SBM HOLDINGS LTD

SBM ANNUAL REPORT 2016

MAPPING NEW FRONTIERS

Mapping New Frontiers

Contents

Caution regarding forward-looking statements

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

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

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

Abbreviations

REFERENCE	ALSO REFERRED AS:
African Export-Import Bank	Afrexim Bank
Asset and Liability Management Committee	ALCO
Anti Money Laundering	AML
Additional Tier 1	AT1
Automatic Teller Machine	ATM
Bank of Mauritius	BOM
Capital Adequacy Ratio	CAR
Chief Information Officer	CIO
Common Equity Tier 1	CET1
Cost to Income	CI
Common Market for Eastern and Southern Africa	COMESA
Credit Risk Mitigation	CRM
Corporate Social Responsibility	CSR
Data Center	DC
Disaster Recovery Data Centre	DR
Europay, MasterCard and Visa	EMV
Euro	EUR
Foreign Currency	FCY
Foreign Direct Investment	FDI
Financial Institutions Group	FIG
Finance and Investment Sector Coordinating Unit	FISCU
Financial Services Commission	FSC
Financial Year	FY
Gross Domestic Product	GDP
Global Business Licence	GBL
Gandhian Basic School	GBS
International Integrated Reporting Council	IIRC
Internal Capital Adequacy Assessment Process	ICAAP
International Monetary Fund	IMF
Indian Rupee	INR
Information Technology	IT
Key Performance Indicator	KPI
Key Risk Indicator	KRI
Local Currency	LCY
Liquidity Coverage Ratio	LCR

REFERENCE	ALSO REFERRED AS:
London Interbank Offered Rate	LIBOR
Mahatma Gandhi Institute	MGI
Mauritius Institute of Training and Development	MITD
Mauritian Rupee	MUR
Non Governmental Organisation	NGO
Net Stable Funding Ratio	NSFR
Occupational Health and Safety Act 2005	OSHA
Point of Sale	POS
Risk Adjusted Return on Capital	RAROC
Reserve Bank of India	RBI
Risk Control Self Assessment	RCSA
Request for Proposal	RFP
Return on Average Assets	ROA
Return on Average Equity	ROE
Southern African Development Community	SADC
SBM Mauritius Asset Managers Ltd	SBM MAM
SBM Holdings Ltd including its subsidiaries	SBM Group or the Group
SBM Holdings Ltd	SBMH or the Holding Company
SBM (Bank) Holdings and its subsidiaries	SBM Bank Group
SBM Bank (Mauritius) Ltd	SBM Bank (Mauritius) Ltd or the Bank
SBM (NBFC) Holdings Ltd including its subsidiaries	SBM Non-Bank Group
SBM Non-Financial Investment Holding Company	SBM (NFC) Holdings Ltd
Stock Exchange of Mauritius	SEM
Stock Exchange of Mauritius Price Index	SEMDEX
Service Level Agreement	SLA
Small and Medium Enterprises	SME
Special Purpose Vehicle	SPV
Public Interest Entity	The PIE
Technical Vocational Education Training	TVET
United Nations Economic Commission for Africa	UNECA
United Nations Educational, Scientific and Cultural Organization	UNESCO
United Nations Industrial Development Organisation	UNIDO
United States Dollar	USD
Value-at-Risk	VaR
Wholly Owned Subsidiary	WOS

Group Overview

Mauritius

Disciplined and focused execution of our strategic plan translated into a **SUPERIOR** performance in 2016, which has boosted value for our various stakeholders. We aim to **CONTINUE** to direct our efforts at initiatives that will create value beyond expectations for our **STAKEHOLDERS** and simultaneously diversify our income base to make the Group more **RESILIENT**.

The seeds for future growth have been sown...

About this Report

In line with integrated reporting principles, this report presents developments relating to SBM Holdings Ltd (SBMH) and its subsidiaries (collectively referred to as "SBM Group") which occurred during 2016. In addition to the strategy, operating environment, governance and performance, this report also contains forward looking statements about SBM Group.

The aim of this report is to communicate effectively with all of our stakeholders, with the objective of facilitating their assessment of the sustainability and future of SBM Group.

This report is presented in Mauritian Rupee (MUR), which is SBM Group's presentation currency. Percentages have been calculated using rounded off figures.

Scope

This report covers the local and foreign activities of SBM Group's subsidiaries.

The reporting period spans from 1 January 2016 to 31 December 2016. Material events, post balance sheet date, which have already been approved by the Board of Directors of SBMH, have been included.

This report complies with all applicable standards, laws and regulations including International Financial Reporting Standards (IFRS), Code of Corporate Governance for Mauritius and Bank of Mauritius Guidelines.

What is new?

This report includes several enhancements namely:

> Greater embracement of integrated reporting principles;

> Wider coverage of our major lines of business;

> Enhanced connectivity in the report.

Integrated Reporting and content

This report considers several principles of integrated reporting as put forward by the International Integrated Reporting Council (IIRC):

PRINCIPLES OF INTEGRATED REPORTING BY IIRC	Section in which integrated reporting principle is covered in this report
Organisational overview and operating context	• Group Overview • Performance and Achievements • Strategy - Integrated Thinking
Governance	• Risk Management Report • Leadership and Governance
Business model	• Group Overview • Strategy - Integrated Thinking
Risks and opportunities	• Risk Management Report • Strategy - Integrated Thinking • Performance and Achievements
Strategy and resource allocation	• Performance and Achievements • Strategy - Integrated Thinking
Performance	• Group Overview • Performance and Achievements • Financial Statements
Outlook	• Group Overview • Performance and Achievements • Strategy - Integrated Thinking

We use different icons throughout this report which are explained below:

Our Stakeholders

Investors

Customers

Employees

Regulators

Community

Types of Capital

Financial capital

Social and relationship capital

Manufactured capital

Natural capital

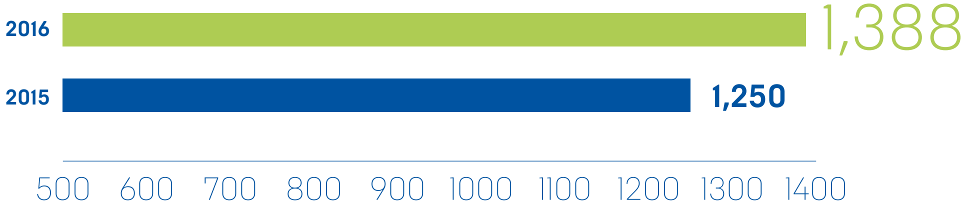
Human capital

Intellectual capital

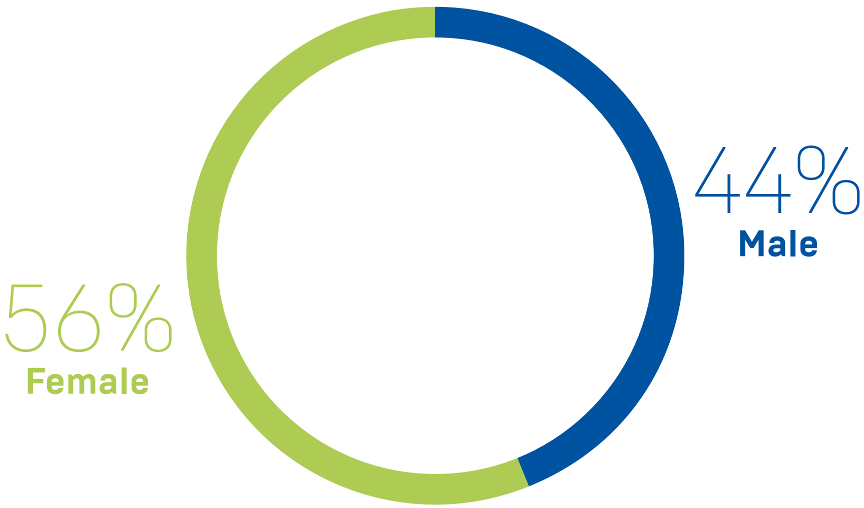
Key Figures

525,737 clients

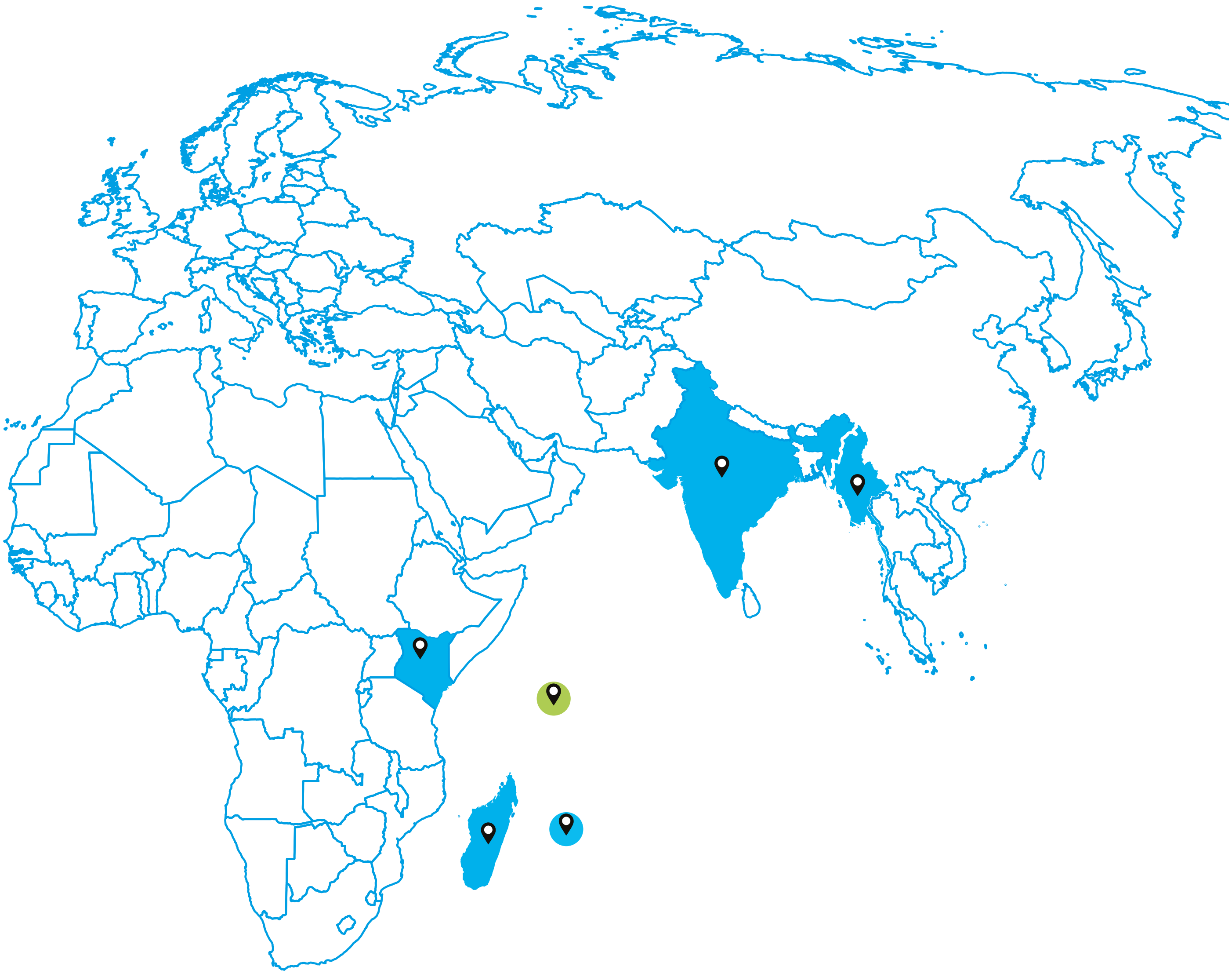
Number of Employees



Employee Breakdown by Gender in 2016



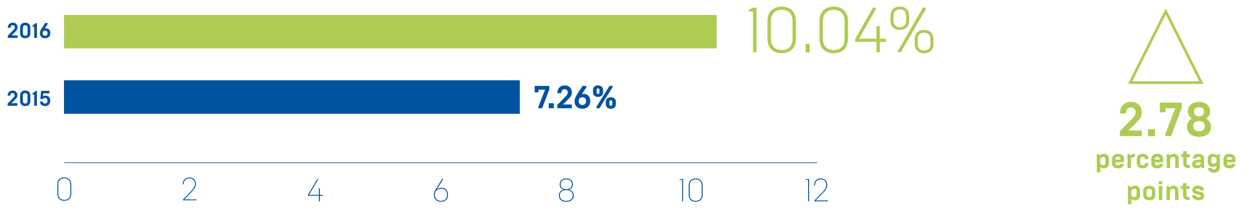
About SBM Group



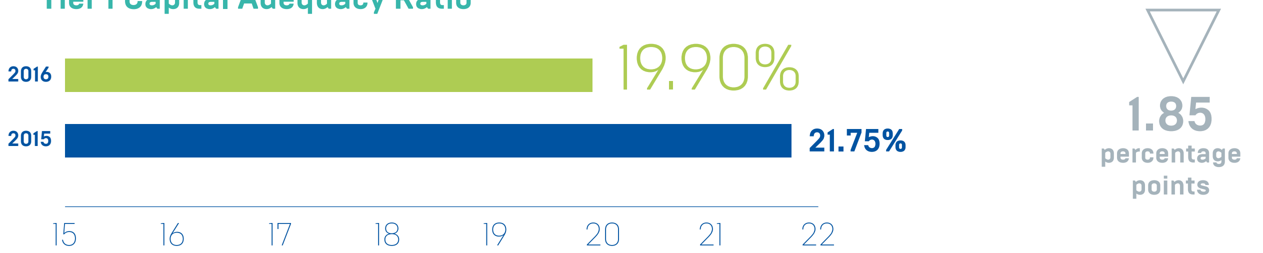
Current Presence

Future Presence

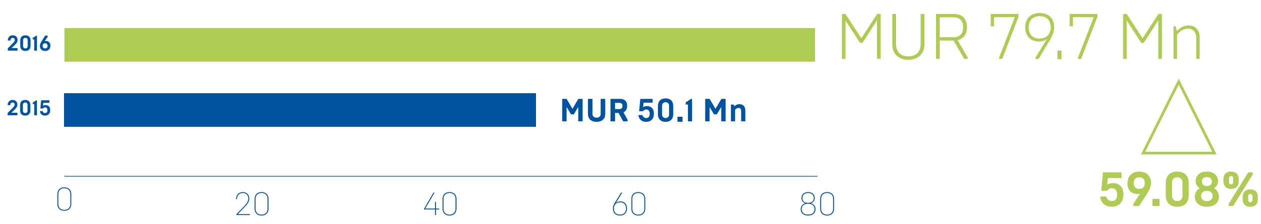
Return on Equity



Tier 1 Capital Adequacy Ratio



CSR Contribution



SBM Group is one of the largest banking and financial services institutions in Mauritius. With a market capitalisation of MUR 20 billion as at end December 2016, the Group's holding entity, SBM Holdings Ltd, is the third largest listed company on the Stock Exchange of Mauritius. SBM Group is present in Mauritius, Madagascar, India and Kenya with a representative office in Myanmar and plans to start operations in Seychelles during 2017.

Moody's Ratings*
Bank Deposits: Baa3/P-3
Issuer Rating: Baa3
Outlook: Stable

**Ratings for SBM Bank (Mauritius) Ltd as at November 2016*

AMONG THE TOP **1000** BANKS IN THE WORLD BY THE BANKER

Profit for the Year

MUR **2.3** Bn

Market Capitalisation

MUR **20.2** Bn

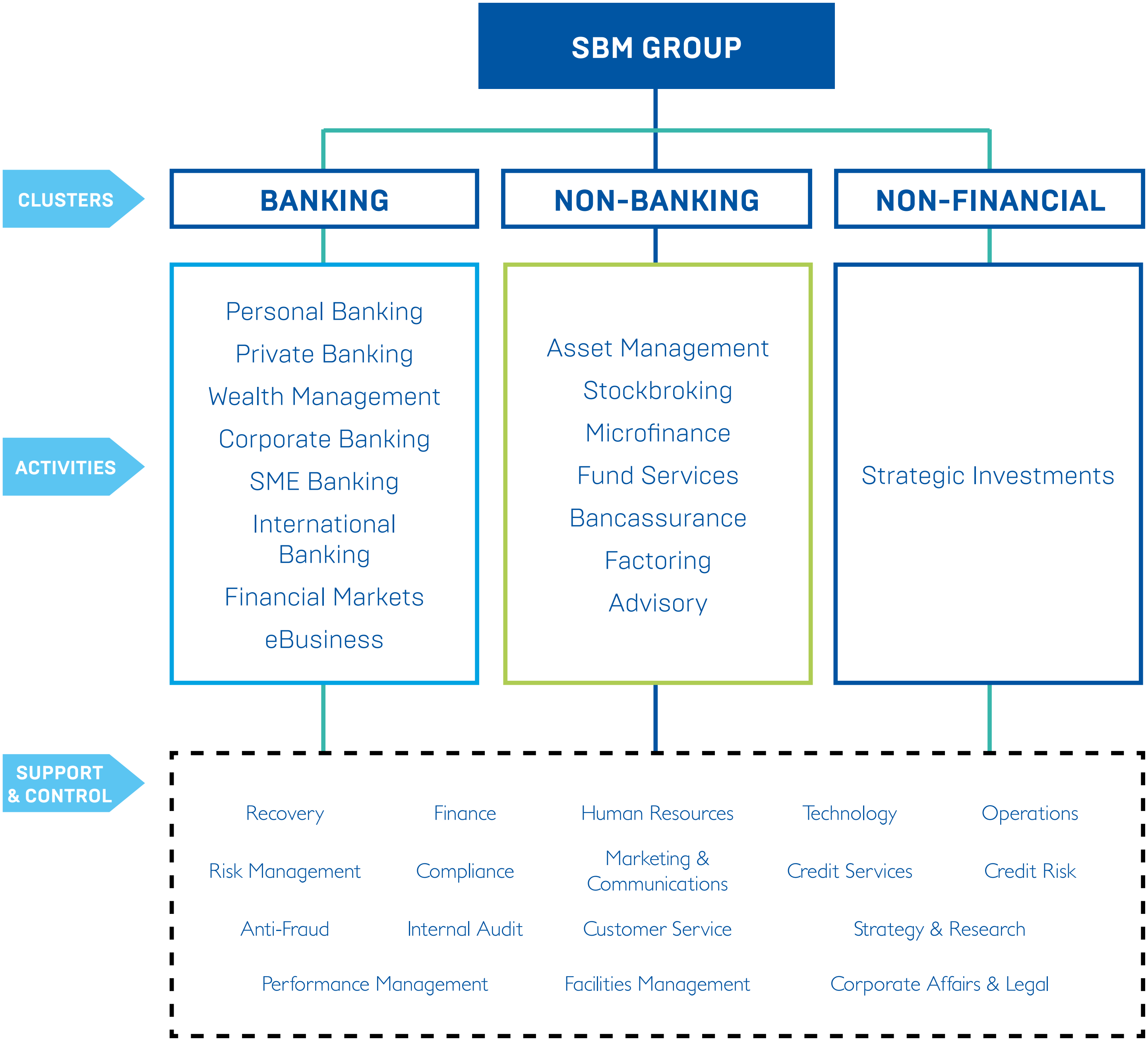
Total Assets

MUR **146.9** Bn

Total Operating Income

MUR **6.4** Bn

About SBM Group (cont'd)



Business Model

	BUSINESS ACTIVITY		INCOME STATEMENT IMPACT
INCOME	SBM lends money to customers and makes investments within the limits of regulatory and available capital, prescribed regulatory environment, customer credit profile and market conditions.		INTEREST INCOME
	SBM sources funding from depositors and other providers of finance for its lending and investing activities, which in turn produce interest expenses.	–	INTEREST EXPENSE
	SBM provides transactional banking facilities as well as professional advisory services.	+	NET FEE AND COMMISSION INCOME
	SBM offers market access and risk mitigation products. These include, but are not limited to, commodity, interest rate and foreign exchange.	+	TRADING REVENUE
	SBM earns revenue from other sources, e.g. from strategic investment activities	+	OTHER INCOME
Less			
EXPENSES	SBM invests in the development, retention and engagement of its employees, who in turn contribute to the strategic objectives of the Group and provide superior customer service.	–	STAFF COSTS
	SBM continuously invests in its infrastructure, IT systems and operational set-up. This ensures operational efficiency and provides innovative products and services to its customers and stakeholders.	–	OTHER OPERATING COSTS
	SBM takes financial exposures which may result in impairment (allowances for financial losses).	–	FINANCIAL IMPAIRMENT

Equals to Profit before tax less Dividend to shareholders Taxes to government Equals to Retained earnings for the year

MAIN RISKS LINKED TO ACTIVITY

- Financial Risk
- Interest Rate Risk
- Liquidity Risk
- Operational Risk (Incl. Compliance)
- Strategic and Reputational Risk
- Credit Risk
- Market Risk
- Credit Risk

Our Offering

DEPOSITS

CREDIT

CARDS

MUTUAL FUNDS

FX

TRADE FINANCE

GUARANTEES

STRUCTURED PRODUCTS

CUSTODY

STOCKBROKING

WEALTH MANAGEMENT

AUTOMATED PAYMENTS

INSURANCE

ADVISORY

TRADING OF FINANCIAL INSTRUMENTS

Chairman's Statement

Kee Chong LI KWONG WING,
G.O.S.K.

To Our Valued Stakeholders:

It is a privilege for me to present to you this second Integrated Annual Report published under my chairmanship. The year 2016 was marked by several achievements as SBM Group realised a much improved performance while further consolidating its foundation for future growth.

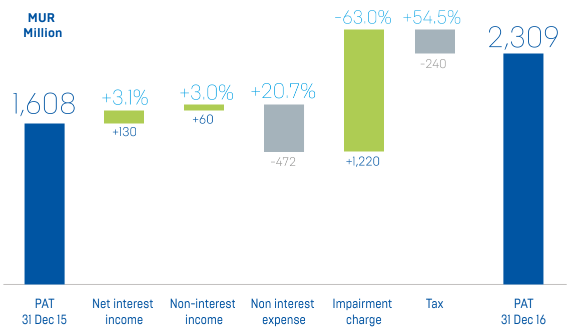
In line with our mission and core values, we are committed to creating value for our multiple stakeholders (refer to pages 28-29). Besides, we have geared up efforts since the last two years to improve transparency in disclosures and foster engagement among our stakeholders. This report thus marks a further improvement in our reporting, aligned to international best practices (refer to page 6).

The operating environment continues to be challenging. On the domestic front, weak credit growth, excess liquidity and heightened competition in the banking sector are exerting continued pressure on our business volumes and interest rate margins. Legislation is also being tightened, both at the local and international levels, particularly with regards to compliance and reporting requirements. Whilst we embrace changes that would reinforce the stability of the financial system, we recognise that they would imply higher short term compliance costs. (Refer to pages 36 to 40 for a more detailed discussion of the operating environment in the different geographies where we are present).

2016 Group's Profit After Tax:

MUR **2.3** Bn

Notwithstanding the difficult context, and even as we invest heavily to strengthen our information technology and human capital, the financial performance of SBM Group has recovered strongly after the blip recorded in 2015.



The Group's operating income rose by 3.04% year on year to MUR 6.45 billion (2015: MUR 6.26 billion). The Group continued to grow its core income items: net interest income increased by 3.07% to MUR 4.38 billion (2015: MUR 4.25 billion), net fee and commission income increased by 2.31% to MUR 1.05 billion (2015: MUR 1.03 billion) and non-interest income increased by 3.00% to MUR 2.06 billion (2015: MUR 2.00 billion).

Meanwhile, non-interest expense rose by 20.70% to MUR 2.74 billion (2015: MUR 2.27 billion) on account of higher personnel expenses (12.84% increase) and depreciation and amortisation cost (116.67% increase). The substantial rise in depreciation and amortisation cost is due to charges related to our new IT system, known as "Flamingo Project".

In a difficult credit environment, both domestically and in our overseas operations, the gross impaired advances to gross advances ratio increased from 5.14% in 2015 to 6.60% in 2016, but the net impaired advances to net advances ratio was 2.64% in 2016 (2015: 1.87%), comparing favourably with peers. However, the net impairment loss of financial assets declined significantly to MUR 717 million in 2016 (2015: 1,937 million), in view of the one-off rise in the preceding year.

EARNINGS PER SHARE INCREASED

to 89 cents

FROM 62 CENTS IN 2015

Overall, the profit after tax of the Group increased by 43.59% from MUR 1,608 million for the year ended 31 December 2015 to MUR 2,309 million for the year ended 31 December 2016. Accordingly, earnings per share rose from 62.27 cents to 89.43 cents. Shareholders' equity amounted to MUR 23.80 billion in 2016, up by 7.28% as compared to 2015 while Tier 1 capital rose from MUR 18.25 billion to MUR 18.60 billion over the same period. Return on assets, return on equity and return on Tier 1 capital improved from 1.23%, 7.26% and 8.32% respectively in 2015 to 1.63%, 10.04% and 12.53% in 2016.

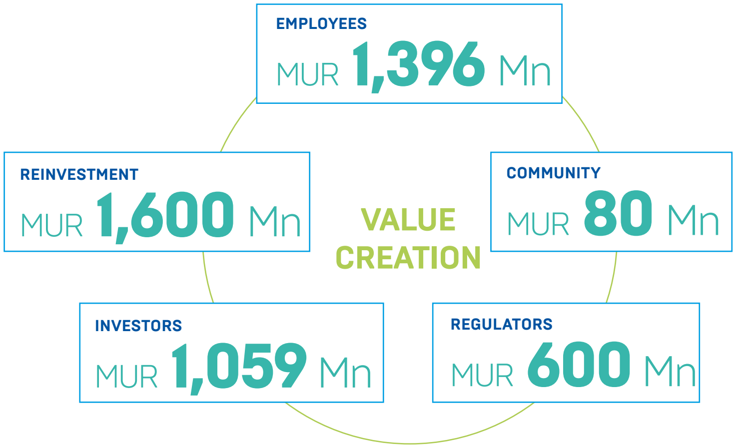
The superior performance has enabled us to continuously create value for our stakeholders. Value created for employees increased from MUR 1,237 million in 2015 to MUR 1,396 million in 2016, as we gear up our workforce in line with our growth ambitions, and continuously invest in training and employee welfare (also see 'Employees' section at pages 80 to 86).

Chairman's Statement (cont'd)

Besides, our contribution to community-based activities went up significantly from MUR 50 million in 2015 to MUR 80 million in 2016 (see section on 'SBM in the Community' at pages 87 to 91). Through our flagship SBM Scholarship Scheme – which aligns to our objective of promoting economic empowerment through education – we have helped more than 2,000 bright and needy students, and their families, have access to a potentially better future.

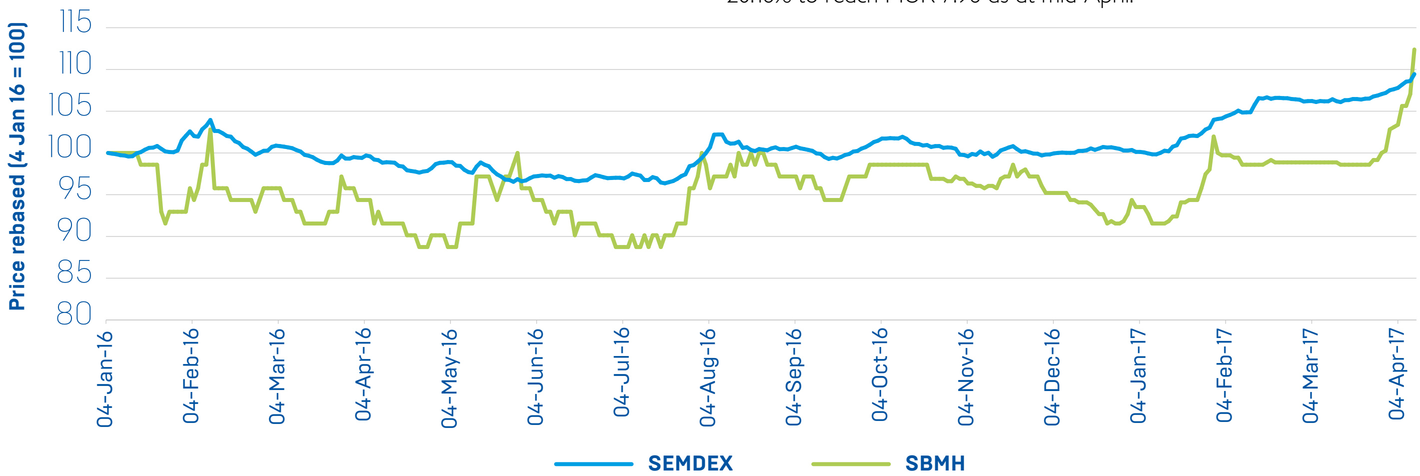
Conscious that customer needs are constantly evolving, we use market insights to provide more value added products and services to our customers. For instance, given the low interest rate environment, we introduced capital protected funds and a leveraged bond to provide potentially higher return to our customers across different risk profiles. Our investment in technology also aims at providing a seamless omnichannel experience to our customers, coupled with enhanced security. More details of new products and services, as well as performance of existing products can be found at pages 41 to 52.

We have also engaged with multiple suppliers and strategic partners to provide enhanced value to customers. These include product tie-ups as well as provision of key services including training, IT and infrastructure. Besides, value created for the Government increased by 53.89%, from MUR 390 million to MUR 600 million.



As regards our shareholders, besides the improvement in return on equity, we have also maintained a dividend per share of 40.00 cents. This represented a payout ratio of 44.7% while the dividend yield as at 31 December 2016 stood at an attractive 6.02% (2015: 5.63%). We recognise that the return on equity achieved is below our long-term target, and our strategy is to increase it to above 15% in 2017, and further upward in subsequent years. Dividend payments should also rise in line with increased profitability.

A key event in 2016 was our reverse share split whereby each shareholder received 1 ordinary share for every 10 ordinary shares held. On a year-on-year basis, the share price declined by 6.93%, from MUR 7.10 as at 04 January 2016 to MUR 6.64 as at 30 December 2016. However, in the first few months of 2017, the share price rallied by 20.18% to reach MUR 7.98 as at mid-April.



Enhanced value creation for stakeholders is an indication that our strategy is bearing fruit. In 2016, we made important headway along all five pillars of our strategy, namely consolidation, diversification, expansion, modernisation and capacity building. We consolidated our market share in the domestic banking business on the back of improved service – with, notably, a reduction in turnaround time – and an enhanced bouquet of products and services. The diversification focus has been through the creation of a Private Wealth segment. This complements our Personal Banking offering and is in line with the fast rising population of ultra-high net worth individuals in Mauritius and in Africa.

On the expansion front, a key focus of our strategy, the international business team has been overhauled, with capabilities strengthened around specific geographies – Africa, Middle East, Asia – and competency areas – Trade Finance and Financial Institution business. Although the bulk of the team was onboarded in the latter part of 2016, the year-on-year growth in advances was impressive at MUR 5.9 billion, or 92%. The share of international banking business has grown from 11% in 2015 to 16% in 2016 and, on the current momentum, is set to grow further – and significantly – in 2017 and the coming years. We were granted a banking license, subject to conditions, to operate in the Seychelles. We also initiated the takeover of Fidelity Commercial Bank in Kenya, which was successfully completed on 10 May this year.

Regarding modernisation initiatives, key milestones were reached in May 2016 and September 2016 with the successful go-live of the new technology systems in Madagascar and Mauritius respectively. The above initiatives were supported by capacity building at the level of human resources, with additional recruitment at all levels. The leadership team was revamped with the recruitment of Messrs Dussoye and Lutchmenarraidoo as Chief Executive Banking and Chief Executive Non-Banking respectively, thereby reinforcing governance. Besides, the risk management framework was propped up to align to the new growth areas identified by the Board. (See pages 74 to 79 for a review of our technology initiatives, pages 142 to 186 in respect of leadership and governance initiatives, and pages 94 to 141 for a discussion on risk management).

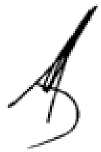
Looking ahead, we will continue to execute our strategy in a focused manner. The key strategic targets for 2017 include: (1) Increase in domestic banking market share; (2) Higher contribution from the non-banking financial cluster; (3) New services such as investment banking, factoring, microfinance and credit insurance to be launched; (4) Further increase in the share of international business: (5) Setting up operations in Kenya and Seychelles; (6) Wholly-owned subsidiary

« Enhanced value creation for stakeholders is an indication that our strategy is bearing fruit. In 2016, we made important headway along all five pillars of our strategy, namely consolidation, diversification, expansion, modernisation and capacity building. »

structure to be set up in India; (7) Digital banking and analytics initiatives to be implemented; (8) Further consolidation at leadership and governance level; (9) Strengthening of risk management practices; and (10) Revamping of HR structures and policies.

On the basis of the above initiatives, we expect the return on equity to increase to at least 15% from the current level of 10%. At the same time, we will be sowing the seeds for future growth pillars to further diversify our income base, thus reinforcing the resilience of the Group.

These are exciting times for the Group and I am proud to be supported by capable fellow directors, a results-driven executive leadership and a passionate and dedicated workforce. Together, we are focused on building a strong brand and enhancing value creation for all our stakeholders.



Kee Chong LI KWONG WING, ***G.O.S.K.***

Strategy - Integrated Thinking

- Vision, Mission, Goal and Core Values
- Types of Capital
- Our Stakeholders
- Our Strategic Model of Sustainable Value Creation
- Strategic Focus Areas

India

"Strategy is about making choices, trade-offs, **it's about deliberately choosing to be different**" *Michael Porter*

We **BELIEVE** that sustained value creation results from synergies among the various types of capital at our disposal.

We **REMAIN** committed to aligning our interests and objectives to those of our stakeholders. Hence, the "strategic – integrated thinking" model is our navigator to **SUCCESS**.

Vision, Mission, Goal and Core Values

VISION

OUR VISION is to be the **leading** and most **trusted financial services provider** in Mauritius and beyond.

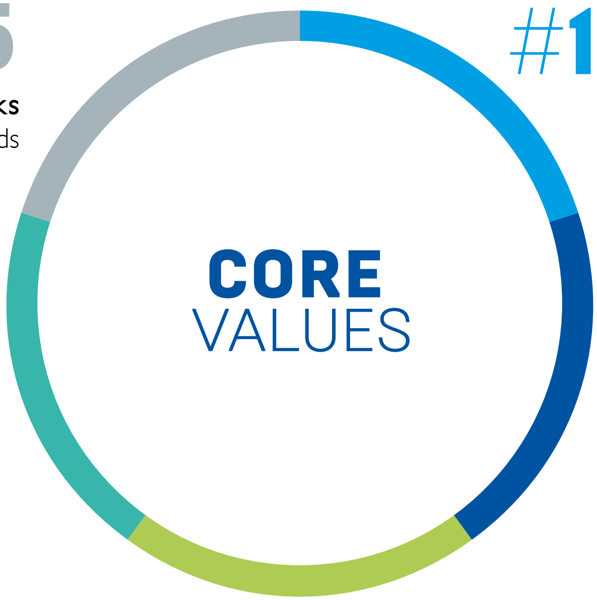
MISSION

OUR MISSION is threefold: first, to build lasting relationships with our customers by offering **distinctive products** and **exceptional service**; second, to be the **employer of choice** for the top talents in the markets we serve; third, **to prudently manage risk and costs**. In so doing, our intent is to achieve **strong and sustained returns** for our shareholders, meet the relevant needs of our stakeholders and support the **development of the community** at large.

GOAL

OUR GOAL is to **double our revenues between 2015 and 2020**, while maintaining returns above our cost of equity by **gaining market share** in our core domestic banking business, by judiciously building our **international business** and by selectively entering **non-banking financial services**.

SBM Core Values



#1
Putting our **customers first** in everything we do

#2
Committing to **world-class standards** in every area of our business

#3
Treating our employees with **integrity and respect** - and expecting the very **highest performance** in return

#4
Adhering to the **highest ethical standards**

#5
Being **prudent in taking risks** with shareholder and depositor funds

Types of Capital

Our commercial sustainability depends on our effectiveness in assisting people, businesses and institutions to fulfil their economic potential. We intermediate between providers of capital and employers of capital, providing the former with competitive returns on their funds and investments, and the latter with access to the liquidity and capital they need to realise their objectives. We also facilitate economic transactions by providing a number of payment solutions, most of which are conveniently accessible through automated and electronic channels.

These functions of our core business can in no way be separated from our evolving social and environmental context – whether at local, national, regional or global level. Strong institutions are essential to realise market outcomes that are socially beneficial in both the short and long terms. These institutions include formal regulatory institutions as well as informal social institutions such as civil society structures. Well-functioning businesses and markets require appropriate regulation to continue as constructive organs of society, to restore trust and to participate in the shared interest of maintaining stable and thriving economies and societies in Mauritius and other geographies we serve.

Our report explains our dependence and impact on the forms of capital that are fundamental to our ability to create value over the long term. We have not structured this report using the capitals but have embedded them within each section to enable us to plot the interrelationships and trade-offs between them in relation to our group and business unit strategies. Through iconography, we have mapped these relationships throughout the report. Hence, wherever the icon(s) depicted against the type(s) of capital, introduced below, are displayed, it highlights a relationship between the subject matter in the report with that capital.

Our strategic model of sustainable value creation, depicted at pages 28-29, maps the relationship between our strategy, our stakeholders, and the different types of capital.

FINANCIAL CAPITAL

Financial capital is the money we obtain from providers of capital that we use to support our business activities and invest in our strategy.

INPUT

- Equity funding
- Reserves generated through share capital
- Reinvested cash flow generated by our operations
- Debt funding

OUTPUT

- Strong balance sheet
- Attractive shareholders' return

NATURAL CAPITAL

Natural capital relates to the natural resources on which we depend to create value and returns for our stakeholders.

INPUT

- Judicious use of:
  - land
  - water
  - energy

OUTPUT

- Protection of natural resources to reduce carbon footprint
- Cleaner environment
- Energy-efficient building

SOCIAL AND RELATIONSHIP CAPITAL

Social and relationship capital is the cooperative relationships with our customers, capital providers, regulators and other stakeholders.

INPUT
- Privileged client relationships
- Engagement with, and support of, community based organisations
- Partnership with suppliers and media
- Equality and diversity programme

OUTPUT
- Trusted organisation
- Responsible corporate citizen
- Sustained business growth
- Stakeholder engagement
- Inclusive business

MANUFACTURED CAPITAL

Manufactured capital is our tangible and intangible infrastructure that we use to conduct our business activities.

INPUT
- Equipment and buildings
- IT infrastructure

OUTPUT
- Customer accessibility
- Safe and clean environment for employees
- Efficient and effective operations

HUMAN CAPITAL

Human capital refers to our people and how we select, manage and develop them.

INPUT
- Appropriate skills and talent
- Training and development
- Integrity-driven leadership
- Values

OUTPUT
- Employer of choice
- Ethical management
- Engaged, aligned and loyal workforce

INTELLECTUAL CAPITAL

Intellectual capital is closely related to financial, human and manufactured capital given the nature of our business.

INPUT
- Knowledge
- Intellectual property, for instance copyrights, patents, software and licenses
- Procedures and processes
- Brand and reputation

OUTPUT
- Trusted brand
- Innovation driven organisation
- Superior and sustainable growth

Our Stakeholders

"To optimise our opportunity to create investors' value and ensure sustainable growth in the medium and long terms, it is essential that we align our strategy to the expectations of our stakeholders."

SBM has a broad stakeholder base. Our relationship with our stakeholders directly or indirectly impacts our business activities and reputation. The Group considers it crucial to pursue its growth objectives through constant interaction with all the stakeholders encountered in the course of its business.

The ways in which we engage with our stakeholders, and the frequency with which we do so, vary according to each stakeholder group. Engagement is based on identified issues and areas of concern that may impact our stakeholders. Each stakeholder provides a form of capital that contributes to the success of the organisation and helps in meeting the objectives set.

A workshop was held with top management during the year to identify the list of stakeholders. Based on judgement and considering materiality, the key stakeholders were identified and have been included in this section as part of the reporting process.

Two questions were asked to determine key stakeholders in the process:

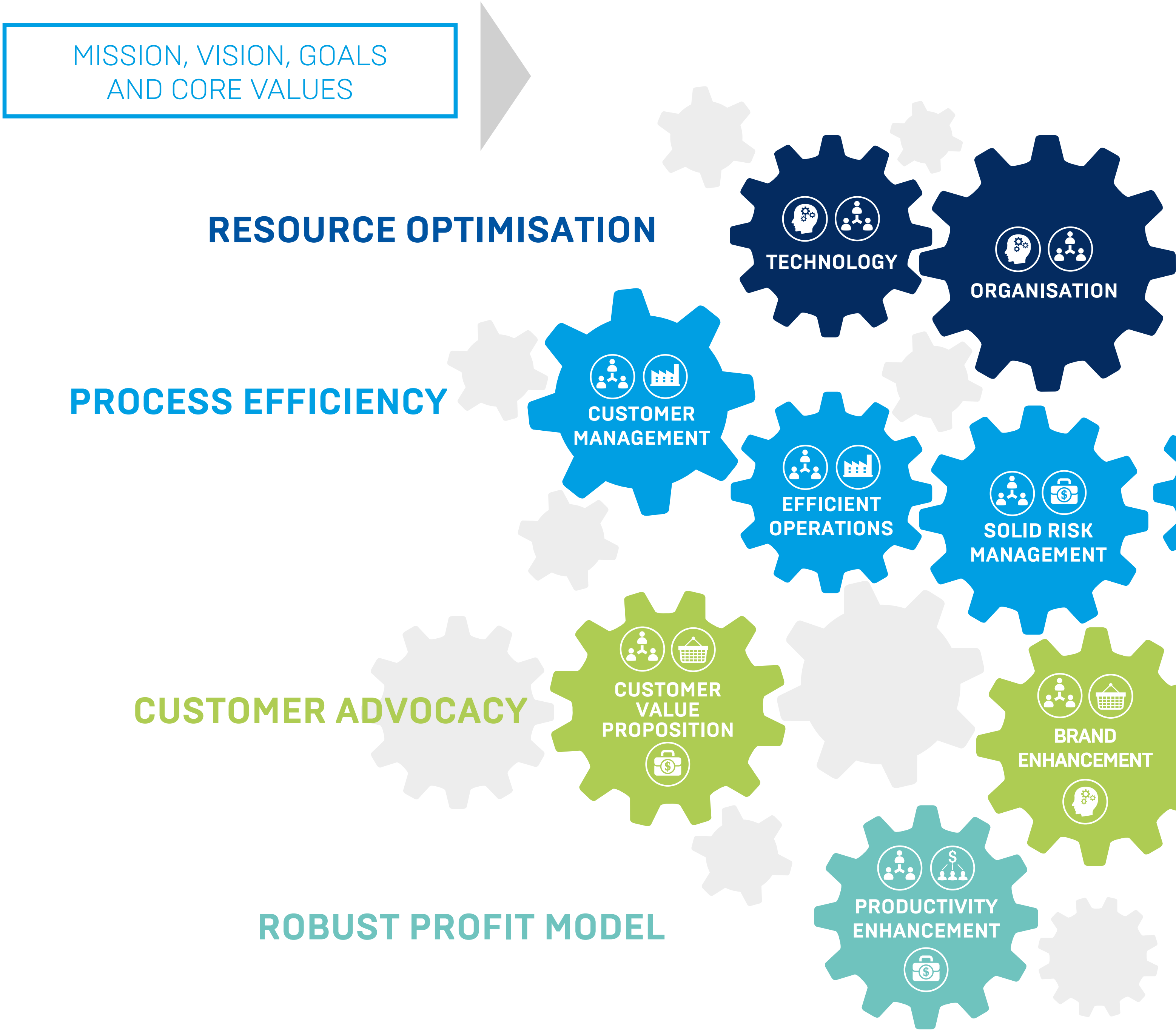
(1) Does this group of stakeholder have a significant influence or impact on SBM operations?

(2) Are the stakeholders significantly affected by SBM activities?

The table on page 27 depicts our stakeholders, their expectations and how we engaged with them.

OUR STAKEHOLDERS	WHAT THEY EXPECT?	WHAT WE STRIVE FOR?
INVESTORS	> Attractive and sustainable returns on investment	> Strong leadership and clear strategy > Balanced risk taking > Proper governance and ethics
CUSTOMERS	> Adapted products and services > Convenient channels > Quality service > Secured financial transactions	> Extensive range of products and services > Expert advice > Insights-based innovation > Omnichannel delivery > Seamless processes > Physical and IT security > Customer satisfaction and loyalty
EMPLOYEES	> Opportunities for growth > Fair remuneration and benefits > Stimulating work environment > Work-life balance	> Business growth > Equal opportunities > Training and development > Fair treatment > Conducive work environment > Leisure and health activities
REGULATORS	> Compliance and transparency	> Open and transparent reporting > Full compliance with laws and regulations > Prudent policies
COMMUNITY	> Participate in community development programmes > Environment friendly and sustainable practices	> Socially engaged through community-focused programmes > Social inclusion > Sustainable investments and practices

Our Strategic Model of Sustainable Value Creation



EXTERNAL FACTORS

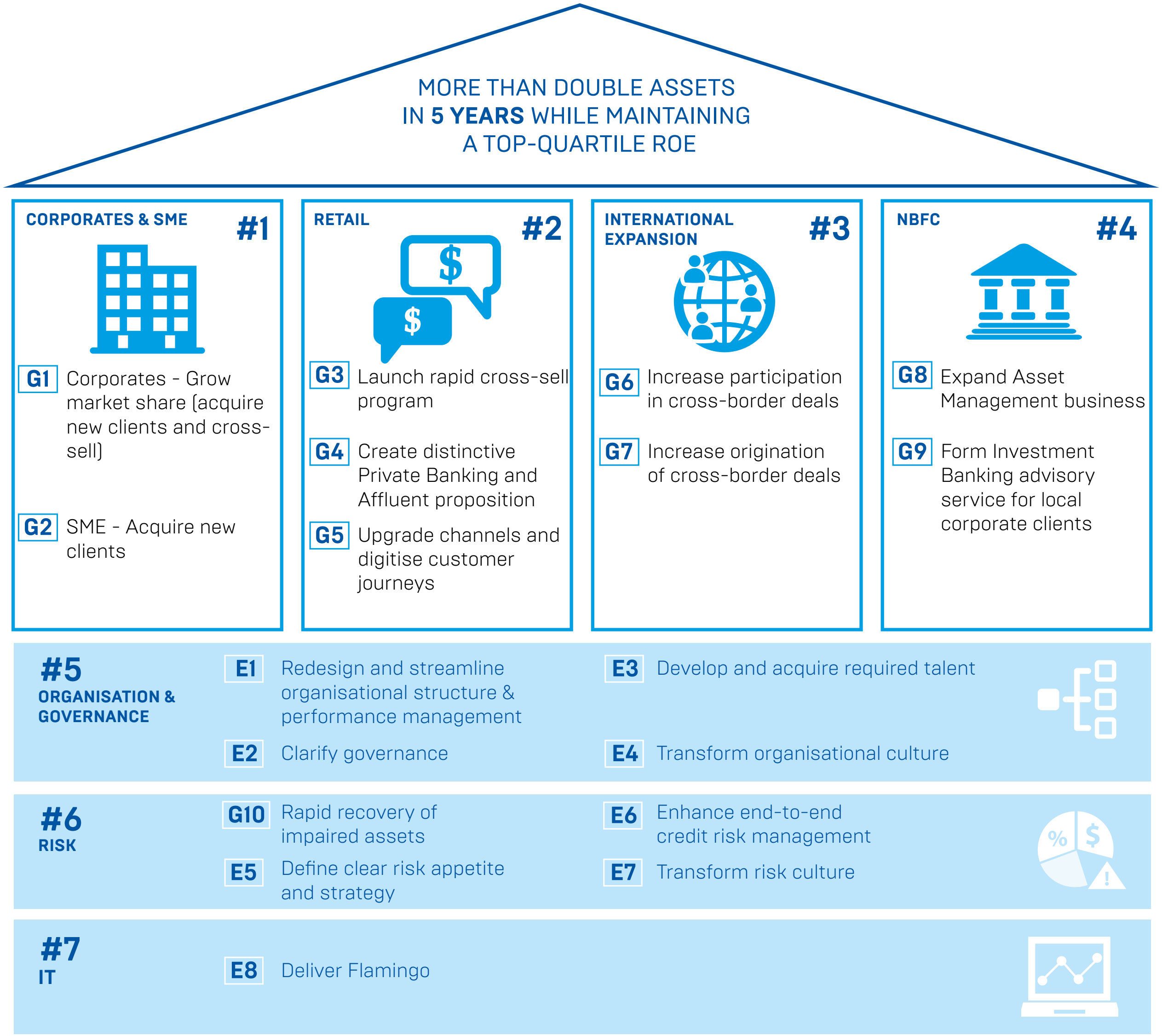
- ECONOMIC AND FINANCIAL CONDITIONS
- LAWS AND REGULATIONS
- CHANGING CONSUMER BEHAVIOR
- COMPETITION

OUR VALUE CREATION
MUR 4.7 BN

REINVESTMENT | **COMMUNITY** | **INVESTORS** | **EMPLOYEES** | **REGULATORS**

Strategic Focus Areas

In 2016, the Group embarked on a five year growth strategy, with a two-pronged growth aspiration namely: (i) to more than double the size of its assets and (ii) to achieve a top quartile return on equity. The strategy has identified 10 priority growth initiatives (G1-G10) and 8 critical enablers (E1-E8), across five pillars, namely: **consolidation, diversification, internationalisation, modernisation** and **capacity building**. The following section discusses the progress made during 2016 and the key focus areas for 2017.



Progress in 2016 and Priorities for 2017

Consolidation (Initiatives G1, G2, G3, G10)

One of the Group's objective is to expand its established businesses, for instance its consumer, corporate and SME banking by enhancing its product offering and acquiring new customers. To this end, during the course of 2016, there has been internal restructuring to provide better service to the customers. This has enabled us to successfully resolve 99.9% of complaints received. Supported by a dedicated team, 48% of these complaints were resolved within 1 to 4 days. **Despite the challenging market condition, Corporate Banking market share has increased by 1.4 percentage points.** The bank also enhanced its card offering last year, with two new cards joining its product suite. They are namely the Sky-Smiles Credit Card, launched in partnership with Air Mauritius, and the SBM MasterCard World Rewards Credit Card for the Group's Private Banking segment. Additionally, SBM launched an innovative payment solution known as 'MOOV by SBM', which is the mobile point of sale (mPOS) service of the bank. A first in Mauritius, it allows customer payment transactions to be executed via mobile device (smartphone/tablet) instead of a usual point of sale terminal, in a paperless environment.

The bank now looks forward to further expand its product portfolio to provide financial solutions that meet evolving customer needs. The bank will henceforth decentralise its SME banking services by leveraging on its branches across the island to better serve this clientele.

Our level of customer service is also one of our key priorities for 2017. We have therefore set up a Complaints Committee whereby the root cause for complaints are duly addressed in an effective manner.

Diversification (Initiatives G4, G8, G9)

The Group has successfully started to grow its non-banking segment through the launch of new products, namely the: SBM Maharaja Funds, Private Equity Fund and structured products such as leveraged notes. This has contributed to an increase of 32% in assets under management. The Group is now working towards building up other lines of business, which are investment banking, microfinance and factoring. At the bank level, a new Private Banking and Wealth Management service has been launched, and the value proposition is being revamped.

SHAILEN SREEKEESSOON
Head, Strategy and Research
SBM Bank (Mauritius) Ltd

« We have identified 10 priority growth initiatives and 8 critical enablers, across five pillars, namely: consolidation, diversification, internationalisation, modernisation and capacity building. »

Strategic Focus Areas (cont'd)

Internationalisation (Initiatives G6, G7)

In line with the growth strategy, the International Banking team was strengthened in 2016 with the recruitment of key senior team members. **An increased focus on deal origination across geographies, together with closer synergies with partner financial institutions, brought about a substantial growth of the asset book, with year on year figure almost doubling.** Going forward, the Group will continue to leverage its existing international presence to increase cross-border deals.

To increase its footprint in Africa, the Group has, in 2016, initiated the acquisition of Fidelity Commercial Bank in Kenya. This acquisition was successfully completed on 10 May 2017. The Group is also awaiting a final approval and license from the Reserve Bank of India to convert its branches into a wholly owned subsidiary in India. Additionally, the Group is pursuing its expansion strategy in Seychelles, whilst tapping more into the Madagascar market. Further development is thus expected in the Group's expansion initiatives in 2017.

Modernisation (Initiatives G5, E8)

The Group has, during the course of last year, implemented its new IT platform known as the "Flamingo Project". To this effect, a new Internet Banking platform has been launched with additional functionalities that allow customers to perform more transactions on the interface. In the near future, a number of other digital initiatives will also be launched to optimise the customer journey and experience. For instance, the bank will launch its Mobile Banking application, which will provide another convenient way of doing banking.

Whilst the initial focus was on stabilising the systems, the Group will, in 2017, exploit other capabilities of the platform to improve its value proposition and sales dynamism. For instance, we plan to tap into analytics functionalities for a better understanding of the evolving customer needs and for enhanced cross-selling of our products and services. Stronger insights through customer analytics should also improve decision-making, operational performance, efficiency and productivity, which would provide the Group with a competitive advantage.

Capacity Building (Initiatives (E1-E7)

In line with its growth ambitions, the Group continues to build its human capital, with an increase in its workforce by 11.04% to 1,388, including many positions at senior level. Besides, the risk framework was strengthened to cater for the change in risk profile implied in the strategy. Improvements at the levels of organisational, governance and risk will continue to be a major focus during 2017. See also sections on Employees at pages 80 to 86, Risk Management at pages 94 to 141 and Corporate Governance at pages 151 to 186.

Performance and Achievements

- Operating Environment
- Business Review
- Financial Review
- Information Technology
- Employees
- SBM in the Community
- Awards

We have relentlessly faced **CHALLENGING** factors from the internal and external business environment. **YET**, our performance has been **COMMENDABLE** on several fronts, both financial and non-financial. We are gearing up our **CAPACITY** to achieve **SIGNIFICANT** improvements in our performance and value contribution for stakeholders.

Our stakeholders are the essence of our being...

Operating Environment

Global Economy

Global economic growth remained stagnant in 2016 amidst prevailing volatility, uncertainty, complexity and ambiguity (VUCA), amplified by a populist and protectionist wave across the world. The Brexit vote and the US Presidential elections monopolised the limelight and kept many economic actors on their toes.

Towards the end of the year, the Federal Reserve, as anticipated, raised its policy rate by 25 basis points, the first hike since December 2015. This was encouraged by positive economic data for the final months of 2016. Eurozone GDP also gathered pace with an expansion of 1.7% in 2016.

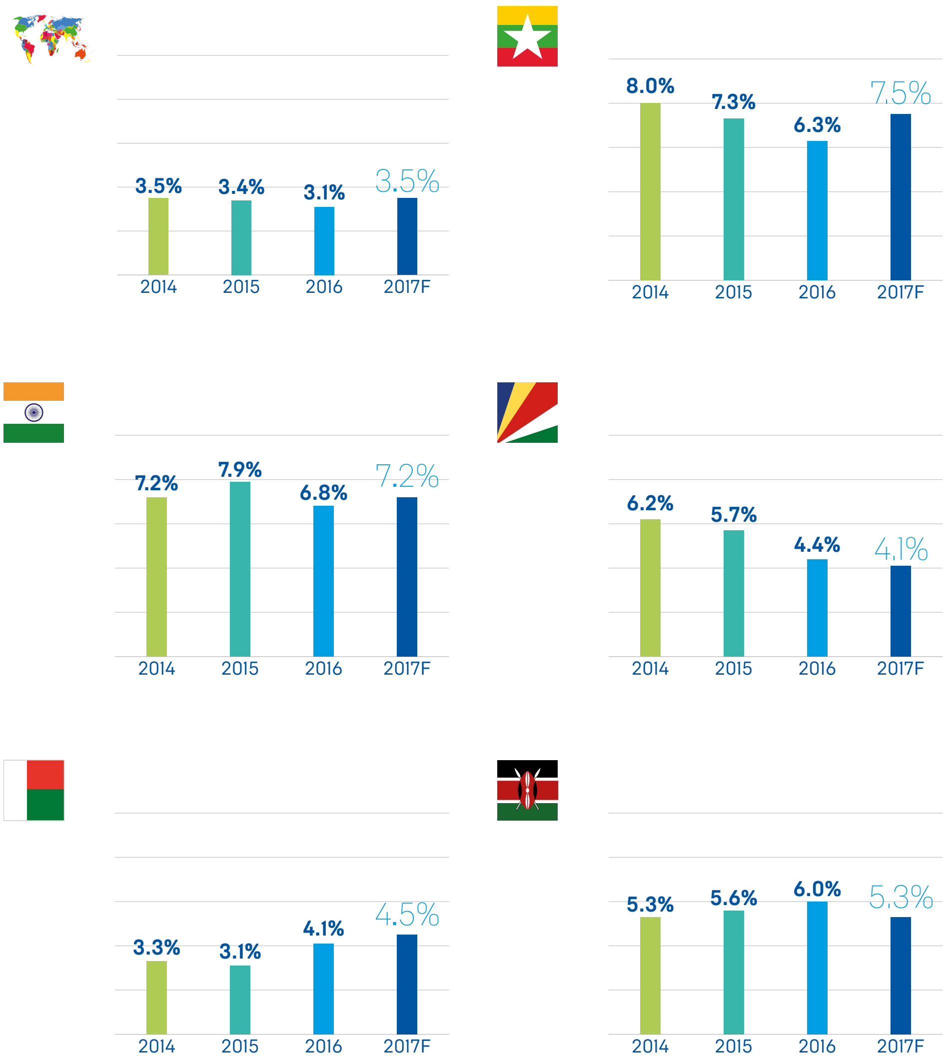
Driven by strong consumer spending, the UK economy grew by 1.8% in 2016. The economy remained resilient contrary to most forecasts made after the Brexit vote.

Sub-Saharan Africa and South East Asia regions continued to register the highest growth rates in the world in 2016 although factors such as weak commodity prices on average and the demonetisation move in India dampened activity levels.

Indeed, although its economy grew by 6.8% in 2016, India's performance was affected by this move which rendered 86% of the cash in circulation invalid. Inflation stood at around 5% while foreign direct investment (FDI) reached approximately USD 46 billion against USD 39 billion in 2015.

The Indian banking sector was subject to rising levels of non-performing loans in the past year.

REAL GDP GROWTH (%)



Source: IMF World Economic Outlook Database, April 2017

This continued rise in non-performing assets has been repeatedly flagged as a significant risk by the Governor of the Reserve Bank of India (RBI).

The dominant state-run sector's gross bad loan ratio jumped to 9.2% in 2016 according to the IMF. This represents a key domestic risk which may eventually cascade into lower private credit growth.

Nevertheless, the economy is expected to pick up in 2017 on the back of revised tax regulations and a move towards a digital society. Domestic demand should remain strong.

Myanmar

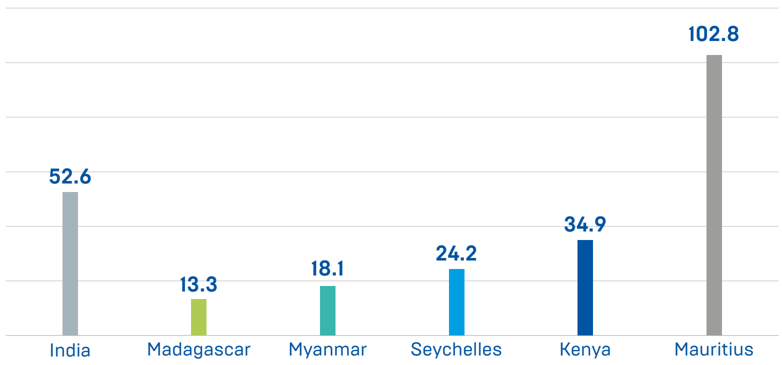
Myanmar was one of the fastest growing countries in the world with an economic growth rate of 6.3% in 2016 and set to record growth of 7.5% in 2017. The country is gaining prominence among investors amid progress made on economic and political reforms.

The banking sector underwent a significant change in 2016 with a new governing law - Financial Institutions Law of Myanmar - passed in January 2016.

In line with the will to expand the banking sector, 4 new banks received operating licences from the Central Bank of Myanmar in March 2016.

The World Bank also provided the country with USD 100 million in December 2016 to improve access to financial services among small and medium sized businesses and families.

DOMESTIC CREDIT TO PRIVATE SECTOR (% of GDP)



Source: World Bank

CREDIT RATINGS

	STANDARD & POOR'S	MOODY'S	FITCH
INDIA	BBB- (Stable)	Baa3 (Positive)	BBB- (Stable)
MADAGASCAR	-	-	-
MYANMAR	-	-	-
SEYCHELLES	-	-	BB- (Stable)
KENYA	B+ (Stable)	B1 (Stable)	B+ (Negative)
MAURITIUS	-	Baa1 (Stable)	-

SELECTED ECONOMIC & FINANCIAL INDICATORS

	EXCHANGE RATE RELATIVE TO USD	DEBT AS A % OF GDP	NON-PERFORMING LOANS TO TOTAL GROSS LOANS
INDIA	INR 67.95	68%	8%
MYANMAR	MMK 1,349.20	34%	-
MADAGASCAR	MGA 3,306.30	42%	-
SEYCHELLES	SCR 13.51	67%	7%
KENYA	KSH 101.88	53%	8%
MAURITIUS	MUR 36.11	63%	8%

Source: Respective Central Banks

Operating Environment (cont'd)

Economic activity is expected to pick up in 2017 and 2018 amidst a boost in investor confidence following the recent general elections, which resulted in a wave of optimism.

The downward revision for 2017 is mainly due to a halt of activities in the construction sector. The latter contributes 20% to Gross Domestic Product.

Madagascar

Nearer to our country, Madagascar registered a 4.1% growth rate in 2016; above the average growth rate of the Sub Saharan Africa region owing to good performance of the agriculture sector. Inflation remained relatively stable at a rate of 7% in 2016.

Meanwhile, financing of infrastructure projects led to a rise in credit provided to the public and private enterprises (USD 1.18 billion in 2015 to USD 1.28 billion in 2016). Policymakers are working on new electronic money, banking and microfinance laws to deepen the financial sector.

The economic forecasts for 2017 might be adversely affected by the passage of the cyclone Enawo which destroyed 30% of the vanilla crops. Deterioration in export earnings might entail deterioration in the current account position.

Seychelles

Boosted by strong tourist arrivals, Seychelles registered economic growth of 4.4% in 2016. The Household Budget Survey, however, revealed that 39% of the population lived below the poverty line.

Tight monetary policy exercised by the Central Bank kept inflation in check while credit to the private sector grew by 10.6% in 2016. Total non-performing loans as a percentage of gross loans reached 7.0%.

The Central Bank also set up a Financial Stability Committee in March 2016 to enhance supervision in the banking sector with the objective of withstanding domestic and external shocks.

The outlook for this economy is positive although growth is expected to decline to 4.1%.

Kenya

An IMF estimate puts Kenya's GDP growth for 2016 at 6.0%, up from 5.6% in 2015. The economy benefitted from an increase in public spending.

Inflation was within its target range although the Central Bank of Kenya loosened monetary policy during the year.

The banking sector in Kenya has had its fair share of turbulence since 2015, with three banks being put under receivership/ administration. Another major event in August 2016 was the capping of interest rates on lending which is likely to affect credit and growth.

The outlook for 2017 is positive although elections to be held in the country might trigger incidents which could in turn affect economic performance. The rationale for a positive outlook is a rebound in the tourism sector and infrastructure spending.

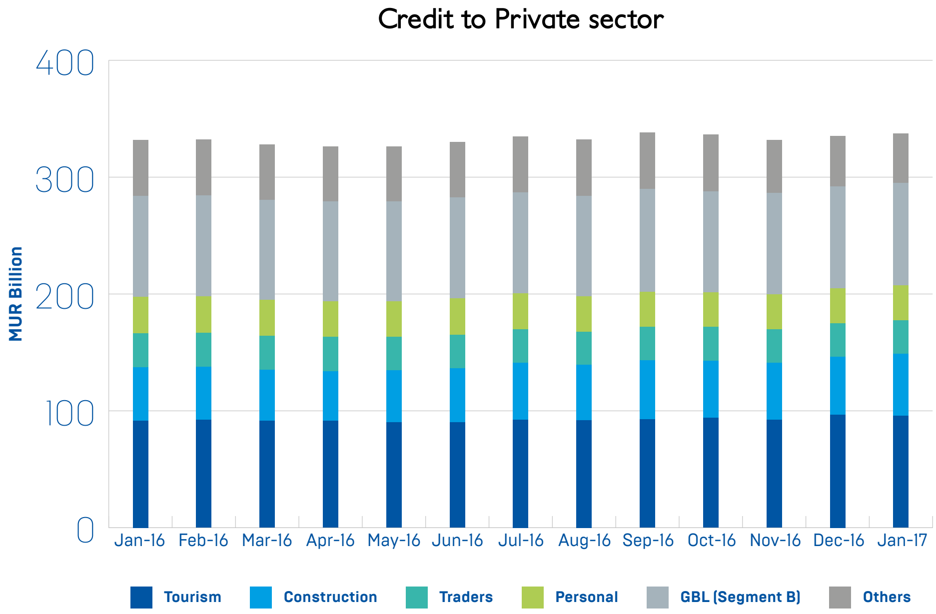
Mauritian GDP growth rate stood at 3.5% in 2016 compared to 3.5% in 2015.

Services sectors were the biggest contributor to growth during the year while the export-oriented manufacturing sector was a major cause for concern. Strong growth in the food and accommodation sector, as evidenced by increases in tourist arrivals and tourism earnings of 10.8% and 11.3% respectively, was offset by a poor performance of export oriented industries. In the construction sector, even if the sector would be posting a zero growth rate in 2016, a rebound, especially as from the third quarter of 2016, was noted.

The National Budget 2016-17 presented in July 2016 contained several amendments concerning the financial services sector. The Bank of Mauritius Guideline and Banking Act were reviewed while a deposit insurance scheme was proposed. In addition, some guidelines were revised during the year to ensure better supervision.

MAURITIAN ECONOMY IN CHARTS

Source: Statistics Mauritius



Source: Bank of Mauritius

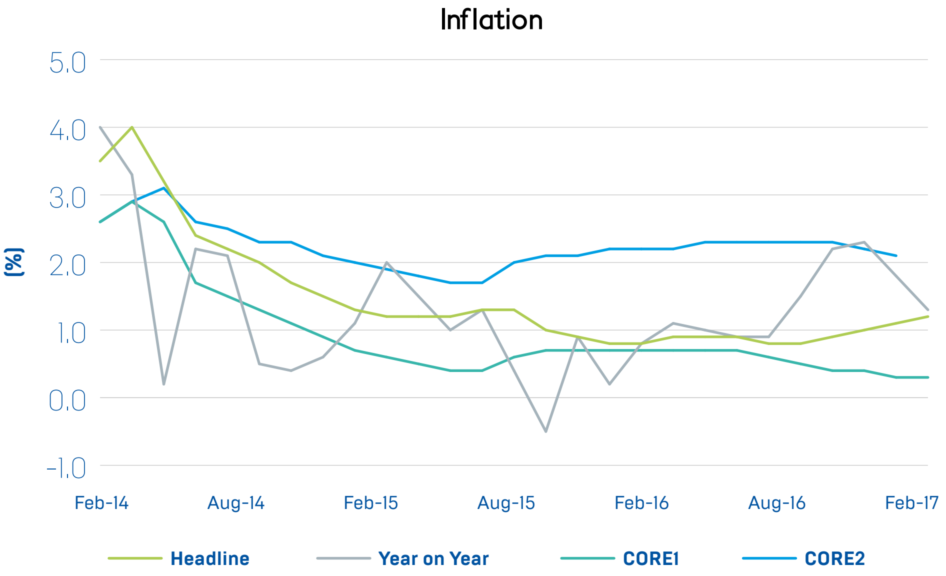
Operating Environment (cont'd)

In a bid to support investment activity in the country and raise the growth potential of the economy, the repo rate was reduced to 4.0% from 4.4% in July 2016. Investment was estimated to pick up by 5.7% in 2016 compared to a contraction of 5.4% in 2015. However, investment by the private sector in particular has been disappointing. As a result, credit growth evolution continued to be weak within a low interest rate environment and persistent excess liquidity.

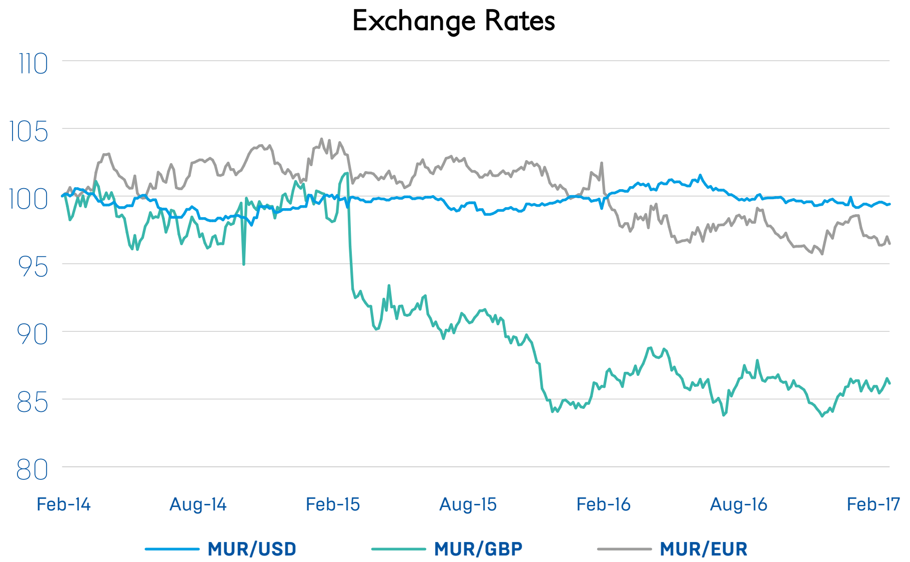
Inflation rate declined from 1.3% as at December 2015 to 1.0% as at December 2016, in line with weaker commodity prices on international markets during 2016.

The recovery is expected to continue in 2017, but would be dependent on some key assumptions namely sustained upturn in the construction sector, continued momentum in tourist arrivals, resilience in the business and financial services sector, slowdown in the decline in manufacturing exports and close to normal weather conditions.

MAURITIAN ECONOMY IN CHARTS (cont'd)



Source: Bank of Mauritius



Source: Bank of Mauritius

Business Review

SBM Group's domestic and international activities can be classified into three segments, namely: banking, non-banking financial services (NBFC) and non-financial services (NFC).

Banking segment

On the domestic front, the banking segment comprises the following lines of business:

- Corporate and Institutional Banking
- Retail Banking
- Private Wealth
- SME
- International Banking
- Financial Markets
- eBusiness

At international level, SBM Group is present in Madagascar, through Banque SBM Madagascar SA, and in India as branch of SBM Bank (Mauritius) Ltd. The Group also has a representative office in Myanmar.

Non-Banking segment

The NBFC team is based in Mauritius and its activities encompass:

- Asset Management
- Brokerage
- Private Equity
- Investment Advisory
- Registry
- Insurance Agency Services

Non-Financial segment

NFC comprises investments in non-financial companies.

The activities and performance of our key lines of business are discussed hereafter.

Banking - Mauritius Operations

Corporate and Institutional Banking

Overview

The SBM Corporate and Institutional Banking team, staffed by qualified and experienced employees, serves exclusively the major corporate bodies and institutions, spanning a wide section of business enterprise across different sectors of the economy. Our core services have been developed to meet the needs of these businesses.

Strategy, Initiatives and Proposition

During the year, the business environment was characterised by subdued economic activity, excess liquidity, low interest rates, shrinking margins and delays in realisation of major projects. Furthermore, an increase in disintermediation was noted as several corporates raised capital directly from the market rather than through banks.

Despite the challenging context, the SBM Corporate and Institutional Banking team managed to consolidate and improve its position in the market. The team embarked on a major internal restructuring exercise in order to achieve service excellence and reduce turnaround time. Our risk management, control and compliance capabilities were also reinforced through the setting up of a dedicated but independent team, reporting directly to the Head of Compliance of the bank.

Tailor made proposition | Wide product offering | Good service and delivery

Achievements

The various initiatives undertaken during the year led to the consolidation of our market share and an improvement of our capabilities. As such, the bank has now positioned itself as lead arranger rather than participant on major deals.

In our drive to innovate and enhance customer service, we have revamped our product offering from traditional banking products to new and tailor made products suiting client requirements. We are also accompanying our clients in their overseas ventures and hosting more clients' events.

Additionally, with the noted increase in disintermediation on capital market, we have tapped, in partnership with our Group's non-banking arm, the opportunities in the domestic bond market.

ASLAM TAHER,
Head, Corporate & Institutional Banking
SBM Bank (Mauritius) Ltd

> « The various initiatives undertaken during the year led to the consolidation of our market share and an improvement of our capabilities. »

Way Forward

In line with the Group's strategy of mapping new frontiers, we shall continue to accompany our clients in their overseas venture while consolidating our local market share. This would involve increasing our product offering and cross-selling across the Group. We shall also strive to continuously improve our quality of service and client proposition.

Retail Banking

Overview

Our Group boasts a wide distribution network and a strong franchise in the domestic retail banking segment. We offer a wide range of products and services meeting the lifestyle needs of our customers at every stage of their life.

Strategy, Initiatives and Proposition

During the year, in line with the Group's strategy, the retail arm of the Group embarked on major initiatives to better serve its clients. This included the setting up of an autonomous Private Wealth team with a dedicated Private Banking arm and Portfolio Management Services Unit. The Head of Retail Banking is now focusing solely on the Privilege and Micro individuals segments implementing initiatives to remove non sales activities from branches, creating room to improve efficiency and customer experience for a leap growth of business and market share. Client offerings were also enhanced through cross-selling initiatives at our branches.

On the operational side, the bank focused mainly on readiness of its people for transitioning to its new IT platform and managing the aftermath of the implementation and the stabilisation phases.

Achievements

Our deposits increased by 13.1% testifying to our position as a safe institution in the eyes of the public. However, we noted a drop of 3% in advances.

Way Forward

Going forward, we aim to increase our market share, namely by enhancing our product offering and service delivery, supported by our new IT capabilities and ongoing training and coaching of our staff.

EDDIRAO BALLOO,
Head, Retail Banking
SBM Bank (Mauritius) Ltd

« Our deposits increased by 13.1% in 2016 testifying to our position as a safe institution in the eyes of the public. »

Banking - Mauritius Operations [cont'd]

Private Wealth

Overview

The Private Wealth team, which was established during the first quarter of 2017, as a full-fledged unit separate from Retail Banking, aims at providing private banking and portfolio management services to both local and international, high and ultra-high net worth clients.

Strategy, Initiatives and Proposition

As part of its diversification initiatives (Refer to page 31), the Group set up a dedicated Private Wealth team during the start of 2017.

This team provides personalised banking services as well as tailor-made investment solutions such as Wealth Management, Financial Planning, Investment Advisory and Discretionary Portfolio Management Services.

Tailor made solutions | Collaborative approach | Reliable

Achievements

The team built up capacity with the recruitment of qualified and experienced staff. Since March 2017, the bank is duly licenced for investment advisory and distribution of financial products activities.

Way Forward

The team will aim to grow its client base and assets under management by being increasingly present in the market and by providing customised and adapted products and services based on client profiles and lifestyle requirements.

SANJAIYE RAWOTEEA,
Head, Private Wealth
SBM Bank (Mauritius) Ltd

> « The team will aim to grow its client base and assets under management by being increasingly present in the market »

SME Banking

Overview

SBM offers adapted products and services to its SME customers. It has a partnership approach that helps the customers achieve their business goals faster. The bank's objective is to accompany SMEs in their business development aspirations by providing them with timely financing through its dedicated SME Banking team.

Strategy, Initiatives and Proposition

The SME sector is expected to become an important pillar of our economy. We have, therefore during the year, revamped our SME banking model and built our internal capabilities to enhance client propositions with a view to better cater for the growing financing requirements of SMEs.

Achievements

During the year, the team has successfully streamlined its internal processes to reduce turnaround time.

Way Forward

For the years to come, we believe that the SME sector will play a vital role in the economic development of the country. To reinforce our presence on the market, we are investing in human capital and capacity building. Our SME Banking team will increase proximity with its customers by leveraging the bank's network. We aim to operate as a one-stop shop and be actively present on the field to better understand and respond to our clients' needs and aspirations.

RATAN JANKEE,
Head, SME Banking
SBM Bank (Mauritius) Ltd

« The SME team successfully streamlined its internal processes in 2016, resulting in improved turnaround time and better customer experience. »

Banking - Mauritius Operations [cont'd]

International Banking

Overview

SBM offers a wide suite of products and services for its international banking customers, ranging from plain vanilla cross border transactions to more complex structures. We support our customers from end to end, leveraging our dominant local position and growing international presence, for their short term and long term objectives.

Strategy, Initiatives and Proposition

Mauritius has established itself as an International Financial Centre of repute and choice over the past three decades, and SBM continues to play a key role in facilitating investments and transactions for its clients into Africa, Asia and beyond.

Amidst a fast changing global environment, our team continues to strive to offer an optimum service level in collaboration with other teams. We have adopted a strategy in line with our risk and compliance frameworks to increase participation and origination of cross-border deals. We use our wide network of correspondent banks and rely on our geographical presence to provide coverage ranging from Asia to Africa. Dedicated desks for Africa, Middle East and South East Asia have also been set up. This offering is enhanced by our Financial Institutions and Trade Finance teams. In addition, customers benefit from our strategic partnerships with supranational banks and management companies. We practice a 'client at the centre stage' style of doing business.

Leverage on relationships | Dedicated personnel | Simple procedures

Achievements

2016 was significant for our International Banking cluster given the numerous changes at the international and domestic level. We doubled down on our objective of increasing our cross border lending activities. Four additional senior management staff joined the Group and the international banking team was significantly strengthened.

« Our initiatives to increase cross border lending enabled us to nearly double our asset book compared to the previous year. »

Our targeted approach in respect of geographies of interest enabled us to nearly double our asset book compared to the previous year. The setting up of dedicated desks allowed us to cover more geographies while maintaining the same level of service and commitment. In addition, we improved our engagement with locally based offshore management companies as they sought to diversify their activities in view of the revision to the India-Mauritius DTAA and other regulatory changes.

Way Forward

We see significant potential in the Asia-Africa corridor in 2017 as management companies increasingly shift their focus to the continent and trade rises. Our presence in India and East Africa gives us a competitive advantage upon which we would leverage to increase deals emanating from this corridor. The International Banking team would also benefit from our Group's regional expansion strategy. We will continue to build knowledge of identified geographies to better cater to the needs of our customers and enhance our value proposition.

KRIS JHURRY,
Financial Institutions and Sovereigns
SBM Bank (Mauritius) Ltd

IBRAHIM MALLECK,
Middle East and North Africa and Structured Trade Finance
SBM Bank (Mauritius) Ltd

SHOMIKA LUCHMUN,
India and South East Asia
SBM Bank (Mauritius) Ltd

VIKRAM DABEE,
Africa and Indian Ocean Islands
SBM Bank (Mauritius) Ltd

Banking - Mauritius Operations [cont'd]

Financial Markets

Overview

SBM Financial Markets team provides its services across 3 countries, namely Mauritius, India and Madagascar. This international presence benefits our clients who have cross-border transactions through the timely execution of their deals and follow ups across the jurisdictions. The team's core activities revolve around managing the Group's cash flows in all currencies, managing the Group's FX, interest rate and other financial market exposures. It is also responsible for managing asset/liability mismatches for the Group.

Strategy, Initiatives and Proposition

Revenue growth in 2016 was positively impacted by new initiatives that were successfully implemented during the year.

It should also be mentioned that there was a significant upgrade to the dealing infrastructure through the implementation of Finacle Treasury under the recent implementation of the Group's new IT platform. In the same vein, experienced professionals have been recruited to increase the level of sophistication within the Group and structure new ideas and solutions for clients. A Derivatives Desk has also been set up.

Achievements

Foreign exchange and trading income rose by 18% during the year. SBM Financial Markets team is a partner of choice for institutional clients like pension funds and insurance companies in Mauritius with regards to their fixed income investments. Some of the major realisations for the year include:

- Structured FX forwards
- Remittances in exotic currencies
- MUR and foreign currency bonds as investment for Private Wealth customers
- Certificate of Deposit Product
- INR Masala Bond Investments
- Cross Currency Swaps for Masala Bond Investments

PV RAO,
Head, Financial Markets
SBM Bank (Mauritius) Ltd

« Foreign exchange and trading income rose by 18% in 2016 and we launched a variety of products catering to our customers' specific needs. »

Way Forward

SBM Treasury team aims to capitalise on the positive momentum to become the preferred Treasury partner for all its clients in Mauritius while expanding overseas, especially in Africa and the Middle East. The team will also continue to expand its range of products and services.

eBusiness

Overview

SBM provides a comprehensive suite of eBusiness products and services. Leveraging state-of-the-art technology, we provide customers with round the clock banking services that allow them to manage their finances anytime and anywhere.

Strategy, Initiatives and Proposition

2016 set the path for our future growth with SBM eBusiness team becoming an even more important channel of distribution. The team has been working towards enhancing its product offerings and consolidating its market share. Particular emphasis has been laid on improving customer experience and meeting evolving customer needs.

In line with our strategy, we undertook several initiatives to embrace innovation and digitalisation of our business activities.

Achievements

Although there has been tough competition in the card industry, SBM eBusiness has been able to consolidate its market share as the second biggest card issuer and acquirer of major global payment brands in Mauritius.

2016 witnessed the deployment of several new products including Sky-Smiles, which is the first co-branded credit card in Mauritius, in partnership with Air Mauritius, and the MasterCard World Rewards Credit Card. Various marketing campaigns were undertaken to promote card acquisition, usage and retention. These include the Mothers' Day Promotion, Rio 2016 Olympic Games in collaboration with Visa and lucky draws, with a KIA Sportage EX 2WD 1.6L as star prize, for card users.

On the acquiring side, the bank launched MOOV by SBM which is the mobile point of sale (mPOS) service. This payment solution, a first in Mauritius, allows customer payment transaction to be carried out by a portable mobile device (smartphone/tablet) instead of a usual point of sale terminal. It has also launched an enhanced new self-registration eSecure platform to improve customer experience.

VEEREN MANIKION,
Head, eBusiness
SBM Bank (Mauritius) Ltd

« We launched MOOV by SBM in 2016 hence allowing our customers to carry their transactions through a portable mobile device. »

With respect to eCommerce, SBM has revisited its strategies in an attempt to facilitate onboarding of domestic merchants and its supremacy in providing solutions to the foreign market.

As a result, our eBusiness non-interest income, total revenue as well as card POS spending increased compared to last year therefore enabling us to win the Visa Co-Brand Champion for 2016.

Way Forward

Our focus will be to propose innovative solutions, including mobile solutions to our customers to facilitate transactions anytime, anywhere. We also aim to propose our services in geographies where the Group is present.

Banking - Overseas

India

Overview

SBM Group is present in India since 1994 and operates via a network of 4 branches in Mumbai, Chennai, Hyderabad and Ramachandrapuram. The major customer segments comprise large and mid-corporates with a small retail customer base. SBM India offers a bouquet of products and services ranging from advances, trade finance and treasury products to deposit products like savings, current and term deposits.

Strategy, Initiatives and Proposition

The current structure under which SBM India operates limits the scope in terms of business opportunities. Therefore, to actively participate in the growing banking sector in India, especially in the retail banking segment, we are in the process of implementing a Wholly Owned Subsidiary (WOS) structure. This will allow us to significantly increase our footprint in the Indian market, which will enable us to service our existing customers in a more holistic manner and to optimise our branch network. Furthermore, we will seek to build on the current corporate banking business and effectively cater for the SME segment and trade corridors.

Achievements

Financial performance was adversely impacted by an increase in impairment and a drop in advances. The considerable increase of 70% in impairment resulted in net losses of MUR 184 million for the year compared to a profit of MUR 16 million last year. During the year, profit before impairment amounted to MUR 138 million compared to MUR 179 million last year. A positive note for the year was an 8% decrease in non-interest expense.

Despite the below par performance, new customers were onboarded while SBM India was able to build up its brand through social and personal networking.

Way Forward

We are currently involved in the process of converting from branch to WOS set up in India and will kick start the implementation of our new IT platform. With the WOS structure, our aim will be to:

- build a strong corporate and SME book with presence in key regions
- tap into trade finance opportunities by leveraging the SBM Group network
- build retail presence.

SIBY SEBASTIAN,
CE, SBM India Operations

« We are currently in the process of implementing a Wholly Owned Subsidiary (WOS) structure which will allow us to significantly increase our footprint in the Indian market and serve our existing customers in a more holistic manner. »

Madagascar

Overview

SBM has been present in Madagascar since 1998 through its subsidiary, Banque SBM Madagascar (BSBMM). The bank has 4 branches in Madagascar, namely 3 in the Antananarivo region and 1 in Toamasina. BSBMM mainly caters for the trading and business requirements of the domestic market. It also offers a wide range of corporate and commercial banking products and services, including credit, deposit, trade finance and treasury services. Internet banking facilities are also available.

Strategy, Initiatives and Proposition

The objective of BSBMM is to be the Corporate Bank of choice in Madagascar. Hence, the bank targets to increase its share of business with the top 100 corporates and SMEs in the country. This would help expand and diversify both the asset and liability bases, thereby reducing sector and customer concentration and increasing the resilience of the balance sheet. To this end, BSBMM plans to further increase the branch network to enhance proximity with customers. Besides, a major aspect of the strategy is to tap into the synergistic potential with other operations of the Group, including banking operations in Mauritius and India, notably in the areas of trade finance and wealth management, as well as in non-banking financial services. To support the strategy, initiatives are being taken to enhance human capital, namely through recruitment and retention of skilled employees.

Dedicated personnel | Tailor made proposition | Reliable

Achievements

Advances grew by 11.4% year on year to MUR 565 million as at December 2016 while deposits increased by 13.0% to MUR 1,040 million. While operating income declined, profit after tax nearly doubled to MUR 15 million, mainly due to a marked decrease in the charge for impairment.

GILBERT LAGAILLARDE,
Directeur Général
Banque SBM Madagascar SA

« The bank targets to increase its share of business with the top 100 corporates and SMEs in Madagascar. »

Way Forward

In line with the geographical expansion strategy, the number of branches increased from 2 to 4 in recent years. A fifth branch is expected to be operational in 2017. BSBMM aims to be one of the key banks in the economic landscape of Madagascar by having additional branches in the different regions of the country so as to be closer to our clients, hence in a better position to satisfy their needs.

Non Banking Operations

Non Banking Financial Services

Overview

SBM's non-banking financial cluster consists of asset management, brokerage, private equity, investment advisory, registry and insurance agency services. It hence complements the services provided by the banking cluster, offering customers the opportunity to have access to a comprehensive spectrum of financial services.

Strategy, Initiatives and Proposition

The different lines of activities within SBM Non Banking continued to face competition on the market as some major international players are now operating in Mauritius. In this context, it became necessary to consolidate and build capabilities to deliver our services. Hence, new and innovative products and services were launched, while efforts were geared up to expand the customer base, particularly cross-border. Moreover, SBM Non Banking continues to benefit from Group synergy through cross-selling of its products and services.

Wide spectrum | Innovative products | Dedicated team

Achievements

In line with the strategy, SBM Non Banking launched its Private Equity fund services to provide a PE fund of funds solution, accompanied by a focus on co-investments into sub-Saharan Africa. Moreover, SBM Africa Equity Fund and SBM Africa Value Fund were successfully launched, alongside other structured products. Besides, roadshows were conducted both locally and regionally. Research capabilities were also enhanced and a business acquisition unit was set up to help acquire more new clients and improve customer service. The Non Banking team was strengthened with new recruitments to support the above initiatives. Against this background, assets under management increased by 32.1% to reach MUR 6.9 billion as at December 2016 while brokerage net income almost tripled to MUR 19.9 million. This drove an overall profit growth of 29.6% for SBM Non Banking to MUR 25.0 million.

Way Forward

With the appointment of a dedicated Chief Executive for SBM Non Banking, this unit is expected to further grow in 2017. Additional products and services would be proposed to customers, including structured investment solutions, while new lines of business are planned during the year, including investment banking services, factoring, credit insurance and microfinance. This will further complement the product and services range offered by the Group. In line with the Group strategy, market diversification will continue, particularly in respect of the African and Asian markets, while consolidating the domestic business. These initiatives will be supported by other operations of the Group in the various geographies where we operate.

LAKSHMANA LUTCHMENARRAIDOO, CE
SBM (NBFC) Holdings Ltd

« Several initiatives launched during the past year have led to an increase of 32.1% in assets under management while brokerage net income almost tripled to MUR 19.9 Mn »

Financial Review

MUR 2,309 million
Profit after tax
2015 MUR: 1,608 million

44% ▲

MUR 2,989 million
Profit before tax
2015 MUR: 2,048 million

46% ▲

89.43 Cents
Earnings per share
2015 MUR: 62.27 Cents

44% ▲

MUR 23,805 million
Shareholders' Equity
2015 MUR: 22,188 million

7% ▲

42.53 %
Cost to income ratio
2015: 36.30 %

17% ▲

25.70 %
Capital adequacy ratio
2015: 28.26 %

9% ▼

2.61 %
Return on average risk-weighted assets
2015: 1.97 %

32% ▲

10.04 %
Return on average shareholders' equity
2015: 7.26 %

38% ▲

2.64 %
Net impaired advances to Net advances
2015: 1.87%

41% ▲

922.02 Cents
Net Asset Value per share
2015 MUR: 859.42 Cents

7% ▲

MUR 80 million
Corporate Social Investment spend
2015 MUR: 50 million

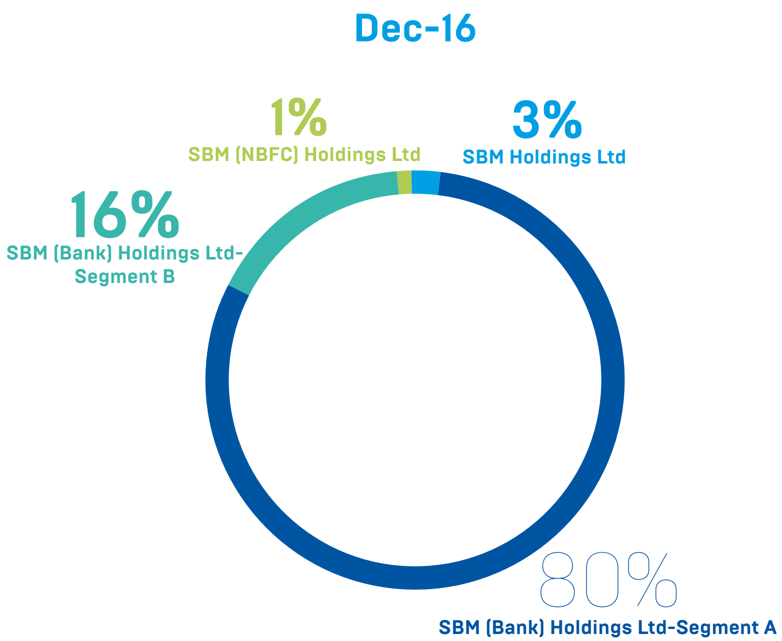
60% ▲

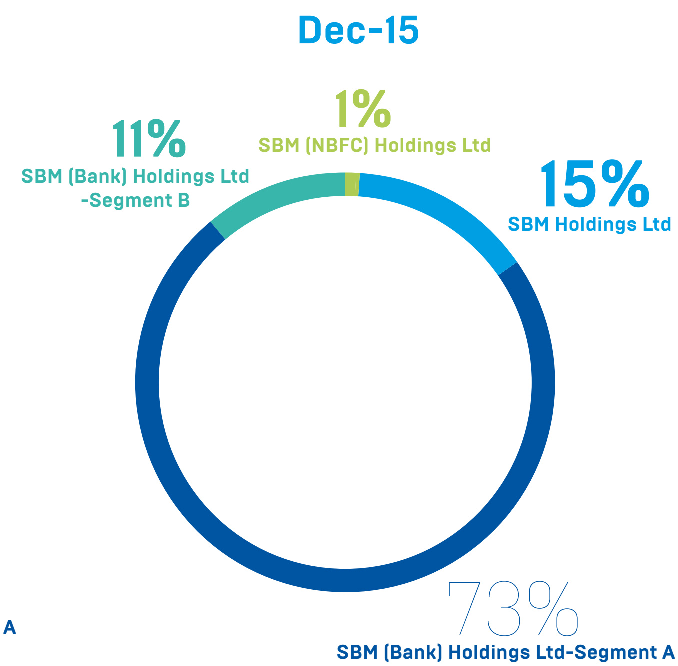
MUR 4,735 million
Wealth distributed
2015 MUR: 3,447 million

37% ▲

Financial Review (cont'd)

Distribution by entity





Summary of Group Results

GROUP FINANCIAL RESULTS AND RATIOS

	Change	2016	2015
Net interest income (MUR million)	3%	4,383	4,252
Non-interest income (MUR million)	3%	2,063	2,003
Net impairment loss on financial assets (MUR million)	(63)%	717	1,937
Operating profit	46%	2,988	2,048
Profit after tax (MUR million)	44%	2,309	1,608
Net Interest Margin	(15)bps	3.10	3.25
Earnings per share (Cents)	44%	89.43	62.27
Dividend per share (Cents)	0%	40.00	40.00
Net assets value per share (Cents)	7%	922.02	859.42
Tier 1 to risk weighted assets ratio (%)	(185)bps	19.90	21.75
Capital Adequacy Ratio	(256)bps	25.70	28.26

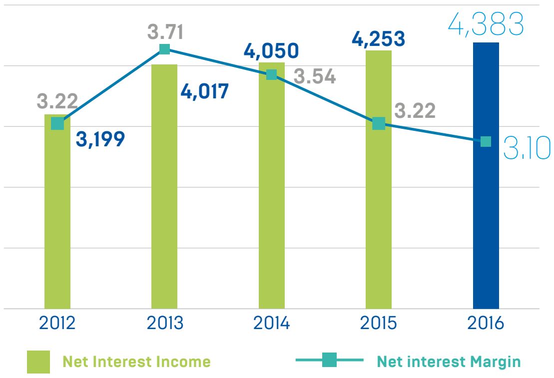
SBM Group's reported profit after tax for the year ended 31 December 2016 amounted to MUR 2,309 million, up from MUR 1,608 million in 2015. The domestic banking operations continue to be the main driver of profitability, in 2016. The growth in profit is all the more commendable given a challenging operating environment characterised by weak demand for credit, persistent excess liquidity and fierce competition. Besides, the Group incurred higher system cost with the go-live of the core banking system and various other applications in May and September 2016. The cost of credit was above the long term average.

In line with the rise in profit, earnings per share increased from 62.27 cents in 2015 to 89.43 cents in 2016. The Group's net interest margin decreased from 3.25% in 2015 to 3.10% in 2016. The Group will continue to maintain initiatives to support the net interest margin. Net loans and advances to non-bank customers were MUR 71,625 million in 2016, compared to MUR 68,784 million one year earlier, representing a 4.13% rise, mainly attributable to a growth in our global business loan portfolio of MUR 2,418 million from MUR 520 million to MUR 2,938 million. Net impairment loss on financial assets stood at MUR 717 million in 2016 compared to MUR 1,937 million for 2015, a decrease of MUR 1,220 million or 63.00%.

Financial Review (cont'd)

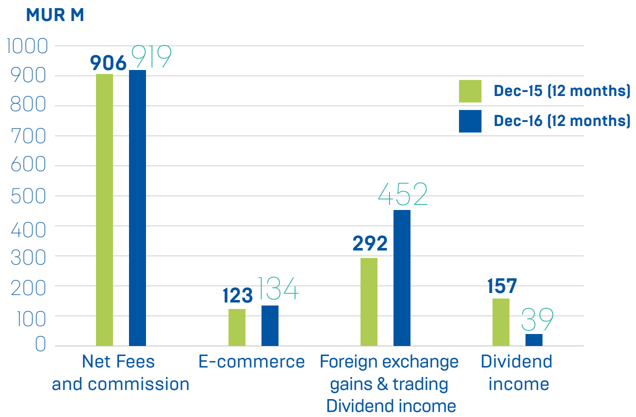
Income Growth

SBM Group's operating income for the 12 months to December 2016 stood at MUR 6,446 million as compared to MUR 6,255 million in the previous year. The main drivers of revenue were net interest income and non-interest income. Net interest income increased by MUR 131 million or 3.08% while non-interest income rose by MUR 60 million or 3.02%.



Notwithstanding an increase of 9.18% in average interest earning assets, interest income witnessed a decrease of 2.71%, from MUR 6,424 million for the 12-month period ended December 2015 to MUR 6,250 million in 2016 due to a number of factors including a decrease of 40 bps in the prime lending rate for Mauritius Operations in July 2016, lower return on advances and investments, adverse shift in assets mix and increasing impaired advances. The liability mix improved as average lower cost demand and savings deposits increased by 11.07% and non-retail CASA were not remunerated resulting into a decrease in interest expense by 14.09% despite an increase in average deposits.

Breakdown of Non Interest Income



Non-interest income amounted to MUR 2,063 million for the 12 months ended 31 December 2016 as compared to MUR 2,003 million in 2015. The main driver was gain on trading of securities which increased by MUR 168 million. Income from eCommerce business witnessed an increase as a result of higher volume of transactions with focus on lower risk merchant acquisition; although competition is getting stiffer and margins are further narrowing. With the objective of diversifying its revenue stream and positioning itself for sustained growth in both the domestic and overseas markets, the banking segment introduced new treasury products, namely INR Masala Bond Investments; Cross Currency Swaps for Masala Bond Investments; Structured FX forwards; Remittances in Exotic Currencies; Certificate of Deposits; and MUR and foreign currency bonds, particularly targeting Private Wealth customers.

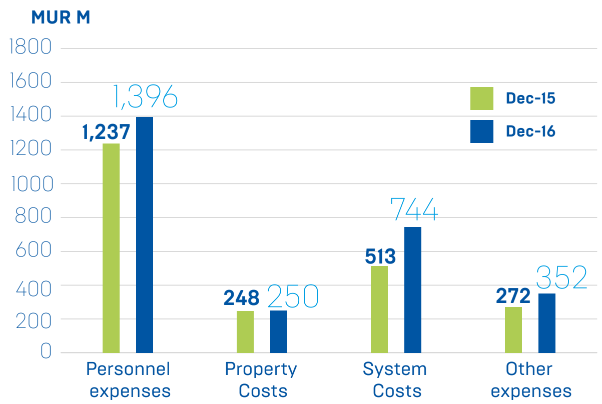
Fees from the Bancassurance business are continuously improving as we tie up with more insurers and provide additional training and incentives to our employees to cross-sell insurance products. On the financial markets side, both Mauritius and India booked significant gain on trading in securities. For the year under review, SBM Group received dividends from its equity investments of MUR 39 million as compared to MUR 157 million for the previous year ended December 2015 which represents a decrease of 75.29%. Excluding dividend income, non-interest income would have grown by 9.69%.

Non-Interest Expenses

Non-interest expenses amounted to MUR 2,742 million for the 12 months ended December 2016 as compared to MUR 2,270 million for the year ended December 2015, representing an increase of 20.75%. Personnel costs increased by MUR 159 million on account of the increase in salaries and pensions as well as a higher headcount, as we focus on building our human capital. Following successful negotiation of the collective agreement, arrears on salaries and benefits of MUR 70 million for previous years were paid in November 2016 to employees on contract of indeterminate duration. Moreover, post the successful go live of the core system, all eligible employees were granted one month salary as bonus.

System costs increased by MUR 231 million mainly due to depreciation and amortisation of hardware and software of the new core system and other applications, which went live in September 2016. The full impact of the amortisation and maintenance costs of the new systems will be borne in financial year 2017.

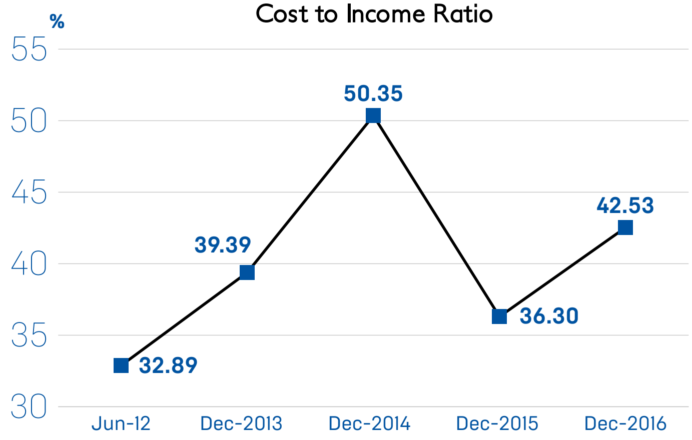
Breakdown of Non-Interest Expense



Cost to Income

Against this background, the cost to income ratio increased from 36.30% for the 12 months ended December 2015 to 42.53% for the year ended December 2016.

Cost to Income Ratio



Net Impairment Loss on Financial Assets

Net impairment loss on advances and other financial assets for the 12 months ended December 2016 amounted to MUR 717 million as compared to MUR 1,937 million for the 12-month period ended December 2015. The Group shall continue with recovery actions to realise collaterals and maximise recovery.

Mauritius operations accounted for 88.04% of the specific provision out of which 36.66% related to few segment B exposures. Specific provision in the books of our overseas Indian branches comprised 11.96% of the total specific provision.

In 2015, specific provision was mainly due to a large conglomerate in the financial services sector which went into administration.

Assets Growth

SBM Group has been able to grow its total assets from MUR 136 billion as at December 2015 to MUR 147 billion as at 31 December 2016, with an increase in investment securities by 5.50% or MUR 2,055 million, a hike in net loans and advances by 4.13% or MUR 2,840 million, and a major rise in placements by 284.29 % or MUR 3,437 million.

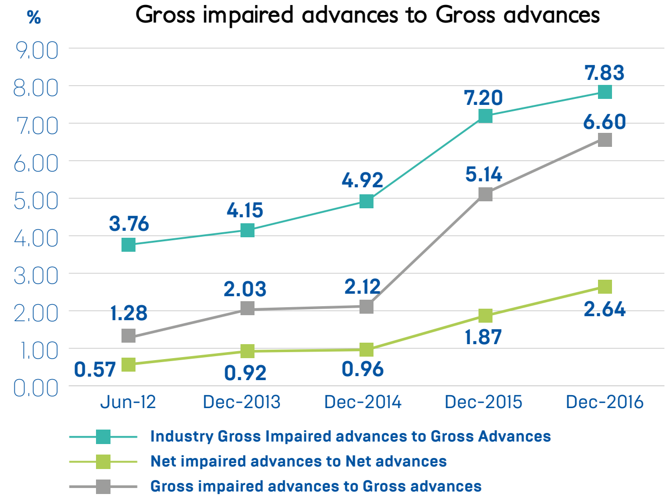
Financial Review (cont'd)

Loans and Advances

SBM Group's gross advances increased by 4.81% to reach MUR 75.8 billion as at December 2016 (December 2015: MUR 72.3 billion). The increase was largely contributed by growth in our international banking/segment B. Our domestic advances market share increased from 21.22% as at 31 December 2015 to 21.85% as at 31 December 2016 whilst overall domestic credit market decreased by MUR 2.93 billion or 1.03% over the same period. Advances at our overseas operations dropped by MUR 650 million from 3.97 billion to MUR 3.32 billion at 31 December 2016. Advances denominated in FCY as a percentage of total advances represented 31.14% at 31 December 2016 compared to 27.05% at 31 December 2015. A breakdown of the credit portfolio by economic sector and level of provisions held has been disclosed in Note 8 to the Financial Statements.

Impaired Advances and Allowance for Credit Impairment

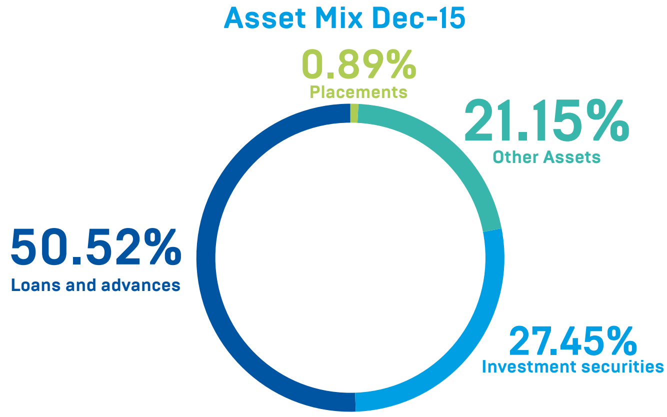
Gross impaired advances increased from MUR 3.71 billion at December 2015 to MUR 5.00 billion at December 2016 as a result of deteriorating book in India operations. The Group maintained adequate provisions as per the guidelines of the respective central banks and International Financial Reporting Standards. Specific allowance for credit impairment stood at MUR 3.11 billion, representing a provision coverage ratio of 62.14% (December 2015: 65.37%). The Group's gross impaired advances to gross advances ratio increased from 5.14% in December 2015 to 6.60% in December 2016 and the net impaired advances to net advances ratio increased from 1.87% to 2.63%. Despite the increase in the impairment level, overall asset quality still compares favourably with the industry.

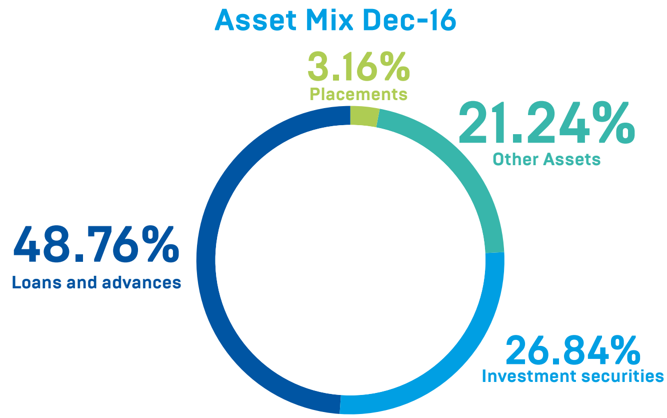


Investment Securities and Equity Investments

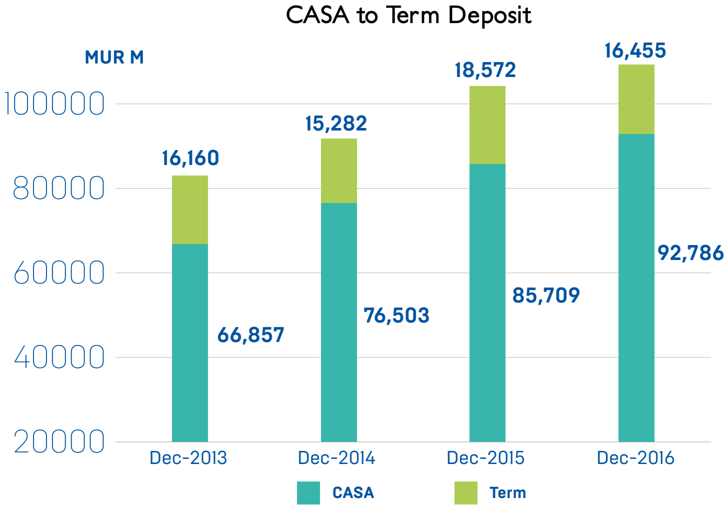
Investment securities, which comprise fixed interest Treasury Bills, Treasury Notes, Government Bonds and Foreign Bank Bonds grew by 5.50%, from MUR 37.4 billion as at December 2015 to MUR 39.4 billion as at December 2016. The increase is mainly from higher investment in Government securities by 14.64% (MUR 3.91 billion) as growth in CASA deposits could not be optimally deployed in advances due to low credit demand and excess liquidity.

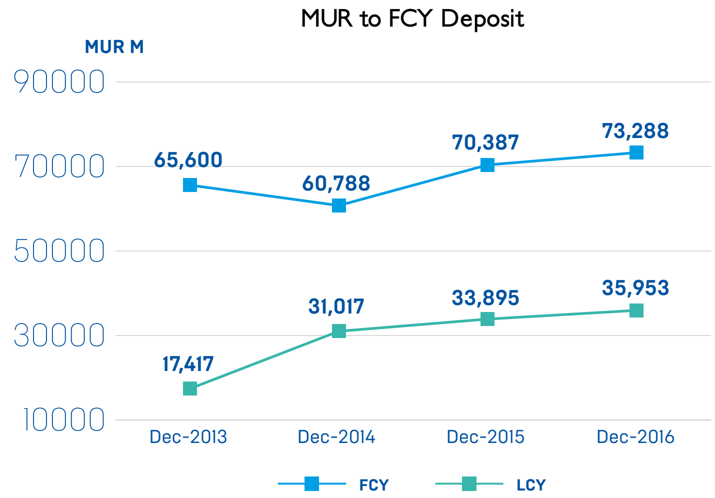
Foreign currency denominated bonds decreased from MUR 14.7 billion at 31 December 2015 to MUR 13.5 billion, as funds were deployed in foreign currency loans and advances. It was also a deliberate strategy to scale down the fixed interest US dollar bonds of longer maturity as we took the view that interest rate is likely to increase in the near term.



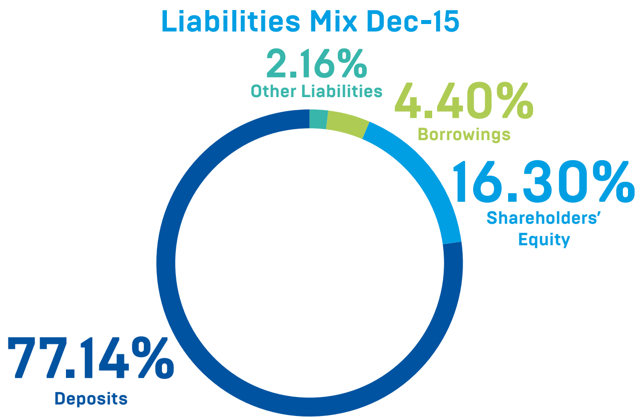


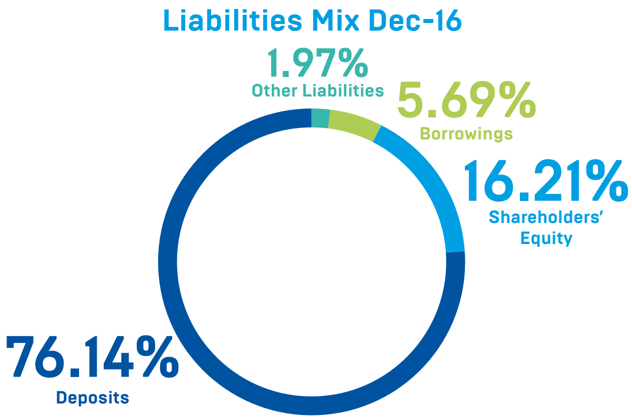
Deposits





SBM Group's non-bank deposits increased by 4.76% to reach MUR 109.2 billion as at December 2016 (December 2015: MUR 104.3 billion) with current demand and savings deposits (CASA) growing by MUR 4.96 billion (4.76%) compared to December 2015 and accounting for 84.94% of total deposits as at December 2016 compared to 82.19% at December 2015. Out of the MUR 4.96 billion increase in total deposits in 2016, foreign currency (FCY) deposits accounted for MUR 2.06 billion thereby increasing the share of FCY to total deposits from 32.50% at 31 December 2015 to 32.91% at 31 December 2016. Term deposits decreased from MUR 18.6 billion to MUR 16.5 billion over the same period with growth in FCY term deposits offset by a decrease in MUR term deposits. The domestic market share of CASA deposits represented 24.18% whereas the market share for segment A deposits amounted to 20.14% as at 31 December 2016.





Financial Review (cont'd)

Borrowings

SBM Group's borrowings, mainly from refinancing sources, stood at MUR 8.35 billion as at December 2016 (December 2015: MUR 5.99 billion) which is due to repayment of borrowings made by the Group linked to refinancing activity.

Shareholders' Equity

SBM Group shareholders' equity increased by 7.28% to reach MUR 23.8 billion as at December 2016 (December 2015: MUR 22.2 billion) with the retention of the current period profit of MUR 2.31 billion, partly offset by dividend payments of MUR 1.06 billion during the year. Return on average shareholders' equity stood at 10.04% for the year under review.

2016 was marked by an active capital raising by local issuers to fund their investment activities and/or restructuring initiatives in a volatile market environment. SEM also experienced higher market activity, by confirming its positioning as an attractive multi-raising platform for capital restructuring of listed companies.

The SEM-ASI ended the year at 1852.57 points growing by 2.31%. The total return index, SEMTRI-ASI gained 0.92 % ending 2016 at 6387.96 points. The SEMDEX registered a slight fall of 0.15% closing the year at 1808.37 points. On the Development & Enterprise Market (DEM), the DEMEX and the DEMTRI finished the year with gains of 2.01% and 5.58% respectively.

SBMH (as a member of SEM-10) broadly mirrored movements in the SEMDEX in 2016. The share price took a dip at the end of March with release of financial year 2015 results - profit after tax of the Group fell to MUR 1.61 billion for the year ended 31 December 2015 as a result of substantial increase in credit impairment charges (MUR 1.94 billion). SBMH then recovered slightly as quarterly results for 2016 financial year showed improvements, and on assurance to both local and foreign investors regarding the implementation of the McKinsey report five-year strategy implementation. The share price stabilised by year-end and traded mostly in a range of MUR 6.50 - MUR 7.00.

Further analysis on the capital structure and capital adequacy ratio is provided at page 135 to 141.

Performance 2016 against objectives - SBM Holdings Ltd

Indicator	Target for 2016	Perfomance 2016
Net Profit for the year	Growth of around 60%	The Group attained a profit after tax of MUR 2,310 million for 2016, a growth of 44% over 2015 mostly due to a notable increase of 58% in other operating income derived from gain on sale of investment securities, coupled with lower interest expense and normalised credit impairment charge. But growth of 3% in Net Interest income was lower than projected, with relatively slower pickup in loan disbursements and sqeezed margins within an increasingly competitive market. In addition, unlike previous years, no dividend was received in 2016 from one of our major equity investment.
Return on Average Assets	At least 2%	Return on average assets (ROA) stood at 1.63 %, an improvement of 39 bps over 2015 with a growth of 8% in average assets.
Return on Average Equity	At least 15%	The Group's return on average equity improved to 10.04% in 2016 compared to 7.35% in 2015 but with the lower than projected revenue/dividend, the Group could not attain the targeted return of 15%.
Cost to Income	Below 42%	The cost to income ratio for 2016 stood at 42.53% more or less in line with the set target.

Objectives 2017 - SBM Holdings Ltd

Indicator	Target for 2017
Return on Average Assets (ROA)	With the implementation of a series of initiatives, the Group is projecting an increase in its ROA which should attain at least 2% in 2017.
Return on Average Equity	Return on average equity is expected to improve in the coming years, with a minimum of 15% for 2017.
Operating Income (Excluding Dividend Income)	The Group is projecting a 2 digit growth rate in net interest income for 2017 with more focus on asset management and loan growth more specifically from Global business. Substantial growth of at least 25% is expected in non-interest income with projected increase in business volumes coupled with targeted increase in income from Treasury products.
Operating Expense	Operating expenses are expected to grow by at least 25% in 2017 with amortisation of the new information technology platform and also as the Group continues its capacity building initiatives.
Cost to Income ratio	A slight improvement in the cost to income ratio is expected for 2017 with targeted growth in Operating Income outpacing growth in operating expenses and CI ratio projected to go further down as the Group reaps the full benefit of its huge investment in system and capacity building.
Net Profit for the year	Growth of at least 25%.

Financial Review (cont'd)

Five year financial summary

SBM GROUP	12 months December 2016	12 months December 2015	12 months December[b] 2014	12 months December[b] 2013	18 months December[a] 2013	12 months June[b] 2012
Key financial highlights (MUR million)						
Profit before income tax and net impairment loss on financial assets	3,705	3,985	3,108	3,745	5,860	3,398
Profit before income tax	2,989	2,048	2,541	3,276	5,259	3,123
Profit for the period	2,309	1,608	1,868	2,696	4,350	2,526
Total assets	146,896	136,162	125,602	111,861	111,861	98,824
Shareholders' equity	23,805	22,188	22,074	19,343	19,343	17,727
Tier 1 capital	18,598	18,254	20,376	12,633	12,633	11,637
Risk-weighted assets (including market and operational risks)	93,027	83,935	79,366	74,750	74,750	69,994
Average assets[c]	141,529	130,882	118,731	108,127	105,342	96,633
Average shareholders' equity[c]	22,997	22,131	20,708	18,645	18,535	16,205
Average working funds[c]	147,833	135,841	120,378	107,524	104,603	95,272
Average Tier 1 capital[c]	18,426	19,315	16,505	12,871	12,135	11,076
Key financial ratios (%)						
Capital adequacy ratio	25.70	28.26	31.41	20.40	20.40	20.51
Tier 1 capital adequacy ratio	19.90	21.75	25.67	16.90	16.90	16.63
Profit before income tax[f]/ average risk-weighted assets	3.37	2.51	3.30	4.39	4.83	4.85
Profit before income tax[f]/ average assets	2.11	1.56	2.14	3.03	3.32	3.23
Profit before income tax[f]/ average shareholders' equity	13.00	9.25	12.27	17.57	18.86	19.27
Profit before income tax[f]/ average Tier 1 capital	16.22	10.60	15.40	25.45	28.81	28.20
Return on average risk-weighted assets[f]	2.60	1.97	2.42	3.61	4.00	3.92
Return on average assets[f]	1.63	1.23	1.57	2.49	2.75	2.61

SBM GROUP	12 months December 2016	12 months December 2015	12 months December[b] 2014	12 months December[b] 2013	18 months December[a] 2013	12 months June[b] 2012
Return on average shareholders' equity[f]	10.04	7.26	9.02	14.46	15.60	15.59
Return on average Tier 1 capital[f]	12.53	8.32	11.32	20.94	23.83	22.80
Cost to income	42.53	36.30	50.35	39.39	36.45	32.89
Share information (based on nominal of 10 cent each)[d]						
Earnings per share (Cents)[f]	89.43	62.27	72.37	104.41	112.03	97.82
Dividend per share (Cents)[e,f,g]	40.00	40.00	45.00	40.00	40.00	35.00
Net asset value per share (Cents)	922.02	859.42	854.97	749.22	749.22	686.63
Share price to book value (times)	0.72	0.83	1.08	1.32	1.15	1.63
Dividend yield (%)[e,f]	6.02	5.63	4.41	3.85	3.85	4.27
Earnings yield (%)	13.47	8.77	7.09	10.04	10.77	11.93
Total Yield (Cents)[e]	(6.00)	(270.00)	25.00	40.00	260.00	(105.00)
Cumulative Yield (Cents)	803.50	809.50	1,079.50	1,054.50	1,274.50	1,014.50
Price earnings ratio (times)	7.42	11.40	14.09	9.96	9.28	8.38
Dividend cover (times)	2.24	1.56	1.61	2.61	2.81	2.79
Market capitalisation (MUR M)	20,168	21,566	30,982	31,589	31,589	24,907
Market price per share (Cents)	664.00	710.00	1,020.00	1,040.00	1,040.00	820.00
Highest	730.00	1,000.00	1,069.30	1,297.00	1,297.00	985.00
Lowest	630.00	693.10	980.20	1,078.80	1,078.80	775.00
Average	673.14	878.90	1,026.00	1,232.50	1,232.50	842.80
Value of shares traded (MUR M)	1,167.28	3,157.55	2,288.58	1,873.83	2,439.12	1,120.89
Value of shares traded as a percentage of Market (%)	9.34%	17.55	13.83	17.74	11.66	8.27

Financial Review (cont'd)

SBM GROUP	12 months December 2016	12 months December 2015	12 months December[b] 2014	12 months December[b] 2013	18 months December[a] 2013	12 months June[b] 2012
Other key data						
Number of employees	1,388	1,250	1,179	1,168	1,168	1,176
Number of employees (Mauritius)	1,269	1,144	1,074	1,066	1,066	1,082
Number of employees (Overseas)	119	106	105	102	102	94
Number of service units	51	47	50	49	49	48
Exchange rate (USD : MUR)	35.90	35.91	31.78	30.00	30.00	30.93
Exchange rate (INR : MUR)	0.529	0.543	0.504	0.485	0.485	0.556
Exchange rate (100 MGA : MUR)	1.082	1.124	1.234	1.350	1.350	1.426

a Change in financial year end from June to December. Balances are not entirely comparable.

b Restated.

c Averages are calculated using period / year-end balances.

d On 19 October 2016, SBM share of nominal was reverse share split. The share-related information presented for prior periods are restated based on the new number of shares.

e Including dividend declared after the reporting date but before the financial statements are authorised for issue.

f Figures for the 18 months to December 2013 have been annualised.

g Dividend per share for 2016 includes a final dividend of 10 cents payable in 2016.

Segment results – SBM (Bank) Holdings Ltd

(Banking segment)

	12 months December 2016	12 months December 2015	12 months December 2014
Consolidated statement of profit or loss (MUR M)			
Net interest income	4,305	4,136	4,050
Non interest income	1,937	1,749	1,968
Non interest expense	2,641	2,174	3,106
Depreciation and amortisation	348	161	166
Profit before income tax and net impairment loss on financial assets	3,601	3,711	2,913
Profit before income tax	2,883	1,777	2,282
Profit for the period	2,225	1,357	1,614
Consolidated statement of financial position (MUR M)			
Total assets	135,137	124,015	114,763
Gross loans and advances to non-bank customers	75,776	72,296	69,107
Gilt-edged securities	24,316	19,149	18,739
Bank bonds	6,808	9,219	6,155
Other investments	3,655	3,112	1,560
Deposits from non-bank customers	109,333	104,488	91,940
Shareholders' equity	15,905	13,737	14,688
Tier 1 capital	10,701	9,805	12,990
Risk-weighted assets (including market and operational risks)	82,280	75,746	70,897

Financial Review (cont'd)

	12 months December 2016	12 months December 2015	12 months December 2014
Consolidated statement of financial position (average[a] MUR M)			
Average assets	129,576	119,389	110,957
Average loans and advances to customers	74,036	70,702	70,116
Average gilt-edged securities	21,732	18,944	16,890
Average bonds	8,014	7,687	3,934
Average deposits from non-bank customers	106,910	98,214	87,534
Average shareholders' equity	14,821	14,212	14,635
Average working funds	135,653	124,237	114,472
Average Tier 1 capital	10,253	11,398	12,318
Average interest earning assets	117,417	105,543	97,244
Average interest bearing liabilities	111,479	102,017	93,137
Cost to income (%)	42.31	36.94	51.61
Performance ratios (%)			
Capital adequacy ratio	14.92	14.96	19.71
Tier 1 Capital adequacy ratio	13.01	12.94	18.32
Profit before income tax[b]/ average risk-weighted assets	3.65	2.42	3.22
Profit before income tax[b]/ average assets	2.23	1.49	2.06
Profit before income tax[b]/ average shareholders equity	19.45	12.50	15.60
Profit before income tax[b]/ average Tier 1 capital	28.12	15.59	18.53
Return on average risk-weighted assets[b]	2.82	1.85	2.28
Return on average assets[b]	1.72	1.14	1.45
Return on average shareholders' equity[b]	15.01	9.55	11.03
Return on average Tier 1 capital[b]	21.70	11.90	13.10
Asset quality ratios (%)			
Gross impaired advances to gross advances	6.60	5.14	2.12

	12 months December 2016	12 months December 2015	12 months December 2014
Net impaired advances to net advances	2.64	1.87	0.96

[a] Averages are calculated using period / year-end balances.
[b] Annualised

Performance against Objectives - Banking Segments

Indicator	Target for 2016	Perfomance 2016
Net Profit for the year	Growth of around 90%	SBM Bank Group achieved Net Profit of MUR 2.22 billion in 2016, a year-on-year growth of 64% driven by a remarkable increase of 64% in other operating income derived from gain on sale of investment securities, coupled with lower interest expense following a drop in savings rate. Moreover, the Banking Group also booked much lower impairment charge compared to the exceptionally high charge in 2015. But on the net interest income side, with the prevailing market conditions, characterised by a situation of prolonged excess liquidity, drop in repo rate and interest margin, lower demand for credit and increasing level of impairment, the anticipated growth in net interest income could not be attained.
Return on Average Assets (ROA)	At least 1.9%	Return on assets (ROA) stood at 1.72% with a growth of 9% in average assets.
Return on Equity (ROE)	At least 15%	Return on average equity improved to 15.01% in 2016 compared to 9.55% in 2015.
Advances and Deposits	Grow average loan book by at least 12% and average deposits by at least 9%	In view of the difficult economic conditions, average gross advances grew by around 5% only whilst average deposits went up by 9%.
Assets Quality	Drop in net impaired advances to net advances ratio to below 1.5%	Net impaired ratio for December 2016 stood at 2.64%.
Cost to Income Ratio	To be contained below 42%	The cost to income ratio for 2016 stood at 42.31%, slightly above the set target, on account of lower than projected growth in operating income.

Financial Review (cont'd)

Objectives 2017 - Banking Segment

Indicator	Target for 2017
Return on Average Assets (ROA)	ROA will be maintained around 2%.
Return on Average Equity (ROE)	Return on Average equity is expected to improve in the coming years, with a minimum of 17% for FY2017.
Operating Income (Excluding Dividend)	With a more focused approach on balance sheet management, the Banking Group is targeting a 2 digit growth rate in net interest income for 2017 with expected growth in its loan portfolio. Substantial growth of at least 25% is expected in non-interest income with projected increase in business volumes coupled with targeted increase in income from Treasury Products.
Operating Expense	Operating expenses is expected to grow by at least 25% for 2017 with amortization of the full fledged new information technology platform and also as the Banking Group continues its investment in capacity building.
Advances	Considering the Mauritian economy is expected to grow by around 4%, SBM Bank Group is targeting an increase of 10% in its rupee loan portfolio while more focus will be laid on growing the Cross Border/ Segment B portfolio with a double digit growth rate.
Deposits	Target is to grow on low cost deposits and in foreign currency, to fund the targeted growth in loan portfolio. MUR deposits is expected to grow by at least 12% .
Assets Quality	Net impaired ratio is expected to fall below 2% with targeted growth in advances.
Cost to Income Ratio	The cost to income ratio is expected to remain at 42% with continued investment in information technology and human capital.

Segment Results - SBM (NBFC) Holdings Ltd

(Non-Banking Financial Segment)

	Year ended 31 Dec 2016 (MUR M)	Year ended 31 Dec 2015 (MUR M)	Year ended 31 Dec 2014 (MUR M)
Income			
Fees and commissions	77.471	58.867	45.841
Dividend income	4.162	5.744	2.931
Interest income	0.024	0.224	2.423
	81.657	64.835	51.195
Expenses	**(51.724)**	**(41.868)**	**(39.763)**
Operating profit	**29.933**	**22.967**	**11.432**
Share of profit of associates	-	-	62.993
Profit before tax	**29.933**	**22.967**	**74.425**
Tax expense	(5.079)	(3.683)	(3.969)
Profit for the year	**24.854**	**19.284**	**70.456**

The non-banking financial cluster comprises activities such as investment management activities, brokerage services, CIS administrators and corporate services. During the period under review, the cluster made a profit after tax of MUR 24.85 million compared MUR 19.28 million a year earlier. The increase of MUR 5.57 million is mainly due to higher fees and commission income of MUR 18.60 million, mitigated by higher expenses of MUR 9.86 million. Total assets increased from MUR 144.66 million to MUR 243.46 million due to increase in fair value of available-for-sale investments, cash at bank and trade and other receivables.

SBM Mauritius Asset Managers Ltd

SBM Mauritius Asset Managers Ltd (SBM MAM) is the investment management arm of the SBM Group. It specialises in providing investment management services to both institutional and individual investors. SBM MAM is regulated by the Financial Services Commission and is licensed to act as Investment Adviser (Unrestricted), CIS Manager and Distributor of Financial Products. Its portfolio of clients includes mutual funds, pension funds, insurance and investment holding companies and retail investors.

The Company made a profit after tax of MUR 6.69 million for the year ended 31 December 2016 as compared to MUR 7.76 million a year earlier. Management and retrocession fees received grew from MUR 25.75 million in 2015 to MUR 27.04 million (5%). Commission income decreased from MUR 6.83 million in the preceding year to MUR 4.33 million for the year ended 31 December 2016. Total assets under management increased from MUR 5,241 million at 31 December 2015 to MUR 6,923 million at 31 December 2016, an increase of 32%. Expenses for the year ended 31 December 2016 amounted to MUR 23.81 million as compared to MUR 23.11 million for the preceding year, an increase of MUR 0.70 million (3%). This is mainly due to higher staff costs, IT expenses and director fees.

Financial Review (cont'd)

SBM MAM's in-house funds' performance against their respective benchmarks are as follows:

Performance of in-house funds v/s benchmarks

Fund Name	Fund Size	2016 (%)	2015 (%)	2014 (%)
SBM Perpetual Fund	MUR 1,485.9M	3.64	4.09	4.42
Benchmark		3.45	4.09	4.33
SBM Universal Fund	MUR 381.4M	2.94	0.18	9.26
Benchmark		3.15	0.05	3.17
SBM Yield Fund	MUR 61.2M	3.31	2.46	3.25
Benchmark		4.49	5.13	5.38
SBM Global Fund	MUR 56.3M	2.19	6.35	9.42
Benchmark		6.01	8.11	6.10
SBM India Fund	USD 2.3M	2.20	(0.67)	56.13
Benchmark		1.29	(5.29)	33.86
SBM Growth Fund*	MUR 54.5M	2.75	-	-
Benchmark		6.46	-	-
SBM Maharaja Growth Fund	USD 3.9M	1.78%	-	-
Benchmark		3.50%	-	-
SBM Maharaja Bond Fund	USD 11.2M	1.13%	-	-
Benchmark		2.33%	-	-
SBM Africa Value Fund	USD 0.87m	(14.74)	-	-
Benchmark		(2.92)	-	-

*SBM Growth Fund & SBM Africa Value Fund (Launched Feb 16)

NOTES:

Figures are as at 31 December. All performance figures above assumed that dividends have been reinvested.

SBM Securities Ltd

SBM Securities Ltd is the broking arm of SBM Group. SBM Securities Ltd provides access to local and global capital markets through its wide network of global partners. Investors can have access to local equity markets, foreign equity markets and a variety of foreign investments including exchange traded funds and foreign bonds.

The Company made a profit after tax of MUR 19.89 million for the year ended 31 December 2016 compared to MUR 7.12 million for the previous year. The Company's turnover for the year amounted to MUR 35.86 million compared to MUR 16.23 million for the previous year. Total income net of direct costs increased by MUR 20.46 million (97%). Expenses increased from MUR 12.91 million for the year ended 31 December 2015 to MUR 16.75 million for the year ended 31 December 2016.

SBM Fund Services Ltd

SBM Fund Services Ltd is licensed by the Financial Services Commission to act as CIS Administrator and also provides corporate services. It acts as registrar and transfer agent for numerous listed companies and mutual funds. It also provides administration services including trade and fees processing, net asset value computation and fund accounting services.

The Company made a profit after tax of MUR 1.25 million for the year ended 31 December 2016 compared to a profit of MUR 1.52 million a year earlier. The Company's income for the year ended 31 December 2016 amounted to MUR 7.32 million compared to MUR 6.51 million for the year ended 31 December 2015. The increase of MUR 0.81 million is mainly driven by increase in registry and administrative fees received from clients. Expenses increased from MUR 4.65 million for year ended 31 December 2015 to MUR 5.83 million for the year ended 31 December 2016 on account of higher staff costs and professional fees.

Review by geographies of operations

MAURITIUS OPERATIONS

	Year ended 31 December 2016 MUR M	Year ended 31 December 2015 MUR M
Net interest income	4,035	3,812
Net fee and commission income	956	917
Net trading income	464	457
Other operating income	429	241
Operating income	5,884	5,427
Non interest expense	(2,444)	(1,979)
Profit before net impairment loss on financial assets	3,440	3,448
Net impairment loss on financial assets	(415)	(1,696)
Profit before tax	3,025	1,752
Tax expense	(632)	(423)
Profit after tax	2,393	1,329
Total assets	129,045	117,702
Gross loans and advances to customers	71,913	68,010
Deposits from non-bank customers	103,115	98,596
Total equity attributable to equity holders of the parent	15,947	13,531

Financial performance

Total assets rose by 9.64% from MUR 117,702 million as at 31 December 2015 to MUR 129,045 million as at 31 December 2016 due to increase in loans and placements with banks of MUR 3,257 million; increase in loans and advances to customers of MUR 3,903 million and increase in investment securities of MUR 3,700 million. Deposits from non-bank customers increased by MUR 4,519 million. Shareholders equity stood at MUR 15,947 million (2015: MUR 13,531 million).

Profit after tax increased by 80% to MUR 2,393 million for the year ended 31 December 2016 as compared to MUR 1,329 million a year earlier. Operating income increased by 8.42% (MUR 457 million); the increase is attributable to gain from disposal of treasury bills and bonds. Net interest income increased by 5.86% (MUR 223 million) while net fee and commission income increased by 4.25% (MUR 39 million). Non-interest expense increased by 23.5% (MUR 465 million) mainly because of amortisation of intangible assets following Go Live of the Flamingo system on 12 September 2016. Net impairment decreased in the year 2016 by MUR 1,281 million due to exceptional provision made in respect of some corporate customers both under Segment A and B in the prior year.

Financial Review (cont'd)

INDIA OPERATIONS

	Year ended 31 December 2016 MUR'M	Year ended 31 December 2015 MUR'M
Net interest income	219	255
Net fee and commission income	17	27
Net trading income	8	-
Other operating income	18	31
Operating income	262	313
Non interest expense	(124)	(134)
Profit before net impairment loss on financial assets	138	179
Net impairment loss on financial assets	(302)	(177)
(Loss)/profit before income tax	(164)	2
Tax (expense)/credit	(21)	14
(Loss)/profit after tax	(185)	16
Total assets	8,154	8,217
Gross loans and advances to customers	3,297	3,779
Deposits from non-bank customers	5,188	4,982
Total equity attributable to equity holders of the parents	2,744	3,003

Total assets decreased by 0.77% from MUR 8,217 million as at 31 December 2015 to MUR 8,154 million as at 31 December 2016 due to decrease in loans and advances to customers of MUR 482 million and decrease in investment securities of MUR 365 million, mitigated by an increase in cash and cash equivalents of MUR 559 million; increase in loans and placements with banks of MUR 324 million. Shareholders equity stood at MUR 2,744 million (2015: MUR 3,003 million).

For the year ended 31 December 2016, there was a loss of MUR 185 million compared to a profit of MUR 16 million for the year ended 31 December 2015. Operating income decreased by 16% (MUR 51 million). Net interest income decreased by 14% (MUR 36 million) while net fee and commission income decreased by 38% to (MUR 10 million). Other operating income decreased by MUR 12 million due to lower profit on disposal of securities. Non interest expense decreased by 8% (MUR 10 million) while net impairment increased by 71% (MUR 125 million).

MADAGASCAR OPERATIONS

	Year ended 31 December 2016 MUR'M	Year ended 31 December 2015 MUR'M
Net interest income	51	68
Net fee and commission income	8	6
Net trading income	36	65
Operating income	95	139
Non interest expense	(73)	(60)
Profit before net impairment loss on financial assets	22	79
Net impairment loss on financial assets	(1)	(61)
Profit before tax	21	18
Tax expense	(6)	10
Profit after tax	15	8
Total assets	1,201	1,085
Gross loans and advances to customers	565	507
Deposits from non-bank customers	1,040	920
Total equity attributable to equity holders of the parents	140	128

Total assets increased by 10.69% from MUR 1,085 million as at 31 December 2015 to MUR 1,201 million as at 31 December 2016 due to increase in loans and advances to customers of MUR 58 million and decrease in investment securities of MUR 36 million. Deposits from non-bank customers increased by MUR 120 million. Shareholders equity stood at MUR 140 million (2015: MUR 128 million).

Profit after tax increased by 87.28% to MUR 15 million for the year ended 31 December 2016 as compared to MUR 8 million a year earlier. Operating income decreased by 31.51% (MUR 44 million). Net interest income decreased by 25.56% (MUR 17 million) while net fee and commission income increased by 38% (MUR 2 million). Non-interest expense increased by 21% (MUR 13 million) while net impairment decreased by 98.11% (MUR 60 million) due to provision made for a local customer in the previous year.

Information Technology

Pillars of IT Strategy

In becoming a sound global bank, one of the imperatives is to ensure a robust and strong technology capability to support the bank. SBM technology is now strategically positioned to deliver to the bank and its customers.

Ability to offer differentiated products from competitors
Product innovation
Integrated multi-channel offering
Market ready rapid deployment options for new countries / segments / product lines

Service excellence and delivery fulfillment
Customised offerings based on needs and preferences
Consistent customer experience across channels

Effective adherence to all regulatory and internal compliance norms
Secured and controlled access to internal network, systems and data

Easy to operationalise
Process automation and straight through processing
Lower cost of operations
Workflow based processes
Scalable operations

2016 Highlights

Technology investment and innovation to provide enhanced customer service have always been in the forefront of the agenda at SBM. Investing in information technology has helped develop more flexible and affordable products with a faster time to market to ultimately support revenue growth. SBM was the first in Africa and in the Indian Ocean rim countries to introduce EMV-compliant chip cards to support secure card transactions. It was also the first in Mauritius to provide on-line integrated banking services to its customers across its network of branches, including Orange Money and e-Commerce services.

During the third quarter of 2016, SBM has rolled out a new world class technology infrastructure including many new and improved business solutions with the aim to provide more efficient and quality services to customers as well as provide a base platform for further innovative customer offerings. An incubator programme has also been set up to provide support to new IT-based ventures in partnership with leading educational institutions.

- Replaced end of life technology applications
- Rolled out new Core Banking Solution in SBM Bank (Mauritius) Ltd and Banque SBM Madagascar
- Rolled out new integrated solutions for Customer Relationship Management
- Implemented platform to enable straight through processing for improved efficiency
- Implemented a secure and integrated infrastructure
- Implemented reliable, high availability Infrastructure with adequate redundancies
- Improved data analytics platform to enable customer and operational insights
- Transformed IT organisation through strategic partnership to leverage external expertise
- Visibility and accessibility on social media.

IT Spend

During 2016, our technology transformation initiative has been delivered. This initiative over the past few years required a high capital investment, thus increasing the expense ratios. The business benefits of this platform will be reaped now post the go live of the system.

	2016	2015	2014
IT Expense as a % of Group Income	13%	8%	29%
IT Expense as a % of Operating expenses	29%	23%	51%

IT Governance

The IT governance framework in place provides oversight of IT within SBM. It ensures that IT initiatives are aligned to the strategic business strategies and is accountable for delivery to commitments.

The governance model was strengthened in past years with the setting up of an IT Steering Committee, which is chaired by the Chairman of the Group with representation from members of other board committees, including the Risk Management Committee.

Various committees are in place at different levels to ensure adequate oversight of the operational, project implementation, innovation, security and compliance aspects of the IT function. Risks and issues are regularly assessed for timely corrective actions.

Information Technology (cont'd)

A new CIO was appointed in August 2016 to bolster the IT organisation and provide strategic and operational directions.

	Meeting	Frequency	Members
1	IT Steering Committee	Monthly	Group and Bank Board Members, CE and CIO
2	IT Management Forum	Monthly	CE, Business leaders, CIO, Head of Internal Audit, Strategic sourcing partner representatives, and External audit
3	CE Connect	Fortnightly	CE, CIO, IT Leads and Business heads
4	Change Forum	Weekly	CIO, IT leads, Business leads and Strategic sourcing partner representatives

Infrastructure

A secure, highly available and scalable IT infrastructure has set the foundation to deliver a robust and state-of-the-art banking technology ecosystem in alignment with the Group's vision to grow and expand across other geographies.

The systems are deployed on an "infrastructure as a service" model to ease roll-outs of new products and services. With high level of built-in resiliency and redundancy, system availability has been taken to new levels of stability. Automated tools and processes are in place to support 24x7 monitoring of performance, capacity, availability and security. Scalability and a strong backbone infrastructure support the capability for rapid deployment to new geographies.

All applications are being hosted in a centralised infrastructure with Data Centre (DC) and a Disaster Recovery Data Centre (DR). Those Data Centres are of Tier-III standards and comply with industry norms such as ISO 27001. 100 percent DR capability is available for all applications with defined recovery point and time, supported by data synchronisation between primary and Disaster Recovery sites. Failover is automated to the extent possible and is validated by frequent DR drills.

Network connectivity between the Data Centres and the bank's locations has also been implemented through resilient routes to ensure high availability of services.

IT Risk Management

IT operations are exposed to serious risks, including cybersecurity related risks. IT risks are identified, managed and mitigated in a secure and cost effective manner and in compliance with applicable IT laws and regulations.

The Group's information security policy is reviewed yearly by the risk management team and made available to all employees on SBM's portal. All employees and contractors are required to acknowledge the Group's security policy. Security and confidentiality provisions are similarly embedded in contractual agreements with external service providers.

To ensure security and confidentiality of our customer data, transactions are encrypted. Data security was further enhanced in 2016 with the introduction of sophisticated data leakage prevention measures and access controls on our systems at various levels.

Our cards which are chip-enabled offer the highest level of security against compromise and counterfeit. Card transactions are monitored on a real time basis to detect fraudulent activity.

Regular upgrading of our ATMs coupled with close working relationship with the Police Cyber Crime unit has contributed significantly in minimising the threat of card skimming on our ATMs.

Security threats and trends are monitored closely and security events are correlated in real time to identify suspicious security activity. Our systems are tested regularly for vulnerability to security attacks. Independent security audits are performed to assess compliance with our security policies as well as the adequacy of our security measures.

Information Technology (cont'd)

Information Security

With the increasing number and frequency of sophisticated attacks on the banking sector, the need to develop a comprehensive cyber security program outlined with the right levels of governance, risk and compliance standards becomes more important. In order to optimise cyber resilience and enhance incident response preparedness to protect data and mitigate risks associated with money laundering, cybercrime and fraud, SBM has embarked on establishing a stringent framework consisting of people, process, data and technology.

SBM has implemented a multi-layered control mechanism in line with leading standards and practices which includes:

Layers	Controls in Place
Network and Boundary Defence	Multi Layered Firewall, Network based intrusion detection, Web application firewall, Standardised Secure configuration, Security Incident and Event Management, Secure email gateways. Network Access Control (NAC).
Host Defence	Anti-Malware and Spyware, Host Intrusion Prevention system, File Integrity Monitoring tool for critical servers, patch management and host based encryption for moveable devices, MDM container for Mobile devices.
Application Security	Stringent Change management framework, Quarterly Application vulnerability assessment, Privileged access management review; Standardised application configurations, Application logs integrated with SIEM for real time monitoring.
Data Security	Data Leakage Prevention System, Encryption of Data Transmission layers, Encryption of end-points and moveable devices.

In addition to the above technical solutions in place, the bank has a stringent IT governance, risk and compliance management framework in place which includes:

a) Bi-annual risk assessment of IT ecosystem in accordance with the risk management framework of SBM.

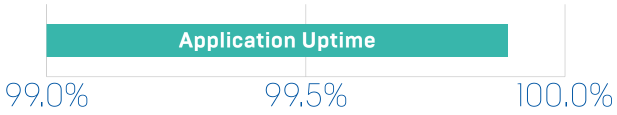
b) Policies, procedures and standards in line with ISO 27001 and local regulations.

IT Auditing and Compliance

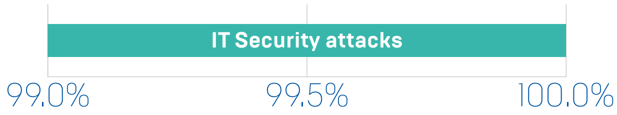
Our IT systems are regularly audited by the Group's internal audit team as well as the external audit team in order to ensure compliance with regulatory guidelines, internal policies and international best practice standards. Observations and recommendations are submitted for immediate remedial actions.

Key Technology Operations Highlights 2016

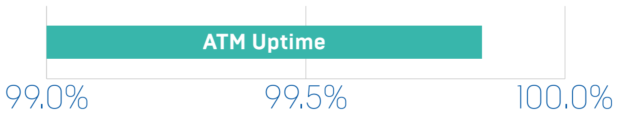
Applications Uptime: 99.9%



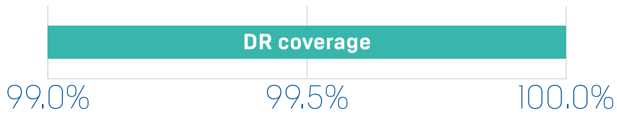
IT Security attacks stopped: 100%



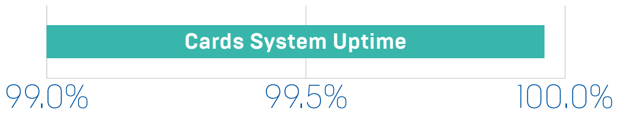
ATM Uptime: 99.85%



Systems covered under disaster recovery: 100%



Cards System Uptime: 99.96%



2017 Outlook

As a results of last year's major transformation implementation, in 2017 the technology focus is on stabilisation of the various solutions as well as leveraging the new platforms for innovative products and other customer offerings, expansion of technology solution to new frontiers, including SBM India and implementation of the data driven bank strategy.

New acquisitions are driven by low-energy consumption and energy efficiency considerations, also resulting in reduced air conditioning load.

Virtualisation and hyper convergence techniques are among other techniques that we use to reduce physical as well as energy footprint.

All new technology initiatives are approved based on the return on technological investment (RoTI) as a key performance indicator (KPI), including.

- Stabilisation of production solutions platforms
- Process efficiency improvement
- Continuous replacement of ageing equipment with up to date devices (e.g intelligent ATMs)
- Leverage the new platforms for further innovations and customer offerings including Digital Banking, Omnichannel, Data Driven Banking

Employees

Strategic HR Capital

Our people are our key assets; they uphold customer experience and are custodians of the brand. As such, our guiding principles, developed as part of our strategy, emphasise the importance of empowering our people and developing future leaders.

Business divisions have been realigned and the Group has invested massively in technology to give our people the necessary tools to excel. The success of our long term strategy depends on our ability to retain, motivate, develop and continue to attract top talents with the skills and experience to help the bank grow its business and address future challenges.

This report provides metrics on our achievement in talent acquisition, development and retention. As part of our strategy, the Human Resources division operates in a partnership model with all business and support functions.

Our Approach

We aim to employ the right fit for the right job and create a conducive environment and culture that will allow our people to develop their skills and capabilities in alignment with the strategic goals of the company.

- Financial capital is required to ensure that our remuneration structures are competitive
- Increased employee engagement as we meet the needs and expectations of our people
- Enhanced IT systems promote employee self-management which are less human capital intensive
- We require the support of our people to meet our targets

PERFORMANCE INDICATORS

1,388 employees (2015: **1,250**)

To support growth and acquire new talent

TRAINING SPEND

MUR **8.2** Mn (2015: **MUR 7.2 million**)

Strategic Focus Areas:

- Employee Engagement
- Our Workforce
- HRMS Implementation
- Talent Acquisition
- Talent Management
- Talent Retention – Human Capital Development
- Health and Safety
- Employee Wellness
- Employee Relations

Risks Associated

- Loss of talent

WHAT WE OFFER	OUR EMPLOYEE EXPERIENCE
Fulfilling Career; Growth Opportunities	Employee Development and Growth
Strong Values	Ethical Workplace
Clear and Fair Performance Management	Motivating Reward Scheme
Training and Development	Capacity Building and Talent Management

WOMEN LEADERS (2015: **29%**)

33%

Gender empowerment

TRAINING HOURS

9,796

(Excludes system training for Flamingo)

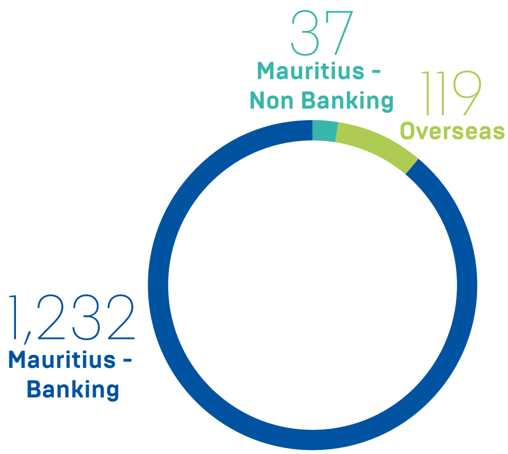
Enhance capabilities

Employees (cont'd)

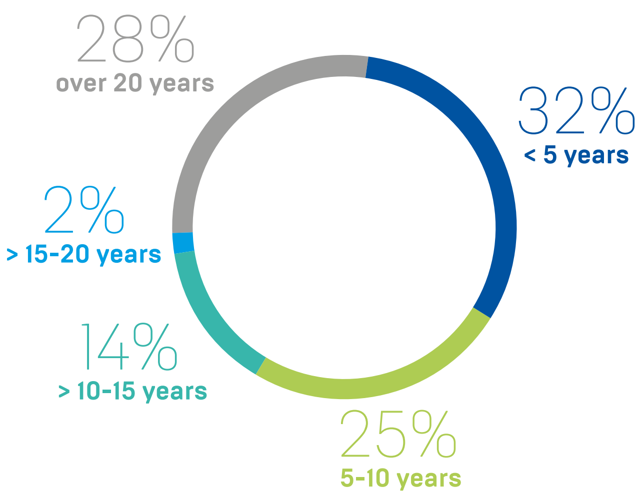
Our workforce

As at 31 December 2016, there were 1,388 employees at SBM Group. Out of these, 1,232 were employed by SBM Bank (Mauritius) Ltd, 119 by Overseas Operations and 37 by the Non-Banking Financial Cluster. There is appropriate diversity in terms of age and experience, which ensures that there is adequate knowledge transfer as well as growth drive.

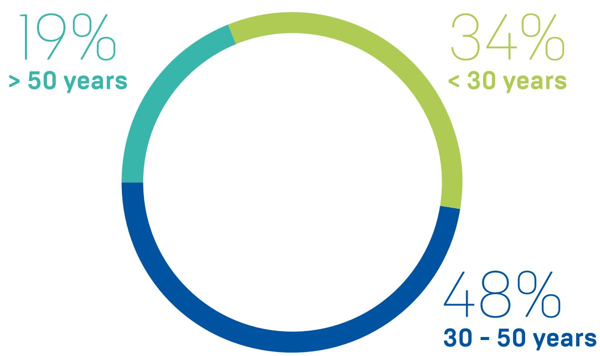
Our Staff



Years at SBM

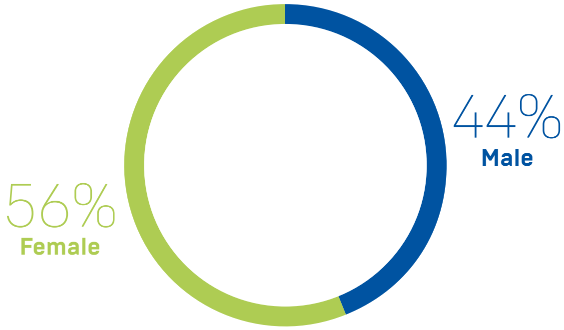


Age Profile



Proactive Focus on Gender Diversity

SBM continues its efforts to encourage gender diversity. We are an equal opportunity employer and strive to improve the representation of women in leadership positions. As at 31 December 2016, women represented 56% of our workforce and 33% of leadership roles.



Disability Management

We provide employment to persons with disabilities, and pay particular attention to providing access facilities for them in both our current and future premises. We aim at providing developed disability guidelines to managers to assist them in managing disabilities in the workplace and eliminating barriers that employees with a disability may face during their journey with the bank.

Oracle HRMS

The IT system has been enhanced to promote employee self-management. The application features self-service work-flows, allowing employees, managers and HR administrators to directly manage many of their tasks across the functional spectrum. The HRMS system eliminated major manual HR-related tasks, ensuring greater consistency and efficiency across the organisation.

Talent Acquisition

As an "Employer of Choice", the Group provides a balanced approach to talent acquisition. It relies both on leveraging the skills and experience already available within the organisation, and bringing in the necessary capabilities that will help position the bank for its long-term sustainable performance. Strategic divisions were created and/or reinforced, namely Custody, International Banking, Private Wealth and Anti-Fraud.

Year	No. of newly appointed Heads of Divisions
2014	2
2015	8
2016	13

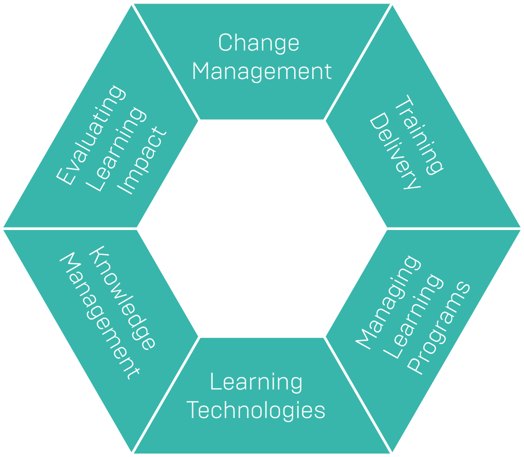
Over the year 2016, 45 new positions were created.

In order to strengthen internal career mobility, encourage greater career development and retention of employees, career opportunities are advertised both internally and externally. We also ensure that a consistent, structured, and merit-based hiring process is in place. The recruitment policy covers all areas from position requirement, approval and interviews to onboarding and integration processes. Referrals are requested to ensure integrity and transparency.

Employees (cont'd)

Talent Management and Development

SBM Group continues to give high importance to training. During the past year, there has been intense focus on internal training following the implementation of the Flamingo Project. A total of twenty five training sessions were run during 2016. Talent development continues to be a core HR priority for the Group. We maintained a broad offering of programs, with overall attendance of 98%. Focus was also on regulatory and compliance topics, with a participation rate of 100% of employees.



Performance Management

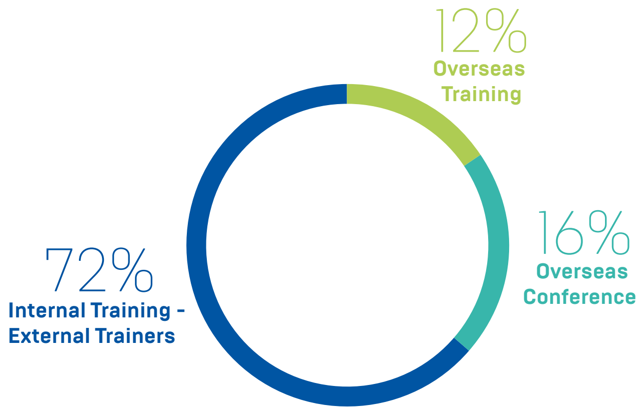
Our approach to performance management is to ensure that employees have a common understanding of the Group's strategy and how it links to departmental strategy and individual goals. It also allows managers to have open and honest one-to-one discussions with their team members, mainly to better guide employees towards excellence in performance and assess development needs.

Human Capital Development

Components of Our Human Capital Development Strategy:

Performance Management	Talent Management and Leadership Development	Learning and Development
All employees participate in the formal performance management process	Defined leadership programmes in partnership with overseas or local institutions	Effective upskilling and reskilling of employees to manage changing business environment and motivate our employees

Programme Spending for 2016



A total amount of MUR 8.2 million was invested in training and development during 2016. 72% of that amount represented internal training, 16% overseas conferences and 12% overseas training.

No of Training Hours per Category

	In-House – Internal Trainers	Internal Training – External Trainers	Overseas Conference	Overseas Training	Total
No of Hours	6,127	3,026	427	216	9,796
%	62.5	30.9	4.4	2.2	100

We offer a number of training programmes across all levels in the organisation. Mandatory training, which includes compliance topics, are carried out on a continuous basis; 6,127 hours were invested in internal training, 61% of that time was spent on Anti-Money Laundering Training. SBM Group will soon launch its corporate academy to offer education and training in a customised in-house format. With the ongoing digitisation in the banking industry, we are also focused on attracting and developing IT skills and digital capabilities.

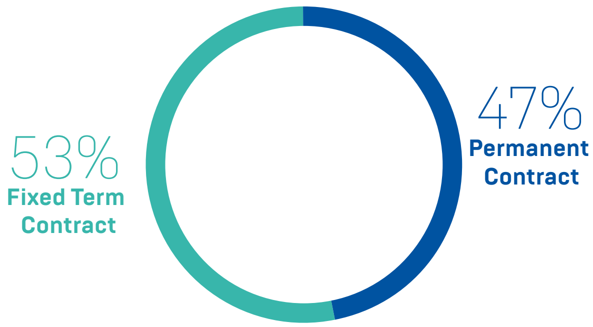
Besides, the Group plans to introduce a new graduate programme that aims to provide on-the-job experience to new graduates to support them in their transition into the work environment.

Talent Retention

Review of Our Current Employment Practices

In line with employee feedback received, SBM Group decided to discontinue the practice of offering contract of determinate duration for employees at lower levels. This will promote job security and encourage talent retention.

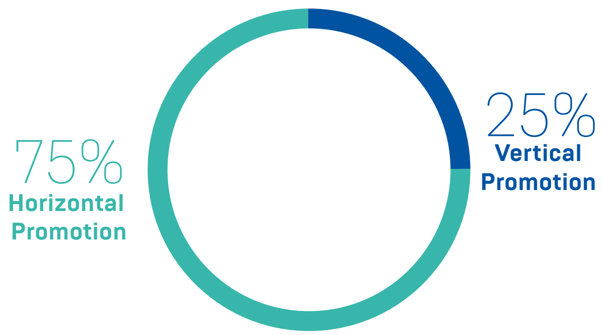
Staff Distribution



53% of the staff force were on contracts of determinate duration and 47% on contract of indeterminate duration.

Staff Promotion

Promotion is based on matching the evolving needs of the Group as well as meeting career aspirations of young and talented employees willing to grow with the organisation. In 2016, promotions were carried out both horizontally (upgrading the position of employee) and vertically (higher grade).



Equity and Remuneration

Our remuneration practices are designed to adequately motivate employees, reward performance and meet stakeholders expectations, while maintaining market competitiveness. Our remuneration practices provides equal opportunities independent of race, gender and disability.

Linking Performance to Compensation

SBM Group has established a close link between employees' compensation and their performance across all levels of the organization. Several factors are taken into consideration, including Group performance, team performance and the employees individual performance. Furthermore, reward structures are regularly reviewed to attract and retain talent.

Benefits for Employees

We provide a wide range of competitive benefits to support the employees' personal and professional development. This is a key factor in attracting, motivating and retaining skilled employees. SBM Group provides core benefits such as retirement benefits.

Employees (cont'd)

Creating a Safe Place to Work

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 therefore fully committed to complying 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; regular feedback is requested and appropriate communication, consultation and training are conducted to create awareness and undertake new initiatives. In addition, travel insurance cover is provided for all employees on business trips.

Employee Wellness

The group is committed to promote good health and wellness of our employees.

Wellness initiatives provided within the organisation include:

- Canteen (subsidised four-course meals)
- Sports, Leisure and wellness facilities at SBM Park for staff and their family members, supported by qualified coaches.
- Yoga and Taichi sessions
- Family Outings
- Staff Children Christmas Party
- Staff End of Year Party
- Staff Health Day
- In-house doctor

Employee's Participation

Employee participation is an important component of our HR strategy. The Group aims to maintain a close relationship with its employees, by promoting two way communications. Employees' survey helps to gauge the level of engagement, commitment and satisfaction. Through surveys, we also gain insights on various operational and strategic matters. In 2016, pre and post implementation surveys were carried out, both in Mauritius and Madagascar, to collect staff feedback on the Flamingo Project.

To promote employee relations and dialogue between management and employees, regular face-to-face sessions are held. Monthly meetings are carried out between management and employees across branches and departments and quarterly meetings held between management and staff union on various HR and business issues. Last year, several Connect Meetings were organised as part of the Flamingo Project. These events were a good opportunity for the management to brief the staff on the progress made for the implementation and allowed the employees to ask questions and share any concern they had.

Furthermore, a suggestion corner is available on the intranet for employees to share anonymous comments.

SBM IN THE COMMUNITY

Our community-based activities reflect our philosophy of implementing sound business practices; innovating to deliver value-added products and services; assisting the communities in which we operate; and helping to shape a better, sustainable society. SBM Group believes that these activities benefit society, environment and enhance corporate value. With a view to centralising the CSR initiatives of our subsidiaries under a common theme for greater impact to the local communities, we have set up the SBM Foundation in 2016.

SBM Foundation

Our Group's social projects focus on providing tools and opportunities to vulnerable groups so that they acquire the required skills to enhance their employability and thus become economically independent. Thus, most of SBM Group's CSR projects focus on providing the relevant tools and opportunities to vulnerable groups so that they are adequately equipped and skilled to enhance their employability and improve their current financial situation.

SBM Scholarship Scheme for Bright and Needy Students

Our priority areas of focus are based on empowerment through education. A unique Scholarship Scheme for bright and needy students was launched through The SBM Education Fund in 2010 which culminated into its recognition at national level when SBM won the award of the 'Overall Winner' of the First Edition of the BDO CSR Awards 2010 as well as the Winner of the 'Education and Sports' category.

The Group has moved a step further with the setting up of a special scheme for the Technical Vocational Education Training (TVET) sector in collaboration with the Mauritius Institute of Training and Development (MITD) and scholarships were awarded to a first batch of students in 2011. As at December 2016, SBM Group had awarded nearly 2,000 scholarships to bright and needy students from Mauritius and Rodrigues who had performed well at Higher School Certificate exams to follow courses at tertiary level or vocational courses at the MITD.

2,000

SCHOLARSHIPS AWARDED TO DATE

« The SBM Scholarship Scheme was recognised at national level when SBM received the 'Overall Winner' and Winner of the "Education and Sports' category awards at the First Edition of BDO CSR Awards 2010. »

BENEFICIARIES

around **7,500**

In line with our Group's strategy of providing skills through education to combat poverty, SBM Group has carried out several other projects through the SBM Foundation by supporting different organisations as described hereafter.

ABAIM

ABAIM adopts a holistic approach to poverty alleviation, aiming at the acquisition of skills through music, arts, culture and sports. SBM has been a partner of ABAIM since 2008. ABAIM is currently running services for around 120 underprivileged children and their parents of Barkly and its vicinity and the blind persons' community. They have also extended the project to some 80 underprivileged children and parents of Le Morne region.

Global Rainbow Foundation (GRF)

SBM Group has financed GRF digital initiatives for People with Disabilities (PWDs), in line with SBM's intention to go digital and to promote innovation, as well as its commitment to contribute to the inclusion of People with Disabilities. These initiatives are:

The Digital Literacy Project

The objective of this programme is to make use of technology to enable visually impaired persons to get better access to education and eventually, to the world of work. Some 100 visually impaired persons are being taken care of through this project, where they will become members of the Bookshare digital library, and will get access to an online 'talking' library of 375,000 books. Bookshare is a Global Literacy initiative of Benetech, a leading Silicon Valley-based non-profit technology company.

The empowerment of Persons with Disabilities through the use of Information and Communications Technology (ICTs) in close cooperation with UNESCO

SBM Group financed the UNESCO International Conference on Digital Empowerment - Access to ICTs for Persons with Disabilities, which was held on 10-11 November 2016 in Mauritius.

The objective of this conference is to provide a platform of knowledge, information and exposure in the field of accessible ICTs – Assistive / Adaptive technologies for PWDs thereby causing digital empowerment for PWD's. In addition to its training and education component, this conference also had a strong role to play in advocating for better services for PWDs.

SBM Foundation (cont'd)

Adolescent Non Formal Education Network (ANFEN)

SBM has provided funding to ANFEN, which is a network of 19 centres which promote informal education for school drop-outs. An inclusive pedagogy is proposed to bridge the gap and enhance the integral development of the adolescents. In parallel, support is provided to the families and the beneficiaries through a psycho-social strategy. SBM is funding a project to enable a better follow up at home with parents with the objective of improving the performance of children in its centres.

The adolescents in the centres have not been able to adapt to the formal academic pedagogy proposed by our educational system. ANFEN looks after around 1,200 out of school adolescents directly, and its number of indirect beneficiaries is approximately 5,000 persons in 23 localities.

Gandhian Basic School

The Gandhian Basic School (GBS), which functions under the aegis of the Mahatma Gandhi Institute (MGI), provides pre-vocational education to around 120 teenagers (having failed the Certificate of Primary Education and residing in the region of Moka). The partnership with GBS started since 2010 with the provision of a daily balanced meal to some 120 needy students attending GBS. The latter has brought about a positive change in the attendance rate of students: from a low 35% before the start of the project to above 80%. SBM also helped GBS with the setting up of a hydroponics project, an extension project to accommodate a multimedia room and library, a fashion and fabrics workshop, a demonstration room and an auto-mechanics workshop.

Teen Hope

SBM has given its support to Teen Hope by providing education facilities to more than 80 out of school teenagers (including a daily breakfast to the students).

The mission of the DLD Teen Hope School Project, which falls under the responsibility of the Noyau Social Cité La Cure, is to support underprivileged children victims of neglect and / or violence and help them in becoming responsible citizens by building their self-confidence.

Similar to GBS, this NGO caters for boys and girls aged between 12 and 16 years old who have not been able to complete the primary cycle, aiming to give them a basic education in literacy, numeracy and life skills.

Terre de Paix

SBM has financed The Early Childhood Services project of Terre de Paix which has been established to provide access to quality care and education to children of the deprived areas of Camp Créole and nearby regions, catering to the needs of some 70 children. Families are also being supported through effective project-based community actions for their empowerment including antenatal care for pregnant women.

In addition to providing enhanced learning and development opportunity to these infants and children from vulnerable groups, this project has enabled their mothers to take up employment – and thus contribute to the economic enhancement of the family.

SOS Poverty
("Les Abeilles" Day Care Centre)

SBM has helped SOS Poverty to provide free quality childcare to enhance the development of infants and toddlers from low-income families and to promote the employability of mothers.

This project is quite similar to the above one whereby toddlers and infants are being provided with quality care and education, and at the same time enabling the mothers to undertake paid employment to improve the economic situation of their respective families.

Association des Amis de Don Bosco (AADB)

AADB is committed to alleviating absolute poverty by providing education and care for underprivileged children with a holistic approach in the same line as the above 2 projects.

SBM has financed AADB by supporting financially the crèche for providing the daily lunch to 75 students at Collège Père Laval and the setting up of a leisure and recreational corner for abandoned and neglected children at their shelters.

Sailing Pour Tous

SBM has funded this association for helping needy children to discover the pleasures of sailing in a secure environment. The NGO targets children of 7 to 14 years old of vulnerable groups to sail freely. There are some 50 beneficiaries.

The idea consists mainly of making sailing – an activity practised mainly by the wealthy – accessible to the poor. The NGO furthermore educates these children about the necessary skills related to their training and increase their awareness about the safety measures.

APRIM (Association des Parents pour la Réhabilitation des Infirmes Moteurs)

Our Group Chairman and some staff members also volunteered their time and energy, together with the Her Excellency Dr. (Mrs.) Nomvuyo N. Nokwe, High Commissioner of South Africa, on the occasion of the Mandela Day in July 2016 by organising a Sports Day for the children of APRIM based on their abilities.

In addition, SBM Foundation funded the provision of the rehabilitation services of an additional occupational therapist and the services of an administrative officer to enhance the services of the beneficiaries of the association, mainly cerebral palsy children.

Internal CSR

With a view to maintaining proximity with customers, staff members of SBM Group are encouraged to volunteer their time and talent to support the community. Under the SBM 1:2 Matching Scheme, staff members may organise fundraising activities in favour of NGOs/community organisations of their choice, with the Group topping up the amount by twice the proceeds raised, subject to a ceiling. Following the launch of the scheme, an increasing number of employees are getting involved in community development initiatives. The Group also brings its contribution to the blood bank by regularly organising blood donations activities throughout the island. These initiatives are supported by both employees and customers.

Our Commitment to the Environment

SBM Group remains fully committed to applying sustainability practices at its workplace and in the community at large. This can be seen through various internal and external initiatives adopted by the Group.

Internal Initiatives

WASTE MANAGEMENT

PAPERLESS BANKING

RECYCLING

SPECIALISED PROCEDURE TO DISPOSE OF ELECTRONIC GADGETS

ENERGY USAGE

ENERGY EFFICIENT LIFTS

ENERGY EFFICIENT GOODS FAVORED

INTELLIGENT LIGHTING

REDUCTION IN EMISSIONS OF GREENHOUSE GASES

USE OF ECO-FRIENDLY PRODUCTS

SPONSOR AND MAINTAIN GREEN AREAS

AWARENESS CAMPAIGNS WITH SUPPLIERS

External Initiatives

Our Environment Partner for a low carbon and sustainable future

We extend our commitment to protection of the environment in our product offering also. SBM Bank (Mauritius) Ltd has entered into a facility agreement with Agence Française de Développement (AFD) under the SUNREF programme since 2014. Several green projects have been financed under this partnership; both for corporates and well as individuals.

AFD

PROJECTS

>40

FUNDING

EUR40Mn

The financing concern

> renewable energy investments,

> energy efficiency investments,

> environment performance investments, and

> Eco businesses.

Awards

Best Retail Banking Mauritius 2016

Best E-Commerce Bank East Africa 2015

Most Innovative Prepaid Card
(SBM Smile Prepaid Cards)
East Africa 2015

Best Innovation in
Retail Banking Mauritius 2016

Private Bank of the year Mauritius 2016

Risk Management

- Key Highlights
- Executive Summary
- Risk Management Framework
- Credit Risk Management
- Market Risk Management
- Funding & Liquidity Risk Management
- Operational Risk Management
- Capital Management

Rodrigues

We value a **RIGOROUS** risk management as an integral part of our **GROWTH STRATEGY** across all lines of business.

The group aims at a **MODERATE RISK** profile to ensure a **BALANCED RISK** and **REWARD RELATIONSHIP** within set risk appetite.

Key Highlights

Despite the economic and financial challenges faced, the Group performed well within the set risk appetite whilst continuing to adapt to the ever-changing regulatory environment.

The main risk management objectives were as follows:

1. Structured risk management approach

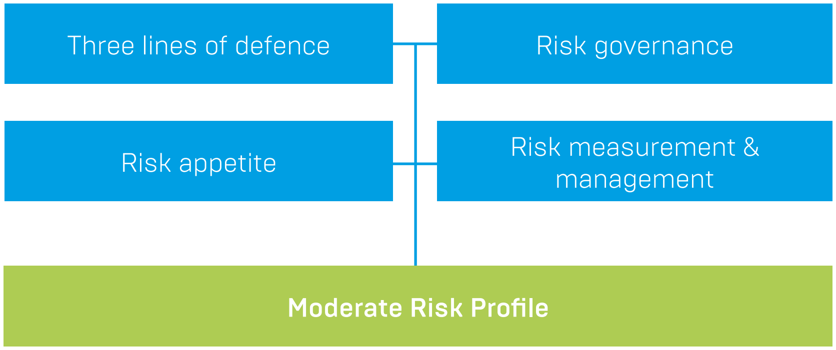
> Well defined risk management framework

> Risk function is adequately staffed and enabled with proper tools

> Strong risk governance and principles

> Business risk is continuously monitored to enable innovation and strategic expansion.

Main building blocks of our Risk Management Framework



2. STRONG BALANCE SHEET MANAGEMENT

> Loan to deposit ratio was consistently below 100%

> Adequate collateralised lending based on in-house risk rating model

> Defined Asset and Liability mismatch

> Proactive management of the liquidity coverage ratio with a pragmatic approach adopted for a net stable funding ratio.

> Strategic focus to limit LTD ratio

> Limited market risk and trading portfolios

> Limiting concentration risk

Loan to deposit ratio

69.31%

(Dec 15:69.19%)

Liquidity Coverage Ratio

115.59%

Mauritius Ops

(Dec 15:132.76%)

230.23%

India Ops

(Dec 15:1254%)

Net Stable funding ratio

125.34%

(Dec 15:107.04%)

Trading book

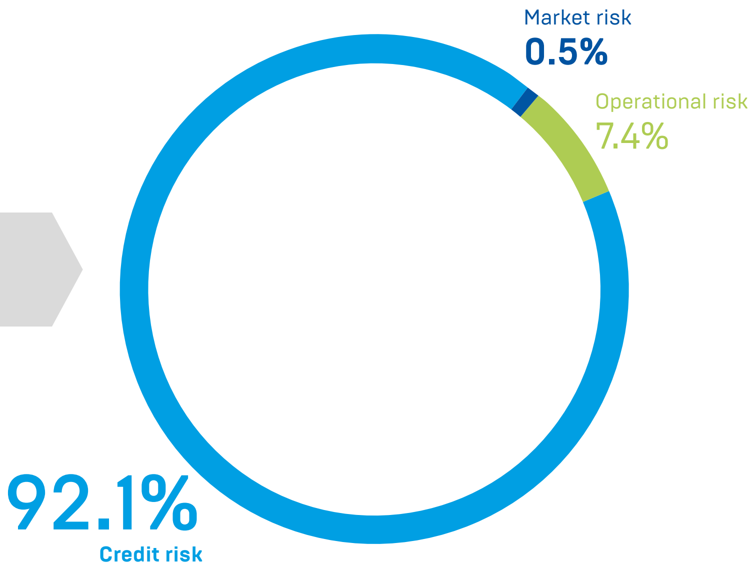
Low risk

Key Highlights (cont'd)

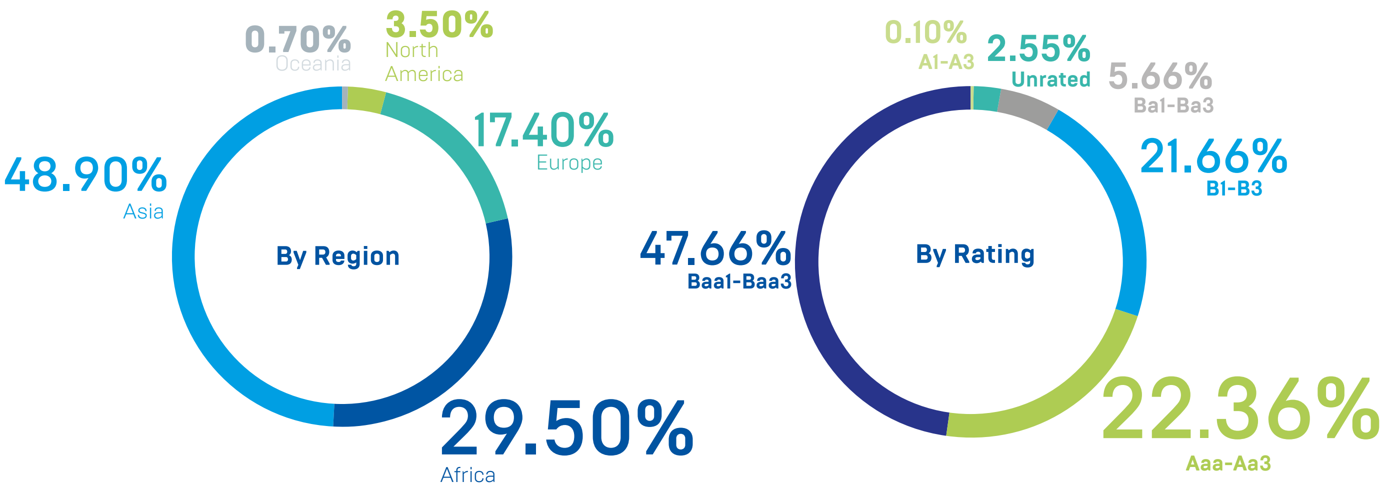
3. PORTFOLIO DIVERSIFICATION AND MANAGEMENT

- Favorable advances growth in a deteriorating economic environment
- Our loan book is fully aligned with our strategic choices
- Concentration risk limits by industry, country, bank counterparty, single and group borrower are monitored and reported quaterly
- Main focus is to improve domestic market share and to grow cross-border exposures.

Risk Weighted Exposures



Distribution of Country Risk Exposures



4. SOUND CAPITAL AND LIQUIDITY MANAGEMENT

« The Group's balance sheet remained strong with adequate capital stress tested internally. CET1 above minimum regulatory requirement of 6.5%. CAR continues to be well above the Basel III minimum regulatory requirement of 11.125% by Jan 2017 to 13.5% by beginning of 2020. »

25.70%

TIER 1

19.90 %

(Dec 15: 21.75%)

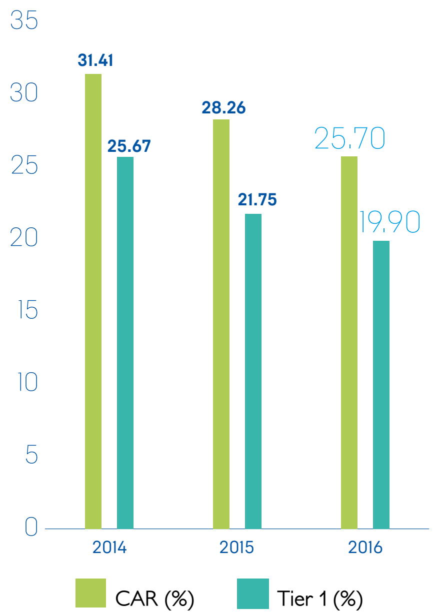
Within target range

COMMON-EQUITY TIER 1

19.90 %

(Dec 15: 21.75%)

Adequately capitalised



5. IMPROVED PROVISIONING COVERAGE

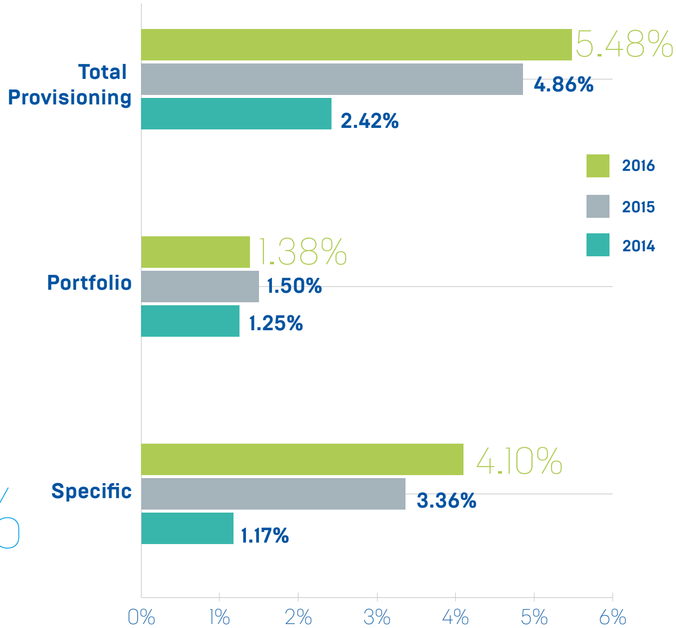
Net Impaired Advances as a % of Net Advances

2.60%

(Dec 15: 1.84%)

> Improved total provisioning with increasing coverage ratio

> A prudent approach is adopted in line with the credit risk policy and Bank of Mauritius Guideline on Credit Risk Management



Portfolio Coverage

1.38%

(Dec 15: 1.50%)

Specific Coverage

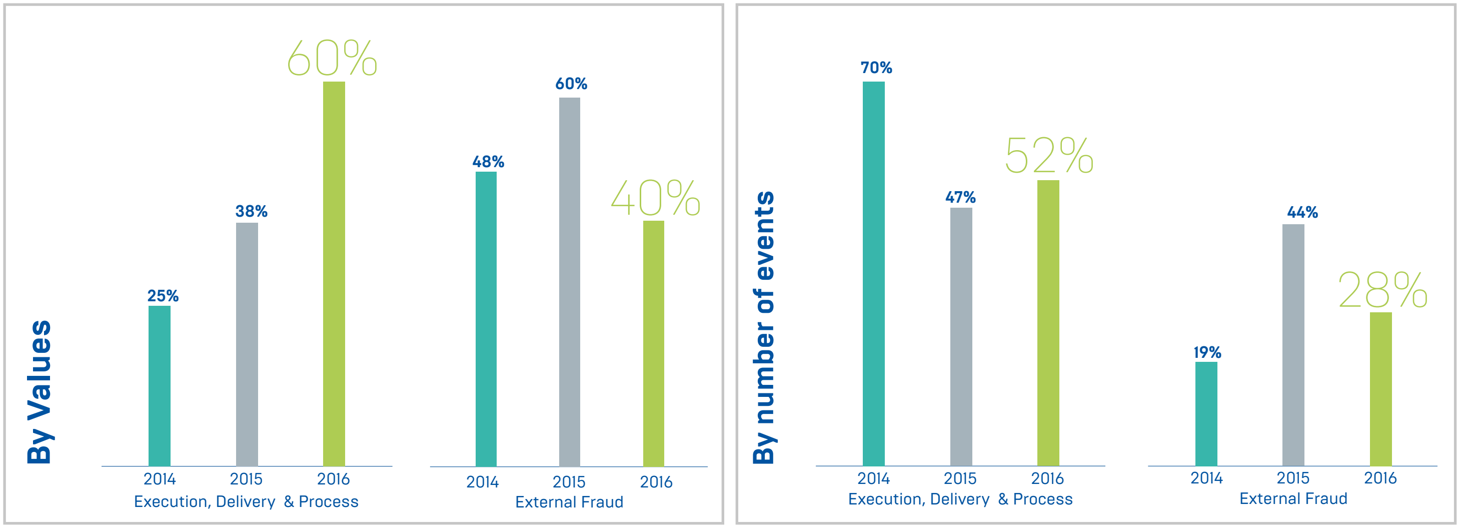
62.14%

(Dec 15: 65.37%)

Key Highlights (cont'd)

6. STABLE OPERATIONAL RISK ENVIRONMENT WITH A CAUTIONARY OUTLOOK

Operational Losses – By Risk Categories



7. LONG-TERM VIEW

> Sustainable business over the long term
> Embedded risk culture
> Being a good corporate citizen
> Transparency

Executive Summary

The Group embraces risk management as a core competency of its strategy to support business in delivering sustainable growth and help to reinforce its resilience by adopting a holistic approach to risk management. This is achieved by embedding a strong risk culture throughout the organisation and optimising risk-taking through objectivity and transparency.

The financial performance was underpinned by a robust balance sheet, with a strong capital, liquidity and funding position, as well as sound credit quality, supported by the Group's diversified portfolios and prudent risk appetite framework.

Our RISK MANAGEMENT INITIATIVES

EMERGING RISKS

The Group has a portfolio of fixed rate FCY assets mainly funded via floating rate liabilities. Foreseeing the rise in US interest rates, the bank has embarked onto new products like interest rate and cross currency swaps through the **newly set up Derivatives Desk**. This engagement will enable the bank to participate in higher yields from longer dated assets while being hedged with respect to interest rate changes.
The Derivatives Desk will also trade in credit default swaps, whereby the bank will earn income by taking credit exposure in investment grade entities, without actually trading the actual assets. Risk inherent to those new areas will need proper monitoring and control.

IFRS 9 IMPLEMENTATION

SBM has already kicked off the **IFRS 9 implementation** to ensure compliance by January 2018. With the implementation of IFRS 9, the provisioning level is expected to be higher than the requirements under IAS 39. The bank is currently leveraging all the required systems and process changes to support the strategic outcomes of the new regulatory requirement and enhancing its governance framework across data, models and reporting to incorporate IFRS 9 impairment models.

END-TO-END PROCESSES

End-to end risk processes will be **optimised to improve our service delivery** in terms of customer on-boarding, loan disbursement, etc. In parallel we will increasingly leverage our new systems capabilities to come forward with innovative product offerings where risks need to be controlled.

Executive Summary (cont'd)

OUR RISK MANAGEMENT INITIATIVES (cont'd)

RISK CULTURE

In order to ensure that the **alignment between the organisational and employees values** leads to higher levels of commitment and engagement, a risk culture awareness exercise is being undertaken in 2017 to map the current risk culture to the desired future risk culture by identifying the gaps and areas for improvement and formulate a change strategy and specific initiatives on the best way forward.

TECHNOLOGY

On the technology front, the Group underwent a transformation in 2016 to refresh the technology platform and accommodate future business aspirations and geographical expansion in line with the strategies of the Group. 2017 will see continued focus on **stabilisation of our new systems.** Technology risk remains at the forefront of our focus.

CYBER SECURITY

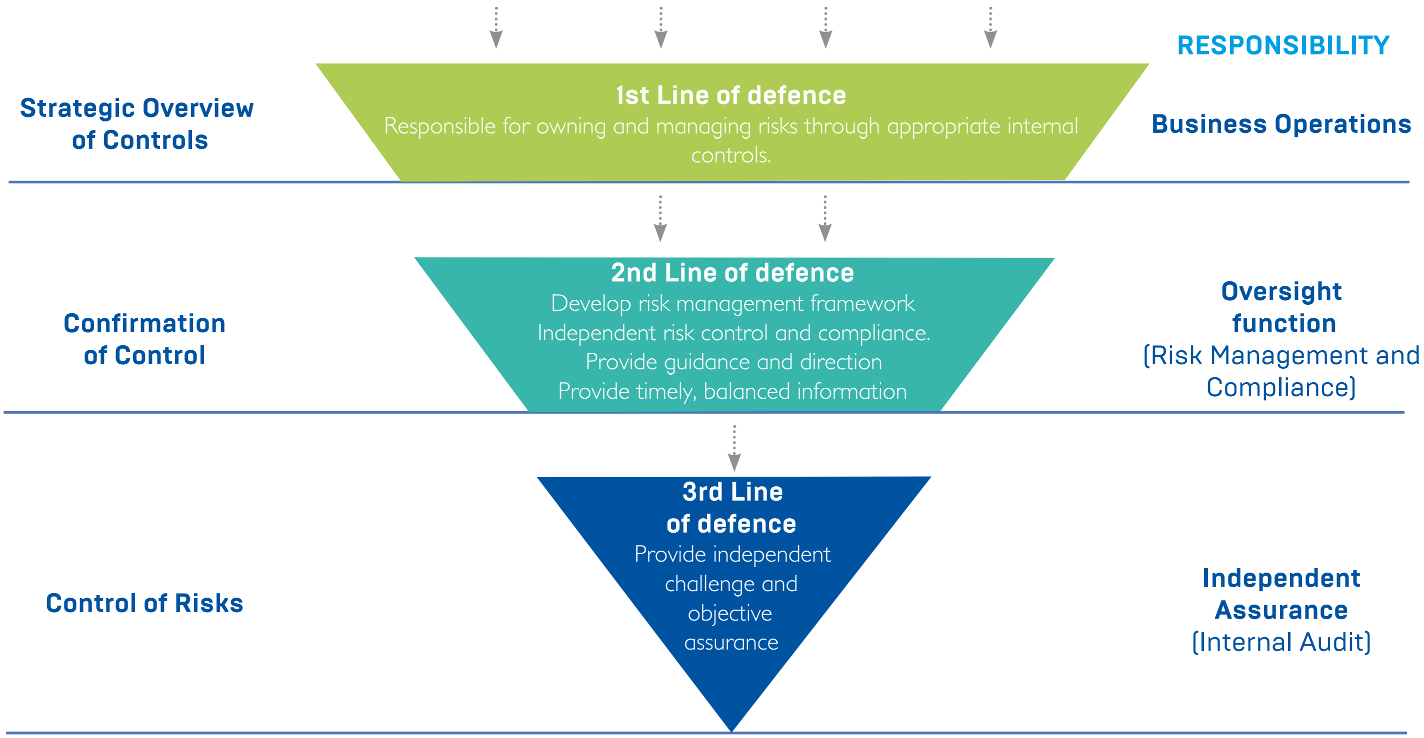
The Group is conscious of the **risk of cyber theft** which has long replaced the «traditional» concept of bank robberies in many parts of the world. In light of the growing concern, the information technology risk management framework has been further enhanced in order to manage technology risks and safeguard information system assets in place. Physical security also remains important. The **physical security policy has been enhanced** to cater for additional controls and for the increasing role of the anti-fraud department and a dedicated physical security department which will be set up in 2017 to review all the security aspects of the Group's premises. New measures are being put in place for cyber security to enhance resilience against cyber crime.

Risk Management Framework

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

1. Lines of defence

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



The characteristics of an effective risk management framework are:

- Active board and senior management oversight;
- Adequate policies, procedures and limits;
- Adequate risk identification, measurement, monitoring and management information systems; and comprehensive internal controls.

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

Risk Management Framework (cont'd)

2. Risk Governance - Active Board and Senior Management Oversight

The Group has a well established risk governance structure which facilitates identification and escalation whilst providing assurance to the Board. The governance structure is supported with an active and engaged Board of Directors and a risk management function that is independent of the business units. The Head of Risk Management has direct access to the Board Chairman and the Risk Management Committee without impediment.

- The Group's risk management governance structure begins with oversight by the Board of Directors, either directly or through its committees to ensure that decision making is aligned with the Board's approved risk appetite.
- The executive management is responsible for **translating the high-level overall guidance** from the Board into operational aspects and then monitoring and reporting them back periodically to the Board/Board Committees.
- The aggregate enterprise-wide risk profile and portfolio appetite are discussed at the respective risk management forums and at the Board Risk Management Committee on a quarterly basis.

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 Group and their corresponding roles.

RISK MANAGEMENT FRAMEWORK

			CONSTITUTION	RESPONSIBILITIES
STRATEGIC LAYER	L1	Board of Directors	Both executive and independent directors	The Board is responsible to authorise management to maintain an effective risk framework, and oversees compliance with safe, ethical and sound banking practices.
STRATEGIC LAYER	L2	Board Committees	A mixture of independent, experts and executive directors wherever allowed	The Board Committees which include primarily Audit, Risk Management, Strategy, Corporate Governance and Conduct Review, are responsible to advise Board on risk profile, risk culture, risk appetite, risk strategy and risk management framework
MANAGEMENT LAYER	L3	Management Forums	Key members of management including the Chief Executive	Some of the forums are Executive Forum, Investment Forum, Risk Management Forums (Asset and Liability Management Committee, Operational Risk Forum, Portfolio and Credit Risk Forum), Management Credit Forum. The aggregate enterprise-wide risk profile and portfolio appetite are discussed at the respective risk management forums
MANAGEMENT LAYER	L3	Risk Management Team	Portfolio and Credit Risk Team, Market Risk Team and Operational Risk Team.	The Team is responsible for identifying, measuring, monitoring and reporting significant risks across the organisation.

Note: The framework applies to each entity of the banking group and non-banking and ultimately reports to SBMH for risk reporting and aggregation.

3. Risk Appetite

The following chart provides an overview of the key components of the risk appetite framework which encompasses the risk universe.

RISK APPETITE

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 • Group • NBFC • Sovereign	• Trading Book • Banking Book	• Currency • Legal Entity	• Process • People • IT • Compliance	• Macroeconomic environment • Competitive environment • Regulatory environment		• Legal • Model

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 frameworks 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 Group is willing to accept in pursuit of its strategy, duly set and monitored by the Board, and integrated into the Group'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 Group 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 Management Framework (cont'd)

The Group maintains a comprehensive risk appetite framework, providing a robust foundation for risk appetite setting and management across the Group. The framework provides 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.

It is intended to ensure that the Group maintains an acceptable risk profile by providing a common framework and a comparable set of risk appetite measures, supported by management level limit structures and controls for senior management and the Board to clearly indicate the level of risk the Group is willing to accept.

The framework is guided by the following strategic risk objectives:

- Early identification and control of all types of possible risks.
- Maintaining adequate Group-side capital under stressed conditions to absorb losses, if any.
- Promoting stability of earnings to avoid unexpected losses.

Group-wide risk appetite is determined in conjunction with the overall strategy and capital planning process on an annual basis, based on bottom-up forecasts that reflect planned risk-usage by the businesses and top-down, 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.

A core aspect of the Group's risk appetite framework is a sound system of integrated risk controls to maintain its risk profile within its overall risk appetite.

« Management's dedicated attention to these risks creates a focus on forward-looking activities that keeps the Group within set risk appetite on an ongoing basis. »

The risk management framework is supported by a variety of risk management tools - like the ICAAP framework - which are regularly reviewed and updated to ensure consistency with risk-taking activities and relevance to the business strategies of the Group.

1. Policies and Limits

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

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

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

The policies are designed based on the following principles & objectives;

- Accountability and ownership
- Effective management
- Clarity on purpose
- Risk Appetite

2. Measurement, Monitoring and Reporting

The Group continuously monitors the risk exposures to ensure business activities are operating within approved limits or guidelines. Breaches, if any, are reported to senior management and/or to the Board.

3. Risk Bearing Capacity and Stress Testing

The risk-bearing capacity analysis is a key part of overall bank management and the group's Internal Capital Adequacy Assessment Process (ICAAP). The purpose is to ensure that sufficient capital is held for the risk profile of the Group at all times.

The Group conducts ICAAP to determine a forward looking assessment of its capital requirements given the Group's business strategy, risk profile, risk appetite and capital plan. This process incorporates the Group's risk management processes and governance framework. A range of stress tests are applied to the base capital plan.Together with risk management practices and contingency plans, including the recovery plans, these tests are used to assess the Group's internal capital adequacy requirements.

The Group complements its regular risk reporting process with stress tests to capture the effect of exceptional but realistic events on capital and liquidity positions. It also provides insights on the degree of vulnerability of various business lines and portfolios to given scenarios and acts as an early warning signal in itself.

As part of the ICAAP, contingency plans including recovery plans are maintained to restore the Group's financial strength and viability during an extreme stress situation. The main purpose of these receovery plans is to outline how to respond to a financial stress situation that would significantly impact the Group's capital or liquidity position.

Risk Management Framework (cont'd)

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

Scenario Generation

The first step is to develop key economic scenarios resulting in significant movements in **credit ratings, interest rates, foreign exchange rates**, as well as adverse changes in **counterparty default** and **recovery rates**. Several stress tests are applied both at group level and at cluster level in the form of sensitivity and scenario analysis and on different level of severity (Mild, Moderate, Severe).

Risk Profiling

The second step is to **translate these scenarios into loss levels** on various risk types such as credit risk, market risk, liquidity risk. For instance, for credit risk, the Group uses statistical methods(e.g **regression model**) to transform scenarios related to default risk , recovery risk , macroeconomic variables on its portfolios. Example of risk and capital analytics: PD, LGD, EAD, impairment, CAR

Impact Assessment

In the third step, the Group calculates its solvency **needs, combined with buffer requirement and the capital adequacy** under each scenario and assess their impact on net profit and the capital level.

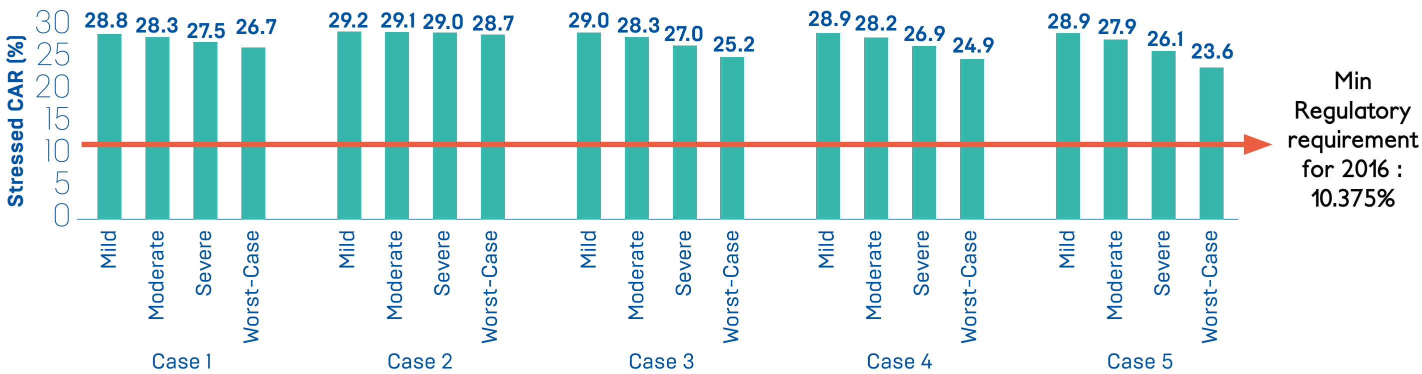
Results Assessment

Finally, all the results and methodology are evaluated and documented, including the contingency plans and relevant mitigating actions.

Reporting & Monitoring

Ultimately, the Board Risk Management Committee annually reviews the Group's risk appetite and then analyses the impacts of stress scenarios on the Group capital forecast in order to understand and manage the Group's projected capital adequacy.

List	Stress Testing scenarios	Mild	Moderate	Severe	Worst-Case Scenarios
		SENSITIVITIES x% of the impacted portfolio becomes impaired			
Case 1	The global business sector has linkages with many other sectors of the economy. A general downturn in the economy will affect nearly all sectors. This could have serious consequences for the overall credit portfolio	2%	5%	10%	15%
Case 2	Slowdown of Chinese Economy impacting the Exports of textile products to the Eurozone	5%	20%	50%	100%
Case 3	Tourists' arrivals decrease and subsequently affect hotels' earnings.	5%	20%	50%	100%
Case 4	With the Impact of Brexit and Geopolitical situation in Europe worsens, the export-oriented sectors are affected namely; Agriculture, Manufacturing Textiles, Tourism, Commerce-Wholesale	5%	20%	50%	100%
Case 5	As global business firms move elsewhere, employees find themselves out of jobs. The labour market would be flooded with unemployed finance professionals and graduates who had been studying to get into the global business sector. The unemployment level rises with the following portfolios being affected ; Mortgage and Consumer Credit	5%	20%	50%	100%



Considering the above stress testing scenarios, the holding company will continue to have a strong capital position, ensuring that all its subsidiaries are adequately capitalised with a buffer over the regulatory minimum requirement and sufficient flexibility for future capital deployment is maintained.

Risk Management Framework (cont'd)

3.1 Measurement and Management of Principal Risks

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

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

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

Credit Risk Management

Credit risk remains one of our core risk areas and a significant part of our capital is allocated to this risk category. Credit risks vary with local and global macroeconomic environment together with concentration risks that may arise.

Effective credit risk management is a structured process to identify measure, control, monitor and manage credit risk on a consistent basis. This requires careful consideration of proposed selection 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 recognising credit impairment.

The Group's **Credit Risk Management process** is as follows;

IDENTIFY

Identify and prioritise potential risk of losses from customers failing to repay their debts when they fall due

MEASURE

Make use of quantitative and qualitative tools to measure severity of risks, including credit risk mitigation instruments

CONTROL

Establish key control processes and best practices, including limit setting, early warning signals and classification of customers in watchlist

MONITOR

Independent monitoring of credit risk by the Risk Management Team

REPORT

Ensure that top risks and issues are being highlighted to the management and Board

The Group'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 Board of Directors, credits are approved by decision making authorities at different levels in the organisation depending on the risk categorisation and the credit exposure of the customer. An overview of credit approval process and procedures is depicted below:

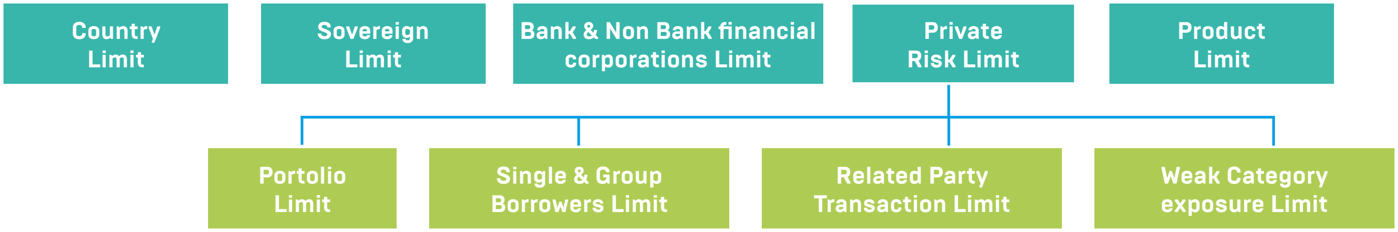
Credit Origination	Credit Appraisal	Credit Approval	Documentation& Disbursement	Review & Monitoring	Recovery & Workout
Sales Team :	**Credit Risk Team:**	**Credit Approval Authority:**	**Credit Service Unit:**	**Risk Management :**	**Recovery and Workout :**
> Initiate and manage sales of products > Follow client-boading standards > Receive and check applications > Assist customers with information > Execute account - monitoring tasks > Input Risk Rating tools > Analyse the risks and prepare the sales note for approval.	> Screening of all applications forwarded by sales team > Assessment of obligor > Recommend to the appropriate authority for approval	> Board Credit Committee > Management Credit Committee > Credit RiskTeam > Decision making tool for certain retail exposures	Credit Administration Credit Documentation Credit Disbursement	> Monitoring of both prudential and regulatory limit for all credit exposures	> Ongoing management of impaired loans > Recovery of loans and advances due by impaired borrowers

Credit Risk Management (cont'd)

3.1 Credit Risk Limit Structure

Internal as well as regulatory credit limits are imposed to manage individual counterparty credit risk and to address concentration risk in the portfolio, including a comprehensive set of country limits and limits for certain products and industries and for counterparties.

The Risk management team monitors credit concentration risks against a set of internal prudential limits which are reviewed annually to align with industry norms while adhering to regulatory limits. Any deviation from the tolerance limits would be brought to the attention of Management and reported to the Risk Management Committee for appropriate actions including revision of internal limits and the allocated internal capital to credit risk. The structure of the internal prudential limits is as follows:



3.2 Credit Risk Mitigation

Besides establishing the Group's risk appetite and credit quality, we make use of an arsenal of credit risk mitigation techniques in order to ease the impact of potential credit losses and they are normally in the form of:

CREDIT RISK MITIGATION TECHNIQUES	
Eligible Collateral	The Group has an acceptable list of collaterals for each operation in line with their host regulatory guidelines. The list undergoes periodic valuation ensuring their continuous legal enforceability and realisation value. The policies and processes for collateral valuation and management are driven by legal documentation that is agreed with our counterparties and an internally independent collateral management function. Collateral/s received is/are segregated into the following two types: Financial and other collateral, which enables the Group to recover all or part of the outstanding exposure by liquidating the collateral asset provided, in cases where the borrower is unable or unwilling to fulfil its primary obligations. Guarantee collateral, which substitutes the borrower's ability to fulfil its obligation under the legal contract and as such is provided by third parties.
Credit Risk Limits	A set of prudential limits approved by the Board is used to address concentration of risk for each operation by counterparties. For example, limits on country, sovereign, bank and institutional customers, single and group borrower, products and line of business including services, are reported quarterly to the Board.
Risk Transfers	The Group in some cases holds guarantees, letters of credit and similar instruments from third parties which enable it to claim settlement from them in the event of default on the part of the counterparty. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties.
Netting Agreement	Netting agreements are utilised in accordance with relevant regulatory and internal policies and require a formal agreement with the customer to net the balances.

3.3 Credit Risk Profile as at 31 December 2016

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

1. COUNTRY RISK

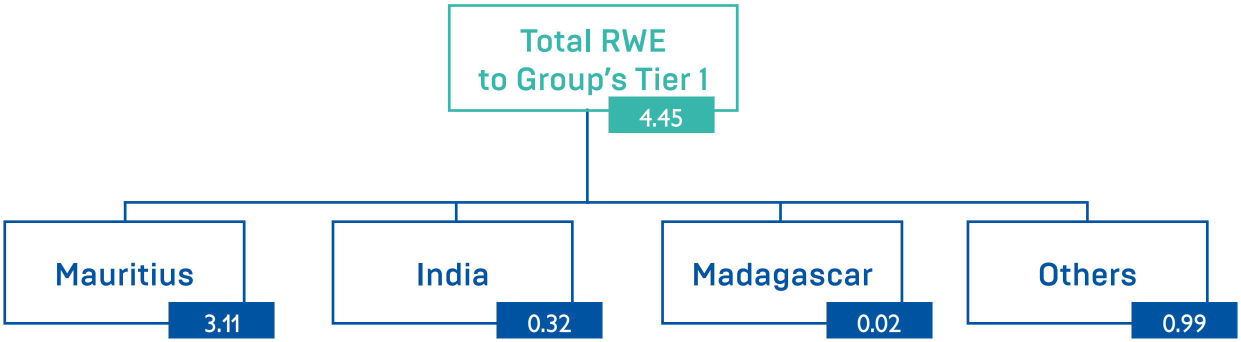
Country risk is the probability that changes in the economic and/or political environment in a particular country affects the ability of the counterparties including the relevant sovereign in that country to fulfil their obligations, resulting in a financial loss for the Group.

RWE as a % Group Tier 1

99.12%

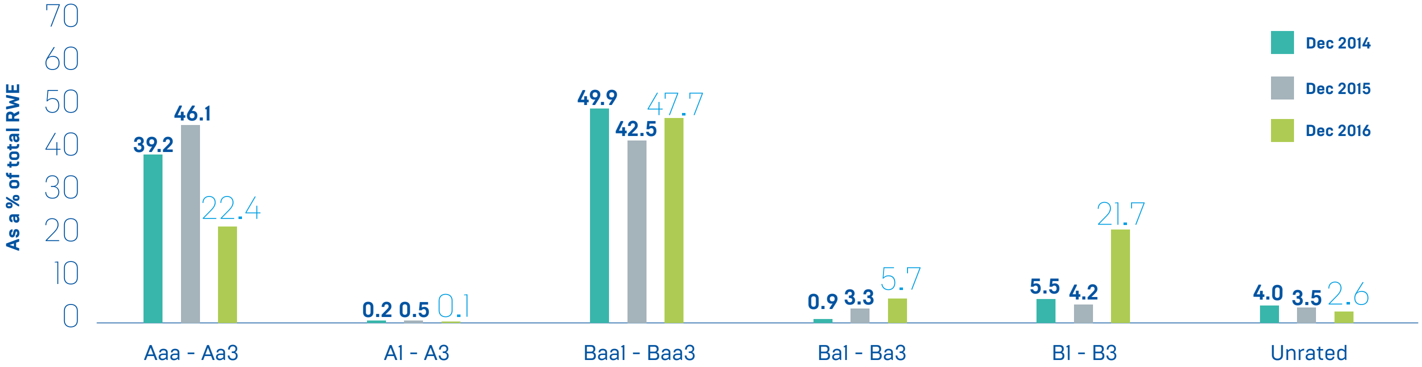
(Dec 15: 96.69%)

1. Breakdown of Risk-Weighted Exposures on Countries (no. of times to Group's Tier 1)

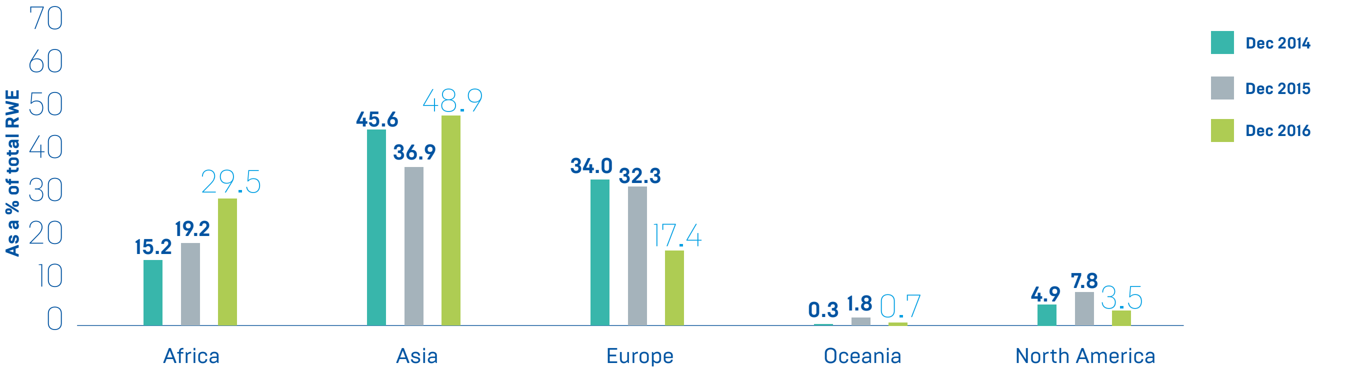


Credit Risk Management (cont'd)

2. Distribution by Rating



3. Distribution by Region



« Whilst domestic banking remains the mainstay of the Group, it has started tapping business opportunities in identified target markets, mainly in East Africa which thus explains the increasing exposures to non A-rated countries. The growth in cross-border is within the risk appetite set by the Group and is supported by adequate and enhanced due diligence on these African countries, keeping in mind their economic outlook and regulatory environment. The Group has been lending mostly to banks and Financial Institutions in this region and also to corporates against Stand by Letter of Credit. Bank risk is generally considered to be lower risk. »

2. SOVEREIGN RISK

Sovereign risk is the risk that a government could default on its debt (sovereign debt) or other obligations.

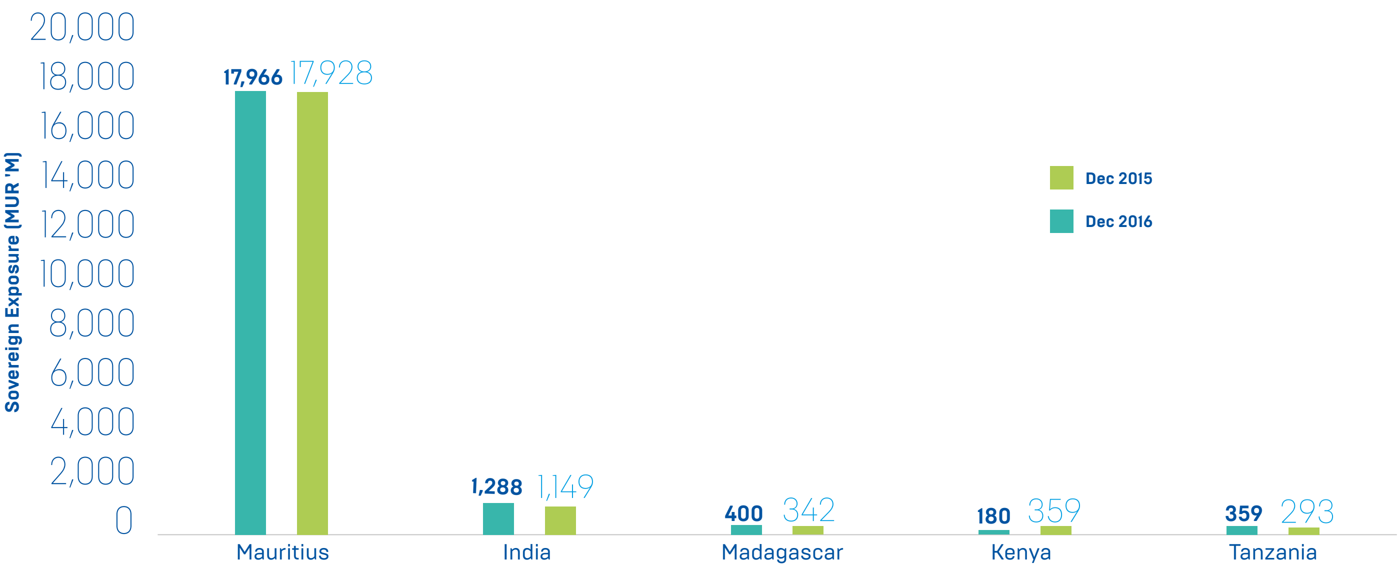
RWE as a % Group Tier 1

8.43%

(Dec 15: 8.67%)

The following chart depicts the distribution of sovereign risk exposures to the Group.

Breakdown of Sovereign Exposures as at 31 December 2016



As at 31 December 2016, total sovereign exposures stood at MUR 20.01 billion, representing 108% of the Group Tier 1 capital (Dec 15: MUR 20.19 billion, 111%), with the highest exposure pertaining to the Government of Mauritius amounting to MUR 17.93 billion, out of which Government Bonds accounted to 78% of total exposure with a maturity greater than 1 year.

However, the exposures to the Government of Mauritius carry a zero risk weight under the Bank of Mauritius guidelines.

On a risk-weighted basis, the sovereign risk-weighted exposures were MUR 1.57 billion, representing 8.43% of the Group's Tier 1 capital (Dec 15: MUR 1.58 billion, 8.67%)

Credit Risk Management (cont'd)

3. BANK RISK

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

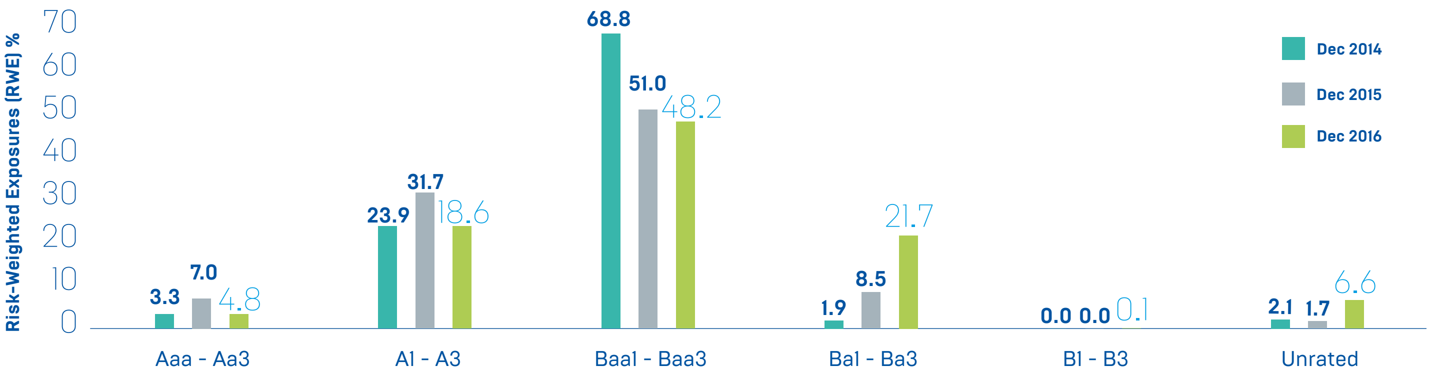
RWE as a % Group Tier 1

68.99%

(Dec 15: 95.76%)

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

Bank Risk-Weighted Exposures by Rating as at 31 December 2016



As at 31 December 2016, total bank risk-weighted exposures stood at USD 357.41 million, representing 0.69 times of the Group's Tier 1 capital (December 2015: USD 486.76 million, 0.96 times).

Note: The Group has highest concentration to banks with rating range Baa1-Baa3.

4. PRIVATE RISK

1. Portfolio Concentration

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

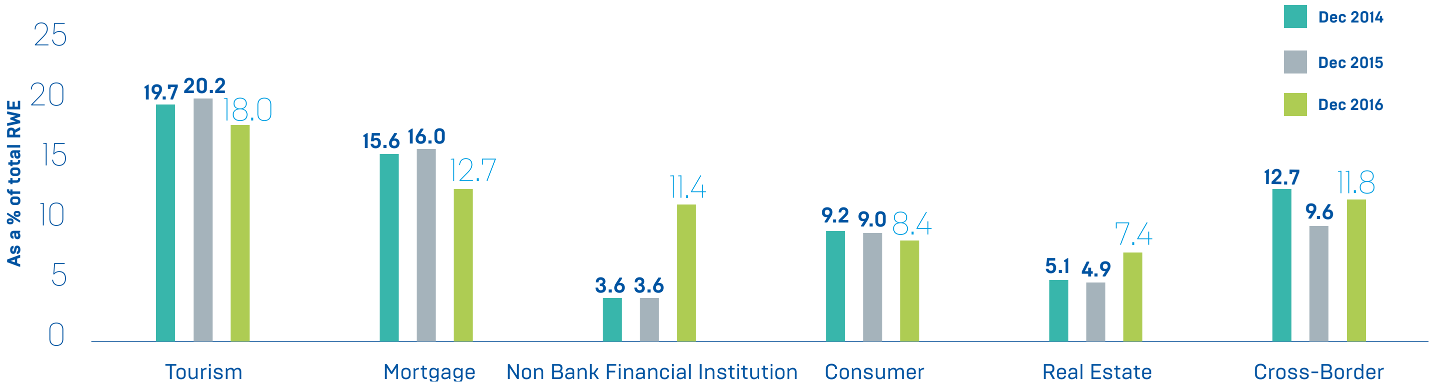
RWE of top 5 portfolios as a % Group Tier 1

168.30%

(Dec 15: 164.17%)

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

Mauritius Operations – Top 5 portfolios by Risk-Weighted Exposure (%) + cross-border exposures



Credit Risk Management (cont'd)

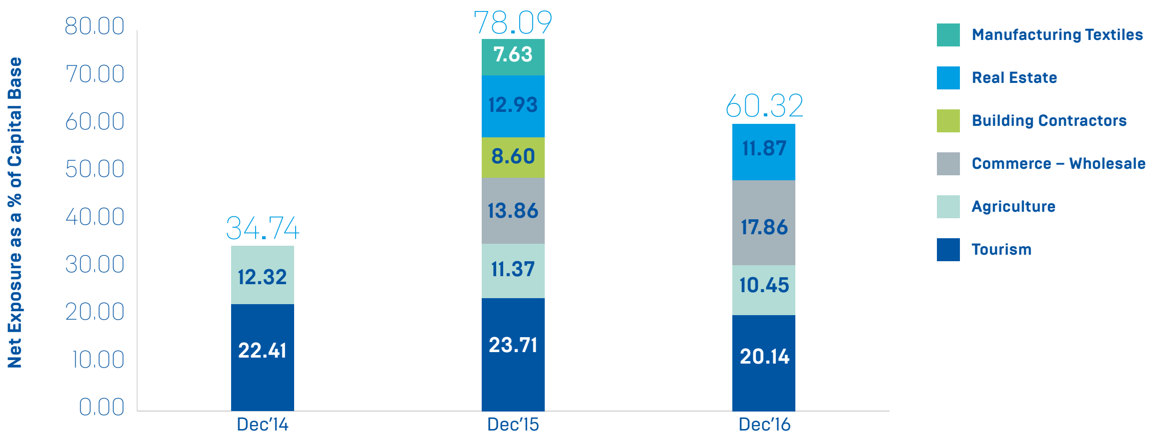
2. Customer Concentration

The Group monitors single large exposures, groups of closely related exposures and aggregate of large exposures above 15% of capital base against regulatory limits as per the guidelines issued by the regulator. The Group is even more conservative in this aspect and sets much stricter internal prudential limits than those set by the Bank of Mauritius while using allocated capital to credit risk instead of the Group's capital base.

Regulatory credit concentration limit for Mauritius Operations

Regulatory Credit Concentration Limit – Mauritius Operations	As at 31 Dec 2016
Credit exposure to any single customer shall **not exceed 25%** of the Group's capital base	Highest single customer: **9.6%**
Credit exposure to any group of closely-related customers shall **not exceed 40%** of the Group's capital base.	Highest Group of closely-related customer: **17.9%**
Aggregate large credit exposures to all customers and groups of closely related customers above 15% of the Group's capital base shall **not exceed 800%** of the Group's capital base	**60.3%**

Aggregate large credit exposures to all customers and groups of closely related customers above 15% of the Group's capital base



3. Related Party Transactions

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

a. a person who has significant interest, that is owning directly or indirectly 10% or more of the capital or voting rights of the financial institution or the financial institution has significant interest in the person;

b. a director or senior officer of the financial institution;

c. close family members of (a) and (b) above;

d. an entity that is controlled by a person described above;
a person or class of persons who has been designated by the Bank of Mauritius as a related party.

Category 1

This includes exposures to

(a) a person including a body corporate that has significant interest in the financial institution;

(b) a director of the financial institution;

(c) a director of a body corporate that controls the financial institution;

(d) the spouse, child and parent of a natural person covered in (a) or (b) or (c);

(e) any entity which is controlled by a person described in (a) or (b) or (c) or (d); and

(f) any entity in which the financial institution has a significant interest, excluding a subsidiary of the financial institution.

Category 2

This includes exposures to

(a) senior officers, which are outside the terms and conditions of employment contracts;

(b) the spouse, child and parent of senior officers;

(c) senior officers of a body corporate that controls the financial institution;

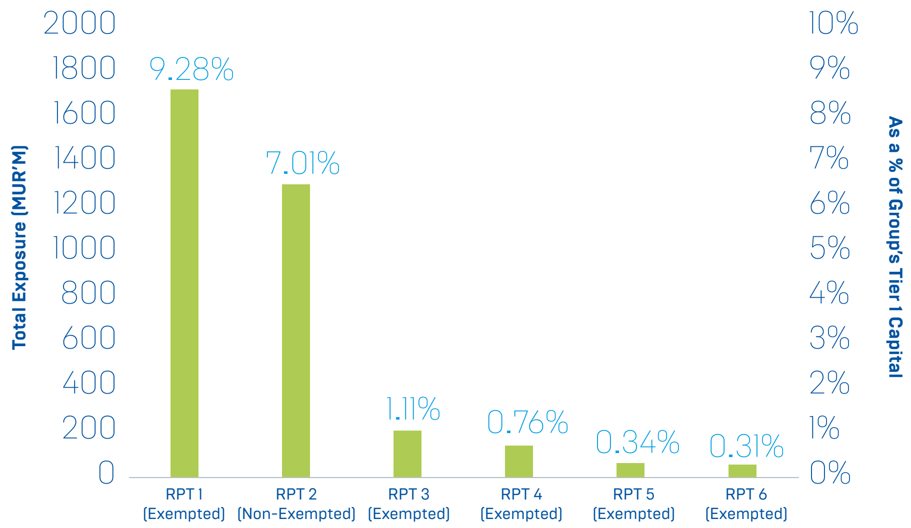
(d) any entity that is controlled by a person described in (a) or (b) or (c) above; and

(e) a subsidiary of the financial institution with no shareholder (natural person) holding directly or indirectly more than a significant shareholding in the parent financial institution.

As at 31 December 2016, the aggregate of non-exempted exposures to related parties represented 7.01% of the Group'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 15: 9.35%).

Credit Risk Management (cont'd)

Top 6 related party exposures were as follows;

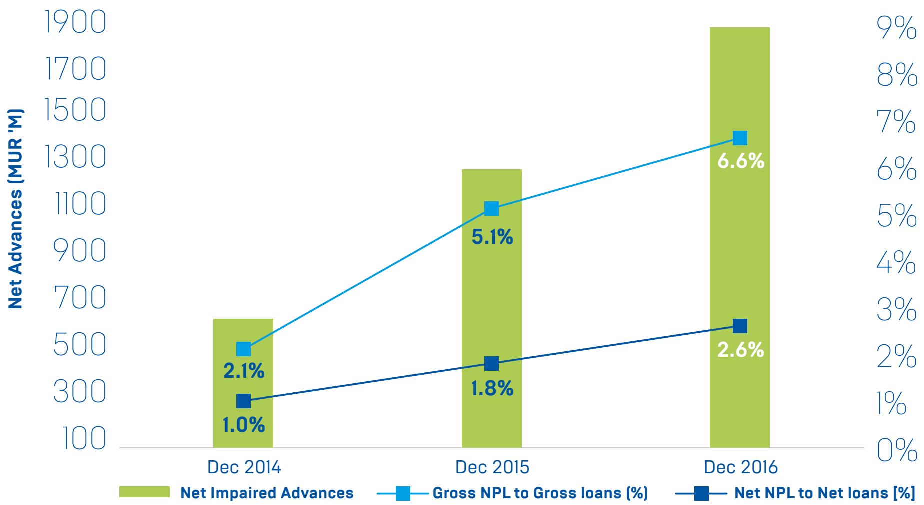


Note: (*) Exempted from Regulatory Limits

4. Credit Quality – Impairment

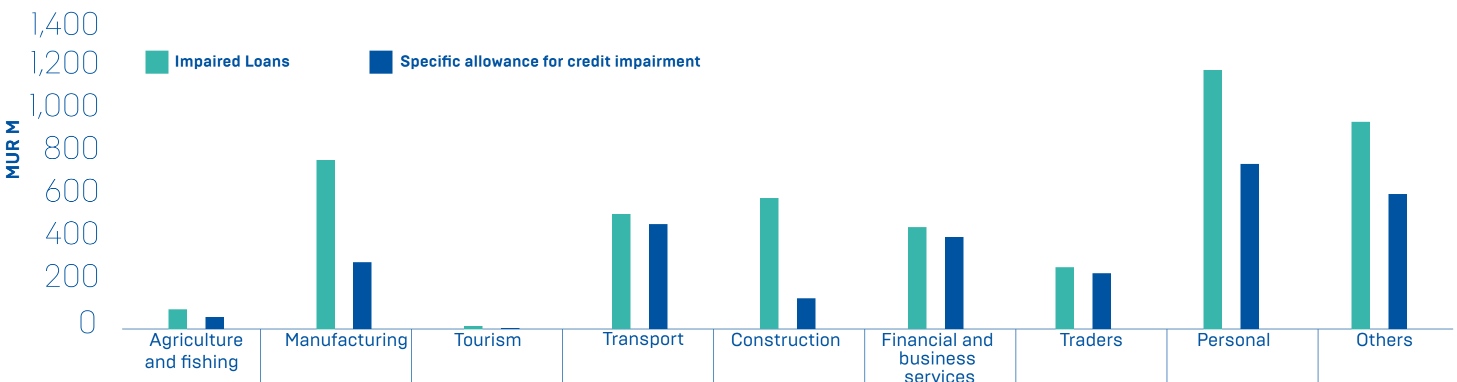
The net impairment of **2.6%** of net advances was after adequate provisioning of **62.1%**.

The net impairment to net advances ratio stood at 2.6% as at 31 December 2016, representing an increase of 80 basis points compared to 1.8% in December 2015, mainly on account of a couple of corporate customers classified as impaired. The Group shall continue with recovery actions to realise collaterals and maximise recovery.



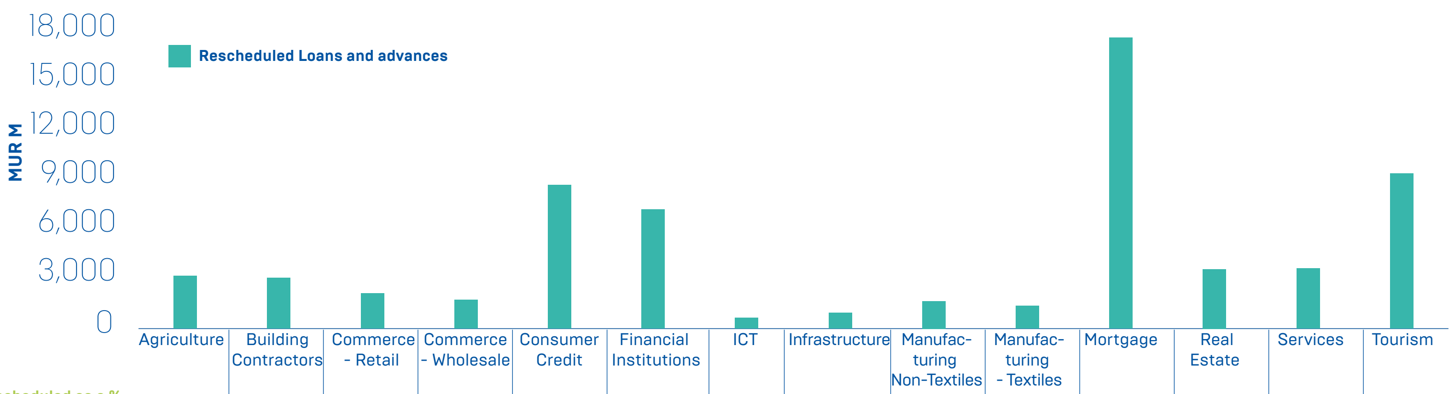
Gross impaired advances increased from MUR 3,713 million at December 2015 to MUR 4,998 million at December 2016. The Group ensured adequate provisions were maintained as per the guidelines of the respective central banks and International Financial Reporting Standards. Specific allowance for credit impairment stood at MUR 3,106 million, representing a provision coverage ratio of 62.1% (December 2015: 65.37%).

A breakdown of the credit portfolio by economic sectors and level of provisions are as follows;



	Agriculture and fishing	Manufacturing	Tourism	Transport	Construction	Financial and business services	Traders	Personal	Others
Specific coverage (%)	62.2%	39.5%	34.1%	91.1%	23.4%	90.7%	89.9%	63.8%	65.0%

Moreover, the total rescheduled loans stood at 59.7% of total credit portfolio as at 31 December 2016, compared to 79.8% in December 2015. A breakdown of the rescheduled loan by portfolio as at 31 December 2016 was as follows;



	Agriculture	Building Contractors	Commerce - Retail	Commerce - Wholesale	Consumer Credit	Financial Institutions	ICT	Infrastructure	Manufacturing Non-Textiles	Manufacturing - Textiles	Mortgage	Real Estate	Services	Tourism
Rescheduled as a % of total outstanding per portfolio	11.4%	2.2%	2.8%	9.9%	1.4%	1.7%	0.0%	0.1%	4.6%	0.0%	1.0%	2.9%	8.6%	13.3%

« These exposures are closely monitored and early warning signals are in place to trigger the management in case of any deterioration in their ability to pay and by tagging these customers under watchlist. »

Market Risk Management

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

Market risk arises from both banking and trading books. The classification of assets into trading book and banking book portfolios determines the approach for analysing the market risk exposure.

1. 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 ensuring the products are within the policy and risk appetite as well as ensuring the processes defined, system readiness and the resources are adequately trained.

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

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

2. Market Risk Profile as at 31-Dec-2016

1. INTEREST RATE RISK

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

The Group 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.

Impact of 200 bps parallel rate change	
Rise in rate	Decline in rate
0.08% decrease in Net Interest Income (Loss of MUR 29Mn)	0.08% increase in Net Interest Income (Gain of MUR 29Mn)
0.16% EaR as a % of Tier 1 Capital	0.16% EaR as a % of Tier 1 Capital

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 2016, the Group expected the Net Interest Income (NII) to rise in a decreasing rate scenario and fall in a rising rate scenario. An increase of 200 bps in interest rate would result in a decline of 0.08% in NII (0.16% of Tier 1 capital) whereas a decrease of 200 bps in rate would result in an increase of 0.08% in NII (0.16% of Tier 1 capital). The Group is largely deposit funded with 94% of its total deposits being interest sensitive and out of which 43% are non-interest bearing. On the assets side, 52% of the total assets are floating rate and 24% of total assets are fixed income securities.

(Repricing Gap figures are provided in Note 40 (d) to the Financial Statements at pages 265 to 270)

2. FOREIGN EXCHANGE RISK

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

FX Value at Risk

MUR **0.75** Mn

Insignificant relative to the Group's Tier 1 capital

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

For the financial year under review, Mauritius Operations maintain an average Aggregate FX Open Position of USD 5.7 million and operated within the regulatory limit of 15% of Tier 1.

For India Operations, the Aggregate FX Open Position stood at INR 8 million well under the Reserve Bank of India's limit of INR 300 million.

(Exposures in foreign currency are given in Note 40 (d) to the Financial Statements at pages 265 to 270.)

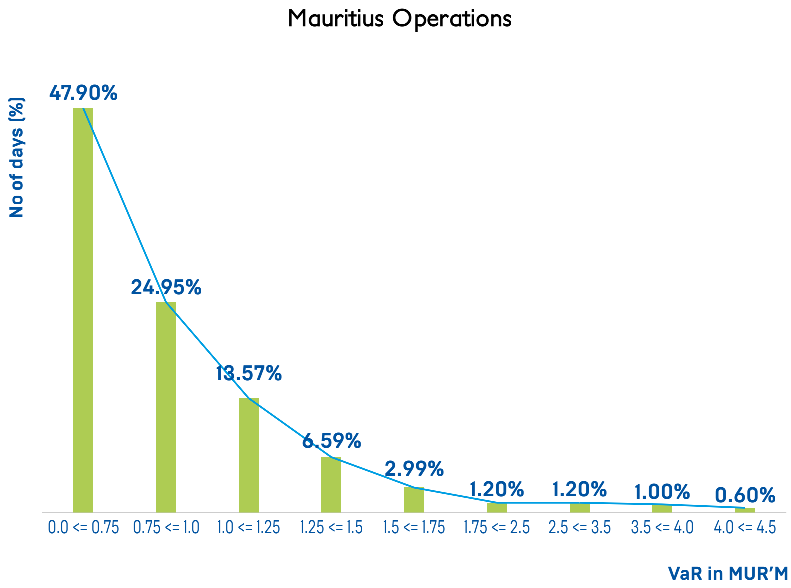
Market Risk Management (cont'd)

Value at Risk (VaR)

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

The VaR values was insignificant relative to the Group's Tier 1 capital, MUR 0.75 million as at 31 December 2016 (31 December 2015: MUR 0.75 million, 31 December 2014: MUR 1.27 million).

The chart depicts the distribution of average Foreign Exchange risk in terms of VaR from 2015 to 2016. The positively skewed distribution is characterized by many small losses and a few extreme losses.



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 Group 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.

3. 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.

As at 31 December 2016, the change in the value of the Group's portfolio was within the prudential limits and stop loss limits set by the Board.

The Group is exposed to risk through equity and to both locally and foreign quoted securities, and which are controlled by Board-approved portfolio and limits. The portfolio is managed by the Financial Markets Division under the strategic direction of ALCO and Investment Committee. Besides the Mauritius Gilt-edged securities, the Group maintains a well-diversified portfolio comprising primarily of investment grade or better foreign banks' bonds and which are highly liquid. With US Dollar interest rate likely to rise, the portfolio has not much been impeded as the rise had already been forecasted and the Group disinvested in bonds with long-term maturity.

Funding and Liquidity Risk Management

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

Liquidity has gained importance in the last few years because of the tensions in financial markets against the backdrop of the global financial crisis. The liquidity risk framework remains robust and no material changes were brought to policies and practices for the management of liquidity and funding risks in 2016.

1. Liquidity Risk Framework

RISK IDENTIFICATION

- Funding Liquidity Risk - Ability to settle obligations immediately when due.
- Market Liquidity Risk - Inability to offset or eliminate a position at the prevailing market price because of inadequate market depth or market disruption.

RISK MEASUREMENT

- The Group conducts currency-wise gap analysis. Evaluation of the disparity between assets and liabilities (both on- and off-balance sheet) that mature within a specific interlude.
- Scenario Analysis and Stress testing. An array of liquidity scenarios, covering a series of explicit events, are analysed to better quantify and assess potential losses arising from low-probability but plausible extreme market conditions
- Short /Long Term Liquidity Risk Ratios

RISK MANAGEMENT & CONTROL

- Ensures maintenance of sufficient liquidity currency-wise, including a cushion of unencumbered, high quality liquid assets, to withstand stress events, including those involving the loss or impairment of both unsecured and secured funding sources.
- The Group has a clearly articulated liquidity risk tolerance that is appropriate for its business strategy.
- In order to avoid excess reliance on a particular source of funding, the Group has adopted a strategy which ensures diversification and undue concentration on few specific customers or product types or currencies.

MONITORING & REPORT

- A wide set of funding and depositors' concentration ratios are regularly monitored and reported to Senior Management on a regular basis and to the Board on a quarterly basis.

Funding and Liquidity Risk Management (cont'd)

Liquidity Profile

The liquid asset ratio provides an assessment of the extent to which assets can be readily converted into cash or cash substitutes to meet financial commitments. The Group 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. It also strives to attain the right trade-off between liquidity and profitability.

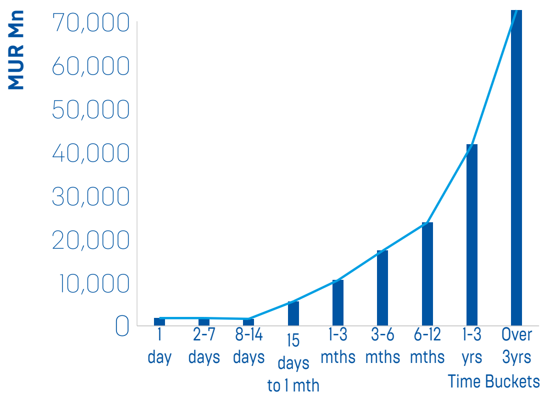
The Mauritius and India Operations were in compliance with Basel III LCR and the NSFR well ahead of schedule. Both the ratios were well above the Basel III requirement of 100 percent for Mauritius and India Operations.

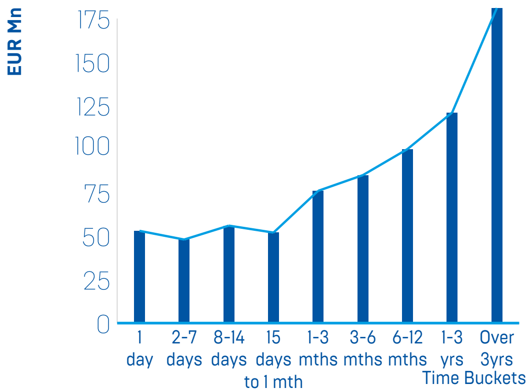
Liquidity Metrics

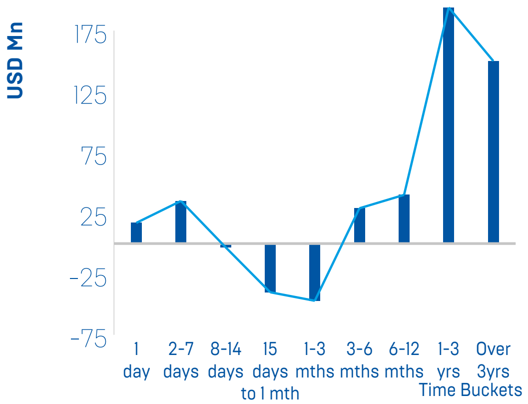
	Dec-16	Dec-15	Dec-14
Liquid Asset to Deposits Ratio	43%	44%	42%
Loans to Total Deposits	69%	69%	75%
Loans to Total Funding	63%	65%	68%
Liquidity Coverage Ratio (LCR)*	116%	133%	118%
Net Stable Funding Ratio (NSFR)*	125%	107%	101%

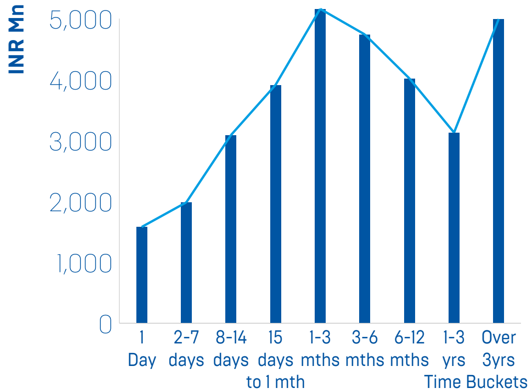
* For Mauritius Operations only

As at 31 December 2016, the Group had a sound, positive liquidity gap and was amply capable of meeting future expected cash flows both in local currency and major foreign currencies as depicted by the charts below:





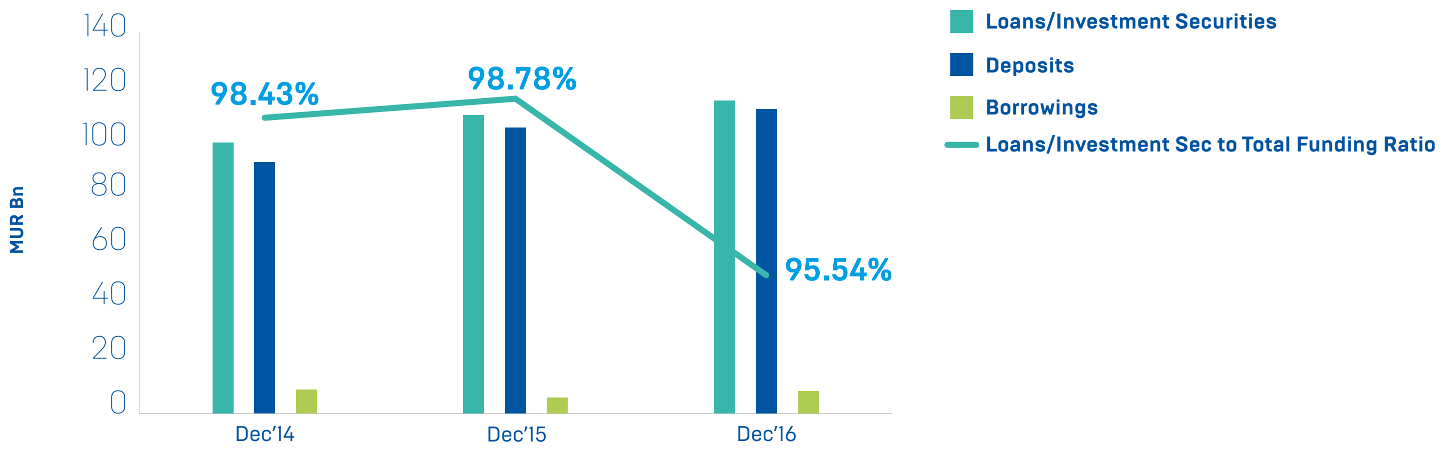




2. Funding

The Group ensures that its funding sources are well diversified and that the funding source concentrations are regularly monitored and analysed. It has its principal sources of funding from capital, core deposits from retail, local and international clients. The Group maintains deposit concentration limits to ensure that it does not place undue reliance on a single entity as a funding source.

In 2016, the Group's core deposits represented over 90% of the total funding, unchanged from the previous year, which is adequate to counterbalance the impact of a stressed funding environment.



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 to the Board Risk Management Committee. Examples of stress scenarios include but are not limited to the following:

	Deposits- % Withdrawal	Advances - % Impairment	Maximum Negative Liquidity Gap (MUR Bn)	Maximum Negative Liquidity Gap as a % of available funding
In the event of reputational or operational issues, a certain percentage of deposit-base is unexpectedly withdrawn within the first 2 weeks.	10% 30%	0% 0%	(6.49) (26.84)	18% 73%
In the event of some credit risk factors, a certain percentage of loans go impaired across all time buckets.	0% 0%	10% 40%	(3.84) (24.20)	10% 66%
Combination of various scenarios, stress conditions are applied to both sides of the balance sheet.	10% 30%	10% 40%	(6.52) (26.99)	18% 73%

The stress testing results shows that the Group has adequate funding to support any shortfall.

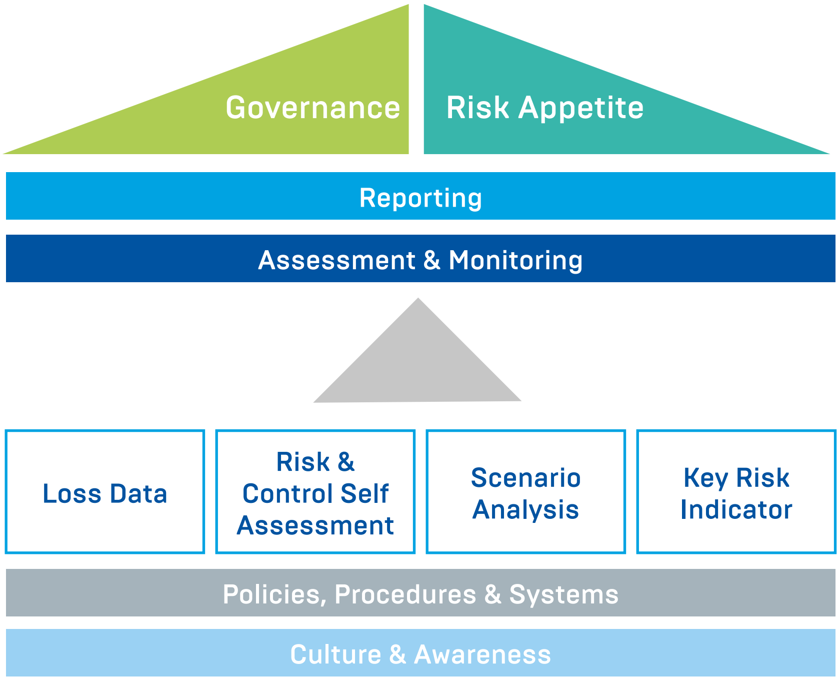
Operational Risk Management

Operational risk is inherent in all business activities and is the risk of loss resulting from inadequate or failed processes or systems, human factors or due to external events, including legal risk, that are neither market nor credit related. These events would result in financial losses and other damage to the organisation, including reputational harm.

Operational Risk Management (ORM) Framework

The various risks that the Group is exposed to are actively and effectively managed in accordance with regulations, guidelines and internal policies. The Group has a robust operational risk management framework with the objective to ensure that risks are identified, assessed, monitored and reported in a structured and systematic manner.

More so, the Group has risk mitigation tools that include a multitude or organisational safeguards and control measures within the framework including but not limited to internal policies and procedures, segregation of duties and 'four eyes principles', access control, compliance checks, limit management, disaster recovery and business continuity planning, risk transfer and sharing, risk awareness and active monitoring.



Governance holds the whole operational risk framework together and formalises the operational risk appetite & threshold for inherent and residual risks. It is also responsible for establishing a management culture which is the foundation for operational risk management.

The Group has well defined and documented policies and procedures coherent with defined risk appetites and compliant with regulations. Policies are reviewed annually to cater for emerging risks.

The four pillars of the risk identification mechanism in the framework are:

- Loss data
- Risk and Control Self-Assessment (RCSA)
- Scenario Analysis
- Key Risk Indicators (KRI)

Risks identified are assessed, monitored and reported in a structured and consistent manner to the Operational Risk Forum and the Risk Management Committee ensuring transparency through all the layers.

Information Technology (IT) Risk

IT is a key enabler for achieving our business objectives and strategies including reaching out to customers and meeting their needs. The year 2016 witnessed a major business-aligned technology transformation to refresh the Group's technology platform and accommodate future business aspirations and geographical expansion. Post system implementation issues adversely impacted customer experience and service delivery. Customer satisfaction improved as issues got resolved and employees became acquainted with the new IT platform.

Teething and system stabilisation issues following the major transformation in 2016 impacted the Group's reputation. Transparent communication and a crisis management team were in place to minimise the impact on stakeholders and ensure smooth service delivery. A post crisis analysis of events conducted allowed weaknesses to be identified and remedial actions taken.

An information technology risk management framework, which promotes information risk management policies and practices across the group in order to manage technology risks and safeguard information system assets, is in place. The framework is supported by a set of IT policies and standards, control processes and risk mitigation programmes including:

- Security awareness training
- Security solution within the eco-system and perimeter to prevent cyber-attacks.
- Strong access control & authentication.
- Redundant systems and business contingency measures.
- Regular vulnerability assessment.
- Monitoring of risk and performance metrics (KRI).
- Regular risk reporting to senior management and Board committees.

The Group's technology platforms are hosted and managed by our IT strategic partner. The Group is conscious of the risks associated with outsourcing arrangements and has taken the appropriate measures to curb same by having service level agreements and well established outsourcing vendor management framework in place.

Business Continuity

Business Continuity Management (BCM) is an integral part of the Group's strategy and is concerned with the development of proactive arrangements and procedures that ensure the resiliency of the Group.

It is an on-going process where threats /weaknesses are proactively identified and appropriate strategies and tactics are implemented to manage the risks which may threaten to disrupt the activities of the Group.

The Business Continuity framework is regularly tested and corrective actions are taken to ensure that fundamental strategies and tactics remain effective. It should be noted that the Group has reached the advanced stage in terms of Business Continuity for technology where the Group conducted its entire Cards & Payments operations for two full days from its Disaster Recovery Site in March 2016. The next exercise is planned around the same period in 2017. The Group understands that a crisis situation is unpredictable and that each situation requires a dynamic response.

> « A Crisis Management Team, under the leadership of the Chief Executive (CE), takes prompt action to minimise impact on service delivery and to build a communication channel with key stakeholders. »

Regulatory Compliance Risk

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

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

Operational Risk Management (cont'd)

"With the technology transformation programme that went live in 2016, the Compliance function is now equipped with a specialised software which allows enhanced monitoring of transactions to combat money laundering and terrorist financing."

Fraud Risk

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

The Group follows the following key guiding principles:
- A zero tolerance policy towards staff fraud
- Stringent control procedures
- Timely disclosure of fraudulent activities
- Training and awareness programme
- Whistleblowing
- Human resource policy including code of ethics and business conduct and conflict of interest

The Group Fraud Management Policy consists of four major pillars – Deterrence, Detection, Mitigation and Response to fraud.

"In this context, the Group set up an Anti-Fraud Department ("AFD") in November 2015 to cater for the four pillars. The AFD is totally independent and reports directly to the Audit Committee. It carries investigations on fraud to determine root causes and make recommendations for remedial actions."

The Board approved the implementation of the Group's Fraud Prevention and Investigation Framework which sets the parameters within which the AFD functions, in line with international best practice.

Since the inception of the AFD, the main focus has been on "prevention" through fraud awareness campaigns to various departments within the Group. Parallel to the preventive approach, the AFD has also conducted investigations into potential fraud, malpractices and irregularities cases within the Group.

The Group has also an effective Whistleblowing Policy and all staff are encouraged during fraud awareness campaigns to report potential cases of fraud, malpractices and irregularities without fear of reprisal. All cases reported to the AFD are treated with utmost confidentiality.

Cyber Security

Cybercrime is ranked among the top security threat worldwide as the frequency and intensity of attacks are increasing. SBM has taken measures on top of existing IT security measures to strengthen its resilience against e-Grouping fraud, while recognising that internet and digital technologies can transform customer experience and enable major business opportunities.

In addition to the deployment of resources and a 24/7 monitoring system, SBM believes that customers' awareness about cyber security is an imperative line of defence. Regular security vulnerability assessments and penetration testing are also conducted on our systems and network in compliance with regulatory requirements to proactively identify and remediate security vulnerabilities.

The evolution of losses by category shows a decrease in external fraud both in number and value over the years (refer to figures on page 134) on account of measures implemented.

Reputational Risk

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

> **A dedicated complaints handling team remains alert and sensitive to customer complaints and ensures all complaints are treated with the utmost sincerity, confidentiality and fairness. SBM Group has an approved Reputational Risk Policy in place. Reputational risk is monitored and reported on a quarterly basis to Risk Committee and to the Board.**

Operational Risk Profile as at 31 December 2016

For the year 2016, there has been an increase in processing errors, system issues and complaints from stakeholders. This is mainly due to the post implementation impact of the major system transformation programme. Users experienced higher than usual system downtime and major system related incidents. These resulted in an increase in customer complaints. However, customer satisfaction improved as issues got resolved and employees became acquainted with the new platform.

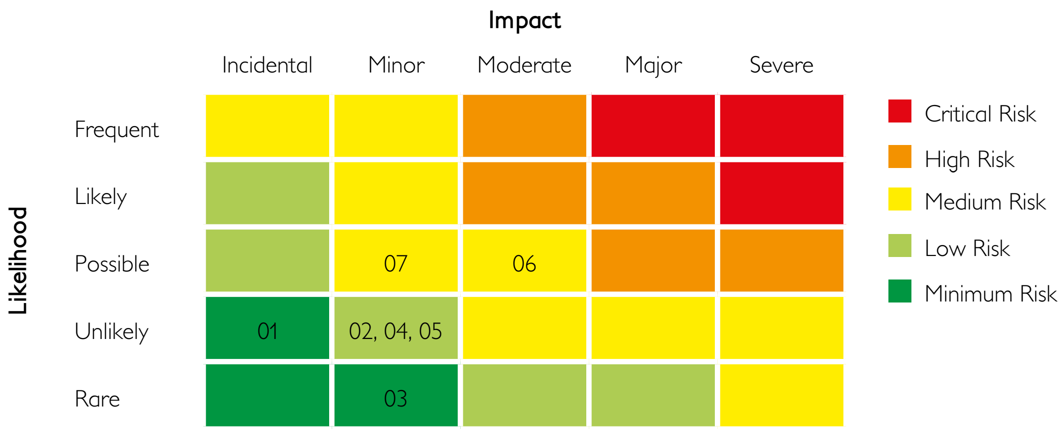


FIGURE 2: HEAT MAP – OPERATIONAL RISKS PROFILE

The heat map below indicates the residual risk level of the seven operational risks categories as per the Basel framework for the year 2016 on a 5x5 likelihood and impact matrix.

Operational Risks	Risk Rating – Year 2015	Risk Rating – Year 2016	Risk Direction
O1 Internal Fraud	Minimum Risk	Minimum Risk	↔
O2 External Fraud	Low Risk	Low Risk	↔
O3 Employment Practices and Workplace Safety	Minimum Risk	Minimum Risk	↔
O4 Clients, Products, and Business Practices	Low Risk	Low Risk	↔
O5 Damage to Physical Assets	Low Risk	Low Risk	↔
O6 Business Disruption and System Failures	Medium Risk	Medium Risk	↑
O7 Execution, Delivery and Process Management	Low Risk	Medium Risk	↑

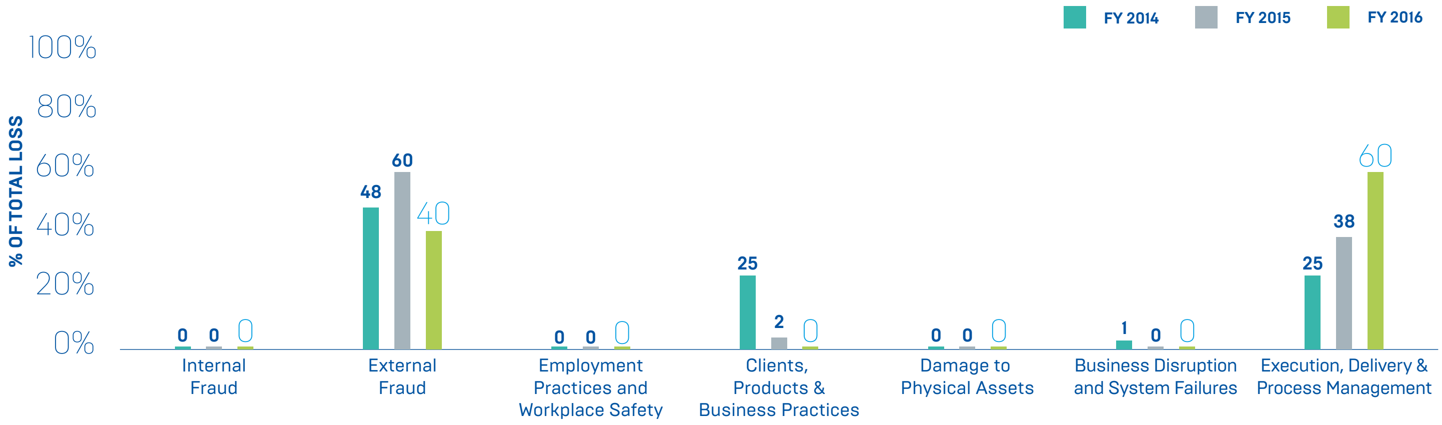
Table 1: Shows the evolution of the seven operational risk categories for the year 2015 and 2016

Operational Risk Management (cont'd)

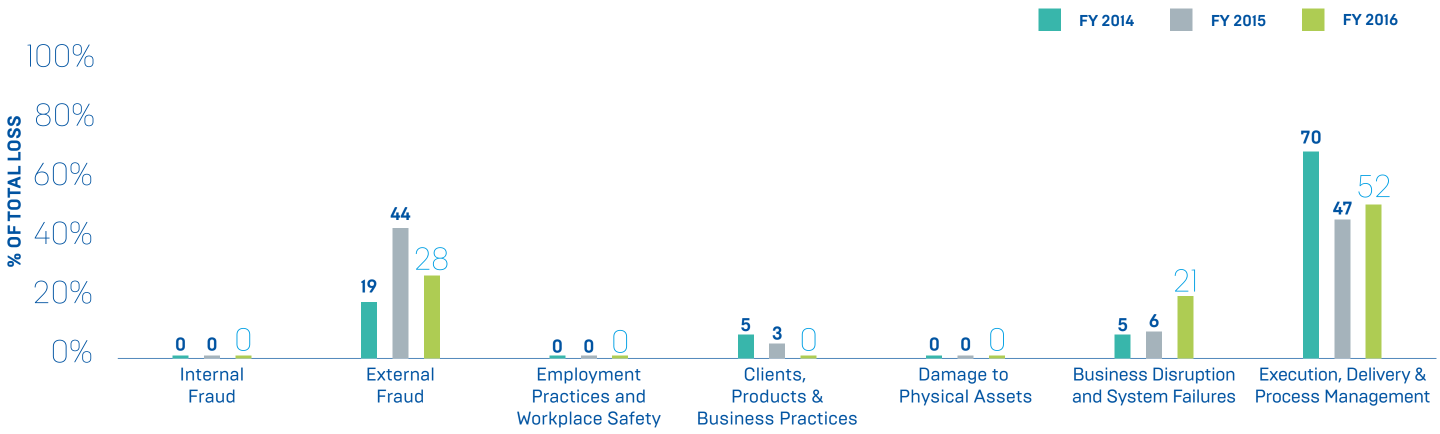
In 2016, we witnessed a decrease in the absolute loss amount for all operational risk categories. Though the absolute loss amount has decreased, there is a perceived increase in the loss associated to Execution, Delivery & Process Management. This is due to the overall decrease in operational loss during the year compared to the previous year.

Financial loss associated with Business Disruption and System Failures has been minimal during the year. However, due to the major system transformation programme in 2016, users experienced a higher than usual system downtime which has since been resolved following the normal phase of system adaptation.

1. Loss by operational risk category



2. Number of events by operational risk category



Capital Management

The Group's capital management strategy aims to achieve a balance between providing competitive returns to our shareholders and maintaining adequate capital to support business growth and foster depositor and creditor confidence. .

The capital management process aims to ensure that sufficient capital is held by each entity within the Group to meet legal and regulatory requirements whilst being in tune with the Group's risk appetite and investor expectations.

The Group is committed to maintaining a strong capital base to support the risks associated with its diversified businesses.

> **A healthy Capital Adequacy Ratio (CAR) protects the Group against excessive leverage and insolvency risks. CAR is defined as the ratio of the Group's capital/subordinated debts in relation to its risk weighted assets. Capital is categorised by applicable regulation under two tiers (Tier 1 and Tier 2) according to the ability to absorb losses and degree of permanency.**

TIER 1 CAPITAL

Tier 1 capital absorbs losses before other types of capital and any loss absorbing instruments. It includes ordinary shares issued and retained earnings and is capable of immediate use to cover risks or losses as soon as these occur.

CET 1 Ratio

19.90%

(Dec 15: 21.75%)

Tier 1 Ratio

19.90%

(Dec 15: 21.75%)

TIER 2 CAPITAL

Tier 2 capital is the supplementary capital and provides loss absorption capacity after Tier 1 capital. It typically consists of subordinated debt securities with a minimum maturity of five years

Tier 2 Ratio

5.81%

(Dec 15: 6.51%)

Capital Management (cont'd)

Risk weighted assets is a measure of the amount of the Group's assets, adjusted for risks. The risk-weighted assets by risk type are as follow

RISK WEIGHTED ASSETS

Credit Risk

MUR **86.1** Bn

(Dec 15: MUR 77.1 bn)

Market Risk

MUR **439** Mn

(Dec 15: 439 M)

Operational Risk

MUR **6.9** Bn

(Dec 15: 6.4 bn)

Despite the challenges faced during the year under review, the Group has remained well capitalised with a capital adequacy ratio of 25.70% as at 31 December 2016. The Group has adequate capital for future expansions or projects. The increase in capital base was primarily due to increased profits while the increase of 11.4% in risk weighted assets arose mainly from the growth in advances.

At all times throughout the year, the banking entities maintained their respective capital adequacy ratios comfortably above the applicable regulatory requirements.

Total CAR for the Group : 25.70%			
	SBM Mauritius Ops	SBM Indian Ops	Banque SBM Madagascar
Minimum Regulatory Requirement	10.375%	9.625%	8.0%
CAR as at 31 Dec 16	12.83%	42.59%	21.95%

Note: The Bank of Mauritius prescribes a CAR of 10% excluding buffers against 8% as stipulated by Basel Committee on Banking Supervision and the Group was well within the minimum capital requirement with a CAR of 25.70%.

In general, a higher capital adequacy ratio is seen as good for the financial system as lenders have more capital to cover the cost of unforeseen risks thereby benefiting depositors.

Financial crises and uncertainties in the world have increased the importance of capital adequacy requirements. In Mauritius, the impact of recent financial crises was low due to strong capitalisation of banks and a robust regulatory environment.

1. Regulatory Capital

The Group is subject to the capital adequacy guidelines issued by the Bank of Mauritius, which are based on the framework of the Basel Committee on Banking Supervision.

As at 31 December 2016, the minimum total capital adequacy ratio required by the Bank of Mauritius for banks operating in Mauritius stood at 10% of risk-weighted assets.

In addition, those that qualify as Domestic Systemically Important Bank (D-SIB) are keeping an additional capital ranging from 0 to 2.5% as from 1 January 2016, in a phased manner till 1 January 2019.

As from 1 January 2017, banks will be further required to constitute a capital conservation buffer starting with 0.625% and increasing by 0.625% annually to reach 2.5% on 1 January 2020.

Capital Buffers	Description
Capital Conservation Buffer	This Pillar 1 buffer is intended to promote the conservation of capital and the build-up of adequate buffers above the minimum that can be drawn down in periods of stress.
Domestic Systemically Important Bank (D-SIB)	This capital surcharge is intended to address externalities caused by banks that are not significant from an international perspective, but which nevertheless could have an important impact on their domestic financial system and economy compared to non-systemic institutions. The Bank of Mauritius identified five banks in Mauritius as D-SIBs based on the assessment of five factors namely : size, exposure to large groups, interconnectedness, complexity and substitutability.

There are several categories of rules related to capital under Basel III. Taken together, these rules require banks to hold enough capital to equal at least 13.5% of their total risk-weighted assets by the beginning of 2020 in Mauritius.

Capital Management (cont'd)

The Group has applied the Basel framework which is made up of three pillars:

PILLAR 1

Minimum capital requirements

- Credit Risk
- Market Risk
- Operational Risk
- Equity Risk

Establish minimum standards for management of capital on a more risk sensitive basis

PILLAR 2

Supervisory Review Process

Assessment of other risks by considering stress tests results;

- IRRBB
- Concentration Risk
- Reputational Risk

Increase the responsibilities and levels of discretion for supervisory review and control

PILLAR 3

Market Discipline

- Additional Reporting

Expand the content and improve transparency of financial disclosures to the market

2. Capital Structure

As per the Bank of Mauritius Guideline on Scope of Application of Basel III and Eligible Capital, the Group has adopted the Standardised approach for credit risk, Standardised Measurement approach for market risk and Alternative Standardised approach for operational risk.

Mauritius Operations and India Operations adhere to Basel III as contained in the Bank of Mauritius Guideline on Scope of Application of Basel III and Eligible Capital and RBI circular on Basel III Capital Regulations respectively while Banque SBM Madagascar, our foreign subsidiary, is compliant with Basel I requirement currently in force in Madagascar. At Group level, consolidation is based on Guidelines issued by the Bank of Mauritius.

The risk-weighted assets are worked out by applying risk weights from prescribed risk parameters, classified according to its nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty. To determine the relevant risk weights applicable to its claims on banks and sovereigns, ratings assigned by Standard & Poor's, Moody's Investors Service and Fitch are used and these external rating companies have been approved by the Bank of Mauritius.

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

On-balance sheet assets - MUR Million	31 Dec 2016 Amount	31 Dec 2016 Weight %	31 Dec 2016 Weighted Assets	31 Dec 2015 Weighted Assets	31 Dec 2014 Weighted Assets
Cash Items	2,031	0-20	1	30	42
Claims on Sovereigns	28,127	0-100	1,030	535	491
Claims on Central Banks and International Institutions	7,886	0-100	365	447	344
Claims on Banks	22,999	20-150	10,242	7,953	6,341
Claims on Non-Central Government Public Sector Entities	463	0-100	408	524	788
Claims on Corporates	36,998	100	36,998	33,312	28,467
Claims included in the Regulatory Retail Portfolio	8,510	75	6,382	6,869	6,977
Claims secured by residential property	15,142	35-125	5,925	6,277	6,123
Claims secured by Commercial Real Estate	3,456	100	3,456	4,461	7,770
Past due claims	1,828	50-150	2,091	1,344	665
Other assets	13,882	100-250	15,933	12,427	11,673
Total On Balance Sheet	141,321		82,830	74,178	69,681

In terms of risk profile, on-balance sheet assets increased by 11.66% as a result of increases in:

- **Claims on corporates** from MUR 33.3 billion, accounting for 44.9% of total on-balance sheet assets, to MUR 37.0 billion, accounting for 44.7% of total on-balance sheet assets.

- **Claims on banks** from MUR 8.0 billion, accounting for 10.7% of total on-balance sheet assets to MUR 10.2 billion, accounting for 12.4% of total on-balance sheet assets.

Off-balance sheet assets	Credit Conversion Factor (%)	31 Dec 2016 Nominal Amt (Rs m)	31 Dec 2016 Credit Equivalent Amt (Rs m)	31 Dec 2016 Weight %	31 Dec 2016 Risk Weighted Assets (Rs m)	31 Dec 2015 Risk Weighted Assets (Rs m)	31 Dec 2014 Risk Weighted Assets (Rs m)
Direct Credit Substitutes	100	1,291	1,291	0 - 100	1,108	277	527
Transaction-Related Contingent items	50	3,281	1,641	0 - 100	1,524	2,003	2,261
Trade-Related Contingencies	20	1,392	278	0 - 100	230	175	205
Other Commitments	0 - 20	6,787	439	0 - 100	411	492	324
Total non-market-related risk-weighted assets		12,751	3,649		3,273	2,947	3,317
Interest Rate contracts	1 to 4	2,361	94	50	47	52	49
Foreign Exchange contracts	2 to 5	6,393	183	20 - 100	170	194	261
Total market-related risk-weighted assets		8,754	277		217	246	310
Total		21,505	3,926		3,490	3,193	3,627

Capital Management (cont'd)

A summary of the Group's capital requirements for credit, market and operational risk and the capital base and the capital adequacy ratio as on 31 December, 2014, 2015 and 2016 is presented below.

Regulatory Capital

MUR Million	31 Dec 2016	31 Dec 2015	31 Dec 2014
Common Equity Tier 1 Capital (CET 1)			
Share Capital	32,500	32,500	32,500
Statutory Reserves	592	592	583
Retained Earnings	(196)	(430)	(1,109)
Accumulated other comprehensive income and other disclosed reserves	(22)	(1,471)	116
Restructure Reserve	(5,415)	(5,415)	(5,415)
Treasury (own) shares	(4,875)	(4,875)	(4,875)
Other Intangible Assets	(3,770)	(2,371)	(1,252)
Deferred Tax	(215)	(277)	(171)
Common Equity Tier 1 Capital	18,598	18,254	20,376
Additional Tier 1	-	-	
Tier 1 capital (T1 = CET1 + AT1)	18,598	18,254	20,376
Tier 2 Capital			
Subordinated SR Bonds	3,835	3,835	3,567
Other Reserves	549	579	123
Portfolio Provision	1,045	1,049	861
Tier 2 Capital	5,429	5,464	4,551
Total Regulatory capital	24,027	23,718	24,927
Risk Weighted Assets			
Credit risk	86,103	77,126	72,998
Market risk	439	439	487
Operational risk	6,938	6,370	5,881
Total Risk Weighted Assets	93,480	83,935	79,366
Common Equity Tier 1 capital ratio (%)	19.90	21.75	25.67
Tier 1 capital ratio (%)	19.90	21.75	25.67
Total capital ratio (%)	25.70	28.26	31.41

The capital adequacy ratio stood at 25.70%, well above the regulatory limit of 10.375% (including capital charge for D-SIB).

Market Risk Capital

The Group follows the Standardised methodology outlined in the Bank of Mauritius Guideline on Measurement and Management of Market Risk.

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

MUR million	Dec 2016	Dec 2015	Dec 2014
Aggregate net open foreign exchange position	**222.1**	**193.5**	**176.9**

Operational Risk Capital

The Group has adopted the Alternative Standardised Approach for the computation of capital for operational risk.

The operational risk capital charge is arrived at by:

	Average of past 3 years for each line of business		Line of Business		Beta		Fixed Factor
1			Trading and Sales		18%		
2	Positive annual gross revenue	Multiply by	Payment and Settlement	Multiply by	18%		-
3			Agency Services		15%		
4			Asset Management		12%		
5	Outstanding balance of loans and advances	Multiply by	Retail Banking	Multiply by	12%	Multiply by	0.035
6			Commercial Banking		15%		

The capital charge is revised on an annual basis at 31 December.

The table below sets out, at the dates indicated, the operational risk capital charge for the Group :

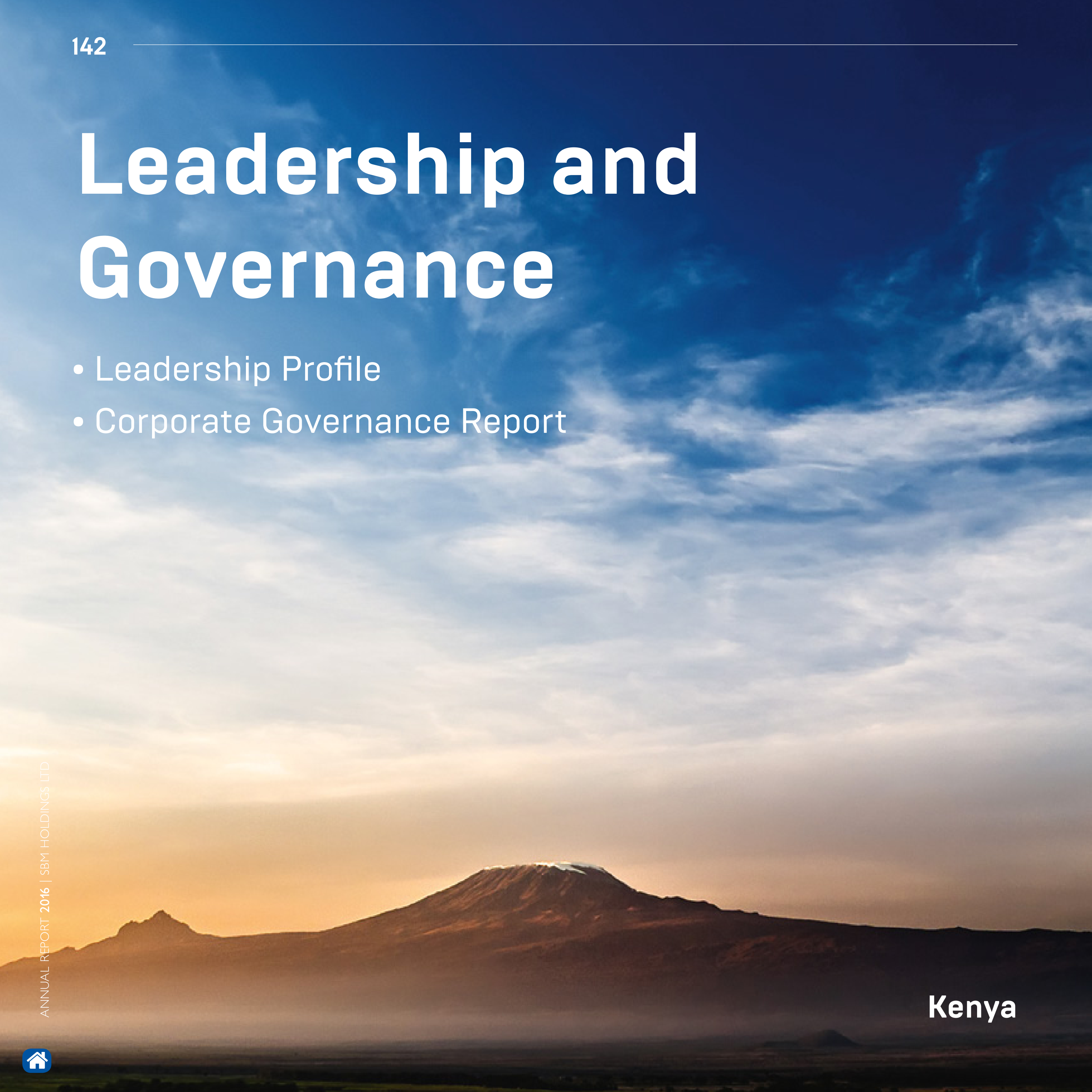
MUR million	Dec 2016	Dec 2015	Dec 2014
Capital charge for Operational Risk	**693.8**	**637.1**	**588.1**

An assessment of the capital requirement of the Group is carried out through a comprehensive projection of future businesses that takes cognisance of the strategic intent of the Group, profitability of particular businesses and opportunities for growth. The proper mapping of credit, operational and market risks to this projected business growth enables assignment of capital that not only adequately covers the minimum regulatory capital requirement but also provides room for growth. The calibration of risk to business is enabled by a strong risk culture in the Group aided by appropriate technology-based risk management systems.

> **A key focus for the year ahead will be to ensure that the Group remains adequately capitalised and positioned to respond to higher capital requirements for the regional expansions.**

Leadership and Governance

- Leadership Profile
- Corporate Governance Report



Kenya

"Governance and leadership are the yin and the yang of successful organisations..." Mark Goyder (Director of Tomorrow's Company)

We are driven by a **STRONG LEADERSHIP** team, which is committed to attain and sustain the highest principles of Corporate **GOVERNANCE**. The **ALLIANCE** of our dedicated Management with good governance principles **IS REFLECTED** in our **STRONG** performance for the financial year.

PROFILE OF THE BOARD OF DIRECTORS OF SBM HOLDINGS LTD

SBM Group is driven by strong leadership. This section describes the profiles of the directors of SBM Holdings Ltd, and those of the chairpersons of SBM (Bank) Holdings Ltd, SBM (NBFC) Holdings Ltd, SBM (NFC) Holdings Ltd, as well as the profiles of the chief executive officers of the different clusters and banking operations of the Group.

KEE CHONG LI KWONG WING, *G.O.S.K.*
Chairman, SBM Holdings Ltd

Skills and Experience

Holder of the National Laureateship, Mr Kee Chong Li Kwong Wing, *G.O.S.K.* is an economist who graduated from the London School of Economics. He is the founder of the Mauritius International Trust Co. Ltd, one of the first professional firms licensed to provide financial services to international private and institutional clients.

During his career, he has served as Lecturer in Public Finance at the University of Mauritius, Project Manager at the Mauritius Cooperative Bank, and Advisor to the Minister of Finance in fiscal and monetary matters. He set up the first Mutual Fund in Mauritius, which was also the first Fund authorised by Government to make investments in global markets. He also launched the first Property Unit Trust of Mauritius.

Furthermore, he was Chairman of the Stock Exchange Commission (the predecessor of the Financial Services Commission), the State Investment Corporation Management Ltd and the National Advisory Council on Prices and Consumer Protection. He also served on several Statutory Boards such as the State Trading Corporation, the National Remuneration Board, the National Economic and Social Council and the University of Mauritius. Mr Kee Chong Li Kwong Wing, *G.O.S.K.* was also Consultant to the United Nations Economic Commission for Africa (UNECA), the U.N. Industrial Development Organisation (UNIDO) and the Finance and Investment Sector Coordinating Unit (FISCU) of the Southern African Development Community (SADC) Council of Finance Ministers.

Mr Kee Chong Li Kwong Wing, *G.O.S.K.* was an external lecturer on the MBA Programme of the University of Surrey School of Management (UK) and has published numerous reports and articles on cooperative banking, project management, development finance, structural adjustment and fiscal planning issues. In 2010-2014, he was Member of Parliament, responsible for Finance and Economic Matters on the Opposition bench.

He was elected as a director of the Board of Directors of SBM Holdings Ltd in June 2015 and has since been designated as its Chairman, being an independent non-executive director.

Other Current Appointments

Mr Li Kwong Wing, *G.O.S.K* sits on the Board of the State Insurance Company of Mauritius Ltd and Afrexim Bank.

Board Committee Membership

Investment & Credit Committee (Chairman), IT Steering Committee (Chairman), Regional Expansion Steering Committee (Chairman), Remuneration Committee, Risk Management Committee, Steering Committee for East Africa (Chairman), Steering Committee on Seychelles (Chairman) and Strategy Committee (Chairman)

AZIM CURRIMJEE

Skills and Experience

Mr Currimjee is the Managing Director of the Food & Beverages Cluster of the Currimjee Group of Companies and the Managing Director of Quality Beverages Ltd. He holds a BA in Mathematics from Williams College, Massachusetts and an MBA from Trinity College, Dublin. Mr Currimjee has had over 25 years of experience in Industry, and has led large textile concerns in the past and has been leading a significant food and beverage business for the last 15 years. He was elected to the Board of SBM Holdings Ltd in June 2016 and is an independent non-executive director.

Other Current Appointments

Mr Currimjee is on the Board of all the principal companies of the Currimjee Group as a non-executive Director. He is currently the President of the Mauritius Chamber of Commerce and Industry, a position he also held in 2007.

Board Committee Membership

Audit Committee, Corporate Governance & Conduct Review Committee IT Steering Committee, Regional Expansion Steering Committee, Risk Management Committee (Chairman), Steering Committee for East Africa, Steering Committee on Seychelles, Strategy Committee

MEDHA GUNPUTH

Skills and Experience

Mr Gunputh is the Permanent Secretary to the Minister Mentor's Office, Ministry of Defence and Rodrigues effective February 2017. Prior to that, he was the Permanent Secretary to the Private Office of the Prime Minister's Office. He has completed a BSc (General) at the University of Punjab, India and a Diploma in Public Administration & Management at the University of Mauritius. He started his career in the Government Service in 1977 and has worked in several Ministries and within the Prime Minister's Office. Mr. Gunputh has also acted as Chairman of several Boards such as Sugar Planters Mechanical Pool Corporation, Tobacco Board, Town and Country Planning Board, Farmers' Service Centre and SSR Botanical Garden. He has also served as a member of the Board of Tourism Authority and of the Mahatma Gandhi Institute. He joined the SBM Holdings Ltd Board in February 2015 and is a non-executive director.

Other Current Appointments

He is currently a director of the Mauritius Post Ltd.

Board Committee Membership

Corporate Governance & Conduct Review Committee, Investment & Credit Committee, IT Steering Committee, Regional Expansion Steering Committee, Remuneration Committee (Chairman), Risk Management Committee, Steering Committee for East Africa, Steering Committee on Seychelles, Strategy Committee

MAXIME HARDY

Skills and Experience

Mr. Hardy is a Fellow Member of the Association of Accounting Technicians, UK. Mr. Hardy has experience in the accounting and finance field, having spent several years in the sugar, beverage, textile and car dealer industries. He has spent some 7 years at the GML head office and reached the position of financial controller. In 2008, he moved into the newly created real estate development arm of the GML, now known as BlueLife Ltd, as the Asset Executive, having within its portfolio at that time, responsibility for companies holding the properties now earmarked for development. He was elected as director of the Board of SBM Holdings Ltd in June 2015 and is an independent non-executive director.

Board Committee Membership

Audit Committee, Corporate Governance & Conduct Review Committee, Remuneration Committee, Steering Committee on Seychelles

VIDIANAND LUTCHMEEPARSAD

Skills and Experience

Mr Lutchmeeparsad holds a Master in Business Administration from the University of Mauritius. He also holds post graduate qualifications from universities in Australia and India. Currently Permanent Secretary at the Ministry of Finance and Economic Development, Mr. Lutchmeeparsad has more than 30 years' experience in the field of public administration, having served, at senior management level in different Ministries. He has worked for 15 years at the Ministry of Public Infrastructure and has been closely involved in the implementation of major road projects at the Road Development Authority. He was elected as director of the Board of SBM Holdings Ltd on 30 June 2015 and is a non-executive director.

Other Current Appointments

Director on the Board of State Investment Corporation Ltd, Landscope (Mauritius) Ltd, NIC Health Care Limited and National Day Celebrations Co Ltd

Board Committee Membership

Corporate Governance & Conduct Review Committee, Regional Expansion Steering Committee, Remuneration Committee, Risk Management Committee, Strategy Committee

RAMPRAKASH MAUNTHROOA

Skills and Experience

Mr Ramprakash Maunthrooa is the Senior Adviser at the Prime Minister's Office. He has served as the Managing Director of the Board of Investment and has also been the Director General of the Mauritius Ports Authority and subsequently served as Chairman of the organisation from 2000–2003.

He has also worked as a freelance Consultant as a port specialist and subsequently as an Investment and Management Consultant both in Mauritius and the region.

He was elected as Director of the Board of SBM Holdings Ltd on 30 June 2015 and is an independent non-executive Director.

Other Current Appointments

Mr Maunthrooa also serves on the Board of Air Mauritius and of the Board of Investment (BOI).

Board Committee Membership

Corporate Governance & Conduct Review Committee, Investment & Credit Committee, Regional Expansion Steering Committee, Remuneration Committee, Strategy Committee

ROODESH MUTTYLALL

Skills and Experience

Mr Muttylall is a Fellow Member of The Association of Chartered Certified Accountants, UK and an Associate Member of The Institute of Chartered Secretaries and Administrators, UK. He also holds a Master's Degree in Finance from the University of Mauritius. Mr Muttylall is currently the Financial Controller of a Global Business Company and has several years of experience in similar positions in the hotel sector. He worked for SBM Group between 2000 and 2001. He joined the Board of SBM Holdings Ltd on 30 June 2015 and is an independent non-executive director.

Board Committee Membership

Audit Committee, Corporate Governance & Conduct Review Committee (Chairman), Investment & Credit Committee

OUMA SHANKAR OCHIT

Skills and Experience

Mr. Ochit is the Senior Partner of Nexia Baker & Arenson, a member of Nexia International. He is a fellow of the Chartered Association of Certified Accountants and holds a Master of Business Administration, with specialisation in Finance, from the University of Mauritius. He was also the Managing Director of Halifax Management Limited, a management company licensed by the Financial Services Commission, and a member of the COMESA Infrastructure Fund Interim Advisory Board. Prior to joining Nexia Baker & Arenson, he worked for Coopers & Lybrand, International Financial Services Ltd and the University of Mauritius. He joined the Board of SBM Holdings Ltd in June 2015, as an independent non-executive director.

Other Current Appointments

Mr Ochit currently sits on the Board of the Tertiary Education Commission.

Board Committee Membership

Audit Committee (Chairman), Investment & Credit Committee, IT Steering Committee, Risk Management Committee, Strategy Committee

Other Subsidiaries of SBM Group and Overseas Expansion Cell

The activities of SBM Holdings Ltd is segregated into three clusters namely (i) Banking, (ii) Non-Banking Financial Services and (iii) Non-Financial. More details have been provided in the Group Structure at page 156. An Overseas Expansion Cell led by Mr Jairaj Sonoo, *C.S.K.* was established in August 2016 to monitor the overseas expansion initiatives.

Brief Profiles of the Chairpersons and Chief Executives of Each Cluster

NAYEN KOOMAR BALLAH
Chairman, SBM (Bank) Holdings Ltd and SBM Bank (Mauritius) Ltd

Mr Ballah is presently the Secretary to Cabinet and Head of the Civil Service - Prime Minister's Office. He holds a BA Political Science & Economics and BA (Hons) English (India) and Diploma in Public Administration & Management. Mr Ballah was the Permanent Secretary at the Prime Minister's Office (2004–2005), the Ministry of Arts & Culture (2005–2008), the Ministry of Youth & Sports (2008–2011), the Ministry of Public Infrastructure, NDU, Land Transport & Shipping (2011–2014) and Secretary to Home Affairs Prime Minister's Office (2014 – 2016). He was appointed as Non-Executive Director of SBM Bank (Mauritius) Ltd since 30 June 2015.

RAJ DUSSOYE
CE, SBM Bank (Mauritius) Ltd

Mr Dussoye holds a Masters in Business Administration from the Heriot-Watt University - Edinburgh, Scotland and is also an Associate of the Chartered Institute of Bankers (ACIB). He started his career in banking at SBM in 1982, where he has occupied various senior positions across different banking business lines until 2007. From 2003 to 2006, he was the CEO of State Bank of Mauritius Ltd (India) before joining Ciel Group, where he was CEO of Edge Forex Ltd and responsible for the Group's Initiative. He was then appointed CEO of Bank One Ltd from 2008 to 2013. Prior to joining SBM in 2016, Mr Dussoye has also acted as Consultant for the AXYS Group (Mauritius) for new projects in financial services. He became Chief Executive and ex-officio member of the Board of directors of SBM Bank (Mauritius) Ltd in August 2016, responsible for the Banking Business across the whole Group – Mauritius, Madagascar, Seychelles, Kenya, India and Myanmar.

GILBERT LAGAILLARDE
Directeur Général, Banque SBM Madagascar

Mr Lagaillarde holds a Masters in Business Administration from the University of Leicester UK. He has more than 35 years of banking experience. He has been working at Senior Management level in overseas banks for the last 10 years including Opportunity International – Democratic Republic of Congo and Banque Commerciale du Rwanda. Prior to joining Banque SBM Madagascar SA, Mr Lagaillarde was the CEO of Première Agence de Microfinance – Madagascar. He is currently the General Manager of Banque SBM Madagascar SA and reports to the Board of Directors of Banque SBM Madagascar.

SIBY SEBASTIAN
CE, SBM India Operations

Mr Siby Sebastian has over 20 years of experience across banking and financial services. He is a Chartered Accountant from the Institute of Chartered Accountants of India and has joined SBM Bank (Mauritius) Ltd in November 2016 from ICICI Bank. Mr Sebastian has served in other prominent entities like ICICI Bank, ICICI Housing Finance Company, Kotak Mahindra Prime and Deloitte Haskins & Sells. He brings outstanding experience from his 15 years in ICICI Group, having led teams in retail banking, mortgage finance, cards as well as building out ICICI's rural and agri-finance offering. He comes with a strong domain knowledge in business development, corporate strategy, business risks, technology, financial management and country governance. His key strengths include project financing transactions, commodity sales, derivative solutions, retail banking, mortgage and consumer finance, cards, rural banking & agro lending, customer service and an in-depth understanding of the Indian and African markets. Branch banking, customer service, retail operations, segmented operations, digitised operations, currency management, productivity enhancement, new outlets, relationship management and managing large teams. He has also a keen understanding of fintech - mobile banking, eWallets, robotic advisory, software robotics, workflows, artificial intelligence, blockchain etc - and macro-economic dynamics, finance, customer service. He is currently the CE SBM India Operations and reports to the CE Banking.

JAIRAJ SONOO, ***C.S.K.***
CE, Overseas Expansion

Mr. Sonoo, *C.S.K.* holder of a Master in Business Administration from University of Surrey, UK has experienced a rich career in the banking field over nearly four decades, both at local and international level. He has been the Chief Executive of two listed financial institutions, including SBM and an another local commercial bank in Mauritius respectively. At international level, Mr. Sonoo acted as the Chief Executive Officer of the SBM India Operations and has also overseen the operations of Banque SBM Madagascar.

Mr. Sonoo was previously an executive director of the Board of Directors of SBM Bank (Mauritius) Ltd and board member of several companies within SBM Group and is currently the Chief Executive, Overseas Expansion of SBM Holdings Ltd.

KEE CHONG LI KWONG WING, ***G.O.S.K.***
Chairman, SBM (NBFC) Holdings Ltd

Profile on page 144

SOONDRASSEN MARDAY, ***O.S.K***
Chairman, SBM (NFC) Holdings Ltd

Mr Soondrassen Murday has been the Managing Director of the Computer Training Centre at the Institute of Information Technology. He is the holder of a Diploma in Information & Communications Technology and a Diploma in Communication, Data Production, Data Manipulation, Integrity & Output Data. He was conferred the title of an Officer of the Order of the Star and Key of the Indian Ocean.

LAKSHMANA LUTCHMENARRAIDOO
CE, SBM (NBFC) Holdings Ltd

Mr. Kris (Lakshmana) Lutchmenarraidoo is currently the Chief Executive of SBM (NBFC) Holdings Ltd. He is a seasoned banking professional with over 40 years' experience across the banking and financial services sectors. During the 13 years he spent at SBM, he held various positions across the bank namely Branch Manager, Head of Internal Audit, and Assistant General Manager. He then moved on to occupy the highest positions in various prominent entities such as Mauritius Leasing Company Ltd, Mauritius Post Ltd, Mauritius Post and Cooperative Bank Ltd, La Prudence Mauricienne Assurances Ltée and Mauritius Union Assurance Co. Ltd. More recently, he was the Group Managing Director at Phoenix East Africa Assurance Company Ltd., based in Kenya and supervising operations in Kenya, Tanzania, Uganda and Rwanda. Mr Lutchmenarraidoo holds a Banking Diploma from FinAfrica Institute, Milan, Italy.

The composition of the Board of Directors of each subsidiary is provided on pages 276 to 277.

Corporate Governance Report

"The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company".

Corporate Governance Report (cont'd)

Introduction

"The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company".

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. It essentially involves balancing the interests of a company's stakeholders, such as shareholders, Board of Directors, management, employees, customers, suppliers, regulators, creditors, auditors, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Corporate governance is central to the Group's approach to the enhancement of shareholder value and the protection of shareholders' funds. It ensures that the business environment is fair and transparent such that the interests of all shareholders (majority as well as minority shareholders) are safeguarded and that the Group be held accountable for its actions. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights.

The Code of Corporate Governance for Mauritius (the Code) was reviewed by the National Committee of Corporate Governance in 2016 and the revised Code will be applicable as from the reporting year (financial period) ending 30 June 2018, i.e. companies should apply the principles of this Code from July 2017 onwards. Earlier adoption is however encouraged. This Code comprises a set of principles and guidance aimed at improving and guiding the governance practices of organisations within Mauritius.

The Code together with the Bank of Mauritius Guideline on Corporate Governance (the Guideline), provides SBM Holdings Ltd ('SBMH') with a robust framework within which it ensures a strong culture of good governance, transparency and accountability.

SBM's Governance Framework

The Board of Directors of SBM Holdings Ltd ("SBMH" or "the Group") is fully committed to attaining and sustaining the highest standards of Corporate Governance with the aim of maximising long-term value creation for the shareholders. This is achieved through group-wide awareness of business ethics and the stewardship and supervision of the management of the Group by the Board of Directors and the various Committees of the Board.

There are various mechanisms put in place to enable us to adhere to the high standards of good governance as detailed below:

The Board of Directors must deal with challenges and issues relating to corporate governance, corporate social responsibility and corporate ethics in addition to business and financial issues. The approval of the shareholders is generally sought for major decisions in line with company law, listing rules and SBMH's constitution.

It is the responsibility of the Board of Directors to continuously monitor and adapt practices to reflect developments in corporate governance principles given their significance in ensuring smooth business operations and active stakeholder engagement within an increasingly challenging environment. The Board sets out the strategic direction and establishes the procedures and practices for effective capital allocation and internal controls alongside ensuring adherence by SBMH and its subsidiaries to relevant legislations and policies.

STATEMENT OF COMPLIANCE

(Section 75(3) of the Financial Reporting Act)

Name of Public Interest Entity : SBM Holdings Ltd

Reporting Period: 01 January 2016 to 31 December 2016

We, the Directors of SBM Holdings Ltd, confirm, to the best of our knowledge, that SBM Holdings Ltd has complied with the obligations and requirements under the Code of Corporate Governance in all material aspects save with respect to the requirement to appoint executive directors.

SBMH is currently in the process of recruiting personnel to fill key executive roles at the Group level, in particular the position of CEO. It is hoped that this exercise will be completed soon in order to ensure that the Board composition meets the requirements of the Code of Corporate Governance.

KEE CHONG LI KWONG WING, ***G.O.S.K.***

Chairman, SBM Holdings Ltd

ROODESH MUTTYALL

Chairman – Corporate Governance & Conduct Review Committee

Date: 30 March 2017

Company Secretary's Certificate

For the Financial year ended 31 December 2016

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

D RAMJUG CHUMUN
Company Secretary

Date: 30 March 2017

Holdings Structure

SBM Holdings Ltd is a public company, listed on the Stock Exchange of Mauritius since 03 October 2014 following a restructuring exercise of the Group approved by the Bank of Mauritius under section S32A of the Banking Act. Prior to this State Bank Mauritius Ltd (Now SBM Bank (Mauritius) Ltd) which was the holding company, was listed since 1995. The activities of SBM Group are divided into three clusters namely (a) banking, (b) non-bank financial and (c) non-financial. The SBM Group Structure is set out at page 156.

How we are governed

The Board of SBMH provides entrepreneurial leadership and vision to the Group to enhance shareholder value creation within a framework of prudent and effective controls, which enables risk to be assessed and managed to ensure long term sustainable development and growth. The board has ultimate accountability and responsibility for the performance and affairs of the company and is responsible for ensuring the Group adheres to high standards of ethical behaviour

BOARD OF DIRECTORS OF SBM HOLDINGS LTD

AUDIT COMMITTEE

Non-executive responsibility for matters relating to financial reporting and internal controls over financial reporting.

CORPORATE GOVERNANCE & CONDUCT REVIEW COMMITTEE

Non-executive responsibility for SBM's policies, procedures and standards to ensure that the Group conducts business responsibly and consistently adheres to SBM values and good governance principles.

IT STEERING COMMITTEE

Non-executive responsibility to ensure the new key IT innovation based initiatives be in line with the 5 year strategy of the Group and track its implementation.

INVESTMENT & CREDIT COMMITTEE

Non-executive responsibility to review the credit and investment portfolio.

REGIONAL EXPANSION STEERING COMMITTEE

Non-executive responsibility to define strategies for geographical expansion in targeted markets

REMUNERATION COMMITTEE

Non-executive responsibility for setting the overarching principles, parameters and governance framework of the Group's remuneration policy and the remuneration of senior executives.

RISK MANAGEMENT COMMITTEE

Non-executive responsibility for high level risk-related matters and risk governance.

STEERING COMMITTEE FOR EAST AFRICA

Non-executive responsibility to oversee and drive the implementation of banking/financial operations in East Africa

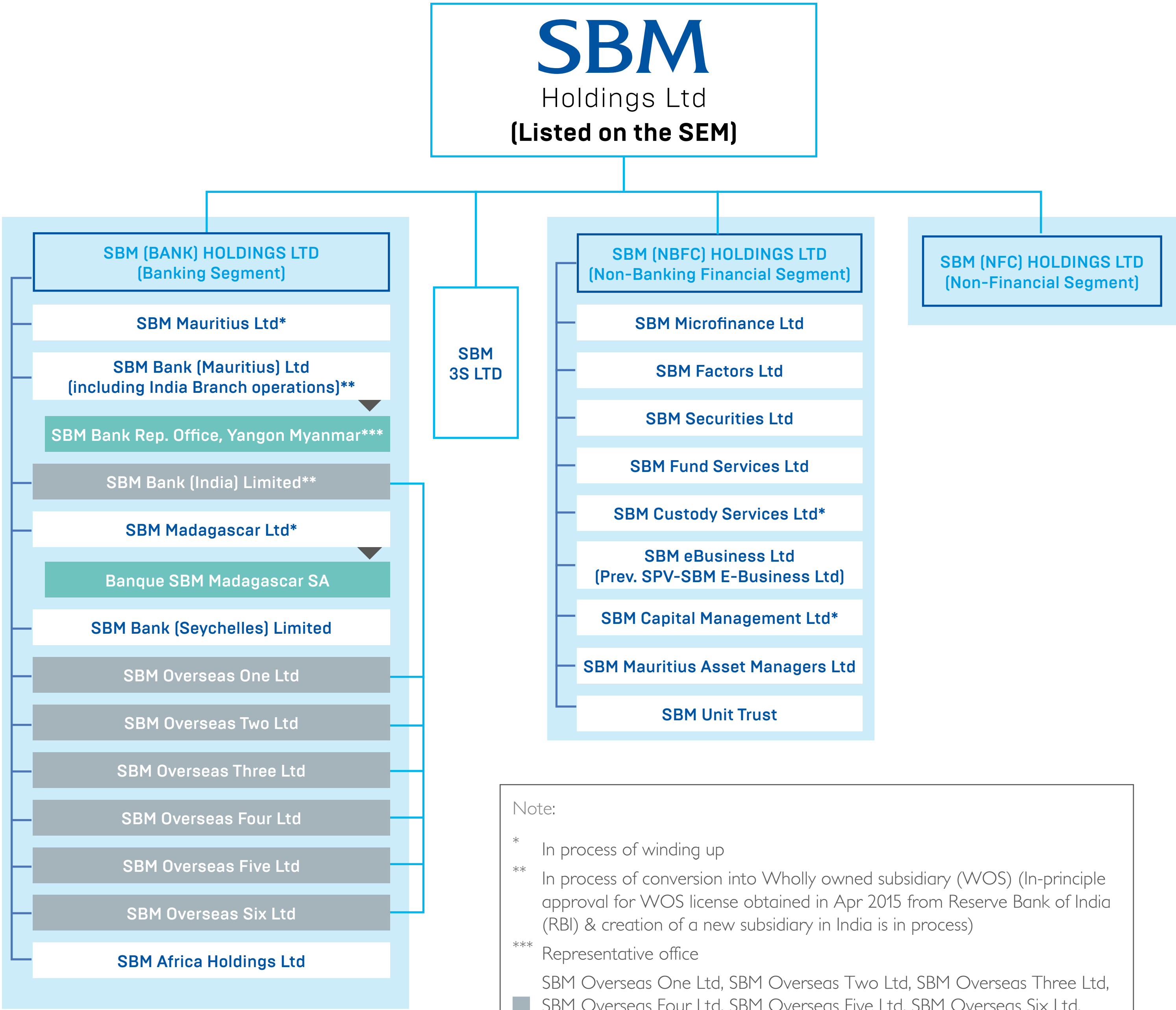
STEERING COMMITTEE ON SEYCHELLES

Non-executive responsibility for monitoring the implementation of the Seychelles expansion project

STRATEGY COMMITTEE

Non-executive responsibility to set/monitor the strategy, business plans, annual budget and capital budget of the Group

Group Structure



Note:

* In process of winding up

** In process of conversion into Wholly owned subsidiary (WOS) (In-principle approval for WOS license obtained in Apr 2015 from Reserve Bank of India (RBI) & creation of a new subsidiary in India is in process)

*** Representative office

SBM Overseas One Ltd, SBM Overseas Two Ltd, SBM Overseas Three Ltd, SBM Overseas Four Ltd, SBM Overseas Five Ltd, SBM Overseas Six Ltd. Each of the above companies will hold 1 share in SBM Bank (India) Limited.

SBM (Bank) Holdings Ltd

The Banking segment is clustered under SBM (Bank) Holdings Ltd which was incorporated in 2013 is wholly owned by SBMH and a non-operating Special Purpose Vehicle (SPV) holding investments in all bank operating companies of the Group. The banking operations for each different country/ geography/major segment will be carried out by a separate and independent bank subsidiary. In this manner, the banking operations in each operating company will be ring–fenced from the rest of the Group operations.

SBM (NBFC) Holdings Ltd

SBM (NBFC) Holdings Ltd, a wholly owned subsidiary of SBMH and a non-operating SPV company holding SBM Group's non-bank financial investments, is domiciled in Mauritius since 1999.

The following companies are 100% held by SBM (NBFC) Holdings Ltd:

(i) SBM Securities Ltd, operating since 1989;

(ii) SBM Mauritius Asset Managers Ltd, operating since 1995;

(iii) SBM Fund Services Ltd, operating since 1997;

(iv) SBM eBusiness Ltd (previously known as SPV-SBM E-Business Ltd), operating since 2014;

(v) SBM Microfinance Ltd, operating since 2016 and;

(vi) SBM Factors Ltd, operating since 2016

All the operating companies within this cluster are licensed and supervised by the Financial Services Commission of Mauritius.

SBM (NFC) Holdings Ltd

SBM (NFC) Holdings Ltd is a wholly owned subsidiary of SBMH and a non-operating company incorporated in 2011 holding SBM Group's investments in non-financial companies.

Corporate Governance Report (cont'd)

The Board of Directors ("the Board") is a body of elected members who jointly oversee the activities of SBMH and its subsidiaries. The Board's primary responsibility is to ensure the Group's prosperity by collectively directing its affairs, whilst meeting the appropriate interests of its shareholders and other stakeholders. The Board has ultimate responsibility for the management, direction and performance of the Group, and leads and controls the Group's business. The Board is also responsible for ensuring appropriate resources and controls are in place to achieve its strategy and deliver sustainable performance. Through authorities delegated to its committees, the Board directs and reviews the Group's operations within an agreed framework of controls, allowing risk to be assessed and managed within agreed parameters.

While the Board is accountable for oversight of the governance process, management is responsible for implementing the policies and procedures through which governance occurs within the Group. The Board is responsible for understanding and for advising management on the processes through which governance occurs within the Group, and is accountable for the results of those processes. The Board has further responsibility for ensuring that Management maintains both an effective system of internal controls and an effective risk management and oversight process. While discharging these responsibilities, the Board considers the Group's business and reputation, the materiality of risks that are inherent in the business and the costs and benefits of implementing controls. The Group's internal control system provides assurance of internal financial controls, compliance with laws and regulations, and effective and efficient operations.

The Board is directly accountable to the shareholders and, each year, SBMH holds an Annual Meeting at which the directors provide a report to shareholders on its performance, its future plans and strategies and also directors submit themselves for re-election to the Board.

Board Leadership and Committees

Experienced, effective and diverse leadership

Our business is led by our Board of Directors.

The Board of Directors of SBM Holdings Ltd has a unitary structure and presently comprises eight non-executive directors of which six are independent non-executive directors. Seven out of the eight directors were re-elected at the last Annual Meeting held in June 2016. Mr Azim Fakhruddin Currimjee was elected as director of the Company in place of Dr Jameel Khadaroo.

Mr Kee Chong Li Kwong Wing, *G.O.S.K.* was re-appointed as Chairman of the Board of SBMH on 28 June 2016. Brief profiles of the Directors are included at pages 144 to 147 of the annual report.

Board Diversity

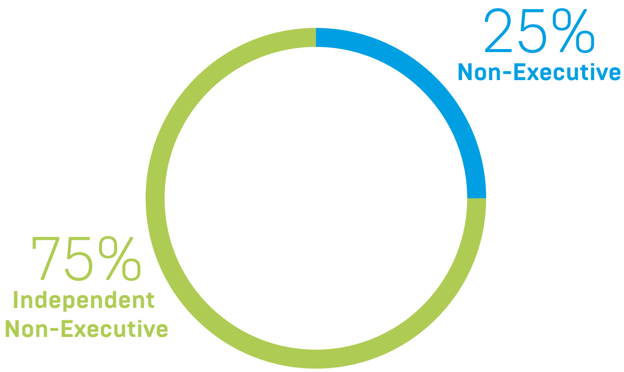
SBM Holdings Ltd understands the importance of having a Board containing the right balance of skills, experience and diversity, and the composition of the Board is regularly reviewed. The skills and experience of the current directors and the value they bring to the SBMH Board is described at pages 144 to 147.

The Board functions effectively and efficiently and is of an appropriate size for the Group, taking into account, among other considerations, the need to have a sufficient number of directors to structure Board Committees appropriately, regulatory requirements as well as the need to adequately address the Board's succession plans. Non-executive directors bring diverse perspectives to board deliberations, and are encouraged to constructively challenge the views of management. A clear division of responsibilities at the Board level ensures that no one director has unfettered powers in decision-making.

Each year, an effectiveness review is conducted in order to evaluate the performance of the Board, as well as the performance of each of the Board Committees. This annual review assesses whether the Board and Committees continue to discharge their respective duties and responsibilities effectively and is considered when deciding whether individual directors will offer themselves for election or re-election at the AGM. More information on the 2016 Board effectiveness review can be found on page 168.

Balance of Executive, Non-Executive and Independent Non-Executive Director

Composition of
The Board of Directors



Length of Tenure

LENGTH OF TENURE (Chairman & Non-Executive Directors)		
0-1 year	1	
1-3 years	7	

Corporate Governance Report (cont'd)

Accountability

The Board takes overall responsibility for the success of SBMH. Its role is to exercise leadership and sound judgment in directing SBMH to achieve sustainable growth and act in the best interests of shareholders.

Executive Directors

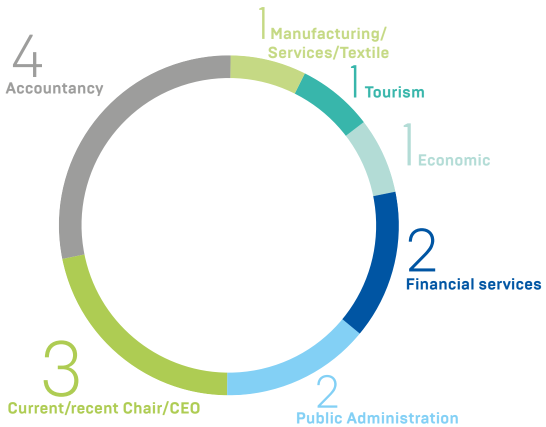
SBMH is currently in the process of recruiting personnel to fill key executive roles in particular the position of CEO. It is hoped that this exercise will be completed soon in order to ensure that Board composition meets the requirements of the Code of Corporate Governance.

Non-Executive Directors

Non-executive directors are not employees of SBMH and thus do not participate in its daily management. Each director is elected by a separate resolution at the Annual Meeting of Shareholders for a period not exceeding three years but in practice is subject to re-election at the Annual Meeting of Shareholders.

The Board members' collective experience and expertise provide for a balanced mix of attributes to fulfil their duties and responsibilities. The breadth of experience on the Board includes banking, risk management and regulatory, finance and accountancy, and public sector matters. The industry background of directors can be split as follows:

Industry/Background Experience



Note: The Directors have expertise in the domains as defined in the above table. Individual directors may however fall into one or more categories.

The below six members qualify as independent directors in accordance with the requirements of the Mauritius Code on Corporate Governance:

- Mr Kee Chong Li Kwong Wing, *G.O.S.K.*
- Mr Azim Fakhruddin Currimjee
- Mr Maxime Hardy
- Mr Ramprakash Maunthrooa
- Mr Roodesh Muttylall
- Mr Ouma Shankar Ochit

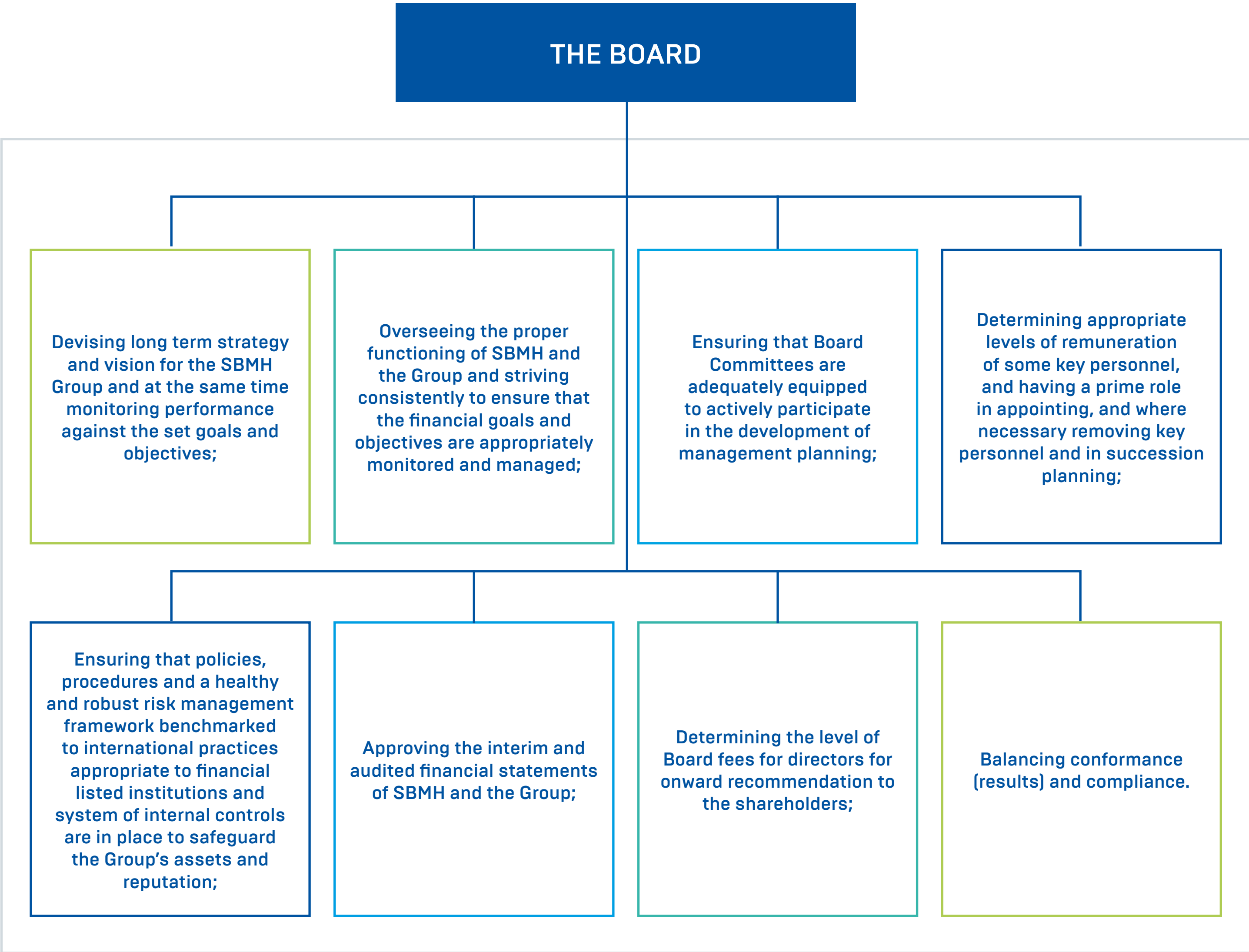
Independent Director

The Code defines an independent director as someone who:

- is not a representative or member of the immediate family (spouse, child, parent, grandparent or grandchild) of a shareholder who has the ability to control or significantly influence the board or management. This would include any director who is appointed to the board (by virtue of a shareholders' agreement or other such agreement) at the instigation of a party with a substantial direct or indirect shareholding in the Company;
- has not been employed by the company or the group of which the company currently forms part, in any executive capacity for the preceding three financial years;
- is not a professional advisor to the company or the group other than in a director capacity;
- is not a significant supplier to, debtor or creditor of, or customer of the company or group, or does not have a significant influence in a group related company in any one of the above roles;
- has no significant contractual relationship with the company or group;
- is free from any business or other relationship which could be seen to materially impede the individual's capacity to act in an independent manner;
- in the case of banks, the Bank of Mauritius' definition of independent director applies.

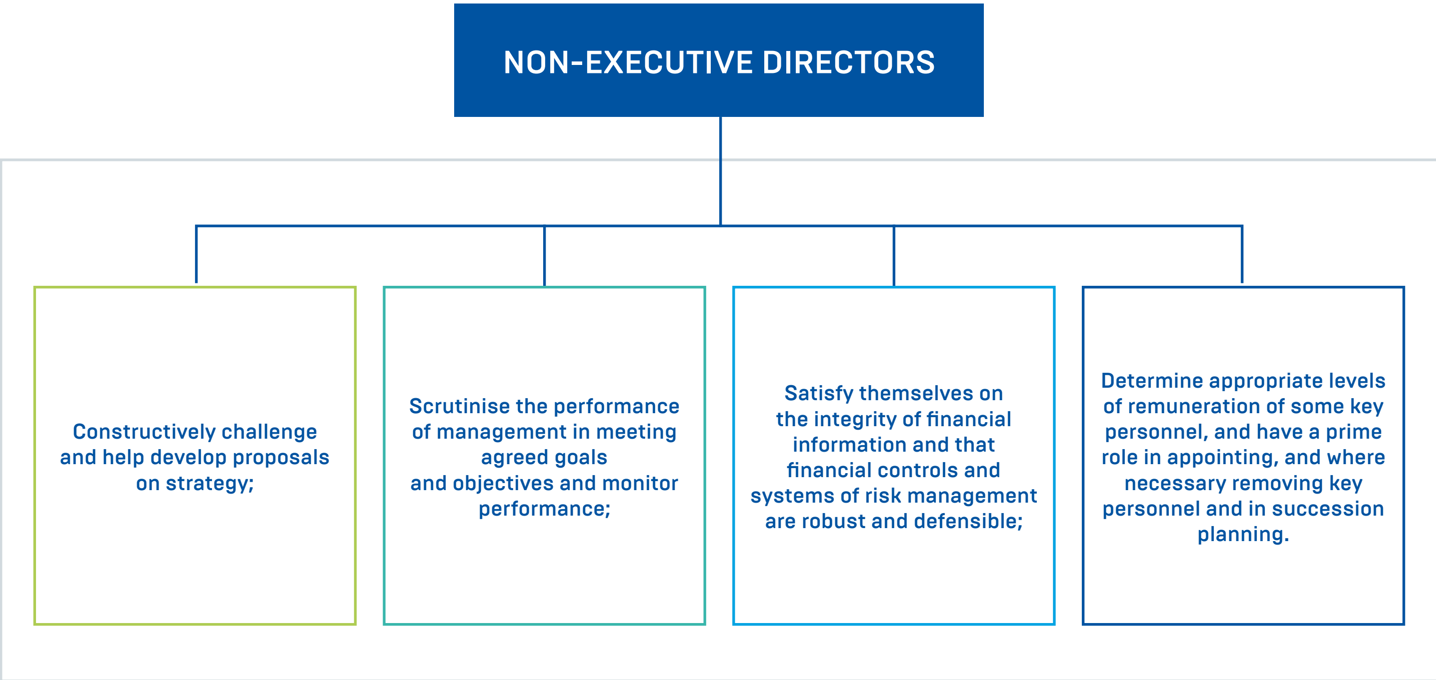
Powers of the Board

The key roles and responsibilities of the Board of Directors are set out in SBMH's Constitution and in the Terms of Reference for the Board. The Board is aware of its responsibility to ensure that the Group adheres to all relevant legislations such as the Banking Act 2004, the Financial Services Act 2007, the Financial Reporting Act 2004, the Companies Act 2001 as well as the Stock Exchange of Mauritius Listing Rules. The Board also follows the principle of good corporate governance as recommended in the National Code on Corporate Governance. The roles and responsibilities of the Board of SBMH are defined below:



Corporate Governance Report (cont'd)

Roles and Responsibilities of Non-Executive Directors



Key Management Personnel

No Key Management Personnel is currently employed in SBM Holdings Ltd. A brief profile of the Chairman and Chief Executive of each Group cluster is given on pages 144 to 150.

Board Meetings

The Board holds a minimum of four Board meetings annually and Special Board meetings are convened when necessary. Eighteen Special Board meetings were held during the reporting period. An off-site strategy retreat meeting was also organised in November 2016 to discuss the Budget and Strategy of the Group and its Subsidiaries for Financial Year 2017.

Attendance of the Board/Board Committees of SBM Holdings Ltd ('SBMH')

The table below shows each Director's attendance at meetings of all Board and Committee meetings of SBMH during 2016.

	Note	Board	Audit Committee	Corporate Governance & Conduct Review Committee	Investment & Credit Committee	IT Steering Committee	Regional Expansion Steering Committee	Remuneration Committee	Risk Management Committee	Steering Committee on Seychelles	Strategy Committee	Sub Committee (Strategy Retreat)	Flamingo Project Monitoring Committee	AGM
No. of meetings held		23	5	5	3	7	7	6	4	4	4	1	29	1
Directors	Note													
Mr Kee Chong Li Kwong Wing, *G.O.S.K.*[1]	a	22	-	-	3	6	7	5	4	4	4	1	-	1
Mr Azim Fakhruddin Currimjee[2]	a	11	2	2	-	-	2	-	2	2	1	-	-	-
Mr Medha Gunputh[3]	b	19	-	4	3	7	3	6	3	4	3	-	28	1
Mr Maxime Hardy[4]	a	22	5	5	-	-	-	6	-	4	-	1	-	1
Dr Jameel Khadaroo[5]	a	9	3	-	-	5	3	-	2	4	-	-	-	-
Mr Vidianand Lutchmeeparsad[4]	b	23	-	5	-	6	6	3	4	-	4	-	-	1
Mr Ramprakash Maunthrooa[4]	a	18	-	1	-	3	3	1	-	-	2	-	-	1
Mr Roodesh Muttylall[4]	a	19	5	4	3	-	-	-	-	1	-	1	-	1
Mr Ouma Shankar Ochit[4]	a	20	5	-	3	-	-	-	4	-	2	-	-	1
In Attendance														
Mr P Ah-Chuen[6]	-	1	-	-	-	6	-	-	-	-	-	1	-	-
Mr C Appadoo[10]	-	5	2	1	-	5	-	1	-	3	-	1	3	-
Mr N Koomar Ballah[6]	-	3	-	-	-	1	-	-	-	-	-	1	-	-
Mr E Balloo[10]	-	-	-	-	-	-	-	-	-	4	-	-	-	-
Mr M Burkutoola[6]	-	1	-	-	-	7	-	-	-	-	-	-	20	-
Mr R Chellapermal[6]	-	3	-	-	-	2	-	-	-	-	-	1	-	-
Mr R Hurdoyal[11]	-	2	-	-	-	-	-	-	-	-	-	1	-	-
Mr R Dussoye[7]	-	7	-	-	-	2	2	1	-	2	1	-	8	-
Mr I A Gaya[6]	-	1	-	-	-	2	-	-	-	-	-	1	12	-
Mr A Gujjalu[10]	-	-	-	-	-	-	-	-	-	2	-	-	-	-
Mr V Lochun[8]	-	1	-	-	-	5	-	-	-	-	-	-	14	-
Ms P Seeyave[9]	-	-	-	-	-	-	-	-	-	1	-	-	14	-
Mr J Sonoo[7]	-	10	-	2	1	7	5	4	1	3	2	1	22	-

Note:

[1] Appointed on 14 April 2015

[2] Appointed on 28 June 2016

[3] Appointed on 04 February 2015

[4] Appointed on 30 June 2015

[5] Resigned on 28 June 2016

[6] Director of SBM Bank (Mauritius) Ltd, appointed as Member of IT Steering Committee

[7] SBM Executive Management

[8] Former Director of SBM Bank (Mauritius) Ltd and Member of IT Steering Committee who resigned on 27 June 2016

[9] SBM Executive Management who resigned effective July 2016

[10] SBM Executive Management and Member of the Steering Committee on Seychelles

[11] Director of SBM Bank (Mauritius) Ltd

Corporate Governance Report (cont'd)

Board Focus Areas in 2016

The following key topics were discussed at Board level during the reporting year:

Strategy

- Reviewed the strategic orientations and budget plans of all the banking and non-banking entities of the Group
- Monitored the regional expansion initiatives in the following regions:
  - East Africa
  - Seychelles
  - WOS Initiatives
- Enlisted the services of an external consultant to review the governance structure of the Group
- Monitored the implementation of initiatives proposed by McKinsey, an international consultancy firm hired to devise the five year strategy roadmap for the Group

Governance

- Reviewed the structure, size and composition of the Board and Board Committees
- Reviewed the findings of the evaluation of the Board and its committees
- Reviewed the related party transactions on a quarterly basis
- Reviewed the terms of reference of the Board and Board Committees

Finance

- Reviewed and approved the Group's consolidated financial statements on a quarterly basis
- Assessed and monitored the Group's financial performance against budget
- Approved declaration of dividend
- Reviewed the valuation of equity investments held by the Group
- Reviewed the reports from Internal Audit and Fraud Risk

Technology

- Monitored the implementation of the Flamingo Project

Focus for the year ahead

- Embedding the board succession plans and ensuring and enhancing the effective functioning of the Board as a cohesive unit;
- Continuing to monitor the implementation of the approved IT governance framework;
- Measuring progress against strategic objectives and monitoring the group's operational and financial performance;
- Partnering with management in ensuring that the culture of talent development is embedded across the Group;
- Monitoring the Group regional expansion initiatives.

BOARD COMMITTEES CROSS MEMBERSHIP

The Table below details the cross membership at Board Committees of SBMH:

	Audit Committee	Corporate Governance & Conduct Review Committee	Investment & Credit Committee	IT Steering Committee	Regional Expansion Steering Committee	Remuneration Committee	Risk Management Committee	Steering Committee on Seychelles	Strategy Committee	Board
Audit Committee	X	3	2	2	1	1	2	2	2	4
Corporate Governance & Conduct Review Committee	3	X	3	2	4	4	3	3	4	6
Investment & Credit Committee	2	2	X	3	3	3	3	2	4	5
IT Steering Committee	2	2	3	X	3	2	4	3	4	4
Regional Expansion Steering Committee	1	4	3	3	X	4	4	3	5	5
Remuneration Committee	1	4	3	2	4	X	3	3	4	5
Risk Management Committee	2	3	3	4	4	3	X	3	5	5
Steering Committee on Seychelles	2	3	2	3	3	3	3	X	3	4
Strategy Committee	2	4	4	4	5	4	5	3	X	6
Board	4	6	5	6	5	5	5	7	6	X

Corporate Governance Report (cont'd)

Separation of the Roles of Chairman and Chief Executive

The separation of the Chairman and CEO roles increases the Board's independence from management and thus leads to more effective monitoring and oversight.

It is the responsibility of the Chairman to lead the Board and to ensure that it operates effectively, whilst the responsibility for the day-to-day management would rest with the Chief Executive.

Mr Kee Chong Li Kwong Wing, *G.O.S.K.*, is presently the Chairman of SBM Holdings Ltd and is an independent non-executive director.

KEY RESPONSIBILITIES OF THE GROUP CHAIRMAN

- Leads the Board and ensures its effectiveness in terms of implementing the Group's strategies;
- Sets the Board agendas in consultation with the Company Secretary and directors;
- Ensures that Committees are properly structured with appropriate terms of reference;
- Leads the Group's interactions on matters of public policy and regulatory reform with regard to the banking and financial services industry;
- Ensures that directors receive accurate, timely and clear information; and
- Ensures that the development needs of directors are identified and appropriate training is provided.

SBM Holdings Ltd is seeking to recruit a Chief Executive with the appropriate background and skills in order to foster a corporate culture that promotes sustainable ethical practices, encourages individual integrity and fulfils social responsibility objectives and imperatives, while ensuring all employees maintain a commercial mind-set and drive the business forward. The Chief Executive would also be responsible for driving business growth and fostering synergy across the Group.

Appointment, Retirement and Re-election of Directors

Board members with diverse skills and backgrounds foster debate and discussion in the decision-making process. Well-thought-out succession planning can improve the composition and effectiveness of boards.

The Board of SBMH ensures effective succession planning, that is, at the time a director retires, the Board ascertains that candidates with sufficient skills and experience are identified to ensure that the Board's competence and balance is maintained or enhanced, taking into account the Group's current and future needs. Appointments to the Board are made in a formal and transparent manner and are a matter for the Board as a whole.

Constitution of SBMH

Section 14.1

- the number of Directors shall not be less than **Seven (7)** nor more than **Eleven (11)**'.

Section 14.2

- 'No Director shall be required to hold shares in the Company to qualify him for appointment/ election'.
- 'No person shall however be qualified for appointment/election as a Director (or alternate Director) unless he holds a degree or an equivalent qualification from a recognized University or Institution'
- 'No person shall if he does not qualify to be a fit and proper person as per the criteria laid down in the relevant BOM guideline and/or has ever been convicted of an offence relating to financial crime or other criminal acts shall be eligible for election or appointment as a director on the Board of Directors of the Company'.

Section 14.3

- Each Director shall be elected by a separate resolution at the Annual Meeting of Shareholders, for a period not exceeding three years and maybe re-elected for a second term not exceeding three years and thereafter shall be eligible for re-election after a cooling period of two years or as permitted by the Bank of Mauritius. ["Year" shall mean in the present context any period between two Annual Meetings].

In practice however and in accordance with the Code of Corporate Governance, elections are held on a yearly basis at SBMH's Annual Meeting of Shareholders. In addition to the candidate's experience, availability and background, the Board also considers the individual's other directorships and commitments to ensure that they will have sufficient time to discharge their roles. Candidates must also satisfactorily meet the fit and proper test, as required by the Bank of Mauritius Guidelines on Fit and Proper Persons.

Induction

Induction and training programs for directors are a fundamental tool to improve the effectiveness of corporate governance.

On appointment to the Board, all Directors go through a comprehensive induction process which is formal and tailored to the new Director's individual requirements. Induction is designed to enable them to be acquainted with the vision, business, strategic direction, financial matters, values, code of ethics and conduct as well as best Corporate Governance practices and other key policies and practices of the Group.

On completion of the induction programme, the Director should have sufficient knowledge and understanding of the nature of the business, and the opportunities and challenges facing SBMH, to enable them to effectively contribute to strategic discussions and oversight of the Group.

SBMH also ensures that every new director is briefed on the Corporate Governance policies of the group and actively participates in the induction process. From time to time and during formal sessions, the board receives presentations about the businesses and operations, as well as their strategic plans, financial, accounting, legal and risk management matters, and adjustment programs. These periodic presentations also cover Corporate Governance matters, trust obligations and responsibilities of the Directors, legal and regulatory developments, as well as any other topic deemed relevant by the Board. In addition, an induction pack is also provided to each newly appointed director.

Corporate Governance Report (cont'd)

Training and Development

In order to ensure that our non-executive Directors have the necessary knowledge and understanding of the Group's business to enable them to contribute effectively at Board and Board Committee meetings, the Directors may participate in external training organized by SBMH. During the year, the Directors of SBMH and its Subsidiaries received training on the following topics:

- The New Corporate Governance Code for Mauritius – Organised by MIOD
- Launch of Audit Committee Forum Paper 4: Guidelines for the Audit Committee's assessment and response to the Risk of Fraud – Organised by MIOD;
- Introductory Course to Common Reporting Standard provided by Trainer Jurisconsult
- Training on Fraud Risk (In-house - Fraud Risk Team)

Board Performance Evaluation

Good Governance encourages the Board to undertake a formal, regular and rigorous evaluation of its own performance and that of its committees and of individual directors and produce a development plan on an annual basis.

The Board of SBMH is committed to regular evaluation of its own effectiveness and that of its committees. The Chairman plays a crucial role in the Board's overall effectiveness. A self-evaluation questionnaire has been designed to evaluate the performance of its board and board committees. Each director is requested to give his score in strict confidence to a set of parameters for the Board and Board Committees on which he serves on an annual basis. The score of each of the parameters are consolidated and these results are presented to the Board and their respective committees.

The Board monitors the implementation of actions arising from each performance evaluation.

Board Evaluation 2016

Overall, Directors felt that the Board is highly effective, engagement is robust and open dialogue is encouraged.

Conflicts of interest, indemnification of Directors and contracts of significance

Section 148 of the Companies Act 2001 requires that a director who has a personal financial interest in respect of a matter to be considered at a meeting of the board or knows that a related person has a personal financial interest, to disclose the interest and its general nature, withdraw himself/herself and not take part in the decision making process on that matter.

Directors' interest and dealings in SBM shares

The directors of SBMH confirm that they have followed the absolute prohibition principles and notification requirements of the model code for securities transactions by directors as set out in Appendix 6 of the Stock Exchange of Mauritius Listing Rules. All new directors are required to notify the company secretary in writing of any holdings in the Group's securities.

The table below outlines the interests of the Directors of SBMH in SBMH and its subsidiaries at 31 December 2016.

Directors	Direct shareholding	Indirect shareholding
Mr Kee Chong LI KWONG WING, *G.O.S.K.*	-	284,320

No other director held shares in SBMH or its subsidiaries either directly or indirectly as at 31 December 2016 apart from the above mentioned director.

The Company Secretary maintains a register of directors' interests and ensures that the Group complies with the provisions of the Companies Act in this regard.

Remuneration of the Directors

The following table relates to the remuneration and benefits received by the directors of SBMH and its subsidiaries during the financial year.

	2016		2015	
Name of Non-Executive Directors	SBM Holdings Ltd	Other Subsidiaries	SBM Holdings Ltd	Other Subsidiaries
	MUR'000	MUR'000	MUR'000	MUR'000
Mr Kee Chong Li Kwong Wing, *G.O.S.K.*	2,505	1,350	1,010	1,645
Mr Azim Fakhruddin Currimjee[1]	645	-	-	-
Mr Medha Gunputh	1,740	240	425	100
Mr Maxime Hardy	735	-	250	-
Dr Jameel Khadaroo[2]	615	120	475	100
Mr Vidianand Lutchmeeparsad	1,120	-	475	-
Mr Ramprakash Maunthrooa	1,080	480	450	-
Mr Roodesh Muttylall	690	-	250	-
Mr Ouma Shankar Ochit	900	240	375	-
Directors of SBM Bank (Mauritius) Ltd				
Mr Philip Ah-Chuen[3]	90	1,080	-	525
Mr Nayen Koomar Ballah[3]	90	3,000	-	1,065
Mr Mahmadally Burkutoola[3]	240	1,231	-	495
Mr Rajakrishna Chellapermal[3]	90	960	-	480
Mr Anoopum Ishwar Gaya[4]	210	240	-	-
Mr Vivekanand Lochun[5]	235	405	-	465
Executive Directors of SBM Bank (Mauritius) Ltd				
Mr Jairaj Sonoo[6]	-	21,023	-	17,945
Mr Chandradev Appadoo[7]	-	9,973	-	9,894
Mr Raj Dussoye[8]	-	4,252	-	-
Ms Pauline Seeyave[9]	-	5,710	-	9,768
TOTAL	10,985	50,096	3,710	42,482

[1] Appointed on 28.06.2016

[2] Retired on 28.06.2016

[3] Directors of SBM Bank (Mauritius) Ltd and also Member of IT Steering Committee

[4] Appointed on 27.06.2016

[5] Retired on 27.06.2016

[6] Remuneration is for the full year, and includes the period where Mr Sonoo did not serve as Executive Director

[7] Divisional Leader of SBM Bank (Mauritius) Ltd / Executive Director of the Bank and other Subsidiaries of SBMH

[8] Chief Executive of SBM Bank (Mauritius) Ltd / Executive Director of the Bank and other Subsidiaries of SBMH, appointed as Director as from 16.08.2016

[9] Resigned on 22.07.2016

Corporate Governance Report (cont'd)

Directors are also entitled to an allowance when travelling overseas on behalf of SBM Holdings Ltd.

Executives are not paid any director fee for serving on the Board of subsidiaries or investee companies where the Group holds shares.

Directors' Service contracts

There were no service contracts between SBM Holdings Ltd and its directors during the year.

Directors and Officers Liability Insurance

The Group has subscribed to appropriate insurance cover in respect of legal action or liability against its directors and officers.

BOARD COMMITTEES

Good governance requires the setting up of appropriate Board Committees to assist the Board in the effective performance of its duties.

The SBMH Board has established ten Board Committees to help it in discharging its duties and responsibilities as detailed below. Each Board Committee has specific responsibilities delegated to it by the Board. The Committees report to the Board through their respective chairpersons and minutes of all Committee meetings are submitted to the Board. In addition, Committee chairpersons provide verbal updates/reports at each quarterly meeting of the Board and are required to respond to appropriate and legitimate questions on the activities of the Committee since the previous quarterly Board meeting. The Board Committees of SBM Holdings Ltd are as follows:

- Audit Committee
- Corporate Governance & Conduct Review Committee
- Investment & Credit Committee
- IT Steering Committee
- Regional Expansion Steering Committee
- Remuneration Committee
- Risk Management Committee
- Steering Committee for East Africa*
- Steering Committee on Seychelles
- Strategy Committee

All committee nominations are made by the Board of SBM Holdings Ltd.

*The Steering Committee for East Africa was established in February 2017.

Board and Board Committee Meetings are held at least once quarterly to enable directors to discharge their responsibilities to maintain the Group's overall position, strategy and policy and to monitor the exercise of any delegated authority and so that individual directors can report on their particular areas of responsibility.

The Board reviews each Committee's mandate at least once annually. The mandates set out the role, responsibilities, scope of authority, composition, terms of reference and procedures for each Committee. The Board ensures that SBMH and its subsidiaries are being managed in line with the Group's objectives through the deliberations and reporting of its various committees.

The composition and terms of reference of the Board Committees, which have been approved by the Board of SBMH, are listed below.

(i) AUDIT COMMITTEE

The Audit Committee plays essential role in ensuring the integrity and transparency of corporate reporting and provides key links between management, the board and external auditors. The committee is able to focus on the key issues facing the organisation and oversees management's financial reporting controls and processes' through the review of significant accounting and reporting issues.

Composition and Purpose

The Audit Committee of SBMH assists the Board in fulfilling its oversight responsibilities, in particular with regard to evaluation of the adequacy and efficiency of accounting policies, internal controls and financial and corporate reporting processes. In addition, the Audit Committee assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors.

The committee comprises four independent non-executive directors and is chaired by Mr Ouma Shankar Ochit.

The other three members are:

- Mr Azim Fakhruddin Currimjee
- Mr Maxime Hardy
- Mr Roodesh Muttylall

The responsibilities of the Audit Committee are:

Financial Reporting	• Provide assurance that financial disclosures made by management reasonably portray SBMH and its subsidiaries financial conditions, results of operations and long term commitments. To accomplish this, the Audit Committee shall critically review the draft financial and interim reports, prospectus and other financial circulars/documents; • 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; • Consider the validity of any changes in accounting treatment or disclosure by comparing with the previous year; • Review critical accounting issues; • Review significant estimates based on judgment which are included in the financial statements; • Review adequacy of provisions including provision for credit impairment losses; • Consider any difference of opinion between auditors and management on the level of provisions, on accounting treatment or on disclosure; • Discuss with senior management and external auditors the overall results of the audit, quality of financial statements and any concerns raised by external auditors; • Review the financial reporting process with a view to ensuring Group compliance with accounting standards and financial matters and the applicable laws and regulations

Corporate Governance Report (cont'd)

External Audit	• Make recommendations for the appointment and retention of the external auditors; • Review and discuss the scope of the audit and audit plan, including for the subsidiaries; • Consider differences of opinion between management and the external auditor; • Evaluate the performance, objectivity and independence of the external auditor; • Review the nature and extent of non-audit services provided by the external auditors; • Obtain assurance from the auditors that adequate accounting records are maintained; • Receive audit reports and ensure that management is taking appropriate corrective action in a timely manner to address control weaknesses and non-compliance with laws and policies identified by auditors.
Internal Audit	• Review the objectives of the internal audit function and the annual plan of action; • Review the scope of internal audit and approve the audit plan to ensure that these are risk-based and address all activities over a measurable cycle; • Assess the adequacy and performance of the internal audit function and the adequacy of available resources; • Review significant matters reported by the internal auditor; • Review significant differences between Management and the internal auditors; • Review the cooperation and coordination between the internal and external Auditors.
Internal Control Systems	• Review the systems of internal controls to ascertain its adequacy and effectiveness; • Ensure that there is appropriate structure for identifying, monitoring, managing compliance risk as well as reporting system to advise the Committee of non-compliance on a timely basis; • Review and discuss any previously identified material weaknesses in controls and deficiencies in system; • If considered necessary, recommend additional procedures to enhance the system of internal controls; • Review internal and external auditors' reports (management letter) and management's response thereto and consider status of actions taken by management; • Receive audit reports and ensure that management is taking appropriate corrective action in a timely manner to address control weaknesses and non-compliance with laws and policies identified by auditors; • Review response thereto and consider status of actions taken by management; • Identify any change necessary to the agreed audit scope or to other services as a result of any weaknesses or deficiencies revealed.

During 2016, the Audit Committee met five times and the attendance is provided on page 163.

Focus for the year 2016

- Reviewed the Interim/Audited Consolidated Accounts of the Group and each holding entity;
- Recommended payment of interim dividend to the Board;
- Reviewed the report from the Internal Audit and Fraud Risk;
- Reviewed and monitored the NPAs;
- Reviewed and monitored the implementation of the IFRS 9 standard which would become effective as from January 2018;
- Reviewed the valuation of equity investments.

Focus for the year 2017

- Continue to ensure that the Group's financial systems, processes and controls are operating effectively, are consistent with the Group's complexity and are responsive to changes in the environment and industry;
- Continue to monitor the activities of external audit, internal audit, compliance and financial crime control as they pertain to the regulatory and internal control environment of the Group;
- Continue to monitor regulatory developments, feedback from the Group's response to interaction with regulators;
- Review reports relating to financial crime, material incidents, mitigation strategies and remedial actions;
- Review reports from management;
- Review and consider management plans in respect to future changes to accounting standards.

(ii) CORPORATE GOVERNANCE & CONDUCT REVIEW COMMITTEE

A comprehensive corporate governance framework is vital as it helps ensure that shareholders' investment in SBMH is protected, while recognising the interests of wider stakeholders.

The Corporate Governance & Conduct Review Committee ensures that the Group's policies on corporate governance are in accordance with the applicable laws and regulations and good corporate governance. The Committee is chaired by Mr Roodesh Muttylall and has five members of whom three are independent non-executive and two are non-executive directors, namely:

- Mr Azim Fakhruddin Currimjee
- Mr Medha Gunputh
- Mr Maxime Hardy
- Mr Vidianand Lutchmeeparsad
- Mr Ramprakash Maunthrooa

The roles and responsibilities of the Corporate Governance & Conduct Review Committee include the following:

- Advise the Board on all aspects of corporate governance and recommend the adoption of best practices as appropriate for SBMH as well as the Group;
- Determine and develop the Group's general policy on corporate governance in accordance with the applicable Code of Corporate Governance and best international practices;
- Annually review the Group's policies - such as related party policy and conflict of interest policy, amongst others - and procedures to ensure their continuing adequacy and enforcement;
- Recommend to the Board any closed period during which the directors and any other persons in the Group who are privy to price sensitive information shall not be permitted to trade in shares or securities of the Group;
- Review the corporate governance report to be published in SBMH's annual report;
- Ensure that disclosures are made in the annual report in compliance with the Companies Act, Corporate Governance Code and SEM Listing Rules and any other applicable laws;
- Report any breach of the Corporate Governance Code to the Board of SBMH for any remedial action;
- Review any statements on ethical standards or requirements for SBMH and assist in developing such standards and requirements;
- Give recommendations on situations involving any breach of the SBMH's Code of Ethics;
- Monitor developments in the area of corporate governance and recommend initiatives to maintain the highest standards of corporate governance;
- Fulfill its oversight responsibilities with regards to the size, composition and structure of the Board and its committees;
- Ensure accurate disclosure of directors` remuneration and that transactions with related parties are at arm's length;
- Assess non-financial management policies and practices relating to safety, health and environment, equal opportunities and human capital development;
- Provide all directors with appropriate continuing training opportunities so as to maintain and/or enhance their skills and abilities as directors;
- Propose and review annually the Corporate Social Responsibility plan and budget;
- Review all proposed significant related party transactions and situations involving a Board member or affiliate's potential or actual conflict of interest;
- Review credit exposures to related parties / directors;
- Review all proposed material transactions and practices of SBMH to ensure that any transaction with the related parties that may have a material effect on the stability and solvency of SBMH or the Group are identified and dealt with in a timely manner;
- Report periodically to the Board of directors on matters reviewed by it, including exceptions to policies, processes and limits.

Corporate Governance Report (cont'd)

During 2016, the Corporate Governance & Conduct Review Committee held five meetings and its attendance is set out on page 163.

The Committee's key focus areas during the year included:

- Review of related party transactions on a quarterly basis
- Review of the terms of reference of the Board and Board Committees
- Review of the interim Governance Review Report received from the external consultant

Focus for the year ahead

- Evaluate the adequacy, efficiency and appropriateness of the governance framework and practices across the group on an on-going basis;
- Ensure corporate governance best practice and statutory compliance;
- Review related party transactions.

(iii) INVESTMENT & CREDIT COMMITTEE

"The quality of the Group's credit and investment portfolio are sound and conservatively determined considering the challenging macroeconomic conditions".

The Investment & Credit Committee is chaired by Mr Kee Chong Li Kwong Wing, *G.O.S.K.* and has four members of which three are independent non-executive and one non-executive. The members are:

- Mr Medha Gunputh
- Mr Ramprakash Maunthrooa
- Mr Roodesh Muttylall
- Mr Ouma Shankar Ochit

The key responsibilities of the Investment & Credit Committee are:

- Ensure that the Group's credit risk policies and procedures are implemented and applied consistently across the Group;
- Review the methodologies for assessing the Group risk and country risks and recommend appropriate exposure limits;
- Ensure that credit exposure limits are in line with the Group's strategy and risk appetite;
- Ensure that concentrations of risks are within the risk tolerance of Group entities;
- Review and recommend substantial equity and investment proposals;
- Implement sound and effective investment policies in line with the Group's strategy and objectives;
- Review and monitor Group investment and credit policies, and recommend changes where required.

During 2016, the Investment & Credit Committee held three meetings. Attendance is set out on page 163.

Focus for the year 2016

- Review the Group's credit portfolio;
- Review the Group's investment portfolio.

Focus for the year ahead

- Review the Group's credit and investment portfolios;
- Review the equity investments made by the Group;
- Implement sound and effective investment policies in line with the Group's strategy and objectives.

(iv) IT STEERING COMMITTEE

The IT Steering Committee was established to monitor the implementation of the Flamingo project. Mr Kee Chong Li Kwong Wing, *G.O.S.K.* is the Chairman of the IT Steering Committee. The IT Steering Committee was re-constituted effective February 2017 and comprises the following members:

Representatives of the Board of SBM Holdings Ltd

- Mr Kee Chong Li Kwong Wing, *G.O.S.K.* - Chairman
- Mr Azim Fakhruddin Currimjee
- Mr Medha Gunputh
- Mr Ouma Shankar Ochit

Representatives of the Board of SBM Bank (Mauritius) Ltd

- Mr Mahmadally Burkutoola
- Mr Ishwar Anoopum Gaya

The main responsibilities of the IT Steering Committee include the following:

- Set metrics dashboard of the IT function across:
  - Performance with respect to. the regulatory and compliance framework;
  - Performance monitoring of SLAs and deliverables of key service providers;
  - Delivery status of strategic programmes – quality, timelines and financial (e.g.: India operations system upgrade, Seychelles IT program status, Website upgrade);
  - Performance of Enterprise IT Infrastructure (EITI) in terms of downtimes;
- Monitoring usage by SBM users of delivered and completed programs;
- Report key issues for the month and action plan for issue closure

- Approve the approach of new key IT innovation based initiatives. These initiatives will be in line with the 5 year strategic objective plans around:
  - Data governance, analytics and business intelligence driven dashboards;
  - Mobility and 'App' based solutions;
  - Approach to refresh the customer experience across channels;
  - Cloud based solutions on a 'pay as you use' instead of upfront capital expenditure;
  - Software robotics to automate processes;
  - Use cases for SBM around new technologies related to blockchain, facial recognition, augmented and virtual reality.

During 2016, the IT Steering Committee held seven meetings and its attendance is provided on page 163.

Focus for the year 2016

- Implementation of the core banking system for Madagascar (May 2016) and Mauritius (September 2016)
- Addressing the challenges experienced with the implementation of the IT platform for Madagascar and Mauritius

Focus for the year ahead

- Focus on the implementation of the IT Platform for the following:

  a. SBM Seychelles Operation

  b. SBM India Operations

  c. Other overseas expansion initiatives to be adopted by the Group
- Continue tracking the challenges experienced with the implementation of the IT platform for Madagascar and Mauritius
- New IT innovation based initiatives to be implemented to become a "digital entity"," such as Omni channel

(v) REGIONAL EXPANSION STEERING COMMITTEE

The Regional Expansion Steering Committee has been established to define the Group strategies for geographical expansion. It is chaired by Mr Kee Chong Li Kwong Wing, *G.O.S.K.* and the other members are:

- Mr Azim Fakhruddin Currimjee
- Mr Medha Gunputh
- Mr Vidianand Lutchmeeparsad
- Mr Ramprakash Maunthrooa

The responsibilities of the Committee are as follows:

- Define strategies coupled with intent for geographical expansion in defined markets;
- Target and identify appropriate and suitable acquisitions/joint venture partners, as the case may be, aligning to the strategic intent of the Group;
- Take suitable steps/decisions regarding the appointment of competent teams/firms, with regards to due diligence in respect of accounting, legal and valuation matters;
- Review recommendations of consultants, including valuations of identified targets in line with the strategic intent of the Group;
- Take a decision with regards to negotiations with the appropriate target(s) in terms of acquisition and/or the joint venture(s) and make recommendations to the Board;
- Take such other steps as may be incidental to the objective of geographic expansion in line with the strategic intent of the Group.

During 2016, the Regional Expansion Steering Committee held seven meetings and its attendance is set on page 163.

Focus for the reporting year

- Potential acquisition of the Fidelity Commercial Bank situated in Kenya
- Implementation of the Seychelles Operation
- Exploring other potential targets in East Africa
- Implementation of the wholly-owned subsidiary (WOS) initiative in India

Focus for year 2017

- Establish the following operations:

  a. SBM Bank (Seychelles) Limited during Q2

  b. SBM Bank (Kenya) Limited during Q2;

  c. SBM India WOS during Q4
- Extend the Group's presence in other jurisdictions through the setting up of representative offices
- Pursue with the geographical expansion in defined markets

Corporate Governance Report (cont'd)

(vi) REMUNERATION COMMITTEE

"The Committee remains focused on ensuring that employees are paid based on performance and also that pay is set at a level which allows the Group to attract, retain and motivate employees, but is no more than necessary to ensure that the Group accelerates the delivery of shareholder value".

The remuneration policy underpins the Group's strategic objectives through balancing reward for both short-term and long-term sustainable performance.

Mr Medha Gunputh is the Chairman of the Remuneration Committee and the other members are:

- Mr Maxime Hardy
- Mr Kee Chong Li Kwong Wing, *G.O.S.K.*
- Mr Vidianand Lutchmeeparsad
- Mr Ramprakash Maunthrooa

The responsibilities of the Remuneration Committee are as follows:

- Review on an annual basis the remuneration policy and HR related policies of the Group;
- Review and approve performance based remuneration by reference to the Group's goals and objectives and review Key Performance Indicators (KPI);
- Ensure that Board members receive thorough orientation on board governance and key strategic issues facing the Group;
- Recommend to the Board to accept or decline any tendered resignation of a director;
- Ensure a review at least annually of current directors' performance and attendance at Board and Committee meetings;
- Identify qualified candidates for Board membership and for the position of chairperson of the Board, chairperson of the committees and their members;
- Reward senior management based on KPIs such as economic value added, RAROC, profitability, business levels etc.;
- Approve the recruitment or promotion of senior SBMH personnel and approve their remuneration, benefits and other terms and conditions of employment;
- Recommend to the Board the terms and conditions of service contracts of other directors both executive and non-executive, if any, including compensation benefits for those services;
- Establish formal, clear and transparent selection criteria for prospective directors and evaluation criteria for current directors;
- Review the reward policy to ensure that SBMH executives are fairly rewarded for their efforts to the Group's overall performance and demonstrate to all the stakeholders in the business that the remuneration of the senior management is done objectively;
- Approve productivity bonus policy for employees;
- Approve salary revisions and service conditions of other employees of SBMH, taking into consideration the demands of trade unions;
- Review and approve policy on staff welfare and fringe benefits;
- Determine the level of Board fees for directors to be recommended to shareholders;
- Ensure that no director or senior executive is involved in deciding their own remuneration;
- Ensure that remuneration for employees in risk management, compliance and audit functions is determined independently of other business areas;
- Provide technical expertise and strategic guidance where required with respect to the recruitment of senior management within the Group;
- Meet at least 4 times annually and escalate matters of interest or concern to the Board.

During 2016, the Remuneration Committee held six meetings and its attendance is set out on page 163.

Focus for the reporting year

- Monitor the recruitment of senior personnel at the Bank level
- Review the remuneration and HR related policies
- Approve productivity bonus
- Ensure transparent and fair recruitment
- Identify and evaluate candidates for senior management positions

Focus for the year 2017

- Review the HR policy
- Ensure adequate training is provided to directors
- Ensure succession planning in respect of the senior leadership team
- Identify and recommend to the Board the appointment of key personnel at Group level

(vii) RISK MANAGEMENT COMMITTEE

The Committee is chaired by Mr Azim Fakhruddin Currimjee and has four members of whom two are independent non-executive and the remaining are non-executive. The members are:

- Mr Medha Gunputh
- Mr Kee Chong Li Kwong Wing, *G.O.S.K.*
- Mr Vidianand Lutchmeeparsad
- Mr Ouma Shankar Ochit

In 2016, the Committee continued to supervise the risk appetite of the Group, as well as its funding and capital position, taking into consideration regulatory requirements and the Group's expectations of continued volatility in external conditions. The responsibilities of the Risk Management Committee are set out below:

- Ensure that the Group has a solid and effective risk management infrastructure in place, in terms of people, systems, policies, controls and reporting;
- Adopt the risk appetite for the Group, as recommended to and approved by the Board, in the context of capital adequacy and the Group's strategy;
- Establish and review the adequacy of risk management control techniques and methodologies and monitor their effectiveness, particularly in the areas of credit, market, liquidity and operational risks;
- Monitor the Group's risk profile - its on-going and potential exposure to risks of various types;
- Review the Group's risk profile particularly the risk trends, risk concentrations, key performance indicators and the performance versus the risk appetite;
- Monitor Management's performance in controlling risk, in light of the established policies, procedures and limits of authority, and approve any departure from the acceptable prudential norms;
- Evaluate the stress-testing scenarios and risk implications with regards to the Group's strategic and other material investments;
- Receive and act upon relevant reports from the regulators, and internal and external auditors, in respect of risk management guidelines and specific risk events;
- Review Group policies for management of risks particularly in the areas of credit, market, interest rate, liquidity, operational and technological risks, and make recommendations thereon;
- Review adequacy of insurance coverage, material outsourcing arrangements, the Disaster Recovery Plan and Business Continuity Plan;
- Monitor material legal cases brought against the Group and its subsidiaries and major events of fraud and irregularities;
- Review and recommend to the Board the 'Risk Management Report' published in the Annual Report;
- Ensure appropriate methodologies and systems are in place to identify and adequately assess and manage operational risks;
- Review of the principal risks, including but not limited to credit, market, liquidity, operational, legal, compliance and reputational risk and the actions taken to mitigate these risks;
- Ensure that SBMH's Chief Executive Officer facilitates training programmes for directors and Senior Management to enable them to have a robust understanding of the nature of the business, the nature of the risks, the consequences of risks being inadequately managed and the techniques for managing the risks effectively;
- Receive periodic information on risk exposures and risk management activities from senior officers of the Group;
- Review and assess Group-wide risk, portfolio risk profile and the portfolio management plan and recommend improvements, where appropriate;
- Discuss, review and recommend to the Board any other matter or issue which is relevant to the Risk Management of the Group.

During 2016, the Risk Management Committee held four meetings and its attendance is set out on page 163.

Focus for year 2016

- Ensure that the Group has a robust risk management system;
- Review the capital and funding;
- Review the risk appetite;
- Review the credit, market and operational risks of the Group;
- Review the risk framework and governance;
- Review and update the terms of reference and recommend to the Board for approval;
- Evaluate the stress testing scenarios/Review the risk heat map;
- Review policies;
- Review new products/initiatives;
- Review the Group's investment book;
- Review the outstanding legal claims

Corporate Governance Report (cont'd)

Focus for year 2017

- Continue to monitor the current and future risk profile of the Group to ensure that the Group is managed within risk appetite relative to the strategy;
- Monitor and review the Group's progress with its risk data aggregation and risk reporting programme;
- Continue to monitor new and emerging risk trends and their potential impact on the Group;
- Continue to monitor industry-wide operational risk trends and incidents to ensure proactive response by the Group;
- Continue to monitor the capital adequacy of the Group and review the impact of significant transactions on capital;
- Continue to review the policies in line with new guidelines and regulations;
- Continue to review the outstanding legal claims against the Bank/ Group.

(viii) STEERING COMMITTEE FOR EAST AFRICA

The Steering Committee for East Africa has been established to oversee and drive the implementation of banking/financial operations in East Africa. It is chaired by Mr Kee Chong Li Kwong Wing, *G.O.S.K.* and the other members are:

(1) Mr Nayen Koomar Ballah

(2) Mr Azim Fakhruddin Currimjee

(3) Mr Medha Gunputh

The Committee was established in February 2017 and only one meeting was so far convened. The responsibilities of the Committee are as follows:

- Identify, interview and appoint the CEO, directors and senior management of the banking/financial institutions within the region including determining terms and conditions of appointment
- Review and approve project execution plans with clear timelines for the acquisition of/investment in banking/financial institutions in the region
- Identify and recruit consultants to assist in the acquisition of/ investment in banking/financial institutions in the region
- Financial planning
- Resource planning
- Determining logistics and branch/entity setup
- Infrastructure/systems setup
- Risk management - policies and procedures

Focus for the year 2017 and ahead

- Oversee and drive the implementation of banking/financial operations in East Africa

(ix) STEERING COMMITTEE ON SEYCHELLES

The Steering Committee on Seychelles was set up in 2016 to monitor the implementation of the Group's expansion initiatives in Seychelles. The Committee is chaired by Mr Kee Chong Li Kwong Wing, *G.O.S.K.* and has six members of whom two are independent non-executive, one is non-executive and the remaining three are representatives of the Bank. The members of the Committee are:

- Mr Chandradev Appadoo
- Mr Eddirao Balloo
- Mr Azim Fakhruddin Currimjee
- Mr Ragnish Gujjalu
- Mr Medha Gunputh
- Mr Maxime Hardy

The key responsibilities of the Committee are:

- Identify, interview and appoint the CEO, directors and senior management of the Seychelles banking entity including determining terms and conditions of appointment;
- Review and approve a project execution plan with clear timelines;
- Identify and recruit consultants;
- Financial planning;
- Resource planning;
- Determine the logistics and branch setup;
- Infrastructure/systems setup;
- Risk management - policies and procedures.

During 2016, the Steering Committee on Seychelles held four meetings. Attendance is set out on page 163.

Focus for the year 2017 and ahead

- Set up the SBM Seychelles operations
- Recruit senior management and other resources to drive the operations in Seychelles
- Finalise the infrastructure and systems set up

(x) STRATEGY COMMITTEE

The Strategy Committee sets the Group's strategy and reviews strategic investments to ensure they are in compliance with the Group's mission, mission and objectives. Mr Kee Chong Li Kwong Wing, *G.O.S.K.* is the Chairman of the Strategy Committee, which has five members of whom three are independent non-executive with the remaining being non-executive. The members are:

- Mr Azim Fakhruddin Currimjee
- Mr Medha Gunputh
- Mr Vidianand Lutchmeeparsad
- Mr Ramprakash Maunthrooa
- Mr Ouma Shankar Ochit

The key responsibilities of the Strategy Committee include the following:

- Review and recommend the Group strategy, business plans, annual budget and capital structure to the Board;
- Review and recommend strategic investments or divestments in strategic assets to the Board;
- Review and recommend the delegation of authority to management committees;
- Oversee the business strategy of the Group;
- Advise on key performance indicators and targets for businesses and geographies;
- Recommend to the Board investments, capital expenditure and expenses that exceed the limits that can be authorised by the management committees and are strategic in nature;
- Provide recommendation on large projects to the Board and monitor large projects;
- Ensure that capital is fully optimised through effective capital management;
- Provide recommendation to the Board on new businesses and geographies to be explored;
- Provide recommendation to the Board on raising of funds;
- Review and recommend manpower requirements provided by different reporting executive business forums;
- Discuss, review and recommend to the Board any such matter or issues which pertains to the strategic planning of the Group;
- Consider and review the type of organisational structures and functions necessary for implementing strategic plans;
- Review issues of fundamental importance and proposals from management that are material to the Group's long term objectives and goals.

During 2016, the Strategy Committee held four meetings. Attendance is set out on page 163.

Focus for the year 2017 and ahead

- Review the Group Strategy;
- Ensure the strategic investments or divestments made are in line with the Group strategy;
- Recommend to the Board any large projects for consideration;
- Review the implementation of the initiatives proposed by McKinsey in line with the 5 year strategy roadmap for the Group;
- Review the economic outlook and competition.

Attendance by Executive Management of SBM Bank (Mauritius) Ltd

The Executive Management is invited to attend the Board and Board Committee meetings as and when required.

Independence of Board Committees

SBMH's Board is supported by the Board Committees as mentioned on pages 276 to 277. The majority of the members of each Committee are independent non-executive directors

Sub Committees of the Board Committees

(i) Flamingo Project Monitoring Cell ("FPMC")

The FPMC was set up under the delegated authority of the Flamingo IT Steering Committee in January 2016. The Committee was chaired by Mr Medha Gunputh and had two other members:

- Mr Mahmadally Burkutoola
- Mr Anoopum Gaya

*Mr Vivekanand Lochun ceased to be Member of the FPMC effective 27 June 2016.

The Committee met once fortnightly to monitor the progress of the implementation of the Flamingo project.

The Committee held twenty nine meetings during the reporting period and following the successful go-live in September 2016, this Committee was disbanded in December 2016 as recommended by the Board of SBM Holdings Ltd. Flamingo project related matters are now taken in the IT Steering Committee.

Corporate Governance Report (cont'd)

Management Committees

(ii) Disclosure Forum

The Disclosure Forum reviews the adequacy of the Group's disclosures to ensure compliance with legal and regulatory requirements and best practices. The Committee was re-constituted in November 2016 and is presently chaired by Mr Chandradev Appadoo and has the following members:

- Mr Deenesh Ghurburrun
- Mr Kwon Li Pak Man
- Mr Shailen Sreekeessoon
- The Group Company Secretary

The Committee meets twice annually. The Minutes of Proceedings of this Forum are submitted to the Corporate Governance and Conduct Review Committee.

Significant Contracts

In order to safeguard the interests of SBMH, the Group and its shareholders, and ensure that instructions from SBMH Holdings Ltd are being safely, soundly and sustainably implemented across the group, SBMH has entered into shareholders agreements with the following subsidiaries:

- SBM Bank (Mauritius) Ltd
- Banque SBM Madagascar SA
- SBM Mauritius Asset Managers Ltd
- SBM Securities Ltd
- SBM Fund Services Ltd
- SBM Capital Management Limited
- Two segmental SPVs, namely (a) SBM (Bank) Holdings Ltd and (b) SBM (NBFC) Holdings Ltd as well as with the single investor SPVs.

Donations

<u>SBM Bank (Mauritius) Ltd ("the Bank")</u>

A total donation of MUR 2.145 million was made by the Bank during the reporting period, of which MUR 1.545 million pertained to SBM Staff Children Education Fund.

<u>Other Operating Entities</u>

No donations were made by SBM India Operations, Banque SBM Madagascar SA and the Group

No political donations were made by the three entities of the Group during the reporting period.

Related party transactions

For the Related Party Transactions, please refer to Note 36 of the Financial Statements.

Role and Function of the Company Secretary

Mrs Dayawantee Ramjug Chumun is the Secretary of the Board and Committees. She joined SBM Board Division in 2010 and became the Secretary of SBM Holdings Ltd in 2015. She is an Associate of the Institute of Chartered Secretaries and Administrators and is also ACCA qualified.

The Company Secretary plays a key role in the application of corporate governance in the Company. The Company Secretary is the primary point of contact within the company for institutional and other shareholders.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures and all applicable rules and regulations are complied with.

Under the direction of the Group Chairman, the Company Secretary's responsibilities include ensuring effective information flow within the Board, its committees and non-executive directors, as well as facilitating induction and assisting with professional development as required.

The Company Secretary is responsible for advising the Board on corporate governance matters. The agenda and supporting papers are distributed in advance of all Board and Board Committee meetings to allow time for appropriate review and to facilitate full discussion at the meetings.

All directors have full and timely access to all relevant information and may seek independent professional advice if required.

Shareholder Information

Material Clauses of the Constitution of SBMH ('the Company')

Object of the Company

The Company shall be a non-operating financial investments holding company. In carrying out its role as a non-operating financial investments holding company:

(iii) The Company shall invest not less than 90% [Ninety percent] of the capital and reserves and borrowings of the Company in the banking investments. This requirement shall be reduced to 80% [Eighty percent] by 30 June 2017 and further reduced to 70% [Seventy percent] by 30 June 2018.

(iv) The Company is authorised to raise or borrow money which shall be used in accordance with (i) above. The Company is authorised to invest only in the existing segmental conduits which have been specially set up for this purpose, which shall thereafter be routed into the operating companies through conduits which have been specially set for this purpose. Notwithstanding the above the Company shall be allowed to maintain investments which have been made by the Company in SICOM and Mauritius Telecom prior to the reorganisation of the Group.

(v) Subject to the above (i) and (ii), the Company shall have full capacity to acquire and hold either by itself or its subsidiaries any share, debenture, bond, security or any interest in any Company in Mauritius and/or outside Mauritius, to do any act, or enter into any transaction which shall be within the ambit of the objectives of a financial investments holding company and in accordance under the Companies Act.

(vi) The Company also has the power to do all such things which are incidental to or the conduct, promotion or attainment of the objects of the Company.

Limitation of Share Ownership

No shareholder shall hold individually , jointly or in concert , directly or indirectly more than THREE PER CENT (3%) of the issued share capital of the Company with voting rights by an individual, jointly ,or in concert or without previous authorisation of the Board of Directors of the Company save a shareholder who has been issued on the reorganisation of the Group a portion of the share capital which is superior to 3% [Three percent] shall be entitled to continue hold that higher percentage. In the event those shareholders who have been allowed to hold more than 3% of the share capital wishes to divest in the Company, once they have divested shall not be allowed to increase their shareholding to more than 3% [three percent]. For the purpose of this document "in concert" shall mean such situation where persons who pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control of a company. For avoidance of doubt a manager of a Collective Investment Scheme may not acquire and hold shares more shares as it has been expressly specified herein, whether singly, jointly or in concert unless with the approval of the Board of Directors.

Share capital

Share Capital Structure

The Company has a stated capital amounting to MUR 32,500,203,861 consisting of 3,037,402,230 shares fully paid ordinary shares of no par value which includes Treasury shares of 455,610,330.

The Reverse Share Split

With a view to enhancing the marketability of its shares to a wider range of institutional and professional investors and other members of the investing public, the Company undertook a reverse share split exercise during the reporting year, which became effective on 19 October 2016 subsequent to approval received from the Shareholders at the last Annual Meeting held in June 2016. Shareholder has thus received 1 share for every 10 shares held in SBMH post the reverse share split.

No fractional shares were issued and instead same were pooled and sold with the proceeds distributed accordingly. The reverse share split had no impact on the share capital of SBMH.

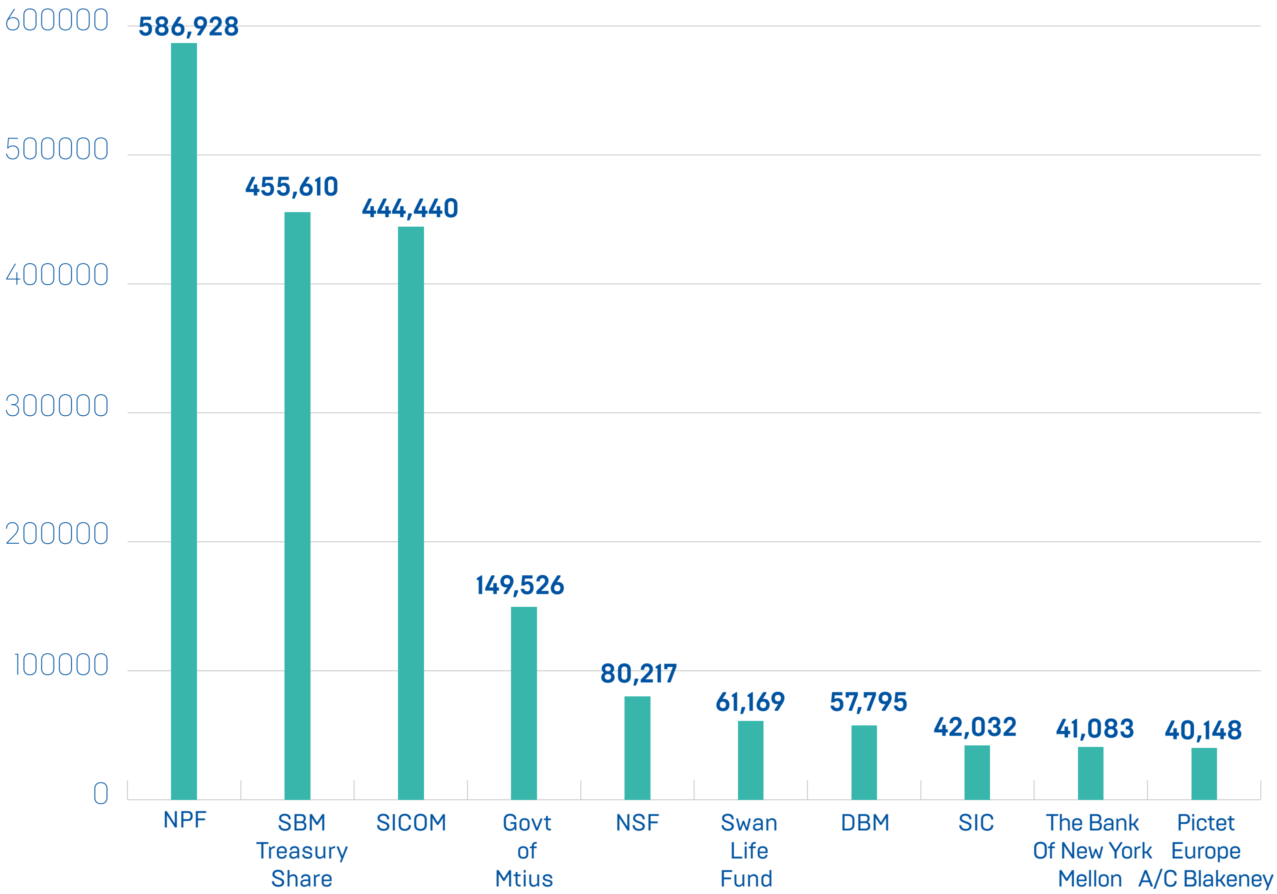
Large shareholders

Major shareholders do not have different voting rights from those of other shareholders.

Corporate Governance Report (cont'd)

The exhibits which follow show the top 10 shareholders, shareholders spread and split between local and foreign shareholders of SBMH as at 31 December 2016

Top 10 Shareholders



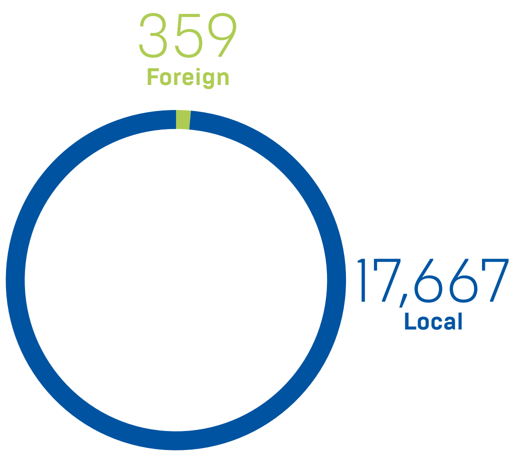
Balance of remaining holdings may include additional institutional/retail shareholdings.

Shareholders Spread

Shareholders' Spread				
Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1-50,000	16,080	89.2045	154,299,913	5.08000
50,001-100,000	818	4.5379	60,653,207	1.99688
100,001-500,000	836	4.6377	179,976,697	5.92535
500,001-1,000,000	122	0.6768	84,807,454	2.79210
1,000,001-5,000,000	122	0.6768	281,219,386	9.25855
5,000,001-10,000,000	19	0.1054	127,817,747	4.20813
10,000,001-25,000,000	11	0.0610	182,713,991	6.01547
25,000,001-50,000,000	9	0.0499	312,753,759	10.29675
50,000,001-100,000,000	4	0.0222	241,647,801	7.95574
>100,000,000	5	0.0277	1,411,512,275	46.47104
Total	18,026	100.0000	3,037,402,230	100.00000

Local and Foreign Shareholders

SBM Holdings Ltd has 18,026 shareholders as at 31st December 2016 split between Foreign and Local as illustrated below.



Corporate Governance Report (cont'd)

Dividend Policy

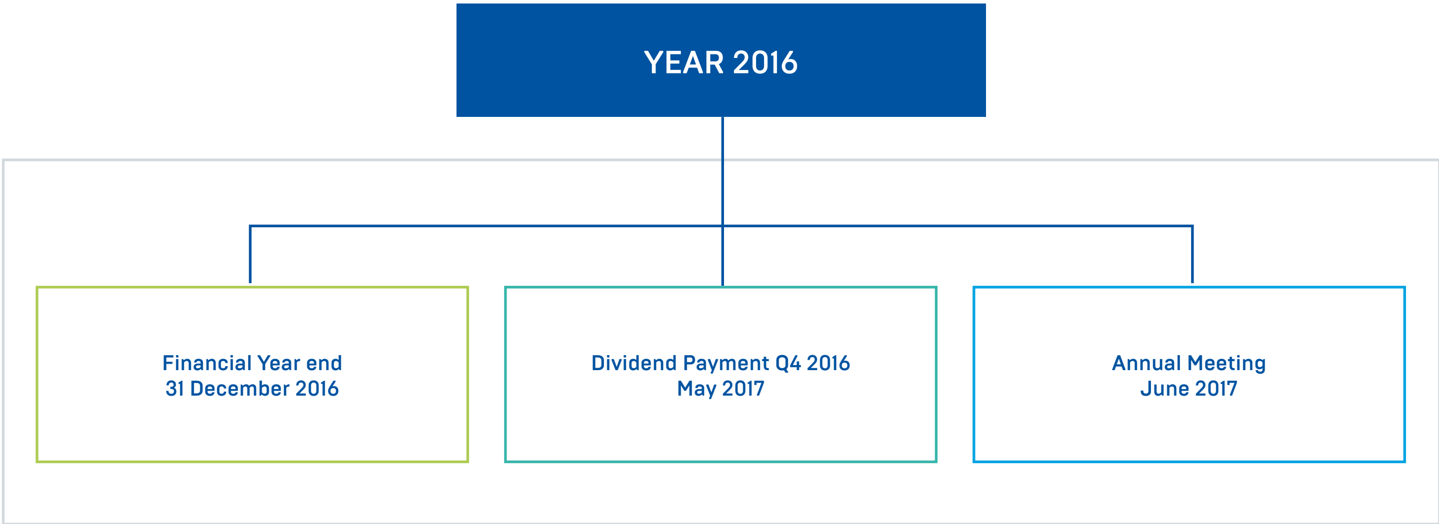
SBMH's dividend policy requires a distribution of a minimum of at least 25% of its net profit available to shareholders for the year subject to approval from Bank of Mauritius and subject to the solvency test under the S61(2) of the Companies Act 2001 being satisfied. As from 2014, SBMH has adopted a policy to declare and pay quarterly interim dividends. There are no presently taxes on dividend income and capital gains in Mauritius.

The Group made a profit after tax of MUR 2,309 million for the year ended 31 December 2016. The table below shows dividend payments in 2016 and the payment dates.

Quarter	Dividend per share (cents)	Approved by the Board on	Paid on
First quarter	10	19 May 2016	27 June 2016
Second quarter	10	11 August 2016	16 September 2016
Third quarter	10	14 November 2016	16 December 2016

An interim dividend of 10 cents for the fourth quarter ended 31 December 2016 was approved by the Board of SBMH on 30 March 2017 and paid on 18 May 2017.

Shareholders' Diary



Note:

Dividend Payment: As per the Group Policy, Dividend will be declared quarterly and payment date will be communicated.

The Annual Meeting for reporting year ending 31 December 2017 will be held in June 2018.

CONTACT DETAILS FOR SHAREHOLDER RELATIONSHIP

Mr Dipesh Jhowry

Head of Legal & Corporate Affairs

SBM Tower,
1, Queen Elizabeth II Avenue
Port Louis
Mauritius
Phone: (230) 202 1050
Fax: (230) 202 1666
Email: Dipesh.jhowry@sbmgroup.mu

Mrs D Ramjug Chumun

Company Secretary

SBM Tower,
1, Queen Elizabeth II Avenue
Port Louis
Mauritius
Phone: (230) 202 1752
Fax: (230) 202 1666
Email: company.secretary@sbmgroup.mu,
poonam.chumun@sbmgroup.mu

RISK MANAGEMENT AND AUDIT

Risk Management

In the absence of key Management personnel, the Board of SBM Holdings Ltd continuously seeks to develop its risk and control procedures in order to enhance risk identification, assessment and monitoring. The Board considers business risks when setting strategies, approving budgets and monitoring progress against budgets.

The risk management framework of SBMH is covered in the Risk Management Report at pages 94 to 141 of the annual report.

Internal Audit

In addition to setting strategy and overseeing its implementation, the Board of SBM Holdings Ltd is also responsible for ensuring that the Group maintains an effective system of internal controls. An effective system of internal controls should provide assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. In meeting this responsibility, the Board of SBM Holdings Ltd considers what is appropriate for the Group's business and reputation, the materiality of financial and other risks and the relevant costs and benefits of implementing controls.

Audit Fees and Fees for Other Services

In line with good governance and following the request of the shareholders at the Annual Meeting held in June 2015 for a rotation of the statutory auditors, the Board of Directors of SBM Holdings Ltd decided to issue a Request for Proposal ('RFP') to three reputable auditing firms registered with the Financial Reporting Council namely (i) Ernst & Young, (ii) Pricewaterhouse Coopers ('PwC') and (iii) KPMG in 2015.

Ernst & Young was re-appointed as the statutory auditors for the financial year ended 31 December 2016 at the shareholders' meeting held in June of last year.

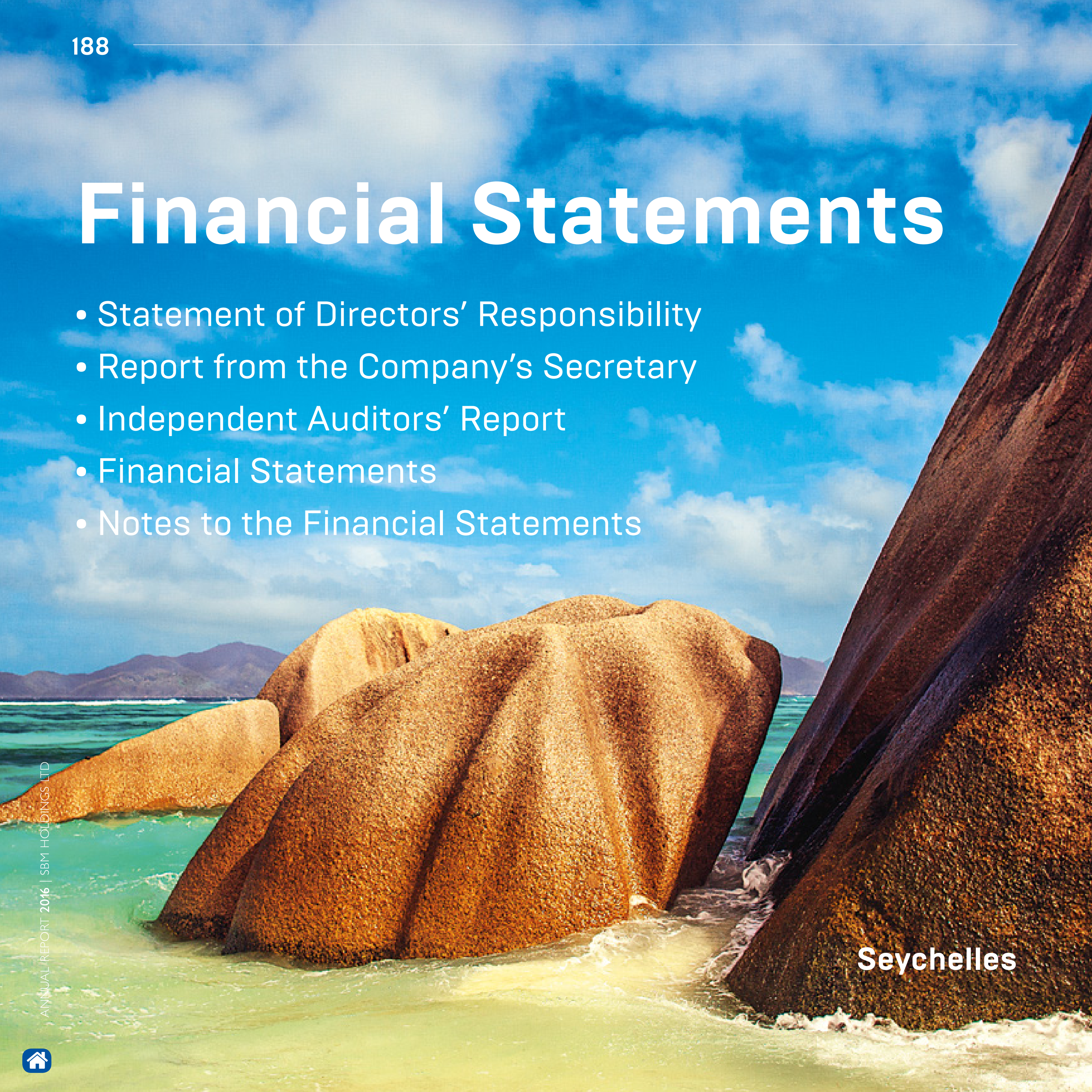
Corporate Governance Report (cont'd)

The table below shows the fees paid to the statutory auditors for the reporting period:

	2016 Audit (MUR 000)	2015 Audit (MUR 000)
Ernst & Young		
SBM Holdings Ltd		
Statutory Audit – December 2016	517.5	350
Other services	287.5	-
SBM (Bank) Mauritius Ltd & Other Subsidiaries		
Statutory Audits and quarterly reviews	7,480	7,099
Other auditors		
SBM Bank (Mauritius) Ltd – Indian Operations		
S.R Batliboi	935.7	-
GD Apte & Co	-	202
Banque SBM Madagascar SA		
Delta Audit Deloitte Associates	214.3	42
Mazars Fivoarana	214.3	42

Financial Statements

- Statement of Directors' Responsibility
- Report from the Company's Secretary
- Independent Auditors' Report
- Financial Statements
- Notes to the Financial Statements



Seychelles

...Group **PROFIT** increased by **44%**...

...**DEPOSITS** grew by **6.5%**...

...**CAPITAL** Adequacy Ratio
stood at **26%**...

The successful execution of our strategic objectives led to **STRONG** financial performance.

Our quest to maximise stakeholders' value is fully geared...

STATEMENT OF DIRECTORS' RESPONSIBILITY

FOR THE YEAR ENDED 31 DECEMBER 2016

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 Group. In preparing those Financial Statements, the directors are required to: ensure that adequate accounting records and an effective system of internal controls and risk management have been maintained; select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business. The directors confirm that they have complied with these requirements in preparing the Financial Statements.

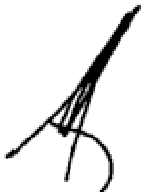
The external auditors are responsible for reporting on whether the Financial Statements are fairly presented. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group while ensuring that: the Financial Statements fairly present the state of affairs of the Group, as at the financial year end, and the results of its operations and cash flow for that period; and they have been prepared in accordance with and comply with International Financial Reporting Standards and the Companies Act 2001, as well as the requirements of the Banking Act 2004 and the guidelines issued thereunder.

Directors are also responsible for safeguarding the assets of the Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities. Other main responsibilities of the directors include the assessment of the Management's performance relative to corporate objectives; overseeing the implementation and uploading of the Code of Corporate Governance and ensuring timely and comprehensive communication to all stakeholders on events significant to the Group.

The Board of SBM Holdings Ltd, recognising that the Group, as a financial organisation, encounters risk in every aspect of its business, has put in place the necessary committees to manage such risks, as required by Basel III. The Board, whilst approving risk strategy, appetite and policies, has delegated the formulation thereof and the monitoring of their implementation to the Risk Management Committee.

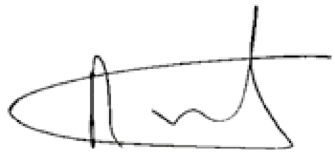
The structures, processes and methods through which the Board gains assurance that risk is effectively managed, are fully described in the Risk Management Report.

On behalf of the Board.



Kee Chong LI KWONG WING, *G.O.S.K.*

Chairman



Ouma Shankar OCHIT

Chairman, Audit Committee

30 March 2017

REPORT FROM THE COMPANY'S SECRETARY

FOR THE YEAR ENDED 31 DECEMBER 2016

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

D. Ramjug Chumun

Company Secretary

30 March 2017

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SBM HOLDINGS LTD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SBM Holdings Ltd (the "Company") and its subsidiaries (the "Group") set out on pages 198 to 273 which comprise the statements of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements 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 Group and Company as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and comply with the Companies Act 2001 and Financial Reporting Act 2004.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountant's 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.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Impairment of loans and advances The Group has loans and advances portfolio of MUR 71,625m as at 31 December 2016. As explained in the accounting policies, these loans and advances are carried at amortised cost, less allowance for credit impairment (MUR 4,151m). This provision is accounted for if, at the reporting date, there is objective evidence, for example the existence of payment arrears, that not all the contractually agreed cash flows will be collected. Failure to promptly recognise objective evidence of the risk of uncollectability and/or errors in the provisioning can result in incorrect valuation of the loan and advances portfolio in the financial statements.	We assessed and tested the design and operating effectiveness of the controls over specific and collective impairment calculations including the quality of underlying data and systems. Collective impairment allowances are calculated based on the guidelines imposed by the Bank of Mauritius. Such guidelines require the Group to make portfolio provisions of not less than 1% on unimpaired loans and advances. The Bank of Mauritius also imposes additional macro-prudential provisioning of up to 1% on exposures to certain specific sectors of the economy.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SBM HOLDINGS LTD (CONTINUED)

Report on the Audit of the Financial Statements (Continued)

Key Audit Matters (Continued)

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Refer to Note 8 for accounting policy on loans and advances and allowance for credit impairment. Given the relative size of loans and advances of the Group (49% of total assets), we identified the valuation of loans and advances as a key audit matter.	As this basis represents a departure from IAS39, the Group also determines what the collective impairment would have been under the standard using the incurred loss model and evaluates the impact of the departure. We reviewed the portfolio provisioning under both bases and assessed the impact of the difference on the overall presentation of the financial statements. In particular we re-performed the calculations of collective impairment under both methods. In respect of the provisioning as per the Bank of Mauritius guidelines, we assessed the appropriateness of the calculation made by management and the identification of loans to be included within the calculation. For collective impairment under IAS39, we assessed the appropriateness of the model used including the inputs and assumptions. For specific impairments, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows discounted at the original effective interest rate of the loans and advances. 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 also assessed the independence and the qualification of the appraisers. Areas of focus included the SME lending portfolios in India and the lending portfolios with loans to large corporates in Mauritius. We ensured that all loans with objective evidence of impairment 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 specific impairment analysis; • Identifying loan facilities meeting certain criteria such as financial difficulties of the borrower, restructured loans, insufficient collaterals and exposures to sectors in decline. For loans showing an indication of impairment, 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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SBM HOLDINGS LTD (CONTINUED)

Report on the Audit of the Financial Statements (Continued)

Key Audit Matters (Continued)

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Effectiveness of Change Management process and Data Migration Procedures relating to the Group new IT system During the year, Project Flamingo, being the complete re-platforming of the Group's IT system went live (refer to Note 11(a)). Such a system change-over represents a significant risk to the integrity of the Group's management information both in terms of the effectiveness of new application controls and completeness of data.	We identified the accuracy and completeness of the data migration as an area of focus as the Group migrated to new banking applications. Data accuracy and completeness underpin the processes and activities that the bank must undertake in its operations. Therefore, the source data being migrated to the new banking applications have to meet the operational requirements at all times and mechanisms should be in place to sustain it. During the migration, we observed and evaluated the cutover procedures pertaining to the new banking applications. This review included the assessment of the level of accuracy and completeness of the migration of critical data objects, especially those which have a bearing on the accuracy of the financial statements. We independently re-performed the data migration process by mapping the source data from the legacy system to the new system based on migration rules developed by Management. The migrated data was tested based on record level for completeness and field level for accuracy. We investigated differences between the closing and opening balances as per our re-performance and those resulting from Management's migration process and ensured that explanations obtained were appropriate. We also reviewed Management's controls over the change management process including the Governance framework and the various levels of user testing and approvals prior to go-live. We independently tested a number of key application controls to obtain assurance over the accuracy of the data processing by the new system.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SBM HOLDINGS LTD (CONTINUED)

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 for financial reporting and the Report from the Company's Secretary as required by the Companies Act 2001, Management Discussion and Analysis and Corporate Governance Report which we obtained prior to the date of this auditor's report. The Annual Report is expected to be made available to us after that date. Other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SBM HOLDINGS LTD (CONTINUED)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matter

This report is made solely for the Company's members, as a body, in accordance with Section 205 of the Companies Act 2001. Our audit work has been undertaken so that we might state to the Company's members 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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SBM HOLDINGS LTD (CONTINUED)

Report on Other Legal and Regulatory Requirements

Companies Act 2001

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

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

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

Financial Reporting Act 2004

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

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

ERNST & YOUNG
Ebène, Mauritius

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

Date: 30 March 2017

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

		The Group			The Company		
	Notes	**31 December 2016**	31 December 2015	31 December 2014	**31 December 2016**	31 December 2015	31 December 2014
		MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
ASSETS							
Cash and cash equivalents	5	**9,490,208**	9,174,135	8,194,125	**15,321**	178,060	3,702
Mandatory balances with Central Banks		**7,097,994**	6,919,908	6,548,749	**-**	-	-
Loans to and placements with banks	6	**4,645,911**	1,208,945	702,133	**-**	-	-
Trading assets	7	**165,998**	144,142	205,223	**-**	-	-
Loans and advances to non-bank customers	8	**71,624,874**	68,784,195	67,434,536	**-**	-	-
Investment securities	9 (i)	**39,430,829**	37,375,824	30,369,883	**4,305,882**	5,896,350	3,915,754
Equity investments	9 (ii)	**5,732,722**	6,066,176	6,721,917	**4,261,347**	5,534,324	6,319,881
Investment in subsidiaries	9 (iii)	**-**	-	-	**21,854,773**	20,999,183	20,999,183
Investment in associate	9 (iv)	**1,275,880**	-	-	**1,272,977**	-	-
Property and equipment	10	**2,809,777**	2,827,601	2,753,303	**4,309**	5,512	-
Intangible assets	11	**3,770,271**	2,370,629	1,252,333	**-**	-	-
Deferred tax assets	17b	**215,260**	276,756	171,431	**-**	-	-
Other assets	12	**635,984**	1,013,780	1,248,629	**1,501**	126,773	287,790
Total assets		**146,895,708**	136,162,091	125,602,262	**31,716,110**	32,740,202	31,526,310
LIABILITIES							
Deposits from banks	14	**2,611,669**	751,719	593,899	**-**	-	-
Deposits from non-bank customers	15	**109,241,194**	104,281,103	91,784,990	**-**	-	-
Other borrowed funds	16	**4,486,008**	2,132,497	5,113,005	**-**	-	-
Trading liabilities	7	**182,413**	120,781	146,634	**-**	-	-
Current tax liabilities		**364,670**	391,954	87,953	**1,354**	16,389	-
Deferred tax liabilities	17b	**-**	-	-	**64**	19	-
Other liabilities	18	**2,339,683**	2,433,536	2,203,910	**5,997**	3,493	8,919
Subordinated debts	19	**3,865,371**	3,862,138	3,598,208	**3,865,371**	3,862,138	3,598,208
Total liabilities		**123,091,008**	113,973,728	103,528,599	**3,872,786**	3,882,039	3,607,127
SHAREHOLDERS' EQUITY							
Stated capital	20	**32,500,204**	32,500,204	32,500,204	**32,500,204**	32,500,204	32,500,204
Retained earnings/(accumulated losses)		**865,100**	(430,006)	(1,109,410)	**1,020,810**	2,030,144	307,529
Other reserves	39	**(4,685,573)**	(5,006,804)	(4,442,100)	**(802,659)**	(797,154)	(13,519)
		28,679,731	27,063,394	26,948,694	**32,718,355**	33,733,194	32,794,214
Treasury shares	20	**(4,875,031)**	(4,875,031)	(4,875,031)	**(4,875,031)**	(4,875,031)	(4,875,031)
Total equity attributable to equity holders of the parent		**23,804,700**	22,188,363	22,073,663	**27,843,324**	28,858,163	27,919,183
Total equity and liabilities		**146,895,708**	136,162,091	125,602,262	**31,716,110**	32,740,202	31,526,310

Approved by the Board of Directors and authorised for issue on 30 March 2017.

Kee Chong LI KWONG WING, *G.O.S.K.*
Chairman

Ouma Shankar OCHIT
Chairman, Audit Committee

The notes on page 204 to 273 form an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016

		The Group			The Company		
	Notes	31 December 2016 MUR' 000	31 December 2015 MUR' 000	31 December 2014 MUR' 000	31 December 2016 MUR' 000	31 December 2015 MUR' 000	31 December 2014 MUR' 000
Interest income		6,249,765	6,424,315	6,451,246	227,814	249,758	29,631
Interest expense		(1,866,491)	(2,171,580)	(2,400,808)	(149,307)	(133,221)	(32,650)
Net interest income	26	4,383,274	4,252,735	4,050,438	78,507	116,537	(3,019)
Fee and commission income		1,081,945	1,058,126	944,617	-	-	-
Fee and commission expense		(29,346)	(29,340)	(29,345)	-	-	-
Net fee and commission income	27	1,052,599	1,028,786	915,272	-	-	-
Dividend income	28	38,864	157,273	179,339	27,563	2,597,724	6,971,350
Net trading income	29	515,050	527,636	403,700	3,822	3,697	185
Other operating income	30	456,438	288,863	712,116	9,331	16,224	-
Non-interest income		2,062,951	2,002,558	2,210,427	40,716	2,617,645	6,971,535
Operating income		6,446,225	6,255,293	6,260,865	119,223	2,734,182	6,968,516
Personnel expenses	31	(1,395,895)	(1,237,004)	(1,117,287)	(3,830)	(1,355)	(792)
Depreciation and amortisation		(350,004)	(161,535)	(166,022)	(1,203)	(501)	-
Other expenses	32	(995,723)	(871,912)	(1,869,155)	(48,005)	(38,040)	(4,681)
Non-interest expense		(2,741,622)	(2,270,451)	(3,152,464)	(53,038)	(39,896)	(5,473)
Profit before net impairment loss on financial assets		3,704,603	3,984,842	3,108,401	66,185	2,694,286	6,963,043
Net impairment loss on financial assets	33	(716,899)	(1,936,840)	(630,353)	-	-	(6,319,881)
Operating profit		2,987,704	2,048,002	2,478,048	66,185	2,694,286	643,162
Share of profit of associate	9(iv)	1,627	-	62,993	-	-	-
Profit before income tax		2,989,331	2,048,002	2,541,041	66,185	2,694,286	643,162
Tax expense	17a	(680,429)	(440,448)	(672,641)	(16,979)	(16,408)	-
Profit for the year		2,308,902	1,607,554	1,868,400	49,206	2,677,878	643,162
Earnings per share (Cents)	34	89.43	62.27	72.37			

The notes on page 204 to 273 form an integral part of these financial statements.

STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Profit for the year	2,308,902	1,607,554	1,868,400	49,206	2,677,878	643,162
Other comprehensive income :						
Items that will not be reclassified subsequently to profit or loss net of deferred tax:						
Decrease in revaluation of property	1,530	(2,680)	391	-	-	-
Underprovision of deferred tax assets on revaluation of property in prior years	(24,817)	-	-	-	-	-
Share of other comprehensive income / (loss) of associate	1,276	-	(9,535)	-	-	-
Remeasurement of defined benefit pension plan	1,599	(10,877)	11,855	-	-	-
	(20,412)	(13,557)	2,711	-	-	-
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translation of foreign operations	(80,866)	202,833	87,574	-	-	-
Movement in fair value of available-for-sale investments	650,541	(575,701)	2,188,203	3,826	(767,410)	(13,519)
Fair value re-cycled on disposal of available-for-sale investments	(180,697)	(151,166)	(461,148)	(6,740)	(16,225)	-
Fair value realised on reclassification of available-for-sale investments to Investment in associate	(2,591)	-	-	(2,591)	-	-
	386,387	(524,034)	1,814,629	(5,505)	(783,635)	(13,519)
Total other comprehensive income / (loss)	365,975	(537,591)	1,817,340	(5,505)	(783,635)	(13,519)
Total comprehensive income for the year	2,674,877	1,069,963	3,685,740	43,701	1,894,243	629,643

The notes on page 204 to 273 form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

The Group	Stated capital MUR' 000	Treasury shares MUR' 000	Statutory reserve MUR' 000	Retained earnings/ (Accumulated losses) MUR' 000	Net property revaluation reserve MUR' 000	Other reserves (Note 39) MUR' 000	Total equity MUR' 000
At 01 January 2014	303,740	(2,333,286)	572,346	16,125,433	1,370,593	3,304,360	19,343,186
Profit for the year	-	-	-	1,868,400	-	-	1,868,400
Other comprehensive income for the year	-	-	-	11,855	391	1,805,094	1,817,340
Total comprehensive income for the year	-	-	-	1,880,255	391	1,805,094	3,685,740
Transfer to restructure reserve	32,196,464	(2,541,745)	-	(18,155,810)	(1,063,164)	(10,435,745)	-
Transfer to retained earnings	-	-	-	7,086	(34,211)	27,125	-
Transfer to statutory reserve	-	-	11,111	(11,111)	-	-	-
Dividend (Note 21)	-	-	-	(955,263)	-	-	(955,263)
At 31 December 2014	32,500,204	(4,875,031)	583,457	(1,109,410)	273,609	(5,299,166)	22,073,663
At 01 January 2015	32,500,204	(4,875,031)	583,457	(1,109,410)	273,609	(5,299,166)	22,073,663
Profit for the year	-	-	-	1,607,554	-	-	1,607,554
Other comprehensive income for the year	-	-	-	(10,877)	(2,680)	(524,034)	(537,591)
Total comprehensive income for the year	-	-	-	1,596,677	(2,680)	(524,034)	1,069,963
Transfer to retained earnings	-	-	-	46,720	(46,720)	-	-
Transfer to statutory reserve	-	-	8,730	(8,730)	-	-	-
Dividend (Note 21)	-	-	-	(955,263)	-	-	(955,263)
At 31 December 2015	32,500,204	(4,875,031)	592,187	(430,006)	224,209	(5,823,200)	22,188,363
At 01 January 2016	**32,500,204**	**(4,875,031)**	**592,187**	**(430,006)**	**224,209**	**(5,823,200)**	**22,188,363**
Profit for the year	-	-	-	2,308,902	-	-	2,308,902
Other comprehensive income for the year	-	-	-	1,599	(23,287)	387,663	365,975
Total comprehensive income for the year	-	-	-	2,310,501	(23,287)	387,663	2,674,877
Transfer to retained earnings	-	-	-	43,145	(43,145)	-	-
Dividend (Note 21)	-	-	-	(1,058,540)	-	-	(1,058,540)
At 31 December 2016	**32,500,204**	**(4,875,031)**	**592,187**	**865,100**	**157,777**	**(5,435,537)**	**23,804,700**

The notes on page 204 to 273 form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONT'D)

The Company	Stated capital MUR' 000	Treasury shares MUR' 000	Retained earnings MUR' 000	Net unrealised investment fair value reserve MUR' 000	Total equity MUR' 000
At 01 January 2014	125	-	-	-	125
Shares held by SBM Bank (Mauritius) Ltd cancelled	(125)	-	-	-	(125)
Profit for the year	-	-	643,162	-	643,162
Other comprehensive loss for the year	-	-	-	(13,519)	(13,519)
Total comprehensive income for the year	-	-	643,162	(13,519)	629,643
Transfer of shares from SBM Bank (Mauritius) Ltd upon group restructure	32,500,204	-	-	-	32,500,204
Transfer of treasury shares upon group restructure	-	(4,875,031)	-	-	(4,875,031)
Dividend (Note 21)	-	-	(335,633)	-	(335,633)
At 31 December 2014	32,500,204	(4,875,031)	307,529	(13,519)	27,919,183
At 01 January 2015	32,500,204	(4,875,031)	307,529	(13,519)	27,919,183
Profit for the year	-	-	2,677,878	-	2,677,878
Other comprehensive loss for the year	-	-	-	(783,635)	(783,635)
Total comprehensive income for the year	-	-	2,677,878	(783,635)	1,894,243
Dividend (Note 21)	-	-	(955,263)	-	(955,263)
At 31 December 2015	32,500,204	(4,875,031)	2,030,144	(797,154)	28,858,163
At 01 January 2016	**32,500,204**	**(4,875,031)**	**2,030,144**	**(797,154)**	**28,858,163**
Profit for the year	**-**	**-**	**49,206**	**-**	**49,206**
Other comprehensive loss for the year	**-**	**-**	**-**	**(5,505)**	**(5,505)**
Total comprehensive income for the year	**-**	**-**	**49,206**	**(5,505)**	**43,701**
Dividend (Note 21)	**-**	**-**	**(1,058,540)**	**-**	**(1,058,540)**
At 31 December 2016	**32,500,204**	**(4,875,031)**	**1,020,810**	**(802,659)**	**27,843,324**

The notes on page 204 to 273 form an integral part of these financial statements.

STATEMENTS OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	The Group			The Company		
		31 December 2016	31 December 2015	31 December 2014	31 December 2016	31 December 2015	31 December 2014
		MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Net cash from / (used in) operating activities	35	1,950,483	6,230,508	(935,300)	2,115,295	1,108,974	(333,881)
Cash flows from / (used in) financing activities							
Increase / (decrease) in other borrowed funds		2,353,511	(2,980,507)	(997,046)	-	-	-
Proceeds from subordinated liabilities debts raised		3,233	26,658	3,594,009	(3,753)	26,660	21,462
Dividend paid on ordinary shares		(1,058,540)	(955,263)	(1,471,621)	(1,058,540)	(955,263)	(335,633)
Buy back and cancellation of own share capital		-	-	-	-	-	(125)
Net cash from / (used in) financing activities		1,298,204	(3,909,112)	1,125,342	(1,062,293)	(928,603)	(314,296)
Cash flows (used in) / from investing activities							
Investment in non-voting redeemable Participating Shares		(359,585)	-	-	(360,151)		-
Acquisition of property and equipment		(144,419)	(218,337)	(281,067)	-	(6,013)	-
Acquisition of intangible assets		(1,596,979)	(1,126,688)	730,123	-	-	-
Disposal of property and equipment		824	4,565	105	-	-	-
Investment in preference shares		(350,000)	-	-	-	-	-
Dividend received from associate and subsidiaries		-	-	-	-	-	651,893
Investment in subsidiaries		-	-	-	(855,590)	-	(125)
Acquisition of other equity investments		(512,364)	(705)	-	-	-	-
Disposal of other equity investments		118	(221)	510,575	-	-	-
Net cash (used in) / from investing activities		(2,962,405)	(1,341,386)	959,736	(1,215,741)	(6,013)	651,768
Net change in cash and cash equivalents		286,282	980,010	1,149,778	(162,739)	174,358	3,591
Net foreign exchange differences		29,791	-	-	-	-	-
Cash and cash equivalents at start of year		9,174,135	8,194,125	7,044,347	178,060	3,702	111
Cash and cash equivalents at end of year	5	9,490,208	9,174,135	8,194,125	15,321	178,060	3,702

The notes on page 204 to 273 form an integral part of these financial statements.

1. GENERAL INFORMATION

SBM Holdings Ltd (the "Company") is a public company incorporated on 10 November 2010 and domiciled in Mauritius. The Company was listed on the Stock Exchange of Mauritius on 03 October 2014 pursuant to a Group restructuring approved by the Bank of Mauritius. The address of its registered office is SBM Tower, 1 Queen Elizabeth II Avenue, Port Louis, Mauritius.

The Group operates in the financial services sector, principally commercial banking.

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

In the current year, the Group and Company 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 2016.

Although these new standards and amendments were applied for the first time in 2016, they did not have a material impact on the financial statements of the Group and Company. The nature and the impact of each new standard or amendment are described below:

Annual Improvements 2012-2014 Cycle

These improvements include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

(i) Changes in method of disposal

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(ii) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(iii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report either in the management commentary or risk report.

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

Annual Improvements 2012-2014 Cycle (Cont'd)

IFRS 7 Financial Instruments: Disclosures (Cont'd)

The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the Group and Company.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements

That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

These amendments do not have any impact on the Group and Company.

IAS 19 Employee Benefits

(i) Discount rate: regional market issue

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

These amendments do not have any impact on the Group and Company.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group and Company's financial statements are disclosed below. The Group and Company intends to adopt these standards, if applicable, when they become effective.

	Effective for accounting period beginning on or after
IFRS 9 Financial Instruments	01 January 2018
IFRS 15 Revenue from Contracts with Customers	01 January 2018
IFRS 16 Leases	01 January 2019
Amendments to IAS 12 Income Taxes	01 January 2017
Amendments to IAS 7 Statement of Cash Flows	01 January 2017

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

Standards issued but not yet effective (Cont'd)

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group and Company plans to adopt the new standard on the required effective date. During 2016, the Group and Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information being made available to the Group and Company in the future. Overall, the Group and Company expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The bank expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

IFRS 9 Financial Instruments – Classification and measurement of financial assets, Accounting for financial liabilities and derecognition – 01 January 2018

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

Classification and measurement of financial assets

All financial assets are measured at fair value on initial recognition, adjusted for transaction costs if the instrument is not accounted for at fair value through profit or loss (FVTPL). Debt instruments are subsequently measured at FVTPL, amortised cost or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) (without subsequent reclassification to profit or loss).

Classification and measurement of financial liabilities

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment

The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to: debt instruments accounted for at amortised cost or at FVOCI; most loan commitments; financial guarantee contracts; contract assets under IFRS 15; and lease receivables under IAS 17 Leases. Entities are generally required to recognise either 12-months' or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into). For some trade receivables, the simplified approach may be applied whereby the lifetime expected credit losses are always recognised.

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

Standards issued but not yet effective (Cont'd)

IFRS 9 Financial Instruments (Cont'd)

IFRS 9 Financial Instruments – Classification and measurement of financial assets, Accounting for financial liabilities and derecognition – 01 January 2018 (Cont'd)

Hedge accounting

Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, can be qualitative. A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measureable. The time value of an option, any forward element of a forward contract and any foreign currency basis spread, can be excluded from the designation as the hedging instrument and accounted for as costs of hedging. More designations of groups of items as the hedged item are possible, including layer designations and some net positions.

The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting. The Group and Company plans to adopt the new standard on the required effective date.

IFRS 15 Revenue from Contracts with Customers - effective 01 January 2018

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9, and IFRS 16 Leases). Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Group and Company does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Group and Company does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 01 January 2017. The Group and Company is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

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

Standards issued but not yet effective (Cont'd)

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (gains and losses due to foreign currency movements). The amendment is effective from 01 January 2017.

The Group and Company is currently evaluating the impact.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

(ii) Fair value of other financial assets and liabilities: Note 40 Risk management, Part 1(a) (ii) fair values

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

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

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

(vi) Intangible assets-Useful life (Note 11)

4. ACCOUNTING POLICIES

The principal accounting policies adopted by the Group and the Company are as follows:

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for certain property, plant and equipment and financial instruments that are measured at revalued amounts or fair value as explained in the accounting policies below . The financial statements are presented in Mauritian Rupee, which is the Group's and the Company's functional and presentation currency. All value are rounded to the nearest thousands (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.

4. ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

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 Group and the Company takes into account the characteristics of the asset or liability if market participants would take into account those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this 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 in 4(a) 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).

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of SBM Holdings Ltd and its subsidiaries as at 31 December 2016.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4. ACCOUNTING POLICIES (CONT'D)

(c) Basis of consolidation (Cont'd)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in statement of profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(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 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 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) On consolidation, the assets and liabilities of foreign operations are translated into Mauritian Rupee at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in Other Comprehensive Income. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

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4. ACCOUNTING POLICIES (CONT'D)

(d) Foreign currency translation (Cont'd)

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

	31 December 2016	31 December 2015	31 December 2014
USD / MUR	**35.90**	35.91	31.78
INR / MUR	**0.529**	0.543	0.504
100 MGA / MUR	**1.082**	1.124	1.235

The average rates for the following years are:

	31 December 2016	31 December 2015	31 December 2014
USD / MUR	**36.43**	35.69	31.11
INR / MUR	**0.545**	0.559	0.512
100 MGA / MUR	**1.104**	1.126	1.240

Their statements of profit or loss are translated into Mauritian Rupees at weighted average rates. Any translation differences arising are recognised in other comprehensive income and accumulated in equity. Such translation differences are recognised in the *Statement of profit or loss and other comprehensive income* as part of *Other operating income* in the period in which the foreign entity is disposed of.

(e) Other financial assets

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

(f) Financial instruments

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

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

(g) Derecognition of financial assets

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

4. ACCOUNTING POLICIES (CONT'D)

(h) Sale and repurchase agreements

Gilt-edged securities sold subject to linked repurchase agreements ("repos") are retained in the *Statement of financial position* and the counterparty liability is included in *Other borrowed funds*. Gilt-edged securities purchased under agreements to resell ("reverse repos") are recorded as balances due from other banks. The differences between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective interest method.

(i) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss (FVTPL), are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For 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 *Net unrealised investment fair value reserve*.

(j) Financial liabilities and equity instruments

(i) Classification as debt or equity

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

(ii) Equity instruments

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

(iii) Financial liabilities

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

4. ACCOUNTING POLICIES (CONT'D)

(j) Financial liabilities and equity instruments (Cont'd)

(iv) Financial guarantee contract

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

(v) Derecognition of financial liabilities

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

(k) Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and are remeasured to fair value at subsequent reporting dates. The resulting gain or loss is recognised in the *Statement of profit or loss* immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(l) 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.

(m) Leasing

(i) *The Group as lessor*

Amounts due from lessees under finance leases are recorded as loans and advances in the *Statement of financial position* at the amount of the Group'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.

(n) Borrowing costs

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

(o) Provisions

Provisions are recognised when the Group 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

4. ACCOUNTING POLICIES (CONT'D)

(p) 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.

(q) 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.

(r) Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. CASH AND CASH EQUIVALENTS

Accounting policy

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition.

For the purposes of the Statement of cash flows, cash and cash equivalents comprise cash, balances with banks and central banks excluding mandatory balances, loans to and placements with banks having an original maturity of up to three months. Cash and cash equivalents are measured at amortised cost.

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cash in hand	1,706,637	1,893,359	1,996,620	-	-	-
Foreign currency notes and coins	320,434	293,586	218,586	-	-	-
Unrestricted balances with central banks [1]	12,216	1,489,085	594,800	-	-	-
Loans to and placements with banks [2]	3,487,058	1,537,714	3,106,483	-	-	-
Balances with banks	3,963,863	3,960,391	2,277,636	15,321	178,060	3,702
	9,490,208	9,174,135	8,194,125	15,321	178,060	3,702

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

[2] The balances include loans to and placements with banks having an original maturity of up to three months.

6. LOANS TO AND PLACEMENTS WITH BANKS

Accounting policy

Loans to and placements with banks are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

	The Group		
	31 December 2016	31 December 2015	31 December 2014
Loans to and placements with banks	MUR' 000	MUR' 000	MUR' 000
In Mauritius	451,829	271,645	-
Outside Mauritius	4,194,082	937,300	702,133
	4,645,911	1,208,945	702,133
Remaining term to maturity			
Up to 3 months	179,715	377,467	93,025
Over 3 months and up to 6 months	1,903,777	152,568	152,619
Over 6 months and up to 12 months	71,457	678,910	296,721
Over 1 year and up to 2 years	1,078,904	-	159,768
Over 2 years and up to 5 years	1,052,470	-	-
Over 5 years	359,588	-	-
	4,645,911	1,208,945	702,133

7. TRADING ASSETS / LIABILITIES

Accounting policy

Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling in the near term, or form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short term profit-taking. They are recognised on trade date, when the Group enters into contractual arrangements with counterparties and are normally derecognised when sold. They are initially measured at fair value, with transaction costs taken to profit or loss. Subsequent changes in their fair values are recognised in profit or loss in 'Net Trading Income'.

7. TRADING ASSETS/LIABILITIES (CONT'D)

Accounting policy (Cont'd)

The Group designates certain hedging instruments, which include derivatives in respect of interest rate risk, as cash flow hedge. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

(i) Fair value hedges

Fair value hedges are particularly used to hedge interest rate risk on fixed rate assets and liabilities, both for identified financial instruments (loans and deposits) and for portfolios of financial instruments (in particular term deposits and fixed rate loans).

Changes in the fair value of hedging instruments that are designated and qualify as fair value hedges are recognised in the *Statement of profit or loss*, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If a hedging relationship no longer meets the criteria for fair value hedge, the cumulative adjustment to the carrying amount of the hedged item is amortised to the *Statement of profit or loss* over the residual period to maturity based on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is released to the *Statement of profit or loss* immediately.

Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and are remeasured at fair value at subsequent reporting dates. The resulting gain or loss is recognised in the *Statement of profit or loss* immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

	The Group		
	31 December 2016	31 December 2015	31 December 2014
Assets	MUR' 000	MUR' 000	MUR' 000
Government securities	-	-	25,591
Equities	-	-	2,887
Derivative assets	165,998	144,142	176,745
	165,998	144,142	205,223
Liabilities			
Derivative liabilities	182,413	120,781	146,634

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7. TRADING ASSETS / LIABILITIES (CONT'D)

The fair values of derivative instruments are further analysed as follows:

The Group		Fair Values		
	Notional Principal Amount	Assets	Liabilities	Net
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2016				
Foreign exchange contracts*	15,591,473	98,282	(85,395)	12,887
Interest rate swap contracts	2,184,507	7,460	(27,742)	(20,282)
Cross currency swaps	729,218	33,163	(44,218)	(11,055)
Other derivative contracts	1,906,937	27,093	(25,058)	2,035
	20,412,135	165,998	(182,413)	(16,415)
31 December 2015				
Foreign exchange contracts*	14,744,752	85,850	(62,816)	23,034
Interest rate swap contracts	295,718	48,930	(48,603)	327
Other derivative contracts	496,200	9,362	(9,362)	-
	15,536,670	144,142	(120,781)	23,361
31 December 2014				
Foreign exchange contracts*	21,225,492	169,098	(139,634)	29,464
Interest rate swap contracts	581,723	647	-	647
Other derivative contracts	2,582,216	7,000	(7,000)	-
	24,389,431	176,745	(146,634)	30,111

* Foreign exchange contracts include forward and spot contracts

8. LOANS AND ADVANCES TO NON-BANK CUSTOMERS

Accounting policy

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate.

Loans and advances to non-bank customers are classified under loan and receivables and are measured at amortised cost, less allowance for credit impairment. In cases where, as part of the Group's and the Company's asset and liability management activity, fair value hedge accounting is applied to loans and advances measured at amortised cost, their carrying amount is adjusted for changes in fair value related to the hedged exposure refer to note 7 (Trading assets / liabilities) for further details on hedge accounting. Allowance for credit impairment consists of specific and portfolio allowances.

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
1. Governments	-	1	208
2. Retail customers	28,099,055	28,097,413	28,169,350
2.1 Credit cards	539,910	529,939	528,015
2.2 Mortgages	17,315,922	17,271,142	17,043,288
2.3 Other retail loans	10,243,223	10,296,332	10,598,047
3. Corporate customers	37,012,499	33,935,970	30,332,515
4. Entities outside Mauritius (including offshore / Global Business Licence Holders)	10,664,000	10,262,700	10,604,640
	75,775,554	72,296,084	69,106,713
Less allowance for credit impairment (Note 8 (c))	(4,150,680)	(3,511,889)	(1,672,177)
	71,624,874	68,784,195	67,434,536
a. Remaining term to maturity			
Up to 3 months	12,173,170	12,109,920	7,976,879
Over 3 months and up to 6 months	3,643,474	2,497,659	2,317,674
Over 6 months and up to 12 months	5,095,722	4,728,175	6,207,308
Over 1 year and up to 2 years	5,090,900	4,970,228	3,412,193
Over 2 years and up to 5 years	13,927,875	15,947,835	16,951,521
Over 5 years	35,844,413	32,042,267	32,241,138
	75,775,554	72,296,084	69,106,713

8. 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 Group'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 is included in loans and advances to non bank customers and the associated allowance for impairment are as follows:-

	The Group			
	Up to 1 year	After 1 year and up to 5 years	After 5 years	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2016				
Gross investment in finance leases	451,572	684,966	31,023	1,167,561
Less: Unearned finance income	(62,419)	(72,437)	(1,503)	(136,359)
Present value of minimum lease payments	389,153	612,529	29,520	1,031,202
Allowance for impairment				(70,490)
				960,712
31 December 2015				
Gross investment in finance leases	541,203	930,981	33,928	1,506,112
Less: Unearned finance income	(99,111)	(84,699)	(1,762)	(185,572)
Present value of minimum lease payments	442,092	846,282	32,166	1,320,540
Allowance for impairment				(73,548)
				1,246,992
31 December 2014				
Gross investment in finance leases	602,352	1,196,106	43,033	1,841,491
Less: Unearned finance income	(133,341)	(122,499)	(2,197)	(258,037)
Present value of minimum lease payments	469,011	1,073,607	40,836	1,583,454
Allowance for impairment				(46,081)
				1,537,373

Finance lease contracts give the lessees the option to purchase the assets for a residual value at the conclusion of the lease arrangements. The term of lease contracts generally ranges from five to seven years. Finance leases are secured mainly by charges on the leased assets and / or corporate/personal guarantees.

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

c. Allowance for credit impairment

Accounting policy

Specific allowances are made on impaired advances and are calculated as the shortfall between the carrying amounts of the advances and their recoverable amounts. The recoverable amount is the present value of expected future cash flows discounted at the original effective interest rate of the advance.

A portfolio allowance for credit losses is maintained in accordance with the guidelines of the Bank of Mauritius. These guidelines require that the bank maintains a provision for credit impairment on all unimpaired loans and advances of not less than 1%.The Bank of Mauritius also imposes additional macro-prudential provisioning up to 1% on exposures to certain specific sectors of the economy. The changes in portfolio allowance are charged or credited to the statement of profit or loss at the end of each period.

Allowance for credit impairment in respect of on-balance sheet items is deducted from the applicable asset whereas the allowance for credit impairment in respect of off- balance sheet items is included in *Other liabilities* in the *Statement of financial position*. Changes in the carrying amount of the allowance accounts are recognised in the *Statement of profit or loss*. When an advance is uncollectible, it is written off against the specific allowance. Subsequent recoveries of amounts previously written off are credited to the *Net impairment loss on financial assets* in the *Statement of profit or loss*.

Where possible, the Group 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 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 judgement

The calculation of specific allowance for credit impairment requires management to estimate the recoverable amount of each impaired asset, which is the estimated future cash flows discounted at the original effective interest rate of the advance. Where cash flows for large credits include the realisable value of collateral securing the credit, the value of such collateral is based on the opinion of independent and qualified appraisers.

The Group's allowance for portfolio impairment is determined based on the guidelines imposed by the Bank of Mauritius. Such guidelines require the Group to make portfolio provision of not less than 1% on unimpaired loans and advances which is generally higher than the historical loss rate of the loan portfolio of the Group. However, the Directors have estimated that the resulting impairment charge to the *statement of profit or loss* is not materially different from what would have resulted had the Group determined its portfolio provisioning based on the incurred loss model under IAS 39.

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

c. Allowance for credit impairment (Cont'd)

	The Group		
	Specific allowance for credit impairment	Portfolio allowance for credit impairment	Total
	MUR' 000	MUR' 000	MUR' 000
At 01 January 2014	803,219	691,502	1,494,721
Exchange differences	4,578	5,013	9,591
Loans written off	(474,478)	-	(474,478)
Allowance for credit impairment for the year (Note 33)	478,196	164,147	642,343
At 31 December 2014	811,515	860,662	1,672,177
At 01 January 2015	811,515	860,662	1,672,177
Exchange differences	7,667	961	8,628
Loans written off	(114,363)	-	(114,363)
Allowance for credit impairment for the year (Note 33)	1,722,242	223,205	1,945,447
At 31 December 2015	2,427,061	1,084,828	3,511,889
At 01 January 2016	2,427,061	1,084,828	3,511,889
Exchange differences	(4,671)	(3,459)	(8,130)
Loans written off	(4,606)	-	(4,606)
Allowance for credit impairment for the year (Note 33)	688,168	(36,641)	651,527
At 31 December 2016	3,105,952	1,044,728	4,150,680

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

d. Allowance for credit impairment by industry sectors

Group	31 December 2016					31 December 2015	31 December 2014
	Gross amount of loans	Impaired loans	Specific allowance for credit impairment	Portfolio allowance for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Agriculture and fishing	4,504,961	91,649	57,015	43,615	100,630	79,663	78,010
Manufacturing	6,115,374	791,522	312,811	79,032	391,843	133,235	130,373
of which EPZ	*1,102,513*	*3,702*	*3,702*	*34,840*	*38,542*	*19,282*	*27,965*
Tourism	9,974,203	14,844	5,069	197,184	202,253	235,894	178,323
Transport	1,272,969	538,451	490,569	7,128	497,697	412,170	29,771
Construction	4,761,694	612,166	143,331	92,662	235,993	238,764	186,336
Financial and business services	6,553,402	476,022	431,586	104,649	536,235	521,008	26,336
Traders	5,737,592	288,668	259,571	61,412	320,983	337,905	153,637
Personal	26,522,774	1,213,370	774,014	400,397	1,174,411	1,035,056	802,975
of which credit cards	*539,910*	*87,490*	*87,490*	*6,132*	*93,622*	*69,544*	*57,998*
Professional	297,764	-	-	2,086	2,086	1,762	1,747
Global Business Licence holders	2,937,512	-	-	5,354	5,354	5,055	4,703
Others	7,097,309	971,745	631,986	51,209	683,195	511,377	79,966
	75,775,554	4,998,437	3,105,952	1,044,728	4,150,680	3,511,889	1,672,177

Total impaired loans for 2015 for the Group were MUR 3,713 million (2014: MUR 1,462 million).

NOTES TO THE FINANCIAL STATEMENTS
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9. INVESTMENTS SECURITIES

Accounting policy

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

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in 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) Loans and receivables

Refer to note 8 for accounting policy on loans and receivables.

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

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The fair values of the AFS investment securities are subsequently remeasured based on quoted market prices in active markets or estimated using dividend growth, discounted cash flows or net assets value. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates are recognised in the *Statement of profit or loss*. Other changes in the carrying amount of AFS investment securities are recognised in *Other comprehensive income* and accumulated under the heading of Net unrealised investment fair value reserve.

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

Dividends on AFS equity instruments are recognised in profit or loss when the Group's and /or the Company'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.

(iii) Investment in subsidiaries

Financial statements of the Company

Investment in subsidiary companies are carried at cost which is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquirer. Acquisition-related costs are generally recognized in profit or loss as incurred. The carrying amount is reduced to recognise any impairment in the value of individual investments. The impairment loss is taken to profit or loss.

Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Business combinations are accounted for using the purchase method of accounting.

9. INVESTMENTS SECURITIES (CONT'D)

Accounting policy (cont'd)

(iv) Investment in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of the investee is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate or joint venture. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate' in the *statement of profit or loss*.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in 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. 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.

As from 01 December 2016, following appointment of one director on the board of State Insurance Company of Mauritius Ltd (SICOM) in addition to the existing ownership of 20%, Management is of view that the Company has significant influence in SICOM and therefore the investment in associate has been reclassified from available for sale investment to investment in associate.

The cost of the investment in associate in the separate company is the fair value of the investment as at 30 November 2016. Any revaluation reserve accumulated has been reclassified from equity to profit or loss.

9. INVESTMENTS SECURITIES (CONT'D)

Remaining term to maturity

(i) Investment securities

The Group	31 December 2016										
	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 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
(a) Loans and receivables - Investment securities											
Government bonds and treasury notes	278,774	1,676,000	828,011	629,929	2,103,760	8,349,323	2,568,898	-	16,434,695	14,935,624	10,432,468
Treasury bills	1,916,501	809,807	628,693	261,676	-	-	-	-	3,616,677	2,382,985	5,461,589
Bank of Mauritius bills / notes	-	1,311,793	29,691	620,166	1,553,639	2,008,596	-	-	5,523,885	4,034,151	3,190,346
Corporate bonds	-	-	-	-	200,157	1,194,394	-	-	1,394,551	400,260	336,649
	2,195,275	3,797,600	1,486,395	1,511,771	3,857,556	11,552,313	2,568,898	-	26,969,808	21,753,020	19,421,052
(b) Available-for-sale investment securities											
Government bonds	116,695	5,972	-	-	132,907	332,783	381,803	-	970,160	1,295,323	1,374,117
Treasury bills / notes	52,617	-	-	125,797	-	-	-	-	178,414	162,908	126,007
Securities issued by government bodies	-	-	-	-	-	-	-	-	-	96	354
Bank bonds	242,145	604,304	2,223,861	183,141	2,379,941	1,934,678	778,696	-	8,346,766	11,453,314	8,225,574
Corporate paper and preference shares	854,970	135,797	10,700	286,014	665,075	118,637	-	-	2,071,193	2,300,177	1,222,779
Corporate bonds	-	-	66,386	-	-	-	118,517	359,585	544,488	410,986	-
Redeemable Participating shares	-	-	-	-	-	-	-	350,000	350,000	-	-
	1,266,427	746,073	2,300,947	594,952	3,177,923	2,386,098	1,279,016	709,585	12,461,021	15,622,804	10,948,831
Total investment securities	3,461,702	4,543,673	3,787,342	2,106,724	7,035,479	13,938,411	3,847,914	709,585	39,430,829	37,375,824	30,369,883
The Company											
(a) Loans and receivables											
Government bonds and treasury notes	-	606,514	-	-	-	113,579	1,496,121	-	2,216,214	3,109,933	346,171
Bank of Mauritius bills / notes	-	-	-	-	-	181,840	-	-	181,840	495,557	1,499,384
Treasury bills	9,944	-	-	-	-	-	-	-	9,944	56,765	-
(b) Available-for-sale investments											
Bank bonds	-	-	489,882	-	855,503	-	192,914	-	1,538,299	2,234,095	2,070,199
Redeemable Participating shares	-	-	-	-	-	-	-	359,585	359,585	-	-
Total investment securities	9,944	606,514	489,882	-	855,503	295,419	1,689,035	359,585	4,305,882	5,896,350	3,915,754

9. INVESTMENTS SECURITIES (CONT'D)

(ii) Equity investments

The Group	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 2015	31 December 2014
	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
Available-for-sale											
Equity shares of companies:											
- Other equity investments	-	-	-	-	-	-	-	5,732,722	5,732,722	6,066,176	6,721,917
	-	-	-	-	-	-	-	5,732,722	5,732,722	6,066,176	6,721,917
The Company											
Available-for-sale											
Equity shares of companies - Other equity investments	-	-	-	-	-	-	-	4,261,347	4,261,347	5,534,324	6,319,881
	-	-	-	-	-	-	-	4,261,347	4,261,347	5,534,324	6,319,881
(iii) Investment in subsidiaries											
The Company											
- SBM (Bank) Holdings Ltd*	-	-	-	-	-	-	-	20,522,112	20,522,112	20,522,112	20,522,112
- SBM (NBFC) Holdings Ltd	-	-	-	-	-	-	-	62,406	62,406	62,406	62,406
- SBM (NFC) Holdings Ltd	-	-	-	-	-	-	-	1,270,255	1,270,255	414,665	414,665
	-	-	-	-	-	-	-	21,854,773	21,854,773	20,999,183	20,999,183
Total investments	9,944	606,514	489,882	-	855,503	295,419	1,689,035	26,475,705	30,422,002	26,533,507	27,319,064

* The indirect investments held by the Company through SBM (Bank) Holdings Ltd (SPV - Bank Investment Holdings Segment) are as follows:

	31 December 2016	31 December 2015	31 December 2014
Operating companies	MUR' 000	MUR' 000	MUR' 000
- SBM Mauritius Ltd - SBM Bank (Mauritius) Ltd	20,384,912	20,384,912	20,384,912
- SBM Madagascar Ltd - Banque SBM Madagascar SA	136,090	136,090	136,090
Special Purpose Vehicles			
- SBM India Ltd	500	500	500
- SBM Myanmar Ltd	610	610	610
	20,522,112	20,522,112	20,522,112

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9. INVESTMENTS SECURITIES (CONT'D)

(iii) Investment in subsidiaries (Cont'd)

Details of subsidiaries and associate are as follows:

(a) SUBSIDIARIES

	Country of Incorporation and Operation	Business Activity	Issued Share Capital	Effective % holding		
				31 December 2016	31 December 2015	31 December 2014
1.0 *Banking Segmental Subsidiaries*						
1.1 *Special Purpose Vehicle for Bank Investments Holding Company*						
1.1.1 SBM (Bank) Holdings Ltd	Mauritius	Bank Investment Holding Company	MUR 75,000	100	100	100
1.2 *Special Purpose Vehicles for single Bank Investment Holding Subsidiaries*						
1.2.1 SBM Mauritius Ltd	Mauritius	Investment in SBM Bank (Mauritius) Ltd	MUR 1	100	100	100
1.2.2 SBM Madagascar Ltd	Mauritius	Investment in Banque SBM Madagascar SA	MUR 60,960	100	100	100
1.3 *Bank Operating Subsidiaries*						
1.3.1 SBM Bank (Mauritius) Ltd	Mauritius	Commercial Banking	MUR 310 million	100	100	100
1.3.2 Banque SBM Madagascar SA	Madagascar	Commercial Banking	MGA 7.4 billion	100	100	100
2.0 *Non Bank Financial Segment Subsidiaries*						
2.1 Special Purpose Vehicle for Non-Bank Investments Holding Company						
2.1.1 SBM (NBFC) Holdings Ltd	Mauritius	Non Banking Financial Investments Holding Company	MUR 25,000	100	100	100
2.2 *Special Purpose Vehicle*						
2.2.1 SPV-SBM E-Business Ltd	Mauritius	In progress	MUR 625,000	100	100	100

9. INVESTMENTS SECURITIES (CONT'D)

(iii) Investment in subsidiaries (Cont'd)

(a) SUBSIDIARIES

	Country of Incorporation and Operation	Business Activity	Issued Share Capital	Effective % holding		
				31 December 2016	31 December 2015	31 December 2014
2.3 Non Bank Operating Subsidiaries						
2.3.1 SBM Fund Services Ltd	Mauritius	Fiduciary services / Back Office processing	MUR 0.5 million	100	100	100
2.3.2 SBM Mauritius Asset Managers Ltd	Mauritius	Asset Management	MUR 1.6 million	100	100	100
2.3.3 SBM Securities Limited	Mauritius	Stockbroking	MUR 1 million	100	100	100
2.3.4 SBM Asset Management Limited	Mauritius	Asset Management	USD 40,000	100	100	100
2.3.5 SBM Capital Management Limited	Mauritius	Investments	USD 125,000	100	100	100
2.3.6 SBM E-Business Ltd	Mauritius	Card Acquiring & Processing	MUR 25,000	100	100	100
2.3.7 SBM Custody Services Ltd	Mauritius	Custody Services	MUR 25,000	100	100	100
2.3.8 SBM Overseas One Ltd	Mauritius	Offshore banking	MUR25,000	100	100	100
2.3.9 SBM Overseas Two Ltd	Mauritius	Offshore banking	MUR25,000	100	100	100
2.3.10 SBM Overseas Three Ltd	Mauritius	Offshore banking	MUR25,000	100	100	100
2.3.11 SBM Overseas Four Ltd	Mauritius	Offshore banking	MUR25,000	100	100	100
2.3.12 SBM Overseas Five Ltd	Mauritius	Offshore banking	MUR25,000	100	100	100
2.3.13 SBM Overseas Six Ltd	Mauritius	Offshore banking	MUR25,000	100	100	100
2.3.14 SBM Africa Holdings Ltd	Mauritius	Investment holding	MUR25,000	100	100	100
3.0 Non Financial Segment						
3.1 SBM (NFC) Holdings Ltd	Mauritius	Non Financial Holding Company	MUR 25,000	100	100	100
4.0 Indirect Subsidiary						
4.1 SBM 3S Ltd	Mauritius	Shared Support Services	MUR 25,000	100	100	100

SBM Holdings Ltd has become the ultimate bank investment holding company after the Group restructuring exercise, with effect from 02 October 2014 .

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9. INVESTMENTS SECURITIES (CONT'D)

(iv) Investment in Associate

	The Group	The Company
	31 December 2016	31 December 2016
	MUR' 000	MUR' 000
At 01 January 2016	-	-
Reclassified from available for sale investment to investment in associate	1,272,977	1,272,977
Share of profit	1,627	-
Share of other comprehensive income	1,276	-
Carrying amount at 31 December 2016	1,275,880	1,272,977

	The Group
	31 December 2016
Summarised financial information in respect of the Group's associate is set out below:	MUR' 000
Total assets	14,623,277
Total liabilities	13,199,320
Total revenue	11,447
Total profit for the period	8,137
Share of profit	1,627
Share of other comprehensive income	1,276
Share of net assets	1,038,554
Carrying amount at 31 December 2016	1,275,880

The other equity investments under "Available for sale investment securities" had been reclassified in December 2016 to investment in associate at fair value as the Group obtained significant influence on the investee company. An amount of MUR 1.63 million has been recognised as the share of profits in associate through the Statement of profit or loss in the financial year 2016 (2014:62.993 million).

Total capital commitment of the investee company stood at MUR 33.152 million as at 30 June 2016 (2015:129.33 million). As at 30 June 2016, the investee did not report any contingent liability.

10. PROPERTY AND EQUIPMENT

Accounting policy

Property and equipment are stated at cost (except for freehold 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 Group's policy to revalue its freehold land and 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 net 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.

The Group

Cost or valuation	Freehold land and buildings MUR' 000	Buildings on leasehold land MUR' 000	Other tangible fixed assets MUR' 000	Motor vehicles MUR' 000	Total MUR' 000
At 31 December 2013	645,845	1,908,071	1,619,141	21,302	4,194,359
Additions	245,841	-	40,641	-	286,482
Disposals	-	-	(8,756)	(479)	(9,235)
Revaluation	66,170	(336,424)	-	-	(270,254)
Translation adjustment	6,056	-	(2,111)	(155)	3,790
At 31 December 2014	963,912	1,571,647	1,648,915	20,668	4,205,142
Additions	15,029	-	195,198	6,038	216,265
Disposals	-	-	(22,762)	(12,445)	(35,207)
Revaluation	(2,680)	-	-	-	(2,680)
Translation adjustment	12,657	-	(759)	(116)	11,782
At 31 December 2015	**988,918**	**1,571,647**	**1,820,592**	**14,145**	**4,395,302**
Additions	**853**	**1,235**	**144,561**	**7,293**	**153,942**
Disposals	**-**	**-**	**(202,200)**	**-**	**(202,200)**
Write off	**(300)**	**-**	**-**	**-**	**(300)**
Revaluation	**-**	**-**	**-**	**-**	**-**
Translation adjustment	**(4,383)**	**-**	**(2,394)**	**(117)**	**(6,894)**
Transfer	**-**	**-**	**(3,282)**	**-**	**(3,282)**
At 31 December 2016	**985,088**	**1,572,882**	**1,757,277**	**21,321**	**4,336,568**

NOTES TO THE FINANCIAL STATEMENTS
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10. PROPERTY AND EQUIPMENT (CONT'D)

The Group

	Freehold land and buildings	Buildings on leasehold land	Other tangible fixed assets	Motor vehicles	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Accumulated depreciation					
At 31 December 2013	41,836	198,955	1,383,196	10,498	1,634,485
Charge for the year	12,883	54,337	79,892	3,839	150,951
Disposals	-	-	(8,302)	(479)	(8,781)
Revaluation	(29,896)	(235,961)	-	-	(265,857)
Translation adjustment	842	-	(1,873)	(152)	(1,183)
At 31 December 2014	25,665	17,331	1,452,913	13,706	1,509,615
Charge for the year	15,941	51,949	81,658	3,491	153,039
Disposals	-	-	(22,734)	(10,331)	(33,065)
Translation adjustment	1,650	-	(888)	(123)	639
At 31 December 2015	43,256	69,280	1,510,949	6,743	1,630,228
Charge for the year	13,870	51,976	89,356	2,834	158,036
Write off	-	-	(201,677)	-	(201,677)
Revaluation movement	(1,530)	-	-	-	(1,530)
Translation adjustment	(728)	-	(2,183)	(115)	(3,026)
Transfer	-	-	(3,259)	-	(3,259)
At 31 December 2016	54,868	121,256	1,393,186	9,462	1,578,772
Net book value					
At 31 December 2016	930,220	1,451,626	364,091	11,859	2,757,796
Progress payments on tangible fixed assets					51,981
					2,809,777
At 31 December 2015	945,662	1,502,367	309,643	7,402	2,765,074
Progress payments on tangible fixed assets					62,527
					2,827,601
At 31 December 2014	938,247	1,554,316	196,002	6,962	2,695,527
Progress payments on tangible fixed assets					57,776
					2,753,303

Other tangible fixed assets, included within Property and equipment, consist of plant, machinery, furniture, fittings and computer equipment.

The Company

	Motor vehicles	Total
Cost or valuation	MUR' 000	MUR' 000
At 31 December 2014	-	-
Additions	6,013	6,013
At 31 December 2015	6,013	6,013
At 31 December 2015	6,013	6,013
Additions	-	-
At 31 December 2016	6,013	6,013
Accumulated depreciation		
At 31 December 2014	-	-
Charge for the year	501	501
At 31 December 2015	501	501
At 31 December 2015	501	501
Charge for the year	1,203	1,203
At 31 December 2016	1,704	1,704
Net book value		
At 31 December 2016	4,309	4,309
At 31 December 2015	5,512	5,512

10. PROPERTY AND EQUIPMENT (CONT'D)

Other tangible fixed assets, included within property and equipment, consist of plant, machinery, furniture, fittings and computer equipment.

Details of the Group's land and buildings and information about the fair value hierarchy are as follows:

	The Group		
	31 December 2016	31 December 2015	31 December 2014
Level 2 fair value	MUR' 000	MUR' 000	MUR' 000
Freehold land and buildings	985,088	988,918	963,912
Buildings on leasehold land	1,572,882	1,571,647	1,571,647
	2,557,970	2,560,565	2,535,559

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:

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Freehold land and buildings	515,142	543,381	531,724
Buildings on leasehold land	387,557	399,648	412,947
	902,699	943,029	944,671

The freehold land and buildings are periodically valued based on market value by independent valuation surveyor. Buildings on leasehold land in Mauritius were revalued in September 2014 by an independent Chartered Valuation Surveyor, on an open market value basis. The freehold land and building in India were revalued in March 2014 by independent Chartered Valuation Surveyors on an open market value basis.

11. INTANGIBLE ASSETS

Accounting policy

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight line basis over their estimated useful lives of 3 to 10 years. Costs directly associated with the production of identifiable and software products controlled by the banking segment, 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. The Directors have used historical information relating to the Group and the industry in which it operates in order to best determine the useful lives of intangible assets.

(a) *Assets under construction*

The Group has 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.

(b) *Intellectual property rights*

The Group entered into an agreement in respect of Business Process Engineering and Business Transformation Initiatives to aligh 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 are now being amortised after the project went live in September 2016.

(c) *WIP Software*

The Group is developing some softwares. These costs will be transferred under "Software" as soon as they will be in use at the Group.

NOTES TO THE FINANCIAL STATEMENTS
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11. INTANGIBLE ASSETS (CONT'D)

The Group

	Software	WIP Software	Intellectual Property	Assets under construction	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cost					
At 01 January 2014	879,346	5,288	238,537	743,986	1,867,157
Translation adjustment	596	-	-	-	596
Additions	4,466	1,989	441,455	974,275	1,422,185
Transfers	-	(3,960)	(8,650)	8,650	(3,960)
Amount expensed to statement of profit or loss	-	-	(253,493)	(920,581)	(1,174,074)
At 31 December 2014	884,408	3,317	417,849	806,330	2,111,904
At 01 January 2015	884,408	3,317	417,849	806,330	2,111,904
Translation adjustment	1,345	-	-	-	1,345
Additions	3,132	6,201	107,876	1,013,899	1,131,108
Transfer	-	(4,420)	-	-	(4,420)
At 31 December 2015	888,885	5,098	525,725	1,820,229	3,239,937
At 01 January 2016	**888,885**	**5,098**	**525,725**	**1,820,229**	**3,239,937**
Translation adjustment	**(478)**	**-**	**(5,200)**	**(36)**	**(5,714)**
Additions	**16,609**	**2,450**	**62,609**	**1,518,570**	**1,600,238**
Write off	**(129,829)**	**-**	**-**	**-**	**(129,829)**
Transfer	**3,341,410**	**257,712**	**(260,359)**	**(3,338,763)**	**-**
At 31 December 2016	**4,116,597**	**265,260**	**322,775**	**-**	**4,704,632**
Accumulated amortisation					
At 31 December 2013	843,885	-	-	-	843,885
Translation adjustment	615	-	-	-	615
Charge for the year	15,071	-	-	-	15,071
At 31 December 2014	859,571	-	-	-	859,571
Translation adjustment	1,240	-	-	-	1,240
Charge for the year	8,497	-	-	-	8,497
At 31 December 2015	869,308	-	-	-	869,308
Translation adjustment	**(344)**	**-**	**-**	**-**	**(344)**
Charge for the year	**134,985**	**-**	**56,983**	**-**	**191,968**
Write off	**(129,830)**	**-**	**-**	**-**	**(129,830)**
Transfer	**3,259**	**-**	**-**	**-**	**3,259**
At 31 December 2016	**877,378**	**-**	**56,983**	**-**	**934,361**
Net book value					
At 31 December 2016	**3,239,219**	**265,260**	**265,792**	**-**	**3,770,271**
At 31 December 2015	19,577	5,098	525,725	1,820,229	2,370,629
At 31 December 2014	24,837	3,317	417,849	806,330	1,252,333

12. OTHER ASSETS

Accounting policy

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

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Accounts receivable[1]	347,848	226,705	354,827	-	-	-
Balances due in clearing	32,679	186,331	238,838	-	-	-
Tax paid in advance[2]	122,269	107,871	93,087	-	-	-
Dividend receivable	-	126,267	148,732	1,000	126,267	281,532
Non-banking assets acquired in satisfaction of debts[3]	6,613	6,613	63	-	-	-
Licence fees prepaid	-	281,674	322,675	-	-	-
Others	126,575	78,319	90,407	501	506	6,258
	635,984	1,013,780	1,248,629	1,501	126,773	287,790

1 Amounts receivable are generally receivable within three months.
2 The tax paid in advance is incurred by the Indian Operations. The amount is shown net of current tax payable.
3 The Group's policy is to dispose of such assets as soon as the market permits.

13. PENSION LIABILITY

Accounting policy

(i) Pension benefits for eligible participating employees

Eligible participating employees are entitled to retirement pensions under the SBM Group Pension Fund, a defined benefit scheme. The average retirement age is 65. The assets of the scheme are managed presently by the SBM Mauritius Asset Managers Ltd.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets, is reflected immediately in the *Statement of financial position* with a charge or credit recognised in *other comprehensive income* in the period in which they occur. Remeasurement recognised in *other comprehensive income* is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in the *Statement of profit or loss* in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense or income and remeasurement.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the Group'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 under term contracts 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.

NOTES TO THE FINANCIAL STATEMENTS
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13. PENSION LIABILITY (CONT'D)

Accounting policy (cont'd)

(iii) Travel tickets/allowances

Employees are periodically entitled to reimbursements of overseas travelling and allowances up to a certain amount depending on their grade. The expected costs of these benefits are recognised in the *statement of profit or loss* on a straight-line and undiscounted basis over the remaining periods until the benefits are payable.

(iv) Equity compensation benefits for senior executives

The Group issues to certain employees, phantom share options which are share appreciation rights that require the Group to pay the intrinsic value of the phantom share option at the date of exercise. A phantom share option liability equal to the portion of the services received is recognised at the current fair value determined at each reporting date. No such options have been issued since the year 2008 and all options vested were fully excercised during the year. There are no phantom share options outstanding.

Significant accounting estimates and judgements

The Group 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 consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

	The Group		
	31 December 2016	31 December 2015	31 December 2014
Reconciliation of net defined benefit liability	**MUR' 000**	MUR' 000	MUR' 000
Present value of funded defined benefit obligation	**914,202**	873,533	836,905
Fair value of planned assets	**(846,495)**	(784,441)	(761,332)
Net liability arising from defined benefit obligation (Note 18)	**67,707**	89,092	75,573
Reconciliation of net defined benefit liability			
Balance at start of the year	**89,091**	75,573	96,941
Amount recognised in statement of profit or loss (Note 31)	**30,098**	33,414	33,089
Amount recognised in other comprehensive income	**(2,040)**	12,798	(13,947)
Less employer contributions	**(49,442)**	(32,693)	(40,510)
Balance at end of the year (Note 18)	**67,707**	89,092	75,573
Reconciliation of fair value of planned assets			
Balance at start of the year	**784,442**	761,332	672,727
Interest income	**55,698**	57,438	51,314
Employer contributions	**49,442**	32,693	40,510
Benefits paid	**(26,554)**	(23,479)	(17,166)
Return on planned assets excluding interest income	**(16,533)**	(43,543)	13,947
Balance at end of the year	**846,495**	784,441	761,332
Reconciliation of present value of defined benefit obligation			
Balance at start of the year	**873,533**	836,905	769,668
Current service cost	**25,563**	28,949	27,310
Interest expense	**60,233**	61,903	57,093
Other benefits paid	**(26,554)**	(23,479)	(17,166)
Liability experience loss	**84,960**	-	-
Liability gain due to change in demographic assumptions	**(103,596)**	-	-
Liability loss /gain due to change in financial assumptions	**63**	(30,745)	-
Balance at end of the year	**914,202**	873,533	836,905

13. PENSION LIABILITY (CONT'D)

	31 December 2016	31 December 2015	31 December 2014
Components of amount recognised in statement of profit or loss	MUR' 000	MUR' 000	MUR' 000
Service cost	25,563	28,949	27,310
Net interest on net employee defined benefit liability	4,535	4,465	5,779
Total expense (Note 31)	30,098	33,414	33,089
Components of amount recognised in other comprehensive income			
Return on planned assets below / (above) interest income	16,533	43,543	(13,947)
Liability experience loss	84,960	-	-
Liability experience gain due to change in demographic assumptions	(103,596)	-	-
Liability experience loss/(gain) due to change in financial assumptions	63	(30,745)	-
Total	(2,040)	12,798	(13,947)

	The Group		
	31 December 2016	31 December 2015	31 December 2014
Allocation of planned assets at end of year	%	%	%
Equity - Overseas quoted	30	28	34
Equity - Local quoted	32	34	31
Equity - Local unquoted	-	3	3
Debt - Overseas quoted	3	1	-
Debt - Local unquoted	23	23	25
Property - Local	1	-	-
Cash and other	11	11	7
Total	100	100	100

	31 December 2016	31 December 2015	31 December 2014
Allocation of planned assets at end of year	%	%	%
Reporting entity's own transferable financial instruments	6	7	8
Principal assumptions used at end of year			
Discount rate	6.5%	7.0%	7.5%
Rate of salary increases	4.5%	5.0%	6.0%
Rate of pension increases	1.5%	2.0%	2.5%
Average retirement age (ARA)	65	62	62
Average life expectancy for:			
- Male at ARA	15.9 years	18.0 years	18.0 years
- Female at ARA	20.0 years	22.5 years	22.5 years

	31 December 2016	31 December 2015	31 December 2014
Sensitivity Analysis on defined benefit obligation at end of year	MUR' 000	MUR' 000	MUR' 000
Increase due to 1% decrease in discount rate	158,457	183,941	151,019
Decrease due to 1% increase in discount rate	127,506	88,919	121,907

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13. 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 cash flows

The funding policy is to pay contributions to an external legal entity at the rate recommended by the entity's actuaries.

The Group expects to make a contribution of around MUR 55 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 January 2017 submitted by an independent firm of Actuaries and Consultants.

The Group sponsors a final salary defined benefit pension plan for a category of its employees. The Group has recognised a net defined benefit liability of MUR 67.71 million as at 31 December 2016 for the plan (31 December 2015: MUR 89.09 million;31 December 2014: MUR 75.57 million).

The plan exposes the Group to normal risks associated with defined benefit pension plans such as investment, interest, longevity and salary rise risks.

Investment risk

The plan liability is calculated using a discount rate determined by reference to government bond yields; if the return on plan assets is below this rate, it will create a plan deficit and if it is higher, it will create a plan surplus.

Interest risk

A decrease in the bond interest rate will increase the plan liability; however, this may be partially offset by an increase in the return on the plan's debt investments and a decrease in inflationary pressures on salary and pension increases.

Longevity risk

The plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan liability.

Salary risk

The plan liability is calculated by reference to the future projected salaries of plan participants. As such, an increase in the salary of the plan participants above the assumed rate will increase the plan liability whereas an increase below the assumed rate will decrease the liability.

There has been no plan amendment, curtailment or settlement during the year.

14. DEPOSITS FROM BANKS

Accounting policy

Deposits from group 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 derecognized when the Group's and /or the Company's obligations are discharged, cancelled or they expire.

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Demand deposits	2,611,669	751,719	593,899

15. DEPOSITS FROM NON-BANK CUSTOMERS

Accounting policy

Deposits from non-bank customers are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognized when the Group's and /or the Company's obligations are discharged, cancelled or they expire.

		The Group		
		31 December 2016	31 December 2015	31 December 2014
		MUR' 000	MUR' 000	MUR' 000
(i)	Retail customers			
	Current accounts	10,488,127	13,649,850	11,400,384
	Savings accounts	43,166,430	40,720,718	34,572,522
	Time deposits with remaining term to maturity:			
	- Up to 3 months	1,339,913	1,366,017	1,471,621
	- Over 3 months and up to 6 months	770,196	1,254,137	1,133,352
	- Over 6 months and up to 12 months	2,452,511	6,306,121	2,365,906
	- Over 1 year and up to 5 years	3,367,041	2,858,790	6,195,927
	- Over 5 years	1,054,397	1,400	1,261
	Total time deposits	8,984,058	11,786,465	11,168,067
	Total deposits from retail customers	62,638,615	66,157,033	57,140,973
(ii)	Corporate customers			
	Current accounts	28,219,696	24,120,500	20,440,097
	Savings accounts	6,645,085	3,350,325	6,025,231
	Time deposits with remaining term to maturity:			
	- Up to 3 months	2,410,070	4,734,198	2,316,605
	- Over 3 months and up to 6 months	2,041,533	322,129	414,240
	- Over 6 months and up to 12 months	1,935,567	1,330,657	618,294
	- Over 1 year and up to 5 years	1,081,791	395,752	625,256
	- Over 5 years	359	-	-
	Total time deposits	7,469,320	6,782,736	3,974,395
	Total deposit from corporate customers	42,334,101	34,253,561	30,439,723
(iii)	Government			
	Current accounts	1,930,362	1,775,756	1,903,416
	Savings accounts	2,336,691	2,091,927	2,161,330
	Time deposits with remaining term to maturity:			
	- Up to 3 months	-	112	136,729
	- Over 3 months and up to 6 months	400	406	407
	- Over 6 months and up to 12 months	925	2,242	2,245
	- Over 1 year and up to 5 years	100	66	167
	Total time deposits	1,425	2,826	139,548
	Total deposit from the Government	4,268,478	3,870,509	4,204,294
	Total deposit from non-bank customers	109,241,194	104,281,103	91,784,990

NOTES TO THE FINANCIAL STATEMENTS
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16. OTHER BORROWED FUNDS

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Borrowings from central banks			
- For refinancing	147,921	203,758	250,967
Other financial institutions			
- For refinancing	687,074	1,885,189	1,959,843
- Other	-	-	2,385,460
Borrowings from banks			
- In Mauritius	1,537,781	43,550	428,535
- Abroad	2,113,232	-	88,200
	4,486,008	2,132,497	5,113,005
Remaining term to maturity			
Up to 3 months	2,273,183	-	927,430
Over 3 months and up to 6 months	-	-	54,120
Over 6 months and up to 12 months	211,169	43,550	2,447,265
Over 1 year and up to 5 years	530,565	759,518	704,714
Over 5 years	1,471,091	1,329,429	979,476
	4,486,008	2,132,497	5,113,005

17. TAXATION

Accounting policy

Income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Corporate social responsibility (CSR)

Corporate social responsibility (CSR) was legislated by the government of Mauritius in July 2009. In terms of the legislation, the bank is required to allocate 2% of its Segment A chargeable income of the preceding financial year to government approved CSR NGOs. This is recorded as part of income tax expense.

Bank levy

SBM Bank (Mauritius) Ltd is liable to pay a special levy of 10% on chargeable income of segment A operations and 3.4% on book profit plus 1% on operating income of segment B operations. The special levy is included in the income tax expense and current tax liabilities in the financial statements.

The applicable income tax rate in Mauritius is 15% (2015 and 2014: 15%). An additional charge is applicable in respect of Corporate Social Responsibility and Special Levy on banks. The applicable tax rate for India is 43.26% (2015: 43.26% and 2014: 43.26%), whereas that of Madagascar is 20% (2015: 20% and 2014: 20%). A foreign tax credit is applied for revenue derived from Segment B.

17a. TAX EXPENSE

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Accounting profit	2,989,331	2,048,002	2,541,041	66,185	2,694,286	643,162
Tax on accounting profit at 15%	448,400	307,200	381,156	9,928	404,143	96,474
Exchange difference	-	35	4	-	-	-
Non allowable expenses	2,492	8,001	174,945	2,540	19	-
Exempt income	(37,525)	(36,633)	(136,198)	-	(387,754)	(96,474)
Over provision in previous periods	(2,595)	(55,057)	(20,473)	2,052	-	-
Special levy on banks	235,544	219,589	319,314	-	-	-
Corporate Social Responsibility contribution	79,692	50,088	49,830	2,459	-	-
Withholding tax	4,877	8,843	18,216	-	-	-
	730,885	502,066	786,794	16,979	16,408	-
Tax refund	-	(10,837)	-	-	-	-
Foreign tax credit	(50,456)	(50,781)	(114,153)	-	-	-
Total tax expense	680,429	440,448	672,641	16,979	16,408	-
The total tax expense can also be analysed as being incurred as follows:						
Income tax expense	564,490	473,007	674,179	14,475	16,389	-
Deferred income tax (Note 17b)	31,370	(91,490)	(69,584)	45	19	-
Corporate Social Responsibility contribution	79,692	50,088	49,830	2,459	-	-
Withholding tax	4,877	8,843	18,216	-	-	-
Total tax expense	680,429	440,448	672,641	16,979	16,408	-
The total tax expense can also be analysed as being incurred as follows:						
In Mauritius	654,096	445,197	682,252	16,979	16,408	-
Overseas	26,333	(4,749)	(9,611)	-	-	-
Total tax expense	680,429	440,448	672,641	16,979	16,408	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

17. TAXATION (CONT'D)

Accounting policy

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

  Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:
- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.
Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised outside profit or loss are recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in *other comprehensive income* or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

17b. DEFERRED TAX (ASSETS) / LIABILITIES

	The Group	The Company
	MUR' 000	MUR' 000
At 01 January 2014	(93,908)	-
Exchange difference	(5,243)	-
Deferred income tax (Note 17a)	(69,584)	-
Deferred tax on retirement benefit obligations	2,092	-
Deferred tax on revaluation of property	(4,788)	-
At 31 December 2014	(171,431)	-
At 01 January 2015	(171,431)	-
Exchange difference	(11,909)	-
Deferred income tax (Note 17a)	(91,490)	19
Deferred tax on retirement benefit obligations	(1,926)	-
At 31 December 2015	(276,756)	19
At 01 January 2016	**(276,756)**	**19**
Exchange difference	**5,028**	**-**
Deferred income tax (Note 17a)	**31,370**	**45**
Deferred tax on retirement benefit obligations	**282**	**-**
Underprovision of deferred tax liability in prior years	**24,816**	**-**
At 31 December 2016	**(215,260)**	**64**

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17. TAXATION (CONT'D)

17b. DEFERRED TAX (ASSETS) / LIABILITIES (CONT'D)

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Deferred tax assets	(215,260)	(276,756)	(171,431)	-	-	-
Deferred tax liabilities	-	-	-	64	19	-
	(215,260)	(276,756)	(171,431)	64	19	-
Analysed as resulting from:						
Accelerated capital allowances	134,500	51,021	41,610	64	19	-
Allowances for credit impairment	(433,455)	(373,147)	(263,270)	-	-	-
Carried forward losses	(139,391)	(137,126)	(167,328)	-	-	-
Revaluation of property	241,813	229,448	235,925	-	-	-
Other provisions	(18,727)	(46,952)	(18,368)	-	-	-
	(215,260)	(276,756)	(171,431)	64	19	-

18. OTHER LIABILITIES

Accounting policy

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation, which has arisen as a result of past events and for which a reliable estimate can be made. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Bills payable	136,655	111,959	150,719	-	-	-
Accruals for expenses	352,758	332,703	475,021	650	600	2,875
Accounts payable	1,229,784	1,389,098	907,438	5,347	2,893	-
Deferred income	270,130	202,925	219,005	-	-	-
Balance due in clearing	(3,720)	157,344	201,874	-	-	-
Balances in transit	66	106,336	122,345	-	-	-
Pension liability (Note 13)	67,707	89,092	75,573	-	-	-
Others	286,303	44,079	51,935	-	-	6,044
	2,339,683	2,433,536	2,203,910	5,997	3,493	8,919

19. SUBORDINATED DEBTS

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.

	The Group and the Company		
	31 December 2016	31 December 2015	31 December 2014
Subordinated Bonds:	MUR' 000	MUR' 000	MUR' 000
Class A 1 series bond of MUR floating interest rate senior unsecured bonds maturing in 2024 (level 1)	1,524,503	1,521,979	1,527,750
Class B 1 series bond of USD floating interest rate senior unsecured bonds maturing in 2021(level 1)	2,340,868	2,340,159	2,070,458
	3,865,371	3,862,138	3,598,208

The public offer for the issue of subordinated senior unsecured multicurrency floating interest rate bonds for Class A 1 series Bond of MUR 1,000 million opened on 20 December 2013, was oversubscribed and a maximum amount of MUR 1.5 billion, of MUR 10,000 notes with half yearly Floating coupon payment of Repo rate + 1.35% per annum maturing in 2024, was retained including the optional amount. Similarly an amount of USD 65.0 million, of USD 1,000 notes with half yearly payment of floating coupon 6-months LIBOR + 175bps per annum maturing in 2021, was retained for the issue of Class B 1 series bond of USD 50 million on 15 February 2014 including the optional amount. The public offer was issued by the State Bank of Mauritius Ltd (renamed as SBM Bank (Mauritius) Ltd) and the bonds are eligible as Tier II Capital.

As at 02 October 2014, on the appointed day of the Group restructure, all the bondholders of Class A 1 series and Class B 1 series Bonds of MUR 1.5 billion and USD 65.0 million repectively were transferred to the Company (SBM Holdings Ltd) with corresponding matching assets (investments).

These bonds are quoted on the Official Market of the Stock Exchange of Mauritius (SEM) pre and post restructure.

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.

(ii) ***Treasury shares***

Where the Group purchases its own equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

	The Group		The Company	
	Number	MUR' 000	Number	MUR' 000
Issued and paid up share capital				
At 31 December 2016	3,037,402,230	32,500,204	3,037,402,230	32,500,204
At 31 December 2015	30,374,022,300	32,500,204	30,374,022,300	32,500,204
At 31 December 2014	30,374,022,300	32,500,204	30,374,022,300	32,500,204
Treasury shares held				
At 31 December 2016	455,610,330	4,875,031	455,610,330	4,875,031
At 31 December 2015	4,556,103,300	4,875,031	4,556,103,300	4,875,031
At 31 December 2014	4,556,103,300	4,875,031	4,556,103,300	4,875,031

Fully paid ordinary shares carry one vote per share and the right to dividend, except for treasury shares which have no such rights.

As at 31 December 2016, the nominal value of the treasury shares amounted to MUR'000 4,875,031 (2015: MUR'000 4,875,031; 2014: MUR'000 4,875,031).

Subsequent to the shareholder approval at the Annual Meeting of Shareholders of SBM Holdings Ltd (SBMH) held on 28 June 2016 to proceed with the reverse share split, whereby each shareholder of SBMH shall receive 1 ordinary share for every 10 ordinary shares held on the record date, the Board of SBMH at its meeting held on 01 August 2016 has resolved to fix the effective date of the reverse split of shares on the 19th October 2016.

NOTES TO THE FINANCIAL STATEMENTS
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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.

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Dividend declared after the reporting date:						
2016: 10 cent (2015: 11 cent) (2014: 8 cent) per share of nominal 10 cent	387,269	283,997	206,543	387,269	283,997	206,543
Dividend declared :						
2015: 11 cent per share of nominal 10 cent ; 2014: 8 cent per share of nominal 10 cent	283,997	206,543	-	283,997	206,543	-
2016: 30 cents per share of nominal 10 cent; 2015: 29 cents per share of nominal 10 cent; 2014:37 cents per share of nominal 10 cent	774,543	748,720	955,263	774,543	748,720	335,633
	1,058,540	955,263	955,263	1,058,540	955,263	335,633
Less dividend declared and paid during the year / period	(1,058,540)	(955,263)	(955,263)	(1,058,540)	(955,263)	(335,633)
Dividend payable	-	-	-	-	-	-

Dividend declared after the reporting date is not recognised as a liability in the financial statements as at 31 December .

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 SBM Holdings Ltd; 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.

a. Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Acceptances on account of customers	138,697	207,620	593,887
Guarantees on account of customers	4,631,643	4,538,566	4,992,142
Letters of credit and other obligations on account of customers	1,198,163	799,062	997,808
Other contingent items	-	945	437,398
	5,968,503	5,546,193	7,021,235
b. Commitments			
Undrawn credit facilities	6,787,125	7,472,081	7,469,380
c. Other			
Inward bills held for collection	175,996	253,181	86,514
Outward bills sent for collection	2,083,674	1,535,424	1,671,089
	2,259,670	1,788,605	1,757,603
Total	15,015,298	14,806,879	16,248,218

The Group is subject to various legal claims from former employees and customers with claims totallying MUR 53.2 million (2015:MUR 38.2 million). The group has not made any provision for those claims on the basis that it is not probable that these actions will suceed.

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23. ASSETS PLEDGED

The aggregate carrying amount of assets that have been pledged to secure the credit facilities of the Group with Central Banks and of the Group's Indian Operations with Clearing Corporation of India Limited are as follows:

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Treasury bills / Government bonds	549,811	2,000,000	3,549,240
Analysed as:			
- In Mauritius	400,000	2,000,000	2,448,000
- Overseas	149,811	-	1,101,240
	549,811	2,000,000	3,549,240

24. CAPITAL COMMITMENTS

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Approved and contracted for	39,752	2,155,594	2,605,430
Approved and not contracted for	138	7,078	17,048

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.

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Leasing arrangements - The Group as lessee			
Operating lease expense	78,573	56,205	65,214

Operating lease payments represent rentals payable for property, equipment and motor vehicles. Operating lease contracts contain renewal clauses in the event that the Group exercises its option to renew the contracts. The Group 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:

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Up to 1 year	131,102	109,192	151,358
After 1 year and before 5 years	243,563	167,292	174,577
After 5 years and up to 25 years	54,216	31,316	18,768
	428,881	307,800	344,703

26. NET INTEREST INCOME / (EXPENSES)

Accounting policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Company and the revenue can be reliably measured.

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate (EIR), 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 Group and the Company 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 Group and the Company 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 Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	**31 December 2016**	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	**MUR' 000**	MUR' 000	MUR' 000
Interest income						
Cash and cash equivalents	**53,666**	42,683	40,058	**-**	-	-
Loans to and placements with banks	**53,496**	25,393	26,170	**-**	-	-
Loans and advances to non-bank customers	**4,645,051**	4,982,799	5,257,649	**-**	-	-
Investment securities	**1,542,723**	1,409,453	1,110,707	**227,814**	249,758	29,631
Trading assets	**(46,590)**	(38,498)	(8,131)	**-**	-	-
Other	**1,419**	2,485	24,793	**-**	-	-
Total interest income	**6,249,765**	6,424,315	6,451,246	**227,814**	249,758	29,631
Interest expense						
Deposits from non-bank customers	**(1,684,227)**	(1,951,739)	(2,189,671)	**-**	-	-
Other borrowed funds	**(31,570)**	(86,620)	(113,336)	**-**	-	-
Subordinated debts	**(150,694)**	(133,221)	(97,552)	**(149,307)**	(133,221)	(32,650)
Other	**-**	-	(249)	**-**	-	-
Total interest expense	**(1,866,491)**	(2,171,580)	(2,400,808)	**(149,307)**	(133,221)	(32,650)
Net interest income / (expense)	**4,383,274**	4,252,735	4,050,438	**78,507**	116,537	(3,019)

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27. NET FEE AND COMMISSION INCOME

Accounting policy

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan processing fees are deferred and recognised accordingly.

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Fee and commission income						
Retail banking customer fees	311,954	345,084	348,565	-	-	-
Corporate banking customer fees	272,360	243,173	238,394	-	-	-
Brokerage income	35,281	36,598	16,015	-	-	-
Asset management fees	31,432	33,629	24,069	-	-	-
Card income	429,541	397,665	316,617	-	-	-
Other	1,377	1,977	957	-	-	-
Total fee and commission income	1,081,945	1,058,126	944,617	-	-	-
Fee and commission expense						
Interbank transaction fees	(17,790)	(17,628)	(13,931)	-	-	-
Brokerage	(3,915)	-	-	-	-	-
Other	(7,641)	(11,712)	(15,414)	-	-	-
Total fee and commission expense	(29,346)	(29,340)	(29,345)	-	-	-
Net fee and commission income	1,052,599	1,028,786	915,272	-	-	-

28. DIVIDEND INCOME

Accounting policy

Dividend is recognised when the Group's and Company right to receive the payment is established, which is generally when the dividend is declared.

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Available-for-sale securities	38,268	156,756	179,338	27,563	151,014	173,036
Investment in subsidiaries	-	-	-	-	2,446,710	6,798,314
Trading securities	596	517	1	-	-	-
	38,864	157,273	179,339	27,563	2,597,724	6,971,350

29. NET TRADING INCOME

Accounting policy

Results arising from trading activities and includes all gains and losses from changes in fair value for financial assets and financial liabilities held-for-trading.

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Fixed income securities	4,190	(837)	602	3,705	-	-
Equities	145	(125)	(266)	-	-	-
Foreign exchange gain	536,831	528,968	403,522	117	3,697	185
Other	(26,116)	(370)	(158)	-	-	-
	515,050	527,636	403,700	3,822	3,697	185

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30. OTHER OPERATING INCOME

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	**31 December 2016**	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	**MUR' 000**	MUR' 000	MUR' 000
Gain from sale of investment securities:						
Investment securities	**448,470**	287,664	255,270	**6,740**	16,224	-
Equity investments	**2,708**	-	456,704	**2,591**	-	-
Other	**5,260**	1,199	142		-	-
	456,438	288,863	712,116	**9,331**	16,224	-

Included in gains/(losses) from sales of available -for-sale securities are the amounts transferred from equity to profit or loss on derecognition of available-for-sale securities.

31. PERSONNEL EXPENSES

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 Group operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under personnel expenses. Unpaid contributions are recorded as a liability. Refer to note 13 for accounting policy on defined benefit plans.

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	**31 December 2016**	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	**MUR' 000**	MUR' 000	MUR' 000
Wages and salaries	**1,043,922**	883,872	779,356	**-**	-	641
Other social security obligations	**16,672**	13,853	12,632	**-**	-	5
Contributions to defined contribution plans	**79,768**	70,178	65,158	**-**	-	135
Cash-settled share-based payments	**-**	-	6,471	**-**	-	-
Increase in liability for defined benefit plans (Notes 13 and 35)	**30,098**	33,414	33,089	**-**	-	-
Staff welfare cost	**14,625**	15,862	18,357	**-**	-	-
Management and professional charges	**18,226**	36,843	37,429	**-**	-	-
Security and cleaning services	**71,867**	75,872	55,496	**-**	-	-
Other*	**120,717**	107,110	109,299	**3,830**	1,355	11
	1,395,895	1,237,004	1,117,287	**3,830**	1,355	792

* *Includes mainly travelling expenses, training and mileage cost*

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32. OTHER EXPENSES

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	**31 December 2016**	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	**MUR' 000**	MUR' 000	MUR' 000
Software licensing and other information technology cost	**505,332**	368,616	1,275,807	**50**	26	-
Auditors' remuneration (audit and other services):						
- Principal auditors	**9,913**	7,099	20,819	**733**	350	3,542
- Other auditors	**354**	795	962	**-**	-	-
Utilities	**54,968**	1,423	53,872	**-**	-	-
Professional charges	**84,841**	163,877	284,236	**33,764**	32,587	323
Marketing costs	**58,541**	47,707	37,869	**1,134**	1,513	9
Rent, repairs and maintenance	**165,863**	100,890	81,499	**-**	-	-
Licence and other registration fees	**26,399**	24,047	20,216	**11,538**	901	152
Other*	**89,512**	157,458	93,875	**786**	2,663	655
	995,723	871,912	1,869,155	**48,005**	38,040	4,681

* *Includes mainly printing,stationary,subscription and other operational cost*

33. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

Accounting policy

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

When an AFS financial asset is considered to be impaired, its carrying amount is reduced by the impairment loss for loans and advances to customers where the carrying amount is reduced through the use of an allowance account.

For AFS financial assets the 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 Net unrealised investment fair value reserve.

	The Group		
	31 December 2016 MUR' 000	31 December 2015 MUR' 000	31 December 2014 MUR' 000
Portfolio and specific provisions:			
- On-balance sheet advances (Note 8c)	651,527	1,945,447	642,343
Bad debts written off for which no provisions were made	70,029	1,347	123
Recoveries of advances written off	(3,725)	(7,231)	(11,750)
Other	(932)	(2,723)	(363)
	716,899	1,936,840	630,353
Of which:			
Credit exposure	717,831	1,939,563	630,716
Other financial assets	(932)	(2,723)	(363)
	716,899	1,936,840	630,353

The Company

The Company received dividend in specie of MUR 6.3 billion from its subsidiaries during the year ended 31 December 2014. The dividend received in specie was adjusted against the investments held by the Company.

34. EARNINGS PER SHARE

Earnings per share is calculated by dividing profit attributable to equity holders of the parent by the number of shares outstanding during the year, excluding treasury shares.

	The Group		
	31 December 2016 MUR' 000	31 December 2015 MUR' 000	31 December 2014 MUR' 000
Profit attributable to equity holders of the parent	2,308,902	1,607,554	1,868,400
Number of shares entitled to dividend (thousands)	2,581,792	2,581,792	2,581,792
Earnings per share (cents)	89.43	62.27	72.37

Subsequent to the shareholder approval at the Annual Meeting of Shareholders of SBM Holdings Ltd (SBMH) held on 28 June 2016 to proceed with the reverse share split, whereby each shareholder of SBMH shall receive 1 ordinary share for every 10 ordinary shares held on the record date, the Board of SBMH at its meeting held on 01 August 2016 has resolved to fix the effective date of the reverse split of shares on the 19th October 2016.

The earnings per share has been retrospectively adjusted for the year 2014 and 2015 to reflect the new number of shares.

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35. NET CASH FROM / (USED IN) OPERATING ACTIVITIES

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	**31 December 2016**	31 December 2015	31 December 2014
Cash flows from operating activities	**MUR' 000**	MUR' 000	MUR' 000	**MUR' 000**	MUR' 000	MUR' 000
Profit for the year	**2,308,902**	1,607,554	1,868,400	**49,206**	2,677,878	643,162
Adjustments to determine net cash flows:						
Depreciation of property and equipment	**158,036**	153,038	150,951	**1,203**	501	-
Amortisation of intangible assets	**191,968**	8,497	15,071	**-**	-	-
Pension expense (Note 31)	**30,098**	33,414	33,089	**-**	-	-
Net impairment loss on financial assets (Note 33)	**716,899**	1,936,840	630,353	**-**	-	6,319,881
Exchange difference	**(122,420)**	420,722	84,476	**(814)**	237,272	-
Net (gain) / loss on sale of available-for-sale equity investments	**(2,708)**	221	(456,704)	**2,591**	-	-
Net loss / (gain) from dealings in trading securities	**21,781**	1,330	(179)	**-**	-	-
Net (gain) / loss on disposal of property and equipment	**(508)**	(2,451)	349	**-**	-	-
Net loss / (gain) on loans and advances at fair value through profit or loss	**(995)**	1,583	-	**-**	-	-
Interest income		-	-	**(227,814)**	(249,758)	(29,631)
Interest expense		-	-	**149,307**	133,221	32,650
Tax expense	**680,429**	440,448	672,641	**16,979**	16,408	-
Share of profit of associate	**(1,627)**	-	(62,993)	**-**	-	-
Dividend income (Note 28)	**(38,864)**	(157,273)	(179,339)	**(27,563)**	(2,597,724)	(6,971,350)
Operating profit / (loss) before working capital changes	**3,940,991**	4,443,923	2,756,115	**(36,905)**	217,798	(5,288)
Change in operating assets and liabilities						
(Decrease) / increase in trading assets	**(43,637)**	59,751	44,527	**-**	-	-
(Increase) / decrease in loans to and placements with banks	**(3,436,965)**	(506,812)	230,295	**-**	-	-
(Increase) / decrease in loans and advances to non bank customers	**(3,549,386)**	(3,299,432)	1,554,913	**-**	-	-
(Increase) / decrease in gilt-edged investment securities	**(4,082,685)**	(2,056,264)	(5,543,430)	**1,254,257**	483,328	(353,627)
Decrease / (Increase) in other investment securities	**2,778,203**	(5,015,268)	(6,610,498)	**646,076**	-	-
Increase in mandatory balances with central banks	**(178,086)**	(371,159)	(1,053,768)		-	-
Decrease / (increase) in other assets	**216,729**	188,855	(275,682)	**(1)**		(6,245)
Increase in deposits from banks	**1,859,950**	157,820	376,618		-	-
Increase in deposits from non-bank customers	**4,960,091**	12,496,113	8,768,355		-	-
Increase / (decrease) in trading liabilities	**61,632**	(25,853)	(91,921)		-	-
(Increase) / decrease in other liabilities	**(72,468)**	216,108	(220,995)	**2,504**	5,426	8,919
Interest received	**-**	-	-	**274,053**	237,951	19,242
Interest paid	**-**	-	-	**(145,554)**	(92,895)	(21,187)
Other dividend received	**164,200**	180,670	30,607	**152,834**	257,366	24,305
Income tax paid	**(668,086)**	(237,944)	(900,436)	**(31,969)**	-	-
Net cash from / (used in) operating activities	**1,950,483**	6,230,508	(935,300)	**2,115,295**	1,108,974	(333,881)

36. RELATED PARTY DISCLOSURES

Accounting policy

For the purposes of these financial statements, parties are considered to be related to the Group if they have the ability, directly or indirectly, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or if they and the Group are subject to common control. Related parties may be individuals or other entities.

The Group

	Key management personnel including directors			Associates and other entities in which the Group has significant influence			Entities (including their subsidiaries) in which the Group has significant influence			Entities in which directors, key management personnel and their close family members have significant influence		
As at 31 December	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014
	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	**30,901**	20,279	12,659	**-**	-	-	**-**	-	-	**194,906**	224,882	280,518
Loans to directors / entities who ceased to be related parties during the year	**(7,961)**	(7,492)	-	**-**	-	-	**-**	-	-	**(194,906)**	(98,305)	98,305
Existing loans of new related parties	**9,256**	448	-	**-**	-	-	**-**	-	-	**63,701**	-	-
Other net movements	**68,101**	17,666	7,620	**-**	-	-	**-**	-	-	**1,257,111**	68,329	(153,941)
Balance at end of year	**100,297**	30,901	20,279	**-**	-	-	**-**	-	-	**1,320,812**	194,906	224,882
(ii) Off-balance sheet obligations												
Balance at end of year	**100**	-	-	**-**	-	-	**-**	-	-	**23,414**	-	-
(b) Deposits at end of year	**99,057**	109,041	69,083	**546,792**	323,732	-	**250,952**	352,740	191,286	**59,247**	36,250	90,978
(c) Interest income	**3,493**	1,616	1,194	**-**	-	56,486	**404**	15	1	**49,020**	13,862	11,879
(d) Interest expense	**644**	1,336	1,803	**498**	3,405	58,059	**2,976**	3,831	2,394	**-**	89	1,666
(e) Other income	**225**	127	76	**1,803**	9,018	13,611	**2,011**	2,752	1,157	**6,430**	1,943	5,933
(f) Dividend income	**-**	-	-	**-**	-	-	**11,000**	2,446,710	1,259,147	**-**	-	-
(g) Purchase of goods and services	**6,143**	433	-	**-**	-	-	**-**	-	-	**-**	-	-
(h) Emoluments	**34,566**	108,632	100,064	**-**	-	-	**-**	-	-	**-**	-	-

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36. RELATED PARTY DISCLOSURES (CONT'D)

Related party transactions in relation to Post Employment Benefit Plans are as follows:

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Deposits at end of year	**148,576**	136,606	82,422
Interest expense	**250**	782	1,183
Other income	**213**	463	287
Contributions paid	**90,151**	86,470	82,657

Credit facilities to key management personnel and executive directors are as per their contract of employment. 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. CAPITAL MANAGEMENT

The Group 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 Group are disclosed in the Statement of changes in equity.

All entities within the Group have 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.

Pursuant to the Group restructuring approved by the Bank of Mauritius under Section 32A of the Banking Act, which became effective on 02 October 2014, SBM Holdings Ltd is now the ultimate holding company of the SBM Group. Surplus capital held by SBM Bank (Mauritius) Ltd (formerly known as State Bank of Mauritius Ltd) have been streamed up to SBM Holdings Ltd which in turn invested in SBM (Bank) Holdings Ltd, the holding company for the Banking segment. As per the constitution of SBM Holdings Ltd, not less than 90% of its capital, reserves and borrowings shall be invested in banking activities/operations. SBM Holdings Ltd and also SBM (Bank) Holdings Ltd are supervised by the Bank of Mauritius (BOM) as per the conditions of BOM approval of the SBM Group Restructuring and BOM approval is required whenever capital will be injected in the operating companies in accordance with the order of priority specified under Section 36 of the Banking Act to ensure planned growth and regulatory compliance.

Banks in Mauritius are required to maintain a ratio of eligible capital to risk weighted assets of at least 10%, whereas for India and Madagascar, the minimum ratio is set at 9% and 8% respectively.

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Tier 1 Capital	**18,598,479**	18,253,567	20,376,298
Eligible capital	**24,027,477**	23,717,553	24,926,957
Risk weighted assets	**93,479,869**	83,935,326	79,365,707
Capital adequacy ratio (%)	**25.70**	28.26	31.41

38. PHANTOM SHARE OPTIONS

In November 2012, the shareholders on the recommendation of the Board of Directors approved an Employee Share Option Plan "ESOP" which replaced the Phantom Shares Option Scheme implemented by the bank since the last 15 years died out in 2016..

39. OTHER RESERVES

The Group	Reserve arising on share buy back MUR' 000	Net unrealised investment fair value reserve MUR' 000	Net translation reserve MUR' 000	Net other reserve MUR' 000	Earnings reserve MUR' 000	Restructure reserve MUR' 000	Total MUR' 000
At 01 January 2014	236,071	3,676,010	(680,411)	72,690	-	-	3,304,360
Other comprehensive income for the year	-	1,727,055	87,574	(9,535)	-	-	1,805,094
Transfer to restructure reserve	(236,071)	(5,402,243)	646,064	-	2,935,807	(8,379,302)	(10,435,745)
Transfer to retained earnings	-	27,125	-	(63,155)	-	63,155	27,125
At 31 December 2014	-	27,947	53,227	-	2,935,807	(8,316,147)	(5,299,166)
At 01 January 2015	-	27,947	53,227	-	2,935,807	(8,316,147)	(5,299,166)
Other comprehensive income for the year	-	(726,867)	202,833	-	-	-	(524,034)
At 31 December 2015	-	(698,920)	256,060	-	2,935,807	(8,316,147)	(5,823,200)
At 01 January 2016	**-**	**(698,920)**	**256,060**	**-**	**2,935,807**	**(8,316,147)**	**(5,823,200)**
Other comprehensive income for the year	**-**	**467,253**	**(80,866)**	**1,276**	**-**	**-**	**387,663**
At 31 December 2016	**-**	**(231,667)**	**175,194**	**1,276**	**2,935,807**	**(8,316,147)**	**(5,435,537)**

Net unrealised investment fair value reserve

This reserve comprise of fair value movements recognised on available-for-sale financial assets.

Net translation reserve

The net translation reserve is used to record exchange differences arising from the translation of financial statements of foreign subsidiaries and associates.

Net other reserves

Net other reserves include statutory reserve, capital conservation reserve, net property revaluation reserve and associated reserve. These are described below:

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.

Net 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 relate to an increase on the same asset previously recognised in equity.

Associate's Reserve

The Associate reserve is used to record the other comprehensive share of the investee company.

Earnings reserve

The earnings reserve represents retained earnings earmarked towards capital contribution upon transfer of the Indian Operations of SBM Bank (Mauritius) Ltd to SBM Holdings Ltd which is awaiting approval of a Wholly Owned Subsidiary license from the Reserve Bank of India. This amount will be adjusted against the restructure reserve on receipt of the licence.

Restructuring reserve

Restructuring reserve includes net unrealized investment fair value reserve of MUR 5,401 million, net translation reserve of MUR 646 million and net property revaluation reserve of MUR 1,063 million and shall be reclassified to the *statement of profit or loss* upon disposal of the related asset.

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40. RISK MANAGEMENT

The Board of Directors oversees the risk management framework and ensures decision making is aligned with the Board-driven strategic risk objectives and risk appetite. Boards approve the risk policies and a set of prudential limits and risk tolerance limits, besides regulatory limits, within which the Group 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 Group is exposed include credit risk, liquidity risk, market risk, operational risk, strategic risk and reputational risk.

a (i) Categories of financial assets and liabilities

	The Group			The Company		
	31 December 2016 MUR' 000	31 December 2015 MUR' 000	31 December 2014 MUR' 000	**31 December 2016 MUR' 000**	31 December 2015 MUR' 000	31 December 2014 MUR' 000
Financial assets						
Loans and receivables	**120,232,334**	108,375,988	103,043,699	**2,424,820**	3,966,582	2,137,047
Available-for-sale	**18,193,742**	21,688,980	17,670,747	**6,159,231**	7,768,419	8,390,080
Fair value through profit or loss (Note 7)	**165,998**	144,142	205,223	**-**	-	-
	138,592,074	130,209,110	120,919,669	**8,584,051**	11,735,001	10,527,127
Financial liabilities						
Measured at amortised cost	**122,437,406**	113,342,048	103,181,752	**3,871,368**	3,865,631	3,607,127
Fair value through profit or loss (Note 7)	**182,413**	120,781	146,634	**-**	-	-
	122,619,819	113,462,829	103,328,386	**3,871,368**	3,865,631	3,607,127

40. 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 2016		31 December 2015		31 December 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
The Group	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Financial assets						
Cash and cash equivalents	9,490,208	9,490,208	9,174,135	9,174,135	8,194,125	8,194,125
Mandatory balances with Central banks	7,097,994	7,097,994	6,919,908	6,919,908	6,548,749	6,548,749
Loans to and placements with banks	4,645,911	4,645,911	1,208,945	1,208,945	702,133	702,133
Trading assets	165,998	165,998	144,142	144,142	205,223	205,223
Loans and advances to non-bank customers	71,624,874	72,072,262	68,784,195	68,712,121	67,434,536	67,447,362
Investment securities	39,430,829	39,344,593	37,375,824	37,018,354	30,369,883	30,358,167
Equity investments	5,732,722	5,732,722	6,066,176	6,066,176	6,721,917	6,721,917
Other assets	403,538	403,538	535,785	535,785	743,103	743,103
	138,592,074	138,953,226	130,209,110	129,779,566	120,919,669	120,920,779
Financial liabilities						
Deposits from banks	2,611,669	2,611,669	751,719	751,719	593,899	593,899
Deposits from non-bank customers	109,241,194	109,246,841	104,281,103	104,336,288	91,784,990	91,827,586
Other borrowed funds	4,486,008	4,486,008	2,132,497	2,132,497	5,113,005	5,113,005
Trading liabilities	182,413	182,413	120,781	120,781	146,634	146,634
Other liabilities	2,233,164	2,233,164	2,314,591	2,314,591	2,091,650	2,091,650
Subordinated debts	3,865,371	3,865,371	3,862,138	3,862,138	3,598,208	3,598,208
	122,619,819	122,625,466	113,462,829	113,518,014	103,328,386	103,370,982
The Company						
Financial assets						
Cash and cash equivalents	15,321	15,321	178,060	178,060	3,702	3,702
Investment securities	4,305,882	4,365,967	5,896,350	5,816,554	3,915,754	3,924,601
Equity investments	4,261,347	4,261,347	5,534,324	5,534,324	6,319,881	6,319,881
Other assets	1,501	1,501	126,267	126,267	287,790	287,790
	8,584,051	8,644,136	11,735,001	11,655,205	10,527,127	10,535,974
Financial liabilities						
Other liabilities	5,997	5,997	3,493	3,493	8,919	8,919
Subordinated debts	3,865,371	3,865,371	3,862,138	3,862,138	3,598,208	3,598,208
	3,871,368	3,871,368	3,865,631	3,865,631	3,607,127	3,607,127

For loans and advances to non-bank customers, all the fixed loans and advances maturing after one year has been fair valued based on the current prevailing lending rate.

For investment securities, all the government bonds and 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 has been fair valued based on the current prevailing savings rate.

Except for the levels in which the financial assets and financial liabilities are shown in table 40(a)(iii), the fair values of the other financial assets and financial liabilities are categorized in level 3.

Significant accounting estimates and judgements

The determination of fair values, estimated by discounting future cash flows and by determining the relative interest rates, is subjective. The estimated fair value was calculated according to interest rates prevailing at the reporting date and does not consider interest rate fluctuations. Given other interest rate assumptions, fair value estimates may differ.

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40. RISK MANAGEMENT (CONT'D)

a (iii) Fair value measurement hierarchy

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.

	The Group				The Company			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2016								
Trading assets	**-**	**165,998**	**-**	**165,998**	**-**	**-**	**-**	**-**
Loans and advances at fair value	**-**	**-**	**856**	**856**	**-**	**-**	**-**	**-**
Investment securities - available-for-sale	**9,826,429**	**-**	**2,634,591**	**12,461,020**	**-**	**-**	**-**	**-**
Equity investments - available-for-sale	**-**	**-**	**5,732,722**	**5,732,722**	**-**	**-**	**4,261,347**	**4,261,347**
	9,826,429	**165,998**	**8,368,169**	**18,360,596**	**-**	**-**	**4,261,347**	**4,261,347**
Trading liabilities	**-**	**182,413**	**-**	**182,413**	**-**	**-**	**-**	**-**
31 December 2015								
Trading assets	-	144,142	-	144,142	-	-	-	-
Loans and advances at fair value	-	-	5,438	5,438	-	-	-	-
Investment securities - available-for-sale	13,469,821	-	2,152,983	15,622,804	-	-	-	-
Equity investments - available-for-sale	-	-	6,066,176	6,066,176	-	-	5,534,324	5,534,324
	13,469,821	144,142	8,224,597	21,838,560	-	-	5,534,324	5,534,324
Trading liabilities	**-**	**120,781**	**-**	**120,781**	**-**	**-**	**-**	**-**
31 December 2014								
Trading assets	28,478	176,745	-	205,223	-	-	-	-
Loans and advances at fair value	-	-	13,556	13,556	-	-	-	-
Investment securities - available-for-sale	9,873,491	-	1,075,340	10,948,831	-	-	-	-
Equity investments - available-for-sale	-	-	6,721,917	6,721,917	-		6,319,881	6,319,881
	9,901,969	176,745	7,810,813	17,889,527	-	-	6,319,881	6,319,881
Trading liabilities	**-**	**146,634**	**-**	**146,634**	**-**	**-**	**-**	**-**

Loans and advances at fair value relate to the fair value of hedged assets (Note 40(d)(ii)).

The level 3 available-for-sale investment securities are carried at cost due to absence of market and track record for such similar instruments.

The table below summarises the valuation techniques together with the significant unobservable inputs used to calculate the fair value of the Group's Level 3 available-for-sale equity investments.

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40. RISK MANAGEMENT (CONT'D)

Equity available-for-sale investments

Valuation technique	Significant unobservable inputs	Range of input
Discounted projected cash flow	Weighted Average Cost of Capital (WACC)	11.70%
	Favourable changes	Unfavourable changes
0.25% change in WACC (MUR'000)	39,286	39,795

Reconciliation for Level 3 fair value measurements:

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Balance at start of year	8,224,597	7,810,813	4,666,577	5,534,324	6,319,881	-
Additions	1,221,929	1,078,098	250,327	-	-	6,319,881
Disposals	(232,589)	-	(66,282)	-	-	-
Transfer to associate	(1,273,430)	-	-	(1,273,430)	-	-
Transfer from subsidiary	-	-	1,270,386	-	-	-
Exchange difference	(10)	(25)	(26)	-	-	-
Movement in fair value	427,672	(664,289)	1,689,831	453	(785,557)	-
Balance at end of year	8,368,169	8,224,597	7,810,813	4,261,347	5,534,324	6,319,881

There was no transfer between Level 1 and 2 during the year.

NOTES TO THE FINANCIAL STATEMENTS
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40. RISK MANAGEMENT (CONT'D)

b Credit risk

The Group 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 Group'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 Group has a tiered credit sanctioning process depending on the credit quality, exposure type and amount. Credit exposures and risk profile are monitored by the Credit Risk Management unit and reported regularly to the Board Risk Management Committee.

(i) Maximum credit exposure

The maximum exposure to credit risk at the reporting date without taking account of any collateral held and other credit enhancements is as disclosed below:

	The Group			The Company		
	31 December 2016	31 December 2015	31 December 2014	**31 December 2016**	31 December 2015	31 December 2014
Fund-based exposures:	**MUR' 000**	MUR' 000	MUR' 000	**MUR' 000**	MUR' 000	MUR' 000
Cash and cash equivalents	**7,463,137**	6,987,190	5,978,919	**15,321**	178,060	3,702
Mandatory balances with Central Banks	**7,097,994**	6,919,908	6,548,749	**-**	-	-
Loans to and placements with banks	**4,645,911**	1,208,945	702,133	**-**	-	-
Trading assets	**-**	-	28,478	**-**	-	-
Loans and advances to non-bank customers	**75,109,646**	71,060,407	67,617,045	**-**	-	-
Investment securities	**39,430,828**	37,375,824	30,369,883	**4,305,882**	5,896,350	3,915,754
Other assets	**403,538**	535,785	743,103	**1,501**	126,267	287,790
	134,151,054	124,088,059	111,988,310	**4,322,704**	6,200,677	4,207,246
Non-fund based exposures:						
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	**5,091,939**	5,168,941	6,025,492	**-**	-	-
Credit commitments	**6,787,125**	7,472,081	7,469,380	**-**	-	-
	11,879,064	12,641,022	13,494,872	**-**	-	-

(ii) Credit quality

Corporate borrowers are assigned a Customer Risk Rating using Moody's Risk Advisor which is based on the borrower's financial condition and outlook, industry and economic conditions, access to capital and management strength. For the small and medium enterprises, the rating is derived from the Small Business Underwriting Matrix which is primarily based on the customer's financial position / debt repayment capacity and quality of collateral. Individuals are rated using LOS origination system based on a set of personal attributes including income and repayment capacity. The bank is in the process of enhancing its rating model as part of the business-aligned technology transformation, which would better reflect the economic environment.

An analysis of credit exposures, including non-fund based facilities, for advances to non-bank customers that are neither past due nor impaired using the Group's credit grading system is given below:

	The Group		
	31 December 2016	31 December 2015	31 December 2014
Grades:	**MUR' 000**	MUR' 000	MUR' 000
1 to 3 - Strong	**30,857,635**	39,845,329	42,047,396
4 to 6 - Satisfactory	**32,741,310**	24,991,499	25,083,713
7 to 10 (including unrated) - weak	**17,888,994**	14,865,732	11,711,268
	81,487,939	79,702,560	78,842,377

Grade 1 includes customers with low credit risk factors, strong financial conditions and excellent repayment capacities whereas grade 10 includes unrated customers which have been defaulted to 10 on a prudent basis.

The carrying amounts of loans and advances whose terms have been renegotiated during the year amounted to MUR 2,952.1 million (2015: MUR 5,558.9 million and 2014: MUR 4,969.0 million) for the Group.

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.

40. 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 Group Credit Risk policy. The amount and type of collateral required depend on the counterparty's credit quality and repayment capacity. The principal collateral types taken include:

- Fixed / floating charge on assets of borrowers
- Pledge of deposits / securities / life insurance policy / shares
- Government guarantee / bank guarantee / corporate guarantee / personal guarantee
- Lien on vehicle
- Letter of comfort

(iv) Ageing of receivables that are past due but not impaired:

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Up to 1 month	115,589	150,012	433,508
Over 1 month and up to 3 months	121,561	136,115	374,364
	237,150	286,127	807,872

(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:

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Loans and advances (Note 8d)	4,998,437	3,712,740	1,461,668
Specific allowance held in respect of impaired advances (Note 8d)	3,105,952	2,427,061	811,515
Fair value of collaterals of impaired advances	1,721,767	1,233,883	633,990

(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 Group to any one customer or group of closely-related customers for amounts aggregating more than 15% of its capital base, classified by industry sectors:

	The Group		
	31 December 2016	31 December 2015	31 December 2014
Portfolio	MUR' 000	MUR' 000	MUR' 000
Agriculture	2,509,798	2,695,992	3,071,913
Commerce	4,292,431	3,287,651	-
Real Estate	2,850,895	3,066,204	-
Tourism	4,839,141	5,622,342	3,450,210
	14,492,265	14,672,189	6,522,123

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40. RISK MANAGEMENT (CONT'D)

c Liquidity risk

Liquidity risk is the potential earnings volatility arising from being unable to fund assets at reasonable rates over required maturities. The Group ensures that sufficient liquidity is maintained to fund its day-to-day operations, meet deposit withdrawals and loan disbursements. Liquidity risk is managed by setting prudential limits on maturity mismatches, liquid assets ratios, concentration of deposits by type and by entity. Liquidity gap analysis is used to measure and monitor the mismatches by time bucket and currency under realistic and stress scenarios.

(i) The tables below show the expected timing of cash flows for financial assets and liabilities of the Group and the Company, 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	Total
The Group	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2016							
Financial Assets							
Cash and cash equivalents	8,541,707	948,501	-	-	-	-	9,490,208
Mandatory balances with Central Banks	381,646	189,330	219,776	319,466	407,844	5,579,932	7,097,994
Loans to and placements with banks	179,715	1,522	1,904,396	142,287	2,036,533	381,459	4,645,911
Loans and advances to non-bank customers	5,277,295	5,922,352	5,263,265	6,758,047	16,502,704	31,996,347	71,720,010
Investment securities	1,303,121	2,158,581	4,543,673	5,894,064	15,232,047	9,589,756	38,721,242
Other assets	403,538	-	-	-	-	-	403,538
Total financial assets	16,087,022	9,220,286	11,931,110	13,113,864	34,179,128	47,547,494	132,078,903
Financial liabilities							
Deposits from banks	1,707,316	542,489	361,864	-	-	-	2,611,669
Deposits from non-bank customers	5,428,446	2,776,829	3,188,942	4,580,874	6,359,516	86,906,587	109,241,194
Other borrowed funds	1,357,472	966,569	86,104	326,672	867,563	881,629	4,486,009
Subordinated debts	-	24,504	5,909	-	-	3,834,958	3,865,371
Other liabilities	2,233,164	-	-	-	-	-	2,233,164
Total financial liabilities	10,726,398	4,310,391	3,642,819	4,907,546	7,227,079	91,623,174	122,437,407
Liquidity Gap	5,360,624	4,909,895	8,288,291	8,206,318	26,952,049	(44,075,680)	9,641,496
31 December 2015							
Financial Assets	18,036,906	6,822,179	7,901,285	13,769,194	34,555,207	46,425,910	127,510,681
Financial liabilities	12,012,757	3,126,776	2,443,818	5,477,071	6,851,761	83,429,865	113,342,048
Liquidity Gap	6,024,149	3,695,403	5,457,467	8,292,123	27,703,446	(37,003,955)	14,168,633
31 December 2014							
Financial assets	16,103,389	6,073,381	8,406,420	13,432,323	28,236,156	43,413,688	115,665,357
Financial liabilities	12,774,024	5,220,284	5,882,749	9,658,177	13,234,283	55,721,499	102,491,016
Liquidity Gap	3,329,365	853,097	2,523,671	3,774,146	15,001,873	(12,307,811)	13,174,341

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40. RISK MANAGEMENT (CONT'D)

c Liquidity risk (Cont'd)

The Company	Up to 1 month MUR' 000	1-3 months MUR' 000	3-6 months MUR' 000	6-12 months MUR' 000	1-3 years MUR' 000	Over 3 years MUR' 000	Total MUR' 000
31 December 2016							
Financial Assets							
Cash and cash equivalents	15,321	-	-	-	-	-	15,321
Investment securities	-	9,944	606,514	489,882	1,150,923	1,689,035	3,946,298
Other assets	1,501	-	-	-	-	-	1,501
Total financial assets	16,822	9,944	606,514	489,882	1,150,923	1,689,035	3,963,120
Financial liabilities							
Subordinated debts	-	5,909	-	-	-	3,834,958	3,840,867
Other liabilities	5,997	-	-	-	-	-	5,997
Total financial liabilities	5,997	5,909	-	-	-	3,834,958	3,846,864
Liquidity Gap	10,825	4,035	606,514	489,882	1,150,923	(2,145,923)	116,256
31 December 2015							
Financial Assets	341,267	-	515,382	718,858	1,556,797	3,068,373	6,200,677
Financial liabilities	3,493	21,979	4,681	-	-	3,835,478	3,865,631
Liquidity Gap	337,774	(21,979)	510,701	718,858	1,556,797	(767,105)	2,335,046
31 December 2014							
Financial assets	291,493	179,369	-	164,867	1,667,968	1,903,550	4,207,247
Financial liabilities	8,919	27,750	3,583	-	-	3,566,876	3,607,128
Liquidity Gap	282,574	151,619	(3,583)	164,867	1,667,968	(1,663,326)	600,119

The expected timing of cash flows is based on management's estimates and the behavioural analysis of customer's deposits.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

40. RISK MANAGEMENT (CONT'D)

c Liquidity risk (Cont'd)

(ii) The table below shows the remaining contractual maturities of financial liabilities:

	On Demand	Up to 3 months	3-6 months	6-12 months	1-2 years	Over 2 years	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
The Group							
Financial liabilities							
Deposits	92,003,698	4,701,909	2,880,853	4,400,165	4,429,450	1,418,587	109,834,662
Trading Liabilities	-	182,413	-	-	-	-	182,413
Other borrowed funds	-	2,330,271	83,122	350,576	340,985	1,516,994	4,621,948
Other liabilities	-	2,233,164	-	-	-	-	2,233,164
31 December 2016	92,003,698	9,447,757	2,963,975	4,750,741	4,770,435	2,935,581	116,872,187
31 December 2015	85,159,719	6,486,074	1,993,862	5,274,411	5,141,778	7,722,051	111,777,895
31 December 2014	76,363,292	6,214,425	2,350,575	5,700,054	4,492,746	12,461,890	107,582,982
The Company							
Financial liabilities							
Subordinated debts	-	-	-	-	-	-	-
Other liabilities	-	5,997	-	-	-	-	5,997
31 December 2016	-	5,997	-	-	-	-	5,997
31 December 2015	-	46,618	28,083	71,208	142,416	4,592,684	4,881,009
31 December 2014	-	53,919	21,454	66,454	132,908	4,434,769	4,709,504

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 Group's market risks are monitored by the Market Risk Team and reported to the Market Risk Forum and Board Risk Committee on a regular basis.

(i) Interest rate risk

The Group's interest rate risk arises mostly from mismatches in the repricing of its assets and liabilities. The Group 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 Group's interest rate risk exposure, mainly cash flow interest rate risk, in terms of the remaining period to the next contractual repricing date or to the maturity date, whichever is the earlier. The 'up to 3 months' column include the financial assets and liabilities which have floating rates of interest that do not reprice at set dates, but rather reprice whenever the underlying interest rate index changes.

40. RISK MANAGEMENT (CONT'D)

d Market risk (Cont'd)

(i) Interest rate risk (Cont"d)

The Group	Up to 3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Total
31 December 2016	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Assets							
Cash and cash equivalents	2,754,058	-	-	-	-	-	2,754,058
Loans to and placements with banks	2,381,867	1,667,322	70,960	358,948	151,750	-	4,630,847
Loans and advances to non-bank customers	54,742,335	7,909,692	1,480,138	3,628,211	3,636,273	331,995	71,728,644
Investment securities	3,461,702	4,543,673	5,894,064	7,035,480	13,938,411	3,847,912	38,721,242
Total assets	63,339,962	14,120,687	7,445,162	11,022,639	17,726,434	4,179,907	117,834,791
Liabilities							
Deposits from banks	1,265,664	361,337	-	-	-	-	1,627,001
Deposits from non-bank customers	66,981,610	1,966,193	2,844,655	501,817	2,752,008	1,923	75,048,206
Other borrowed funds	3,044,896	1,259,933	178,409	-	-	-	4,483,238
Subordinated debts	1,500,000	2,334,958	-	-	-	-	3,834,958
Total liabilities	72,792,170	5,922,421	3,023,064	501,817	2,752,008	1,923	84,993,403
On balance sheet interest rate sensitivity gap	(9,452,209)	8,198,266	4,422,098	10,520,822	14,974,426	4,177,984	32,841,388
Off balance sheet interest rate sensitivity gap	691,753	19,644	47,392	(39,212)	-	-	719,577
	(8,760,456)	8,217,910	4,469,490	10,481,610	14,974,426	4,177,984	33,560,965
31 December 2015							
Total assets	63,428,295	7,349,481	6,744,071	6,843,427	20,512,063	7,293,121	112,170,458
Total liabilities	61,728,435	4,617,671	2,379,068	2,582,329	106,739	1,461	71,415,703
On balance sheet interest rate sensitivity gap	1,699,860	2,731,810	4,365,003	4,261,098	20,405,324	7,291,660	40,754,755
Off balance sheet interest rate sensitivity gap	507,882	-	(296,864)	(157,004)	(54,014)	-	-
	2,207,742	2,731,810	4,068,139	4,104,094	20,351,310	7,291,660	40,754,755
31 December 2014							
Total assets	68,056,829	5,373,394	6,677,842	5,018,999	14,712,980	3,126,636	102,966,680
Total liabilities	82,173,521	6,521,674	1,192,163	343,805	3,099,307	1,323	93,331,793
On balance sheet interest rate sensitivity gap	(14,116,692)	(1,148,280)	5,485,679	4,675,194	11,613,673	3,125,313	9,634,887
Off balance sheet interest rate sensitivity gap	610,242	-	9,924	(342,930)	(277,236)	-	-
	(13,506,450)	(1,148,280)	5,495,603	4,332,264	11,336,437	3,125,313	9,634,887

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40. RISK MANAGEMENT (CONT'D)

d Market risk (Cont'd)

(i) Interest rate risk (Cont"d)

The Company	Up to 3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Total
31 December 2016	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Assets							
Investment securities	9,944	606,514	489,882	855,503	295,419	1,689,035	3,946,297
Total assets	9,944	606,514	489,882	855,503	295,419	1,689,035	3,946,297
Liabilities							
Subordinated debts	1,500,000	2,334,958	-	-	-	-	3,834,958
Total liabilities	1,500,000	2,334,958	-	-	-	-	3,834,958
On balance sheet interest rate sensitivity gap	(1,490,056)	(1,728,444)	489,882	855,503	295,419	1,689,035	111,339
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-
	(1,490,056)	(1,728,444)	489,882	855,503	295,419	1,689,035	111,339
31 December 2015							
Total assets	36,940	515,382	718,858	1,190,377	1,162,455	2,272,338	5,896,350
Total liabilities	1,500,000	2,335,479	-	-	-	-	3,835,479
On balance sheet interest rate sensitivity gap	(1,463,060)	(1,820,097)	718,858	1,190,377	1,162,455	2,272,338	2,060,871
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-
	(1,463,060)	(1,820,097)	718,858	1,190,377	1,162,455	2,272,338	2,060,871
31 December 2014							
Total assets	179,369	-	164,867	915,772	2,340,030	315,716	3,915,754
Total liabilities	1,527,750	2,070,459	-	-	-	-	3,598,209
On balance sheet interest rate sensitivity gap	(1,348,381)	(2,070,459)	164,867	915,772	2,340,030	315,716	317,545
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-
	(1,348,381)	(2,070,459)	164,867	915,772	2,340,030	315,716	317,545

Various scenarios are used to measure the effect of the changing interest rates on net interest income including the standardized approach of 200bp parallel shock over a 12-month period assuming a static balance sheet, as shown below.

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
(Decrease)/increase in profit	**(29,195)**	94,504	(236,437)

(ii) Fair value hedges

The Group

The Group establishes fair value hedge accounting relationships for interest rate risk on some of its fixed rate customer loans. At 31 December 2016, the aggregate notional principal of interest rate swaps designated as fair value hedges was MUR 161.5 million (2015: MUR 540.6 million and 2014: MUR 626.7 million) with a net fair value liability of MUR 0.96 million (2015: MUR 6.5 million and 2014: MUR 13.1 million). The hedge was more than 85% effective in hedging the fair value exposure to interest rates movements and as a result the carrying amount of the loans being hedged was adjusted by MUR 0.86 million, which was included in the *statement of profit or loss* at the same time that the fair value of the interest rate swap was included.

40. RISK MANAGEMENT (CONT'D)

d Market risk (Cont'd)

(i) Interest rate risk (Cont"d)

The Company	Up to 3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Total
31 December 2016	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Assets							
Investment securities	9,944	606,514	489,882	855,503	295,419	1,689,035	3,946,297
Total assets	9,944	606,514	489,882	855,503	295,419	1,689,035	3,946,297
Liabilities							
Subordinated debts	1,500,000	2,334,958	-	-	-	-	3,834,958
Total liabilities	1,500,000	2,334,958	-	-	-	-	3,834,958
On balance sheet interest rate sensitivity gap	(1,490,056)	(1,728,444)	489,882	855,503	295,419	1,689,035	111,339
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-
	(1,490,056)	(1,728,444)	489,882	855,503	295,419	1,689,035	111,339
31 December 2015							
Total assets	36,940	515,382	718,858	1,190,377	1,162,455	2,272,338	5,896,350
Total liabilities	1,500,000	2,335,479	-	-	-	-	3,835,479
On balance sheet interest rate sensitivity gap	(1,463,060)	(1,820,097)	718,858	1,190,377	1,162,455	2,272,338	2,060,871
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-
	(1,463,060)	(1,820,097)	718,858	1,190,377	1,162,455	2,272,338	2,060,871
31 December 2014							
Total assets	179,369	-	164,867	915,772	2,340,030	315,716	3,915,754
Total liabilities	1,527,750	2,070,459	-	-	-	-	3,598,209
On balance sheet interest rate sensitivity gap	(1,348,381)	(2,070,459)	164,867	915,772	2,340,030	315,716	317,545
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-
	(1,348,381)	(2,070,459)	164,867	915,772	2,340,030	315,716	317,545

Various scenarios are used to measure the effect of the changing interest rates on net interest income including the standardized approach of 200bp parallel shock over a 12-month period assuming a static balance sheet, as shown below.

	The Group		
	31 December 2016	31 December 2015	31 December 2014
	MUR' 000	MUR' 000	MUR' 000
(Decrease)/increase in profit	**(29,195)**	94,504	(236,437)

(ii) Fair value hedges

The Group

The Group establishes fair value hedge accounting relationships for interest rate risk on some of its fixed rate customer loans. At 31 December 2016, the aggregate notional principal of interest rate swaps designated as fair value hedges was **MUR 161.5 million** (2014: MUR 540.6 million and 2014: MUR 626.7 million) with a net fair value liability of **MUR 0.96 million** (2015: MUR 6.5 million and 2014: MUR 13.1 million). The hedge was more than 85% effective in hedging the fair value exposure to interest rates movements and as a result the carrying amount of the loans being hedged was adjusted by MUR 0.86 million, which was included in the *statement of profit or loss* at the same time that the fair value of the interest rate swap was included.

40. RISK MANAGEMENT (CONT'D)

d Market risk (Cont'd)

(iii) Currency risk

Foreign exchange risk arises from open and imperfectly offset or hedged positions. Imperfect correlations across currencies and international interest rate markets pose particular challenges to the effectiveness of foreign currency hedging strategies. The Group exercises strict control over its foreign currency exposures. The Group 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, Madagascar 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, denominated in currencies other than the functional currency of each entity.

The Group	USD	GBP	EURO	INR	OTHER	TOTAL
31 December 2016	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
ASSETS						
Cash and cash equivalents	2,198,638	783,225	3,740,874	27,534	346,905	7,097,176
Mandatory balances with Central Banks	304,105	66,069	194,093	-	-	564,267
Loans to and placements with banks	3,987,193	-	-	-	-	3,987,193
Trading assets	62,908	3,187	5,324	21,435	16,135	108,989
Loans and advances to non-bank customers	16,457,673	628	5,079,660	-	5,763	21,543,724
Investment securities	7,144,701	1,395,868	717,234	350,750	201,968	9,810,521
Other assets	86,339	5,516	37,278	466	55,193	184,792
Total monetary financial assets	30,241,557	2,254,493	9,774,463	400,185	625,964	43,296,662
LIABILITIES						
Deposits from banks	2,221,753	4,856	76,805	-	77	2,303,491
Deposits from customers	21,238,612	2,106,741	6,863,310	26	473,532	30,682,221
Other borrowed funds	3,313,271	-	1,108,050	-	-	4,421,321
Trading liabilities	54,159	2	8,622	33,091	31,669	127,543
Subordinated debts	2,373,338	-	-	-	-	2,373,338
Other liabilities	1,061,857	43,612	821,976	1,390	52,302	1,981,137
Total monetary financial liabilities	30,262,990	2,155,211	8,878,763	34,507	557,580	41,889,051
On balance sheet net position	(21,433)	99,282	895,700	365,678	68,384	1,407,611
Off balance sheet net position	3,247	134,314	(334,535)	(404,234)	(83,905)	(685,113)
Net currency position	(18,186)	233,596	561,165	(38,556)	(15,521)	722,498
31 December 2015						
Total monetary financial assets	24,976,369	2,026,384	7,893,073	76,795	734,707	35,707,328
Total monetary financial liabilities	25,645,864	2,702,236	8,324,281	3,450	656,784	37,332,615
On balance sheet net position	(669,495)	(675,852)	(431,208)	73,345	77,923	(1,625,287)
Off balance sheet net position	952,898	620,230	43,305	(67,961)	(125,273)	1,423,199
Net currency position	283,403	(55,622)	(387,903)	5,384	(47,350)	(202,088)
31 December 2014						
Total monetary financial assets	20,175,036	2,421,279	7,156,482	9,712	1,329,995	31,092,504
Total monetary financial liabilities	20,253,760	2,468,783	7,485,577	8,036	1,265,992	31,482,148
On balance sheet net position	(78,724)	(47,504)	(329,095)	1,676	64,003	(389,644)
Off balance sheet net position	(309,363)	42,818	176,469	98,782	(64,111)	(55,405)
Net currency position	(388,087)	(4,686)	(152,626)	100,458	(108)	(445,049)

The Company

The Company is exposed to currency risk only in USD in relation to investment securities (financial assets) amounting to **MUR 2,438 million** (2015: MUR 2,233 million and 2014: MUR 2,070 million) and subordinated debts (financial liabilities) amounting to **MUR 2,373 million** (2015: MUR 2,340 million and 2014: MUR 2,070 million).

40. RISK MANAGEMENT (CONT'D)

d Market risk (Cont'd)

(iii) Currency risk (Cont'd)

Value-at-Risk Analysis

The Group 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 Group 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 Group 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 group 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 Group's VAR amounted to:

	The Group		
	31 December 2016 MUR' 000	31 December 2015 MUR' 000	31 December 2014 MUR' 000
Minimum for the year	170	207	242
Maximum for the year	5,170	2,771	4,046
Year - end	756	750	1,271

(iv) Equity price sentivity analysis

The Group is exposed to equity price risks arising from equity investments. Available-for-sale equity investments are held for strategic rather than for trading purposes and the Group 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.

	The Group			The Company		
	31 December 2016 MUR' 000	31 December 2015 MUR' 000	31 December 2014 MUR' 000	31 December 2016 MUR' 000	31 December 2015 MUR' 000	31 December 2014 MUR' 000
Statement of comprehensive income	286,636	303,309	336,096	213,067	276,716	315,994
Statement of profit or loss	-	-	144	-	-	-
	286,636	303,309	336,240	213,067	276,716	315,994

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 the notes to the financial statements.

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41. SEGMENT INFORMATION - THE GROUP

Accounting policy

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 operating segments are the banking, the non-bank financial institution, the non-financial institutions and the other institutions segments. Only the banking segment is a reportable segment.

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The Group has only one reportable operating segment based on its business activities, which is the Banking segment. Its revenues mainly arise from advances to customers and banks, investment in gilt-edged securities and equity instruments, bank placements, services provided on deposit products, provision of card and other electronic channel services, trade finance facilities, trading activities and foreign currency operations.

The accounting policies of the operating segment are the same as those described in the notes to these financial statements.

(a) Information about the reportable segment profit, assets and liabilities

Information about the reportable segment and the reconciliation of the reportable segment information to Group total is shown below:

	Banking	Non-bank financial institutions	Non financial institutions	Other institutions	Intersegment adjustments	Group Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2016						
Interest income from external customers	6,021,927	25	-	227,813	-	6,249,765
Non interest income from external customers	1,962,597	79,184	9,344	41,172	-	2,092,297
Revenue from external customers	7,984,524	79,209	9,344	268,985	-	8,342,062
Interest income from internal customers	285	(313)	-	-	28	-
Non interest income from internal customers	79	(16,287)	(900)	1	17,107	-
Revenue from other segments of the entity	364	(16,600)	(900)	1	17,135	-
Total gross revenue	7,984,888	62,609	8,444	268,986	17,135	8,342,062
Interest and fee and commission expense to external customers	(1,742,606)	(3,924)	-	(149,307)	-	(1,895,837)
Interest expense to internal customers	(313)	-	-	-	313	-
	(1,742,919)	(3,924)	-	(149,307)	313	(1,895,837)
Operating income	6,241,969	58,685	8,444	119,679	17,448	6,446,225
Depreciation and amortisation	(348,077)	(230)	(496)	(1,201)	-	(350,004)
Other non interest expenses	(2,292,698)	(53,648)	-	(51,835)	6,563	(2,391,618)
Net impairment loss on financial assets	(717,896)	997	-	-	-	(716,899)
Operating profit	2,883,298	5,804	7,948	66,643	24,011	2,987,704
Share of profit of associate	-	-	-	1,627	-	1,627
Profit before income tax	2,883,298	5,804	7,948	68,270	24,011	2,989,331
Tax expense	(658,493)	(4,957)	-	(16,979)	-	(680,429)
Profit for the year	2,224,805	847	7,948	51,291	24,011	2,308,902
Segment assets	81,992,771	31,449,757	1,737,106	31,716,074	-	146,895,708
Segment liabilities	118,782,870	81,980	353,426	3,872,732	-	123,091,008
Additions to tangible and intangible assets	1,753,673	507	-	-	-	1,754,180

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

41. SEGMENT INFORMATION - THE GROUP (CONT'D)

	Banking	Non-bank financial institutions	Non financial institutions	Other institutions	Intersegment adjustments	Group Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2015						
Interest income from external customers	6,174,133	(37)	461	249,758	-	6,424,315
Non interest income from external customers	1,753,246	105,268	2,448	170,936	-	2,031,898
Revenue from external customers	7,927,379	105,231	2,909	420,694	-	8,456,213
Interest income from internal customers	-	261	-	-	(261)	-
Non interest income from internal customers	-	-	-	2,446,711	(2,446,711)	-
Revenue from other segments of the entity	-	261	-	2,446,711	(2,446,972)	-
Total gross revenue	7,927,379	105,492	2,909	2,867,405	(2,446,972)	8,456,213
Interest and fee and commission expense to external customers	(2,067,640)	(60)	-	(133,220)	-	(2,200,920)
Interest expense to internal customers	(261)	-	-	-	261	-
	(2,067,901)	(60)	-	(133,220)	261	(2,200,920)
Operating income	5,859,478	105,432	2,909	2,734,185	(2,446,711)	6,255,293
Depreciation and amortisation	(160,763)	(99)	(171)	(502)	-	(161,535)
Other non interest expenses	(2,013,004)	(60,231)	(1,330)	(39,396)	5,045	(2,108,916)
Net impairment loss on financial assets	(1,934,708)	(2,132)	-	-	-	(1,936,840)
Operating profit	1,751,003	42,970	1,408	2,694,287	(2,441,666)	2,048,002
Share of profit of associate	-	-	-	-	-	-
Profit before income tax	1,751,003	42,970	1,408	2,694,287	(2,441,666)	2,048,002
Tax expense	(419,866)	(3,740)	(434)	(16,408)	-	(440,448)
Profit for the year	1,331,137	39,230	974	2,677,879	(2,441,666)	1,607,554
Segment assets	142,759,951	157,976	468,690	48,265,255	(55,489,781)	136,162,091
Segment liabilities	110,333,804	22,223	1,221	3,882,019	(265,539)	113,973,728
Additions to tangible and intangible assets	1,346,809	564	-	-	-	1,347,373
31 December 2014						
Interest income from external customers	6,420,937	29	649	29,631	-	6,451,246
Non interest income from external customers	1,937,772	48,552	80,226	173,222	-	2,239,772
Revenue from external customers	8,358,709	48,581	80,875	202,853	-	8,691,018
Interest income from internal customers	-	2,394	-	-	(2,394)	-
Non interest income from internal customers	61,904	13,394	899	6,798,314	(6,874,511)	-
Revenue from other segments of the entity	61,904	15,788	899	6,798,314	(6,876,905)	-
Total gross revenue	8,420,613	64,369	81,774	7,001,167	(6,876,905)	8,691,018
Interest and fee and commission expense to external customers	(2,397,441)	(62)	-	(32,650)	-	(2,430,153)
Interest expense to internal customers	(2,394)	-	-	-	2,394	-
	(2,399,835)	(62)	-	(32,650)	2,394	(2,430,153)
Operating income	6,020,778	64,307	81,774	6,968,517	(6,874,511)	6,260,865
Depreciation and amortisation	(165,833)	(52)	(137)	-	-	(166,022)
Other non interest expenses	(2,940,252)	(39,605)	(2,493)	(5,474)	1,382	(2,986,442)
Net impairment loss on financial assets	(630,353)	-	-	(6,319,881)	6,319,881	(630,353)
Operating profit	2,284,340	24,650	79,144	643,162	(553,248)	2,478,048
Share of profit of associate	-	62,993	-	-	-	62,993
Profit before income tax	2,284,340	87,643	79,144	643,162	(553,248)	2,541,041
Tax expense	(668,705)	(3,969)	33	-	-	(672,641)
Profit for the year	1,615,635	83,674	79,177	643,162	(553,248)	1,868,400
Segment assets	149,154,985	119,702	500,326	31,526,336	(55,699,087)	125,602,262
Segment liabilities	99,995,945	8,590	134,633	3,607,128	(217,697)	103,528,599
Additions to tangible and intangible assets	1,638,365	86	-	-	-	1,638,451

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

41. SEGMENT INFORMATION - THE GROUP (CONT'D)

(b) Information about the reportable segment revenue from products and services

	Banking		
	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014
	MUR' 000	MUR' 000	MUR' 000
Revenue from external customers arising from the following products and services:			
Loans and advances to non-bank customers	4,887,031	5,215,410	5,481,890
Loans to and placements with banks	107,161	57,937	59,662
Exchange income	361,723	524,861	402,994
Card income	416,821	387,837	306,757
Trade finance services	206,356	197,067	192,733
Deposit and other products /services	123,741	136,637	153,264
	6,102,833	6,519,749	6,597,300

(c) Information about revenue of the reportable segment by geographical areas

	Banking		
	Mauritius	Other countries	Total
	MUR' 000	MUR' 000	MUR' 000
31 December 2016			
Revenue from external customers	6,731,322	1,253,203	7,984,525
Tangible and intangible assets	6,116,697	423,412	6,540,109
31 December 2015			
Revenue from external customers	6,052,500	1,874,881	7,927,381
Tangible and intangible assets	4,796,104	363,205	5,159,309
31 December 2014			
Revenue from external customers	5,508,280	2,850,429	8,358,709
Tangible and intangible assets	3,723,646	248,938	3,972,584

GENERAL INFORMATION

Board of Directors of SBM Holdings Ltd

1. **KEE CHONG LI KWONG WING,**
   G.O.S.K., Chairman
2. **VIDIANAND LUTCHMEEPARSAD**
3. **OUMA SHANKAR OCHIT**
4. **AZIM CURRIMJEE**
5. **RAMPRAKASH MAUNTHROOA**
6. **MEDHA GUNPUTH**
7. **ROODESH MUTTYLALL**
8. **MAXIME HARDY**

Composition of Board Committees of SBM Holdings Ltd

AUDIT COMMITTEE

Mr Ouma Shankar Ochit (Chairman)

Mr Azim Fakhruddin Currimjee

Mr Maxime Hardy

Mr Roodesh Muttylall

CORPORATE GOVERNANCE & CONDUCT REVIEW COMMITTEE

Mr Roodesh Muttylall (Chairman)

Mr Azim Fakhruddin Currimjee

Mr Medha Gunputh

Mr Maxime Hardy

Mr Vidianand Lutchmeeparsad

Mr Ramprakash Maunthrooa

INVESTMENT & CREDIT COMMITTEE

Mr Kee Chong Li Kwong Wing, *G.O.S.K.* (Chairman)

Mr Medha Gunputh

Mr Ramprakash Maunthrooa

Mr Roodesh Muttylall

Mr Ouma Shankar Ochit

IT STEERING COMMITTEE[a]

Mr Kee Chong Li Kwong Wing, *G.O.S.K.* (Chairman)

Mr Mahmadally Burkutoola[b]

Mr Azim Fakhruddin Currimjee

Mr Ishwar Anoopum Gaya[b]

Mr Medha Gunputh

Mr Ouma Shankar Ochit

[a] The Committee was re-constituted effective February 2017

[b] Directors of SBM Bank (Mauritius) Ltd and Member of IT Steering Committee of SBM Holdings Ltd

[c] Representative of SBM Management Team and Member of Steering Committee on Seychelles

[d] Chairman of SBM Bank (Mauritius) Ltd and Member of the Steering Committee for East Africa

REGIONAL EXPANSION STEERING COMMITTEE

Mr Kee Chong Li Kwong Wing, *G.O.S.K.* (Chairman)

Mr Azim Fakhruddin Currimjee

Mr Medha Gunputh

Mr Vidianand Lutchmeeparsad

Mr Ramprakash Maunthrooa

REMUNERATION COMMITTEE

Mr Medha Gunputh (Chairman)

Mr Maxime Hardy

Mr Kee Chong Li Kwong Wing, *G.O.S.K.*

Mr Vidianand Lutchmeeparsad

Mr Ramprakash Maunthrooa

RISK MANAGEMENT COMMITTEE

Mr Azim Fakhruddin Currimjee (Chairman)

Mr Medha Gunputh

Mr Kee Chong Li Kwong Wing, *G.O.S.K.*

Mr Vidianand Lutchmeeparsad

Mr Ouma Shankar Ochit

STEERING COMMITTEE ON SEYCHELLES

Mr Kee Chong Li Kwong Wing, *G.O.S.K.* (Chairman)

Mr Chandradev Appadoo[c]

Mr Eddirao Balloo[c]

Mr Azim Fakhruddin Currimjee

Mr Ragnish Gujjalu[c]

Mr Medha Gunputh

Mr Maxime Hardy

STRATEGY COMMITTEE

Mr Kee Chong Li Kwong Wing, *G.O.S.K.* (Chairman)

Mr Azim Fakhruddin Currimjee

Mr Medha Gunputh

Mr Vidianand Lutchmeeparsad

Mr Ramprakash Maunthrooa

Mr Ouma Shankar Ochit

STEERING COMMITTEE FOR EAST AFRICA

Mr Kee Chong Li Kwong Wing, *G.O.S.K.* (Chairman)

Mr Nayen Koomar Ballah[d]

Mr Azim Fakhruddin Currimjee

Mr Medha Gunputh

Directors of Subsidiaries of SBM Holdings Ltd

BANKING SEGMENT

SBM (Bank) Holdings Ltd[1]

1. Mr Nayen Koomar Ballah - Chairman
2. Mr Ramprakash Maunthrooa
3. Mr Raj Dussoye - *appointed on 20.09.16*
4. Mr Chandradev Appadoo
5. Mr Jairaj Sonoo, *C.S.K - resigned on 15.09.16*
6. Dr Jameel Khadaroo - *resigned on 28.06.16*

SBM Bank (Mauritius) Ltd[3]

1. Mr Nayen Koomar Ballah - Chairman
2. Mr Philip Ah-Chuen
3. Mr Chandradev Appadoo
4. Mr Mahmadally Burkutoola
5. Mr Rajakrishna Chellapermal
6. Mr Ishwar Anoopum Gaya - *appointed on 27.06.16*
7. Mr Rishikesh Hurdoyal
8. Mr Raj Dussoye - *appointed on 16.08.16*
9. Mr Vivekanand Lochun - *resigned on 27.06.16*
10. Mr Jairaj Sonoo, *C.S.K - resigned on 16.08.16*

Banque SBM Madagascar SA

1. Mr Kee Chong Li Kwong Wing, *G.O.S.K* - Chairman
2. Mr Leckram Dawonauth
3. Mr Frederic Rasamoely
4. Mr Jairaj Sonoo, *C.S.K – resigned on 13.09.2016*
5. Mr Maurice Jean Marc Ulcoq
6. Mr Raj Dussoye - *appointed on 18.01.2017*

SBM Mauritius Ltd[2*]

1. Mr Chandradev Appadoo
2. Mr Jairaj Sonoo, *C.S.K*

SBM (Madagascar) Ltd[*]

1. Mr Chandradev Appadoo - Chairman
2. Mr Jairaj Sonoo, *C.S.K*

SBM Bank (Seychelles) Limited

1. Mr Kee Chong Li Kwong Wing, *G.O.S.K*
2. Mr Joseph France Pierre Albert – *appointed 20.02.2017*
3. Mr Antoine John Kevil Esther – *appointed 29.03.2017*
4. Mr Maxime Hardy – *appointed 20.02.2017*
5. Dr Jameel Khadaroo - *resigned on 28.06.2016*

SBM Overseas One Ltd**

1. Mr Chandradev Appadoo
2. Mr Jairaj Sonoo, *C.S.K*

SBM Overseas Three Ltd**

1. Mr Chandradev Appadoo
2. Mr Jairaj Sonoo, *C.S.K*
3. Mr Moses Newling Harding John – *appointed on 11.11.2016*

SBM Overseas Five Ltd**

1. Mr Chandradev Appadoo
2. Mr Jairaj Sonoo, *C.S.K*
3. Mr Kabirsingh Baboolall – *appointed on 11.11.2016*

SBM Africa Holdings Ltd** *

1. Mr Kee Chong Li Kwong Wing, *G.O.S.K*
2. Mr Nayen Koomar Ballah
3. Mr Raj Dussoye

GLOBAL SERVICES

SBM 3S Ltd[4]

1. Mr Kee Chong Li Kwong Wing, *G.O.S.K* - Chairman
2. Ms Pauline Seeyave – *resigned on 28.06.16*
3. Mr Deeagarajen Soondram
4. Mr Chandradev Appadoo
5. Mr Vivekanand Lochun – *resigned on 28.06.16*
6. Mr Jean Marie Gaetan Lan Hun Kuen – *resigned on 28.06.16*
7. Mr Ragnish Gujjalu – *Appointed on 28.06.16*

SBM Overseas Two Ltd**

1. Mr Chandradev Appadoo
2. Mr Jairaj Sonoo, *C.S.K*

SBM Overseas Four Ltd**

1. Mr Chandradev Appadoo
2. Mr Jairaj Sonoo, *C.S.K*
3. Mr Sivakrisna Goinden – *resigned on 27.04.2017*

SBM Overseas Six Ltd**

1. Mr Chandradev Appadoo
2. Mr Jairaj Sonoo, *C.S.K*
3. Mr Shailendrasingh Sreekeessoon – *appointed on 11.11.2016*

Directors of Subsidiaries of SBM Holdings Ltd

NON-BANKING FINANCIAL SEGMENT

SBM (NBFC) Holdings Ltd

1. Mr Kee Chong Li Kwong Wing, *G.O.S.K*- Chairman
2. Mr Ouma Shankar Ochit
3. Mr Ramprakash Maunthrooah
4. Mr Deeagarajen Soondram
5. Mr Thierry Hugnin
6. Mr Marrier Pierre D'Unienville
7. Mr Roshan Ramoly

SBM Securities Ltd

1. Mr Roshan Nathoo – Chairman – *resigned on 28.06.16*
2. Mr Roshan Ramoly – Chairman – appointed on 25.07.16
3. Ms Pauline Seeyave – *resigned on 28.06.16*
4. Mr Deeagarajen Soondram
5. Mr Amal Arpun Autar
6. Mr Lim Tit Chong Lim Lit Siong

SBM Asset Management Limited (Wound up on 25 October 2016)

1. Ms Pauline Seeyave – Chairperson - – *resigned on 28.06.16*
2. Mr Deeagarajen Soondram – *appointed on 09.05.16*
3. Mr Venkateswara Rao Parvateneni – *appointed on 16.03.16*

SBM eBusiness Ltd

1. Mr Kee Chong Li Kwong Wing, *G.O.S.K* – Chairperson
2. Ms Pauline Seeyave – *resigned on 28.06.16*
3. Mr Deeagarajen Soondram
4. Mr Veeren Manikion – *appointed on 09.08.16*

SBM Mauritius Asset Managers Ltd

1. Mr Chandra Kumar Gujadhur - Chairman
2. Mr Lam Thuon Mine Lim Chan Kwong
3. Ms Pauline Seeyave – *resigned on 28.06.16*
4. Mr Deeagarajen Soondram
5. Mr Marrier Pierre D'Unienville

SBM Fund Services Ltd

1. Mr Hemraz Oopuddhye Jankee – Chairman
2. Ms Pauline Seeyave – *resigned on 28.06.16*
3. Mr Kushiramsingh Doorga – *resigned on 28.06.16*
4. Mr Deeagarajen Soondram
5. Mr Roshan Nathoo – appointed on 28.07.16
6. Mr Vodiren Ramsamy – appointed on 28.07.16

SBM Capital Management Limited*

1. Mr Kee Chong Li Kwong Wing, *G.O.S.K* – Chairman
2. Ms Pauline Seeyave – *resigned on 28.06.16*
3. Mr Deeagarajen Soondram – *appointed on 09.05.16*

SBM India Fund

1. Mr Assad Abdullatiff - Chairman
2. Mr Shaan Kundomal
3. Mr Vodiren Ramsamy – *resigned on 02.08.16*
4. Mr Venkateswara Rao Parvateneni – *appointed on 21.03.16*
5. Mr Deeagarajen Soondram – *appointed on 21.03.16*

SBM Perpetual Fund Ltd

1. Mr Edward Vaughan Herberden – Chairman
2. Mr Pierre Mario Gebert
3. Mr Li Chun Fong Kwet Chee
4. Mr Venkateswara Rao Parvateneni – *appointed on 09.03.16*
5. Mr Deeagarajen Soondram – *appointed on 09.03.16*

SBM Custody Services Ltd*

1. Mr Chandradev Appadoo

SBM Microfinance Ltd

1. Mr Kee Chong Li Kwong Wing, *G.O.S.K*
2. Mr Deeagarajen Soondram
3. Mr Shailendrasingh Sreekeessoon

NON FINANCIAL SEGMENT

SBM (NFC) Holdings Ltd

1. Mr Kee Chong Li Kwong Wing, *G.O.S.K – resigned on 12.03.16*
2. Ms Pauline Seeyave – *resigned on 28.06.16*
3. Mr Chandradev Appadoo
4. Mr Jairaj Sonoo, *C.S.K – resigned on 11.10.16*
5. Mr Gooroodeo Sookun
6. Mr Medha Gunputh
7. Mr Soondrassen Murday – *Chairman - appointed on 15.03.16*
8. Mr. Raj Dussoye – *appointed on 11.10.16*

NOTES:

1. Formerly 'SBM bk Holdings Ltd' and 'SPV-SBM (Bank) Holdings Ltd'
2. Formerly 'SPV-SBM Mauritius Ltd'
3. Formerly 'State Bank of Mauritius Ltd'
4. Formerly 'SBM Global Services Ltd' and 'SBM Global 3S Ltd'
5. Formerly 'SPV-SBM E-Business Ltd'

* in process of winding up

** set up in June 2016

*** set up in December 2016

SBM E-Business Ltd*

1. Mr Chandradev Appadoo
2. Mr Deeagarajen Soondram

SBM Factors Ltd

1. Mr Kee Chong Li Kwong Wing, *G.O.S.K*
2. Mr Deeagarajen Soondram

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Non-Bank Operating Entities

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Business Address

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SBM Securities Ltd

Registered Office Address

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SBM Fund Services Ltd

Registered Office Address

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SBM Microfinance Ltd

Registered Office Address

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Tel: (230) 202 1127

Business Address

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Pope Hennessy Street,
Port Louis, Mauritius
Tel: (230) 202 1127

*as from 13th of January 2017

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Tel: (230) 202 1111

Business Address

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Pope Hennessy Street,
Port Louis, Mauritius
Tel: (230) 202 1111

SBM eBusiness Ltd, Formerly 'SPV-SBM E-Business Ltd'

Apex Fund Services (Mauritius) Ltd,
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Cybercity,
Ebene 72201,
Mauritius

SBM Capital Management Limited

Apex Fund Services (Mauritius) Ltd,
4th Floor, 19 Bank Street,
Cybercity,
Ebene 72201,
Mauritius

Non-Financial Entity

SBM (NBFC) Holdings Ltd

Registered Office Address

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Port Louis, Mauritius
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Email: finance@sbmgroup.mu

Global Services
SBM 3S Ltd, Formerly 'SBM Global Services Ltd' and 'SBM Global 3S Ltd'

SBM Tower,1, Queen Elizabeth 11 Avenue,
Port Louis, Mauritius
Tel: (230) 202 1111
Email: finance@sbmgroup.mu

CONTACT DETAILS FOR SHAREHOLDER RELATIONSHIP

Mrs D. Ramjug CHUMUN

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poonam.chumun@sbmgroup.mu

Mr Dipesh JHOWRY

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