma in Computers and Information Networks from the University of Essex, UK and a BEng in Telecommunications, Electronic Engineering from the same University.

Mr. Amrit Gayan is also a Director on the Board of SBM 3S Ltd.

Vimal Tezoo
Acting Head of Financial Markets

Vimal has more than 10 years' experience in derivatives trading and structuring. He was formerly a Managing Director and the Global Head of Credit Derivatives Trading at Commerzbank. He has significant international exposure, having lived and worked in London, Dubai and Singapore for several years. He was a laureate on Science Side from Royal College Curepipe for the year 2001 and holds a BSc in Actuarial Science from City University (Cass Business School), London and is a CFA Charter holder.

Other Key Members of Management

Mr. Shailendre Bheeka
Acting Head of Risk Management

Mr. Jude Thierry Coret
Head of Marketing and Communications

Mrs. Ragini Gowrisunkur
Head of Custody

Mrs. Rita Devi Gujadhur
Head of Performance Management

Mr. Ravi Guness
Officer In Charge, Recovery, Work Out and Collection Units

Mr. Ratan Jankee
Head of SME

Mr. Balkrishna Jhurry
Head of Financial Institution

Mr. Dipesh Pockraj Jhowry
Head of Legal And Corporate Affairs

Ms Anita Deorani Khelawon
Team Leader Finance

Mr. Veeren Manikion
Head of E-Business

Mr. Nandrajen Mooneesawmy
Head of Credit Administration

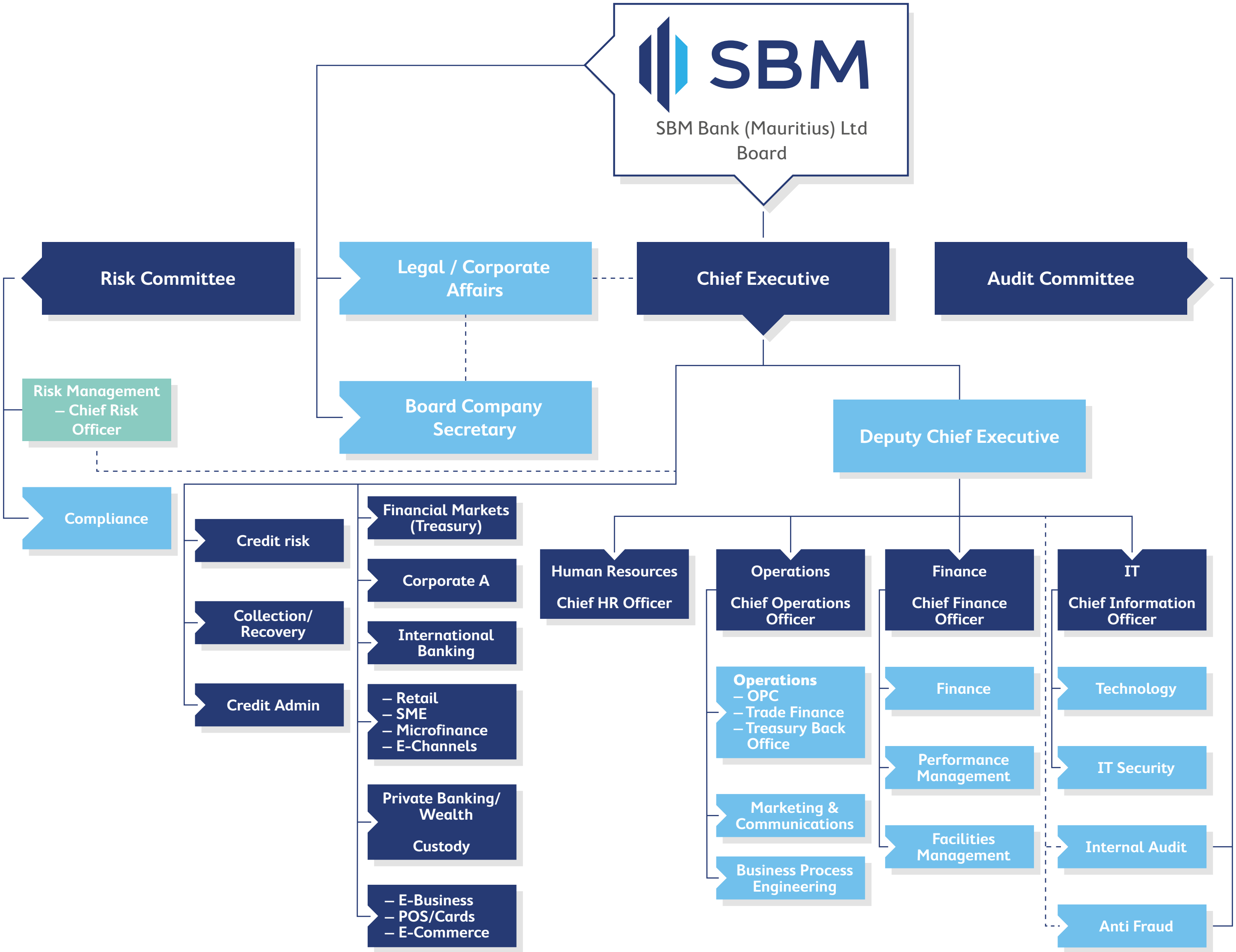
Mr. Vikash Peerun
Head of Anti-Fraud

Mr Percy Phillips
Acting Head of Retail Banking

Mr. Neelesh Sharma Sawoky
Head of Internal Audit

Organisation Chart

The organisation chart of the Bank is as follows:



Principle Two – The Structure of the Board and its Committees

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.

The Board comprises 10 members and has an appropriate mix of gender and experience and all directors wholly endorse the belief in diversity which is expressed 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 whole duration, with other officers of the Bank, advisors and other subject matter experts attending on invitation for specific board matters. All directors are resident in Mauritius and the use of alternate directors is discouraged.

The frequency of Board meetings is set in a way to ensure timely consideration of key issues while also allowing directors to attend and participate in person. 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. In case physical presence of directors is not possible, they are allowed to participate in the deliberations via audio conference.

The Chairman of the Board and the Chairmen of the Board committees are all carefully selected for their relevant knowledge and experience.

As per the Bank's Constitution, the number of Directors shall not be less than 7 and not more than 11. The Board comprise 10 members out of which 6 are independent and 2 are non-executive directors, which is in accordance with Bank of Mauritius corporate governance guidelines. The role of the Chairperson is distinct and separate from that of the Chief Executive and there is a clear division of responsibilities with the Chairperson leading the Board and the Chief Executive managing the Bank's business on a day-to-day basis. The Board ensures that external obligations of non-executive directors do not hinder the discharge of their duties and responsibilities.

The Board assesses its Charter on an annual basis.

Gender balance on the board

Mrs Veronique Lim Hoye Yee was appointed as a Director in February 2018 which demonstrates the Bank's commitment to bring gender balance on the Board.

Independence	
Independent non-executive	6
Executive	2
Non-executive	2
Total	**10**

The Profiles of the Board members are found on pages 12 to 15 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.

Ms Preshnee Ramchurn has been appointed by the Board as Company Secretary for SBM Bank (Mauritius) Ltd. Mrs Manuela Permal, who was also the Bank's Company Secretary, resigned in October 2018.

Profile of Company Secretary:

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 experience in corporate governance and company secretarial practice and prior experience in risk management and compliance from her time in one of the Big 4 accounting firms.

Attendance at Board Meetings and Committee Meetings

All directors are committed to attending Board meetings and Committee meetings on which they serve. Below is a record of all Board and Committee meetings held in 2018:

	SBM Bank (Mauritius) Ltd	Board Meetings	Audit Committee	Board Credit Committee	Corporate Governance & Conduct Review Committee	Finance Committee	Procurement Committee	Remuneration & Nomination Committee	Risk Management Committee	Strategy Committee
	No. of Meetings held during year ended 31 Dec 2018	21	12	51	4	9	6	14	5	4
	Directors									
Non-Executive	Nayen Koomar BALLAH (Chairman)	21	-	-	3	-	-	13	2	4
	Visvanaden SOONDRAM	1	-	-	-	-	-	-	-	-
Independent	Philip AH-CHUEN	15	12	-	4	6	-	9	-	2
	Mahmadally BURKUTOOLA	19	-	51	3	9	6	13	3	4
	Rajakrishna CHELLAPERMAL	20	-	51	4	8	6	-	5	4
	Rishikesh HURDOYAL	20	-	51	4	9	6	-	5	-
	Anoopum Ishwar GAYA	19	12	-	-	7	6	14	4	-
	Abdool Karrim NAMDARKHAN	6	-	-	-	-	-	-	-	-
	Michel MOOTHOOSAMY	18	12	-	-	9	-	13	-	-
Executive	Raj DUSSOYE	12	-	-	3	5	4	9	4	3
	Veronique LIM HOYE YEE	16	-	-	-	-	-	-	-	3
	Venkateswara Rao PARVATANENI (PV RAO)	6	-	-	-	-	-	-	-	-
	In attendance									
	Nayen Koomar BALLAH	-	-	-	-	-	-	-	-	-
	Mahmadally BURKUTOOLA	-	1	-	-	-	-	-	-	-
	Rajakrishna CHELLAPERMAL	-	2	-	-	-	-	6	-	-
	Raj DUSSOYE	-	8	31	-	-	-	-	-	-
	Anoopum Ishwar GAYA	-	-	-	-	-	-	-	-	3
	Rishikesh HURDOYAL	-	4	-	-	-	-	4	-	1
	Michel MOOTHOOSAMY	-	-	-	-	-	-	-	-	3
	Veronique LIM HOYE YEE	-	2	40	4	8	1	4	3	1
	Venkateswara Rao PARVATANENI (PV RAO)	3	2	8	1	2	1	4	1	1
	Abdool Karrim NAMDARKHAN	-	-	-	-	1	-	1	-	1

Note:
1. Mr Raj Dussoye ceased to be a Member of the Board/Committees on 16.08.2018
2. Mrs Veronique Lim Hoye Yee was appointed as Board Member on 22.02.2018
3. Mr Venkateswara Rao Parvataneni was appointed as Board Member on 12.10.2018.
4. Mr Abdool Karrim Namdarkhan was appointed as Board Member on 12.10.2018
5. Mr Visvanaden Soondram was appointed as Board Member on 19.11.2018
6. Mr Mahmadally Burkutoola ceased to be Member of Board/Committees on 28.02.2019.

During the year under review, Board meetings were held at least on a quarterly basis. In addition to regular Board and Committee meetings, the Board also took time to discuss the strategy of the Bank on areas including:

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 efficiency. 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 and 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 / regular basis.

The Board Sub-Committees of SBM Bank (Mauritius) Ltd comprises the following Members:

AUDIT COMMITTEE	BOARD CREDIT COMMITTEE	CORPORATE GOVERNANCE & CONDUCT REVIEW COMMITTEE	FINANCE COMMITTEE
Mr Anoopum GAYA *Chairman*	Mr Rajakrishna CHELLAPERMAL *Chairman*	Mr Philip AH-CHUEN *Chairman*	Mr Michel MOOTHOOSAMY *Chairman*
Mr Philip AH-CHUEN	Mr Rishikesh HURDOYAL	Mr Nayen Koomar BALLAH	
Mr Michel MOOTHOOSAMY	Mr Abdool Karrim NAMDARKHAN	Mr Rajakrishna CHELLAPERMAL	Mr Philip AH-CHUEN
		Mr Rishikesh HURDOYAL	Mr Rajakrishna CHELLAPERMAL
		Mr Visvanaden SOONDRAM	Mr Anoopum GAYA
		Mr PV RAO	Mr Rishikesh HURDOYAL
			Mr PV RAO

PROCUREMENT COMMITTEE	REMUNERATION & NOMINATION COMMITTEE	RISK MANAGEMENT COMMITTEE	STRATEGY COMMITTEE
Mr Rishikesh HURDOYAL *Chairman*	Mr Nayen Koomar BALLAH *Chairman*	Mr Abdool Karrim NAMDARKHAN *Chairman*	Mr Nayen Koomar BALLAH *Chairman*
Mr Anoopum GAYA	Mr Philip AH-CHUEN	Mr Nayen Koomar BALLAH	Mr Philip AH-CHUEN
Mr Rajakrishna CHELLAPERMAL	Mr Michel MOOTHOOSAMY	Mr Anoopum GAYA	Mr Rajakrishna CHELLAPERMAL
Mr Abdool Karrim NAMDARKHAN	Mr Anoopum GAYA	Mr Rishikesh HURDOYAL	Mr Michel MOOTHOOSAMY
Mr PV RAO	Mr PV RAO	Mr Visvanaden SOONDRAM	Mr Visvanaden SOONDRAM
		Mr PV RAO	Mrs Veronique LIM HOYE YEE
			Mr PV RAO

Audit Committee

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

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 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 Anti-Fraud division along with their respective annual plan of action; and
> Review the systems of internal controls to ascertain its adequacy and effectiveness.

Board Credit Committee

Members	Category
Mr Rajakrishna CHELLAPERMAL (Chairman)*	Independent Non-Executive Director
Mr Rishikesh HURDOYAL	Independent Non-Executive Director
Mr Abdool Karrim NAMDARKHAN	Independent Non-Executive Director

** Mr Mahmadally Burkutoola chaired the Board Credit Committee till 27.02.2019.*

Role and Responsibilities

The Board Credit Committee consists of 3 members. All 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/rescheduling 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.

Corporate Governance and Conduct Review Committee

Members	Category
Mr Philip AH-CHUEN (Chairman)	Independent Non-Executive Director
Mr Nayen Koomar BALLAH	Non-Executive Director
Mr Rajakrishna CHELLAPERMAL	Independent Non-Executive Director
Mr Rishikesh HURDOYAL	Independent Non-Executive Director
Mr PV RAO	Executive Director
Mr Visvanaden SOONDRAM	Non-Executive Director

Role and Responsibilities

The Corporate Governance and Conduct Review Committee consists of 6 members with at least three independent 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 practice;
> 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;
> Provide guidance and direction on the application of the Code of Ethics;
> Ensure accurate disclosure of directors remunerations and ensure that related party transactions are carried out at arm's length; and
> Review credit exposures to related parties.

Finance Committee

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

Role and Responsibilities

The Finance Committee consists of 6 members out of which 5 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 on monthly basis the management accounts and monitor performance against the financial and resource objectives of the operational plan;
> 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.

Procurement Committee

Members	Category
Mr Rishikesh HURDOYAL(Chairman)	Independent Non-Executive Director
Mr Rajakrishna CHELLAPERMAL	Independent Non-Executive Director
Mr Anoopum Ishwar GAYA	Independent Non-Executive Director
Mr Abdool Karrim NAMDARKHAN	Independent Non-Executive Director
Mr PV RAO	Executive Director

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 management Executive Forum 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.

Remuneration & Nomination Committee

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

Role and Responsibilities

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

> Review on annual periodic basis the HR related policies of the Bank;
> Review and recommend performance based remuneration for staff members including senior management, 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.

Risk Management Committee

Members	Category
Mr Abdool KARRIM NAMDARKHAN (Chairman)	Independent Non-Executive Director
Mr Nayen Koomar BALLAH	Non-Executive Director
Mr Anoopum Ishwar GAYA	Independent Non-Executive Director
Mr Rishikesh HURDOYAL	Independent Non-Executive Director
Mr PV RAO	Executive Director
Mr Visvanaden SOONDRAM	Non-Executive Director

Role and Responsibilities

The Risk Management Committee consists of 6 members with at least 3 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 litigation involving the Bank.

Strategy Committee

Members	Category
Mr Nayen Koomar BALLAH (Chairman)	Non-Executive Director
Mr Philip AH-CHUEN	Independent Non-Executive Director
Mr Rajakrishna CHELLAPERMAL	Independent Non-Executive Director
Mr Michel Arnaud MOOTHOOSAMY	Independent Non-Executive Director
Mr Visvanaden SOONDRAM	Non-Executive Director
Mrs Veronique LIM HOYE YEE	Executive Director
Mr PV RAO	Executive Director

Role and Responsibilities

The Strategy Committee consists of 7 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; and
> Consider and review the type of organisational structures and functions necessary for implementing strategic plans.

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

Principle Three – Directors Appointment Procedures

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.

Appointment

The Board has established a Remuneration & Nomination Committee which is responsible, amongst others, for reviewing the structure, size and composition of the Board along with identifying eligible candidates for directorship on the Board of the Bank. When considering an appointment to the board, the Remuneration & Nomination Committee shall satisfy itself that the candidate is able to commit sufficient time and effort to fulfil its responsibilities effectively.

As part of its mandate, the Board, besides the candidate's experience, availability and satisfying the fit and proper person criteria set by the Bank's regulators, also take into account the following factors when appointing directors:

> Skills, knowledge and expertise required on the Board;
> Directorship and commitment to the Bank to ensure that the directors will have sufficient time to discharge their responsibilities / obligation.
> Specific roles required on the Board such as chairing a committee;
> Balance required on the Board such as gender and age;
> Independence where required;
> Reputation of the candidate; and
> Conflicts of interests.

A transparent procedure is in place for appointment of directors. The Remuneration & Nomination Committee will assess and make recommendations to the Board. Director appointments are then considered as hereunder depending on the timing of the appointment:

i. Either the Board will agree on each appointment and will put forward the prospective director's appointment to the shareholders at the Annual Meeting by way of ordinary resolution for approval.
ii. Or the Board may appoint a director out of the normal cycle in accordance with the Bank's Constitution provided the total number of directors does not, at any time, exceed eleven. Any Director so appointed shall hold office only until the next following Annual Meeting, and shall be eligible for re-election.

Once a prospective non-executive director is appointed, he/she is provided with 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.

As per the constitution of SBM Bank (Mauritius) Ltd, each non-executive director is elected/re-elected by a separate resolution at the Annual Meeting of Shareholders. The executive directors, including the Chief Executive hold their directorship as long as they hold their office as Executives of the Bank.

Succession planning

The Board considers succession planning very carefully. The Remuneration & Nomination Committee proactively reviews the succession requirements for the Board and carries out the due diligence process to determine the suitability of every person who is considered for appointment or re-appointment as a Director of the Board based on his educational qualification, experience and track record. The proposed candidate is evaluated by Remuneration & Nomination Committee to determine the eligibility and fit and proper criteria and thereafter is recommended to the Board for its consideration and approval.

At time of resignation or retirement of directors, the Board ensures that a candidate with sufficient skills and experience is identified in a timely manner to ensure that the board's and/or board sub-committee's competence and balance are either maintained or enhanced, taking into account the Bank's current and future needs.

Succession Plan for the senior management team is based on the input received from the Head of Human Resource and the CE. The Remuneration & Nomination Committee periodically reviews any vacancy or probable vacancy in the position of senior management team which may typically arise on account of retirement or resignation. The Board strives to fill such vacancy at the earliest and as a temporary measure, same could be done from within internal modes through elevation or lateral movement. In case no suitable candidate is available to fill the position, the vacant positions are advertised both internally and externally. The Remuneration & Nomination Committee evaluates the suitability of any such person for management positions based on factors such as experience, age and leadership intelligence and recommends his appointment to the Board for approval.

The Board may also have recourse to the services of consultants where it is felt specific skills or experience is required. The prevailing HR standards for promotions and/or transfers are designed to ensure that the existing or proposed senior managerial personnel benefit from wide cross-function exposure thereby facilitating career progression and succession planning.

Induction

Upon being appointed, the Board ensures that all new directors attend a tailored induction programme to enable them to discharge their duties effectively and to be acquainted with the vision, business, strategy direction, financial matters, value, code of ethics and conduct, as well as best Corporate Governance practices and other key policies and practices of the Bank. The SBM Academy, in collaboration with the Company Secretary, maintains a training and development log for directors which can be built upon for further growth and training opportunities. The Board has delegated the responsibility to review the professional development and ongoing education of directors to the CE.

The Board ensures that proper guidance is provided to all directors in terms of their roles and responsibilities. All directors have access to the Company Secretary and to the Senior Management to discuss issues or to obtain information on specific areas or items to be considered at the Board meeting and/or Committees or any other areas they consider appropriate.

Principle Four – Directors Duties, Remuneration and Performance

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.

Legal Duties

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

Code of Ethics

A Code of Ethics and Business Conduct, which has been drafted under the guidance of the Board and in consultation with staff members within different departments, is in place. Both directors and staff are required to execute a copy of this Code. They are made aware of this Code and the consequences of non-compliance during induction and/or through periodic training sessions.

The Code of Ethics and Business Conduct, approved by the Board, is available on the SBM Group's website.

Continuous Development Programme

The Board recognizes the importance of and are committed to high standards of corporate governance.

Whilst the induction process is designed to assist new Board Members, a comprehensive training plan has also been devised in collaboration with renowned International Institutes and the SBM Academy to ensure that Board members fulfil their key roles regarding strategic development. The plan has been defined with relevant topics for developing and updating the directors' knowledge and capabilities with focus on Strategy, Risk, Credit and Governance.

In the process of continuous learning and professional development, the Company Secretary / Corporate Affairs Team attended regular trainings to provide guidance to Board Directors on Governance, Compliance and Fiduciary responsibilities.

During the financial year 2018, directors attended various training workshops. The following topics were covered during the workshops:

> Effective Board Committees
> The changing standards and benchmarks
> Challenges of the following committees (Audit Committee, Risk Committee, Nomination & Remuneration and Governance Committee)
> Compliance, Fraud & Whistleblowing
> Liability, Delegations and General powers of committees and their members
> The relationship with other committees across the organization
> Evaluation & succession Techniques & Issues

- Records & reporting by committees
- Derivatives & Risk Associated with derivatives
- Project Risk: Operational & Financial Risks
- Primary Risks as well as mechanisms for structuring risks including hedging mechanisms and hedging instruments
- Sensitivity Analysis and Scenario Analysis
- Cross-border issues in Project financing
- Collateral / guarantee and enforceability
- Implications of Basel Accord
- Insight into the latest tools and techniques to measure, manage and monitor credit risk
- Classification, measurement and disclosure of financial instruments in terms of IFRS 9 and IFRS 7

Board Evaluation

The Directors recognise the need to evaluate the performance and effectiveness of the Board, its committees, individual directors and its policies and procedures. A self-evaluation questionnaire has been designed for the Bank to evaluate the performance of the Board, Board Committees and individual directors for financial year 2018. The findings of all evaluation exercises are presented at the Board and relevant Board Sub-Committee meetings and any recommendations / areas of improvement arising therefrom are duly considered and implemented.

It is worth mentioning that, in line with the requirements of the Code of Corporate Governance of Mauritius, an independent evaluator, namely Reverend K. Andersen, was appointed in early 2018 to carry out the Board Evaluation for financial year 2017.The main findings and recommendations were as hereunder:

- 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 independent evaluation process was 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.

The findings and recommendations of the independent evaluator are being addressed and implemented.

Conflicts of Interests and Related Party Transactions

SBM, as a Public Interest Entity, encourages all Directors to declare their interests and to report to the Chairman and the Company Secretary any related party transactions. A register of directors' interests is kept at the Registered Office by the Company Secretary, which is updated on a regular basis and available to the shareholder of the Bank upon written request to the Company Secretary.

The Bank ensures that disclosure of actual and potential conflicts are made in accordance with the Conflict of Interests policy and Related Party Transactions policy thereby avoiding conflicts of interest where necessary. The Bank has in place a Conflict of Interests policy and Related Party Transactions policy which has been drafted in line with the guidelines of Bank of Mauritius and approved by the Board. Due to sensitive information therein, same has not been published on the SBM Group's website.

Remuneration

The Bank ensures that both directors and senior management team are rewarded based on their performance and effort towards contributing to the development of the Bank's strategy.

The Bank's remuneration philosophy concerning directors is as hereunder:

Board of Directors

1) Non-Executive Directors

The Non-Executive Directors of the Board receive a monthly fixed base fee as consideration for their Board duties and a fixed fee in fulfilment of their duties at Board Sub-Committees established by the Board of Directors, which is approved by shareholders at the Bank's Annual Meeting. The aim of the Board of Directors is to ensure that the remuneration of each director is in line with the market practices and that the remuneration reflects the demands, competencies and efforts in light of the scope of their work and the attendance of Board meetings.

No share option or bonus is granted to non-executive directors.

The following table highlights the remuneration and benefits received by non-executive directors during the financial year 2018 in discharging their duties towards the Bank:

Directors' Emoluments - Non-Executive Directors	Total (MUR)
Mr Nayen Koomar Ballah	1,680,000.00
Mr Philip Ah Chuen	1,180,000.00
Mr Rajakrishna Chellapermal	1,520,000.00
Mr Mahmadally Burkutoola	1,430,000.00
Mr Rishikesh Hurdoyal	1,295,000.00
Mr Ishwar Anoopum Gaya	1,415,000.00
Mr Michel Arnaud Moothoosamy	955,000.00
Mr Abdool Karrim Namdarkhan	60,000.00
Mr Visvanaden Soondram	40,000.00
	9,575,000.00

The Bank's remuneration philosophy for Executive/Senior Management is as hereunder:

2) Executive Directors

As per the Bank's policy, no directorship fees are paid to the executive directors.

A fixed salary package is paid to Members of Executive Management. The aim to have fixed salary is to attract and retain the best qualified staff to the Executive Management team. The elements of the fixed remuneration are determined based on market standards and the Bank's specific needs. In addition to the fixed salary, the remuneration for Executive Management consists of a variable element in the form of an annual bonus, determined by the performance of both the Bank and the individual. Also, the Bank endeavours to offer other standard benefits, such as an allowance and free limited mobile telephone use.

On an annual basis, the Board of Directors and the Remuneration & Nomination Committee evaluates the fixed salary and performance bonus of the senior management team based on the results from the previous period and with due consideration to market trends.

The remuneration and benefits received by the executive directors during the financial year 2018 were as follows:

Executive Directors	Total (MUR)
Mr. Raj Dussoye[1]	11,953,176.51
Mr. Venkateswara Rao Parvataneni[2]	9,007,914.98
Mrs Veronique Lim Hoye	7,785,287.00
Total	**28,746,378.49**

[1] Resigned as director on 16 August 2018

[2] Appointed as director on 12 October 2018

Information Technology and Information IT Security

Information security plays a crucial role in achieving the organization's strategic goals and objectives in today's digital world. The board of directors has ensured that the bank has a robust information security framework comprising of adequate proficient resources and sophisticated infrastructure so as to timely manage the risk and to ensure business continuity. A risk register is also maintained by the risk management team to continuously identify, assess, monitor, mitigate and report a risk. The bank continuously maintains its security systems updated to remain at bay of malicious attacks. Moreover, the bank's Information Security policy and Information Technology risk policy are reviewed annually by the board. The board ensures that the policies are updated to take account of new regulatory guidelines and best practices and assures that the bank users are always compliant with the policies.

The SBM Group has established an IT Committee, comprised of directors of SBM Holdings Ltd and of the Bank with primary responsibilities to identify IT project priorities, provide strategic planning, direction and to approve major IT projects of the operating entities within the group. The IT Committee regularly monitors and evaluates the Bank's and Group's significant expenditures on information technology, thereby ensuring that IT strategic plans are delivered within agreed budget and timeframe.

The evolving role of technology and automation in the banking/financial services sector has become increasingly complex as advances in technology are strategically used as leverage to offer innovative products, deliver fast and efficient service at affordable prices, and venture into new markets. Consequently, the Bank moved its Website to a secure Cloud and implemented RPA (Robotic Process Automation) in the Trade Finance function. As these technologies become an integral part of the business and operations, their usage and dependence, if not properly managed, may heighten associated risks.

With a vision to provide the appropriate governance and risk management principles to the Bank, IT Security policies are regularly reviewed and enhanced with respect to applicable international standards (COBIT, NIST, ISO 27000 series, PCI DSS). Processes to enforce these policies are also reviewed and implemented in Mauritius and Madagascar on an ongoing basis. One of the main focus areas was on access rights control and regular review to ensure staff and vendors have the minimum required access to data, commensurate with their job roles and data sensitivity. Access to information is governed by the data classification policy and several IT standards and guidelines – Logical Access Standard, Acceptable Usage Guidelines, Media Handling Standard, Remote Access & Dial-In Standard and others. These policies, standards and guidelines are enforced through processes and procedures.

To enhance information governance, processes have also been reviewed to allow customers to have access to their personal data for rectification and to provide or remove their consent to the use of their contact details for marketing purposes, as required by the Data Protection Act 2017 (DPA). To have a greater reach to SBM customers and foreigners, especially Europeans, our Website has been enhanced with additional content to inform visitors about their rights to have access to, and rectify, their data, among other things, required by DPA and GDPR (General Data Protection Regulation).

As a second line of defense, our IT Security function ensures independent testing of SBM's IT systems to prevent hacking and resulting operational/reputational losses as well as publishing security awareness material to all staff of the Bank to guard against phishing, password sharing and social engineering.

Finally, our third line of defense is ensured by Internal IT Auditors reporting independently to the Audit Committee. Assurance, on whether IT processes are as per norms and being followed consistently, is provided by the Internal IT audit function.

IT innovation requires financial investment. IT expenditures are governed by budget planning and monitoring as well as well-defined procurement processes involving several thresholds of approval authorities, including a procurement committee, depending on amount. Additionally, the IT Team achieved cost saving through both traditional approaches, such as zero-based budgeting and outsourcing as well as leveraging on innovative technologies.

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

Principle Five – Risk Governance and Internal Control

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.

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 Board Sub-Committees, manages the business through a system of internal controls functioning throughout the Bank. This promotes an awareness of risk and good governance in every area of the business and instils a culture of compliance. In short, Executive Management is responsible for translating the overall guidance from the Board into operational aspects and then monitoring and reporting 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 77-117.

Risk management

The risk management team provides 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 as defined by the Bank risk policy 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.

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 premised 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 are 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, which is reviewed by the Audit Committee, covers all key areas of activities, including IT. Through regular audits, the internal control system is evaluated with respect to the risk environment. Any deviation in policies and non-performance of internal control are duly reported and discussed at large at both Management and Audit Committee levels. Corrective actions are promptly taken & regular follow ups as well as reporting performed by Internal Audit until complete resolution.

Whistle-blowing

The Bank has embedded a whistle-blowing policy which sets out the procedures for whistle blowing. The Bank has in place a whistle blowing policy approved by the Board. Due to sensitive information therein, same has not been published on the SBM Group's website.

Principle Six – Reporting with Integrity

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.

Financial

The directors are responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards, International Accounting Standards and Companies Act 2001. The Directors must ensure that the provisions of the Companies Act 2001, the Banking Act 2004 and Financial Reporting Act 2004 are complied with. They must also ensure that the financial statements are free from errors and material misstatements.

The financial review is set out on pages 19 to 27 of the Annual Report. The Annual Report is published in full on the Bank's website.

Human Resources Report

We seek to be an Employer of Choice and to support the creation of an organization culture which promotes work ethics, equity, commitment, responsibility, personal growth and passion for excellence and high performance.

A robust HR strategy supported by a robust HR function, is therefore, critical to deliver this goal. A well-structured HR function with the solid foundation of mutual trust, teamwork, collaboration, professionalism, responsibility for self and others coupled with passion to serve. A review of the existing HR model has started, the new structure will provide for expertise in core areas such as organizational development and change management, talent management, strategic remuneration management while also ensuring that we have sound basics in place when it comes to Industrial Relations, HR policies, processes and procedures and HR administration. We will source external expertise to complement our existing pool of dedicated HR team for whom we will explore opportunities for development and growth through proper training and coaching.

Our Talent Pool

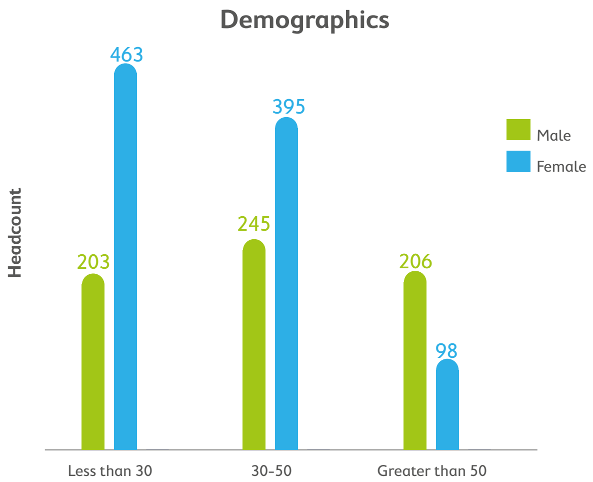
In an attempt to position SBM as an "Employer of Choice", the Bank provides a balanced approach to talent acquisition. It relies both on leveraging the skills and experience already available within the organization, and bringing in the necessary capabilities that will deliver the long term objectives.

Our aim going forward is to create a Leadership pipeline from both our existing talent pool and new talent acquisitions to fill critical gaps and to ensure a robust succession plan for key positions in the organisation.

Diversity

As the Bank continues to expand, we on boarded 202 new recruits in 2018, bringing our total manpower, as at December 2018, to 1610.

Age distribution of our talent pool demonstrates that we have a balance between young and more experienced employees. The gender distribution shows that the highly male skewed distribution in the past has shifted with a skew towards the female gender. The female to male ratio stands at 59:41.



HR Initiatives

Performance Management

A revised performance management framework with the balanced scorecard as basis has been rolled out. The aim is to support delivery of financial performance by leveraging processes and achieving improved Customer Experience and Learning &Growth. We are still at the initial stages of implementation. Continuous coaching and support is required to iron out issues so that we reach a maturity in implementation in the course of the year.

Our approach to performance management is to ensure that employees have a common understanding of the Group's strategy and how it links to departmental strategy and individual goals.

Job Evaluation and Revised Grading Structure

Our current grading system does not reflect the present reality. The Job Evaluation exercise is therefore long overdue. This year, we remain dedicated to get it back on track. A proper grading structure aligned to an appropriate remuneration structure will go a long way in ensuring equity in remuneration management, clarity in career planning and development, clear promotion policy and retention of talent.

Staff Engagement

During the course of the year, one of the main initiatives of the Human Resources Division was to carry out of the Staff Engagement Survey across the Group. Same was supported by Korn Ferry. The Staff Engagement Survey yielded a response rate of 86% and bears an engagement index of 52% for the Bank.

The outcome of the Staff Engagement Survey has allowed the Management Team to know where they stand in terms of the engagement level of their respective departments and, most importantly, to address areas needing improvement. We are at the stage of putting up relevant action plans for the coming year to address concerns in an effort to improve the overall engagement level across the group.

Creating a safe working environment

In line with statutory requirements, SBM recognises that, as an employer, it has a moral and legal duty to ensure the safety and health of all its employees and any person legitimately conducting business within its premises. We are fully committed to comply with all the provisions of the Occupational Safety and Health Act 2005 (OSHA 05), Approved Codes of Practice and all other relevant statutory requirements. Guidelines, risk management plans and procedures have been developed for high risk areas and these are closely monitored. The Health and Safety Committee, comprising both management representatives and employee representatives, participates in the decision-making process. Appropriate communication, consultation and training are conducted to create awareness among all employees.

Health & Safety Report

The safety of our employees is one of our main priorities. We need to respond quickly and effectively to any cause of emergency. Thus, we have a plan to improve risk identification, warning dissemination and evacuation so as to save lives and prevent panic situations.

To support our aim of having an accident-free working environment, we:

> Perform regular drills to optimise evacuation response time of staff, visitors and customers;
> Perform regular inspection across all 40 branches as well as the Archives and Store rooms;
> Provide regular training to First aiders & Fire wardens.

Employee Wellness

The group is committed to promote good health and wellness of our employees. Wellness initiatives provided within the organization include:

> Sports, Leisure and wellness facilities at SBM Park for staff and their family members, supported by qualified coaches; yoga sessions; Staff Children Christmas Party; Staff End of Year Party; Staff Health Day and In-house doctor.

We are also looking at improving our canteen services for better service to our employees.

During the course of 2018, the following activities were organized:

June 2018:	Seasonal Flu Immunization Programme
July 2018:	Vaccination against Measles
August 2018:	Housekeeping Appreciation Week
September 2018:	Wellness Week
October 2018:	Pink Friday
November 2018:	Awareness Talk on Cancer

SBM Staff Children have been benefited from the staff children education fund and the following was disbursed as at December 2018:

Academic Year 2017/2018		Disbursement Estimate (MUR)
No. of Undergraduates	16	609,000
No. of Postgraduates	2	450,000
Total	**18**	**1,059,000**

Training and Development

SBM Academy has been launched in 2018 to provide relevant and customized learning programs in an evolving work environment. By promoting continuous learning and with our vision to grow regionally, it is crucial that we keep our employees abreast of the latest trends and techniques to maintain and enhance our competitive edge in the market. While developing new initiatives, current training programs are being enhanced to meet current and future needs.

Onboarding Programs Reviewed

Onboarding workshops ensure that new employees are trained and equipped with necessary know-how – both functional and behavioural skills required. The reviewed program provides an opportunity for new recruits to learn directly from management and experienced colleagues. Specific and tailored Onboarding Programs have also been designed for different levels across the organization

Anti-Money Laundering Training

All employees are trained to recognize and report suspicious activity. The training programs are regularly updated to address new regulations and policy development.

Leadership Development Program

SBM Bank (Mauritius) Ltd engages in leadership training. The training modules are designed to inspire an agile and innovative mindset.

Tracking Training Effectiveness

To ensure that the tailored training programs are aligned with the strategic initiative of the business units, evaluation survey, knowledge sharing by participants and post training implementation is closely followed by SBM Academy.

Training Needs Analysis

Training plans are developed on analysis of training needs identified in consultation with heads of divisions. Thus more specific training programs are available for each business line and for specific functions and ensure that the training programs are designed in line with the strategic initiative of the business units.

Professional Membership Assistance

SBM Bank (Mauritius) Ltd is committed to excellence in people development and places great emphasis on employee training and development programs and recognizes employee learning as a key contributor towards organizational growth and service excellence. To support staff with a professional registration requirement to meet their Continuing Professional Development needs, SBM Bank (Mauritius) Ltd provides financial assistance for relevant professional memberships. Paid leaves are also available for employees to study approved courses.

New Outdoor Training

The aim of this experimental learning approach is to provide teams with a common platform to enhance teamwork, collaboration and trust. The training program is designed by expert facilitators, in partnership with line managers to take employees out of their comfort zone and enhance team spirit.

Focus FY 2018

> Certification Level Training has remained a key focus, mainly in CISI, Digital Masterclass & ACI Dealing.

> In addition, the Bank invested in various training on Credit Risk Management and Compliance. Through continuous training, from both internal and external experts, SBM Bank (Mauritius) Ltd ensures that a strong compliance and risk culture prevails.

> With the influx of new and emerging technologies, the Bank has invested hugely to build in-house competencies to ensure that teams are upskilled to embrace a digital future. Employees attended several workshops in Agile Leadership, IOT, Big Data Analytics, Artificial Intelligence, Blockchain, fintech, Robotics, Cryptocurrencies, Digital Banking.

> The Financial Markets team attended regular training during FY 2018, both locally and overseas. Moreover, various awareness workshops on treasury related training programmes were conducted by internal trainers.

> Middle Management has been equipped to drive and take responsibility for their team's performance

> Capacity Building for SME's Officers through a 5 days' masterclass.

Way Forward

> Focus on Service Excellence, training of branch managers and employees to achieve a high degree of customer satisfaction

> Enhance a culture of continuous development

> Develop training programs that support future skills and capabilities requirements

> Credit Risk Management Customised Program

Fast Fact

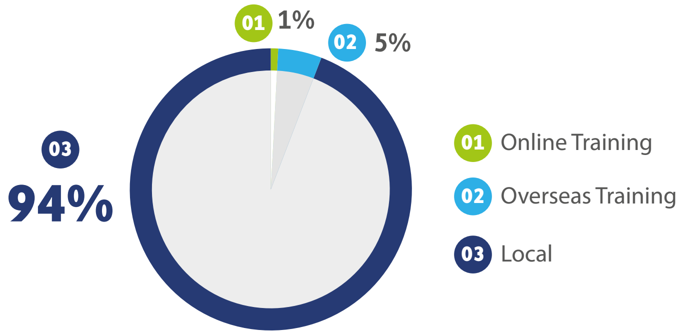
Key Statistics

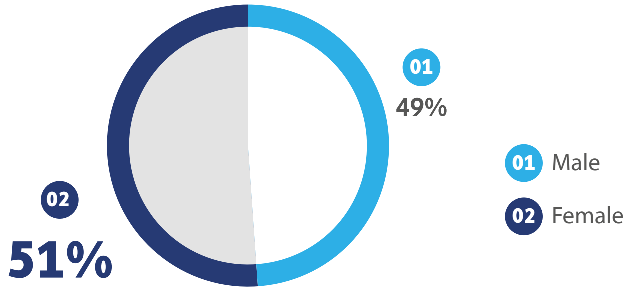
Training Cost: **MRU 11,358,407.00**

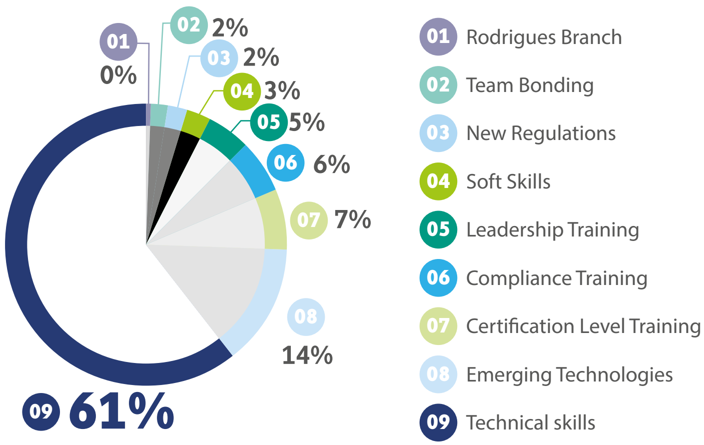
Training Hrs: **9,275.48**

Total No of Training Courses: **84**

Types of training







Environmental Report

Environmental Stewardship

Contributing to a sustainable environment

At SBM, we are always seeking to positively impact the future, especially the environment. In line with our efforts to Go-Green, we have rolled out a series of initiatives over the course of 2018 and made progress in several areas. By so doing, we have continued to help shape a more sustainable future.

Our ecological approach in 2018

Energy efficiency and sustainable refurbishment

In line with our aim to make more efficient use of electricity, we have further upgraded our equipment to energy saving ones. By adopting eco-friendly materials, we are investing in both the short and long term interests of our business, while also championing environmental protection.

One of the key steps we undertook in Mauritius was to replace our main centralised chillers at SBM Tower with the Trane AdaptiSpeed Technology and Adaptive Frequency Drive Technology, which was one of the most efficient and intelligent centralised system available on the market at the time of installation. Air conditioning usage at SBM Tower represents around 60% of the electrical consumption. Through this change, we have been able to significantly reduce our consumption at SBM Tower by 17.5% in 2018, compared to 2017, making monetary savings of around MUR 7.1 million. We have almost completed the replacement of air conditioning units by inverter type technologies at our service units. These new units use R410 gas as refrigerant and are ozone-friendly.

In our quest to make our buildings in Mauritius eco-friendly and sustainable, we have also appointed a panel of consultants for the renovation of both SBM Tower and our service units over the next 4 years. In line with this initiative, LED light fittings will replace the existing fluorescent and incandescent light fittings. The LED lights use 75% less electricity, emit more light and have an extended service life of 25 times more than conventional lights. As part of our refurbishment exercise, we are also looking into using certified recycled materials, like furniture, carpets and fabrics from recycled materials, from proven suppliers. Our new electrical appliances and equipment will also be chosen, based on the highest energy efficiency ratings.

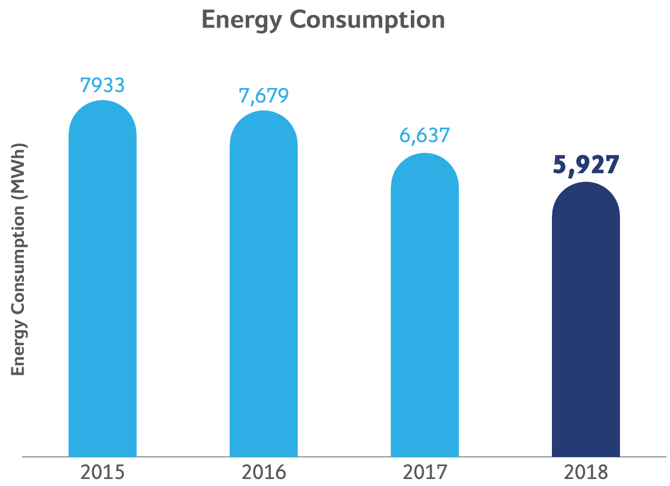
Furthermore, as part of our asset replacement plan, we have already replaced several generators, at our premises in Mauritius and Rodrigues, with more fuel efficient ones, helping in reducing our carbon footprint.

Recycling and paperless approach

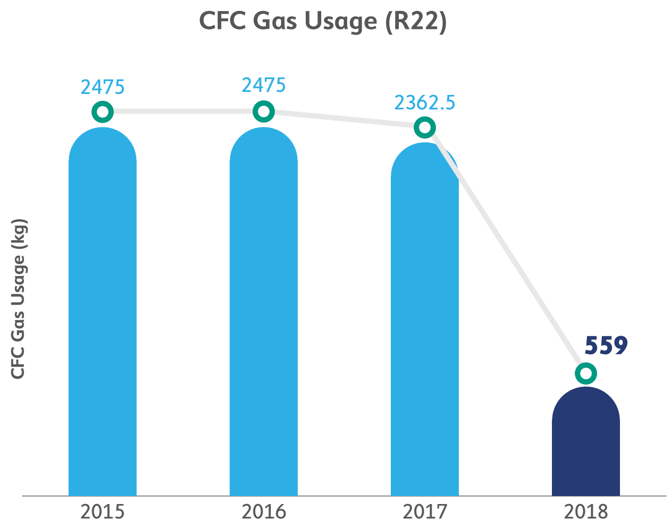
At SBM, we encourage the re-use and recycling of paper to avoid wastage and minimise discharge into the environment.

In Mauritius, to recycle paper, we have entered into an agreement with a recycling company that shreds, compacts and exports the shredded materials to be converted to usable paper. We participate in this environmental project by disposing of used/waste papers and obsolete documents in special recycling bins put at employees' disposal on all floors at SBM Tower. Likewise, our service units also participate in this initiative. In 2018, 19,725 kg of papers were sent for recycling.

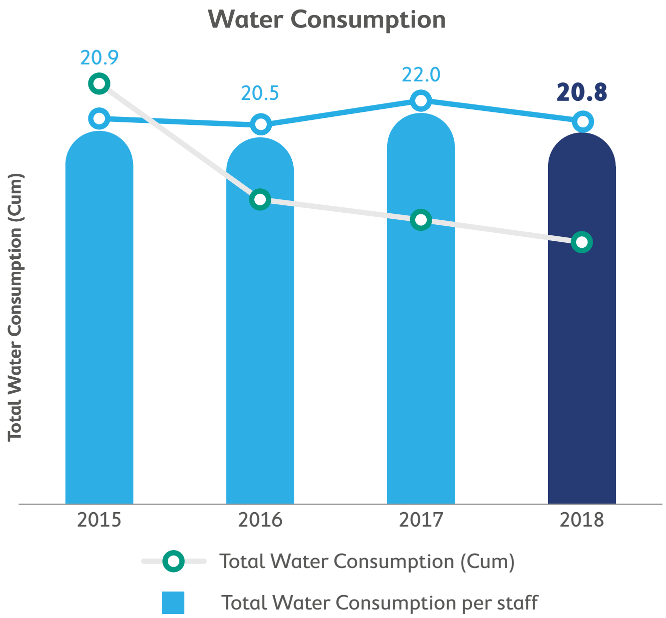
Key highlights of how we created a lighter footprint in 2018 in Mauritius



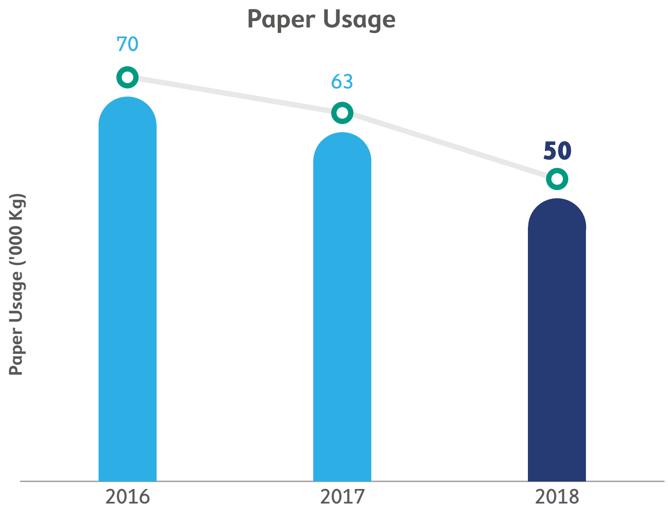
A decrease by 10.7 % in 2018 compared to 2017



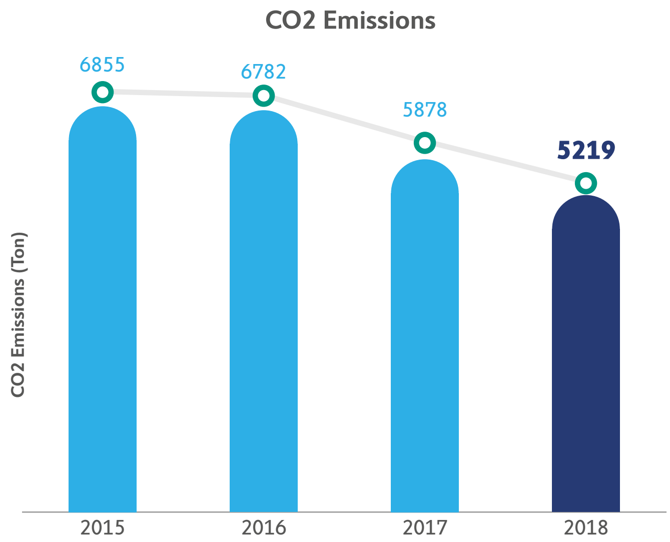
A decrease by 76 % in 2018 compared to 2017



A decrease by 5.3 % in 2018 compared to 2017 and also further decrease of water per staff



A decrease by 20 % in 2018 compared to 2017



A decrease by 11 % in 2018 compared to 2017

Corporate Social Responsibility Report

The 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 combating social ills and alleviating poverty.

The SBM Group contributes 1% of its chargeable income to CSR initiatives through the SBM Foundation.

The Foundation was set up in 2016 to spearhead all CSR initiatives within the Group to maximise impact.

SBM is convinced that education is a very important means of empowerment for its citizens to become active participants in the transformation of the society, and that education is also an essential pre-requisite to alleviate poverty. In this context, a significant part of the Bank's CSR funding has been channelled into the unique SBM Scholarship Schemes since 2010; in addition to funding of projects with its social partners.

Principle Seven – Audit

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.

Directors' responsibilities

The directors are responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards, International Accounting Standards and Companies Act 2001. The Directors must ensure that the provisions of the Companies Act 2001, the Banking Act 2004 and Financial Reporting Act 2004 are complied with. They must also ensure that the financial statements are free from errors and material misstatements.

Proof of proper process in appointing Auditors

In line with Section 39 Paragraph 4 of the Banking Act 2004, the SBM Group launched a tender exercise in 2015 for the appointment of external auditors. The tender was sent to the major audit firms in Mauritius.

Management and the board of directors went through an interview and selection process with each audit firm, following which, the current auditors were selected and recommended by management and the audit committee to the board for approval.

Each quarter, the external auditors meet the members of the Audit Committee. They discuss the financial statements of the Bank and the new accounting principles adopted.

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 candour of the auditor's communications with the Audit Committee and the Bank's management; and the auditor's independence, objectivity and professional discernment.

External Auditors

The current auditors, Ernst & Young, have been in office for the last 4 consecutive years for the audit of the financial statements for years 2015, 2016, 2017 and the current year. The Bank will comply with the requirements of the Banking Act with respect to the rotation of auditors after a period of 5 years.

Auditors' fees and fees for other services

	2018 Audit MUR'000	2018 Other Services MUR'000	2017 Audit MUR'000	2017 Other Services MUR'000
Ernst & Young				
SBM Bank (Mauritius) Ltd				
Statutory Audits and quarterly reviews	**6,500**	**5,750**	7,133	-
SBM Bank (Mauritius) Ltd (Indian Operations)				
S R Batliboi & Associates	**1,477**		1,533	-
Total	**7,977**	**5,750**	8,666	-

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

Whenever the external auditor provides non-auditor's objectivity and independence are safeguarded as the non-audit services are carried out by different partners with different teams.

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 Board 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 processes.

The Internal Audit department is governed by an Internal Audit charter / policy, 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 neither involved in nor responsible for any area of operations.

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 with the Chairman and other members of the Audit Committee.

Departmental structure

In 2017, over and above the existing IT Audit cluster, 3 other clusters were set up within the Internal Audit function namely Credit, Operations and Others. The objective is to have Internal Auditors specializing in specific areas, thus enhancing the quality and depth of audits being performed. In February 2018, 3 experienced Audit Leads were appointed to supervise the new clusters. The Audit Leads who report to the Head of Internal Audit are responsible for supervising, reviewing and directing the audit field work of their respective clusters.

Audit Resources

The Internal Audit team at SBM Bank (Mauritius) Ltd is composed of auditors with a mix of substantial banking and auditing experience gained mainly at large audit firms. The majority of the Audit function consists of fully qualified auditors/accountants, whilst other staff members are pursuing their professional studies. In addition, Internal Audit has certified information systems auditors to audit the information technology used by SBM.

Since 2016, Internal Audit has been equipped with an Audit Management Tool designed to manage and automate a wide range of audit operations. Currently a data analytics tools is being developed.

Standards of auditing

Internal Audit at the Bank is conducted in line with the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing (Standards).

The Standards apply to individual internal auditors and the internal audit activity. Internal auditors must conform with the standards related to individual objectivity, proficiency, and due professional care and the standards relevant to the performance of their job responsibilities.

Achievements

During the year under review, Internal Audit completed 37 out of the 42 core audits planned, representing 88% completion. 100% completion could not be achieved due to the redeployment of certain resources to other assignments. Key risk areas such as Credit, Treasury, Finance, AML or Operations were fully covered. All the Service units (branches) have been covered at least once. Quarterly reviews on key risk areas, which were introduced in 2017, have been maintained and fine-tuned in 2018. The objective of the quarterly reviews is to highlight areas of potential concern and thereby raising early warning signals for timely corrective actions.

In 2018, 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 staff resourcing. The IT Audit team was strengthened during the year with one resource having networking & IT infrastructure experience.

Internal Audit has 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 2018, 15 investigations were completed by the team.

Initiatives undertaken in 2018

With the new departmental structure firmly in place in 2018, a more systematic approach has been adopted. The Head of Internal Audit has weekly meetings at the start of each week, individually with each Lead to discuss the planning and audit objectives for the week. At least, once a week, the Head, along with the Lead, will meet the respective team members to discuss and review in detail audit work being carried out. A monthly meeting is also held with the Leads to discuss and agree on initiatives for the department. Apart from those structured meetings, there are on-going discussions with team members on a daily basis.

In 2018, a comprehensive procedure manual for internal audit has been implemented. The team has also reviewed and re-organized the audit working papers.

In terms of KPIs, a mini performance appraisal of the audit officers is conducted after completion of each audit. This eventually forms the basis for the annual performance appraisal exercise.

Outlook for 2019 and beyond

In 2019, additional qualified Internal Audit Officers will be on boarded to complete the capacity building objectives. Another important initiative will be to strengthen the IT Audit team with qualified and experienced resources. Audit staff will be encouraged through incentives to pursue relevant professional certifications (e.g., CIA, CISA), in order to enhance their skills. In terms of training programs, the intention is to provide as much specialized training to the team on areas such as Global Business, Treasury, Trade Finance, Cyber threats.

In Q1 2019, implementation of the first phase of the data analytics tool will be completed. The function will then embark on phase II, which will focus on exception reporting, identification of anomalies and inconsistencies in data and other unusual patterns.

With the view to enhancing the quality of audits, peers reviews are being introduced in 2019.

An external quality assessment and improvement program (EQAIP) is also planned for 2019. This is a requirement as per the Institute of Internal Auditors.

Given the constantly evolving and increasing risks in banking and financial services, Internal Audit will be called to be an important player in supporting the Bank to achieve its strategic objectives.

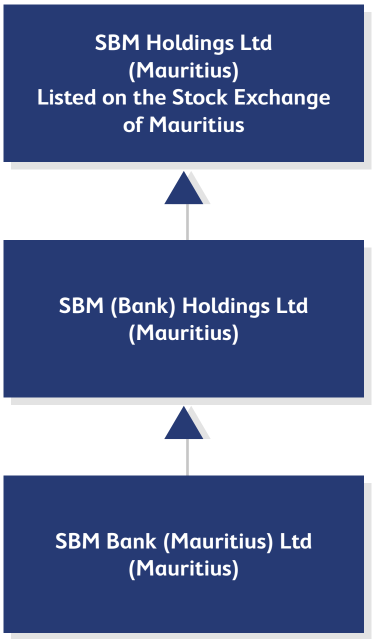
Principle Eight – Relations with Shareholders and Other Key Stakeholders

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.

The Board of Directors affirms that relevant stakeholders have been involved in a dialogue on the organisational position.

Shareholder

The Bank is wholly owned by SBM (Bank) Holdings Ltd and ultimately owned by SBM Holdings Ltd, a public company listed on the Stock Exchange of Mauritius as per the below:



The table below depicts the Bank's key stakeholders and explains the way we engage with them:

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			
• Send Notice of Annual General Meeting • Integrated Annual reports • Published interim results on a quarterly basis • Regular presentation and roadshows • Annual General Meeting • Analyst briefings and regular investor presentation • 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 framework	• 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 the banking sector, 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, corporate governance, and adherence to internal policies. They also ensure that a proper strategy is in place and is being properly executed to ensure 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' concerns • Events • Communication including electronic, phone calls amongst others. • Giveaways	• 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. • Innovative and tailor-made products that meet clients' financial needs. • Trading fairness • Protection against fraud and safety of personal data (customer privacy and data security) • Timely direct communications on changes • Convenient channels	• We aim to provide "unique customer service experience" via investment in technology and people, 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 products and services offerings based on customer feedback and 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. At the same time, we invest significantly in secured IT systems.

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) • Events and facilities (e.g. SBM Park) to enhance employee welfare • 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 and 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			
• Expressions of interest • 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 through the delivery of high quality and innovative products and services to sustain growth. • Critical to support our systems and fixing issues • New and enhanced services	• 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

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 through: - Economic empowerment of vulnerable groups - Job creation - Contribution to the development of the country	• Provision of tools and opportunities to vulnerable groups • Investment in CSR projects • Sponsorships

Directors' service contract

Mr Venkateswara Rao Parvataneni, currently Acting Chief Executive, is on a service contract of five years starting 01 July 2018 while Mrs Veronique Lim Hoye Yee is on a service contract of five years starting 05 September 2016.

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 and the cover does not provide insurance against fraudulent, malicious or wilful acts or omissions.

Statement of Compliance

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

Reporting Period: 1 January 2018 to 31 December 2018

We, the directors of SBM Bank (Mauritius) Ltd, confirm that to the best of our knowledge, the Company has applied all material principles of the National Code of Corporate Governance (2016).

NAYEN KOOMAR BALLAH, G.O.S.K
Chairman

PHILIP AH-CHUEN
Chairman – Corporate Governance and Conduct Review Committee

31 March 2019

"Promoting a risk culture which requires all employees being responsible to ensure the Bank operates within agreed risk appetite and risk limits"

RISK MANAGEMENT REPORT

Risk Management – A Strategic Imperative

UNDERSTANDING AND MANAGING RISKS TO CREATE AND HARNESS OPPORTUNITIES

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, amidst an environment shaped by uncertainty.

Supported by a consistent risk-focused culture, risk management is overseen and managed on an enterprise-wide basis. The Bank operates an integrated risk management framework designed 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.

SBM Bank (Mauritius) Ltd adopts an integrated approach to risk management supported by a well-defined **Risk Management and Risk Appetite Framework**, sustained by a robust **Risk Management Governance Structure**, underpinned by three **Lines of Defence**

MANAGING RISK STRATEGICALLY

GOVERNANCE AND STRUCTURE

STRATEGIC LAYER

Board of Directors

Responsible for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained

Board Sub-Committees

Responsible to advise Board on the effectiveness of the risk profile, risk culture, risk appetite, risk strategy and risk management framework

MANAGEMENT LAYER

Management Forums

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

Risk Management Team

Responsible to create and maintain the risk practices across the Bank and to ensure that controls are in place for all risk categories

Business units

Risk Management and Compliance

Internal Audit

THREE LINES OF DEFENCE

The Bank has a well-established **Risk Governance Structure**, underpinned by three **lines of defence**, 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.

RISK APPETITE FRAMEWORK

Risk Appetite

Risk Control Mechanism

Stress Testing

Risk Identification

Risk Strategy

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.

RISK CULTURE

Risk Oversight – Highlights 2018

2018 was a challenging and eventful year for the Bank, marked by unexpected hits and hurdles. Nonetheless, the Bank showed full commitment in the management of risk; and shortcomings in our policies were duly addressed, in line with our Risk Appetite Framework.

Of note, our Indian Operations have been deconsolidated from SBM Bank (Mauritius) Ltd during the end of 2018, thus making India business a wholly owned subsidiary of SBM Bank Holdings Ltd.

The table below highlights the Bank's overall risk profile.

Balance Sheet Management

Loan to Deposit Ratio

63.9%

(Dec 17: 71.2%)

Net Stable funding ratio

118.6%

(Dec 17: 111.7%)

HIGHLIGHTS 2018

- ✓ Balance sheet remained resilient with assets funded primarily from stable deposits. Net Stable Funding Ratio (NSFR) is comfortable at 118.6%, which is above the minimum Basel threshold of 100%.
- ✓ 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

OUTLOOK FOR 2019

- ✓ Increased focus to diversify the Bank's sources of funding with a strong commitment towards stable funding, particularly in FCY.
- ✓ Continuance of the Bank's prudent approach towards funding risk, i.e. maintaining a conservative Loan to Deposit Ratio (LDR).

Capital and Liquidity Management

Tier 1

13.5%

(Dec 17:11.2%)

Capital Adequacy Ratio

15.1%

(Dec 17: 12.8%)

Liquidity Coverage ratio

140.2%

(Dec 17: 127.5%)

HIGHLIGHTS 2018

- ✓ Capital remained adequate, taking into account risk appetite as well as growth and strategic targets with the key capital ratios above the minimum regulatory requirements, as highlighted below:
- ✓ Common Equity Tier 1 (CET1) stood at 13.5%, above the minimum regulatory requirement of 8.875% (including buffers)
- ✓ Total Capital Adequacy Ratio (CAR) reached 15.1%, within the minimum regulatory requirement of FY18: 12.375%, FY19: 13.375%
- ✓ The Bank has a healthy liquidity position with the LCR significantly above 100%. The Bank proactively managed the ratio by ongoing monitoring of the stock of High Quality Liquid Assets (HQLA).

OUTLOOK FOR 2019

- ✓ 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
- ✓ The Stock of HQLA shall be monitored closely to be maintained at a comfortable level in order to meet liquidity and regulatory needs.

Prudent Provisioning Coverage

Net impaired Advances as a % of Net Advances (net of cash collateral)

5.1%

(Dec 17: 1.5%)

Specific Coverage Ratio

44.2%

(Dec 17: 55.4%)

HIGHLIGHTS 2018

- ✓ Continued focus on prudent risk management and enhanced effectiveness of our recovery capability
- ✓ Implementation of IFRS 9 Financial Instruments where loan losses provisions are based on an expected loss model for credit losses.
- ✓ Implementation of an Early Warning Signal Framework to manage any area of weaknesses and deterioration in customer performance.
- ✓ Setting up of The Watchlist Review Forum to review of high risk customers placed under Watchlist and Special Mention

OUTLOOK FOR 2019

- ✓ Continued prudence in provisioning

Non-Financial Risk

HIGHLIGHTS 2018

- ✓ Operational loss incurred following recent cyber-attack pertaining to the Bank's Indian Branch thus requiring investment in and reinforcement of the Bank's cybersecurity to ensure effective resilience of its systems to such attacks
- ✓ 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
- ✓ Roll-out of new risk assessment process and controls throughout the organisation

OUTLOOK FOR 2019

- ✓ 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 broaden the remit of the environmental and social risk business unit to strengthen our capacity to identify, mitigate and manage associated impacts

Key Developments in 2018

(1) Remediation Plan for Cross-Border Activities

The Bank has established a comprehensive remediation programme regarding cross-border activities. This risk remediation plan has included:

- strengthening the country risk framework and aligning risk appetite to strategy, focusing on countries of presence (also reinforcing synergy and cross-selling) with a clear-cut list of countries where we are not interested to do business (allowing the Relationship Team to be more focused and efficient);
- reducing single exposures, geographic and sector concentrations; and exiting some customers considered to be high risk;
- reviewing the end-to-end credit process including monitoring and collateral management;
- revamping the risk organisation structure and;
- improving risk culture.

(2) Setting up of the Covenant Monitoring Team within the Risk Management Team

Covenants are conditions subsequent as per the specific loan agreement and approval conditions which are most often represented in terms of financial ratios that must be maintained, such as a maximum debt-to-equity ratio/other such ratios and non-financial covenants such as submission of financial covenants and negative pledge on assets, among others.

In the second half of 2018, the Covenant Monitoring Team was incorporated within the Risk Management Team to strengthen the second line of defence enabling the below objectives:

Objectives of Covenant Monitoring

To conduct independent verification of testing of covenants included in facility agreements;

To independently check whether breaches have been reported to appropriate authority promptly;

To classify non-compliant customers under watchlist and report to the Watchlist Review Forum.

End Result of Covenant Monitoring

It acts as a facilitator for awareness on the financial conditions and operations of borrowers and guarantors on a regular and ongoing basis;

It allows a periodic ongoing communication with the borrowers to convey bank commitments to their banking needs; and

It provides early warning signs and allows prompt action. It also prevents detrimental situation when borrowers default on their obligation and allows the Bank to initiate exit policy in some cases.

Enterprise Risk Management

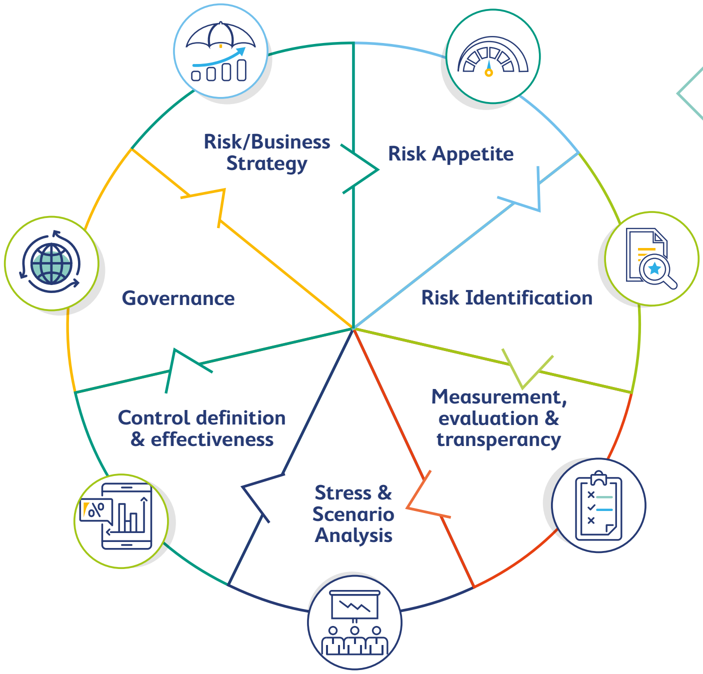
Risk-Aware Culture

SBM Bank (Mauritius) Ltd operates an integrated risk management framework, centred around the embedding of a risk culture, which is designed to maximise returns while remaining within the Board-approved risk appetite and risk tolerance levels. Such a culture is built on adequate risk practices and appropriate risk behaviours implanted throughout the organisation.

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

The Bank ensures that the key risks are properly identified, assessed and monitored. Mitigating strategies are put in place to manage such risks and make 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 identify and manage correlations across risk types.

Risk Governance Structure

Underpinned by three **lines of defence**, the Bank's **Risk Governance Structure** 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 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.

STRATEGIC LAYER

Board of Directors

Executive and Independent Directors

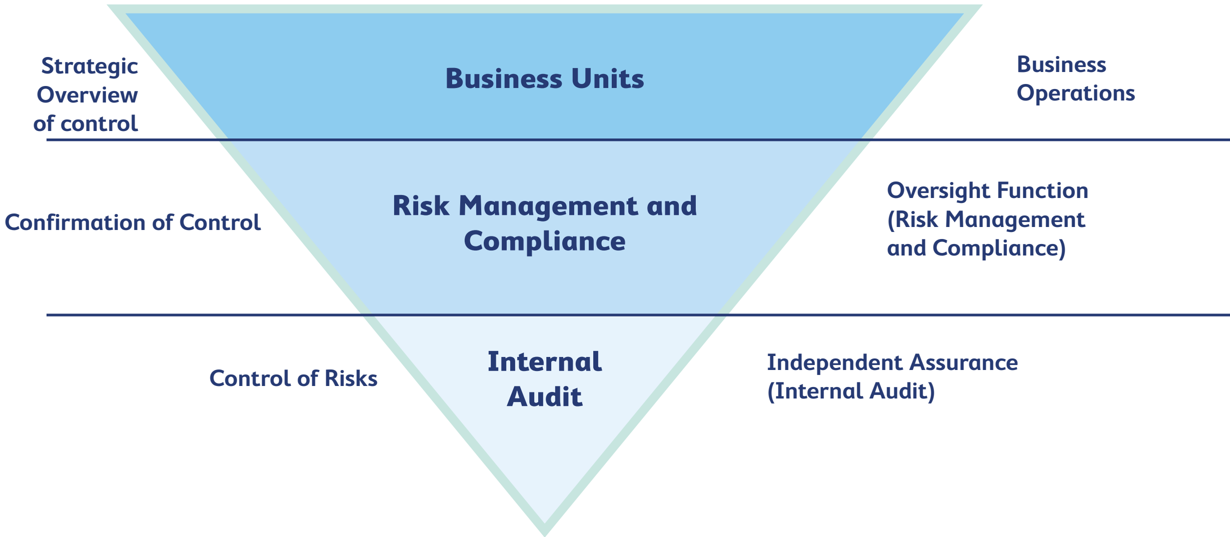
The Board remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The Board discharges its duty either directly or through its committees to ensure decision making is aligned with the board's approved policies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

Board Sub-Committees

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.

The Bank's philosophy is that responsibility for risk management resides at all which promotes transparency, accountability and consistency through clear



MANAGEMENT LAYER

Management Forums

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

Risk Management Team

Porfolio 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.

levels within the organisation and therefore uses the three lines of defence model identification and segregation of risks

The organization has placed strong reliance on the risk governance framework and the three lines of defence model, which are fundamental to the Bank's goal of managing risk effectively.

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 Comprehensive Risk Appetite Framework

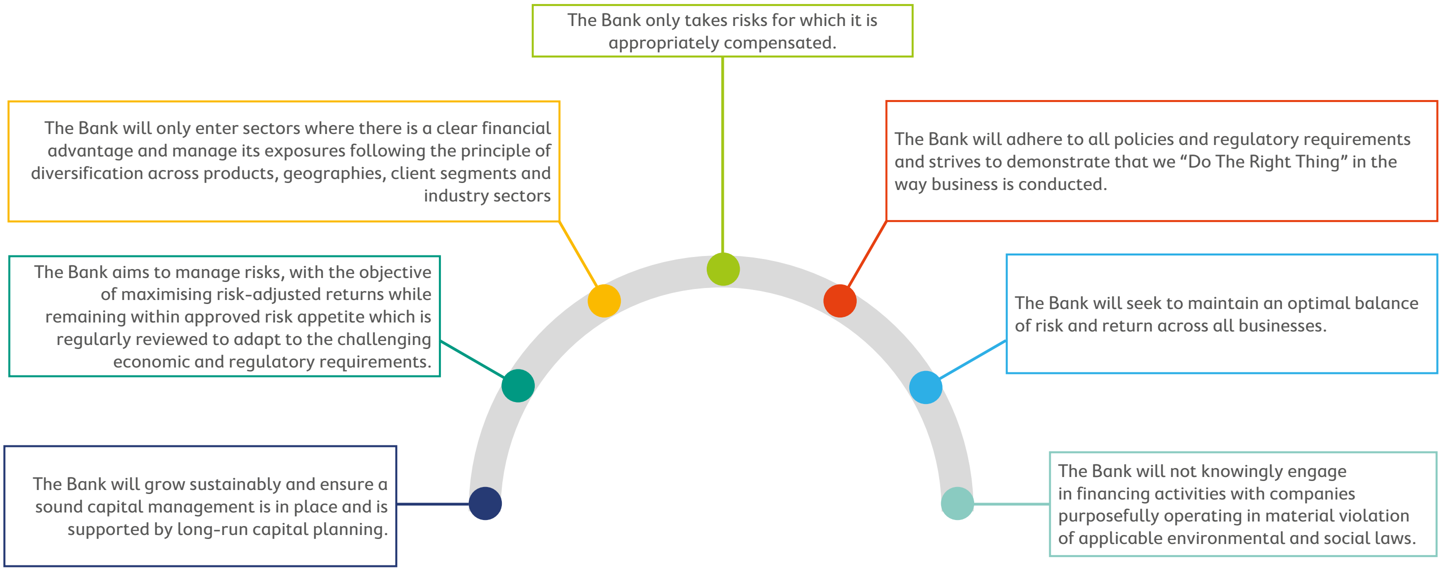
The Bank maintains a comprehensive risk appetite framework, providing a structured approach to the identification, measurement, and control of risk. It encompasses a suite of policies, processes, controls and systems for assessing the appropriate level of risk appetite required to constrain its overall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

The 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 reviewed 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.

Risk appetite is communicated across the Bank through risk appetite statements that 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:



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 UNIVERSE

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 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, etc. 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

Risk Bearing Capacity and Stress Testing

As part of a strong risk management framework, the Bank emphasises the importance of paying 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 it 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).

An overview of the stress testing process is illustrated below.

Determine Stress Scenarios
Develop the appropriate stress scenarios that are relevant to the nature of business of the Bank including significant movement in credit ratings, interest rates, exchange rates, counterparty stage classification and recovery rates at different level of severity (Mild, Moderate, Severe).

Risk Profiling
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 IFRS 9 before stressing on different parameters.

Impact Assessment
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.

Result Assessment including Implications
All the results and methodology are evaluated and documented including the contingency plans and mitigating actions as appropriate.

Reporting and Agreeing on Management Actions
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.

Key Areas of Stress Testing Usage

Risk Identification
Better understanding the risks that could potentially impact the Bank's financial strength and capital position

Risk Appetite
Gaining a better understanding of the drivers and the underlying risks associated

Strategic Financial and Capital Planning
Assessing the impact of the sensitivities and scenarios on the capital adequacy ratios

Risk Mitigation
Identifying contingency planning, recovery plan and management actions that can be taken, in the event of adverse changes to the business or economic environment

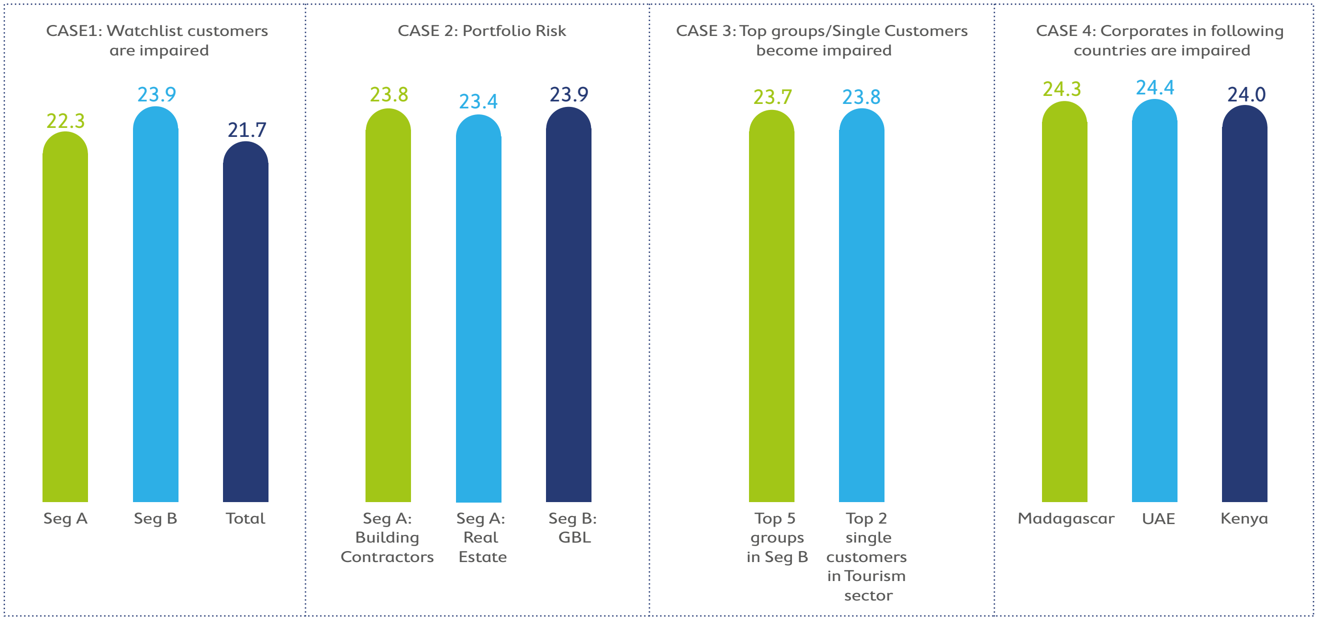
Scenario Analysis and Stress Testing

The Group has conducted stress testing under various historical and stress test scenarios to assess the impact of unfavourable scenarios on its capital position. Sample stress tests conducted are provided in the following table. The scenarios are regularly reviewed and fine-tuned to ensure that they remain relevant to the Group's risk profile, activities and prevailing and forecasted economic conditions.

Case	Stress Testing Scenarios
1	Customers under Watch become impaired
2	Portfolio Risk : Building Contractors, Real Estate, Global Business Licence (GBL) Customers become impaired
3	Top Group/Single customers become impaired
4	Corporate Customers in Madagascar, UAE and Kenya become impaired

The Group conducts the stress testing at an enterprise-wide level that involves assessing the impact of the specified scenarios on the Group as a whole. The results of stress tests are reported and discussed at the Risk Management Committee and the Board prior to being submitted to the Bank of Mauritius. As at 31 December 2018, the capital adequacy of the Group does not fall below the regulatory requirements in any of the four scenarios above.

Results of the Stress Testing on Capital Adequacy of the Bank

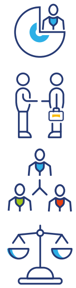
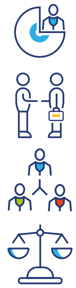
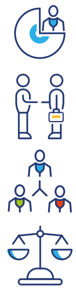


In the event of distress within the Bank, the holding company would act as a source of strength through the ability to re-deploy surplus capital.

Key Risks Explained

In pursuing its goals and objectives, the Bank is confronted with various types of risks that cannot be addressed individually but which require a holistic approach to risk management. Those risks are grouped into six principal risks, each having different impacts and dependence on the six forms of capitals that are fundamental for value creation over the long term. These key risks are categorised as illustrated below.

Description		Measurement, Monitoring and Management of Risk	Capital Impacted	Stakeholders Impacted
Credit Risk	Credit risk is 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	✓ ***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. ✓ ***Managed*** through a robust risk control framework which outlines clear and consistent policies, principles and guidance.		
Market Risk	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.	✓ ***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 that are applied to the market risk positions within each risk type. ✓ ***Managed*** using risk limits approved by the Board.		
Liquidity & Funding Risk	Liquidity and Funding Risk is the inability to meet contractual and contingent financial obligations, on and off balance sheet as and when they come due. Our primary liquidity objective is to provide adequate funding for our business throughout market cycles, including periods of financial stress.	✓ ***Measured*** using internal metrics including cash flow projections, Liquidity Coverage Ratios and Net Stable Funding Ratio. ✓ ***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. ✓ ***Managed*** independently at the source of the risk		

Description		Measurement, Monitoring and Management of Risk	Capital Impacted	Stakeholders Impacted
Operational Risk	Operational loss 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.	✓ ***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. ✓ ***Managed*** through a conducive control environment with robust operational risk policies, processes, systems as well as appropriate risk culture within the organisation.		
Business and Strategic Risk	Business risk is 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.	✓ ***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	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.	✓ ***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. ✓ ***Managed*** through a framework where all employees are responsible for identifying and managing reputational risk that may occur within their respective areas of business.		

Credit and Counterparty Risk Management

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 given below:

1 Credit Origination
Sales Team:
- Initiate and manage sales of products
- Follow client on-boarding 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.

2 Credit Appraisal
Credit Underwriting Team
- Screening of all applications forwarded by sales team
- Assessment of obligor
- Recommend to the appropriate authority for approval

3 Credit Approval
Credit Approval Authority
- Board Credit Committee
- Management Credit Committee
- Credit Underwriting Team
- Decision making tool for certain retail exposures

4 Documentation & Disbursement
Credit Service unit
- Credit Administration
- Credit Documentation
- Credit Disbursement

5 Review & Monitoring
Risk Management
- Monitoring of both prudential and regulatory limit for all credit exposures

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

Credit Risk Profile as at 31 December 2018

SBM's loan book is well-diversified by industry and geographic region with an average weighted risk rating of 5.3 (equivalent to an external rating of Baa1 – Baa3).

Total credit risk weighted exposures were USD 2.8 billion as at 31 Dec 2018 (2017: USD 3.1 billion), comprised of both funded and non-funded exposures.

7.31 times to
Bank Tier 1
(Dec 17: 7.48)

Aggregation of Credit Risk Weighted Exposures

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

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 at 31 December 2018, the total risk weighted exposures to cross-border lending accounted for 166% of Bank Tier 1 Capital (2017: 186%).

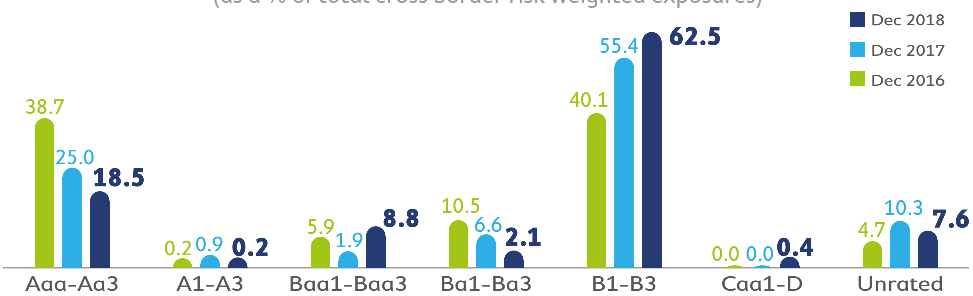
RWE as a % Bank Tier 1

166%

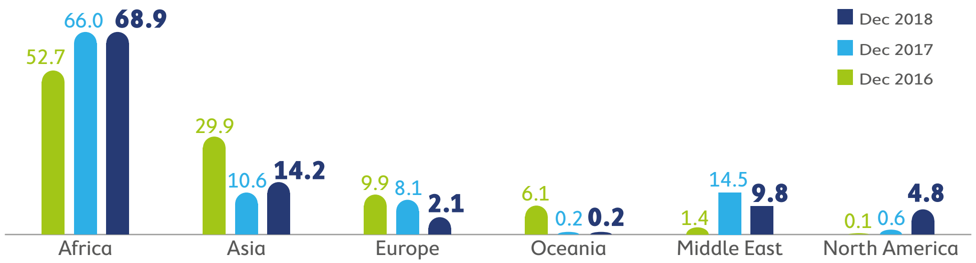
(Dec 17: 186%)

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)



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.

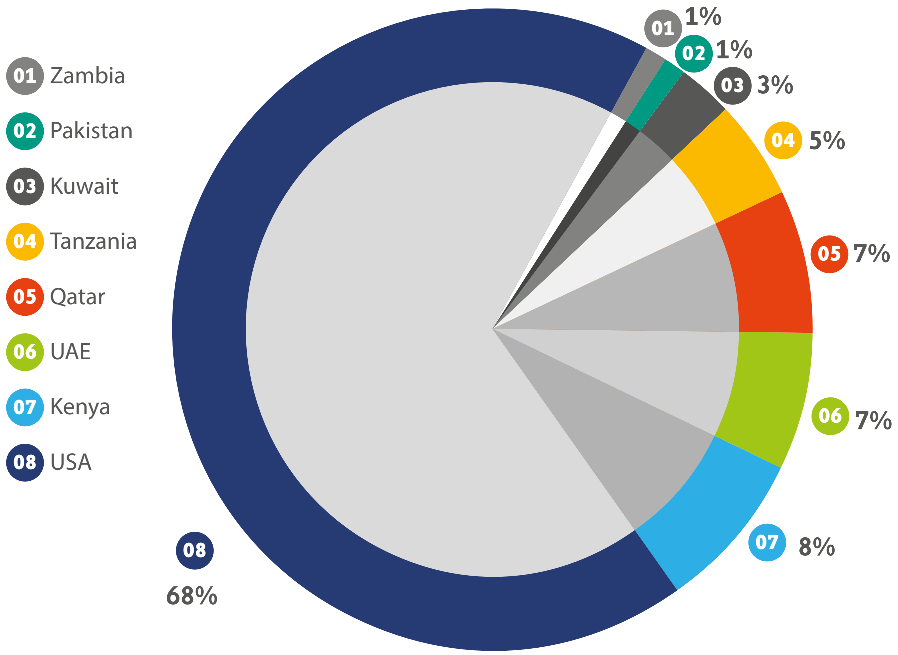
In general, the total exposure to sovereign risk has remained at adequate levels.

RWE as a % Bank Tier 1

18%

(Dec 17: 23%)

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



As at 31 December 2018, total sovereign exposures stood at MUR 39.8 billion, representing 297% of the Bank Tier 1 capital (2017: MUR 20.7 billion, 152.2% – excluding India operations) with the highest exposure pertaining to the Government of Mauritius amounting to MUR 23.3 billion. On a risk-weighted basis, the sovereign risk-weighted exposures were MUR 2.4 billion, representing 18% of the Bank's Tier 1 capital. (2017: MUR 3.2 billion, 23.3%)

Bank Counterparty Risk

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

As at 31 December 2018, total risk-weighted exposures to bank counterparty stood at USD 182 million, representing 0.46 times the Bank's Tier 1 capital (2017: USD 252 million, 0.61 times).

RWE as a % Bank Tier 1

47%

(Dec 17: 61%)

Bank Risk-Weighted Exposures as at 31 December 2018

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

Private Risk

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.

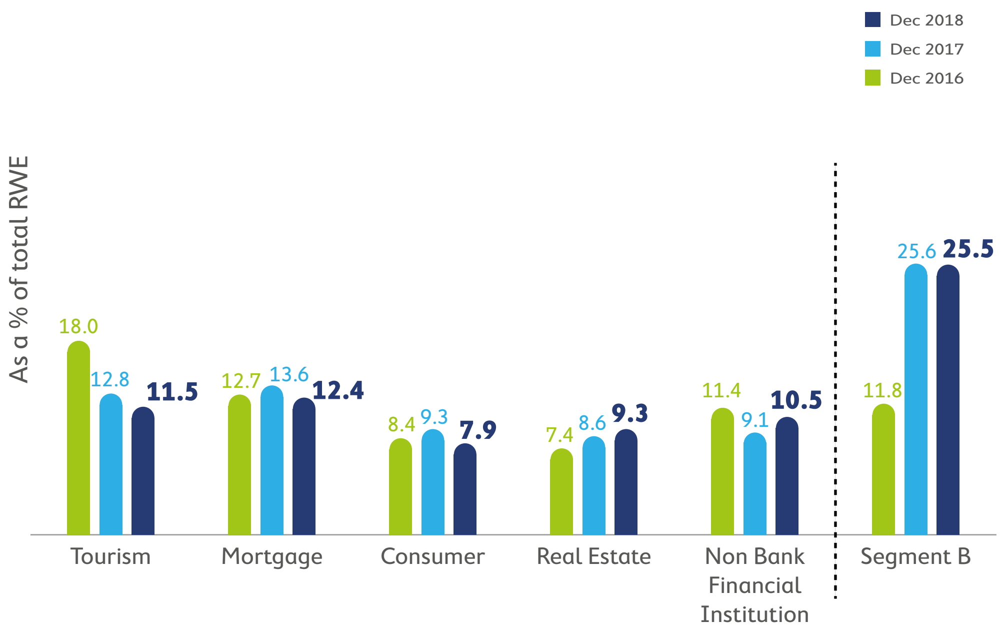
RWE of top 5 portfolios as a % of Bank Tier 1

285%

(Dec 17: 309%)

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

Segment A loan portfolio remains well-diversified with reducing concentrations. Loans and advances to the tourism and mortgage sector represented 11.5% and 12.4% of total portfolio, respectively, as at December 2018. All other industry concentrations are at below 10%.



In relation to the Bank's cross-border activities, concentration in Segment B stood at 25.5% as at 31 December 2018 with customers mainly in the Africa region and in India, in line with the Bank's strategy.

2018 was a challenging year. Nevertheless, the Bank showed resilience; and shortcomings in our cross-border lending policies and procedures as well as in our risk infrastructure have since then been addressed.

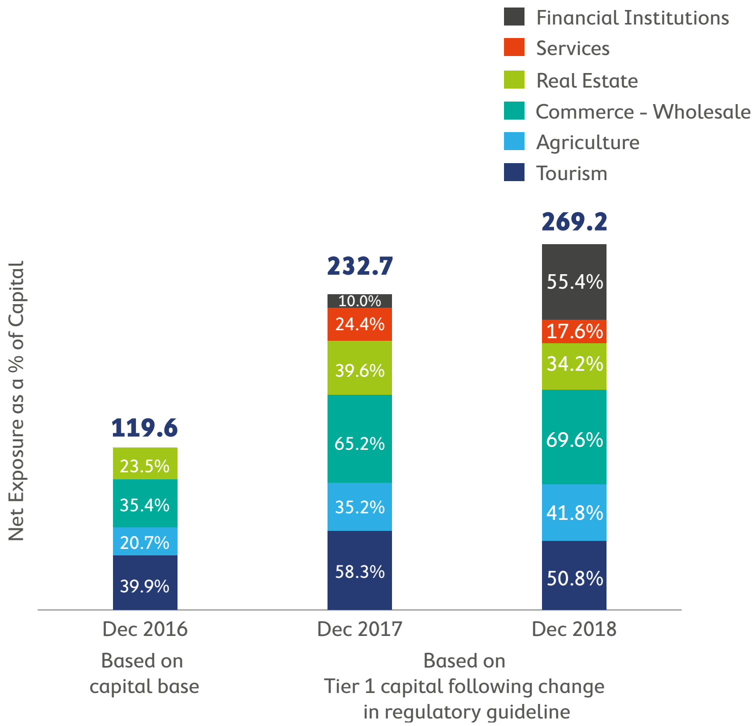
Private Risk

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 were 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 partly explains the increase in aggregate large exposure as compared to pre-2017 periods, as illustrated in the chart below. Nonetheless, with the measures put in place to reduce credit concentration, there was a significant drop in the ratio of net exposures to Tier 1 capital as at 31 December 2018. Indeed, all large exposures were well within the regulatory limits, as shown in the table below.

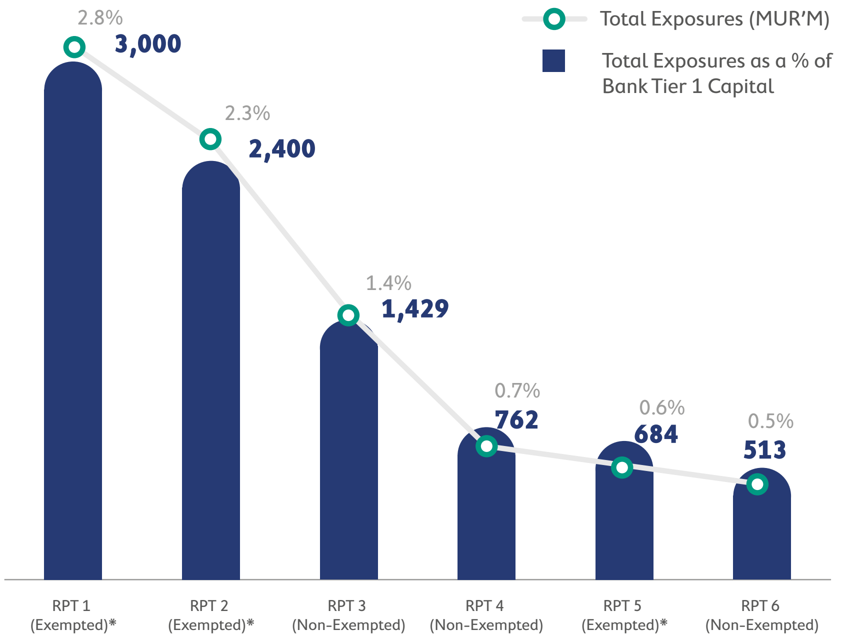
Regulatory Credit Concentration Limit – Mauritius Operations	As at 31 Dec 2018
Credit exposure to any single consumer shall not exceed 25% of the Bank's Tier 1 Capital	Highest single customer: **15.6%**
Credit exposure to any group of closely-related customers shall not exceed 40% of the Bank's Tier 1 Capital	Highest Group of closely-related customer: **28.7%**
Aggregate large credit exposures to all customers and group of closely related customers above 10% of Bank's Tier 1 Capital shall not exceed 800% of Bank's Tier 1 Capital	**269.2%**



Private Risk

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 2018, the aggregate of non-exempted exposures to related parties represented 20.1% 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 17: 10.5%).



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

Credit Quality

Implementation of IFRS 9

Following the transition from IAS 39 to IFRS 9, the Bank, as from 01 January 2018, is now required to maintain expected credit losses on all financial assets compared to the previous requirement to keep specific provisioning only on defaulted accounts.

This change gives rise to the need for an Expected Credit Loss ("ECL") model which can be broken down into three further models, namely Probability of default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). The IFRS 9 standard requires SBM to utilise best estimates of Exposure At Default (EAD) for the computation of ECL. EAD is the sum of outstanding principal and interest payment due at the time of default.

The EAD framework has been developed by SBM's Risk Management Department with due support and consultations with numerous experts, departments and business units to establish expert guidance, data inputs, data reconciliation and methodology suitable to meet the IFRS 9 requirements.

Impairment

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

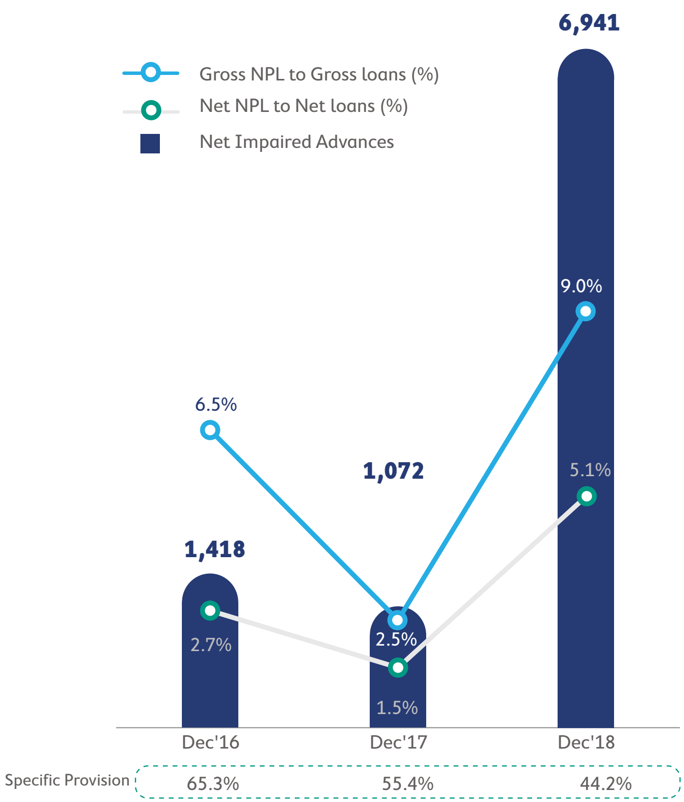
Provision for Impaired loans, where instalment of principal and interest are due and remain unpaid for 90 days, is maintained in accordance with the Bank of Mauritius guideline on Provision for Credit Losses and Income Recognition. Moreover, an in-depth recovery strategic plan is adopted to maximize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

Net Impairment as a % Net Advances

5.1%

(Dec 17: 1.5%)

Impairment Trend



Net non-performing advances as a percentage of net advances hiked to 5.1% in December 2018 from 1.5% in December 2017 as the bank prudently provisioned for a large cross-border group having unsubstantiated timely repayment. The Bank, through its robust recovery mechanism, undertakes an ongoing tracking of impaired clients. Monitoring of Sectoral impairment remains a key index for fuelling the growth strategy.

Historical figures have been restated following operation of India Ops as a WOS.

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. Moreover, it is an approach to assist customers who have changed their pay frequency or whose employer may be experiencing a temporary cash flow problem and who may require relief due to a more permanent change in their circumstances.

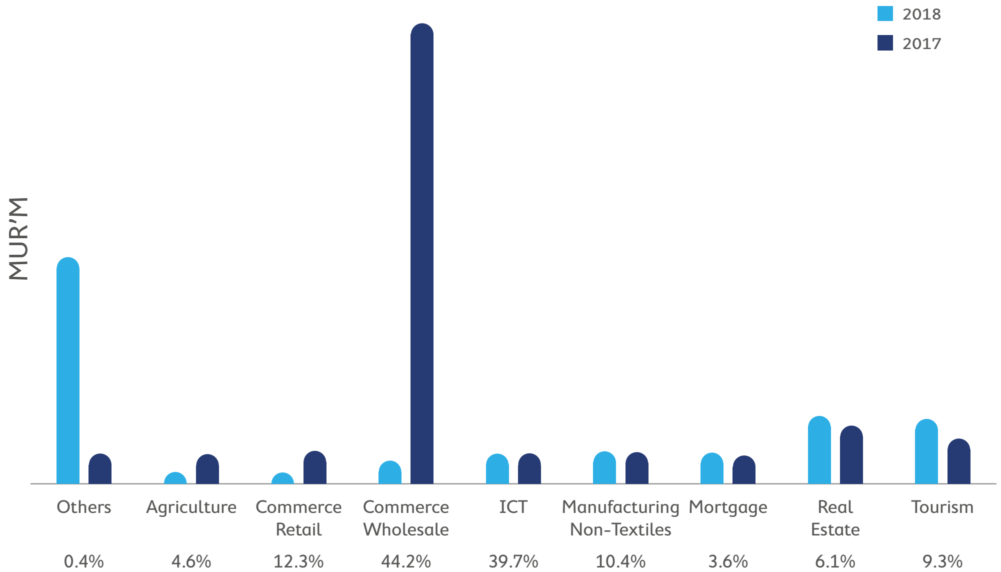
Total Rescheduled Loans as a % of Total Credit Portfolio

7.7%

(Dec 17: 3.7%)

As at 31 December 2018, total rescheduled loans stood at 7.7% of the credit portfolio, compared to 3.7% in December 2017. Surge in rescheduled facilities is linked with cross border entities within the Commerce Wholesale Sector.

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



Market Risk Management

The Bank has a sound and well-designed 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 and 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 to ensure that the products are within the policy and risk appetite, and that the processes are defined, systems are ready 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 for changes in portfolios, in order to detect possible incidents for their immediate correction. Within Risk Management, there is a Treasury Middle Office function which acts as a safeguard for market risk.

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 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 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 an increasing rate scenario and fall in a decreasing rate scenario for Mauritius Operations.

Impact of 200 bps parallel Rate change on Net Interest Income (NII) Mauritius Operations

7.1%

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 2018, the Mauritius Operations expected the NII to rise in an increasing rate scenario and fall in a decreasing rate scenario. An increase of 200 bps in interest rate would result in an improvement of 7.1% in NII whereas a decrease of 200 bps in rate would result in a contraction of the same percentage in NII. However, some liabilities would not be fully impacted by the downward shock of 2% given that interest rates thereon are not expected to fall below zero percent.

(Interest Rate Gap figures are provided in Note 37 (d) to the Financial Statements at pages 202 to 203)

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 negatively impacting on the Bank's financial condition.

Mauritius Operations FX Value at Risk

MUR1.3M

Not material relative to the Tier 1 Capital of Mauritius Operations

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 loss 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 316 million and operated well within the regulatory limit of 15% of Tier 1 Capital.

Exposures in foreign currency are given in Note 37 (d) to the Financial Statements on pages 205 to 206.

Value at Risk (VaR)

VaR 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 is summarized for the Bank as follows:

MUR'000	Minimum	Maximum	Year end
Mauritius	388.5	14,398.2	1,321.0

For Mauritius Operations, the VaR values were not material relative to the Bank's Tier 1 capital, standing at MUR 1.3 million as at 31 December 2018 (2017: MUR 1.2 million).

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 foreign currency derivatives.

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 the ALCO and the Investment Forum. Besides the local Gilt-edged securities and other HQLA Bonds denominated in USD, the Bank maintains a well-diversified portfolio comprising primarily of investment grade securities. The Bank had recourse to Interest Rate Swaps to hedge the risk linked to USD interest rates. The Bank does not have exposure to commodity price risk. All commodity products are done back-to-back, where the price risk is perfectly hedged.

Mauritius Operation's trading book has grown considerably during the last two years. The bond trading book consists primarily of HQLA Bonds and foreign currency derivatives products. New limits and additional monitoring has been set up to ensure that the transactions are within the risk appetite of the Bank.

The Bank's non-banking segment has exposure to price risk due to its holdings in equity as part of its strategy. These are independently valued and monitored.

Liquidity and Funding Risk

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.

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, corporate and high net worth clients, both local and international clients.

Consolidated LCR

140.2%

Above the Bank of Mauritius minimum requirement of 100%

Mauritius Operations NSFR

118.6%

Above the Basel III minimum requirement of 100%

Liquidity profile

The Bank has a strong 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 Bank 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. Liquidity risk is managed at source by the independent Financial Market functions of each banking entity.

(Liquidity Gap figures are provided in Note 37 (c) to the Financial Statements at pages 200 to 201)

Basel III Liquidity Ratios

As per the BOM Guideline on Liquidity Management, the LCR is maintained in significant currencies (i.e. MUR and USD) and on a consolidated basis. The Mauritius Operations has always been above the regulatory requirements since the introduction of LCR by BOM in November 2017.

Proactively, the Bank is already implementing NSFR in the liquidity risk framework in some jurisdictions

The LCR and LDR are shown in the following table:

	LCR	LDR
Mauritius	140.2%	63.9%

The average LCR was 136.3% which is significantly above the Basel requirement of 100%. The average stock of High Quality Liquid Assets amounts to MUR 35.8 billion. The Bank's portfolio of HQLA is mostly comprised of highly A-rated sovereign and Multilateral Development Banks (MDBs) bonds.

Funding

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 Loan to Deposit ratios are conservative. During 2018, the Mauritius Operations' core MUR deposits represented over 90% of the total funding, unchanged from the previous year, which is adequate to mitigate the related liquidity and funding risk given a high degree of stickiness. With the introduction of LCR, a significant portion of the funding was used to hold HQLA bonds.

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 the 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 processes, responsibilities and strategies for addressing liquidity shortfalls in unexpected situations.

Based on the results of the stress testing, the Bank is strong enough in terms of liquidity to face mild shocks. The growth in the stock of HQLA assets has improved the liquidity position.

Operational Risk Management

Over the years, the trend of the risks in the operational area has been evolving. To keep pace with the growing risks, our Operational Risk Management Team has constantly enhanced on its techniques and as a result, the Bank has, today, widely accepted risk management systems, processes and methodologies for operational risk.

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

To contain operational risks within acceptable limits and meet regulatory requirements – whilst protecting the entities within the Bank against financial losses as well as physical and reputational damages and ensuring continued service delivery and value creation – the following principles are abided by:

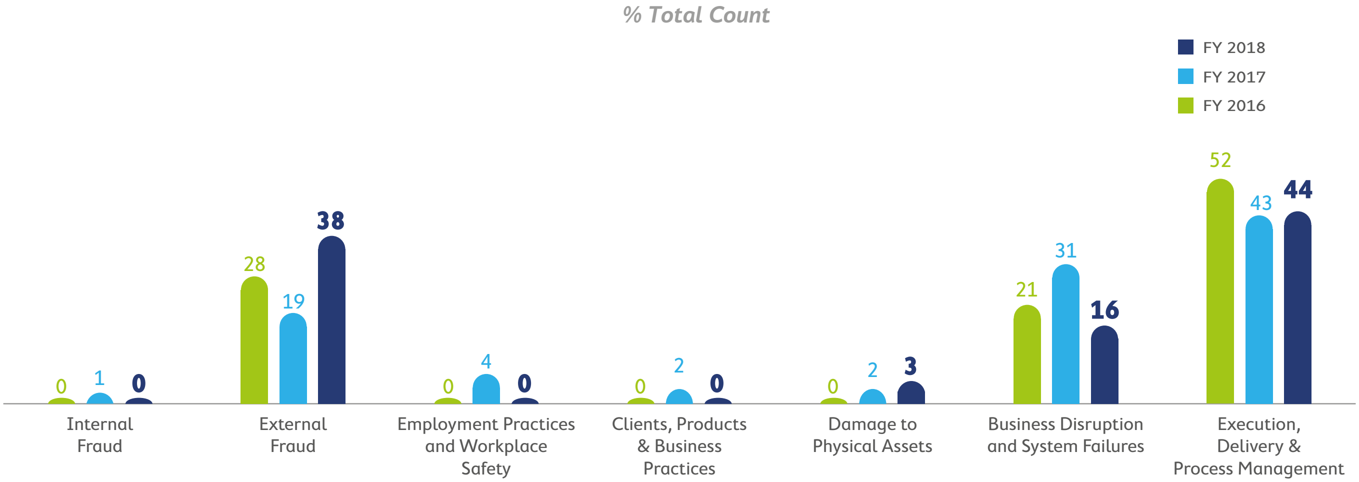
1. Data protection in compliance with internal policies and laws
2. Segregation of the roles and responsibilities of the three lines of defence
3. Definition of the risk appetite statement
4. Reporting of key risk metrics to Senior Management and the Board
5. Formulation and approval of policies by the Board
6. Monitoring of the business environment and geo-political configuration
7. Performance of scenario analysis forecasting worst case scenarios
8. Strong risk culture driven by the Board and Senior Management

In order to apply the principles, the following tools help in the identification and monitoring of operational risk:

- The capture and analysis of loss data
- The maintenance of a risk register
- The definition and monitoring of Key Risk Indicators (KRI)
- The conduct of Risk and Control Self-Assessment (RCSA)
- The review of process through performance of control attestation
- The risk assessment for all new products, services and systems
- The alignment of the different entities to the Bank risk management philosophy through the regular interaction with the Bank Risk Management function

Operational Loss

As illustrated in the bar chart below, in 2018, an increase in the absolute loss amount figure was observed which pertains mainly to external frauds. The Bank has witnessed external fraud cases in Segment B business and another external fraud was due to a cyber-attack that hit our SBM India operations allowing fraudulent SWIFT payments. Controls pertaining to internal processes and network securities have since been enhanced.



IT Risk

The Bank's operations are technology intensive. Our technology platforms are currently hosted and managed by our IT strategic partner offshore. 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 for new products.

To enable the Bank to regain control over its systems, customer data and reduce its dependency on third parties, initiatives are currently underway to repatriate all our systems in Mauritius.

During the year, we have undergone a number of unfortunate and longer than expected system downtimes, which has negatively impacted on customer service, one of our key strategic levers for growth. Even though the Bank has a robust information security framework in place, SBM Bank (India) was hit by a cyber-attack where an amount of MUR 630 million was involved. An amount of MUR 93 million was recognised as operational loss related to the cyber-attack for the year ending 31 December 2018.

Following the cyber-attack, our Information Security strategies have been further strengthened to ensure that the Bank remains protected from any malicious attacks. Business continuity procedures were also amended to ensure business continuity in case there is any cyber-attack at the Bank.

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

> Security awareness for staff and customers
> Security tools to detect and prevent cyber-attacks from outside
> Strong access control
> Regular vulnerability testing
> Backup systems to ensure business continuity

Business Continuity Management

In recent years, there have been numerous threats including cyber-attacks which have become increasingly common and natural disasters such as flooding. These threats have highlighted the importance of having an effective Business Continuity Management framework in order to save lives, mitigate damage and ensure a base level of continuity for essential activities.

In this context, the Bank pursues its efforts in upgrading and enforcing standards to protect employees, customers and other assets, by ensuring constant monitoring, reviewing, and improving of its Continuity Framework.

The main building blocks of the business continuity functions are:

1	Establish an appropriate internal and external communications protocol
2	Be specific regarding the immediate steps that are to be taken during a disruption
3	Be flexible to respond to unanticipated threat and changing internal and external conditions
4	Focus on the impact of events that could potentially disrupt operations
5	Be developed-based on stated assumptions and an analysis of interdependencies and
6	Be effective in minimising consequences through implementation of appropriate mitigation strategies

Due emphasis is laid on regular training for diligent adherence to established policies and procedures. Drills are also performed on a regular basis to identify gaps and areas for improvement as well as to determine the effectiveness of response and recovery strategies of the Bank.

Compliance Risk

The Bank continuously monitors development in the legal and regulatory environment and accommodates relevant changes in its governance and way of doing business. 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 (AML) and Combatting the Financing of Terrorism (CFT). The Bank Regulatory Compliance Team acts as a contact point with the different entities and jurisdictions, and delivers timely advice in relation to compliance queries.

As a proactive measure, the method of doing compliance review was revisited gradually in 2017. A risk-based approach was adopted whereby compliance check was being carried out prior to the on-boarding of customers, especially for local corporate, Global Businesses, SMEs and foreign customers – both individuals and companies. During 2018, an on-boarding team comprised of Senior Officers was set up to review, assess and approve the onboarding of specific clients. This system mitigates the regulatory and reputational risks the Bank could have faced .

The Bank's Policy on AML/CFT has been amended and aligned with the revised Guidance Notes on AML/CFT issued by the Bank of Mauritius and as required by local authorities in our countries of operations. This alignment ensures that there is no gap in the Bank's policy which avoids the Bank facing regulatory actions from the local regulator or legal actions from other legal authorities. The AML Compliance function is also equipped with specialised transaction monitoring and screening software in order to identify suspicious transactions and protect the Bank against potential money laundering or terrorist financing risks.

Regular trainings especially on AML/CFT are dispensed to staff members to strengthen skills, knowledge and increase the awareness level of employees in respect of their roles and obligations. Staff members then have to undergo a written test. This process ensures that our staffs are up to date with the regulatory requirements and that they operate in line with the requirements of the Regulator.

The Complaints cell reports to the Compliance function since June 2017. Risk and Compliance Governance has been reviewed to incorporate the Complaints cell of the Bank. This change ensures the independence of the Complaints function and that non-compliance issues are promptly identified and addressed. All the complaints received are reported to the Corporate Governance & Conduct Review Committee.

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

Fraud Risk

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

The Bank has a Board-approved Fraud Management Policy which is comprised of four major pillars – Deterrence, Detection, Mitigation and Response to fraud.

The Bank operates within the following key guiding principles:

- Zero tolerance towards 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.

In addition, the Mauritius Operations have a Proactive Risk Management Team involved in the card issuing and acquiring business, which monitors card transactions on a 24/7 basis.

Reputational Risk

Reputational risk is the risk that the Bank's reputation is damaged by one or more reputation events, as reflected, among others, in negative publicity about business practices, conducts or financial conditions of its various entities. Such negative publicity, whether true or not, may impair public and investor confidence in the Bank, resulting in costly litigation, or lead to a decline in its customer base, business, revenue or market value. The Bank closely and continuously assesses and monitors reputational risk and reports to the Risk Management Committee on a quarterly basis.

Dedicated complaints handling teams within each entity remain alert and sensitive to customer complaints, and ensure that all complaints are treated with sincerity, confidentiality and fairness. Furthermore, each banking entity has a Complaints Committee – comprised of Senior Executives – that meets on a 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.

Capital Management

SBM Bank maintains an actively managed capital base to:

- ensure that the Bank keeps, at any time, even in stress scenario, a capital adequacy ratio in conformity with the limits set under the regulatory framework
- Uphold creditor, investor and market confidence; and
- Sustain the future development of the business

The Bank uses, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the Bank of Mauritius to monitor its capital and like all previous years, SBM Bank has duly complied with all its externally imposed capital requirements for the financial year 2018.

There is a close monitoring of capital and leverage ratios to ensure that the Bank meets current and future regulatory requirements. SBM also uses the Internal Capital Adequacy Assessment Process (ICAAP) framework as per the Guideline on Supervisory Review Process issued by the Bank of Mauritius in April 2010 to work out comprehensive stress testing analysis to gauge whether the Bank has sufficient level of capital under various adverse scenarios.

Regulatory Capital Requirement

SBM Bank (Mauritius) Ltd is subject to capital adequacy rules issued by the Bank of Mauritius. These standards and rules are largely consistent with international standards set by the Basel Committee on Banking Supervision (BCBS). Regulators require banks to hold a minimum level of qualifying capital under Pillar 1 of the Basel III framework.

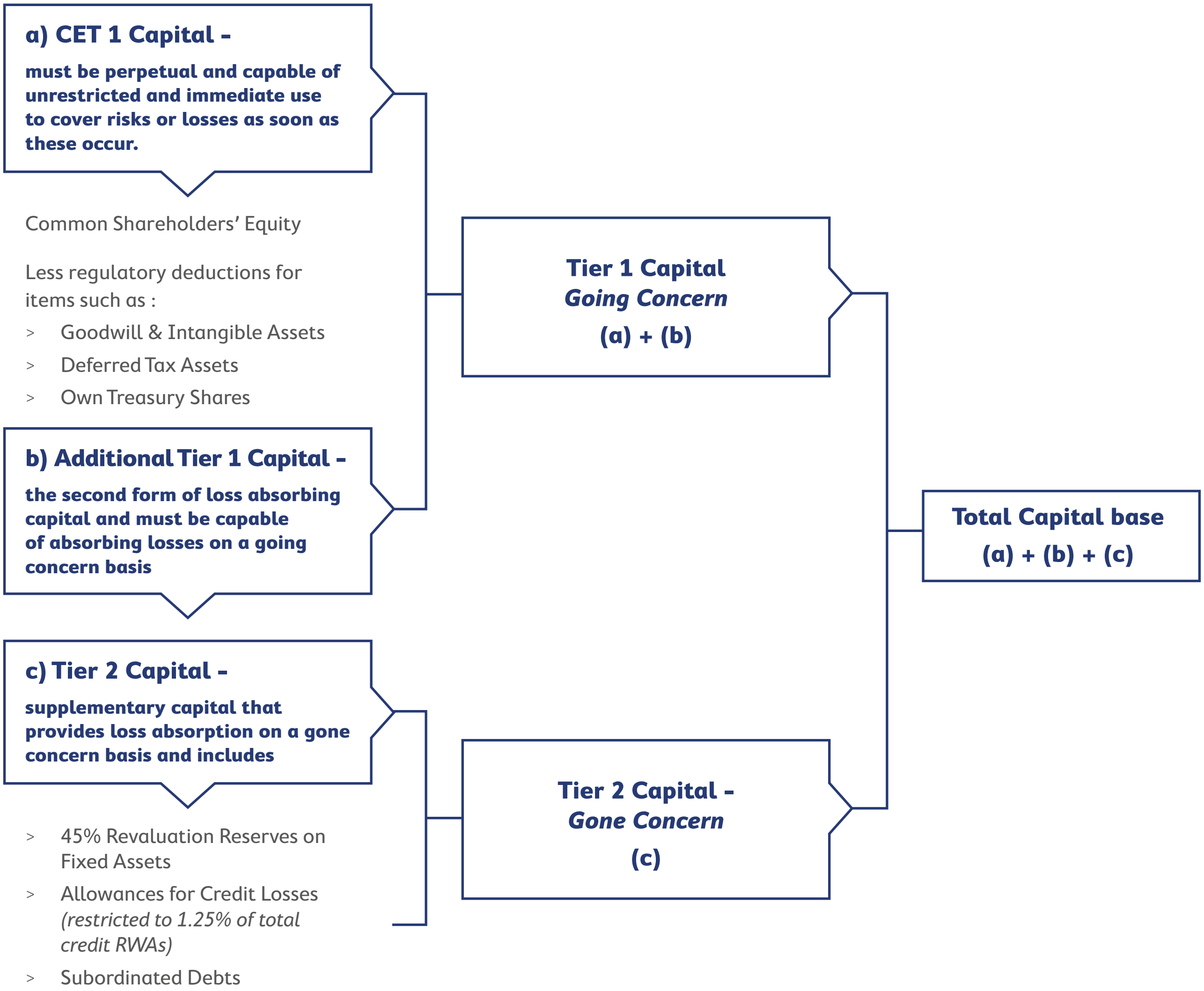
To determine the capital requirement, SBM adheres to the BOM Guideline on Scope of Application of Basel III and Eligible Capital, which came into effect as from July 2014. To manage its credit and market risk exposures, it uses the Basel II Standardised Approach while the Alternative Standardised Approach is used for Operational Risk.

SBM has to abide to additional capital requirement prescribed by BOM in respect of:

- **Capital Conservation Buffer (CCB)** which is being implemented in a phased manner since 1st January 2017 in line with the Basel III framework and which will contribute towards strengthening banks' capital against shocks. CCB increases by 0.625% per year until it reaches 2.5% of risk weighted assets on January 01, 2020.
- **Domestic Systemically Important Bank (D-SIB)** - SBM remains qualified as a D-SIB, which imposes on it an additional buffer of 1.125% over and above the benchmark of 11.25% for non D-SIB banks. This capital surcharge is subject to change based on BOM yearly assessment of June figures. D-SIBs are banks whose failure could have an impact on the domestic economy. SBM complies with the BOM guideline for Dealing with Domestic-Systemically Important Banks.

Minimum regulatory ratios applicable to SBM	Jan 2018	Jan 2019	Jan 2020
Minimum CET 1 CAR	6.500%	6.500%	6.500%
Minimum Tier 1 CAR	8.000%	8.000%	8.000%
Capital Conservation Buffer (CCB)	1.250%	1.875%	2.500%
DSIB Buffer - Minimum additional loss absorbency	1.125%	1.500%	1.500%
Minimum CET 1 CAR plus CCB + D-SIB	8.875%	9.875%	10.500%
Minimum Tier 1 CAR plus CCB + D-SIB	10.375%	11.375%	12.000%
Minimum Total CAR (Tier 1 + Tier 2) + CCB + D-SIB	12.375%	13.375%	14.000%

The three categories of risk-based capital and their predominant components under the Basel III rules are illustrated below:



Performance of SBM Bank (Mauritius) Ltd

In the last quarter of 2018, SBMBI (ex foreign branch) was deconsolidated from SBM Bank (Mauritius) Ltd and became a Wholly Owned Subsidiary (WOS) of SBM Holdings Ltd. Prior SBMBI becoming a WOS, its capital was being deducted from SBMBM in the computation of Capital Base for previous years as per BOM Guideline on Scope of Application and Eligible Capital satisfying criteria significant investment in the capital of banking entity.

As at December 2018, SBMBM's Tier 1 capital position increased to MUR13,421 million from MUR 11,793 million as at December 2017. Tier 1 Capital Adequacy Ratio (Tier 1 CAR) improved from 11.24% as at December 2017 to 13.49% as at December 2018. Capital Adequacy ratio stood at 15.11% as at December 2018.

The 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 at 31 December 2016, 2017 and 2018.

Note : Following deconsolidation of Indian Operations (ex foreign branch) from SBMBM in 2018, the 3 years figures stated below are for Mauritius Operations only.

Year ended 31 December Figures in MUR million	2018	2017	2016
Capital Base			
Common Equity Tier 1 Capital (CET 1)			
Share Capital	**310**	310	310
Capital Contribution	**11,044**	9,063	8,063
Statutory Reserves	**310**	310	310
Retained Earnings	**4,815**	8,487	6,136
Accumulated other Comprehensive Income and other disclosed Reserves	**(95)**	(19)	(25)
CET 1: Regulatory Adjustments			
Other Intangible Assets	**(2,963)**	(3,423)	(3,509)
Deferred Tax	**-**		(53)
Deducting Investment in Indian Ops		(2,936)	(2,936)
Common Equity Tier 1 Capital (CET 1)	**13,421**	11,793	8,296
Additional Tier 1 (AT 1)	**-**	-	-
Tier 1 capital (T1 = CET1 + AT1)	**13,421**	11,793	8,296
Tier 2 Capital			
Other Reserves (45% of surplus arising from Revaluation of land & Buildings)	**486**	503	519
Portfolio Provision	**1,129**	1,170	948
Tier 2 Capital	**1,615**	1,673	1,467
Total Capital Base	**15,036**	13,466	9,763
RISK WEIGHTED ASSETS (RWAs)			
Credit risk	**90,308**	97,151	69,955
On-balance sheet assets	**82,765**	88,434	66,755
Off-balance sheet exposures	**7,543**	8,718	3,199
Market risk	**777**	768	217
Operational risk	**8,434**	7,014	5,916
TOTAL RWAs	**99,518**	104,933	76,088
CAPITAL ADEQUACY RATIO (%)	**15.11**	12.83	12.83
of which Tier 1 Ratio	**13.49**	11.24	10.90

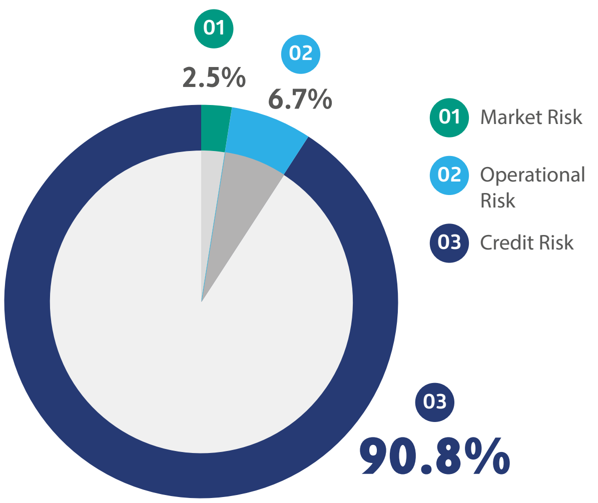
Risk Weighted Assets

Risk Weighted Assets are the Bank's total assets and off-balance sheet exposures, weighted according to risk and they are used to determine the minimum amount of regulatory capital that must be held by banks to maintain their solvency. For SBM, the RWAs are computed based on the BOM Guideline on Standardised Approach to Credit Risk, Guideline on Measurement and Management of Market Risk and Guideline on Alternative Standardised Approach for Operational Risk.

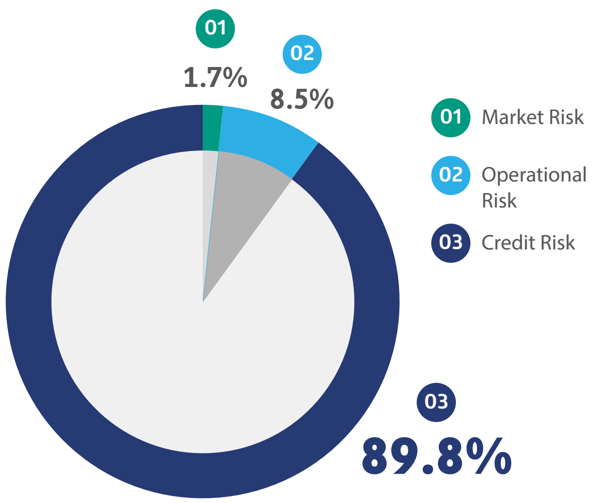
Capital Adequacy Ratio of the Bank stood at 15.1% as at end of December 18 with Capital Base growing by MUR 1.57 billion and risk weighted assets decreasing by Rs5.41 billion following SBM investing relatively more in high quality liquid assets with lower risk weight than previous year. Tier I Capital of the Bank has increased by 13.8% from MUR 11,793 million to MUR 13,421 million as at December 2018. The increase is primarily from capital contribution of MUR 1.9 billion from the Holding company coupled with retained profit after tax earned during the financial year less dividend payment. Both CET 1 ratio and Tier 1 ratio stood at 13.5% well above the minimum regulatory requirement of 8.875 % and 10.375% respectively.

Total Risk Weighted Assets as at 31 December 2018 was MUR 99.5 billion versus capital base of MUR 15.0 billion. Analysis by risk type:

2017



2018



a) Credit Risk

The calculation of regulatory capital for credit risk for both on-balance sheet and off-balance sheet exposures is based on risk weighting and the net counterparty exposures after recognising a limited set of qualifying collateral. The risk weighting as prescribed by BOM in their Guideline on Standardised Approach to Credit Risk, is based on the exposure characteristics. Moreover, banks are authorized by the Central Bank to use the below External Credit Assessment Institutions (ECAIs) for risk weighting exposures related to advances, placements and investments:

> Standard and Poor's Ratings Services
> Moody's Investors Service
> Fitch Ratings
> Credit Analysis and Research Limited (CARE)

The following tables provide Risk Weighted Assets for the Bank after credit risk mitigation (CRM) for both on-balance sheet and off-balance sheet assets:

Risk-Weighted on-balance sheet assets

Year ended 31 December

	2018			*2017*	*2016*
Figures in MUR million	**Amount**	**Weight %**	**Weighted Assets**	*Weighted Assets*	*Weighted Assets*
Cash Items	2,679	0-20	0.6	0.2	0.7
Claims on Sovereigns	40,986	0-100	2,520	3,055	1,030
Claims on Central banks	25,995	0-50	482	772	365
Claims on Banks	19,764	20-150	7,784	12,323	9,092
Claims on Non-Central Government Public Sector Entities	139	50-100	86	143	375
Claims on Corporates	40,365	0-100	39,922	46,341	33,848
Claims included in the Regulatory Retail Portfolio	7,968	0-75	5,976	5,116	6,153
Claims secured by Residential Property	22,035	35-125	8,688	8,054	5,925
Claims secured by Commercial Real Estate	4,572	100-125	4,641	2,988	3,456
Past due claims	4,876	50-150	5,747	1,199	1,635
Other Assets	6,918	100	6,918	8,443	4,877
Total On Balance Sheet RWAs	176,299		82,765	88,434	66,755

Risk Weighted Non Market related Off-Balance Sheet Assets

Year ended 31 December

	2018					*2017*	*2016*
Figures in MUR million	**Nominal Amount**	**Credit Conversion Factor**	**Credit Equivalent Amount**	**Weight (%)**	**Weighted Assets**	*Weighted Assets*	*Weighted Assets*
Direct Credit Substitutes	4,519	100	4,519	0-100	4,448	3,174	1,070
Transaction-Related Contingent items	3,230	50	1,615	0-100	1,442	1,923	1,524
Trade-Related Contingencies	458	20-100	195	0-100	190	405	151
Other Commitments	9,071	0-50	585	35-100	504	1,371	358
Total Off Balance Sheet RWAs	17,278		6,914		6,584	6,874	3,104

b) Market Related Risk

Market risk is the risk of loss from changes in market conditions including interest rates, equity prices, foreign exchange rates and commodity prices, the correlations between them and their levels of volatility.

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 banking institution is required to hold additional capital whenever its overall position in trading book activities exceeds 5% or more of its total assets. A banking institution 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 substantially grew its derivatives book on behalf of its customers and positions were partly hedged within internal Board approved limits.

Table below provides figures for the RWAs market related off-balance sheet assets:

Market related Off-balance Sheet RWAs

Year ended 31 December	2018						2017	2016
Figures in MUR million	Notional principal amount	Credit conversion factor (%)	Potential future exposure	Current exposure	Credit equivalent amount	Weighted Assets	*Weighted Assets*	*Weighted Assets*
Interest Rate contracts	14,152	0 - 1.5	97	19	116	56	22	47
Foreign Exchange contracts	32,442	1 - 5	580	124	703	445	1,722	48
Equity contracts	49	8	4	0	4	2		
Other commodity contracts	3,781	10 - 12	433	56	489	311		
Credit derivative contracts	1,177	10 - 20	235	0	235	144	100	
Total Market RWAs	51,601		1,350	199	1,548	959	1,844	96

The total market-related off balance sheet RWA decreased from MUR 1.8 billion as at December 2017 to MUR 959 million as at December 2018 primarily due to lower foreign exposures.

The following table provides the comparative figures for the aggregate net open foreign exchange position for the Bank:

Year ended 31 December	2018	*2017*	*2016*
Figures in MUR million			
Aggregate net open foreign exchange position	370	326	217

c) Operational Risk Capital

Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to external events, human error, or the inadequacy or failure of processes, procedures, systems or controls. SBM has adopted the Alternative Standardised Approach for calculating operational risk capital as per the BOM Guideline on Operational Risk.

In line with increasing business volumes, capital charge for Operational Risk is increasing year on year.

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

Year ended 31 December	2018	*2017*	*2016*
Figures in MUR million			
Capital charge for Operational Risk	843	701	592

Leverage Ratio

The leverage ratio represents a non-risk-adjusted capital requirement to function as a further “backstop” measure for risk-based capital. The non-risk-based leverage measure is designed to complement the Basel III risk-based capital framework.

As at 31 December 2018, the leverage ratio for the Bank stood at 7.07% that is, largely above the Basel Committee on Banking Supervision recommended minimum of 3%. As at date, there is no regulatory requirement to compute the leverage ratio.

Looking Ahead

SBM is fully committed to maintain sound capitalization levels. It continuously monitors and adjusts its overall capital demand and supply in an effort to achieve an appropriate balance of economic and regulatory considerations at all times and from all perspectives.

Statement of Directors' Responsibility

FOR THE YEAR ENDED 31 DECEMBER 2018

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 non-executive directors submit themselves for election / re-election as laid out in the Constitution and the National 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.

Company law requires the directors to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Bank. The external auditors are responsible for reporting on whether the Financial Statements are fairly presented. The Bank's external auditors, Ernst & Young, have full and free access to the Board of Directors and its committees to discuss the audit matters arising therefrom, such as their observations on the fairness of financial reporting and the adequacy of internal controls.

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

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 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 2018 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 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 National Code of Corporate Governance for Mauritius in all material aspects; 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 121 to 125.

Parvataneni Venkateswara Rao
Acting Chief Executive

Ishwar Anoopum Gaya
Chairman, Audit Committee

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

31 March 2019

Statement of Management's Responsibility for Financial Reporting

FOR THE YEAR ENDED 31 DECEMBER 2018

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 and 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.

Parvataneni Venkateswara Rao
Acting Chief Executive

Ishwar Anoopum Gaya
Chairman, Audit Committee

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

31 March 2019

Report from the Company Secretary

FOR THE YEAR ENDED 31 DECEMBER 2018

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).

Preshnee Ramchurn

Company Secretary

31 March 2019

Independent Auditor's Report

TO THE MEMBERS 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 126 to 221 which comprise the statement of financial position as at 31 December 2018, 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 2018, 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, Banking Act 2004 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 Bank 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>

Expected credit losses (ECL) -impaired facilities

The Bank has net loans and advances portfolio of MUR 94.39 billion at 31 December 2018. As explained in the accounting policies, these loans and advances are carried at amortised cost, less allowance for credit impairment MUR 4.22 billion for impaired facilities and MUR 1.28 billion for non-impaired facilities respectively.

A financial asset is considered to be credit impaired in accordance with IFRS9 when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Identification of credit-impaired facilities and determination of the expected credit losses thereon involves significant judgement, estimates and assumptions regarding (i) the determination of whether a facility is credit impaired and (ii) in estimating the forecasted cash flows that the Bank expects to receive from the obligors. This includes an estimate of what the Bank can realise from the collaterals it holds as security on the impaired facilities.

During the year, the Bank experienced events of default on two groups of borrowers with exposure totalling MUR 8.44 billion of which MUR 3.42 billion are secured by cash collaterals. The impairment loss recorded on these exposures amounted to MUR 1.46 billion.

Refer to Note 9 for accounting policy on loans and advances and allowance for credit impairment (stage 3). Given the size of the loans and advances of the Bank (51.3 % of total assets), we identified the determination of the allowance for expected credit losses on loans and advances as a key audit matter.

</td><td>

We reviewed and assessed the design of the controls over the identification of facilities that are credit impaired and the related calculations of expected credit losses, including the quality of underlying data and systems.

For impairment of loans in stage 3, judgement is required to determine when a loan is considered to be credit impaired and the determination of the impairment loss suffered. 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. We thus assessed the independence and the qualification of the appraisers. Areas of focus included the corporate and international banking lending portfolios which represent high value exposures.

- We ensured that all credit impaired loans have been properly identified by management by:
- Reviewing the minutes of the impaired asset review forum, Management Credit forum, Board Credit Committee;
- Obtaining and testing loan arrears reports and ensuring that all arrears exceeding 90 days are included in the stage 3 impairment list of the ECL model;
- Identifying loan facilities meeting certain criteria such as financial difficulties of the borrower, restructured loans, insufficient collaterals and exposures to sectors in decline and ensuring these are included in the list of credit impaired facilities.

For loans that are credit impaired, we independently assessed the appropriateness of provisioning methodologies and policies and formed an independent view on the levels of provisions booked based on the detailed loan and counterparty information in the credit files. We re-performed calculations within a sample of discounted cash flow models and assessed the reasonableness of assumptions used to support the timing and extent of the cash flows.

Where the borrowers' cash flow forecasts are used to determine recoverable amounts, we ensured that these are supported by objective and unbiassed evidence.

With respect to two groups of borrowers for which the Bank recorded an impairment loss of MUR 1.46 billion, we performed the following audit procedures:

- We examined the pattern of cash flows from the obligors, the status of the days past due and the events of default on the facilities to determine whether these facilities should be considered to be credit-impaired.
- We examined the loan contracts and supporting documents including the collaterals given to secure the facilities.
- We reviewed and assessed Management's expected cash flows from the realisation of collaterals and other assets (owned by the directors / owners of the borrowing entities) through other legal routes considered by the Bank. We evaluated the viability of such other actions to recover additional cash flows.
- We evaluated Management's estimates and judgement around the likelihood and extent of recovery based on factual and supportable evidences provided by Management.
- We considered the events after the year end and assessed the impact on the financial statements at year end.
- We recalculated the allowance for expected credit losses based on the outcome of the above procedures.

</td></tr>
</table>

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key Audit Matter	How the matter was addressed in the audit
Expected credit losses (ECL) – facilities which are not credit impaired The determination of ECL on loans and advances which are not credit impaired involves the highest level of management judgement, thus requiring greater audit attention. Specific areas of judgement and estimation uncertainty include: • Identification of significant increase in credit risk (SICR), and in particular the selection of criteria to identify a SICR. These criteria are highly judgemental and can materially impact the ECL recognised for certain portfolios where the life of the facilities is greater than 12 months; • Complexity of the ECL model involving a number of critical assumptions in the determination of probabilities of default (PD), loss given default (LGD) and Exposure at default (EAD). • Use of forward looking information to determine the likelihood of future losses being incurred. • Qualitative adjustments made to model driven ECL results raised to address model limitations, emerging risks and trends in underlying portfolios which are inherently judgemental. • Accuracy and adequacy of the financial statement disclosures	IFRS 9 was implemented by the Bank on 1 January 2018. This new standard requires the Bank to recognise expected credit losses (ECL) on financial instruments which involves significant judgement and estimates to be made by the Bank. The carrying value of financial instruments within the scope of IFRS 9 may be materially misstated if judgements or estimates made by the Bank are inappropriate. For stage 1 and stage 2 loans, we assessed the appropriateness of the model used including the inputs and assumptions by performing the following procedures: • Reviewing the methodology adopted by the Bank for calculation of ECL and in particular the segmentation of loans in appropriate portfolios reflecting different risk factors. Our review also includes an assessment of the design of the models used for determination of PD, LGD and EAD for different types of loans including inter-alia terms loans, overdraft facilities, credit cards, guarantees and other off-balance sheet exposures; • Checking the adequacy and quality of the data used for the calculation of PD, LGD and EAD; • Assessing the key assumptions used in PD, LGD and EAD models and ensure such assumptions reflect the actual behaviours of the credit facilities; • Reviewing the criteria for staging of credit exposures and ensure these are in line with the requirements of IFRS 9 including any backstops used in the methodology; • Reviewing the minutes of Watchlist Review Committee and ensure proper classification to stage 2 is made for all clients on watchlist; • Checking the accuracy of critical data elements input into the system used for credit grading and the approval of credit facilities; • Review of the PD and LGD calculations including the incorporation of forecast macro-economic information by our data modelling specialists; • Tested the accuracy and completeness of the ECL model by reperformance and focussing on exception reports. • We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards including disclosure of transition from IAS 39.

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 Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 identified above (other than the Corporate Governance Report) when it becomes available 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.

Corporate Governance report

The Directors are responsible for preparing the Corporate Governance Report. Our responsibility under the Financial Reporting Act is to report on the compliance with the Code of Corporate Governance (''the Code'') disclosed in the annual report and assess the explanations given for non-compliance with any requirement of the Code. From our assessment of the disclosures made on corporate governance in the annual report, the Bank has, pursuant to section 75 of the Financial Reporting Act, complied with the requirements of the Code.

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.

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 Bank'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 Bank'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 Bank 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.

Use of our report

This report is made solely to 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.

Independent Auditor's Report

TO THE MEMBERS OF SBM BANK (MAURITIUS) LTD

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, tax advisors 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.

ERNST & YOUNG

Ebène, Mauritius

Date: 31 March 2019

PATRICK NG TSEUNG, A.C.A.

Licensed by FRC

Statement of Financial Position

AS AT 31 DECEMBER 2018

	Notes	**31 December 2018**	*31 December 2017*	*31 December 2016*
		MUR' 000	*MUR' 000*	*MUR' 000*
ASSETS				
Cash and cash equivalents	6	**11,211,712**	15,620,778	9,423,941
Mandatory balances with central banks		**8,767,767**	8,712,062	6,945,570
Loans to and placements with banks	7	**11,764,358**	8,895,860	4,645,911
Derivative financial instruments	8	**762,855**	1,356,774	165,997
Loans and advances to non-bank customers	9	**94,296,051**	100,839,231	71,158,114
Investment securities	10	**50,934,309**	37,150,731	34,410,974
Equity investments	10	**3,411**	370	4,058
Property and equipment	11	**2,458,814**	2,631,782	2,750,051
Intangible assets	12	**2,962,920**	3,457,061	3,769,919
Deferred tax assets		**-**	95,461	215,320
Other assets	13	**823,653**	923,892	600,752
Total assets		**183,985,850**	179,684,002	134,090,607
LIABILITIES				
Deposits from banks	15	**796,117**	739,926	2,711,364
Deposits from non-bank customers	16	**147,530,840**	141,695,769	108,302,387
Other borrowed funds	17	**11,773,938**	13,116,593	4,540,509
Derivative financial instruments	8	**758,642**	1,334,584	182,406
Current tax liabilities		**474,487**	105,869	358,908
Deferred tax liabilities	18b	**163,996**	170,905	-
Other liabilities	19	**5,020,635**	4,163,207	2,240,596
Total liabilities		**166,518,655**	161,326,853	118,336,170
SHAREHOLDER'S EQUITY				
Stated capital	20	**310,000**	310,000	310,000
Capital contribution	20	**11,044,011**	9,063,106	8,063,106
Retained earnings		**4,817,518**	7,855,520	6,193,747
Other reserves	38	**1,295,666**	1,128,523	1,187,584
Total equity		**17,467,195**	18,357,149	15,754,437
Total equity and liabilities		**183,985,850**	179,684,002	134,090,607

Approved by the Board of Directors and authorised for issue on 31 March 2019.

Parvataneni Venkateswara Rao
Acting Chief Executive

Ishwar Anoopum Gaya
Chairman, Audit Committee

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

The notes on pages 131 to 221 form an integral part of these financial statements.

Statement of Profit or Loss

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	31 December 2018	*Restated* 31 December 2017	*Restated* 31 December 2016
		MUR' 000	*MUR' 000*	*MUR' 000*
Interest income		**7,156,372**	6,074,890	5,396,550
Interest expense		**(1,665,006)**	(1,569,129)	(1,361,267)
Net interest income	26	**5,491,366**	4,505,761	4,035,283
Fee and commission income		**1,061,666**	1,005,274	976,780
Fee and commission expense		**(23,015)**	(22,396)	(20,725)
Net fee and commission income	27	**1,038,651**	982,878	956,055
Other income				
Profit arising from dealing in foreign currencies		**679,738**	431,483	489,976
Net gain/(loss) from financial instruments	28	**500,133**	519,821	(24,831)
Net gain on sale of securities	29	**173,554**	430,897	423,849
Other operating income		**-**	61	4,204
		1,353,425	1,382,262	893,198
Non-interest income		**2,392,076**	2,365,140	1,849,253
Operating income		**7,883,442**	6,870,901	5,884,536
Personnel expenses	30	**(1,336,294)**	(1,363,396)	(1,275,812)
Depreciation of property and equipment		**(145,188)**	(149,163)	(148,237)
Amortisation of intangible assets		**(549,948)**	(493,091)	(191,254)
Other expenses	31	**(703,303)**	(839,940)	(829,031)
Non-interest expense		**(2,734,733)**	(2,845,590)	(2,444,334)
Profit before credit loss expense		**5,148,709**	4,025,311	3,440,202
Credit loss expense on financial assets	32	**(3,010,356)**	(228,024)	(414,878)
Profit before income tax		**2,138,353**	3,797,287	3,025,324
Tax expense	18a	**(676,988)**	(494,135)	(632,160)
Profit for the year from continuing operations		**1,461,365**	3,303,152	2,393,164
Discontinued operations				
Loss after tax for the period/year from discontinued operations	39	**(221,374)**	(691,859)	(184,552)
Loss on distribution of dividend in specie	39	**(685,838)**	-	-
		(907,212)	(691,859)	(184,552)
Profit for the year		**554,153**	2,611,293	2,208,612

Comparatives have been restated in view of discontinued operations. Further disclosures are available in Note 39.

The notes on pages 131 to 221 form an integral part of these financial statements.

Statement of other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	31 December 2018	*Restated* 31 December 2017	*Restated* 31 December 2016
		MUR' 000	*MUR' 000*	*MUR' 000*
Profit for the year		**554,153**	2,611,293	2,208,612
Other comprehensive income :				
Items that will not be reclassified subsequently to profit or loss (net of deferred tax):				
Increase in revaluation of property		-	-	1,480
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	14 & 18b	**(27,802)**	(32,881)	1,599
		(27,802)	(32,881)	(21,928)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations*		**564,044**	(28,403)	(76,609)
Available-for-sale investments				
Movement in fair value of available-for-sale investments		-	182,180	233,005
Fair value re-cycled on disposal of available-for-sale investments		-	(175,477)	(187,436)
Investment securities measured at FVTOCI (Debt instruments)				
Movement in fair value during the year		**(138,912)**	-	-
Fair value re-cycled on disposal		**1,491**	-	-
Loss allowance relating to debt instruments held at FVTOCI		**26,415**	-	-
		453,038	(21,700)	(31,040)
Total other comprehensive income/(loss)		**425,236**	(54,581)	(52,968)
Total comprehensive income for the year		**979,389**	2,556,712	2,155,644

* Out of this balance, MUR'000 124,096 arose as exchange differences on translation of the Indian Operations for the period ended 30 November 2018 and cummulative translation reserve arising on the discontinued Indian Operations have been recycled to the *Statement of Profit or Loss* (Refer to Note 39).

The notes on pages 131 to 221 form an integral part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Stated capital	Capital contribution	Retained earnings	Statutory reserve	Fair value reserve on financial instruments recognised in OCI	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 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	20	-	1,000,000	-	-	-	-	-	1,000,000
Transfer to retained earnings		-	-	37,361	-	-	(37,361)	-	-
Dividend	21	-	-	(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
At 01 January 2018		**310,000**	**9,063,106**	**7,855,520**	**530,390**	**(18,712)**	**1,180,889**	**(564,044)**	**18,357,149**
Impact of adopting IFRS 9	4	**-**	**-**	**(250,070)**	**-**	**34,993**	**-**	**-**	**(215,077)**
Restated opening balance under IFRS 9		**310,000**	**9,063,106**	**7,605,450**	**530,390**	**16,281**	**1,180,889**	**(564,044)**	**18,142,072**
Profit for the year		**-**	**-**	**554,153**	**-**	**-**	**-**	**-**	**554,153**
Loss allowance relating to debt instruments held at FVTOCI		**-**	**-**	**-**	**-**	**26,415**	**-**	**-**	**26,415**
Other comprehensive (loss)/income for the year		**-**	**-**	**(27,802)**	**-**	**(137,421)**	**-**	**564,044**	**398,821**
Total comprehensive income/(loss) for the year		**-**	**-**	**526,351**	**-**	**(111,006)**	**-**	**564,044**	**979,389**
Capital contribution received during the year	20	**-**	**1,980,905**	**-**	**-**	**-**	**-**	**-**	**1,980,905**
Transfer to retained earnings		**-**	**-**	**37,690**	**-**	**-**	**(37,690)**	**-**	**-**
Cash dividend	21	**-**	**-**	**(1,100,500)**	**-**	**-**	**-**	**-**	**(1,100,500)**
Distribution in specie leading to derecognition of foreign operations	39			**(2,251,473)**	**(220,390)**	**-**	**(62,808)**	**-**	**(2,534,671)**
At 31 December 2018		**310,000**	**11,044,011**	**4,817,518**	**310,000**	**(94,725)**	**1,080,391**	**-**	**17,467,195**

The notes on pages 131 to 221 form an integral part of these financial statements.

Statement of Cashflows

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
		MUR' 000	*MUR' 000*	*MUR' 000*
Net cash used in operating activities	33	**(3,486,978)**	(1,891,999)	(265,084)
Cash flows from financing activities				
Increase in other borrowed funds		**367,610**	8,576,084	2,408,011
Capital contribution received during the year	20	**1,980,905**	1,000,000	-
Dividend paid on ordinary shares	21	**(1,100,500)**	(954,000)	-
Net cash from financing activities		**1,248,015**	8,622,084	2,408,011
Cash flows used in investing activities				
Acquisition of property and equipment	11	**(139,653)**	(37,521)	(126,947)
Acquisition of intangible assets	12	**(228,308)**	(183,952)	(1,600,238)
Disposal of property and equipment		**-**	-	824
Acquisition of equity investments		**(3,041)**	-	-
Net cash used in investing activities		**(371,002)**	(221,473)	(1,726,361)
Net change in cash and cash equivalents		**(2,609,965)**	6,508,612	416,566
Net foreign exchange difference		**(71,792)**	(311,775)	28,889
Cash transfer upon distribution in specie of the Indian Operations		**(1,727,309)**	-	-
Cash and cash equivalents at start of year	6	**15,620,778**	9,423,941	8,978,486
Cash and cash equivalents at end of year	6	**11,211,712**	15,620,778	9,423,941

The notes on pages 131 to 221 form an integral part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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 STANDARD AND INTERPRETATION (IFRS)

New and amended standards and interpretations

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 2018.

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

	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 7 Financial Instruments (Revised)	01-January-2018
IFRIC 22 Foreign currency transactions and advance consideration	01-January-2018

The Bank applied IFRS 9, IFRS 7 (Revised) and IFRS 15 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 9 Financial instruments

SBM Bank (Mauritius) Ltd has retrospectively adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 01 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments; Recognition and Measurement. The new standard brings about fundamental changes to the accounting and measurement for financial assets, certain aspects of accounting for financial liabilities and changes in the method of impairment loss calculation for financial assets. As permitted by IFRS 9, the Bank has elected to continue applying IAS 39 for hedge accounting requirements.

The Bank has not restated comparative information for the financial years 2017 and 2016 for financial instruments in the scope of IFRS 9. Therefore, the comparative information are reported under IAS 39 and is not comparable to the information presented for the financial year 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 01 January 2018 and are disclosed in Note 4.

The key changes to the accounting policies of the Bank on account of introduction of IFRS 9 have been summarised below:

Changes to classification and measurement

To determine the classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Bank's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available-for-sale (AFS), held-to-maturity (at amortised cost) and loans and receivables have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVTOCI), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVTOCI, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets at FVTPL.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed. The Bank's accounting policies for embedded derivatives are set out in Note 8.

2 APPLICATION OF NEW AND REVISED STANDARD AND INTERPRETATION (CONT'D)

IFRS 9 Financial instruments (cont'd)

Changes to classification and measurement (cont'd)

The Bank's classification of its financial assets and liabilities is explained in Note 4. The quantitative impact of applying IFRS 9 as at 01 January 2018 is disclosed in Note 4.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 9 c. The quantitative impact of applying IFRS 9 as at 01 January 2018 is disclosed in Note 4.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

There has been no significant effect on the financial statements of the Bank upon adoption of this new IFRS.

IFRS 7 Financial Instruments (Revised)

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 01 January 2018. Changes include transition disclosures as shown in Note 4, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 9 and Note 32.

Reconciliations from opening to closing ECL allowances are presented in Notes 7, 9, 10 and 22. IFRS 7R also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

IFRIC 22 Foreign currency transactions and advance consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the Bank must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Bank's financial statements.

Standards issued but not yet effective applicable to the Bank

	Effective for accounting period beginning on or after
IFRS 16 Leases	01-January-2019
IFRIC 23 Uncertainty over Income Tax Treatments	01-January-2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	01-January-2019
Amendments to References to the Conceptual Framework in IFRS Standards	01-January-2020
Definition of Material (Amendments to IAS 1 and IAS 8)	01-January-2020

2 APPLICATION OF NEW AND REVISED STANDARD AND INTERPRETATION (CONT'D)

New and amended standards and interpretations (cont'd)

Standards issued but not yet effective applicable to the Bank (cont'd)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRS 4 Determining whether an arrangement contains a lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 sets out the principles for the recognition measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees: leases of 'low-value' assets and short term leases (i.e. leases with lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the right-of-use of the asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use of the asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (i.e. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use of the asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases under the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosure than under IAS 17.

Transition to IFRS 16

IFRS 16 is effective for annual periods beginning on or after 01 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard either a full retrospective or a modified retrospective approach. The standard's transition provision permits certain reliefs.

The Bank plans to adopt IFRS 16 using the modified retrospective approach, which means it will apply the standard from 01 January 2019, the cumulative impact of adoption will be recognised as at 01 January 2019 and comparatives will not be restated.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the underlying assets is of low-value. The Bank has leases of certain office equipments that are considered as low-value. No practical expedient will be used.

In 2018, the Bank continued to progress its detailed impact assessment and implementation of IFRS 16. Much of the early part of 2018 was spent focusing on reviewing contracts, aggregating data to support the evaluation of the accounting impacts and identifying where key policy decisions were required.

The Bank for the moment is not expecting to invest on software given the low volume of assets under lease.

Impact on the statement of financial position as at 01 January 2019:

	MUR '000
Assets	
Property, plant and equipment (right-of-use)	316,012
Liabilities	
Lease liabilities	316,012

Net impact on equity

Work completed by the Bank to date indicates the new leases standard is expected to have a material effect on the Bank's financial statements as it will significantly increase the Bank's assets and liabilities (as described above). In addition, compared with the existing accounting for operating leases, the classification and timing of expenses will be impacted which may lead to some improvement in the Bank's operating profit, while its interest expense and depreciation of these assets will increase. This is due to the change in accounting for expenses of leases that were classified as operating leases under IAS 17. In addition, the classification between cash flow from operating activities and cash flow from financing activities will also change. Many commonly used financial ratios and performance metrics for the Bank, using existing definitions, will also be impacted including net debt, EBITDA, operating cash flows.

The impact on deferred tax is still being assessed by the Bank.

2 APPLICATION OF NEW AND REVISED STANDARD AND INTERPRETATION (CONT'D)

Standards issued but not yet effective applicable to the Bank (cont'd)

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

Definition of Material (Amendments to IAS 1 and IAS 8)

The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

The Bank is still assessing the impact of these new standards and interpretations on its financial statements.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

3.1 Expected credit losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining credit losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a long term ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

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) Assessment of useful lives - Note 12

(ii) Pension benefits - Note 14

(iii) Fair value of equity investments - Note 10

(iv) Fair value of other financial assets and liabilities - Note 37 (a)

4 TRANSITION DISCLOSURES

The table below sets out the impact of adopting IFRS 9 on the *statement of financial position*, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

Summary of impact on classification and measurement of financial assets and liabilities as on 01 January 2018.

Particulars	IAS 39 measurement category	New measurement category under IFRS 9	As on 01 January 2018 Original carrying amount under IAS 39 (MUR' 000)	New carrying amount under IFRS 9 (MUR' 000)	Movement booked in Retained earnings (MUR' 000)
Cash and cash equivalents	Loans and receivables	Amortised cost	15,620,778	15,604,580	16,198
Mandatory balances with central banks	Loans and receivables	Amortised cost	8,712,062	8,712,062	-
Loans to and placements with banks	Loans and receivables	Amortised cost	8,895,860	8,879,803	16,057
Derivative financial instruments	Fair value through P&L	Fair value through P&L	1,356,774	1,356,774	-
Loans and advances to non-bank customers	Loans and receivables	Amortised cost	100,839,231	100,820,640	18,591
Investments - AFS (Equity and/or Debt Instruments)*	Available for sale	Fair value through OCI	11,268,400	11,268,400	34,993
Investments - HFT	Fair value through P&L	Fair value through P&L	6,676,489	6,676,489	-
Investments - HTM	Held to maturity	Amortised cost	19,206,212	19,189,864	16,348
Deposits from banks	Amortised cost	Amortised cost	739,926	739,926	-
Deposits from non-bank customers	Amortised cost	Amortised cost	141,695,769	141,695,769	-
Derivative financial instruments	Fair value through P&L	Fair value through P&L	1,334,584	1,334,584	-
Other liabilities	Amortised cost	Amortised cost	4,163,207	4,163,207	-
Other borrowed funds	Amortised cost	Amortised cost	13,116,593	13,116,593	-
Off balance sheet items	Off balance sheet	Off balance sheet	12,291,283	12,175,322	115,961
Other credit commitments	Off balance sheet	Off balance sheet	14,238,833	14,181,930	56,903
Total adjustments made to retained earnings					275,051

(a) Debt instruments that were previously classified at available-for-sale were assessed to have a business model whose objective is achieved both by collecting contractual cash flows and selling the financial assets, and are accordingly classified at FVTOCI under IFRS 9.

Reconciliation of carrying amount of financial instruments in the statement of financial position from IAS 39 to IFRS 9 as on 01 January 2018 is shown under note 4 below:

Reconciliation of impairment allowance balance between IAS 39 and IFRS 9: This table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new credit loss allowance measured in accordance with the IFRS 9 expected credit loss model as on 01 January 2018.

Measurement category	Credit loss allowance under IAS 39 (MUR' 000)	Re-classification (MUR' 000)	Re-measurement (MUR' 000)	Credit loss allowance under IFRS 9 (MUR' 000)
Loans and receivables (IAS39) / Financial assets at amortised cost (IFRS 9)				
(i) Cash and cash equivalents	-	-	16,198	16,198
(ii) Loans and advances to banks	-	-	16,057	16,057
(iii) Loans and advances to non-bank customers	3,420,848	-	18,591	3,439,439
(iv) Investment securities	-	-	54,341	54,341
(v) Memorandum Items**	-	-	172,864	172,864
Total	**3,420,848**	**-**	**275,051**	**3,695,899**

* ECL allowance on debt instruments at FVTOCI are debited to profit and loss and credited to fair value reserve on financial instruments recognised in other comprehensive income.

** Memorandum items include acceptances, contingent liabilities, financial guarantee contracts and other credit commitments. Further details are disclosed in Note 22.

4 TRANSITION DISCLOSURES (CONT'D)

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Retained earnings MUR' 000
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	7,855,520
Reclassification adjustments in relation to adopting IFRS 9:	
Re-measurement impact of reclassifying financial assets held at amortised cost to FVTPL	-
Re-measurement impact of the reclassification of financial liabilities at FVTPL reclassified to amortised cost	-
Investment securities (debt and equity) from available-for-sale to FVTPL	-
Recognition of IFRS 9 ECLs including those measured at FVTOCI	(269,791)
EIR adjustments made in foreign operations*	(5,260)
Deferred tax in relation to the above	24,981
Opening balance under IFRS 9 (01 January 2018)	7,605,450
Total change in equity due to adopting IFRS 9	250,070

	Fair value instruments recognised in OCI MUR' 000
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	(18,712)
Recognition of IFRS 9 ECLs including those debt instruments measured at FVTOCI	34,993
Opening balance under IFRS 9 (01 January 2018)	16,281
Total change in fair value due to adopting IFRS 9	34,993

The following table reconciles the aggregate opening credit loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9. Further details are disclosed in Note 22.

	Loan loss provision under IAS 39/37 at 31 December 2017	Re-measurement	ECLs under IFRS 9 at 01 January 2018
	MUR' 000	MUR' 000	MUR' 000
Impairment allowance for:			
Loans and receivables per IAS 39 / financial assets at amortised cost under IFRS 9	3,420,848	18,591	3,439,439
	3,420,848	18,591	3,439,439
Financial guarantees	-	48,898	48,898
Letter of credit for customers	-	8,575	8,575
Bills	-	58,487	58,487
Other commitments**	-	56,904	56,904
	-	172,864	172,864
	3,420,848	191,455	3,612,303

* The Indian Operations while adopting IFRS9, made adjustments to their opening balances following application of the EIR model to calculate outstanding loan balances.

** Other commitments relate to undrawn credit facilities provided to customers.

4 TRANSITION DISCLOSURES (CONT'D)

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 01 January 2018 is, as follows:

MUR' 000	IAS 39 Measurement		Re-Classification	Re-measurement		IFRS 9	
Financial Assets	**Category**	**Amount**	**Amount**	**ECL**	**Other**	**Amount**	**Category**
Cash and balances with central banks	Loans and receivables	24,332,840	-	16,198	-	24,316,642	Amortised cost
Loans and advances to banks	Loans and receivables	8,895,860	-	16,057	-	8,879,803	Amortised cost
Loans and advances to customers	Loans and receivables	100,839,231	-	18,591	-	100,820,640	Amortised cost
Financial investments - HTM	HTM	19,206,212	-	16,348	-	19,189,864	Amortised cost
		153,274,143	-	67,194	-	153,206,949	
Financial investments - AFS	AFS	11,268,400	-	34,993	-	11,268,400	FVTOCI
Financial investments - HFT	HFT	6,676,489	-	-	-	6,676,489	FVTPL
Derivative financial instrument	FVTPL	1,356,774	-	-	-	1,356,774	FVTPL
Non Financial Assets							
Deferred tax assets		95,461	-	-	-	95,461	
Total assets		172,671,267	-	102,187	-	172,604,073	

MUR' 000	IAS 39 Measurement		Re-Classification	Re-measurement		IFRS 9	
Financial Liabilities	**Category**	**Amount**	**Amount**	**ECL**	**Other**	**Amount**	**Category**
Deposits from banks	Amortised cost	739,926	-	-	-	739,926	Amortised cost
Deposits from customers	Amortised cost	141,695,769	-	-	-	141,695,769	Amortised cost
Other borrowed funds	Amortised cost	13,116,593	-	-	-	13,116,593	Amortised cost
Other liabilities	Amortised cost	4,163,207	-	-	-	4,163,207	Amortised cost
	Amortised cost	159,715,495	-	-	-	159,715,495	Amortised cost
Derivative financial instruments	FVTPL	1,334,584	-	-	-	1,334,584	FVTPL
Non Financial liabilities							
Deferred tax liabilities	FVTPL	172,471	-	-	-	172,471	FVTPL
Total Liabilities		161,222,550	-	-	-	161,222,550	

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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.

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 Financial instruments - initial recognition

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, that is, the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 8, 9 and 10. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities

As from 01 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

• Amortised cost, as explained in Notes 9 and 10;

• FVTOCI, as explained in Note 10; and

• FVTPL, as explained in Notes 8 and 10.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

c Financial instruments - initial recognition (cont'd)

Measurement categories of financial assets and liabilities (cont'd)

The Bank classifies and measures its derivative and trading portfolio at FVTPL as explained in Notes 8 and 10. The Bank may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 10.

Before 01 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVTPL, available-for-sale or held-to-maturity (amortised cost), as explained in Note 10.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 8.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The solely payments of principal and interest (SPPI) test

As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

d 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 2018	**30 November 2018**	*31 December 2017*	*31 December 2016*
USD/MUR	**34.266**	**34.275**	33.413	35.902
INR/MUR	**0.491**	**0.492**	0.523	0.529

The average rates for the following years are:

	31 December 2018	**30 November 2018**	*31 December 2017*	*31 December 2016*
USD/MUR	**33.98**	**34.275**	34.46	36.43
INR/MUR	**0.497**	**0.492**	0.529	0.545

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/derecognition of a foreign entity, such translation differences are recognised in the *statement of profit or loss* in the period in which the foreign entity is disposed of/derecognised.

e Borrowing costs

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

f 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.

g 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.

h 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.

The accounting policies of each relevant line item is included in the respective notes.

6. 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 purposes of the *statement of cash flows*, cash and cash equivalents comprise cash, balances with banks and central banks excluding mandatory balances. Cash and cash equivalents are measured at amortised cost. Accounting policy for calculating allowance for impaired losses is outlined under note 9(c).

	31 December 2018	31 December *2017*	31 December *2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Cash in hand	**2,398,191**	1,804,128	1,706,637
Foreign currency notes and coins	**277,740**	294,863	287,812
Unrestricted balances with central banks [1]	**1,527,560**	1,286,638	-
Loans and placements with banks[2]	**1,162,364**	5,895,943	3,453,523
Balances with banks	**5,887,615**	6,339,206	3,975,969
	11,253,470	15,620,778	9,423,941
Less: allowance for impairment losses	**(41,758)**	-	-
	11,211,712	15,620,778	9,423,941

[1] Unrestricted balances with central banks represent amounts above the minimum cash reserve requirement.

[2] The balance above relates to loans and placements with banks having an original maturity of up to three months. As such only stage 1 allowance for credit losses have been recorded for cash and cash equivalents.

7 LOANS TO AND PLACEMENTS WITH BANKS

Accounting policy

Prior to 01 January 2018

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.

From 01 January 2018

From 01 January 2018, the Bank only measures loans to and placements with banks at amortised cost if both of the following conditions are met:

• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. The details of these conditions are outlined in Note 5(c).

Accounting policy for calculating allowance for impaired losses is outlined under Note 9(c).

	31 December 2018	31 December *2017*	31 December *2016*
Loans to and placements with banks:	**MUR' 000**	*MUR' 000*	*MUR' 000*
- in Mauritius	**5,588,012**	1,104,288	451,829
- outside Mauritius	**6,210,627**	7,791,572	4,194,082
	11,798,639	8,895,860	4,645,911
Less: allowance for credit losses	**(34,281)**	-	-
	11,764,358	8,895,860	4,645,911
Remaining term to maturity			
Up to 3 months	**3,810,474**	1,438,472	179,715
Over 3 months and up to 6 months	**3,340,456**	403,974	1,903,777
Over 6 months and up to 12 months	**1,834,098**	1,910,982	71,457
Over 1 year and up to 2 years	**1,914,018**	3,150,402	1,078,904
Over 2 years and up to 5 years	**865,312**	1,992,030	1,052,470
Over 5 years	-	-	359,588
	11,764,358	8,895,860	4,645,911

Credit loss allowance for loans to and placements with banks

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of credit loss allowances. Details of the Bank's internal grading system are explained in Note 37(b)(i) and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 9.

	31 December 2018				*31 December 2017*
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Total
Performing	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	*MUR' 000*
High grade					
Standard grade	**797,769**	-	-	**797,769**	685,427
Sub-standard grade	**9,376,414**	-	-	**9,376,414**	6,189,261
Past due but not impaired	**1,624,456**	-	-	**1,624,456**	2,021,172
Non-performing	-	-	-	-	-
Individually impaired					
Total	-	-	-	-	-
	11,798,639	-	-	**11,798,639**	8,895,860

7. LOANS TO AND PLACEMENTS WITH BANKS (CONT'D)

Credit loss allowance for loans to and placements with banks (cont'd)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
Gross carrying amount as at 1 January 2018	8,895,860	-	-	8,895,860
New assets originated or purchased	5,338,207	-	-	5,338,207
Assets derecognised or repaid (excluding write offs)	(2,435,428)	-	-	(2,435,428)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**11,798,639**	**-**	**-**	**11,798,639**

	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
ECL allowance as at 1 January 2018	16,057	-	-	16,057
New assets originated or purchased	21,132	-	-	21,132
Assets derecognised or repaid (excluding write offs)	(2,908)	-	-	(2,908)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**34,281**	**-**	**-**	**34,281**

Movements in the loss allowances arising from Due from banks balances under IAS 39 over 2017 included MUR'000 21,132 new placements made during the financial year and MUR'000 2,908 derecognised due to loans matured.

8. DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policy

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit default swaps, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed below.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Bank uses interest rate swaps, to hedge its interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Bank will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair value hedges

In accordance with its wider risk management, as set out in Note 37(d)(i), it is the Bank's strategy to apply fair value hedge accounting to keep interest rate sensitivities within its established limits. Applying fair value hedge accounting enables the Bank to reduce fair value fluctuations of fixed rate financial assets and liabilities as if they were floating rate instruments linked to the attributable benchmark rates. From a hedge accounting point of view, the bank designates the hedged risk as the exposure to changes in the fair value of a recognised financial asset or liability or an unrecognised firm commitment, or an identified portion of such financial assets, liabilities or firm commitments that is attributable to a particular risk and could affect profit or loss. The Bank only hedges changes due to interest rates such as benchmark rates (e.g. LIBOR), which are typically the most significant component of the overall fair value change. The Bank assesses hedge effectiveness by comparing fair value movements of the hedging instruments and the hedged items attributable to changes in these benchmark rates using the hypothetical derivative method as set out above.

In accordance with its hedging strategy, the Bank matches the principal of the hedging instruments to the principal of the hedged items, including prepayment expectations. The Bank uses pay fixed/receive floating interest rate swaps to hedge its fixed rate debt instruments and pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities. The bank applies only a micro fair value hedging strategy as set out under the relevant subheadings below.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments.
- Different interest rate curves applied to discount the hedged items and hedging instruments.
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation.
- The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged item.

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the *statement of profit or loss* in Net gain/loss from financial instruments. In addition, the cumulative change in the fair value of the hedged item attributable to the hedged risk is recognised in the *statement of profit or loss* in Net gain/loss from financial instruments, and also recorded as part of the carrying value of the hedged item in the *statement of financial position*.

8. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

Accounting policy (cont'd)

Micro fair value hedges

A fair value hedge relationship is a 'Micro fair value hedge' when the hedged item (or group of items) is a distinctively identifiable asset or liability hedged by one or a few hedging instruments. The financial instruments hedged for interest rate risk in a fair value hedge relationship include fixed rate corporate and small business loans. These hedge relationships are assessed for prospective hedge effectiveness on a monthly basis.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Bank decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Bank discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the *statement of profit or loss*.

For fair value hedge relationships where the hedged item is not measured at amortised cost, such as debt instruments at FVTOCI, changes in fair value that were recorded in the *statement of profit or loss* whilst hedge accounting was in place are amortised in a similar way to amortised cost instruments using the EIR method. However, as these instruments are measured at their fair values in the *statement of financial position*, the fair value hedge adjustments are transferred from the *statement of profit or loss* to OCI. There were no such instances in either the current year or in the comparative year.

	31 December 2018	31 December *2017*	31 December *2016*
	MUR' 000	***MUR' 000***	***MUR' 000***
Assets			
Derivative assets	**762,855**	1,356,774	165,997
Liabilities			
Derivative liabilities	**758,642**	1,334,584	182,406

8. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

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 2018				
Derivatives held for trading				
Foreign exchange contracts*	25,636,819	256,947	(126,964)	129,983
Cross currency swaps	1,159,362	378,697	(371,679)	7,018
Other derivative contracts	23,896,447	112,966	(111,123)	1,843
Derivatives used as Micro fair value hedges				
Interest rate swap contracts	14,395,001	14,245	(148,876)	(134,631)
	65,087,629	762,855	(758,642)	4,213
31 December 2017				
Derivatives held for trading				
Foreign exchange contracts*	33,999,244	268,858	(249,698)	19,160
Cross currency swaps	1,747,584	1,220	(1,220)	-
Other derivative contracts	67,643,651	1,081,130	(1,078,240)	2,890
Derivatives used as Micro fair value hedges				
Interest rate swap contracts	8,348,656	5,566	(5,426)	140
	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
Cross currency swaps	729,218	33,163	(44,218)	(11,055)
Other derivative contracts	1,906,937	27,093	(25,058)	2,035
Derivatives used as Micro fair value hedges				
Interest rate swap contracts	2,184,507	7,460	(27,742)	(20,282)
	20,399,347	165,997	(182,406)	(16,409)

* Foreign exchange contracts include forward and spot contracts.

9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS

Accounting policy

Prior to 01 January 2018

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.

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 8 (Derivative financial instruments) for further details on hedge accounting. Allowance for credit impairment consists of specific and portfolio allowances.

From 01 January 2018

From 01 January 2018, the Bank only measures loans and advances to non-bank customers at amortised cost if both of the following conditions are met:

• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined in Note 5(c).

	31 December 2018	31 December *2017*	31 December *2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
1. Governments	**9,315**	2,458,655	-
2. Retail customers	**32,121,253**	31,990,963	28,099,055
2.1. Credit cards	**606,447**	559,351	539,910
2.2. Mortgages	**22,478,894**	19,834,763	17,315,922
2.3. Other retail loans	**9,035,912**	11,596,849	10,243,223
3. Corporate customers	**44,758,253**	38,364,068	37,012,499
4. Entities outside Mauritius	**22,909,421**	31,446,393	10,098,489
	99,798,242	104,260,079	75,210,043
Less credit loss allowance	**(5,502,191)**	(3,420,848)	(4,051,929)
	94,296,051	100,839,231	71,158,114
a Remaining term to maturity			
Up to 3 months	**11,726,983**	13,716,387	11,753,409
Over 3 months and up to 6 months	**3,256,357**	5,618,303	3,640,541
Over 6 months and up to 12 months	**8,875,377**	11,677,239	5,085,778
Over 1 year and up to 2 years	**8,529,760**	6,525,561	5,082,157
Over 2 years and up to 5 years	**17,565,447**	22,653,075	13,825,322
Over 5 years	**49,844,318**	44,069,514	35,822,836
	99,798,242	104,260,079	75,210,043

Out of the MUR 94.3 billion, there is an amount of MUR 4.67 billion (2017: MUR 2.28 billion, 2016: MUR 137 million) relating to loans where fair value hedge accounting has been applied. Refer to Note 37(d)(ii) for more details.

9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

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 2018				
Gross investment in finance leases	432,719	948,760	100,295	1,481,774
Less: Unearned finance income	(72,313)	(114,792)	(4,769)	(191,874)
Present value of minimum lease payments	360,406	833,968	95,526	1,289,900
Credit loss expense				(45,055)
Net investment in finance lease				1,244,845
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
Credit loss expense				(38,373)
Net investment in finance lease				1,124,382
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
Credit loss expense				(70,490)
Net investment in finance lease				960,712

Finance lease contracts give the lessees the option to purchase the assets for a residual value at the termination 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 corporate or personal guarantees.

9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

c Credit loss allowance on loans and advances to non-bank customers

Accounting policy

Prior to 01 January 2018

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.

From 01 January 2018

As described in Note 4, the adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 01 January 2018, the Bank has been recording allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 37. The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs

The Bank calculates ECLs based on one scenario to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 37.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 37.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 37.

9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

c Credit loss allowance on loans and advances to non-bank customers (cont'd)

Accounting policy (cont'd)

The calculation of ECLs (cont'd)

When estimating the macro-economic variables used in ECL calculation, the Bank considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs, as set out in Note 37. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out below, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Credit loss allowances and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value. Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 22. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained in Note 22.

The mechanics of the ECL method are summarised below:

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for stage 2 assets, with the PD set at 100%.

Loan commitments and letters of credit: When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cashflows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within other liabilities.

Financial guarantee contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the *statement of profit or loss*, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within other liabilities.

Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVTOCI do not reduce the carrying amount of these financial assets in the *statement of financial position*, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

c Credit loss allowance on loans and advances to non-bank customers (cont'd)

Accounting policy (cont'd)

Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period but instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is one year for corporate and retail products.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth;
- Unemployment rates;
- Central Bank base rates; and
- Consumer price indices.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's *statement of financial position*. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

c Credit loss allowance on loans and advances to non-bank customers (cont'd)

Accounting policy (cont'd)

Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date inline with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the *statement of financial position*.

Write-offs

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance 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 EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between stage 2 and stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired stage 3 forborne asset until it is collected or written off.

From 01 January 2018, when the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk.The Bank also considers whether the assets should be classified as stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period; and
- The customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised, and a new loan is recognised.

9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

c Credit loss allowance on loans and advances to non-bank customers (cont'd)

Accounting policy (cont'd)

Statutory portfolio allowance

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 of up to 1% on exposures to certain sectors of the economy.

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 "Credit loss expense" 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

Prior to 01 January 2018

The calculation of specific allowance for credit impairment required significant management judgement 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.

From 01 January 2018

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

c Credit loss allowance on loans and advances to non-bank customers (cont'd)

Significant accounting estimates and judgements (cont'd)

In relation to credit impaired facilities, the Bank determines expected credit losses by estimating the shortfall between the present value of expected cash flows and the present value of contractual cash flows. The estimation of expected cash flows is inherently judgemental and involves an estimation of proceeds from liquidation of the borrowers, proceeds from realisation of collaterals and the timing and extent of repayments on forborne facilities.

During the year, a group of connected debtors with an outstanding gross exposure of MUR 9.8 billion (MUR 4.4 billion net of cash and liquid assets held as collaterals) became credit impaired. In estimating the resulting expected credit losses on these facilities, Management estimated future cash flows expected to be realised by the Bank by considering the collaterals it held as well as other assets it could reasonably expect to obtain from the borrowers through a number of legal actions available as at the reporting date, including the exercising of personal guarantees provided by the shareholders directors of the borrowing companies. Among such assets are shares in a sugar company owned by the shareholders together with loans extended by the shareholders to that company. The expected credit losses were hence determined as the difference between the carrying value of the exposures and the present value of cash flows expected from the realisation of the Bank's collaterals and the other assets it would obtain from the shareholders. The recoverable amounts of properties held as collaterals were estimated based on independent valuers' reports discounted to reflect valuation risks and time value of money. The recoverable value of shares in the sugar company was determined based on book values of the entity discounted to reflect valuation risks and time value of money.

Subsequent to the year end, the Bank restructured these facilities by extending the repayment period and including the shares in the sugar companies as additional collaterals securing the restructured loans.

The credit loss allowance booked on this group of related debtors is disclosed in Note 37(c) to this financial statements.

9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

c Credit loss allowance on loans and advances to non-bank customers (cont'd)

Prior to 01 January 2018

	Specific allowance for credit impairment	Portfolio allowance for credit impairment	Total
	MUR' 000	MUR' 000	MUR' 000
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	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	892,335	237,327	1,129,662
At 31 December 2017	**2,157,900**	**1,262,948**	**3,420,848**

From 01 January 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are set out in Note 37(b)(i) and policies on whether ECL allowances are calculated on an individual or collective basis are set out in this same note above.

	31 December 2018				*31 December 2017*
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade	Individual	Individual			
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	*MUR' 000*
Performing					
High grade	25,697,144	6,131,756	-	31,828,900	24,137,595
Standard grade	17,541,278	9,799,659	-	27,340,937	26,544,825
Sub-standard grade	12,666,759	12,825,774	-	25,492,533	35,996,210
Past due but not impaired	-	2,693,127	-	2,693,127	14,249,971
Non-performing					
Individually impaired	-	-	12,442,745	12,442,745	3,331,478
Total	55,905,181	31,450,316	12,442,745	99,798,242	104,260,079

9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

c Credit loss allowance on loans and advances to non-bank customers (cont'd)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
Gross carrying amount as at 1 January 2018	74,987,399	25,941,203	3,331,478	104,260,080
New assets originated or purchased	7,795,757	24,866,568	2,548,243	35,210,568
Assets derecognised or repaid (excluding write offs)	(18,136,288)	(13,040,332)	(938,151)	(32,114,771)
Transfers to Stage 1	14,406,970	(14,406,970)	-	-
Transfers to Stage 2	(8,089,847)	8,089,847	-	-
Transfers to Stage 3	(8,436,495)	-	8,436,495	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	(7,855)	(7,855)
Derecognition of Indian Operations following distribution in specie	(6,622,315)	-	(927,465)	(7,549,780)
At 31 December 2018	**55,905,181**	**31,450,316**	**12,442,745**	**99,798,242**

	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
ECL allowance as at 1 January 2018	794,155	487,384	2,157,900	3,439,439
New assets originated or purchased	(9,921)	463,680	2,779,664	3,233,423
Assets derecognised or repaid (excluding write offs)	(19,516)	(132,020)	-	(151,536)
Transfers to Stage 1	11,317	(11,317)	-	-
Transfers to Stage 2	(54,029)	54,029	-	-
Transfers to Stage 3	(117,878)	-	117,878	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Derecognition of Indian Operations following distribution in specie	(175,706)	(4,137)	(825,562)	(1,005,405)
Recoveries	-	-	-	-
Amounts written off	-	-	(7,756)	(7,756)
Foreign exchange adjustments	(5,974)	-	-	(5,974)
At 31 December 2018	**422,448**	**857,619**	**4,222,124**	**5,502,191**

Movements in the loss allowances arising from loans and advances to non-bank customers under IAS 39 over 2017 included MUR'000 3,233,423 new loans made during the financial year and MUR'000 151,536 derecognised due to loans matured.

9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS (CONT'D)

d Credit loss allowances on loans and advances by industry sectors

	31 December 2018					*31 December 2017*	*31 December 2016*
	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	5,614,345	275	62	147,846	147,908	42,141	100,355
Manufacturing	3,538,361	703,002	465,595	49,368	514,963	1,151,596	386,369
of which EPZ	*1,185,948*	*38,136*	*3,628*	*13,490*	*17,118*	*43,543*	*38,542*
Tourism	10,799,224	11,427	9,662	174,757	184,419	215,422	202,253
Transport	3,007,926	13,660	12,762	131,095	143,857	22,121	497,186
Construction	7,574,624	240,034	166,121	198,537	364,658	227,777	235,842
Financial and business services	11,435,321	521,304	129,200	56,009	185,209	122,453	534,665
Traders	15,601,502	9,883,774	2,640,552	74,962	2,715,514	255,285	230,261
Personal	31,493,159	858,399	641,581	249,992	891,573	1,096,093	1,174,362
of which credit cards	*616,509*	*90,078*	*90,078*	*3,405*	*93,483*	*94,278*	*93,622*
Professional	204,322	108,849	98,896	4,363	103,259	105,957	2,086
Global Business Licence holders	4,115,179	15,593	15,593	89,975	105,568	15,918	5,354
Others	6,414,279	86,428	42,101	103,162	145,263	166,085	683,196
	99,798,242	12,442,745	4,222,125	1,280,066	5,502,191	3,420,848	4,051,929

Total impaired loans for 2017 for the Bank were MUR 3,331 million (2016: MUR 4,911 million).

10. INVESTMENT SECURITIES

Accounting policy

Financial assets are recognised when an entity becomes a party to the contractual provisions of the instruments.

Prior to 01 January 2018

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.

(i) Financial assets at FVTPL

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.

(ii) Loans and receivables

Refer to note 9 for accounting policy on loans and receivables.

(iii) Held-to-maturity (HTM) investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Subsequent to initial recognition, HTM investments are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate.

If the Bank sells or reclassifies more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category will be tainted and will be reclassified as available-for-sale investments. Furthermore, the Bank will not classify any financial asset as held-to-maturity during the following two years.

(iv) Available-for-sale (AFS) investments

AFS financial assets are non-derivatives financial assets 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 fair value reserve.

When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value 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.

10. INVESTMENT SECURITIES (CONT'D)

Accounting policy (cont'd)

From 01 January 2018

The investment securities included in the *statement of financial position* include:

- Debt investments measured at amortised cost: these instruments are initially measured at their fair value plus incremental transaction cost, and subsequently at their amortised cost using the effective interest method;

- Debt instruments mandatorily measured at FVTPL or designated at FVTPL; these are measured at fair value with changes recognised immediately in *statement of profit or loss*;

- Debt securities measured at FVTOCI; and

- Equity investments designated as FVTOCI.

'For debt securities measured at FVTOCI, gains and losses are recognised in OCI except for the following which are recognised in *statement of profit or loss* in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest method;

- ECL and reversals; and

- Foreign exchange gains and lossses.

When a debt security measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to *statement of profit or loss*.

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 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.

10. INVESTMENT SECURITIES (CONT'D)

The table below shows net balances under IFRS 9 as at 31 December 2018:

Remaining term to maturity

	31 December 2018										
	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	*31 December 2017*	*31 December 2016*
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	*MUR' 000*	*MUR' 000*
(a) Investment securities measured at amortised cost											
Government bonds and treasury notes	91,369	747,861	-	777,648	1,605,600	4,766,609	3,741,584	-	11,730,671	8,664,906	14,218,481
Treasury bills	-	148,100	-	-	-	-	-	-	148,100	4,432,043	3,242,761
Bank of Mauritius bills / notes	-	149,032	118,992	-	762,191	201,683	-	-	1,231,898	3,544,186	5,342,047
Bank bonds	-	-	-	-	-	695,818	-	-	695,818	-	-
Corporate bonds	-	-	-	-	-	-	-	-	-	2,565,077	1,394,551
	91,369	1,044,993	118,992	777,648	2,367,791	5,664,110	3,741,584	-	13,806,487	19,206,212	24,197,840
(b) Investment securities mandatorily measured at FVTPL											
Government bonds and treasury notes	-	-	-	1,358	-	223,934	539,826	-	765,118	970,594	-
Treasury bills	597,828	2,288,062	1,902,344	354,022	-	-	-	-	5,142,256	943,822	-
Bank of Mauritius bills / bonds	1,253,365	1,110,374	1,129	742,318	-	-	-	-	3,107,186	1,947,439	-
Bank bonds	-	-	33,889	-	663,334	-	-	-	697,223	1,650,227	-
Corporate bonds	-	-	-	-	-	-	-	-	-	1,164,407	-
	1,851,193	3,398,436	1,937,362	1,097,698	663,334	223,934	539,826	-	9,711,783	6,676,489	-
(c) Investment securities measured at FVTOCI (both equity and debt instruments)											
Government bonds	46,567	19,904	-	581,826	919,904	3,355,051	2,385,724	-	7,308,976	3,439,029	970,159
Treasury bills / notes	7,353,679	1,923,173	-	388	-	-	-	-	9,277,240	1,590,498	178,414
Bank of Mauritius bills / bonds	322,627	-	-	-	1,241,916	576,906	-	-	2,141,449	1,025,409	-
Equity shares of companies:											
- Equity investments	-	-	-	-	-	-	-	3,411	3,411	370	4,058
Bank bonds	-	-	-	-	3,218,566	2,262,234	294,797	-	5,775,597	533,427	6,808,465
Corporate paper and preference shares	-	-	-	-	-	1,395,858	1,345,585	-	2,741,443	451,160	2,071,193
Corporate bonds	-	-	-	-	-	-	-	-	-	4,228,507	184,903
Other	-	-	-	-	-	-	171,333	-	171,333	-	-
	7,722,873	1,943,077	-	582,214	5,380,386	7,590,049	4,197,439	3,411	27,419,450	11,268,400	10,217,192
Total investment securities	9,665,435	6,386,506	2,056,354	2,457,560	8,411,511	13,478,093	8,478,849	3,411	50,937,720	37,151,101	34,415,032

10. INVESTMENT SECURITIES (CONT'D)

Analysed as follows:

	31 December 2018	*31 December 2017*	*31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
- Investment securities	50,934,309	37,150,731	34,410,974
- Equity investments	3,411	370	4,058
	50,937,720	37,151,101	34,415,032

Debt investment securities at amortised cost	31 December 2018				*31 December 2017*
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
	MUR'000	MUR'000	MUR'000	MUR'000	*MUR'000*
High grade	695,990	-	-	695,990	1,494,314
Standard grade	13,119,535	-	-	13,119,535	3,724,530
Sub-standard grade	-	-	-	-	13,987,368
Impaired	-	-	-	-	-
Total gross carrying amount	13,815,525	-	-	13,815,525	19,206,212
Credit loss allowance	(9,038)	-	-	(9,038)	-
Carrying amount as at 31 December 2018	13,806,487	-	-	13,806,487	19,206,212

	Stage 1	Stage 2	Stage 3	Total
	Individual	Individual		
	MUR'000	MUR'000	MUR'000	MUR'000
ECL allowance as at 1 January 2018	16,347	-	-	16,347
New assets originated or purchased	4,631	-	-	4,631
Assets derecognised or repaid (excluding write offs)	(11,940)	-	-	(11,940)
At 31 December 2018	9,038	-	-	9,038

Debt investment securities at FVTOCI	31 December 2018				*31 December 2017*
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
	MUR'000	MUR'000	MUR'000	MUR'000	*MUR'000*
High grade	11,653,048	-	-	11,653,048	4,917,417
Standard grade	14,152,531	-	-	14,152,531	1,969,963
Sub-standard grade	1,610,460	-	-	1,610,460	4,380,650
Impaired	-	-	-	-	-
Carrying amount as at 31 December 2018	27,416,039	-	-	27,416,039	11,268,030

No loss allowance is recognised in the *statement of financial position* for debt instruments measured at FVTPL as the carrying amount is at fair value.

The above investment grades is to conclude that there has been no significant increase in credit risk and hence only a 12 months ECL is recognised.

11. 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
Cost or Valuation	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
At 01 January 2016	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**
Translation adjustment	**(9,712)**	**-**	**(1,973)**	**(74)**	**(11,759)**
Transfer	-	-	-	-	-
Additions	**553**	**870**	**138,230**	**-**	**139,653**
Disposals	**-**	**-**	**(35,817)**	**-**	**(35,817)**
Derecognition of Indian Operations following distribution in specie	**(155,235)**	**-**	**(54,280)**	**(1,183)**	**(210,698)**
At 31 December 2018	785,808	1,573,752	1,746,037	10,703	4,116,300

11. PROPERTY AND EQUIPMENT (CONT'D)

	Freehold land and buildings	Buildings on leasehold land	Other tangible fixed assets	Motor vehicles	Total
Accumulated Depreciation	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**
At 01 January 2016	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**
Translation adjustment	**(1,899)**	**-**	**(1,634)**	**(73)**	**(3,606)**
Disposal	**-**	**-**	**(29,754)**	**-**	**(29,754)**
Charge for the year	**13,792**	**51,998**	**86,492**	**1,455**	**153,737**
Derecognition of Indian Operations following distribution in specie	**(33,403)**	**-**	**(31,613)**	**(1,176)**	**(66,192)**
At 31 December 2018	**46,917**	**225,240**	**1,411,519**	**7,411**	**1,691,087**
Net book value					
At 31 December 2018	**738,891**	**1,348,512**	**334,518**	**3,292**	**2,425,213**
Progress payments on tangible fixed assets					**33,601**
					2,458,814
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

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:

	31 December 2018	*31 December 2017*	*31 December 2016*
Level 2 fair value	**MUR' 000**	*MUR' 000*	*MUR' 000*
Freehold land and buildings	**785,808**	950,202	952,094
Buildings on leasehold land	**1,573,752**	1,572,882	1,572,882
	2,359,560	2,523,084	2,524,976

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 2018	*31 December 2017*	*31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Freehold land and buildings	**447,343**	508,905	515,142
Buildings on leasehold land	**360,873**	374,232	387,557
	808,216	883,137	902,699

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

12. 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 2016	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**
Translation adjustment	**(1,169)**	**(1,925)**	**-**	**-**	**(3,094)**
Additions	**180,595**	**47,713**	**-**	**-**	**228,308**
Transfers	**23,464**	**(23,464)**	**-**	**-**	**-**
Disposal	**(610,148)**	**-**	**-**	**-**	**(610,148)**
Write off	**-**	**(1,726)**	**(37,860)**	**-**	**(39,586)**
Derecognition of Indian operations following distribution in specie	**(114,374)**	**(33,919)**	**-**	**-**	**(148,293)**
At 31 December 2018	**3,974,129**	**69,442**	**284,917**	**-**	**4,328,488**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

12. 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 2016	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**
Translation adjustment	**(1,081)**	**-**	**-**	**-**	**(1,081)**
Disposal	**(610,148)**	**-**	**-**	**-**	**(610,148)**
Charge for the year	**511,676**	**-**	**56,983**	**-**	**568,659**
Derecognition of Indian operations following distribution in specie	**(36,102)**	**-**	**-**	**-**	**(36,102)**
At 31 December 2018	**1,194,619**	**-**	**170,949**	**-**	**1,365,568**
Net book value					
At 31 December 2018	**2,779,510**	**69,442**	**113,968**	**-**	**2,962,920**
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

13. OTHER ASSETS

Accounting policy

Prior to 01 January 2018

Other assets 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, adjusted for any impairment loss. Interest income is recognised by applying the effective interest rate, except for short term receivables where the recognition of interest would be immaterial.

From 01 January 2018

Other assets and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified at amortised costs less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short term receivables where the recognition of interest would be immaterial.

	31 December 2018	*31 December 2017*	*31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Accounts receivable[1]	**684,985**	547,003	214,873
Balances due in clearing	**2,860**	56,083	38,166
Tax paid in advance[2]	**-**	75,708	106,085
Others[3]	**135,808**	245,098	241,628
	823,653	923,892	600,752

[1] Credit risk is managed for each category and is subject to the Bank's established policy, procedures and control relating to customers credit risk management. The accounts receivable are mainly transition accounts that will be cleared the following day and therefore is not subject to impairment.

[2] The tax paid in advance relates to the Indian Operations. The amount is shown net of current tax payable.

[3] Repossessed assets have been included under 'Others'. The Bank's policy is to dispose of such assets as soon as the market permits.

14. 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.

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.

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 2018	*31 December 2017*	*31 December 2016*
Reconciliation of net defined benefit liability	**MUR' 000**	*MUR' 000*	*MUR' 000*
Present value of funded defined benefit obligation	**1,044,716**	1,035,648	912,437
Fair value of planned assets	**(935,095)**	(943,867)	(844,673)
Net liability arising from defined benefit obligation *(Note 19)*	**109,621**	91,781	67,764
Reconciliation of net defined benefit liability			
Balance at start of the year	**91,781**	67,764	88,930
Amount recognised in statement of profit or loss	**30,245**	26,422	30,030
Amount recognised in other comprehensive income	**33,496**	39,616	(1,881)
Less employer contributions	**(45,901)**	(42,021)	(49,315)
Balance at end of the year	**109,621**	91,781	67,764

14. PENSION LIABILITY (CONT'D)

	31 December 2018	*31 December 2017*	*31 December 2016*
Reconciliation of fair value of planned assets	**MUR' 000**	*MUR' 000*	*MUR' 000*
Balance at start of the year	**943,867**	844,673	782,827
Interest income	**52,493**	54,941	55,581
Employer contributions	**45,901**	42,021	49,315
Benefits paid	**(28,872)**	(40,867)	(26,551)
Exchange differences	**2,143**	-	-
Return on planned assets excluding interest income	**(80,437)**	43,099	(16,499)
Balance at end of the year	**935,095**	943,867	844,673
Reconciliation of present value of defined benefit obligation			
Balance at start of the year	**1,035,648**	912,437	871,757
Current service cost	**26,473**	23,362	25,502
Interest expense	**56,294**	58,001	60,109
Past service cost	**(29)**	-	-
Other benefits paid	**(28,872)**	(40,867)	(26,551)
Transfer from another entity	**2,143**	-	-
Liability experience loss	**-**	-	84,856
Liability gain due to change in demographic assumptions	**-**	-	(103,306)
Liability (gain) / loss due to change in financial assumptions	**(46,941)**	82,715	70
Balance at end of the year	**1,044,716**	1,035,648	912,437
Components of amount recognised in statement of profit or loss			
Service cost	**26,444**	23,362	25,502
Net interest on net defined benefit liability	**3,801**	3,060	4,528
Total expense as above *(Note 30)*	**30,245**	26,422	30,030
Components of amount recognised in other comprehensive income			
Return on planned assets below interest income	**80,437**	(43,099)	16,499
Liability experience loss	**-**	-	84,856
Liability experience gain due to change in demographic assumptions	**-**	-	(103,306)
Liability (gain) / loss due to change in financial assumptions	**(46,941)**	82,715	70
Total	**33,496**	39,616	(1,881)

14. PENSION LIABILITY (CONT'D)

	31 December 2018	31 December 2017	31 December 2016
Allocation of planned assets at end of year	%	%	%
Equity - Overseas quoted	18	30	30
Equity - Overseas unquoted	10	-	-
Equity - Local quoted	28	30	32
Equity - Local unquoted	7	7	-
Debt - Overseas quoted	1	-	3
Debt - Overseas unquoted	6	6	-
Debt - Local quoted	4	2	-
Debt - Local unquoted	23	21	23
Property - Local	-	-	1
Cash and other	3	4	11
Total	100	100	100
Reporting entity's own transferable financial instruments	4.0%	6.0%	6.0%
Principal assumptions used at end of year			
Discount rate	6.1%	5.5%	6.5%
Rate of salary increases	4.0%	4.0%	4.5%
Rate of pension increases	1.6%	1.0%	1.5%
Average retirement age (ARA)			
Average life expentancy for:	65	65	65
- Male at ARA	15.9 years	15.9 years	15.9 years
- Female at ARA	20 years	20 years	20 years
Sensitivity Analysis on defined benefit obligation at end of year			
Increase due to 1% decrease in discount rate	184,915	187,452	158,457
Decrease due to 1% increase in discount rate	148,350	150,169	127,506

14. PENSION LIABILITY (CONT'D)

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.

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 98.53 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 27 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 109.62 million as at 31 December 2018 for the plan (2017: MUR 91.78 million and 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.

15. 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 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Demand deposits	796,117	739,926	2,711,364

16. 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 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
(i)	Retail customers			
	Current accounts	14,574,635	16,416,802	10,452,176
	Savings accounts	51,247,818	50,728,520	42,858,273
	Time deposits with remaining term to maturity:			
	Up to 3 months	1,565,609	1,667,654	1,339,913
	Over 3 months and up to 6 months	2,211,505	2,285,051	770,196
	Over 6 months and up to 12 months	3,769,381	6,037,766	2,452,510
	Over 1 year and up to 5 years	2,227,733	3,223,918	4,416,910
	Over 5 years	-	2,826	4,528
	Total time deposits	9,774,228	13,217,215	8,984,057
	Total deposits from retail customers	75,596,681	80,362,537	62,294,506
(ii)	Corporate customers			
	Current accounts	43,860,789	33,252,693	28,071,601
	Savings accounts	3,479,325	4,287,772	6,492,061
	Time deposits with remaining term to maturity:			
	Up to 3 months	9,516,405	12,053,734	2,410,070
	Over 3 months and up to 6 months	1,788,154	1,993,033	2,041,533
	Over 6 months and up to 12 months	958,036	1,527,776	1,935,567
	Over 1 year and up to 5 years	396,499	889,135	1,081,791
	Over 5 years	-	-	359
	Total time deposits	12,659,094	16,463,678	7,469,320
	Total deposits from corporate customers	59,999,208	54,004,143	42,032,982
(iii)	Government			
	Current accounts	6,098,267	3,027,269	1,895,307
	Savings accounts	3,521,548	2,908,506	2,078,167
	Time deposits with remaining term to maturity:			
	Up to 3 months	1,620,343	22,397	-
	Over 3 months and up to 6 months	619,611	1,357,224	400
	Over 6 months and up to 12 months	69,396	12,961	925
	Over 1 year and up to 5 years	5,786	732	100
	Total time deposits	2,315,136	1,393,314	1,425
	Total deposits from government	11,934,951	7,329,089	3,974,899
	Total deposits from non-bank customers	147,530,840	141,695,769	108,302,387

17. OTHER BORROWED FUNDS

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 2018	*31 December 2017*	*31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Borrowings from central banks			
- For refinancing	**50,998**	104,190	147,921
Other financial institutions			
- For refinancing	**3,869,634**	4,546,840	687,074
Borrowings from banks			
- In Mauritius	**2,450,659**	4,198,169	1,537,781
- Abroad	**5,402,647**	4,267,394	2,167,733
	11,773,938	13,116,593	4,540,509
Remaining term to maturity			
Up to 3 months	**4,523,419**	5,537,753	2,273,183
Over 3 months and up to 6 months	**4,432,455**	2,515,486	-
Over 6 months and up to 12 months	**1,505,926**	389,290	211,169
Over 1 year and up to 5 years	**583,341**	3,979,498	585,067
Over 5 years	**728,797**	694,566	1,471,090
	11,773,938	13,116,593	4,540,509

18. 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 is now required as from 01 January 2017 to 31 December 2018 to remit to the Director General of the Mauritius Revenue Authority (MRA) at least 50% of the CSR contribution. After 01 January 2019, the Bank will be required to remit to the Director General of the MRA 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 income tax expense and current tax liabilities in the financial statements.

The applicable income tax rate in Mauritius is 15% (2017 and 2016: 15%). An additional charge is applicable in respect of Corporate Social Responsibility and Special Levy on Banks as mentioned above in the accounting policy. A deemed tax credit of 80% is applicable for segment B income.

	31 December 2018	*31 December 2017*	*31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Profit before tax from continuing operations	**2,138,353**	3,797,287	3,025,324
Tax on accounting profit at 15%	**320,753**	569,593	453,799
Non allowable expenses	**392,476**	(3,182)	8,664
Exempt income	**(28,058)**	(39,062)	(34,001)
Over provision in previous years	**-**	(66,445)	(5,004)
Special levy on banks	**184,345**	208,508	238,492
Corporate Social Responsibility contribution	**20,845**	37,811	77,002
	890,361	707,223	738,952
Tax refund	**69,233**	11,608	-
Foreign tax credit	**(282,606)**	(224,696)	(106,792)
Total tax expense	**676,988**	494,135	632,160

18a. TAX EXPENSE (CONT'D)

	31 December 2018	*31 December 2017*	*31 December 2016*
	MUR' 000	***MUR' 000***	***MUR' 000***
The total tax expense can also be analysed as follows:			
Income tax expense	**632,378**	226,134	544,629
Deferred tax charge *(Note 18b)*	**23,765**	230,190	10,529
Corporate Social Responsibility contribution	**20,845**	37,811	77,002
Total tax expense	**676,988**	494,135	632,160

18b. DEFERRED TAX (ASSETS)/LIABILITIES

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.

18. TAXATION (CONT'D)

18b. DEFERRED TAX (ASSETS)/LIABILITIES (CONT'D)

	MUR' 000
At 01 January 2016	(276,767)
Exchange difference	5,030
Deferred tax charge on Mauritius operation *(Note 18a)*	10,529
Deferred tax charge Overseas operations *(Note 18a)*	20,789
Deferred tax on retirement benefit obligations accounted in OCI	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 on Mauritius operation *(Note 18a)*	230,190
Deferred tax charge Overseas operations *(Note 18a)*	66,445
Deferred tax on retirement benefit obligations accounted in OCI	(6,735)
At 31 December 2017	75,444
At 01 January 2018	**75,444**
Exchange difference	**-**
Deferred tax charge *(Note 18a)*	**23,765**
Deferred tax on retirement benefit obligations accounted in OCI	**(5,694)**
Underprovision of deferred tax liability in prior years	**70,481**
At 31 December 2018	**163,996**

	31 December 2018	*31 December 2017*	*31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Deferred tax assets	**-**	(95,461)	(215,320)
Deferred tax liabilities	**163,996**	170,905	-
	163,996	75,444	(215,320)
Analysed as follows:			
Mauritius Operations	**163,996**	170,905	(52,550)
Indian Operations	**-**	(95,461)	(162,770)
	163,996	75,444	(215,320)
Analysed as resulting from:			
Accelerated capital allowances	**484,897**	420,080	134,439
Allowances for credit impairment	**(503,857)**	(438,390)	(433,455)
Carried forward losses	**-**	(137,810)	(139,391)
Revaluation of property	**198,880**	253,118	241,813
Other provisions	**(15,924)**	(21,554)	(18,726)
	163,996	75,444	(215,320)

18. TAXATION (CONT'D)

18b. DEFERRED TAX (ASSETS)/LIABILITIES (CONT'D)

Current tax liabilities can be analysed as follows:

Statement of financial position	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
At 01 January	**105,869**	358,908	371,242
Income tax expenses	**560,692**	330,390	587,035
Corporate Social Responsibility contribution	**-**	-	39,600
Underprovision / (overprovision) in prior years	**68,178**	(66,445)	(5,004)
Paid during the year	**(260,252)**	(516,984)	(633,965)
	474,487	15,869	358,908

19. 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. Deferred income relates to loan processing fees which is amortised over the life of the loan.

	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Balance due in clearing	**2,908,532**	2,046,251	585,185
Bills payable	**214,487**	171,969	130,464
Accruals for expenses	**94,110**	352,180	331,740
Accounts payable	**459,617**	728,973	837,925
Deferred income	**291,242**	322,876	268,120
Balances in transit	**772,867**	413,460	52
Pension liability *(Note 14)*	**109,621**	91,781	67,764
Others	**59,753**	35,717	19,346
ECL on memorandum items *(Note 22)*	**110,406**	-	-
	5,020,635	4,163,207	2,240,596

20. 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.

Authorised, issued and paid up share capital	Number	MUR' 000
At 31 December 2016, 2017 and 2018	31,000,000,000	310,000

Capital Contribution	31 December 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
At 01 January	9,063,106	8,063,106	8,063,106
Capital contribution received during the year	1,980,905	1,000,000	-
At 31 December	11,044,011	9,063,106	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.

21. 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 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Cash dividend declared during the year:			
2018: 3.55 cents and 2017: 3.08 cents per share	1,100,500	954,000	-
Less dividend paid: 2018: 3.55 cents and 2017: 3.08 cents per share	(1,100,500)	(954,000)	-
Dividend payable	-	-	-
Dividend declared after the reporting date:			
2018: Nil, 2017: 1.13 cents & 2016: 0.65 cents per share	-	350,300	201,500

21. DIVIDEND (CONT'D)

Loss on distribution of dividend in specie

<u>*Non-current assets held for sale and discontinued operations*</u>

The Bank classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the *statement of financial position*.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the *statement of profit or loss*.

Additional disclosures are provided in Note 39. All other Notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

Dividend in specie

During the financial year, the Bank has made a distribution in specie to its sole shareholder SBM (Bank) Holdings Ltd. The distribution in specie consisted of the Bank transferring the entire of its Indian Operations to its shareholder. The distribution was made at an amount which was the equivalent of the fair value of the assets and liabilities of the Indian Operations.

As such, on 30 November 2018, following approval from the Bank of Mauritius, the Indian Operations were fully transferred to SBM (Bank) Holdings Ltd. The *statement of financial position* as of that date was as follows:

Statement of financial position as at 30 November 2018	**INR'000**	**MUR' 000**
Assets	16,455,231	8,100,910
Liabilities	11,306,557	5,566,218
Capital and reserves	5,148,674	2,534,692
	16,455,231	8,100,910

The distribution in specie of the Indian operations led to the recognition of a loss in the *statement of profit or loss* of the Bank. This loss mainly represents the derecognition of the translation reserve of this foreign operation.

For further information on this distribution in specie, refer to Note 39 on Discontinued Operations.

22. 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.

22. MEMORANDUM ITEMS (CONT'D)

a Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers

	31 December 2018	*31 December 2017*	*31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Acceptances on account of customers	199,670	768,827	138,697
Guarantees on account of customers	7,594,442	7,443,126	4,598,267
Letters of credit and other obligations on account of customers	513,356	1,975,267	1,195,338
	8,307,468	10,187,220	5,932,302
b Commitments			
Undrawn credit facilities	9,071,296	14,238,833	6,787,125
c Other			
Inward bills held for collection	248,962	183,979	174,811
Outward bills sent for collection	39,943	1,920,084	2,075,466
	288,905	2,104,063	2,250,277
Total	17,667,669	26,530,116	14,969,704

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification.

	31 December 2018				*31 December 2017*
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	Total
Internal rating grade	MUR' 000	MUR' 000	MUR' 000	MUR' 000	*MUR' 000*
Performing					
High grade	3,852,695	70,095	-	3,922,790	8,861,175
Standard grade	5,699,476	5,412,812	-	11,112,288	4,255,665
Sub-standard grade	2,627,610	1,483	-	2,629,093	13,025,352
Past due but not impaired	-	-	-	-	-
Non-performing					
Individually impaired	-	-	3,498	3,498	387,924
Total	12,179,781	5,484,390	3,498	17,667,669	26,530,116

Details of the Bank's internal grading system are set out in note 37(b)(i).

22. MEMORANDUM ITEMS (CONT'D)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

	Stage 1	Stage 2	Stage 3	Total
	Individual	Individual		
	MUR'000	MUR'000	MUR'000	MUR'000
Gross carrying amount as at 1 January 2018	26,530,116	-	-	26,530,116
New assets originated or purchased	9,324,074	637,436	3,498	9,965,008
Assets derecognised or repaid (excluding write offs)	(15,404,311)	(816,137)	-	(16,220,448)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(5,663,091)	5,663,091	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Derecognition of Indian Operations following distribution in specie	(2,607,007)	-	-	(2,607,007)
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**12,179,781**	**5,484,390**	**3,498**	**17,667,669**

	Stage 1	Stage 2	Stage 3	Total
	Individual	Individual		
	MUR'000	MUR'000	MUR'000	MUR'000
ECL allowance as at 1 January 2018	**172,864**	**-**	**-**	**172,864**
New assets originated or purchased	35,015	23,544	4,590	63,149
Assets derecognised or repaid (excluding write offs)	(115,703)	(9,906)	-	(125,609)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(39,652)	39,652	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
At 31 December 2018	**52,524**	**53,290**	**4,590**	**110,404**

Movements in the loss allowances arising from loans and advances to non-bank customers under IAS 39 over 2017 included MUR'000 35,015 new loans made during the financial year and MUR'000 115,703 derecognised due to loans matured.

The Bank is subject to various legal claims from former employees and customers with claims totalling MUR 553.3 million (2017: MUR 455.4 million and 2016: MUR 327.3 million). The Bank has not made any provision for those claims on the basis that it is not probable that these actions will succeed.

23. 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 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Treasury bills / Government bonds	**5,427,202**	2,077,648	549,811
Other	-	52,909	-
	5,427,202	2,130,557	549,811
Analysed as:			
- In Mauritius	**3,542,550**	1,694,900	400,000
- Overseas	**1,884,652**	435,657	149,811
	5,427,202	2,130,557	549,811

24. CAPITAL COMMITMENTS

	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Approved and contracted for	**85,160**	58,934	39,752
Approved and not contracted for	**72,333**	64,757	138

25. 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 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Leasing arrangements - The Bank as lessee			
Operating lease expense	**64,684**	50,465	59,233

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 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Up to 1 year	**46,064**	36,867	35,576
After 1 year and before 5 years	**89,193**	49,481	55,909
After 5 years and up to 25 years	**31,760**	42,063	30,363
	167,017	128,411	121,848

26. 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 investment securities measured at FVTOCI, 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. The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as stage 3, the Bank calculates interest income by applying the effective interest rate to the outstanding amount of the financial asset. For all credit impaired assets, the interest income is reversed and charged against the outstanding amount of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

	31 December 2018	*Restated 31 December 2017*	*Restated 31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Interest Income on financial instruments at amortised cost			
Cash and cash equivalents	**156,248**	93,299	57,932
Loans to and placements with banks	**312,079**	122,264	53,504
Loans and advances to non-bank customers	**5,552,274**	4,806,834	4,263,597
Investment securities	**417,241**	562,418	808,026
	6,437,842	5,584,815	5,183,059
Interest Income on financial instruments at fair value			
Investment securities	**840,367**	496,688	222,567
Derivative financial instruments	**(121,837)**	(6,613)	(9,083)
Other	**-**	-	7
	718,530	490,075	213,491
Total interest income	**7,156,372**	6,074,890	5,396,550
Interest expense			
Deposits from customers	**(1,376,701)**	(1,444,025)	(1,329,407)
Other borrowed funds	**(265,485)**	(109,697)	(30,475)
Other	**(22,820)**	(15,407)	(1,385)
Total interest expense	**(1,665,006)**	(1,569,129)	(1,361,267)
Net interest income	**5,491,366**	4,505,761	4,035,283

27. NET FEE AND COMMISSION INCOME

Accounting policy

Fees and commission income and expense are recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiation of transactions with third parties, or participating in the negotiation of a transaction for a third party is recognised on completion of the underlying transaction. Fees and commission that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and services fee, which are expensed as the services are received.

	31 December 2018	*Restated 31 December 2017*	*Restated 31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Fee and commission income			
Retail banking customer fees	**257,206**	331,115	301,927
Corporate banking customer fees	**453,942**	359,084	243,178
Card income	**350,518**	315,075	431,675
Total fee and commission income	**1,061,666**	1,005,274	976,780
Fee and commission expense			
Interbank transaction fees	**(14,409)**	(12,776)	(15,918)
Other	**(8,606)**	(9,620)	(4,807)
Total fee and commission expense	**(23,015)**	(22,396)	(20,725)
Net fee and commission income	**1,038,651**	982,878	956,055

28. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS

Accounting policy

Gain or loss on financial instruments comprises fair value movements on:

- Trading derivatives;
- Trading securities;
- Assets, liabilities and derivatives designated in hedging relationships; and
- Other financial assets and liabilities designated at fair value through profit or loss.

In general, gains or losses on trading derivatives recognise the full change in fair value of the derivatives inclusive of interest income and expense. Gains or losses on trading securities recognise the change in the fair value of these instruments excluding interest income or interest expense which is recognised separately in net interest income.

Gains or losses on assets, liabilities and derivatives designated in hedge relationships recognises fair value movements (excluding interest) on both the hedged item and hedging derivative in a fair value hedge relationship, and hedge ineffectiveness from fair value hedge relationships.

Gains or losses on other financial assets designated at fair value through profit or loss recognises fair value movements (excluding interest) on those items designated as fair value through profit or loss.

	31 December 2018	*Restated 31 December 2017*	*Restated 31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Net gain/(loss) from trading instruments	**323,467**	519,275	(24,849)
Investment securities at fair value through profit or loss	**59,472**	919	-
Other	**117,194**	(373)	18
	500,133	519,821	(24,831)

29. NET GAIN FROM SALE OF SECURITIES

	31 December 2018 MUR' 000	Restated 31 December 2017 MUR' 000	Restated 31 December 2016 MUR' 000
Net gain on derecognition of financial assets measured at fair value through other comprehensive income	-	161,386	388,087
Net gain on derecognition of financial assets measured at amortised cost	**4,727**	262,721	35,762
Net gain on derecognition of financial assets at fair value through profit or loss	**168,827**	6,790	-
	173,554	430,897	423,849

30. 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 14 for accounting policy on defined benefit plans.

	31 December 2018 MUR' 000	Restated 31 December 2017 MUR' 000	Restated 31 December 2016 MUR' 000
Wages and salaries	**1,001,238**	1,043,991	953,392
Other social security obligations	-	17,723	16,177
Contributions to defined contribution plans	**144,277**	91,180	73,116
Cash-settled share-based payments	-	-	580
Increase in liability for defined benefit plans *(Note 14)*	**30,245**	26,422	30,030
Staff welfare cost	**20,038**	16,748	13,570
Management and professional charges	-	7,186	17,315
Other	**140,496**	160,146	171,632
	1,336,294	1,363,396	1,275,812

31. OTHER EXPENSES

	31 December 2018 MUR' 000	Restated 31 December 2017 MUR' 000	Restated 31 December 2016 MUR' 000
Software licensing and other information technology cost	**365,493**	469,304	484,190
Auditors' remuneration (audit and other services):			
-Principal auditors	**7,133**	7,133	7,536
Utilities	**45,522**	52,916	49,913
Professional charges	**65,578**	29,733	34,049
Marketing costs	**55,370**	69,672	43,574
Rent, repairs and maintenance	**67,590**	78,746	87,997
Licence and other registration fees	**20,905**	22,109	17,631
Other*	**75,712**	110,327	104,141
	703,303	839,940	829,031

** Includes mainly printing, stationery, subscription and other operational costs.*

32. CREDIT LOSS ALLOWANCE ON FINANCIAL ASSETS

Accounting policy

Prior to 01 January 2018

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 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 available for sale (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 fair value reserve.

From 01 January 2018

The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Loans and advances to banks;
- Loans and advances to customers;
- Debt investment securities;
- Loan commitments issued;
- Financial guarantee contracts, bills and letters of credit.

With the exception of POCI assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, that is, lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as stage 1); or
- full lifetime ECL, that is, lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as stage 2 and stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since intial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood 'investment grade'.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

The Bank measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender would not otherwise consider;

32. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (CONT'D)

Accounting policy

Credit-impaired financial asset (cont'd)

(d) it is becoming probable that the borrower will enter bankrupcy or other financial reorganisation;

(e) the disappearance of an active market for the financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

A loan that has been renegotiatied due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

Definition of default and cure

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- the borrower is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different type of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators such as breach of covenants, overdue status, non-payment on another obligation of the same counterparty. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources, for example, BOM guidelines on impairment.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as stage 2 or stage 1 once cured depends on the updated credit grade, at the time of the cure and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

The table below shows the impairment charges recorded in the *statement of profit or loss* under IFRS 9 during 2018:

	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	MUR' 000	**MUR' 000**	**MUR' 000**	**MUR' 000**
Loans and advances to non-bank customers	(261,425)	371,890	2,897,543	3,008,008
Loans to and placements with banks*	43,782	-		43,782
Debt instruments measured at amortised cost**	22,636	-		22,636
Loan commitments	(19,832)	-		(19,832)
Off balance sheet items (Guarantees, Letters of credit, Acceptances)	(42,626)	-	4,590	(38,036)
Total credit loss expense under IFRS 9	**(257,465)**	**371,890**	**2,902,133**	**3,016,558**
Write off	-	-	120	120
Bad debts recovered	-	-	(6,322)	(6,322)
	(257,465)	**371,890**	**2,895,931**	**3,010,356**

*ECL movement for cash and cash equivalents are included under loans to and placements with banks

**ECL movement for debt instruments measured at FVTOCI are included under debt instruments measured at amortised cost.

32. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (CONT'D)

The table below shows the impairment charges recorded in the *statement of profit or loss* under IAS 39 during 2017 and 2016:

	Restated 31 December 2017	*Restated 31 December 2016*
	MUR' 000	*MUR' 000*
Portfolio and specific provisions:		
- On-balance sheet advances *(Note 9c)*	344,601	415,623
Bad debts written off for which no provisions were made	-	1,259
Recoveries of advances written off	(116,577)	(2,068)
Other	-	64
	228,024	414,878
Of which:		
Credit exposure	228,024	414,814
Other financial assets	-	64
	228,024	414,878

33. NET CASH USED IN OPERATING ACTIVITIES

	31 December 2018	*31 December 2017*	*31 December 2016*
Cash flows from operating activities	**MUR' 000**	*MUR' 000*	*MUR' 000*
Profit for the year	**554,153**	2,611,293	2,208,612
Adjustments to determine net cash flows:			
Depreciation of property and equipment	**153,737**	154,238	153,757
Amortisation of intangible assets	**568,659**	493,787	192,083
Impact of adopting IFRS9	**45,910**	-	-
Pension expense *(Note 14)*	**30,245**	26,422	30,030
Credit loss expense on financial assets	**3,010,356**	987,262	716,742
Exchange difference	**-**	280,049	(89,703)
Impairment of equity investments	**-**	3,413	-
Net (gain) / loss from dealings in trading securities	**-**	(30,726)	25,486
Net gain on disposal of property and equipment	**45,826**	(79)	(503)
Tax expense	**676,988**	560,580	652,949
Loss in distribution of dividend in specie	**685,838**	-	-
Operating profit before working capital changes	**5,771,712**	5,086,239	3,889,453
Change in operating assets and liabilities			
Decrease / (increase) in derivative financial assets	**541,042**	(1,160,051)	(47,365)
Increase in loans to and placements with banks	**(3,261,473)**	(4,249,949)	(3,436,966)
Iincrease in loans and advances to non-bank customers	**(410,459)**	(30,658,733)	(3,492,897)
Increase in gilt-edged investment securities	**(13,185,216)**	(5,412,419)	(5,373,200)
(Increase) / decrease in other investment securities	**(2,543,882)**	2,679,365	2,087,039
Increase in mandatory balances with central banks	**(252,613)**	(1,766,492)	(50,834)
(Increase) / decrease in other assets	**(144,461)**	(365,691)	232,933
Increase / (decrease) in deposits from banks	**70,370**	(1,971,438)	1,912,728
Increase in deposits from non-bank customers	**9,816,305**	33,393,382	4,724,598
(Decrease) / increase in derivative financial liabilities	**(521,348)**	1,152,178	61,650
Increase / (decrease) in other liabilities	**948,310**	1,898,594	(114,564)
Income tax paid	**(315,265)**	(516,984)	(657,659)
Net cash used in operating activities	**(3,486,978)**	(1,891,999)	(265,084)

34. 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%.

	31 December 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Tier 1 capital	13,421,249	11,792,955	8,295,809
Eligible capital base	15,036,270	13,465,687	9,763,231
Risk weighted assets	99,517,948	104,933,398	76,087,625
Capital adequacy ratio (%)	15.11	12.83	12.83

For comparative purposes, the disclosure has been amended and do not include Indian Operations.

35. 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 Ltd is SBM Tower, 1 Queen Elizabeth II Avenue, Port Louis, Mauritius.

36. 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 2018	*31 Dec 2017*	*31 Dec 2016*	**31 Dec 2018**	*31 Dec 2017*	*31 Dec 2016*	**31 Dec 2018**	*31 Dec 2017*	*31 Dec 2016*	**31 Dec 2018**	*31 Dec 2017*	*31 Dec 2016*
		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	**170,942**	100,297	30,901	**2,868,421**	-	-	**3,205**	-	-	**5,450,405**	1,320,812	194,906
	Loans of directors / entities who ceased to be related parties during the year	**(23,513)**	(3,799)	(7,961)	**(391,377)**	-	-	**-**	-	-	**(3,365,943)**	-	(194,906)
	Existing loans of new related parties	**20,937**	-	9,256	**-**	2,868,421	-	**-**	3,205	-	**-**	4,101,901	63,701
	Other net movements	**(7,964)**	74,445	68,101	**112,147**	-	-	**2,384**	-	-	**(396,696)**	27,692	1,257,111
	Balance at end of year	**160,402**	170,943	100,297	**2,589,191**	2,868,421	-	**5,589**	3,205	-	**1,687,766**	5,450,405	1,320,812
(ii)	*Off-balance sheet obligations*												
	Balance at end of year	**50**	100	100	**678,424**	768,315	-	**12,000**	12,000	-	**34,535**	50,600	23,414
(b)	Deposits at end of year	**216,359**	154,318	99,057	**1,566,800**	2,142,657	546,792	**171,484**	284,721	250,952	**2,765,967**	3,948,271	59,247
(c)	Interest income	**7,855**	8,054	3,493	**84,922**	54,306	-	**18,781**	83,239	404	**70,609**	260,205	49,020
(d)	Interest expense	**1,791**	1,251	644	**19,934**	27,239	498	**-**	2,126	2,976	**5,461**	11,345	-
(e)	Other income	**32**	36	225	**13,908**	13,828	1,803	**2**	1	2,011	**32,153**	44,384	6,430
(f)	Dividend income	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-
(g)	Purchase of goods and services	**8,943**	9,264	6,143	**-**	-	-	**-**	-	-	**-**	-	-
(h)	Emoluments	**38,321**	31,749	34,566	**-**	-	-	**-**	-	-	**-**	-	-
(i)	Dividends paid	**-**	-	-	**-**	-	-	**1,100,500**	954,000	-	**-**	-	-

Short term benefits amounted to MUR 38.32 million at the reporting date (2017: MUR 31.75 million and 2016: MUR 34.57 million) and long term benefits was nil at the reporting date (2017 and 2016: nil).

36. RELATED PARTY DISCLOSURES (CONT'D)

Related party transactions in relation to Post Employment Benefit plans are as follows:

	31 December 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Deposits at end of year	97,051	63,809	148,576
Interest expense	32	-	250
Other income	-	-	213
Contributions paid	112,403	100,591	88,052

Transactions of the Bank with the ultimate holding company and the subsidiaries within the Group are disclosed below:

	31 December 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Non-interest expense	225	900	900

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.

All credit facilities with entities considered as related parties disclosed above 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.

37. 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. Board 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) Classification of financial assets and financial liabilities

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities:

Financial assets	Original Classification under IAS 39	New classifcation under IFRS 9	*Original Carrying amount under IAS 39 as at 31 December 2017*	New Carrying amount under IFRS 9 as at 01 January 2018	Carrying amount under IFRS 9 as at 31 December 2018
			MUR' 000	**MUR' 000**	**MUR' 000**
Cash and cash equivalents	Loans and receivables	Amortised Cost	15,620,778	**15,604,580**	**11,211,712**
Mandatory balances with central banks	Loans and receivables	Amortised Cost	8,712,062	**8,712,062**	**8,767,767**
Loans to and placements with banks	Loans and receivables	Amortised Cost	8,895,860	**8,879,803**	**11,764,358**
Derivative financial instruments	Fair value through P&L	Fair value through P&L	1,356,774	**1,356,774**	**762,855**
Loans and advances to non-bank customers	Loans and receivables	Amortised cost	100,839,231	**100,820,640**	**94,296,051**
Investments - AFS (Equity and/or Debt Instruments)	Available-for-sale	Fair value through OCI	11,268,400	**11,233,407**	**27,419,450**
Investments - HFT	Fair value through P&L	Fair value through P&L	6,676,489	**6,676,489**	**9,711,783**
Investments - HTM	Held-to-maturity	Amortised cost	19,206,212	**19,189,864**	**13,806,487**
Other assets	Loans and receivables	Amortised Cost	676,317	**676,317**	**567,126**
Total financial assets			173,252,123	**173,149,936**	**178,307,589**
Financial liabilities					
Deposits from banks	Amortised Cost	Amortised Cost	739,926	**739,926**	**796,117**
Deposits from non-bank customers	Amortised Cost	Amortised Cost	141,695,769	**141,695,769**	**147,530,840**
Derivative financial instruments	Fair value through P&L	Fair value through P&L	1,334,584	**1,334,584**	**758,642**
Other borrowed funds	Amortised Cost	Amortised Cost	13,116,593	**13,116,593**	**11,773,938**
Other liabilities	Amortised Cost	Amortised Cost	1,944,907	**1,944,907**	**2,013,081**
Total financial liabilities			158,831,779	**158,831,779**	**162,872,618**

37. 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 2018		31 December 2017		31 December 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Financial assets						
Cash and cash equivalents	11,211,712	11,211,712	15,620,778	15,620,778	9,423,941	9,423,941
Mandatory balances with central banks	8,767,767	8,767,767	8,712,062	8,712,062	6,945,570	6,945,570
Loans to and placements with banks	11,764,358	11,764,358	8,895,860	8,895,860	4,645,911	4,645,911
Derivative financial instruments	762,855	762,855	1,356,774	1,356,774	165,997	165,997
Loans and advances to non-bank customers	94,296,051	95,941,685	100,839,231	100,768,119	71,158,114	71,605,501
Investment securities	50,934,309	54,382,199	37,150,731	39,582,150	34,410,974	34,264,654
Equity investments	3,411	3,411	370	370	4,058	4,058
Other assets	567,126	567,126	676,317	676,317	380,057	380,057
	178,307,589	183,401,113	173,252,123	175,612,430	127,134,622	127,435,689
Financial liabilities						
Deposits from banks	796,117	796,117	739,926	739,926	2,711,364	2,711,364
Deposits from non-bank customers	147,530,840	147,843,840	141,695,769	141,700,386	108,302,387	108,308,034
Other borrowed funds	11,773,938	11,773,938	13,116,593	13,116,593	4,540,509	4,540,509
Derivative financial instruments	758,642	758,642	1,334,584	1,334,584	182,406	182,406
Other liabilities	2,013,081	2,013,081	1,944,907	1,944,907	2,134,740	2,134,740
	162,872,618	163,185,618	158,831,779	158,836,396	117,871,406	117,877,053

For loans and advances to non-bank customers, all the fixed loans and advances maturing after one year have been fair valued based on the current prevailing lending rate.

For investment securities, all the government bonds and BOM 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 have 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 37 (a)(iii), the fair values of the other financial assets and financial liabilities are categorised in level 3.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

37. 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.

	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2018				
Derivative financial assets	-	762,855	-	762,855
Investment securities mandatorily measured at FVTPL				
Debt securities	8,946,664	765,119	-	9,711,783
Investments at FVTOCI (debt and equity instruments)				
Debt securities	20,107,062	7,308,977	-	27,416,039
Equity securities	-	-	-	-
Loans and advances at FVTPL *	-	-	4,670,782	4,670,782
Total assets	29,053,726	8,836,951	4,670,782	42,561,459
Derivative financial liabilities	-	758,642	-	758,642
Total liabilities	-	758,642	-	758,642
31 December 2017				
Derivative financial assets	-	1,356,774	-	1,356,774
Loans and advances at fair value	-	-	2,278,438	2,278,438
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	3,072,128	21,580,101
Derivative financial liabilities	-	1,334,584	-	1,334,584

* Relate to those loans where fair value hedge accounting is applied. Their carrying amount is adjusted for changed in fair value. The discounted cash flow method is used to value these loans.

37. RISK MANAGEMENT (CONT'D)

a (iii) Fair value measurement hierarchy (cont'd)

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2016				
Derivative financial assets	-	165,997	-	165,997
Loans and advances at fair value	-	-	137,026	137,026
Investment securities - available-for-sale	8,141,942	-	2,075,251	10,217,193
	8,141,942	165,997	2,212,277	10,520,216
Derivative financial liabilities	-	182,406	-	182,406

Loans and advances at fair value relate to the fair value of hedged assets (Note 37(d)(ii)).

	31 December 2018	*31 December 2017*	*31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Balance at start of year	**3,072,128**	2,212,277	2,822,008
Additions	**3,009,178**	2,259,917	3,688
Disposals	**(1,181,885)**	(1,379,594)	(389,849)
Derecognition of Indian Operations following distribution in specie	**(185,452)**	-	-
Impairment	**-**	(3,688)	-
Movement in fair value	**(43,187)**	(16,784)	(223,570)
Balance at end of year	**4,670,782**	3,072,128	2,212,277

There was no transfer between levels during the year.

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. The Bank has also enhanced its credit risk policy to reinforce its controls on segment B lending.

37. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(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 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Fund-based exposures:			
Cash and cash equivalents	8,577,539	13,521,787	7,429,492
Mandatory balances with central banks	8,767,767	8,712,062	6,945,570
Loans to and placements with banks	11,798,639	8,895,860	4,645,911
Derivative financial instruments	762,855	1,356,774	165,997
Loans and advances to non-bank customers	94,296,051	104,260,079	75,210,043
Investment securities (including equity investments)	50,934,309	37,151,101	34,410,974
Other assets	567,126	676,317	380,057
	175,704,286	174,573,980	129,188,044
Non-fund based exposures:			
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	8,596,373	12,291,283	8,182,579
Credit commitments	9,071,296	14,238,833	6,787,125
	17,667,669	26,530,116	14,969,704

An analysis of the Bank's maximum exposure to credit risk per class of financial asset, internal rating and 'stage', at the reporting date, without taking account of any collateral held and other credit enhancements have been disclosed in Notes 7,8,9 and 10.

37. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(i) Maximum credit exposure (cont'd)

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 2018	*31 December 2017*	*31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Grades:			
1 to 3 - High Grade	**41,356,537**	53,443,458	30,689,604
4 to 6 - Standard	**34,886,343**	36,472,979	32,521,214
7 to 10 (including unrated) - Sub standard	**25,647,564**	33,344,743	17,722,958
	101,890,444	123,261,180	80,933,776

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.

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.

Overview of modified loans

From a risk management point of view, once an asset if modified, the Bank continues to monitor the exposure until it is completely and ultimately derecognised.

The table below shows the gross carrying amount of modified financial assets for which loss allowance has changed during the year.

	Gross carrying amount	**ECL**
	MUR' 000	**MUR' 000**
Modified loans	7,634,975	92,172

Internal credit risk ratings

In order to minimise credit risk, the Bank has tasked its credit management committee to develop and maintain the Bank's credit risk grading to categorise exposures according to their degree of risk of default. The Bank's credit risk grading framework comprises different categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the Bank's exposures:

- Payment record and ageing analysis;
- Extent of utilisation of granted limit;
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies; and
- For retail exposures internally generated data of customer behaviour or other metrics.

37. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(i) Maximum credit exposure (cont'd)

Internal credit risk ratings

The Bank uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Bank collects performance and default information about its credit risk exposure analysed by type of products and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Bank's internal credit risk grades to external ratings.

Bank's credit risk grades	Moody's rating	Description
1	Aaa	High Grade
2	Aa1	High Grade
3	Aa2 to Aa3	High Grade
4	A1 to A3	Standard
5	Baa1 to Ba1	Standard
6	Ba1	Standard
7	Ba2 to Ba3	Sub-standard
8	B1	Sub-standard
9	B2 to B3	Sub-standard
10	Caa1 to NR	Sub-standard

The Bank analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time and uses probability-weighted forecasts to adjust estimates of PDs.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since intial recognition when contractual payments are more than 30 days past due unless the Bank has reasonable and supportable information that demonstrate otherwise. The Bank has monitoring procedures in place to ensure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Bank performs periodic back-testing of its ratings to consider whether the drivers of credit-risk that led to default were accurately reflected in the rating in a timely manner.

1. Inputs, assumptions and techniques used in estimating impairment : Refer to Note 9 (c) Credit Impairment

2. Significant increase in credit risk

The Bank monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occuring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of default that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting date. Different economic scenario will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

37. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(i) Maximum credit exposure (cont'd)

Internal credit risk ratings (cont'd)

2. Significant increase in credit risk (cont'd)

For corporate lending, forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail lending, forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly to certain industries, as well as internally generated information of customer payment behaviour. The Bank allocated its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with

- the remaining lifetime PD for the point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate a significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly, such as, creditworthiness of counterparty which has deteriorated as unemployment, bankruptcy or death.

As a back-stop when an asset becomes 30 days past due (rebuttable presumption), the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

3. Modified financial asset

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

When the terms of a financial asset are modified and the modifcation does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under this policy, renegotiation is performed on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to renegotiation policy. For financial assets modified, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal based on the Bank's previous experience on similar renegotiation.

Generally modification of financial assets is a qualitative indicator of a significant increase in credit risk and may constitute evidence that the exposure is credit-impaired/ in default. A customer needs to demonstrate consistently good payment behaviour over a period of time, as prescribed by BOM guidelines on Credit Impairment Measurement and Income Recognition (see below) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

37. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(i) Maximum credit exposure (cont'd)

Internal credit risk ratings (cont'd)

3. Modified financial asset (cont'd)

Where the restructuring occurs prior to the classification of a loan as impaired, the restructured loan is classified as impaired when, in the aggregate, the period of time the loan is in arrears before and after restructuring is 90 days or more.

Where the restructuring occurs after a loan has been classified as impaired, the restructured loan is continued to be classified as impaired until repayments have been received by the Bank, in amount and in such stipulated time, for a continuous period of six months, strictly in accordance with the terms and conditions of the restructured loan.

Where the loan has been restructured more than once, the restructured loan shall continue to be classified as impaired until repayments have been received by the financial institutions in amount and in such stipulated time, for a continuous period of nine months, at a minimum, strictly in accordance with the terms and conditions of the restructured loan.

4. Incorporation of forward-looking information

The Bank incorporates forward looking information that is available without undue cost and effort into both its assessment of whether the credit risk of an instrument has increased significantly since its intial recognition and its measurement of ECL. Based on analysis from the Bank's Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses. The following key indicators were considered for the year ended 31 December 2018: GDP, interest rates.

Measurement of ECL : The key inputs into the measurement of ECL are the following:

(i) probability of default (PD);

(ii) loss given default (LGD);

(iii) exposure at default (EAD).

These parameters are derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

37. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(i) Maximum credit exposure (cont'd)

Internal credit risk ratings (cont'd)

5. Measurement of ECL

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques. As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

37. 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; and
- Letter of comfort.

The Bank holds collateral and other credit enhancement against certain of its credit exposure. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	Note	31 December 2018	31 December 2017	31 December 2016	Principal Type of collateral held
		MUR' 000	MUR' 000	MUR' 000	
Fund-based exposures:					
Cash and cash equivalents	(i)	**8,577,539**	13,521,787	7,429,492	Unsecured
Mandatory balances with central banks	(ii)	**8,767,767**	8,712,062	6,945,570	Unsecured
Loans to and placements with banks	(iii)	**11,798,639**	8,895,860	4,645,911	Unsecured
Derivative financial instruments	(iv)	**762,855**	1,356,774	165,997	Unsecured
Loans and advances to non-bank customers	(v)	**94,296,051**	104,260,079	75,210,043	Residential property
Investment securities	(vi)	**50,934,309**	37,151,101	34,410,974	Unsecured
Other assets	(vii)	**567,126**	676,317	380,057	Unsecured
Non-fund based exposures:					
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	(viii)	**8,596,373**	12,291,283	8,182,579	Residential property
Credit commitments	(ix)	**9,071,296**	14,238,833	6,787,125	Unsecured

In addition to the collateral included in the table above, the Bank holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

37. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(iii) Collateral and other credit enhancements (cont'd)

The Bank did not hold any financial instrument for which no loss allowance is recognised because of collateral at 31 December 2018. There was no change in the Bank's collateral policy during the year.

(iv) Ageing of receivables that are past due but not impaired:

	31 December 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Up to 1 month	118,304	458,128	108,109
Over 1 month and up to 3 months	364,136	96,517	121,561
	482,440	554,645	229,670

Under the Bank's monitoring procedures, a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. The table below provides an analysis of the gross carrying amount of receivables by past due status:

	31 December 2018	
	Gross Carrying Amount	Loss Allowance
	MUR' 000	MUR' 000
0-30 days (Stage 1)	55,905,181	422,448
31-89 days (Stage 2)	31,450,316	857,618
Total	87,355,497	1,280,066

(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 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Loans and advances *(Note 9d)*	12,442,745	3,331,478	4,911,294
Specific allowance held in respect of impaired advances *(Note 9d)*	4,222,125	2,157,900	3,025,160
Fair value of collaterals of impaired advances	7,092,474	3,137,676	1,715,886

37. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(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 2018 MUR' 000	*31 December 2017 MUR' 000*	*31 December 2016 MUR' 000*
Portfolio			
Agriculture	**5,603,930**	2,478,382	2,509,798
Building contractors	**-**	1,339,133	-
Traders*	**14,476,212**	12,561,536	4,292,431
Real estate	**3,168,948**	5,396,668	2,850,895
Transport	**2,357,501**	4,666,734	-
Tourism	**6,812,399**	7,937,415	4,839,141
	32,418,990	34,379,868	14,492,265

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.

*Included in the loan portfolio for trading companies is one specific group of related borrowers with a total exposure of MUR 4.3 billion, net of cash collaterals. This group of borrowers was considered as impaired at year end with an allowance for expected credit losses of MUR 1.5 billion being recorded at 31 December 2018. Following the credit losses incurred in the segment B portfolio of clients, the Bank has reviewed its risk appetite and amended its credit risk policies to reinforce its control on segment B lending as well as reduce its credit concentration on single counterparty or group of related counterparties.

37. RISK MANAGEMENT (CONT'D)

c Liquidity risk (cont'd)

(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 Bucket	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2018								
Financial assets								
Cash and cash equivalents	11,253,470	-	-	-	-	-	(41,758)	11,211,712
Mandatory balances with central banks	2,957,068	199,808	90,675	164,748	128,288	5,227,180	-	8,767,767
Loans to and placements with banks	1,106,416	156,693	5,890,689	1,839,650	2,805,191	-	(34,281)	11,764,358
Derivative financial instruments	-	-	-	-	-	-	762,855	762,855
Loans and advances to non-bank customers	4,484,638	7,242,344	3,256,357	8,875,377	14,333,121	61,606,405	(5,502,191)	94,296,051
Investment securities	22,391,525	1,619,324	1,881,135	3,204,656	10,315,022	11,360,354	162,293	50,934,309
Equity investments	-	-	-	-	-	-	3,411	3,411
Other assets	-	-	-	-	-	-	567,126	567,126
	42,193,117	9,218,169	11,118,856	14,084,431	27,581,622	78,193,939	(4,082,545)	178,307,589
Financial liabilities								
Deposits from banks	776,829	19,288	-	-	-	-	-	796,117
Deposits from non-bank customers	19,863,883	7,325,802	4,362,012	5,602,022	2,182,859	108,194,262	-	147,530,840
Other borrowed funds	4,145,402	378,017	4,432,455	1,454,929	129,729	1,233,406	-	11,773,938
Derivative financial instruments	-	-	-	-	-	-	758,642	758,642
Other liabilities	-	-	-	-	-	-	2,013,081	2,013,081
Total financial liabilities	24,786,114	7,723,107	8,794,467	7,056,951	2,312,588	109,427,668	2,771,723	162,872,618
Liquidity Gap	17,407,003	1,495,062	2,324,389	7,027,480	25,269,034	(31,233,729)	(6,854,268)	15,434,971
31 December 2017								
Financial assets	32,636,006	17,548,401	13,347,350	13,443,418	35,107,263	60,431,772	737,912	173,252,123
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)	(596,672)	14,420,344

37. RISK MANAGEMENT (CONT'D)

c Liquidity risk (cont'd)

	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-Maturity Bucket	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
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

(ii) The table below shows the remaining contractual maturities of financial liabilities:

	On Demand	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Financial liabilities							
Deposits	124,179,001	12,713,760	3,924,142	5,235,769	2,182,859	91,426	148,326,957
Derivative financial instruments	758,642	-	-	-	-	-	758,642
Other borrowed funds	-	4,543,710	4,594,400	1,601,463	518,957	515,408	11,773,938
Other liabilities	2,013,081	-	-	-	-	-	2,013,081
31 December 2018	126,950,724	17,257,470	8,518,542	6,837,232	2,701,816	606,834	162,872,618
31 December 2017	110,515,561	23,057,348	8,453,230	8,048,753	5,486,674	2,530,287	158,091,851
31 December 2016	91,849,699	8,960,126	2,778,732	4,438,995	4,770,435	2,935,581	115,733,568

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.

37. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(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 includes 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 2018	Up to 3 months MUR' 000	3-6 months MUR' 000	6-12 months MUR' 000	1-2 years MUR' 000	2-5 years MUR' 000	Over 5 years MUR' 000	Non-interest sensitive MUR' 000	Total MUR' 000
Assets								
Cash and cash equivalents	1,160,206	-	-	-	-	-	10,051,506	11,211,712
Mandatory balances with central banks	-	-	-	-	-	-	8,767,767	8,767,767
Loans to and placements with banks	6,534,408	3,634,285	1,496,667	-	-	-	98,998	11,764,358
Derivative financial instruments	-	-	-	-	-	-	762,855	762,855
Loans and advances to non-bank customers	79,956,573	3,550,888	1,354,255	4,625,816	3,837,623	2,850,164	(1,879,268)	94,296,051
Investment securities	11,419,815	6,736,976	6,224,634	6,488,067	12,030,380	7,636,446	397,991	50,934,309
Equity investments	-	-	-	-	-	-	3,411	3,411
Other assets	-	-	-	-	-	-	567,126	567,126
Total assets	99,071,002	13,922,149	9,075,556	11,113,883	15,868,003	10,486,610	18,770,386	178,307,589
Liabilities								
Deposits from banks	48,217	-	-	-	-	-	747,900	796,117
Deposits from non-bank customers	76,892,630	3,374,910	3,875,756	275,958	77,619	-	63,033,967	147,530,840
Other borrowed funds	5,009,842	5,270,586	1,437,557	-	-	-	55,953	11,773,938
Derivative financial instruments	-	-	-	-	-	-	758,642	758,642
Other liabilities	-	-	-	-	-	-	2,013,081	2,013,081
Total liabilities	81,950,689	8,645,496	5,313,313	275,958	77,619	-	66,609,543	162,872,618
On balance sheet interest rate sensitivity gap	17,120,313	5,276,653	3,762,243	10,837,925	15,790,384	10,486,610	(47,839,157)	15,434,971
Off balance sheet interest rate sensitivity gap	7,561,248	(2,309,965)	(45,242)	(1,298,380)	(893,463)	(2,900,292)	-	113,906
	24,681,561	2,966,688	3,717,001	9,539,545	14,896,921	7,586,318	(47,839,157)	15,548,877

37. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(i) Interest rate risk (cont'd)

	Up to 3 months MUR' 000	3-6 months MUR' 000	6-12 months MUR' 000	1-2 years MUR' 000	2-5 years MUR' 000	Over 5 years MUR' 000	Non-interest sensitive MUR' 000	Total MUR' 000
31 December 2017								
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
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

37. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(i) Interest rate risk (cont'd)

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 2018	*31 December 2017*	*31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Increase/(decrease) in profit	480,354	230,620	9,647

(ii) Fair value hedges

	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
	MUR'000	MUR'000	MUR'000	MUR'000
Fixed rate corporate loans	4,410,230	-	115,028	-

The corresponding *statement of financial position* line items, where the hedged item and the cumulative fair value changes are recorded, is under loans and advances to non-bank customers. Information about the hedging instruments included in the derivative financial instruments line items of the Bank's *statement of financial position* is outlined in Note 8. The ineffectiveness recognised in the *statement of profit or loss* under net gain/loss from financial instruments amounting to MUR 44.5 million.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Fixed rate corporate loans						
Interest rate swap (Notional amount)	-	-	-	-	2,650,748	2,650,748

37. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(iii) Currency risk (cont'd)

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 2018	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**
ASSETS							
Cash and cash equivalents	4,435,692	4,961,455	466,570	754,645	-	593,350	11,211,712
Mandatory balances with central banks	7,803,233	823,330	92,565	47,674	-	966	8,767,767
Loans to and placements with banks	5,348,276	3,084,469	-	3,331,613	-	-	11,764,358
Derivative financial instruments	218,601	506,668	4,630	-	6,681	26,275	762,855
Loans and advances to non-bank customers	59,380,439	24,050,589	828,678	9,974,100	-	62,244	94,296,051
Investment securities	32,818,281	17,388,263	-	394,775	332,990	-	50,934,309
Equity investments	-	-	-	3,411	-	-	3,411
Other assets	446,821	63,155	469	37,048	-	19,633	567,126
Total monetary financial assets	110,451,343	50,877,929	1,392,912	14,543,266	339,671	702,468	178,307,589
LIABILITIES							
Deposits from banks	796,117	-	-	-	-	-	796,117
Deposits from non-bank customers	89,188,504	46,167,611	2,841,997	8,859,140	-	473,588	147,530,840
Other borrowed funds	159,531	9,627,668	284,044	1,662,160	-	40,536	11,773,938
Derivative financial instruments	263,087	140,091	8	-	344,086	11,370	758,642
Other liabilities	527,821	403,513	56,483	714,820	271,683	38,671	2,012,991
Total monetary financial liabilities	90,935,059	56,338,883	3,182,531	11,236,120	615,770	564,165	162,872,528
On balance sheet position	19,516,284	(5,460,954)	(1,789,619)	3,307,146	(276,099)	138,303	15,435,061
Off balance sheet position	(2,542,005)	2,868,951	122,001	150,181	(56,201)	(542,927)	-
Net currency position	16,974,279	(2,592,003)	(1,667,618)	3,457,327	(332,300)	(404,624)	15,435,061

37. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(iii) Currency risk (cont'd)

The tables below show the carrying amounts of the monetary assets and liabilities:

	MUR	USD	GBP	EURO	INR	OTHER	TOTAL
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2017							
Total monetary financial assets	91,500,312	51,313,750	1,765,369	18,104,239	9,684,066	884,387	173,252,123
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

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 2018	*31 December 2017*	*31 December 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Minimum for the year	**389**	630	168
Maximum for the year	**14,398**	7,331	4,993
Year end	**1,321**	1,231	730

37. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(iv) Equity price sentivity analysis

The Bank is exposed to equity price risks arising from equity investments. 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 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Statement of comprehensive income	171	18	182
Statement of profit or loss	-	-	-
	171	18	182

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 5 to the financial statements (accounting policies).

38. OTHER RESERVES

Fair value through other comprehensive income reserve

This reserve comprises fair value movements recognised on fair value through other comprehensive income 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.

39. DISCONTINUED OPERATIONS

On 30 November 2018, the Bank declared a distribution in specie and its foreign operations consisting of four branches in India were transferred to SBM (Bank) Holdings Ltd, its sole shareholder. At 31 December 2018, the results of the foreign operations for the period 01 January 2018 to 30 November 2018 were reported as a one line item under "Discontinued Operations" in the *statement of profit or loss*. The results of the foreign operations for the period ended 30 November 2018 are presented below:

	30 November 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Interest income	520,717	576,440	541,452
Interest expense	(353,938)	(361,996)	(322,632)
Net interest income	166,779	214,444	218,820
Fee and commission income	5,540	17,787	19,339
Fee and commission expense	(3,277)	(2,225)	(2,643)
Net fee and commission income	2,263	15,562	16,696
Other operating income	10,328	41,821	26,421
Operating income	179,370	271,827	261,937
Non-interest expense	(247,596)	(138,003)	(123,836)
Profit before credit loss expense on financial assets and tax	(68,226)	133,824	138,101
Credit loss expense on financial assets	(153,148)	(759,238)	(301,864)
Profit before tax	(221,374)	(625,414)	(163,763)
Tax expense	-	(66,445)	(20,789)
Loss for the period/year from discontinued operations	(221,374)	(691,859)	(184,552)

The statement of financial position as at 30 November 2018 is presented below:

	MUR'000
Assets	8,100,910
Liabilities	5,566,218
Net assets disposed of	2,534,692

Movement in Other 'Comprehensive income'

Recycling of translation reserve following derecognition of Indian Operations	685,838

The net cash flows incurred by the Indian Operations are as follows:

	30 November 2018	31 December 2017
	MUR'000	MUR'000
Operating	180,204	(71,732)
Investing	(121,507)	234,197
Financing	885,600	-
	944,297	162,465

40.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 and relates to all banking business other than Segment B activity. Expenditure incurred by the Bank but 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

	Notes	Segment A 31-Dec 2018 MUR' 000	Segment B 31-Dec 2018 MUR' 000	Bank 31-Dec 2018 MUR' 000	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
ASSETS										
Cash and cash equivalents	40l	5,228,135	5,983,577	11,211,712	5,283,090	10,337,688	15,620,778	2,110,776	7,313,165	9,423,941
Mandatory balances with Central Banks		8,767,767	-	8,767,767	8,494,436	217,626	8,712,062	6,808,269	137,301	6,945,570
Loans to and placements with banks	40m	5,587,990	6,176,368	11,764,358	1,104,288	7,791,572	8,895,860	451,829	4,194,082	4,645,911
Derivative financial instruments	40n	182,900	579,955	762,855	1,244,946	111,828	1,356,774	100,808	65,189	165,997
Loans and advances to non-bank customers	40o	69,394,195	24,901,856	94,296,051	66,810,412	34,028,819	100,839,231	58,173,886	12,984,228	71,158,114
Investment securities	40p	44,291,560	6,642,749	50,934,309	27,224,221	9,926,510	37,150,731	24,197,840	10,213,134	34,410,974
Equity investment		-	3,411	3,411	-	370	370	-	4,058	4,058
Property and equipment	40q	2,458,814	-	2,458,814	2,493,316	138,466	2,631,782	2,607,635	142,416	2,750,051
Intangible assets	40r	2,962,920	-	2,962,920	3,422,881	34,180	3,457,061	3,509,064	260,855	3,769,919
Deferred tax assets		-	-	-	-	95,461	95,461	21,817	193,503	215,320
Other assets	40s	742,103	81,550	823,653	656,951	266,941	923,892	296,970	303,782	600,752
Total assets		139,616,384	44,369,466	183,985,850	116,734,541	62,949,461	179,684,002	98,278,894	35,811,713	134,090,607
LIABILITIES										
Deposits from banks	40t	342,285	453,832	796,117	372,709	367,217	739,926	1,948,906	762,458	2,711,364
Deposits from non-bank customers	40u	100,797,742	46,733,098	147,530,840	98,447,966	43,247,803	141,695,769	81,396,999	26,905,388	108,302,387
Other borrowed funds	40v	2,501,657	9,272,281	11,773,938	4,461,913	8,654,680	13,116,593	1,685,702	2,854,807	4,540,509
Derivative financial instruments	40n	222,243	536,399	758,642	1,174,527	160,057	1,334,584	121,665	60,741	182,406
Current tax liabilities		403,807	70,680	474,487	60,106	45,763	105,869	358,908	-	358,908
Deferred tax liabilities		263,751	(99,755)	163,996	184,679	(13,774)	170,905	-	-	-
Other liabilities	40w	1,937,094	3,083,541	5,020,635	1,705,657	2,457,550	4,163,207	1,442,112	798,484	2,240,596
Total liabilities		106,468,579	60,050,076	166,518,655	106,407,557	54,919,296	161,326,853	86,954,292	31,381,878	118,336,170
SHAREHOLDER'S EQUITY										
Stated capital				310,000			310,000			310,000
Capital contribution				11,044,011			9,063,106			8,063,106
Retained earnings				4,817,518			7,855,520			6,193,747
Other reserves				1,295,666			1,128,523			1,187,584
Total equity				17,467,195			18,357,149			15,754,437
Total equity and liabilities				183,985,850			179,684,002			134,090,607

40. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

b. Statement of profit or loss

	Notes	Segment A 31-Dec 2018 MUR' 000	Segment B 31-Dec 2018 MUR' 000	Bank 31-Dec 2018 MUR' 000	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
Interest income		5,204,461	1,951,911	7,156,372	4,710,904	1,363,986	6,074,890	4,766,114	630,436	5,396,550
Interest expense		(1,273,492)	(391,514)	(1,665,006)	(1,318,156)	(250,973)	(1,569,129)	(1,236,578)	(124,689)	(1,361,267)
Net interest income	40c	3,930,969	1,560,397	5,491,366	3,392,748	1,113,013	4,505,761	3,529,536	505,747	4,035,283
Fee and commission income		777,842	283,824	1,061,666	707,878	297,396	1,005,274	560,445	416,335	976,780
Fee and commission expense		(1,954)	(21,061)	(23,015)	(4,472)	(17,924)	(22,396)	(2,919)	(17,806)	(20,725)
Net fee and commission income	40d	775,888	262,763	1,038,651	703,406	279,472	982,878	557,526	398,529	956,055
Other income										
Profit arising from dealing in foreign currencies		381,540	298,198	679,738	309,245	122,238	431,483	414,955	75,021	489,976
Net gain/(loss) from financial instruments	40e	16,401	483,732	500,133	15,066	504,755	519,821	(39,359)	14,528	(24,831)
Net gain/(loss) on sale of securities	40f	209,042	(35,488)	173,554	379,225	51,672	430,897	254,293	169,556	423,849
Other operating income	40g	-	-	-	61	-	61	4,204	-	4,204
		606,983	746,442	1,353,425	703,597	678,665	1,382,262	634,093	259,105	893,198
Non interest income		1,382,871	1,009,205	2,392,076	1,407,002	958,138	2,365,140	1,191,619	657,634	1,849,253
Operating income		5,313,840	2,569,602	7,883,442	4,799,750	2,071,151	6,870,901	4,721,155	1,163,381	5,884,536
Personnel expenses	40h	(1,162,499)	(173,795)	(1,336,294)	(1,192,959)	(170,437)	(1,363,396)	(1,135,736)	(140,076)	(1,275,812)
Depreciation and amortisation		(639,600)	(55,536)	(695,136)	(591,261)	(50,993)	(642,254)	(315,835)	(23,656)	(339,491)
Other expenses	40i	(629,152)	(74,151)	(703,303)	(756,795)	(83,145)	(839,940)	(756,642)	(72,389)	(829,031)
Non-interest expense		(2,431,251)	(303,482)	(2,734,733)	(2,541,015)	(304,575)	(2,845,590)	(2,208,213)	(236,121)	(2,444,334)
Profit before credit loss expense		2,882,589	2,266,120	5,148,709	2,258,735	1,766,576	4,025,311	2,512,942	927,260	3,440,202
Credit loss expense on financial assets	40j	(278,203)	(2,732,153)	(3,010,356)	8,073	(236,097)	(228,024)	(117,929)	(296,949)	(414,878)
Profit before income tax		2,604,386	(466,033)	2,138,353	2,266,808	1,530,479	3,797,287	2,395,013	630,311	3,025,324
Tax expense	40k	(606,337)	(70,651)	(676,988)	(423,786)	(70,349)	(494,135)	(612,690)	(19,470)	(632,160)
Profit/(loss) for the year from continuing operations		1,998,049	(536,684)	1,461,365	1,843,022	1,460,130	3,303,152	1,782,323	610,841	2,393,164
Discontinued operations										
Loss after tax for the period/year from discontinued operations		-	(221,374)	(221,374)	-	(691,859)	(691,859)	-	(184,552)	(184,552)
Loss on distribution of dividend in specie		-	(685,838)	(685,838)	-	-	-	-	-	-
Profit/(loss) for the year		1,998,049	(1,443,896)	554,153	1,843,022	768,271	2,611,293	1,782,323	426,289	2,208,612

40. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

c. Net interest income

	Segment A 31-Dec 2018 MUR' 000	Segment B 31-Dec 2018 MUR' 000	Bank 31-Dec 2018 MUR' 000	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
Interest income on financial instruments at amortised cost									
Cash and cash equivalents	32,125	124,123	156,248	9,529	83,770	93,299	5,363	52,569	57,932
Loans to and placements with banks	124,823	187,256	312,079	18,271	103,993	122,264	3,488	50,016	53,504
Loans and advances to non-bank customers	3,992,536	1,559,738	5,552,274	3,780,100	1,026,734	4,806,834	3,945,939	317,658	4,263,597
Investment securities	417,241	-	417,241	539,988	22,430	562,418	808,026	-	808,026
	4,566,725	1,871,117	6,437,842	4,347,888	1,236,927	5,584,815	4,762,816	420,243	5,183,059
Interest income on financial instruments at fair value									
Investment securities	608,187	232,180	840,367	335,995	160,693	496,688	3,291	219,276	222,567
Trading assets	29,549	(151,386)	(121,837)	27,021	(33,634)	(6,613)	-	(9,083)	(9,083)
Other	-	-	-	-	-	-	7	-	7
	637,736	80,794	718,530	363,016	127,059	490,075	3,298	210,193	213,491
Total interest income	5,204,461	1,951,911	7,156,372	4,710,904	1,363,986	6,074,890	4,766,114	630,436	5,396,550
Interest expense									
Deposits from customers	(1,146,916)	(229,785)	(1,376,701)	(1,271,078)	(172,947)	(1,444,025)	(1,232,858)	(96,549)	(1,329,407)
Other borrowed funds	(126,576)	(138,909)	(265,485)	(47,078)	(62,619)	(109,697)	(3,720)	(26,755)	(30,475)
Other	-	(22,820)	(22,820)	-	(15,407)	(15,407)	-	(1,385)	(1,385)
Total interest expense	(1,273,492)	(391,514)	(1,665,006)	(1,318,156)	(250,973)	(1,569,129)	(1,236,578)	(124,689)	(1,361,267)
Net interest income	3,930,969	1,560,397	5,491,366	3,392,748	1,113,013	4,505,761	3,529,536	505,747	4,035,283

d. Net fee and commission income

	Segment A 31-Dec 2018 MUR' 000	Segment B 31-Dec 2018 MUR' 000	Bank 31-Dec 2018 MUR' 000	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
Fee and commission income									
Retail banking customer fees	232,783	24,423	257,206	307,788	23,327	331,115	287,420	14,507	301,927
Corporate banking customer fees	270,067	183,875	453,942	168,412	190,672	359,084	164,384	78,794	243,178
Card income	274,992	75,526	350,518	231,678	83,397	315,075	108,641	323,034	431,675
Total fee and commission income	777,842	283,824	1,061,666	707,878	297,396	1,005,274	560,445	416,335	976,780
Fee and commission expense									
Interbank transaction fees	-	(14,409)	(14,409)	-	(12,776)	(12,776)	(1)	(15,917)	(15,918)
Other	(1,954)	(6,652)	(8,606)	(4,472)	(5,148)	(9,620)	(2,918)	(1,889)	(4,807)
Total fee and commission expense	(1,954)	(21,061)	(23,015)	(4,472)	(17,924)	(22,396)	(2,919)	(17,806)	(20,725)
Net fee and commission income	775,888	262,763	1,038,651	703,406	279,472	982,878	557,526	398,529	956,055

40. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

	Segment A 31-Dec 2018 MUR' 000	Segment B 31-Dec 2018 MUR' 000	Bank 31-Dec 2018 MUR' 000	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
e. Net gain/(loss) from financial instruments									
Net (loss)/gain from derivatives financial instruments	(5,223)	328,690	323,467	1,331	517,944	519,275	(39,377)	14,528	(24,849)
Investment securities at fair value through profit or loss	40,331	19,141	59,472	13,723	(12,804)	919	-	-	-
Other	(18,707)	135,901	117,194	12	(385)	(373)	18	-	18
	16,401	483,732	500,133	15,066	504,755	519,821	(39,359)	14,528	(24,831)
f. Net gain/(loss) on sale of securities									
Net gain/(loss) on sale of securities	209,042	(35,488)	173,554	379,225	51,672	430,897	254,293	169,556	423,849
g. Other operating income									
Other	-	-	-	61	-	61	4,204	-	4,204
h. Personnel expenses									
Wages and salaries	860,679	140,559	1,001,238	904,212	139,779	1,043,991	837,697	115,695	953,392
Other social security obligations	-	-	-	15,580	2,143	17,723	14,440	1,737	16,177
Contributions to defined contribution plans	121,908	22,369	144,277	78,349	12,831	91,180	64,007	9,109	73,116
Cash-settled share-based payments	-	-	-	-	-	-	-	580	580
Increase in liability for defined benefit plans	28,594	1,651	30,245	24,500	1,922	26,422	28,399	1,631	30,030
Staff welfare cost	19,825	213	20,038	16,587	161	16,748	13,889	(319)	13,570
Management and professional charges	-	-	-	7,096	90	7,186	16,712	603	17,315
Other	131,493	9,003	140,496	146,635	13,511	160,146	160,592	11,040	171,632
	1,162,499	173,795	1,336,294	1,192,959	170,437	1,363,396	1,135,736	140,076	1,275,812

40. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

	Segment A 31-Dec 2018	Segment B 31-Dec 2018	Bank 31-Dec 2018	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
i. Other expenses	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	317,015	48,478	365,493	412,320	56,984	469,304	440,008	44,182	484,190
Auditors' remuneration (audit and other services):									
-Principal auditors	7,133	-	7,133	6,169	964	7,133	6,518	1,018	7,536
-Other auditors	-	-	-	-	-	-	-	-	-
Utilities	42,787	2,735	45,522	49,550	3,366	52,916	47,105	2,808	49,913
Professional charges	54,845	10,733	65,578	14,943	14,790	29,733	20,325	13,724	34,049
Marketing costs	55,369	1	55,370	69,671	1	69,672	43,541	33	43,574
Rent, repairs and maintenance	64,928	2,662	67,590	75,460	3,286	78,746	83,761	4,236	87,997
Licence and other registration fees	19,773	1,132	20,905	20,662	1,447	22,109	15,983	1,648	17,631
Other	67,302	8,410	75,712	108,020	2,307	110,327	99,401	4,740	104,141
	629,152	74,151	703,303	756,795	83,145	839,940	756,642	72,389	829,031
j. Net impairment loss on financial assets									
Portfolio and specific provisions:									
- On-balance sheet advances	265,476	2,791,023	3,056,499	108,504	236,097	344,601	118,674	296,949	415,623
Bad debts written off for which no provisions were made	-	-	-	-	-	-	1,259	-	1,259
Recoveries of advances written off	(6,322)	-	(6,322)	(116,577)	-	(116,577)	(2,068)	-	(2,068)
Other	19,049	(58,870)	(39,821)	-	-	-	64	-	64
	278,203	2,732,153	3,010,356	(8,073)	236,097	228,024	117,929	296,949	414,878
Of which:									
Credit exposure	259,154	2,791,023	3,050,177	(8,073)	236,097	228,024	117,865	296,949	414,814
Other financial assets	19,049	(58,870)	(39,821)	-	-	-	64	-	64
	278,203	2,732,153	3,010,356	(8,073)	236,097	228,024	117,929	296,949	414,878
k. Tax expense									
Income tax expense	582,572	70,651	653,223	210,556	53,389	263,945	593,252	28,378	621,630
Deferred tax charge/(income)	23,765	-	23,765	213,230	16,960	230,190	19,438	(8,908)	10,530
	606,337	70,651	676,988	423,786	70,349	494,135	612,690	19,470	632,160

40. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

l. Cash and cash equivalents

	Segment A 31-Dec 2018	Segment B 31-Dec 2018	Bank 31-Dec 2018	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
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cash in hand	2,398,191	-	2,398,191	1,804,128	-	1,804,128	1,706,637	-	1,706,637
Foreign currency notes and coins	277,740	-	277,740	293,161	1,702	294,863	-	287,812	287,812
Unrestricted balances with central banks [1]	1,527,560	-	1,527,560	1,279,680	6,958	1,286,638	-	-	-
Loans and placements with banks [2]	1,066,119	96,245	1,162,364	1,906,121	3,989,822	5,895,943	404,153	3,049,370	3,453,523
Balances with banks	-	5,887,615	5,887,615	-	6,339,206	6,339,206	(15)	3,975,984	3,975,969
	5,269,610	5,983,860	11,253,470	5,283,090	10,337,688	15,620,778	2,110,775	7,313,166	9,423,941
Less: allowance for impairment losses	(41,475)	(283)	(41,758)	-	-	-	-	-	-
	5,228,135	5,983,577	11,211,712	5,283,090	10,337,688	15,620,778	2,110,775	7,313,166	9,423,941

[1] Unrestricted balances with central banks represent amounts above the minimum cash reserve requirement.

[2] The balances above relate to loans and placements with banks having an original maturity of up to three months. Allowance for impairment losses relates only to stage 1.

m. Loans to and placements with banks

	Segment A 31-Dec 2018	Segment B 31-Dec 2018	Bank 31-Dec 2018	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
	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	5,587,990	-	5,587,990	1,104,288	-	1,104,288	451,829	-	451,829
- outside Mauritius	-	6,176,368	6,176,368	-	7,791,572	7,791,572	-	4,194,082	4,194,082
	5,587,990	6,176,368	11,764,358	1,104,288	7,791,572	8,895,860	451,829	4,194,082	4,645,911
Remaining term to maturity									
Up to 3 months	3,052,827	757,647	3,810,474	393,748	1,044,724	1,438,472	-	179,715	179,715
Over 3 months and up to 6 months	2,060,256	1,280,200	3,340,456	336,387	67,587	403,974	380,372	1,523,405	1,903,777
Over 6 months and up to 12 months	474,907	1,359,191	1,834,098	221,363	1,689,619	1,910,982	71,457	-	71,457
Over 1 year and up to 2 years	-	1,914,018	1,914,018	152,790	2,997,612	3,150,402	-	1,078,904	1,078,904
Over 2 years and up to 5 years	-	865,312	865,312	-	1,992,030	1,992,030	-	1,052,470	1,052,470
Over 5 years	-	-	-	-	-	-	-	359,588	359,588
	5,587,990	6,176,368	11,764,358	1,104,288	7,791,572	8,895,860	451,829	4,194,082	4,645,911

n. Derivative financial instruments

	Segment A 31-Dec 2018	Segment B 31-Dec 2018	Bank 31-Dec 2018	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
Derivative assets	182,900	579,955	762,855	1,244,946	111,828	1,356,774	100,808	65,189	165,997
	182,900	579,955	762,855	1,244,946	111,828	1,356,774	100,808	65,189	165,997
Derivative liabilities	222,243	536,399	758,642	1,174,527	160,057	1,334,584	121,665	60,741	182,406

40. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

o. Loans and advances to non-bank customers

	Segment A 31-Dec 2018 MUR' 000	Segment B 31-Dec 2018 MUR' 000	Bank 31-Dec 2018 MUR' 000	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
Governments	9,315	-	9,315	2,458,655	-	2,458,655	-	-	-
Retail customers	31,012,551	1,108,702	32,121,253	30,468,689	1,522,274	31,990,963	27,079,943	1,019,112	28,099,055
Credit cards	605,881	566	606,447	555,413	3,938	559,351	533,788	6,122	539,910
Mortgages	22,067,042	411,852	22,478,894	19,500,247	334,516	19,834,763	17,051,622	264,300	17,315,922
Other retail loans	8,339,628	696,284	9,035,912	10,413,029	1,183,820	11,596,849	9,494,533	748,690	10,243,223
Corporate customers	40,637,082	4,121,171	44,758,253	35,925,905	2,438,163	38,364,068	33,681,272	3,331,227	37,012,499
Entities outside Mauritius	-	22,909,421	22,909,421	-	31,446,393	31,446,393	-	10,098,489	10,098,489
	71,658,948	28,139,294	99,798,242	68,853,249	35,406,830	104,260,079	60,761,215	14,448,828	75,210,043
Less allowance for credit impairment	(2,264,753)	(3,237,438)	(5,502,191)	(2,042,837)	(1,378,011)	(3,420,848)	(2,587,329)	(1,464,600)	(4,051,929)
	69,394,195	24,901,856	94,296,051	66,810,412	34,028,819	100,839,231	58,173,886	12,984,228	71,158,114
Remaining term to maturity:									
Up to 3 months	8,627,231	3,099,752	11,726,983	10,159,091	3,557,296	13,716,387	8,230,905	3,522,504	11,753,409
Over 3 months and up to 6 months	1,388,553	1,867,804	3,256,357	1,311,550	4,306,753	5,618,303	3,046,522	594,019	3,640,541
Over 6 months and up to 12 months	7,474,055	1,401,322	8,875,377	3,843,591	7,833,648	11,677,239	3,746,182	1,339,596	5,085,778
Over 1 year and up to 2 years	6,429,091	2,100,669	8,529,760	3,360,098	3,165,463	6,525,561	3,002,591	2,079,566	5,082,157
Over 2 years and up to 5 years	10,887,308	6,678,139	17,565,447	14,533,348	8,119,727	22,653,075	10,332,575	3,492,747	13,825,322
Over 5 years	36,852,710	12,991,608	49,844,318	35,645,571	8,423,943	44,069,514	32,402,440	3,420,396	35,822,836
	71,658,948	28,139,294	99,798,242	68,853,249	35,406,830	104,260,079	60,761,215	14,448,828	75,210,043

40. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

o. Loans and advances to non-bank customers (Cont'd)

Credit loss expense

	31-Dec 2018			31-Dec 2017	31-Dec 2016
Segment A	**Gross amount of loans**	**Impaired loans**	**Credit loss expense**	**Total allowance for credit impairment**	**Total allowance for credit impairment**
	MUR' 000	**MUR' 000**	**MUR' 000**	*MUR' 000*	*MUR' 000*
Agriculture and Fishing	3,402,179	275	56,705	35,712	35,904
Manufacturing	2,714,270	163,482	167,268	151,880	149,825
of which EPZ	*1,185,948*	*38,136*	*17,128*	*43,543*	*38,542*
Tourism	9,751,041	11,427	167,141	203,935	194,475
Transport	323,876	13,660	23,668	11,388	13,596
Construction	7,082,135	240,034	356,545	221,377	235,842
Financial and business services	9,950,651	1,326	51,780	41,032	468,208
Traders	5,060,432	419,575	336,485	184,262	229,378
Personal	30,384,054	846,662	867,565	1,045,770	1,052,101
of which credit cards	*615,539*	*90,078*	*97,747*	*94,040*	*93,561*
Professional	204,252	108,779	103,222	90,468	2,086
Others	2,786,058	86,302	134,374	57,013	205,914
	71,658,948	1,891,522	2,264,753	2,042,837	2,587,329
Segment B					
Agriculture and Fishing	2,212,166	-	91,203	6,429	64,451
Manufacturing	824,091	539,520	347,695	999,716	236,545
Tourism	1,048,183	-	17,278	11,487	7,778
Transport	2,684,050	-	120,188	10,733	483,590
Construction	492,489	-	8,113	6,400	-
Financial and business services	1,484,670	519,978	133,429	81,421	66,457
Traders	10,541,070	9,464,199	2,379,029	71,023	883
Personal	1,109,105	11,737	24,008	50,323	122,261
of which credit cards	*970*	*-*	*-*	*238*	*61*
Professional	70	70	37	15,489	-
Global Business Licence holders	4,115,179	15,593	105,568	15,918	5,354
Others	3,628,221	126	10,890	109,072	477,281
	28,139,294	10,551,223	3,237,438	1,378,011	1,464,600
Total	99,798,242	12,442,745	5,502,191	3,420,848	4,051,929

40. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

p. Investment securities

Remaining term to maturity

Segment A	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	*31-Dec 2017*	*31-Dec 2016*
	31-Dec-2018										
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	*MUR' 000*	*MUR' 000*
(a) Investment securities at amortised cost											
Government bonds and treasury notes	91,369	747,861	-	777,648	1,605,600	4,766,609	3,741,584	-	11,730,671	8,292,082	14,218,481
Treasury bills	-	148,100	-	-	-	-	-	-	148,100	4,432,043	3,242,761
Bank of Mauritius bills / Bonds	-	149,032	118,992	-	762,191	201,683	-	-	1,231,898	3,544,186	5,342,047
Corporate bonds	-	-	-	-	-	-	-	-	-	2,565,077	1,394,551
	91,369	1,044,993	118,992	777,648	2,367,791	4,968,292	3,741,584	-	13,110,669	18,833,388	24,197,840
(b) Investment securities mandatorily measured at FVTPL											
Government bonds	-	-	-	1,358	-	223,934	539,826	-	765,118	970,594	-
Treasury bills / notes	597,828	2,288,062	1,902,344	354,022	-	-	-	-	5,142,256	943,822	-
Bank of Mauritius bills / Bonds	1,253,365	1,110,374	35,018	742,318	663,334	-	-	-	3,804,409	1,947,439	-
	1,851,193	3,398,436	1,937,362	1,097,698	663,334	223,934	539,826	-	9,711,783	3,861,855	-
(c) Investment securities measured at FVTOCI											
Government bonds	46,567	19,904	-	581,826	919,904	3,355,051	2,385,724	-	7,308,976	3,110,233	-
Treasury bills / notes	7,353,679	1,923,173	-	388	-	-	-	-	9,277,240	393,334	-
Bank of Mauritius bills / Bonds	322,627	-	-	-	1,241,916	576,906	-	-	2,141,449	1,025,409	-
Corporate bonds	-	-	-	-	-	1,395,858	1,345,585	-	2,741,443	-	-
	7,722,873	1,943,077	-	582,214	2,161,820	5,327,815	3,731,309	-	21,469,108	4,528,976	-
Total Segment A	9,665,435	6,386,506	2,056,354	2,457,560	5,192,945	10,520,041	8,012,719	-	44,291,560	27,224,219	24,197,840

40. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

p. Investment securities (cont'd)

Remaining term to maturity (cont'd)

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	*31-Dec 2017*	*31-Dec 2016*
	31-Dec-2018										
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	*MUR' 000*	*MUR' 000*
(a) Investment securities at amortised cost											
Bank Bonds	-	-	-	-	-	695,818	-	-	695,818	-	-
Corporate bonds	-	-	-	-	-	-	-	-	-	372,824	-
	-	-	-	-	-	695,818	-	-	695,818	372,824	-
(b) Investment securities mandatorily measured at FVTPL											
Government bonds and treasury notes	-	-	-	-	-	-	-	-	-	1,650,227	-
Corporate bonds	-	-	-	-	-	-	-	-	-	1,164,407	-
	-	-	-	-	-	-	-	-	-	2,814,634	-
(c) Investment securities measured at FVTOCI											
Government bonds	-	-	-	-	-	-	-	-	-	328,796	970,159
Treasury bills / notes	-	-	-	-	-	-	-	-	-	1,197,164	178,414
Equity shares of companies:											
- Other equity investments	-	-	-	-	-	-	-	3,411	3,411	370	4,058
Bank bonds	-	-	-	-	3,218,567	2,262,234	294,797	-	5,775,598	533,427	6,808,465
Corporate Bonds	-	-	-	-	-	-	-	-	-	4,228,507	2,071,193
Corporate paper and preference shares	-	-	-	-	-	-	-	-	-	451,160	184,903
Other investment securities	-	-	-	-	-	-	171,333	-	171,333	-	-
	-	-	-	-	3,218,567	2,262,234	466,130	3,411	5,950,342	6,739,424	10,217,192
Total Segment B	-	-	-	-	3,218,567	2,958,052	466,130	3,411	6,646,160	9,926,882	10,217,192
Total investment securities	9,665,435	6,386,506	2,056,354	2,457,560	8,411,512	13,478,093	8,478,849	3,411	50,937,720	37,151,101	34,415,032

Analysed into:	31-Dec 2018	*31-Dec 2017*	*31-Dec 2016*
	MUR' 000	*MUR' 000*	*MUR' 000*
Investment securities:			
- Segment A	44,291,560	27,224,219	24,197,840
- Segment B	6,642,749	9,926,512	10,213,134
	50,934,309	37,150,731	34,410,974
Equity investments:			
- Segment B	3,411	370	4,058
Total	50,937,720	37,151,101	34,415,032

40. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

q. 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 2018						
Segment A	738,891	1,348,512	334,518	3,292	33,601	2,458,814
Segment B	-	-	-	-	-	-
Bank	738,891	1,348,512	334,518	3,292	33,601	2,458,814
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
Bank	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
Bank	897,611	1,451,636	353,657	5,692	41,455	2,750,051

r. Intangible assets

SOFTWARE

	31-Dec 2018	*31-Dec 2017*	*31-Dec 2016*
Net Book Value	MUR' 000	*MUR' 000*	*MUR' 000*
Segment A	2,962,920	3,422,881	3,509,064
Segment B	-	34,180	260,855
Total	2,962,920	3,457,061	3,769,919

s. Other assets

	Segment A 31-Dec 2018	Segment B 31-Dec 2018	Bank 31-Dec 2018	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*
	MUR' 000	MUR' 000	MUR' 000	*MUR' 000*	*MUR' 000*	*MUR' 000*	*MUR' 000*	*MUR' 000*	*MUR' 000*
Accounts receivable	644,961	40,024	684,985	482,167	64,836	547,003	163,923	50,950	214,873
Balances due in clearing	2,860	-	2,860	1,065	55,018	56,083	3,682	34,484	38,166
Tax paid in advance	-	-	-	-	75,708	75,708	-	106,085	106,085
Others	94,282	41,526	135,808	173,719	71,379	245,098	129,365	112,263	241,628
	742,103	81,550	823,653	656,951	266,941	923,892	296,970	303,782	600,752

40.SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

t. Deposits from banks	Segment A 31-Dec 2018	Segment B 31-Dec 2018	Bank 31-Dec 2018	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
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Demand deposits	342,285	453,832	796,117	372,709	367,217	739,926	1,948,906	762,458	2,711,364
u. Deposits from non-bank customers									
(i) Retail customers									
Current accounts	11,620,760	2,953,875	14,574,635	13,038,356	3,378,446	16,416,802	9,357,769	1,094,407	10,452,176
Savings accounts	49,851,784	1,396,034	51,247,818	49,133,607	1,594,913	50,728,520	41,407,303	1,450,970	42,858,273
Time deposits with remaining term to maturity:									
Up to 3 months	1,079,541	486,068	1,565,609	977,521	690,133	1,667,654	887,190	452,723	1,339,913
Over 3 months and up to 6 months	751,554	1,459,951	2,211,505	779,619	1,505,432	2,285,051	623,638	146,558	770,196
Over 6 months and up to 12 months	1,425,996	2,343,385	3,769,381	1,441,907	4,595,859	6,037,766	1,261,826	1,190,684	2,452,510
Over 1 year and up to 5 years	1,934,447	293,286	2,227,733	2,720,835	503,083	3,223,918	2,465,706	1,951,204	4,416,910
Over 5 years	-	-	-	2,752	74	2,826	3,100	1,428	4,528
Total time deposits	5,191,538	4,582,690	9,774,228	5,922,634	7,294,581	13,217,215	5,241,460	3,742,597	8,984,057
	66,664,082	8,932,599	75,596,681	68,094,597	12,267,940	80,362,537	56,006,532	6,287,974	62,294,506
(ii) Corporate customers									
Current accounts	14,597,888	29,262,901	43,860,789	13,802,626	19,450,067	33,252,693	11,845,761	16,225,840	28,071,601
Savings accounts	3,479,182	143	3,479,325	4,276,387	11,385	4,287,772	6,204,319	287,742	6,492,061
Time deposits with remaining term to maturity:									
Up to 3 months	2,373,111	7,143,294	9,516,405	3,396,254	8,657,480	12,053,734	1,134,215	1,275,855	2,410,070
Over 3 months and up to 6 months	936,447	851,707	1,788,154	563,132	1,429,901	1,993,033	1,195,373	846,160	2,041,533
Over 6 months and up to 12 months	551,344	406,692	958,036	663,607	864,169	1,527,776	353,922	1,581,645	1,935,567
Over 1 year and up to 5 years	260,737	135,762	396,499	322,274	566,861	889,135	681,619	400,172	1,081,791
Over 5 years	-	-	-	-	-	-	359	-	359
Total time deposits	4,121,639	8,537,455	12,659,094	4,945,267	11,518,411	16,463,678	3,365,488	4,103,832	7,469,320
	22,198,709	37,800,499	59,999,208	23,024,280	30,979,863	54,004,143	21,415,568	20,617,414	42,032,982
(iii) Government									
Current accounts	6,098,267	-	6,098,267	3,027,269	-	3,027,269	1,895,307	-	1,895,307
Savings accounts	3,521,548	-	3,521,548	2,908,506	-	2,908,506	2,078,167	-	2,078,167
Time deposits with remaining term to maturity:									
Up to 3 months	1,620,343	-	1,620,343	22,397	-	22,397	-	-	-
Over 3 months and up to 6 months	619,611	-	619,611	1,357,224	-	1,357,224	400	-	400
Over 6 months and up to 12 months	69,396	-	69,396	12,961	-	12,961	925	-	925
Over 1 year and up to 5 years	5,786	-	5,786	732	-	732	100	-	100
Total time deposits	2,315,136	-	2,315,136	1,393,314	-	1,393,314	1,425	-	1,425
	11,934,951	-	11,934,951	7,329,089	-	7,329,089	3,974,899	-	3,974,899
	100,797,742	46,733,098	147,530,840	98,447,966	43,247,803	141,695,769	81,396,999	26,905,388	108,302,387

40. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

		Segment A 31-Dec 2018	Segment B 31-Dec 2018	Bank 31-Dec 2018	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
v.	**Other borrowed funds**	**MUR' 000**	**MUR' 000**	**MUR' 000**	*MUR' 000*	*MUR' 000*	*MUR' 000*	*MUR' 000*	*MUR' 000*	*MUR' 000*
	Borrowings from central banks - for refinancing	50,998	-	50,998	104,190	-	104,190	147,921	-	147,921
	Other financial institutions									
	for refinancing	-	3,869,634	3,869,634	159,554	4,387,286	4,546,840	-	687,074	687,074
	Borrowings from banks									
	in Mauritius	2,450,659	-	2,450,659	4,198,169	-	4,198,169	1,537,781	-	1,537,781
	abroad	-	5,402,647	5,402,647	-	4,267,394	4,267,394	-	2,167,733	2,167,733
		2,501,657	9,272,281	11,773,938	4,461,913	8,654,680	13,116,593	1,685,702	2,854,807	4,540,509
w.	**Other liabilities**									
	Balance due in clearing	3	2,908,529	2,908,532	2,110	2,044,141	2,046,251	1,587	583,598	585,185
	Bills payable	173,640	40,847	214,487	153,727	18,242	171,969	107,916	22,548	130,464
	Accruals for expenses	94,110	-	94,110	333,015	19,165	352,180	321,264	10,476	331,740
	Accounts payable	458,144	1,473	459,617	496,527	232,446	728,973	658,896	179,029	837,925
	Deferred income	200,520	90,722	291,242	205,816	117,060	322,876	193,587	74,533	268,120
	Balances in transit	772,867	-	772,867	413,460	-	413,460	25	27	52
	Pension liability	109,621	-	109,621	91,781	-	91,781	67,764	-	67,764
	Others	17,783	41,970	59,753	35,717	-	35,717	19,346	-	19,346
	Expected credit loss expense on memorandum items	110,406	-	110,406	-	-	-	-	-	-
		1,937,094	3,083,541	5,020,635	1,732,153	2,431,054	4,163,207	1,370,385	870,211	2,240,596
x.	**Memorandum items**									
a	Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers									
	Acceptances on account of customers	-	199,670	199,670	184,494	584,333	768,827	138,697	-	138,697
	Guarantees on account of customers	6,768,366	826,076	7,594,442	6,421,528	1,021,598	7,443,126	3,794,867	803,400	4,598,267
	Letters of credit and other obligations on account of customers	496,473	16,883	513,356	846,547	1,128,720	1,975,267	471,096	724,242	1,195,338
	Other contingent items	-	-	-	-	-	-	-	-	-
		7,264,839	1,042,629	8,307,468	7,452,569	2,734,651	10,187,220	4,404,660	1,527,642	5,932,302
b	Commitments									
	Undrawn credit facilities	8,516,608	554,688	9,071,296	8,171,121	6,067,712	14,238,833	6,354,415	432,710	6,787,125
		8,516,608	554,688	9,071,296	8,171,121	6,067,712	14,238,833	6,354,415	432,710	6,787,125

ABBREVIATIONS

AFS - Available-For-Sale
ALCO - Asset and Liability Management Committee
AML - Anti Money Laundering
ARA -Average Retirement Age
ATM - Automatic Teller Machine
AUM - Assets Under Management
BOM - Bank of Mauritius
CAR - Capital Adequacy Ratio
CCB - Capital Conservation Buffer
CCR - Counterparty Credit Risk
CDS - Credit Default Swap
CEO - Chief Executive Officer
CET1 - Common Equity Tier 1
CI - Cost to Income
CSR - Corporate Social Responsibility
CASA - Current Account and Savings Account
DRs - Depositary Receipts
ECL - Expected Credit Losses
EIR - Effective Interest Rate
EY - Ernst & Young
FCY - Foreign Currency
FVTPL - Fair-value-through-profit-or-loss
FY - Financial Year
GBP - Great British Pound
HQLA - High Quality Liquid Asset
HRD - Human Resource Division
HTM - Held To Maturity
IAS - International Accounting Standards
IASB - International Accounting Standards Board
IFRIC - International Financial Reporting Interpretations Committee
IFRS - International Financial Reporting Standards
INR - Indian Rupee
IRS - Interest Rate Swap
IT - Information Technology
LCR - Liquidity Coverage Ratio
MUR - Mauritian Rupee
NII - Net Interest Income
OCI - Other Comprehensive Income
PAT - Profit After Tax
RAROC - Risk Adjusted Return on Capital
RFP - Request for Proposal
ROA - Return on Average Assets
RWA - Risk Weighted Assets
RWE - Risk Weighted Exposure
SBMBM - SBM Bank (Mauritius) Ltd
SPPI - Sole Payment of Principal and Interest
SPV - Special Purpose Vehicle
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

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