SBM BANK (MAURITIUS) LTD

# SBM ANNUAL REPORT 2015

OUR FUTURE IS NOW

# CONTENTS


OUR FUTURE
IS NOW
Tomorrow’s bank is here, today

# Caution regarding forward-looking statements

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

By their nature, forward-looking statements require SBM Bank (Mauritius) Ltd 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 SBM Bank (Mauritius) Ltd 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 SBM Bank (Mauritius) Ltd, 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. SBM Bank (Mauritius) Ltd does not undertake to update any forward-looking statement that may be made, from time to time, by the organisation or on its behalf.

# CORPORATE INFORMATION

## DIRECTORS

Mr Nayen Koomar Ballah, Chairperson
*Appointed on 30 June 2015*

Mr Philip Ah-Chuen
*Appointed on 30 June 2015*

Mr Chandradev Appadoo
*Re-appointed on 30 June 2015*

Mr Mahmadally Burkutoola
*Appointed on 30 June 2015*

Mr Rajakrishna Chellapermal
*Appointed on 30 June 2015*

Mr Rishikesh Hurdoyal
*Appointed on 30 June 2015*

Mr Vivekanand Lochun
*Appointed on 30 June 2015*

Mr Jairaj Sonoo, *C.S.K.*
*Re-appointed on 30 June 2015*

## SECRETARY

Mrs D. Ramjug Chumun
SBM Tower
1, Queen Elizabeth II Avenue
Port Louis
Mauritius

## REGISTERED OFFICE

SBM Tower
1, Queen Elizabeth II Avenue
Port Louis
Mauritius

## ATTORNEY

Mr Sivakumaren Mardemootoo
Attorney-at-Law
3rd Floor, Jamalacs Building
Vieux Conseil Street
Port Louis
Mauritius

## AUDITORS

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

# KEY FINANCIAL
## HIGHLIGHTS

# KEY FINANCIAL HIGHLIGHTS

## SBM Bank (Mauritius) Ltd

| | 12 months Dec 2015 | 12 months Dec 2014[a] | 12 months Dec 2013[ac] | 18 months Dec 2013[a] | 12 months Jun 2012[a] |
|---|---|---|---|---|---|
| Shareholder's equity (MUR million) | 13,599 | 14,494 | 14,391 | 14,391 | 13,335 |
| Capital adequacy ratio (%) | 14.88 | 18.75 | 18.49 | 18.49 | 17.53 |
| Tier 1 Capital adequacy ratio (%) | 12.86 | 16.72 | 16.40 | 16.40 | 16.28 |
| Profit before income tax (MUR million) | 1,753 | 2,239 | 3,288 | 5,006 | 4,534 |
| Profit for the year/period (MUR million) | 1,345 | 1,589 | 2,729 | 4,136 | 3,972 |
| Return on average assets (%)[b] | 1.14 | 1.46 | 2.68 | 2.77 | 4.25 |
| Return on average risk-weighted assets (%)[b] | 1.85 | 2.27 | 3.86 | 4.05 | 6.40 |
| Return on average shareholder's equity (%)[b] | 9.57 | 11.01 | 19.29 | 19.84 | 29.40 |
| Return on average Tier 1 capital (%)[b] | 12.56 | 13.68 | 23.26 | 24.81 | 41.46 |
| Credit deposit ratio (%) | 69.31 | 75.75 | 87.07 | 87.07 | 83.68 |
| Cost to income (excluding dividend income) (%) | 54.66 | 58.29 | 46.89 | 43.89 | 35.98 |
| Gross impaired advances to gross advances (%) | 5.05 | 2.11 | 1.96 | 1.96 | 0.92 |
| Net impaired advances to net advances (%) | 1.87 | 0.96 | 0.90 | 0.90 | 0.29 |
| Electronic to gross transactions (%) | 93 | 91 | 89 | 89 | 87 |

Notes:

[a] Restated for comparative purposes.

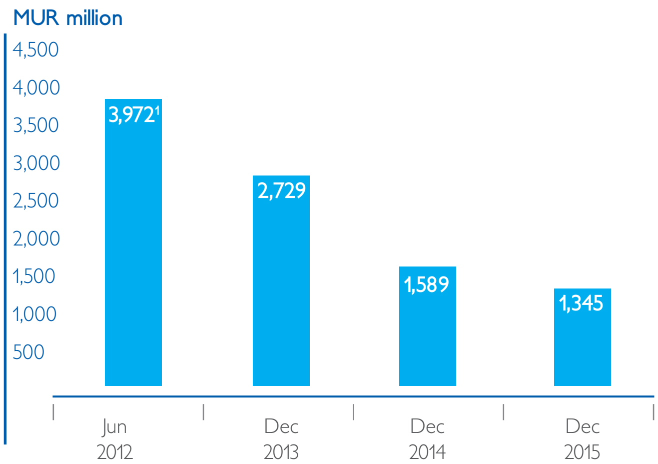
[b] Averages are calculated using year end balances.

[c] Figures for 18 months ended 31 December 2013 annualised to 12 months.

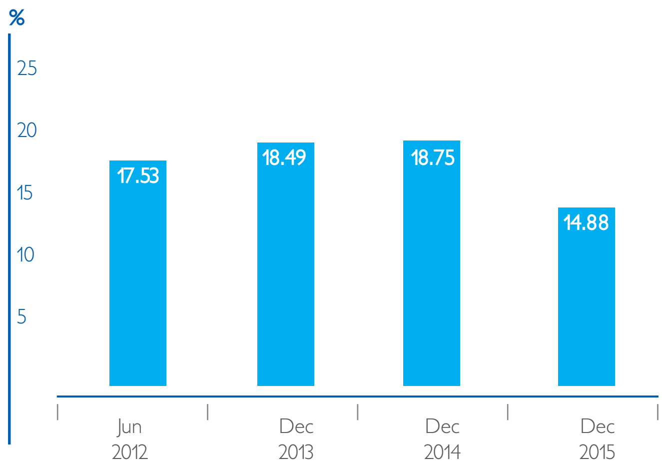
# KEY FINANCIAL
## CHARTS

# KEY FINANCIAL CHARTS

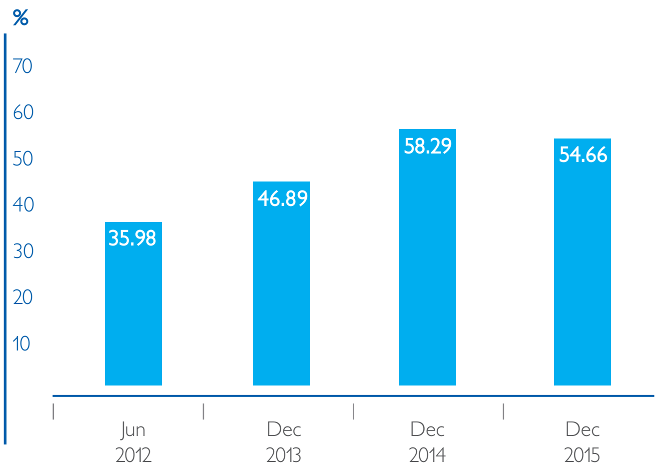
## Profit for the year[2]



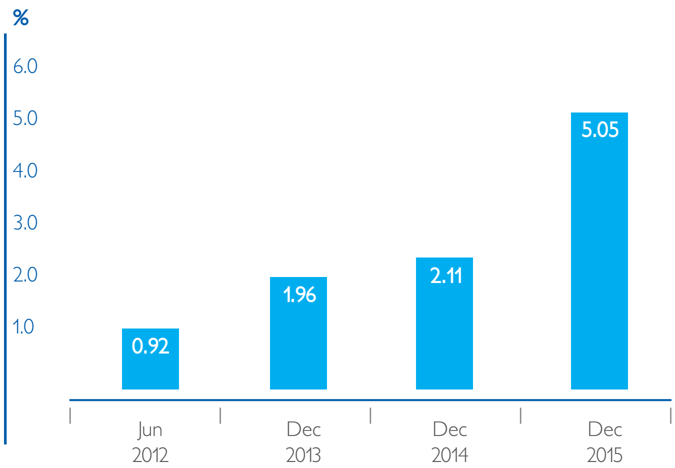

## Capital adequacy ratio




## Cost to income ratio (excluding dividend income)[2]




## Gross impaired advances to gross advances




1. Includes one-off dividend from subsidiary of MUR 1.47 billion in 2012
2. Figure for 2013 relates to the 12-month period from January to December 2013

# CHAIRMAN'S
## STATEMENT

# CHAIRMAN'S STATEMENT

I have the pleasure to present my first Annual Report as non-executive Chairman of the Board of Directors of SBM Bank (Mauritius) Ltd. The mainstay of the SBM Group, SBM Bank (Mauritius) Ltd retains a strong position as the second-largest domestic bank, notwithstanding important challenges faced during the year under review.

The Bank recorded a weaker-than-expected financial performance as a result of several factors including, but not limited to, a difficult operating environment and an exceptionally high impairment charge. The financial performance of the Bank is discussed in more details in the 'Financial Review' section of the Annual Report.

On the business front, the Bank has been pursuing a number of initiatives which include the development of new products and services attuned to the evolving needs and preferences of our valued retail and corporate customers; capacity-building in trade finance, project finance and cross border lending; network-building and partnerships with Financial Institutions in regions of interest, particularly Africa; a strengthening of the risk management framework of the Bank; and building our human resource capital, among many others.

In the second half of the year, the Bank engaged with a team from McKinsey & Company, an international consultancy firm, to assess and revamp its strategies. The Bank has, since, embarked on a series of initiatives to upgrade its prospects for growth across the various lines of business along which it operates, including the delivery of the technology transformation project, Flamingo, which was initiated a few years ago. Upon completion, scheduled for September 2016, the Flamingo project is expected to equip the Bank with a new and robust IT platform allowing it to function at higher levels of operational efficiency, and, in turn, enabling it to offer a superior level of service to its customers.

A crucial aspect for the enrichment of the Bank, Corporate Social Responsibility has been at the heart of our development agenda. In 2015, SBM Bank (Mauritius) Ltd awarded 400 additional scholarships under its Scholarship Scheme. Furthermore, we launched the Social Entrepreneurship Award 2015, in collaboration the NGO Trust Fund and the Ministry of Social Security, National Solidarity and Reform Institutions. A sum of MUR 3 million was awarded to three enterprises to deal with social issues with an entrepreneurial approach.

I take pride to convey that the Bank won two awards at the Global Banking & Finance Review Awards 2015, namely "Best E-Commerce Bank East Africa 2015" and "Most Innovative Prepaid Card (SBM Smile Prepaid Cards) East Africa 2015". In addition, the Bank was crowned "Best Retail Bank - Mauritius" in the Banker Southern Africa Awards 2016 in March 2016.

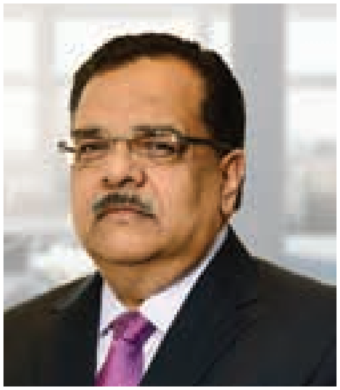
With our disciplined approach, continued commitment and resolute attitude, we hope to achieve even greater accomplishments in the coming years, with the collaboration of all stakeholders.

To end, I personally thank our shareholder for continued support; our valued customers for their loyalty; our employees for their relentless efforts to serve our customers; and all other stakeholders for their continued patronage.

**Nayen Koomar BALLAH**

# CHIEF EXECUTIVE'S
## STATEMENT

# CHIEF EXECUTIVE'S STATEMENT



2015 was a challenging year for SBM Bank (Mauritius) Ltd, as the Bank experienced a substantial increase in credit impairment charges and restatement of prior year profits on account of inefficiencies relating to the Flamingo project and certain expenditures on business transformation initiatives not qualifying as intangibles. Against this backdrop and amidst persisting challenges characterising the operating environment, the Bank recorded a profit after tax of MUR 1,345 million for the year ended 31 December 2015 [2014: MUR 1,589 million].

Net interest income, a key driver of profit growth, has been under pressure due to difficult market conditions. Weak demand for credit in the banking sector adversely impacted our credit to deposit ratio and led to a rebalancing in our assets mix towards lower interest earning assets such as Government securities, which was partly mitigated by better liability management. Excluding dividend income and non-recurrent profits on sale of equity investments in 2014, non interest income recorded a satisfactory growth of 13.92 percent in 2015, buoyed by gains on dealing/sale of securities and foreign bank bonds.

Advances grew by 4.66 percent year on year to MUR 71.79 billion as at December 2015. However, asset quality suffered when the Bank had to classify a large exposure of a conglomerate in Segment A which went into great financial difficulties. The Bank was also hit by two large exposures in Segment B being impaired. As a result, the ratio of gross impaired advances to gross advances deteriorated from 2.11 percent last year to 5.05 percent in December 2015, which still compares favourably to the industry average.

Besides, underlying fundamentals remain solid. Reflecting the safe and sound image of the Bank, deposits from non-bank customers increased by 14.40 percent to MUR 103.58 billion, driven by lower cost current account and savings account deposits which accounted for more than 80 percent of total deposits. The Bank maintained adequate capitalisation levels, with the Capital Adequacy Ratio standing at 14.88 percent [2014: 18.75 percent], and managed to improve the cost to income ratio, calculated as non-interest expenses over operating income less net impairment loss on financial assets, from 58.29 percent to 54.66 percent.

Our domestic advances market share rose from 20.94 percent at December 2014 to 21.22 percent at December 2015. The Bank has been selective in growing retail loans, having reached set targets as per our risk appetite, while the retail banking market has been very active with fierce competition from other financial institutions. The corporate banking market has suffered from a dull appetite for credit. SME Banking registered a lukewarm performance amidst lingering challenges. The Global Banking segment has upped efforts to develop a robust relationship network with financial institutions across the targeted regions of Asia and Africa in a bid to support plans for future growth.

During the year, the Bank also engaged with a team from McKinsey & Company to work out a Strategic Plan for the growth of the Bank in the next five years. The plan focuses on relatively underpenetrated areas for future expansion and potential synergies with the other functions across the Group as well as the capabilities that would be required to support the expansion initiatives. In addition, the Bank made further progress with regards to the implementation of its business-aligned technology transformation project which is expected to Go Live in September 2016.

It gives me pleasure to share that the Bank continues to receive international awards in recognition to its spirit of innovation. SBM Bank (Mauritius) Ltd was awarded "Best E-Commerce Bank East Africa 2015" and "Most Innovative Prepaid Card (SBM Smile Prepaid Cards) East Africa 2015" by the Global Banking & Finance Review Awards in November 2015. More recently, in March 2016, the Bank was awarded "Best Retail Bank - Mauritius" by the Banker Africa Southern Africa Awards.

On this positive note, I wish to place on record my sincere and heartfelt thanks to our customers, staffs and other stakeholders for their unflinching support and trust.

**Jairaj SONOO,** *C.S.K.*

A smile is the
universal welcome.

SMART

# COMPANY
## SECRETARY CERTIFICATE

## Report from the Company's Secretary

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

**23 March 2016**

# FINANCIAL STATEMENTS

## Statement of Directors' Responsibility

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

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

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

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

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

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

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

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

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

(iii) the Financial Statements give a true and fair view of the state of affairs of the Bank for the year ended 31 December 2015 and have been prepared in accordance with the International Financial Reporting Standards, the Banking Act 2004, applicable Bank of Mauritius (BOM) guidelines and those of other Central Banks, where the Bank has operations, and appropriate accounting policies. These were supported by reasonable and prudent judgements, and estimates have been used consistently;

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

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

The external auditors, Ernst & Young, have independently given their opinion in their Audit report as set out on page 26 and 27.

**Jairaj SONOO**, *C.S.K.*
Chief Executive - Banking
(Indian Ocean Islands)

**Mahmadally BURKUTOOLA**
Chairperson, Audit Committee

**Nayen Koomar BALLAH**
Chairperson

23 March 2016

## Statement of Management's Responsibility

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

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

The Bank's Board of Directors, acting in part through the Audit Committee, Conduct Review Committee and Risk Committee, which are comprised mostly of independent directors, oversees management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

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

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

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

**Jairaj SONOO**, *C.S.K.*
Chief Executive - Banking
(Indian Ocean Islands)

**Mahmadally BURKUTOOLA**
Chairperson, Audit Committee

**Nayen Koomar BALLAH**
Chairperson

23 March 2016

# Independent Auditors' Report to the Member of SBM Bank (Mauritius) Ltd

## Report on the Financial Statements

We have audited the financial statements of SBM Bank (Mauritius) Ltd (the "Bank"), which comprise the statement of financial position as at 31 December 2015 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 29 to 123.

*Directors' Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of SBM Bank (Mauritius) Ltd as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the requirements of the Companies Act and Financial Reporting Act 2004.

*Other matter*

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

## Report on Other Legal and Regulatory Requirements

*Companies Act*

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

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

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

## Banking Act 2004

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

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

## Financial Reporting Act 2004

The Directors are responsible for preparing the corporate governance report.

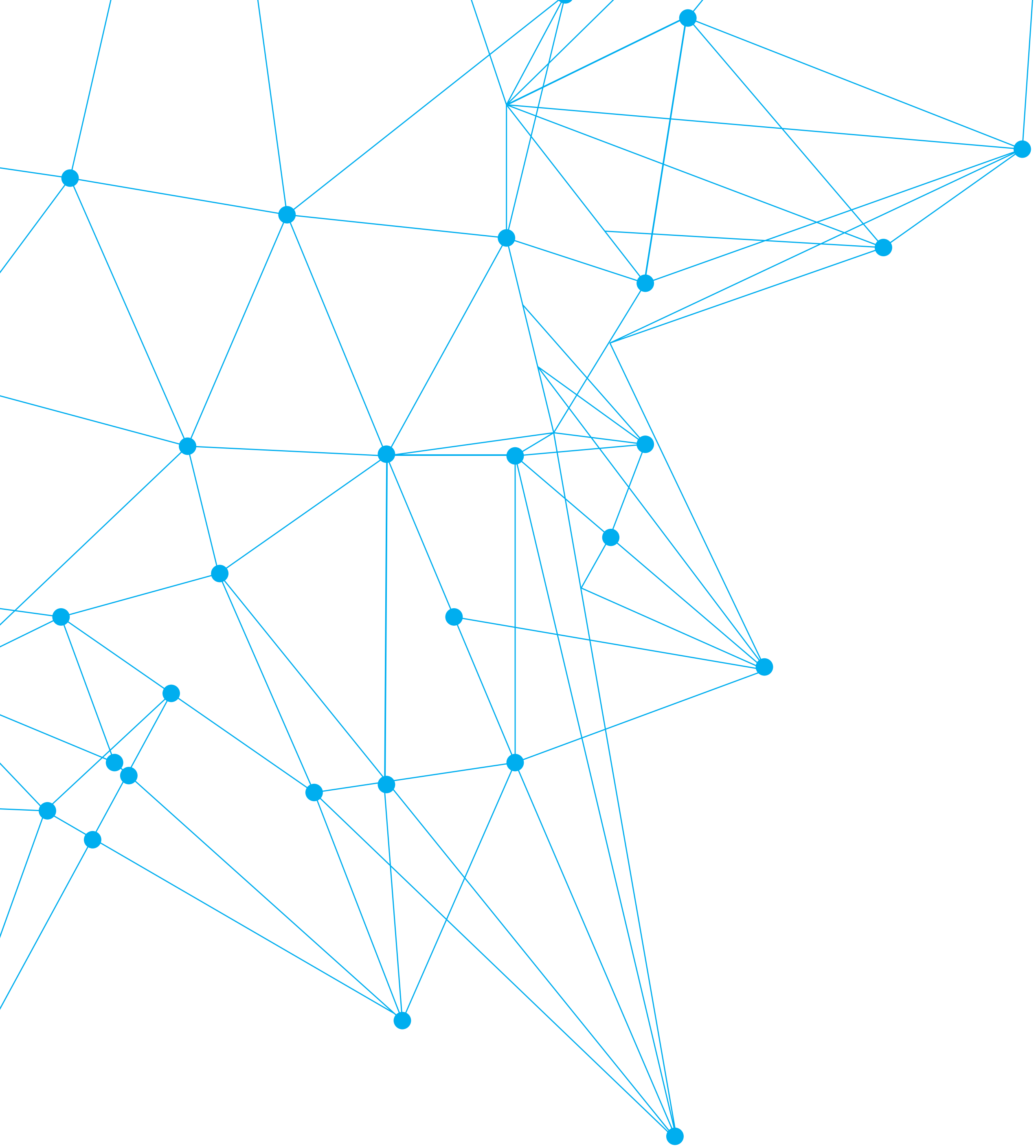
Our responsibility is to report on the extent of compliance with the Code of Corporate Governance (the "code") as disclosed in the Annual Report and whether the disclosure is consistent with the requirements of the Code.

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, ACA**
Licensed by FRC

23 March 2016



# STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2015

| | Notes | **31 December 2015** MUR' 000 | 31 December 2014 (Restated) MUR' 000 | 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 6 | **8,978,486** | 8,117,780 | 6,629,065 |
| Mandatory balances with Central Banks | | **6,894,736** | 6,333,742 | 5,223,056 |
| Loans to and placements with banks | 7 | **1,208,945** | 702,133 | 932,428 |
| Trading assets | 8 | **144,117** | 205,138 | 249,504 |
| Loans and advances to non-bank customers | 9 | **68,377,264** | 66,958,033 | 69,313,482 |
| Investment securities | 10 | **31,079,244** | 25,611,877 | 17,164,615 |
| Equity investments | 10 | **370** | 370 | 397,947 |
| Investment in subsidiaries | 10 | **-** | - | 1,332 |
| Property and equipment | 11 | **2,779,766** | 2,714,936 | 2,585,401 |
| Intangible assets | 12 | **2,370,391** | 1,252,282 | 1,023,214 |
| Deferred tax assets | 18b | **276,767** | 171,433 | 145,100 |
| Other assets | 13 | **865,953** | 1,082,878 | 1,436,060 |
| **Total assets** | | **122,976,039** | 113,150,602 | 105,101,204 |
| **LIABILITIES** | | | | |
| Deposits from banks | 15 | **798,636** | 620,334 | 271,802 |
| Deposits from non-bank customers | 16 | **103,577,789** | 90,542,433 | 81,276,155 |
| Other borrowed funds | 17 | **2,132,497** | 5,113,005 | 6,110,051 |
| Trading liabilities | 8 | **120,756** | 146,548 | 238,469 |
| Current tax liabilities | | **371,242** | 87,721 | 246,591 |
| Deferred tax liabilities | 18b | **-** | - | 51,191 |
| Other liabilities | 19 | **2,376,326** | 2,146,342 | 2,512,223 |
| Subordinated debts | 20 | **-** | - | 4,200 |
| **Total liabilities** | | **109,377,246** | 98,656,383 | 90,710,682 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Stated capital | 21 | **310,000** | 310,000 | 303,740 |
| Capital contribution | 21 | **8,063,106** | 8,063,106 | - |
| Retained earnings | | **3,940,391** | 4,937,346 | 14,965,972 |
| Other reserves | | **1,285,296** | 1,183,767 | 1,454,096 |
| | | **13,598,793** | 14,494,219 | 16,723,808 |
| Treasury shares | | **-** | - | (2,333,286) |
| Total equity | | **13,598,793** | 14,494,219 | 14,390,522 |
| **Total equity and liabilities** | | **122,976,039** | 113,150,602 | 105,101,204 |

Approved by the Board of Directors and authorised for issue on 23 March 2016.

**Jairaj SONOO**, *C.S.K.*
Chief Executive - Banking
(Indian Ocean Islands)

**Mahmadally BURKUTOOLA**
Chairperson, Audit Committee

**Nayen Koomar BALLAH**
Chairperson

The notes on pages 34 to 123 form an integral part of these financial statements.

# STATEMENT OF PROFIT OR LOSS
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | Year ended 31 December 2015 MUR' 000 | Year ended 31 December 2014 (Restated) MUR' 000 | 18 months ended 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|---|
| Interest income | | 6,069,197 | 6,273,081 | 9,095,940 |
| Interest expense | | (2,002,186) | (2,312,269) | (3,302,038) |
| **Net interest income** | 27 | 4,067,011 | 3,960,812 | 5,793,902 |
| Fee and commission income | | 971,051 | 883,910 | 1,401,934 |
| Fee and commission expense | | (27,330) | (27,462) | (42,719) |
| **Net fee and commission income** | 28 | 943,721 | 856,448 | 1,359,215 |
| Dividend income | 29 | 14 | 61,903 | 871,403 |
| Net trading income | 30 | 456,749 | 357,009 | 497,143 |
| Other operating income | 31 | 272,640 | 633,359 | 460,122 |
| **Non-interest income** | | 1,673,124 | 1,908,719 | 3,187,883 |
| **Operating income** | | 5,740,135 | 5,869,531 | 8,981,785 |
| Personnel expenses | 32 | (1,184,869) | (1,065,309) | (1,666,645) |
| Depreciation and amortisation | | (158,991) | (163,978) | (277,666) |
| Other expenses | 33 | (769,582) | (1,812,899) | (1,289,966) |
| **Non-interest expense** | | (2,113,442) | (3,042,186) | (3,234,277) |
| **Profit before net impairment loss on financial assets** | | 3,626,693 | 2,827,345 | 5,747,508 |
| Net impairment loss on financial assets | 34 | (1,873,364) | (588,628) | (741,036) |
| **Profit before income tax** | | 1,753,329 | 2,238,717 | 5,006,472 |
| Tax expense | 18a | (408,801) | (649,234) | (870,272) |
| **Profit for the year / period** | | 1,344,528 | 1,589,483 | 4,136,200 |

The notes on pages 34 to 123 form an integral part of these financial statements.

## STATEMENT OF OTHER COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Year ended 31 December 2015 MUR' 000 | Year ended 31 December 2014 (Restated) MUR' 000 | 18 months ended 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|
| **Profit for the year / period** | **1,344,528** | 1,589,483 | 4,136,200 |
| **Other comprehensive income :** | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Decrease in revaluation of property | **(2,680)** | (6,849) | - |
| Deferred tax on revaluation of property | **-** | 4,788 | - |
| Deferred tax on disposal of property | **-** | - | 200 |
| Effect of change in deferred tax rate | **-** | - | (804) |
| Remeasurement of defined benefit pension plan (net of deferred tax) | **(10,858)** | 11,855 | (25,220) |
| | **(13,538)** | 9,794 | (25,824) |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of foreign operations | **221,053** | 104,194 | (520,100) |
| Movement in fair value of available-for-sale investments | **(72,369)** | 25,188 | 282,106 |
| Fair value realised on disposal of available-for-sale investments | **-** | (369,699) | (357,127) |
| | **148,684** | (240,317) | (595,121) |
| Total other comprehensive income / (loss) | **135,146** | (230,523) | (620,945) |
| **Total comprehensive income for the year / period** | **1,479,674** | 1,358,960 | 3,515,255 |

The notes on pages 34 to 123 form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Stated capital MUR' 000 | Capital Contribution MUR' 000 | Treasury shares MUR' 000 | Statutory reserve MUR' 000 | Capital conservation reserve (Restated) MUR' 000 | Retained earnings (Restated) MUR' 000 | Available-for-sale reserve MUR' 000 | Property revaluation reserve MUR' 000 | Foreign currency translation reserve MUR' 000 | Total equity MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 01 July 2012 | | | | | | | | | | |
| - Previously stated | 303,740 | - | (2,333,286) | 476,467 | 551,145 | 13,358,328 | 420,917 | 1,439,560 | (264,179) | 13,952,692 |
| - Restatement (Note 39 on prior year adjustments) | - | - | - | - | (551,145) | (73,578) | - | - | - | (624,723) |
| - As restated | 303,740 | - | (2,333,286) | 476,467 | - | 13,284,750 | 420,917 | 1,439,560 | (264,179) | 13,327,969 |
| Profit for the period as previously stated | - | - | - | - | - | 4,492,184 | - | - | - | 4,492,184 |
| Restatement (Note 39 on prior year adjustments) | - | - | - | - | - | (355,984) | - | - | - | (355,984) |
| Profit for the period as restated | - | - | - | - | - | 4,136,200 | - | - | - | 4,136,200 |
| Other comprehensive loss for the period | - | - | - | - | - | (25,220) | (75,021) | (604) | (520,100) | (620,945) |
| Total comprehensive income for the period | - | - | - | - | - | 4,110,980 | (75,021) | (604) | (520,100) | 3,515,255 |
| Revaluation reserve realised on disposal of property | - | - | - | - | - | 6,749 | - | (6,749) | - | - |
| Transfer to retained earnings | - | - | - | - | - | 61,613 | - | (61,613) | - | - |
| Transfer to statutory reserve | - | - | - | 45,418 | - | (45,418) | - | - | - | - |
| Dividend | - | - | - | - | - | (2,452,702) | - | - | - | (2,452,702) |
| **At 31 December 2013 (as restated)** | **303,740** | **-** | **(2,333,286)** | **521,885** | **-** | **14,965,972** | **345,896** | **1,370,594** | **(784,279)** | **14,390,522** |
| At 01 January 2014 (as restated) | | | | | | | | | | |
| - Previously stated | 303,740 | - | (2,333,286) | 521,885 | 551,145 | 15,395,534 | 345,896 | 1,370,594 | (784,279) | 15,371,229 |
| - Restatement (Note 39 on prior year adjustments) | - | - | - | - | (551,145) | (429,562) | - | - | - | (980,707) |
| - As restated | 303,740 | - | (2,333,286) | 521,885 | - | 14,965,972 | 345,896 | 1,370,594 | (784,279) | 14,390,522 |
| Profit for the year as previously stated | - | - | - | - | - | 2,882,493 | - | - | - | 2,882,493 |
| Restatement (Note 39 on prior year adjustments) | - | - | - | - | - | (1,293,010) | - | - | - | (1,293,010) |
| Profit for the year as restated | - | - | - | - | - | 1,589,483 | - | - | - | 1,589,483 |
| Other comprehensive loss for the year | - | - | - | - | - | 11,855 | (344,511) | (2,061) | 104,194 | (230,523) |
| Total comprehensive income for the year | - | - | - | - | - | 1,601,338 | (344,511) | (2,061) | 104,194 | 1,358,960 |
| Increase in stated capital | 6,260 | - | - | - | - | - | - | - | - | 6,260 |
| Transfer of treasury shares upon restructure | - | - | 2,333,286 | - | - | - | - | - | - | 2,333,286 |
| *Movement in respect of macro prudential provisioning:* | | | | | | | | | | |
| As previously stated | - | - | - | - | 174,096 | - | - | - | - | 174,096 |
| Restatement (Note 39 on prior year adjustments) | - | - | - | - | (174,096) | 174,096 | - | - | - | - |
| Transfer to allowance for credit impairment | - | - | - | - | - | (174,096) | - | - | - | (174,096) |
| As restated | - | - | - | - | - | - | - | - | - | - |
| Capital contribution arising on transfer of treasury shares | - | 2,541,744 | - | - | - | - | - | - | - | 2,541,744 |
| Capital contribution received upon restructure | - | 5,521,362 | - | - | - | - | - | - | - | 5,521,362 |
| Transfer to retained earnings | - | - | - | - | - | 34,211 | - | (34,211) | - | - |
| Transfer to statutory reserve | - | - | - | 6,260 | - | (6,260) | - | - | - | - |
| Dividend | - | - | - | - | - | (11,657,915) | - | - | - | (11,657,915) |
| **At 31 December 2014 (as restated)** | **310,000** | **8,063,106** | **-** | **528,145** | **-** | **4,937,346** | **1,385** | **1,334,322** | **(680,085)** | **14,494,219** |
| At 01 January 2015 | | | | | | | | | | |
| - Previously stated | 310,000 | 8,063,106 | - | 528,145 | 725,241 | 6,485,822 | 1,385 | 1,334,322 | (680,085) | 16,767,936 |
| - Restatement (Note 39 on prior year adjustments) | - | - | - | - | (725,241) | (1,548,476) | - | - | - | (2,273,717) |
| - As restated | 310,000 | 8,063,106 | - | 528,145 | - | 4,937,346 | 1,385 | 1,334,322 | (680,085) | 14,494,219 |
| Profit for the year | - | - | - | - | - | 1,344,528 | - | - | - | 1,344,528 |
| Other comprehensive income for the year | - | - | - | - | - | (10,858) | (72,369) | (2,680) | 221,053 | 135,146 |
| Total comprehensive income for the year | - | - | - | - | - | 1,333,670 | (72,369) | (2,680) | 221,053 | 1,479,674 |
| Transfer to retained earnings | - | - | - | - | - | 46,720 | - | (46,720) | - | - |
| Transfer to statutory reserve | - | - | - | 2,245 | - | (2,245) | - | - | - | - |
| Dividend | - | - | - | - | - | (2,375,100) | - | - | - | (2,375,100) |
| **At 31 December 2015** | **310,000** | **8,063,106** | **-** | **530,390** | **-** | **3,940,391** | **(70,984)** | **1,284,922** | **(459,032)** | **13,598,793** |

The notes on pages 34 to 123 form an integral part of these financial statements.

# STATEMENT OF CASHFLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Note | Year ended 31 December 2015 MUR' 000 | Year ended 31 December 2014 (Restated) MUR' 000 | 18 months ended 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|---|
| **Net cash from / (used in) operating activities** | 35. | **7,547,259** | 438,329 | (2,786,524) |
| **Cash flows (used in) / from financing activities** | | | | |
| (Decrease) / increase in other borrowed funds | | **(2,980,508)** | (997,046) | 3,185,256 |
| Increase in subordinated liabilities debts raised | | **-** | 3,561,322 | 4,200 |
| Dividend paid on ordinary shares | | **(2,375,100)** | (1,777,881) | (1,936,344) |
| **Net cash (used in) / from financing activities** | | **(5,355,608)** | 786,395 | 1,253,112 |
| **Cash flows (used in ) / from investing activities** | | | | |
| Acquisition of property and equipment | | **(208,568)** | (280,226) | (215,418) |
| Acquisition of intangible assets | | **(1,126,454)** | (244,115) | (973,689) |
| Disposal of property and equipment | | **4,077** | 104 | 31,384 |
| Dividend received from associate and subsidiaries | | **-** | 410,000 | 516,000 |
| Investment in subsidiary | | **-** | - | (1,210) |
| Dividend in specie realised into cash | | **-** | - | 1,446,146 |
| Disposal of investment in subsidiaries | | **-** | 175 | - |
| Disposal of other equity investments | | **-** | 378,053 | 394,989 |
| **Net cash (used in) / from investing activities** | | **(1,330,945)** | 263,991 | 1,198,202 |
| **Net change in cash and cash equivalents** | | **860,706** | 1,488,715 | (335,210) |
| Cash and cash equivalents at start of year / period | | **8,117,780** | 6,629,065 | 6,964,275 |
| **Cash and cash equivalents at end of year / period** | | **8,978,486** | 8,117,780 | 6,629,065 |

The notes on pages 34 to 123 form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

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

On 29 December 2011, the Board of Directors resolved to change the Bank's financial year end from 30 June to 31 December to be in line with the then fiscal year in Mauritius and with other global organisations. The comparative amounts for the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and related notes are not entirely comparable.

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

In the current year, the Bank has applied all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 01 January 2015.

Although these new standards and amendments were applied for the first time in 2015, they did not have a material impact on the financial statements of the Bank. The nature and the impact of each new standard or amendment are described below:

**Amendments to IAS 19 Defined Benefit Plans: Employee Contributions – effective 1 July 2014**

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

This amendment had no impact on the financial position of the Bank's financial statements.

**Annual Improvements 2010-2012 Cycle and Annual Improvements 2011-2013 Cycle**

The Bank has applied these improvements for the first time in these financial statements. They include:

| | Effective for accounting period beginning on or after |
|---|---|
| **Annual Improvements 2010-2012 Cycle** | |
| IFRS 2 Share-based Payment | 1 July 2014 |
| IFRS 3 Business Combinations | 1 July 2014 |
| IFRS 8 Operating Segments | 1 July 2014 |
| IAS 16 Property, Plant and Equipment | 1 July 2014 |
| IAS 38 Intangible Assets | 1 July 2014 |
| IAS 24 Related Party Disclosures | 1 July 2014 |
| **Annual Improvements 2011-2013 Cycle** | |
| IFRS 3 Business Combinations | 1 July 2014 |
| IFRS 13 Fair Value Measurement | 1 July 2014 |
| IAS 40 Investment Property | 1 July 2014 |

Where the adoption of the standard or interpretation or improvement is deemed to have an impact on the financial statements or performance of the Bank, its impact is described in the next page:

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

**IFRS 8 Operating Segments**

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'; and

- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the Chief Operating decision maker, similar to the required disclosure for segment liabilities.

The Bank has not applied the aggregation criteria in IFRS 8.12. The Bank has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose same in this period's financial statements as the reconciliation is reported to the Chief  Decision maker for the purpose of his decision making.

**IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets**

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

This amendment did not have any impact to the revaluation adjustments recorded by the Bank during the current period.

**IAS 24 Related Party Disclosures**

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

This amendment is not relevant for the Bank as it does not receive any management services from other entities.

*Annual Improvements 2011-2013 Cycle*

These improvements are effective from 1 July 2014 and the Bank has applied these amendments for the first time in these financial statements. They include:

**IFRS 13 Fair Value Measurement**

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Bank does not apply the portfolio exception in IFRS 13.

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

**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 Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

| | Effective for accounting period beginning on or after |
|---|---|
| IFRS 9 Financial Instruments | 1 January 2018 |
| Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28) | 1 January 2016 |
| Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) | 1 January 2016 |
| IFRS 14 Regulatory Deferral Accounts | 1 January 2016 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2017 |
| IFRS 16 Leases | 1 January 2019 |
| Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) | 1 January 2016 |
| Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) | 1 January 2016 |
| Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) | 1 January 2016 |
| Amendments to IAS 27: Equity Method in Separate Financial Statement | 1 January 2016 |
| Annual improvements 2012 – 2014 Cycle | 1 July 2016 |
| Disclosure initiative – Amendments to IAS 1 | 1 January 2016 |

**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.

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

**Standards issued but not yet effective (Cont'd)**

**IFRS 9 Financial Instruments (Cont'd)**

**IFRS 9 Financial Instruments – Classification and measurement of financial assets, Accounting for financial liabilities and derecognition – 1 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.

**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 Bank plans to adopt the new standard on the required effective date.

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

**Standards issued but not yet effective (Cont'd)**

**Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28) - effective 1 January 2016**

This amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) was made to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- it requires full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations); and
- it requires the partial recognition of gains and losses where the assets do not constitute a business, i.e a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

The Directors will assess the impact of the amendments when they become effective.

**Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) - effective 1 January 2016**

This amendment to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (2011) was made to address issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

The amendment will not have an impact on the Bank as it is not considered as Investment entities.

**IFRS 14 Regulatory Deferral Accounts - effective 1 January 2016**

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

This new standard will not have an impact, as the Bank is not a first time adopter of IFRS.

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

**Standards issued but not yet effective (Cont'd)**

**IFRS 15 Revenue from Contracts with Customers - effective 1 January 2017**

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.
- Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The Bank is still assessing the impact of this new standard.

**IFRS 16 Leases – effective 1 January 2019**

The IASB has redrafted this new leasing standard that would require lessees to recognise assets and liabilities for most leases. Lessees applying IFRS would have a single recognition and measurement model for all leases (with certain exemptions). Lessors applying IFRS would classify leases using the principle in IAS 17; in essence, lessor accounting would not change. The IASB and the FASB have made different decisions about lease classification and the recognition, measurement and presentation of leases for lessees and lessors.

The Bank is still assessing the impact of this new standard.

**Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) - effective 1 January 2016**

Amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to:

- Apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11;
- Disclose the information required by IFRS 3 and other IFRSs for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).

The amendment will not have an impact since the Bank does not have any interests in joint operations.

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

**Standards issued but not yet effective (Cont'd)**

**Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) - effective 1 January 2016**

Amends IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to:

- Clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment;
- Introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated; and
- Add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

The amendment will not have an impact since the Bank does not use a depreciation method based on revenue for its plant and equipment and intangible assets.

**Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) - effective 1 January 2016**

Amends IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture to:

- Include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16;
- Introduce a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales; and
- Clarify that produce growing on bearer plants remains within the scope of IAS 41.

The amendment will not have an impact as the Bank does not recognise 'bearer plants'.

**Amendments to IAS 27: Equity Method in Separate Financial Statements - effective 1 January 2016**

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

The Bank does not hold interest in subsidiaries, joint ventures and associates therefore the new amendments will not affect its financial statements.

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

**Standards issued but not yet effective (Cont'd)**

**Annual improvements 2012 – 2014 Cycle - effective 1 July 2016**

The annual improvements 2012-2014 Cycle make amendments to the following standards:

- IFRS 5 - Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held-for-sale to held-for-distribution or vice versa and cases in which held-for-distribution accounting is discontinued;
- IFRS 7 - Additional guidance given to clarify whether a servicing contract is continuing involvement in a transferred assets, and clarification made on offsetting disclosures in financial statements;
- IAS 19 - Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid; and
- IAS 34 - Clarifies the meaning of "elsewhere in the interim report" and require a cross reference.

The Directors will assess the impact of the amendments when they become effective.

**Disclosure Initiative (Amendments to IAS 1) - effective 1 January 2016**

Amends IAS 1 Presentation of Financial Statements to address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
- clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and
- additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

No early adoption of these standards and interpretations is intended by the Board of Directors.

## 3. CHANGES TO THE PRESENTATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

In order to make the financial statements and notes thereon easier to understand, SBM Bank (Mauritius) Ltd has changed the location and the wording used to describe certain accounting policies within the notes and removed certain immaterial disclosures. In applying materiality to financial statement disclosures, we consider both the amount and nature of each item. The main changes to the presentation of the financial statements and notes thereon in 2015 are as follows:

- In 2014, the financial statements included Note 4 "Accounting policies". In 2015, the accounting policies have been placed, whenever possible, within the relevant notes on the financial statements and the changes in wordings are intended to more clearly set out the accounting policies. These changes in the wording do not represent changes in accounting policies.

- Note 3 "Accounting judgements and key sources of estimation uncertainty" previously disclosed in the 2014 audited Financial Statements have been replaced to "Significant accounting estimates and judgements" and have been placed within the relevant notes alongside the significant accounting policy to which they relate. The new approach meets the reporting requirements of IAS 1 "Presentation of Financial Statements".

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

The notes to the financial statements include areas where management has applied judgements that have a significant effect on the amounts recognised in the financial statements and include the classification of financial instruments into the fair value through profit or loss (FVTPL) category, loans and receivables (L&R) category, held 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 10 Investment securities
(ii) Fair value of other financial assets and liabilities: Note 41 Risk management, Part 1(a) (ii) fair values
(iii) Specific allowance for credit impairment: Note 9 (c) Allowance for credit impairment
(iv) Portfolio allowance for credit impairment: Note 9 (c) Allowance for credit impairment
(v) Defined benefit pension plan: Note 14 Pension liability

## 5. ACCOUNTING POLICIES

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

### (a) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for certain property, 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 the Mauritian Rupee, which is the Bank's functional and presentation currency. All values are rounded to the nearest thousand (MUR'000), except where otherwise indicated.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using valuation technique. In estimating the fair value of an asset or liability the Bank takes into account the characteristics of the asset or liability if market participants would take into account those characteristics 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 5(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).

## 5. ACCOUNTING POLICIES (CONT'D)

### (c) Foreign currency translation

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

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

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

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

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

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

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

| | **31 December 2015** | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| USD / MUR | **35.91** | 31.78 | 30.00 |
| INR / MUR | **0.543** | 0.504 | 0.485 |

The averages rates for the following years are:

| | **31 December 2015** | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| USD / MUR | **35.69** | 31.11 | 31.16 |
| INR / MUR | **0.559** | 0.512 | 0.551 |

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.

## 5. ACCOUNTING POLICIES (CONT'D)

The principal accounting policies adopted by the Bank are as follows: (Cont'd)

### (d) Financial instruments

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

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

### (e) Other financial assets

Other financial assets, including placements and other receivables, that have fixed or determinable payments and that are not quoted in an active market are classified as 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) Derecognition of financial assets

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

### (g) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss (FVTPL), are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For 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 Available for sale *reserve*.

## 5. ACCOUNTING POLICIES (CONT'D)

The principal accounting policies adopted by the Bank are as follows: (Cont'd)

### (h) Financial liabilities and equity instruments

(i) Classification as debt or equity

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

(ii) Equity instruments

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

(iii) Financial liabilities

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

(iv) Financial guarantee contract

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

(v) Derecognition of financial liabilities

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

### (i) Borrowing costs

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

### (j) Provisions

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

### (k) Comparative figures

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

### (l) Offsetting financial instruments

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

## 6. CASH AND CASH EQUIVALENTS

### Accounting policy

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition.

For the purposes of the Statement of cash flows, cash and cash equivalents comprise cash, balances with banks and Central Banks excluding mandatory balances, loans to and placements with banks having an original maturity of up to 3 months. Cash and cash equivalents are measured at amortised cost.

| | **31 December 2015** | 31 December 2014 (Restated) | 31 December 2013 (Restated) |
|---|---|---|---|
| | **MUR' 000** | MUR' 000 | MUR' 000 |
| Cash in hand | **1,893,360** | 1,996,620 | 2,151,863 |
| Foreign currency notes and coins | **263,108** | 180,825 | 156,607 |
| Unrestricted balances with Central Banks [1] | **1,336,727** | 589,914 | 885,395 |
| Loans and placements with banks[2] | **1,537,714** | 3,056,778 | 878,166 |
| Balances with banks | **3,947,577** | 2,293,643 | 2,557,034 |
| | **8,978,486** | 8,117,780 | 6,629,065 |

[1] Unrestricted balances with Central Banks represent amounts above the minimum cash reserve requirement.
[2] The balances above relate to loans and placements with banks having an original maturity of up to three months.

## 7. 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.

| | **31 December 2015 MUR' 000** | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| **Loans to and placements with banks:** | | | |
| - in Mauritius | **271,645** | - | 165,746 |
| - outside Mauritius | **937,300** | 702,133 | 766,682 |
| | **1,208,945** | 702,133 | 932,428 |
| **Remaining term to maturity** | | | |
| Up to 3 months | **377,467** | 93,025 | 106,700 |
| Over 3 months and up to 6 months | **152,568** | 152,619 | 299,767 |
| Over 6 months and up to 12 months | **678,910** | 296,721 | 525,961 |
| Over 1 year and up to 2 years | **-** | 159,768 | - |
| | **1,208,945** | 702,133 | 932,428 |

## 8. 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 SBM Bank (Mauritius) Ltd 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'. For trading assets the interest is shown in 'Net Trading Income'.

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 bank. 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.

## 8. TRADING ASSETS/LIABILITIES (CONT'D)

### Accounting policy (Cont'd)

The Bank 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 Bank 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 Bank 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.

*(ii) Cash flow hedges*

Cash flow hedges are particularly used to hedge interest rate risk on floating rate assets and liabilities, including rollovers, and foreign exchange risks on highly probable forecast foreign currency revenues.

A gain or loss on the effective portion of the hedging instrument is recognised in *other comprehensive income* and a gain or loss on the ineffective portion is recognised immediately in the *Statement of profit or loss*. The accumulated gains and losses recognised in *other comprehensive income* are reclassified to the *Statement of profit or loss* in the periods in which the hedged item will affect profit or loss. However, when the hedge results in the recognition of a non financial asset or a non financial liability, the gains and losses previously recognised in *other comprehensive income* are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in *other comprehensive income* at that time remains separately in equity until the forecast transaction is eventually recognised in the *Statement of profit or loss*. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in *other comprehensive income* is immediately reclassified to the *Statement of profit or loss*.

*(iii) Hedge of net investment in a foreign operation*

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in *other comprehensive income* and a gain or loss on the ineffective portion is recognised immediately in the *Statement of profit or loss*. Gains and losses previously recognised in *other comprehensive income* are reclassified to the *Statement of profit or loss* on the disposal of the foreign operation.

*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.

## 8. TRADING ASSETS/LIABILITIES (CONT'D)

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| **Assets** | | | |
| Government securities | - | 25,590 | 893 |
| Equities | - | 2,887 | 1,742 |
| Derivative assets | 144,117 | 176,661 | 246,869 |
| | 144,117 | 205,138 | 249,504 |
| **Liabilities** | | | |
| Derivative liabilities | 120,756 | 146,548 | 238,469 |

The fair values of derivative instruments are further analysed as follows:

| | Notional Principal Amount MUR' 000 | ------------Fair Values------------ Assets MUR' 000 | Liabilities MUR' 000 | Net MUR' 000 |
|---|---|---|---|---|
| **31 December 2015** | | | | |
| Foreign exchange contracts* | 14,583,179 | 85,826 | (62,791) | 23,035 |
| Interest rate swap contracts | 2,878,916 | 48,930 | (48,604) | 326 |
| Other derivative contracts | 496,200 | 9,361 | (9,361) | - |
| | 17,958,295 | 144,117 | (120,756) | 23,361 |
| **31 December 2014** | | | | |
| Foreign exchange contracts* | 21,187,749 | 169,014 | (139,548) | 29,466 |
| Interest rate swap contracts | 581,723 | 647 | - | 647 |
| Other derivative contracts | 2,582,216 | 7,000 | (7,000) | - |
| | 24,351,688 | 176,661 | (146,548) | 30,113 |
| **31 December 2013** | | | | |
| Foreign exchange contracts* | 22,791,844 | 239,610 | (231,980) | 7,630 |
| Interest rate swap contracts | 141,141 | 139 | (368) | (229) |
| Other derivative contracts | 925,640 | 7,120 | (6,121) | 999 |
| | 23,858,625 | 246,869 | (238,469) | 8,400 |

* Foreign exchange contracts include forward and spot contracts

## 9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS

### Accounting policy

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

Loans and advances to non-bank customers are classified under loans and receivables and are measured at amortised cost, less allowance for credit impairment. In cases where, as part of the Bank's asset and liability management activity, fair value hedge accounting is applied to loans and advances measured at amortised cost, their carrying amount is adjusted for changes in fair value related to the hedged exposure – refer to note 8 (Trading assets/liabilities) for further details on hedge accounting. Allowance for credit impairment consists of specific and portfolio allowances.

| | **31 December 2015** | 31 December 2014 (Restated) | 31 December 2013 (Restated) |
|---|---|---|---|
| | **MUR' 000** | MUR' 000 | MUR' 000 |
| 1. Governments | **1** | 208 | - |
| 2. Retail customers | **28,097,412** | 28,169,350 | 27,724,398 |
| 2.1. Credit cards | **529,939** | 528,015 | 501,113 |
| 2.2. Mortgages | **17,271,142** | 17,043,288 | 16,414,566 |
| 2.3. Other retail loans | **10,296,331** | 10,598,047 | 10,808,719 |
| 3. Corporate customers | **33,935,970** | 30,332,515 | 32,628,569 |
| 4. Entities outside Mauritius (including offshore/ Global Business license holders) | **9,755,334** | 10,087,065 | 10,415,344 |
| | **71,788,717** | 68,589,138 | 70,768,311 |
| Less allowance for credit impairment | **(3,411,453)** | (1,631,105) | (1,454,829) |
| | **68,377,264** | 66,958,033 | 69,313,482 |

### (a) Remaining term to maturity

| | **31 December 2015** | 31 December 2014 (Restated) | 31 December 2013 (Restated) |
|---|---|---|---|
| Up to 3 months | **11,666,725** | 7,680,075 | 11,876,328 |
| Over 3 months and up to 6 months | **2,480,940** | 2,265,325 | 2,510,272 |
| Over 6 months and up to 12 months | **4,727,500** | 6,092,203 | 4,585,534 |
| Over 1 year and up to 2 years | **4,957,006** | 3,403,249 | 3,665,047 |
| Over 2 years and up to 5 years | **15,914,279** | 16,907,148 | 16,081,037 |
| Over 5 years | **32,042,267** | 32,241,138 | 32,050,093 |
| | **71,788,717** | 68,589,138 | 70,768,311 |

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

### (b) Net investment in finance leases

#### Accounting policy

Amounts due from lessees under finance leases are recorded as loans and advances at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

The amount of net investment in finance leases included in loans and advances to non-bank customers and the associated allowance for credit impairment are as follows:-

| | Up to 1 year MUR' 000 | After 1 year and up to 5 years MUR' 000 | After 5 years MUR' 000 | Total MUR' 000 |
|---|---|---|---|---|
| **31 December 2015** | | | | |
| Gross investment in finance leases | 541,203 | 930,981 | 33,928 | 1,506,112 |
| Less: Unearned finance income | (99,111) | (84,699) | (1,762) | (185,572) |
| **Present value of minimum lease payments** | 442,092 | 846,282 | 32,166 | 1,320,540 |
| Allowance for credit impairment | | | | (73,548) |
| | | | | 1,246,992 |
| **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 credit impairment | | | | (46,081) |
| | | | | 1,537,373 |
| **31 December 2013** | | | | |
| Gross investment in finance leases | 667,576 | 1,515,899 | 119,678 | 2,303,153 |
| Less: Unearned finance income | (174,365) | (179,956) | (6,181) | (360,502) |
| **Present value of minimum lease payments** | 493,211 | 1,335,943 | 113,497 | 1,942,651 |
| Allowance for credit impairment | | | | (43,431) |
| | | | | 1,899,220 |

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.

## 9. 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%. In addition, the Bank of Mauritius also imposes additional macro-prudential provisioning up to 1% on exposures to certain sectors of the economy. The changes in portfolio allowance are charged or credited to the *Statement of profit or loss* at the end of each period.

Allowance for credit impairment in respect of on-balance sheet items is deducted from the applicable asset whereas the allowance for credit impairment in respect of off- balance sheet items is included in *Other liabilities* in the *Statement of financial position*. Changes in the carrying amount of the allowance accounts are recognised in the *Statement of profit or loss*. When an advance is uncollectible, it is written off against the specific allowance. Subsequent recoveries of amounts previously written off are credited to *"Net impairment loss on financial assets"* in the *Statement of profit or loss.*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

#### Significant accounting estimates and judgements

The calculation of specific allowance for credit impairment requires management to estimate the recoverable amount of each impaired asset, which is the estimated future cash flows discounted at the original effective interest rate of the advance. Where cash flows for large credits include the realisable value of collateral securing the credit, the value of such collateral is based on the opinion of Portfolio allowance for credit impairment.

The Bank's allowance for portfolio impairment is determined based on the guidelines imposed by the Bank of Mauritius. Such guidelines require the Bank to make portfolio provision of not less than 1% on unimpaired loans and advances which is generally higher than the historical loss rate of the loan portfolio of the Bank. However, the Directors have estimated that the resulting impairment charge to the *Statement of profit or loss* is not materially different from what would have resulted had the Bank determine its portfolio provisioning based on the incurred loss model under IAS 39.

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

### (c) Allowance for credit impairment (cont'd)

| | Specific allowance for credit impairment MUR' 000 | Portfolio allowance for credit impairment (Restated) MUR' 000 | Total (Restated) MUR' 000 |
|---|---|---|---|
| **At 01 July 2012** | | | |
| - As previously stated | 404,262 | 232,527 | 636,789 |
| - Restatement in respect of portfolio provisioning *(Note 39)* | - | 551,145 | 551,145 |
| - As restated | 404,262 | 783,672 | 1,187,934 |
| Exchange difference | (19,024) | (5,464) | (24,488) |
| Loans written off | (463,238) | - | (463,238) |
| Allowance for credit impairment for the period as restated *(Note 34)* | 841,326 | (86,705) | 754,621 |
| - As previously stated | 841,326 | 1,345 | 842,671 |
| - Adjustment in respect of portfolio provisioning *(Note 39)* | - | (88,050) | (88,050) |
| **At 31 December 2013 (as restated)** | **763,326** | **691,503** | **1,454,829** |
| **At 01 January 2014** | | | |
| - As previously stated | 763,326 | 228,408 | 991,734 |
| - Restatement in respect of portfolio provisioning *(Note 39)* | - | 463,095 | 463,095 |
| - As restated | 763,326 | 691,503 | 1,454,829 |
| Exchange difference | 8,142 | 3,994 | 12,136 |
| Loans written off | (435,759) | - | (435,759) |
| Allowance for credit impairment for the year as restated *(Note 34)* | 467,802 | 132,097 | 599,899 |
| - As previously stated | 467,802 | (24,523) | 443,279 |
| - Adjustment in respect of portfolio provisioning *(Note 39)* | - | 156,620 | 156,620 |
| **At 31 December 2014 (as restated)** | **803,511** | **827,594** | **1,631,105** |

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

### (c) Allowance for credit impairment (cont'd)

| | Specific allowance for credit impairment<br>MUR' 000 | Portfolio allowance for credit impairment (Restated)<br>MUR' 000 | Total (Restated)<br>MUR' 000 |
|---|---|---|---|
| **At 01 January 2015** | | | |
| - As previously stated | 803,511 | 207,879 | 1,011,390 |
| - Restatement in respect of portfolio provisioning *(Note 39)* | - | 619,715 | 619,715 |
| - As restated | 803,511 | 827,594 | 1,631,105 |
| Exchange difference | 7,335 | 3,909 | 11,244 |
| Loans written off | (114,363) | - | (114,363) |
| Allowance for credit impairment for the year *(Note 34)* | 1,645,960 | 237,507 | 1,883,467 |
| **At 31 December 2015** | 2,342,443 | 1,069,010 | 3,411,453 |

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

### (d) Allowance for credit impairment by industry sectors

| | 31 December 2015 | | | | | 31 December 2014 | 31 December 2013 |
|---|---|---|---|---|---|---|---|
| | 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 (Restated) | Total allowances for credit impairment (Restated) |
| | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 |
| Agriculture and fishing | 3,563,933 | 82,239 | 44,567 | 34,751 | 79,318 | 77,582 | 42,931 |
| Manufacturing | 5,216,646 | 215,855 | 60,752 | 69,326 | 130,078 | 122,817 | 115,590 |
| *of which EPZ* | *751,499* | *2,280* | *2,280* | *17,002* | *19,282* | *27,965* | *34,415* |
| Tourism | 12,044,026 | 7,518 | 4,948 | 230,946 | 235,894 | 178,323 | 136,204 |
| Transport | 1,422,336 | 609,799 | 356,523 | 55,647 | 412,170 | 29,771 | 20,548 |
| Construction | 3,882,564 | 359,280 | 164,918 | 73,846 | 238,764 | 186,336 | 166,912 |
| Financial and business services | 4,660,427 | 440,725 | 431,583 | 87,690 | 519,273 | 26,336 | 20,267 |
| Traders | 6,647,653 | 334,026 | 180,962 | 61,815 | 242,777 | 120,611 | 144,656 |
| Personal | 27,812,778 | 870,509 | 627,921 | 407,062 | 1,034,983 | 802,919 | 603,748 |
| *of which credit cards* | *529,939* | *64,713* | *64,713* | *4,831* | *69,544* | *57,998* | *45,180* |
| Professional | 187,336 | - | - | 1,762 | 1,762 | 1,747 | 1,978 |
| Global Business Licence holders | 519,732 | - | - | 5,055 | 5,055 | 4,703 | 16,099 |
| Others | 5,831,286 | 702,020 | 470,269 | 41,110 | 511,379 | 79,960 | 185,896 |
| | 71,788,717 | 3,621,971 | 2,342,443 | 1,069,010 | 3,411,453 | 1,631,105 | 1,454,829 |

Total impaired loans for 2014 for the Bank were MUR 1,447 million (2013: MUR 1,387 million).

## 10. INVESTMENT SECURITIES

### Accounting policy

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 the *Statement of profit or loss.*

Financial assets are classified into the following specified categories: financial assets at fair-value-through-profit-or-loss ("FVTPL"), loans-and-receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

## 10. INVESTMENT SECURITIES (CONT'D)

### Accounting policy (Cont'd)

*(i) Financial assets at FVTPL*

Financial assets are classified in the FVTPL category when they are either held for trading or are designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the *Statement of profit or loss*. Interest earned on the financial asset is included in *Interest income* line while dividend received is included in the *Dividend income* line.

The fair values of the instrument securities at FVTPL are determined based on quoted market prices in active markets.

*(ii) Held-to-maturity (HTM) investments*

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

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

*(iii) 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 in*come and accumulated under the heading of *Available-for-sale reserve*.

When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the *Available-for-sale reserve* is reclassified to the *statement of profit or loss*.

Dividends on AFS equity investments are recognised in the *Statement of profit or loss* when the Bank's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

*(iv) Loans and receivables*

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

### Significant accounting estimates and judgements

The fair value of equity investments that are quoted on active markets are based on the quoted prices for these instruments. Valuation techniques used to estimate the fair value of unquoted equity investments include the dividend growth, 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.

## 10. INVESTMENT SECURITIES (CONT'D)

### Remaining term to maturity

| | 31 December 2015 | | | | | | | | | 31 December 2014 | 31 December 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | | |
| | 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 | - | 651,829 | 104,876 | - | 2,283,853 | 7,493,754 | 1,291,380 | - | 11,825,692 | 10,086,296 | 7,468,002 |
| Treasury bills | 421,728 | 856,331 | 152,934 | 494,997 | - | - | - | - | 1,925,990 | 4,619,339 | 2,807,318 |
| Bank of Mauritius bills / notes | - | 259,944 | 147,469 | - | 1,674,177 | 868,967 | 588,037 | - | 3,538,594 | 1,690,962 | 2,062,288 |
| Corporate bonds | - | - | - | - | - | 400,260 | - | - | 400,260 | 336,649 | 450,224 |
| | 421,728 | 1,768,104 | 405,279 | 494,997 | 3,958,030 | 8,762,981 | 1,879,417 | - | 17,690,536 | 16,733,246 | 12,787,832 |
| **(b) Available-for-sale investment securities** | | | | | | | | | | | |
| Government bonds | 12,054 | 6,684 | - | - | 108,936 | 599,411 | 568,238 | - | 1,295,323 | 1,374,117 | 826,492 |
| Treasury bills / notes | 162,908 | - | - | - | - | - | - | - | 162,908 | 126,007 | 865,490 |
| Securities issued by government bodies | 96 | - | - | - | - | - | - | - | 96 | 354 | 345 |
| Equity shares of companies: | | | | | | | | | | | |
| - Investment in subsidiaries | - | - | - | - | - | - | - | - | - | - | 1,332 |
| - Other equity investments | - | - | - | - | - | - | - | 370 | 370 | 370 | 397,947 |
| Bank bonds | 601,068 | 164,293 | 810,214 | 1,182,435 | 1,187,826 | 4,425,719 | 847,660 | - | 9,219,215 | 6,155,374 | 1,712,006 |
| Corporate paper and preference shares | 791,552 | 170,550 | 328,740 | 135,896 | 191,144 | 682,294 | - | - | 2,300,176 | 1,222,779 | 972,450 |
| Corporate bonds | - | - | - | - | 149,630 | - | 261,360 | - | 410,990 | - | - |
| | 1,567,678 | 341,527 | 1,138,954 | 1,318,331 | 1,637,536 | 5,707,424 | 1,677,258 | 370 | 13,389,078 | 8,879,001 | 4,776,062 |
| **Total investment securities** | 1,989,406 | 2,109,631 | 1,544,233 | 1,813,328 | 5,595,566 | 14,470,405 | 3,556,675 | 370 | 31,079,614 | 25,612,247 | 17,563,894 |

| | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| | MUR' 000 | MUR' 000 | MUR' 000 |
| **Analysed as follows:** | | | |
| - Investment securities | 31,079,244 | 25,611,877 | 17,164,615 |
| - Equity investments | 370 | 370 | 397,947 |
| - Investment in subsidiaries | - | - | 1,332 |
| | 31,079,614 | 25,612,247 | 17,563,894 |

## 11. PROPERTY AND EQUIPMENT

### Accounting policy

Property and equipment are stated at cost (except for freehold and leasehold land and buildings) less accumulated depreciation and any cumulative impairment loss. Land is stated at revalued amounts and buildings are stated at revalued amounts less accumulated depreciation and any impairment loss.

It is the Bank's policy to revalue its freehold land and buildings and leasehold buildings at least every five years by independent valuers. Any revaluation surplus is credited to the *Property revaluation reserve*. Any revaluation decrease is first charged directly against any *Property revaluation reserve* held in respect of the respective asset, and then to the *Statement of profit or loss.*

Work in progress is carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other tangible fixed assets, commences when the assets are ready for their intended use.

Depreciation is calculated to write off the cost or revalued amounts of tangible fixed assets over their estimated useful lives on a straight-line basis. Depreciation is calculated from the month the asset is capitalised. No depreciation is provided on freehold land.

The estimated useful lives of property and equipment are as follows:

| | |
|---|---|
| Buildings | 50 years |
| Plant, machinery, furniture, fittings and computer equipment | 3 to 10 years |
| Motor vehicles | 5 years |

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset. These are included within *Other operating income* in the *Statement of profit or loss.*

Each year, the difference, net of the impact of deferred tax, between the depreciation based on the revalued carrying amount of the asset (the depreciation charged to the *Statement of profit or loss*) and the depreciation based on the asset's original cost is transferred from the *Property revaluation reserve* to the *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.

## 11. PROPERTY AND EQUIPMENT (CONT'D)

| | 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 |
|---|---|---|---|---|---|
| Cost or Valuation | | | | | |
| At 01 July 2012 | 607,377 | 1,908,071 | 1,587,481 | 21,699 | 4,124,628 |
| Translation adjustment | (22,715) | - | (3,889) | (236) | (26,840) |
| Additions | 61,027 | - | 96,818 | 3,725 | 161,570 |
| Disposals | (30,829) | - | (100,841) | (6,451) | (138,121) |
| At 31 December 2013 | 614,860 | 1,908,071 | 1,579,569 | 18,737 | 4,121,237 |
| Translation adjustment | 6,079 | - | 1,176 | 63 | 7,318 |
| Revaluation | 64,138 | (336,424) | - | - | (272,286) |
| Additions | 245,841 | - | 39,800 | - | 285,641 |
| Disposals | - | - | (8,756) | (479) | (9,235) |
| At 31 December 2014 | **930,918** | **1,571,647** | **1,611,789** | **18,321** | **4,132,675** |
| Translation adjustment | **12,657** | **-** | **2,455** | **98** | **15,210** |
| Revaluation | **(2,680)** | **-** | **-** | **-** | **(2,680)** |
| Additions | **15,029** | **-** | **188,788** | **-** | **203,817** |
| Disposals | **-** | **-** | **(22,762)** | **(12,445)** | **(35,207)** |
| **At 31 December 2015** | **955,924** | **1,571,647** | **1,780,270** | **5,974** | **4,313,815** |
| Accumulated Depreciation | | | | | |
| At 01 July 2012 | 26,023 | 115,659 | 1,319,231 | 8,613 | 1,469,526 |
| Translation adjustment | (2,143) | - | (3,254) | (178) | (5,575) |
| Disposals | (257) | - | (100,605) | (5,888) | (106,750) |
| Charge for the period | 17,860 | 83,297 | 135,092 | 5,577 | 241,826 |
| At 31 December 2013 | 41,483 | 198,956 | 1,350,464 | 8,124 | 1,599,027 |
| Translation adjustment | 858 | - | 846 | 52 | 1,756 |
| Revaluation | (29,465) | (235,972) | - | - | (265,437) |
| Disposals | - | - | (8,302) | (479) | (8,781) |
| Charge for the year | 12,747 | 54,337 | 78,202 | 3,664 | 148,950 |
| At 31 December 2014 | **25,623** | **17,321** | **1,421,210** | **11,361** | **1,475,515** |
| Translation adjustment | **1,650** | **-** | **1,848** | **90** | **3,588** |
| Disposals | **-** | **-** | **(22,734)** | **(10,331)** | **(33,065)** |
| Charge for the year | **15,769** | **51,949** | **79,832** | **2,988** | **150,538** |
| **At 31 December 2015** | **43,042** | **69,270** | **1,480,156** | **4,108** | **1,596,576** |

### 11. PROPERTY AND EQUIPMENT (CONT'D)

| | 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 |
|---|---|---|---|---|---|
| Net book value | | | | | |
| **At 31 December 2015** | **912,882** | **1,502,377** | **300,114** | **1,866** | **2,717,239** |
| **Progress payments on tangible fixed assets** | | | | | **62,527** |
| | | | | | **2,779,766** |
| At 31 December 2014 | 905,295 | 1,554,326 | 190,579 | 6,960 | 2,657,160 |
| Progress payments on tangible fixed assets | | | | | 57,776 |
| | | | | | 2,714,936 |
| At 31 December 2013 | 573,377 | 1,709,115 | 229,105 | 10,613 | 2,522,210 |
| Progress payments on tangible fixed assets | | | | | 63,191 |
| | | | | | 2,585,401 |

Other tangible fixed assets, included within Property and equipment, consist of plant, machinery, furniture, fittings and computer equipment.

Details of the Bank's land and buildings and information about the fair value hierarchy are as follows:

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Level 2 fair value | | | |
| Freehold land and buildings | **955,924** | 930,918 | 614,860 |
| Buildings on leasehold land | **1,571,647** | 1,571,647 | 1,908,071 |
| | **2,527,571** | 2,502,565 | 2,522,931 |

## 11. PROPERTY AND EQUIPMENT (CONT'D)

The carrying amounts of land and buildings, that would have been included in the financial statements had the assets been carried at cost, are as follows:

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Freehold land and buildings | 543,381 | 531,724 | 268,623 |
| Buildings on leasehold land | 399,648 | 412,947 | 426,245 |
| | 943,029 | 944,671 | 694,868 |

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.

## 12. INTANGIBLE ASSETS

### Accounting policy

Intangible assets with finite useful lives, that are acquired separately, are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight line basis over their estimated useful lives of 3 to 10 years. Costs directly associated with the production of identifiable and software products controlled, that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

(a) Assets under construction

The Bank has embarked on a business aligned technology transformation programme since 2012. All costs incurred in respect of this project; namely the "Flamingo Project" has been capitalised under "asset under construction". Amortisation of the costs will start as soon as the project will go live as from September 2016.

(b) Intellectual property rights

The Bank 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. These costs will be amortised as soon as the project goes live in September 2016.

(c) WIP Software

The Bank is developing few softwares. These costs will be transferred under "Software" as soon as they will be in use at the Bank.

## 12. INTANGIBLE ASSETS (CONT'D)

| | Software MUR' 000 | WIP Software (Note c) MUR' 000 | Intellectual Property (Note b) MUR' 000 (Restated) | Assets under construction (Note a) MUR' 000 (Restated) | Total MUR' 000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 01 July 2012 | 900,056 | 934 | - | 33,142 | 934,132 |
| Transfer to other assets | - | - | - | (33,142) | (33,142) |
| Translation adjustment | (2,060) | - | - | - | (2,060) |
| Additions | 19,954 | 7,223 | 598,165 | - | 625,342 |
| Disposals | (22,449) | - | - | - | (22,449) |
| Transfers | - | (2,869) | - | - | (2,869) |
| **At 31 December 2013 as previously stated** | 895,501 | 5,288 | 598,165 | - | 1,498,954 |
| Project costs transferred from other assets | - | - | - | 731,850 | 731,850 |
| Amount expensed to statement of profit or loss | - | - | (347,493) | - | (347,493) |
| Transfers | - | - | (12,136) | 12,136 | - |
| **At 31 December 2013 as restated** | **895,501** | **5,288** | **238,536** | **743,986** | **1,883,311** |
| At 01 January 2014 as previously stated | 895,501 | 5,288 | 598,165 | - | 1,498,954 |
| *Restatement made in prior years:* | | | | | |
| Project costs transferred from other assets | - | - | - | 731,850 | 731,850 |
| Amount expensed to statement of profit or loss | - | - | (347,493) | - | (347,493) |
| Transfers | - | - | (12,136) | 12,136 | - |
| At 01 January 2014 as restated | 895,501 | 5,288 | 238,536 | 743,986 | 1,883,311 |
| Translation adjustment | 596 | - | - | - | 596 |
| Additions | 4,429 | 1,989 | 441,455 | 974,275 | 1,422,148 |
| Transfers | - | (3,960) | (8,650) | 8,650 | (3,960) |
| Amount expensed to statement of profit or loss | - | - | (253,493) | (920,580) | (1,174,073) |
| **At 31 December 2014 (as restated)** | **900,526** | **3,317** | **417,848** | **806,331** | **2,128,022** |
| At 01 January 2015 as previously stated | **900,526** | **3,317** | **1,039,620** | **-** | **1,943,463** |
| *Restatement made in prior years:* | | | | | |
| Project costs transferred from other assets | **-** | **-** | **-** | **1,706,125** | **1,706,125** |
| Transfers | **-** | **-** | **(20,786)** | **20,786** | **-** |
| Amount expensed to statement of profit or loss | **-** | **-** | **(600,986)** | **(920,580)** | **(1,521,566)** |
| At 01 January 2015 as restated | **900,526** | **3,317** | **417,848** | **806,331** | **2,128,022** |
| Translation adjustment | **1,347** | **-** | **-** | **-** | **1,347** |
| Additions | **2,898** | **6,201** | **107,876** | **1,013,899** | **1,130,874** |
| Transfer | **-** | **(4,420)** | **-** | **-** | **(4,420)** |
| **At 31 December 2015** | **904,771** | **5,098** | **525,724** | **1,820,230** | **3,255,823** |

## 12. INTANGIBLE ASSETS (CONT'D)

| | Software MUR' 000 | WIP Software (Note c) MUR' 000 | Intellectual Property (Note b) MUR' 000 (Restated) | Assets under construction (Note a) MUR' 000 (Restated) | Total MUR' 000 |
|---|---|---|---|---|---|
| **Accumulated amortisation** | | | | | |
| At 01 July 2012 | 848,695 | - | - | - | 848,695 |
| Translation adjustment | (1,989) | - | - | - | (1,989) |
| Disposals | (22,449) | - | - | - | (22,449) |
| Charge for the period | 35,840 | - | - | - | 35,840 |
| At 31 December 2013 | 860,097 | - | - | - | 860,097 |
| Translation adjustment | 615 | - | - | - | 615 |
| Charge for the year | 15,028 | - | - | - | 15,028 |
| At 31 December 2014 | **875,740** | **-** | **-** | **-** | **875,740** |
| Translation adjustment | **1,240** | **-** | **-** | **-** | **1,240** |
| Charge for the year | **8,452** | **-** | **-** | **-** | **8,452** |
| **At 31 December 2015** | **885,432** | **-** | **-** | **-** | **885,432** |
| **Net book value** | | | | | |
| **At 31 December 2015** | **19,339** | **5,098** | **525,724** | **1,820,230** | **2,370,391** |
| At 31 December 2014 (as restated) | 24,786 | 3,317 | 417,848 | 806,331 | 1,252,282 |
| At 31 December 2014 (as previously stated) | 24,786 | 3,317 | 1,039,620 | - | 1,067,723 |
| At 31 December 2013 (as restated) | 35,404 | 5,288 | 238,536 | 743,986 | 1,023,214 |
| At 31 December 2013 (as previously stated) | 35,404 | 5,288 | 598,165 | - | 638,857 |

## 13. OTHER ASSETS

### Accounting policy

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

## 13. OTHER ASSETS (CONT'D)

| | 31 December 2015 MUR' 000 | 31 December 2014 (Restated) MUR' 000 | 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|
| Accounts receivable[1] | **217,906** | 339,747 | 771,337 |
| Balances due in clearing | **186,151** | 238,710 | 265,751 |
| Tax paid in advance[2] | **98,162** | 79,286 | 93,196 |
| Non-banking assets acquired in satisfaction of debts[3] | **6,613** | 63 | 161 |
| Licence fees prepaid | **271,160** | 314,112 | 233,630 |
| Others | **85,961** | 110,960 | 71,985 |
| | **865,953** | 1,082,878 | 1,436,060 |

[1] Amounts receivable are generally receivable within three months.
[2] The tax paid in advance relates to the Indian Operations. The amount is shown net of current tax payable.
[3] The Bank's policy is to dispose of such assets as rapidly as the market permits.

## 14. PENSION LIABILITY

### Accounting policy

***(i) Pension benefits for eligible participating employees***

Eligible participating employees are entitled to retirement pensions under the SBM Group Pension Fund, a defined benefit scheme. The average retirement age is 62. The assets of the scheme are managed presently by the SBM Mauritius Asset Managers Ltd.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets, is reflected immediately in the *Statement of financial position* with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in the *Statement of profit or loss* in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense or income and remeasurement.

The retirement benefit obligation recognised in the *Statement of financial position* represents the actual deficit or surplus in the Bank's defined benefits plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

***(ii) Pension benefits for employees under term contracts and all employees who joined after 31 December 2004***

Employees 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.

## 14. 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 Bank issues to certain employees, phantom share options which are share appreciation rights that require the Bank to pay the intrinsic value of the phantom share option at the date of exercise. A phantom share option liability equal to the portion of the services received is recognised at the current fair value determined at each reporting date.

### Significant accounting estimates and judgements

The Bank operates a defined benefit pension plan for its employees. The amount shown in the *Statement of financial position* in respect of retirement benefit obligations is subject to estimates in respect of periodic costs which would be dependent on returns on assets, future discount rates, rates of salary increases and inflation rate in respect of the pension plan. The value of the defined benefit pension fund is based on report submitted by an independent actuarial firm on an annual basis.

The amount included in the statement of financial position arising from the Bank's obligation in respect of its defined benefit plans is as follows:

| | **31 December 2015 MUR' 000** | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| **Reconciliation of net defined benefit liability** | | | |
| Present value of funded defined benefit obligation | **871,757** | 836,905 | 769,668 |
| Fair value of planned assets | **(782,827)** | (761,332) | (672,727) |
| Net liability arising from defined benefit obligation *(Note 19)* | **88,930** | 75,573 | 96,941 |
| **Reconciliation of net defined benefit liability** | | | |
| Balance at start of the year / period | **75,573** | 96,941 | 54,874 |
| Amount recognised in statement of profit or loss | **33,201** | 33,089 | 43,391 |
| Amount recognised in other comprehensive income | **12,774** | (13,947) | 29,670 |
| Less employer contributions | **(32,618)** | (40,510) | (30,994) |
| Balance at end of the year / period | **88,930** | 75,573 | 96,941 |

## 14. PENSION LIABILITY (CONT'D)

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| **Reconciliation of fair value of planned assets** | | | |
| Balance at start of the year / period | **761,332** | 672,727 | 601,575 |
| Interest income | **57,323** | 51,314 | 92,700 |
| Employer contributions | **32,618** | 40,510 | 30,994 |
| Benefits paid | **(24,989)** | (17,166) | (27,706) |
| Return on planned assets excluding interest income | **(43,457)** | 13,947 | (24,836) |
| Balance at end of the year / period | **782,827** | 761,332 | 672,727 |
| **Reconciliation of present value of defined benefit obligation** | | | |
| Balance at start of the year / period | **836,905** | 769,668 | 656,449 |
| Current service cost | **28,895** | 27,310 | 37,255 |
| Interest expense | **61,779** | 57,093 | 98,836 |
| Past service cost | **(150)** | - | - |
| Other benefits paid | **(24,989)** | (17,166) | (27,706) |
| Liability experience gain | **-** | - | (27,621) |
| Liability gain due to change in demographic assumptions | **-** | - | (35,560) |
| Liability (gain) / loss due to change in financial assumptions | **(30,683)** | - | 68,015 |
| Balance at end of the year / period | **871,757** | 836,905 | 769,668 |

| | Year ended 31 December 2015 MUR' 000 | Year ended 31 December 2014 MUR' 000 | 18 months ended 31 December 2013 MUR' 000 |
|---|---|---|---|
| **Components of amount recognised in statement of profit or loss** | | | |
| Service cost | **28,895** | 27,310 | 37,255 |
| Past service cost | **(150)** | - | - |
| Net interest on net defined benefit liability | **4,456** | 5,779 | 6,136 |
| Total expense as above *(Note 32)* | **33,201** | 33,089 | 43,391 |

### 14. PENSION LIABILITY (CONT'D)

| | **Year ended 31 December 2015 MUR' 000** | Year ended 31 December 2014 MUR' 000 | 18 months ended 31 December 2013 MUR' 000 |
|---|---|---|---|
| **Components of amount recognised in other comprehensive income** | | | |
| Return on planned assets (above) / below interest income | **43,457** | (13,947) | 24,836 |
| Liability experience gain | **-** | - | (27,621) |
| Liability experience gain due to change in demographic assumptions | **-** | - | (35,560) |
| Liability experience (gain) / loss due to change in financial assumptions | **(30,683)** | - | 68,015 |
| **Total** | **12,774** | (13,947) | 29,670 |

| | **31 December 2015 %** | 31 December 2014 % | 31 December 2013 % |
|---|---|---|---|
| **Allocation of planned assets at end of year / period** | | | |
| Equity - Overseas quoted | **28** | 34 | 32 |
| Equity - Local quoted | **34** | 31 | 35 |
| Equity - Local unquoted | **3** | 3 | 1 |
| Debt - Overseas quoted | **1** | - | - |
| Debt - Local unquoted | **23** | 25 | 29 |
| Cash and other | **11** | 7 | 3 |
| **Total** | **100** | 100 | 100 |

| | **31 December 2015 %** | 31 December 2014 % | 31 December 2013 % |
|---|---|---|---|
| **Allocation of planned assets at end of year / period** | | | |
| Reporting entity's own transferable financial instruments | **7** | 8 | 10 |
| **Principal assumptions used at end of year / period** | | | |
| Discount rate | **7.0%** | 7.5% | 7.5% |
| Rate of salary increases | **5.0%** | 6.0% | 6.0% |
| Rate of pension increases | **2.0%** | 2.5% | 2.5% |
| Average retirement age (ARA) | **62** | 62 | 62 |
| Average life expectancy for: | | | |
| - Male at ARA | **18.0 years** | 18.0 years | 18.0 years |
| - Female at ARA | **22.5 years** | 22.5 years | 22.5 years |
| **Sensitivity Analysis on defined benefit obligation at end of year / period** | | | |
| Increase due to 1% decrease in discount rate | **183,941** | 151,019 | N/A |
| Decrease due to 1% increase in discount rate | **88,919** | 121,907 | N/A |

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.

## 14. PENSION LIABILITY (CONT'D)

**Future cashflows**

The funding policy is to pay contributions to an external legal entity at the rate recommended by the entity's actuaries.

The Bank expects to make a contribution of around MUR 37 million to the SBM Group Pension Fund for the next financial year and the weighted average duration of the defined benefit obligation is 15 years.

Pension amounts and disclosures have been based on the report dated 03 March 2016 submitted by an independent firm of Actuaries and Consultants.

The Bank sponsors a final salary defined benefit pension plan for a category of its employees. The Bank has recognised a net defined benefit liability of MUR 109.338 million as at 31 December 2015 for the plan (31 December 2014: MUR 75.573 million).

The plan exposes the Bank to normal risks associated with defined benefit pension plans such as investment, interest, longevity and salary rise risks.

*Investment risk*

The plan liability is calculated using a discount rate determined by reference of government bond yields; if the return on plan assets is below this rate, it will create a plan deficit and if it is higher, it will create a plan surplus.

*Interest risk*

A decrease in the bond interest rate will increase the plan liability; however, this may be partially offset by an increase in the return on the plan's debt investments and a decrease in inflationary pressures on salary and pension increases.

*Longevity risk*

The plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan liability.

*Salary risk*

The plan liability is calculated by reference to the future projected salaries of plan participants. As such, an increase in the salary of the plan participants above the assumed rate will increase the plan liability whereas an increase below the assumed rate will decrease the liability.

There has been no plan amendment, curtailment or settlement during the year.

## 15. DEPOSITS FROM BANKS

### Accounting policy

Deposits from banks are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the Bank's obligations are discharged, cancelled or they expire.

| | **31 December 2015 MUR' 000** | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Demand deposits | **798,636** | 620,334 | 271,802 |

## 16. DEPOSITS FROM NON-BANK CUSTOMERS

### Accounting policy

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

| | **31 December 2015 MUR' 000** | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| (i) Retail customers | | | |
| Current accounts | **13,616,483** | 11,353,877 | 10,117,115 |
| Savings accounts | **40,405,183** | 34,312,829 | 31,226,586 |
| Time deposits with remaining term to maturity: | | | |
| Up to 3 months | **1,366,017** | 1,471,621 | 1,659,391 |
| Over 3 months and up to 6 months | **1,254,137** | 1,133,352 | 950,699 |
| Over 6 months and up to 12 months | **3,485,729** | 2,365,906 | 2,823,829 |
| Over 1 year and up to 5 years | **5,679,182** | 6,195,927 | 5,756,393 |
| Over 5 years | **1,400** | 1,261 | 1,213 |
| Total time deposits | **11,786,465** | 11,168,067 | 11,191,525 |
| Total deposits from retail customers | **65,808,131** | 56,834,773 | 52,535,226 |

## 16. DEPOSITS FROM NON-BANK CUSTOMERS (CONT'D)

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| (ii) Corporate customers | | | |
| Current accounts | 24,089,753 | 20,359,058 | 15,492,030 |
| Savings accounts | 3,294,850 | 5,398,503 | 4,529,067 |
| Time deposits with remaining term to maturity: | | | |
| Up to 3 months | 4,734,198 | 2,316,605 | 2,849,899 |
| Over 3 months and up to 6 months | 322,129 | 414,240 | 788,867 |
| Over 6 months and up to 12 months | 1,330,658 | 618,294 | 436,529 |
| Over 1 year and up to 5 years | 393,480 | 619,989 | 762,783 |
| Over 5 years | - | 2,773 | 2,424 |
| Total time deposits | 6,780,465 | 3,971,901 | 4,840,502 |
| Total deposits from corporate customers | 34,165,068 | 29,729,462 | 24,861,599 |
| (iii) Government | | | |
| Current accounts | 1,747,833 | 1,888,248 | 1,759,774 |
| Savings accounts | 1,853,931 | 1,950,402 | 1,994,242 |
| Time deposits with remaining term to maturity: | | | |
| Up to 3 months | 112 | 136,729 | 122,509 |
| Over 3 months and up to 6 months | 406 | 407 | 407 |
| Over 6 months and up to 12 months | 2,242 | 2,245 | 2,398 |
| Over 1 year and up to 5 years | 66 | 167 | - |
| Total time deposits | 2,826 | 139,548 | 125,314 |
| Total deposits from the government | 3,604,590 | 3,978,198 | 3,879,330 |
| Total deposits from non-bank customers | 103,577,789 | 90,542,433 | 81,276,155 |

## 17. OTHER BORROWED FUNDS

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Borrowings from central banks | | | |
| - For refinancing | **203,758** | 250,967 | 367,018 |
| Other financial institutions | | | |
| - For refinancing | **1,885,189** | 1,959,843 | 1,480,060 |
| - Other | **-** | 2,385,460 | 2,250,000 |
| Borrowings from banks | | | |
| - In Mauritius | **43,550** | 428,535 | 1,411,383 |
| - Abroad | **-** | 88,200 | 601,590 |
| | **2,132,497** | 5,113,005 | 6,110,051 |
| **Remaining term to maturity** | | | |
| Up to 3 months | **-** | 927,430 | 1,817,777 |
| Over 3 months and up to 6 months | **-** | 54,120 | - |
| Over 6 months and up to 12 months | **43,550** | 2,447,265 | 303,131 |
| Over 1 year and up to 5 years | **759,518** | 704,714 | 2,664,164 |
| Over 5 years | **1,329,429** | 979,476 | 1,324,979 |
| | **2,132,497** | 5,113,005 | 6,110,051 |

## 18. TAXATION

### Accounting policy

**Income tax**

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

**Corporate social responsibility (CSR)**

Corporate social responsibility (CSR) was legislated by the government of Mauritius in July 2009. In terms of the legislation, the Bank is required to allocate 2% of its Segment A chargeable income of the preceding financial year to government approved CSR NGOs. 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% (2014 and 2013: 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% (2014 and 2013: 43.26%).

## 18. TAXATION (CONT'D)

### (a) TAX EXPENSE

| | Year ended 31 December 2015 MUR' 000 | Year ended 31 December 2014 (Restated) MUR' 000 | 18 months ended 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|
| Profit before tax | 1,753,329 | 2,238,717 | 5,006,472 |
| Tax on accounting profit at 15% | 262,999 | 335,808 | 750,971 |
| Non allowable expenses | 18,627 | 174,917 | 77,972 |
| Exempt income | (24,179) | (93,191) | (215,885) |
| Over provision in previous periods / years | (56,619) | (22,260) | (34,312) |
| Special levy on banks | 219,589 | 319,314 | 379,410 |
| Corporate Social Responsibility contribution | 50,002 | 48,799 | 64,962 |
| Withholding tax | - | - | 18 |
| | 470,419 | 763,387 | 1,023,136 |
| Tax refund | (10,837) | - | - |
| Foreign tax credit | (50,781) | (114,153) | (152,864) |
| Total tax expense | 408,801 | 649,234 | 870,272 |
| **The total tax expense can also be analysed as being incurred as follows:** | | | |
| Income tax expense | 450,308 | 670,020 | 980,865 |
| Deferred tax income (*Note 18b*) | (91,509) | (69,585) | (175,573) |
| Corporate Social Responsibility contribution | 50,002 | 48,799 | 64,962 |
| Withholding tax | - | - | 18 |
| **Total tax expense** | 408,801 | 649,234 | 870,272 |
| - In Mauritius | 423,290 | 678,101 | 915,523 |
| - Overseas | (14,489) | (28,867) | (45,251) |
| **Total tax expense** | 408,801 | 649,234 | 870,272 |

## 18. 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.

## 18. TAXATION (CONT'D)

### (b) DEFERRED TAX (ASSETS)/LIABILITIES

| | As previously stated MUR' 000 | Restatements (Note 39) MUR' 000 | As restated MUR' 000 |
|---|---|---|---|
| **At 01 July 2012** | | | |
| - As previously stated | 162,551 | - | 162,551 |
| - Changes in accounting policy in respect of portfolio provisioning *(Note 39)* | - | (75,740) | (75,740) |
| - As restated | 162,551 | (75,740) | 86,811 |
| Exchange difference | (1,301) | - | (1,301) |
| Effect of change in deferred tax rate | 804 | - | 804 |
| Deferred tax income *(Note 18a)* | (188,045) | 12,472 | (175,573) |
| Deferred tax on retirement benefit obligations | (4,450) | - | (4,450) |
| Deferred tax reversed on disposal of property | (200) | - | (200) |
| **At 31 December 2013 (as restated)** | (30,641) | (63,268) | (93,909) |
| At 01 January 2014 | (30,641) | (63,268) | (93,909) |
| Exchange difference | (5,243) | - | (5,243) |
| Deferred tax income *(Note 18a)* | (46,281) | (23,304) | (69,585) |
| Deferred tax on retirement benefit obligations | 2,092 | - | 2,092 |
| Deferred tax reversed on disposal of property | (4,788) | - | (4,788) |
| **At 31 December 2014** | (84,861) | (86,572) | (171,433) |
| At 01 January 2015 | **(84,861)** | **(86,572)** | **(171,433)** |
| Exchange difference | **(11,909)** | **-** | **(11,909)** |
| Deferred tax income *(Note 18a)* | **(91,509)** | **-** | **(91,509)** |
| Deferred tax on retirement benefit obligations | **(1,916)** | **-** | **(1,916)** |
| **At 31 December 2015** | **(190,195)** | **(86,572)** | **(276,767)** |

## 18. TAXATION (CONT'D)

### (b) DEFERRED TAX (ASSETS)/LIABILITIES (CONT'D)

| | 31 December 2015 MUR' 000 | 31 December 2014 (Restated)* MUR' 000 | 31 December 2013 (Restated)* MUR' 000 |
|---|---|---|---|
| Deferred tax assets | **(276,767)** | (171,433) | (145,100) |
| Deferred tax liabilities | **-** | - | 51,191 |
| | **(276,767)** | (171,433) | (93,909) |
| **Analysed as follows:** | | | |
| Mauritius Operations | **(88,180)** | - | 51,191 |
| Indian Operations | **(188,587)** | (171,433) | (145,100) |
| | **(276,767)** | (171,433) | (93,909) |
| **Analysed as resulting from:** | | | |
| Accelerated capital allowances | **51,002** | 41,610 | 46,048 |
| Allowances for credit impairment | **(373,149)** | (263,272) | (258,770) |
| Carried forward losses | **(137,126)** | (167,328) | (109,125) |
| Revaluation of property | **229,448** | 235,925 | 246,268 |
| Other provisions | **(46,942)** | (18,368) | (18,330) |
| | **(276,767)** | (171,433) | (93,909) |

* Refer to Note 39 for further details on the restatement.

## 19. OTHER LIABILITIES

### Accounting policy

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation, which has arisen as a result of past events and for which a reliable estimate can be made.

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

## 19. OTHER LIABILITIES (CONT'D)

| | 31 December 2015 MUR' 000 | 31 December 2014 (Restated) MUR' 000 | 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|
| Bills payable | **102,253** | 147,169 | 93,847 |
| Accruals for expenses | **320,822** | 456,994 | 391,656 |
| Dividend payable *(Note 22)* | **-** | - | 516,358 |
| Accounts payable | **486,492** | 418,024 | 396,385 |
| Deferred income | **227,893** | 249,730 | 269,657 |
| Balance due in clearing | **147,450** | 184,946 | 252,560 |
| Balances in transit | **106,336** | 122,345 | 325,936 |
| Pension liability *(Note 14)* | **88,930** | 75,573 | 96,941 |
| Others | **896,150** | 491,561 | 168,883 |
| | **2,376,326** | 2,146,342 | 2,512,223 |

## 20. SUBORDINATED DEBTS

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| **Subordinated Bonds:** | | | |
| *Class A 1 series bond of MUR 1 billion* | | | |
| - Applications received | **-** | - | 4,200 |
| Issued during the year plus interest accrued up to 02 October 2014: | | | |
| *Class A 1 series bond of MUR floating interest rate senior unsecured bonds maturing in 2024 (level 1)* | **-** | 1,505,500 | - |
| *Class B 1 series bond of USD floating interest rate senior unsecured bonds maturing in 2021(level 1)* | **-** | 2,060,022 | - |
| | **-** | 3,565,522 | - |
| Transferred on 02 October 2014 as part of the Group Restructure: | | | |
| *Class A 1 series bond of MUR floating interest rate senior unsecured bonds maturing in 2024 (level 1)* | **-** | (1,505,500) | - |
| *Class B 1 series bond of USD floating interest rate senior unsecured bonds maturing in 2021(level 1)* | **-** | (2,060,022) | - |
| | **-** | (3,565,522) | - |

Pursuant to the restructuring exercise, these subordinated debts have been transferred to SBM Holdings Ltd.

## 21. STATED CAPITAL

### Accounting policy

**(i) Share issue costs**

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

**(ii) Treasury shares**

Where the Bank purchases its own equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

| | Number | MUR' 000 |
|---|---|---|
| Issued and paid up share capital | | |
| At 31 December 2014 and 2015 | **31,000,000,000** | **310,000** |
| At 31 December 2013 | 30,374,022,300 | 303,740 |
| Capital Contribution | | |
| At 31 December 2014 and 2015 | | **8,063,106** |
| At 31 December 2013 | | - |
| Treasury shares held | | |
| At 31 December 2014 and 2015 | **-** | **-** |
| At 31 December 2013 | 4,556,103,300 | 45,561 |

Fully paid ordinary shares carry one vote per share and the right to dividend.

The capital contribution refers to additional capital over and above the actual stated capital. It is fully paid up, unsecured, interest free and is perpetual with no maturity date. The shareholder shall not demand, sue for or receive payment of the whole or any part of the capital contribution or claim any set-off which would result in the principal amount of the capital contribution outstanding to be reduced. The Bank reserves the right to issue ordinary shares against the amount of capital contribution at any time at prevailing market rates.

## 22. 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.*

## 22. DIVIDEND (CONT'D)

| | Dividend payable | | |
|---|---|---|---|
| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
| Dividend declared during the year / period: | | | |
| 2015: 7.7 cents per share of nominal 1 cent (2014: 3.7 cents & 2013: 6 cents per share of nominal 1 cent) | **2,375,100** | 955,263 | 1,549,075 |
| 2014: Dividend declared upon restructure | **-** | 10,702,652 | - |
| Less dividend paid (2015: 7.7 cents; 2014: 3.7 cents; and 2013: 4 cents per share) | **(2,375,100)** | (955,263) | (1,032,717) |
| Less dividend paid on restructure | **-** | (10,702,652) | - |
| Dividend payable *(Note 19)* | **-** | - | 516,358 |
| Dividend declared after the reporting date: | | | |
| 2014: 6.21 cents per share of nominal 1 cent | **-** | 1,925,100 | - |

## 23. MEMORANDUM ITEMS

### Accounting policy

***Acceptances***

Acceptances are obligations to pay on due date the bills of exchange drawn on customers. It is expected most of these acceptances will be honoured by the customers on due dates. Acceptances are accounted for as off-balance sheet items and are disclosed under memorandum items.

***Contingent liabilities***

Contingent liabilities which include certain guarantees and letters of credit pledged are possible obligations that arise from past events whose existence will be confirmed by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

***Financial guarantee contracts***

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at fair value, which is generally the fee received or present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation and the best estimate of the expenditure required to settle the obligations.

## 23. MEMORANDUM ITEMS (CONT'D)

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| **(a) Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers** | | | |
| Acceptances on account of customers | **206,639** | 496,007 | 293,067 |
| Guarantees on account of customers | **3,616,070** | 4,429,688 | 4,130,084 |
| Money guarantees | **927,190** | 560,371 | 739,828 |
| Letters of credit and other obligations on account of customers | **775,455** | 978,489 | 997,206 |
| Other contingent items | **945** | 437,398 | 24,230 |
| | **5,526,299** | 6,901,953 | 6,184,415 |
| **(b) Commitments** | | | |
| Undrawn credit facilities | **7,472,081** | 7,375,831 | 8,190,974 |
| **(c) Other** | | | |
| Inward bills held for collection | **251,025** | 85,617 | 122,432 |
| Outward bills sent for collection | **1,525,909** | 1,666,954 | 2,816,547 |
| | **1,776,934** | 1,752,571 | 2,938,979 |
| **Total** | **14,775,314** | 16,030,355 | 17,314,368 |

## 24. ASSETS PLEDGED

The aggregate carrying amount of assets that have been pledged to secure the credit facilities of the Bank with Central Banks and with Clearing Corporation of India Limited are as follows:

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Treasury bills / Government bonds | **2,000,000** | 3,549,240 | 2,723,000 |
| Balance with Central Banks | **-** | - | 307,784 |
| | **2,000,000** | 3,549,240 | 3,030,784 |
| *Analysed as:* | | | |
| - In Mauritius | **2,000,000** | 2,448,000 | 2,439,084 |
| - Overseas | **-** | 1,101,240 | 591,700 |
| | **2,000,000** | 3,549,240 | 3,030,784 |

## 25. CAPITAL COMMITMENTS

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Approved and contracted for | **2,155,594** | 2,605,430 | 1,431,800 |
| Approved and not contracted for | **7,078** | 17,048 | 3,603 |

## 26. OPERATING LEASE

### Accounting policy

Rentals payable under operating leases are charged to the *Statement of profit or loss* on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| *Leasing arrangements - The Bank as lessee* | | | |
| Operating lease expense | **41,609** | 53,431 | 38,196 |

Operating lease payments represent rentals payable for property, equipment and motor vehicles. Operating lease contracts contain renewal clauses in the event that the Bank exercises its option to renew the contracts. The Bank does not have an option to purchase the assets at the expiry of the lease period.

The future minimum lease payments under non-cancellable operating leases are as follows:

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Up to 1 year | **93,022** | 139,898 | 25,089 |
| After 1 year and before 5 years | **120,952** | 136,898 | 320,250 |
| After 5 years and up to 25 years | **30,271** | 10,914 | 89,890 |
| | **244,245** | 287,710 | 435,229 |

## 27. NET INTEREST INCOME

### Accounting policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revise their estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

## 27. NET INTEREST INCOME (CONT'D)

### Accounting policy (Cont'd)

However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate 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.

| | **Year ended 31 December 2015 MUR' 000** | Year ended 31 December 2014 MUR' 000 | 18 months ended 31 December 2013 MUR' 000 |
|---|---|---|---|
| **Interest income** | | | |
| Cash and cash equivalents | **40,798** | 39,740 | 27,285 |
| Loans to and placements with banks | **25,393** | 26,170 | 39,228 |
| Loans and advances to non-bank customers | **4,911,832** | 5,207,571 | 7,790,160 |
| Investment securities | **1,127,372** | 983,616 | 1,172,065 |
| Trading assets | **(38,661)** | (8,780) | 67,126 |
| Other | **2,463** | 24,764 | 76 |
| **Total interest income** | **6,069,197** | 6,273,081 | 9,095,940 |
| **Interest expense** | | | |
| Deposits from banks | **-** | - | (47) |
| Deposits from non-bank customers | **(1,915,572)** | (2,134,482) | (3,048,498) |
| Other borrowed funds | **(86,614)** | (112,637) | (253,493) |
| Subordinated debts | **-** | (64,902) | - |
| Other | **-** | (248) | - |
| **Total interest expense** | **(2,002,186)** | (2,312,269) | (3,302,038) |
| **Net interest income** | **4,067,011** | 3,960,812 | 5,793,902 |

## 28. NET FEE AND COMMISSION INCOME

### Accounting policy

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan processing fees are deferred and recognised accordingly.

| | **Year ended 31 December 2015 MUR' 000** | Year ended 31 December 2014 (Restated) MUR' 000 | 18 months ended 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|
| **Fee and commission income** | | | |
| Retail banking customer fees | **340,651** | 340,046 | 465,728 |
| Corporate banking customer fees | **232,735** | 227,243 | 383,940 |
| Card income | **397,665** | 316,618 | 552,266 |
| Other | **-** | 3 | - |
| Total fee and commission income | **971,051** | 883,910 | 1,401,934 |
| **Fee and commission expense** | | | |
| Interbank transaction fees | **(17,545)** | (13,810) | (18,997) |
| Other | **(9,785)** | (13,652) | (23,722) |
| Total fee and commission expense | **(27,330)** | (27,462) | (42,719) |
| **Net fee and commission income** | **943,721** | 856,448 | 1,359,215 |

## 29. DIVIDEND INCOME

### Accounting policy

Dividend is recognised when the Bank's right to receive the payment is established, which is generally when the dividend is declared.

## 29. DIVIDEND INCOME (CONT'D)

| | Year ended 31 December 2015 MUR' 000 | Year ended 31 December 2014 MUR' 000 | 18 months ended 31 December 2013 MUR' 000 |
|---|---|---|---|
| Available-for-sale securities | 14 | 61,903 | 871,123 |
| Trading securities | - | - | 280 |
| | 14 | 61,903 | 871,403 |

## 30. NET TRADING INCOME

### Accounting policy

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense for financial assets and financial liabilities held-for-trading.

| | Year ended 31 December 2015 MUR' 000 | Year ended 31 December 2014 MUR' 000 | 18 months ended 31 December 2013 MUR' 000 |
|---|---|---|---|
| Fixed income securities | (837) | 602 | 2,350 |
| Equities | (125) | (266) | (507) |
| Foreign exchange gain | 458,080 | 356,831 | 481,224 |
| Other | (369) | (158) | 14,076 |
| | 456,749 | 357,009 | 497,143 |

## 31. OTHER OPERATING INCOME

| | Year ended 31 December 2015 MUR' 000 | Year ended 31 December 2014 MUR' 000 | 18 months ended 31 December 2013 MUR' 000 |
|---|---|---|---|
| Gain/(loss) on sale of available-for-sale securities: | | | |
| Investment securities | 271,660 | 255,270 | 113,391 |
| Equity investments | (220) | 377,946 | 361,481 |
| Other | 1,200 | 143 | (14,750) |
| | 272,640 | 633,359 | 460,122 |

## 32. PERSONNEL EXPENSES

### Accounting policy

Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:

(a) wages, salaries and social security contributions;

(b) paid annual leave and paid sick leave;

(c) bonuses; and

(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

(b) as an expense, unless another IFRS requires or permits the inclusion of the benefits in the cost of an asset.

| | **Year ended 31 December 2015 MUR' 000** | Year ended 31 December 2014 MUR' 000 | 18 months ended 31 December 2013 MUR' 000 |
|---|---|---|---|
| Wages and salaries | **843,826** | 739,038 | 1,111,658 |
| Other social security obligations | **13,494** | 12,260 | 16,704 |
| Contributions to defined contribution plans | **66,197** | 60,724 | 85,986 |
| Cash-settled share-based payments | **2,542** | 6,471 | 30,140 |
| Increase in liability for defined benefit plans (*Note 14*) | **33,201** | 33,089 | 43,391 |
| Staff welfare cost | **15,641** | 17,996 | 49,442 |
| Management and professional charges | **36,581** | 37,174 | 143,496 |
| Other | **173,387** | 158,557 | 185,828 |
| | **1,184,869** | 1,065,309 | 1,666,645 |

### 33. OTHER EXPENSES

| | Year ended 31 December 2015 MUR' 000 | Year ended 31 December 2014 (Restated) MUR' 000 | 18 months ended 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|
| Software licensing and other information technology cost [1][2] | **356,690** | 1,259,730 | 579,403 |
| Auditors' remuneration (audit and other services): | | | |
| -Principal auditors | **6,202** | 15,706 | 7,140 |
| -Other auditors | **173** | 451 | 211 |
| Utilities | **54,897** | 52,948 | 74,375 |
| Professional charges [1][2] | **126,772** | 285,167 | 403,625 |
| Marketing costs | **44,550** | 37,726 | 42,900 |
| Rent, repairs and maintenance | **87,978** | 69,860 | 81,562 |
| Licence and other registration fees | **20,547** | 19,587 | 18,395 |
| Other | **71,773** | 71,724 | 82,355 |
| | **769,582** | 1,812,899 | 1,289,966 |

[1] The considerable amount of software licensing and other information technology cost and other professional charges for 2014 is due to the effect of expensing inefficiencies of MUR 920 million and BTI/BPE cost of MUR 253 million respectively.

[2] The restatements are fully explained in Note 39 to the financial statements.

### 34. 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 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 *Available-for-sale reserve.*

## 34. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS (CONT'D)

| | Year ended 31 December 2015 MUR' 000 | Year ended 31 December 2014 (Restated) MUR' 000 | 18 months ended 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|
| Portfolio and specific provisions: | | | |
| - On-balance sheet advances *(Note 9c)* | **1,883,467** | 599,899 | 754,621 |
| Bad debts written off for which no provisions were made | **1,347** | 124 | 153 |
| Recoveries of advances written off | **(6,593)** | (11,032) | (30,316) |
| Other | **(4,857)** | (363) | 16,578 |
| | **1,873,364** | 588,628 | 741,036 |
| *Of which:* | | | |
| *Credit exposure* | **1,878,221** | 588,991 | 724,458 |
| *Other financial assets* | **(4,857)** | (363) | 16,578 |
| | **1,873,364** | 588,628 | 741,036 |

## 35. NET CASH FROM/(USED IN) OPERATING ACTIVITIES

| | Year ended 31 December 2015 MUR' 000 | Year ended 31 December 2014 (Restated) MUR' 000 | 18 months ended 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year / period | **1,344,528** | 1,589,483 | 4,136,200 |
| **Adjustments to determine net cash flows:** | | | |
| Depreciation of property and equipment | **150,538** | 148,950 | 241,826 |
| Amortisation of intangible assets | **8,452** | 15,028 | 35,840 |
| Pension expense | **33,201** | 33,089 | 43,391 |
| Net impairment loss on financial assets | **1,873,364** | 588,628 | 741,036 |
| Exchange difference | **210,376** | 102,839 | (541,464) |
| Net gain on sale of available-for-sale equity investments | **-** | (377,946) | (361,481) |
| Net loss / (gain) from dealings in trading securities | **1,330** | (179) | (15,920) |
| Net (gain) / loss on disposal of property and equipment | **(1,963)** | 349 | (14) |
| Tax expense | **408,801** | 649,234 | 870,272 |
| Dividend income | **(14)** | (61,903) | (871,403) |
| **Operating profit before working capital changes** | **4,028,613** | 2,687,572 | 4,278,283 |

## 35. NET CASH FROM/(USED IN) OPERATING ACTIVITIES (CONT'D)

| | **Year ended 31 December 2015 MUR' 000** | Year ended 31 December 2014 (Restated) MUR' 000 | 18 months ended 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|
| **Change in operating assets and liabilities** | | | |
| Decrease in trading assets | **59,691** | 44,545 | 35,914 |
| (Increase) / decrease in loans to and placements with banks | **(506,812)** | 230,295 | 579,508 |
| (Increase) / decrease in loans and advances to non-bank customers | **(3,310,277)** | 1,753,908 | (7,981,259) |
| Increase in gilt-edged investment securities | **(681,585)** | (7,428,463) | (3,070,979) |
| Increase in other investment securities | **(4,853,294)** | (4,526,799) | (1,038,999) |
| Increase in mandatory balances with central banks | **(560,994)** | (1,110,686) | (551,141) |
| Decrease / (increase) in other assets | **192,419** | (34,621) | (575,738) |
| Increase in deposits from banks | **178,302** | 348,532 | 57,145 |
| Increase in deposits from non-bank customers | **13,035,356** | 9,266,278 | 5,743,003 |
| (Decrease) / increase in trading liabilities | **(25,792)** | (91,921) | 68,470 |
| Increase in other liabilities | **216,626** | 171,847 | 776,421 |
| Other dividend received | **14** | 1,903 | 5,403 |
| Income tax paid | **(225,008)** | (874,061) | (1,112,555) |
| **Net cash from / (used in) operating activities** | **7,547,259** | 438,329 | (2,786,524) |

## 36. 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 shall phased out by 2015. As at 31 December 2015, the outstanding potential liability of the Bank on the Phantom Shares Options stood at MUR 0.59 million (2014: MUR 4.5 million and 2013: MUR 9.4million). No shares have been granted under the ESOP scheme during the financial year.

## 37. CAPITAL MANAGEMENT

The Bank manages its capital to ensure that it will be able to continue as a going concern and maximise returns to shareholders. It also ensures that adequate capital is maintained to support its growth strategies, its risk appetite and depositors' confidence, while complying with statutory and regulatory requirements. The capital resources of the Bank are disclosed in the *Statement of changes in equity*.

The Bank has met the respective minimum capital requirements set out by the relevant regulatory body and, where applicable, appropriate transfers have also been made to statutory reserves, ranging from 10% to 25% of annual profits.

The Bank has also met its respective minimum capital adequacy ratio requirements. Banks in Mauritius are required to maintain a ratio of eligible capital to risk weighted assets of at least 10%, whereas for India the minimum ratio is set at 9%.

## 37. CAPITAL MANAGEMENT (CONT'D)

| | **31 December 2015 MUR' 000** | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Tier 1 capital | **9,666,712** | 11,736,183 | 11,505,083 |
| Eligible capital base | **11,184,196** | 13,164,222 | 12,968,347 |
| Risk weighted assets | **75,141,544** | 70,199,763 | 70,149,905 |
| Capital adequacy ratio (%) | **14.88** | 18.75 | 18.49 |

## 38. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors regard SBM Holdings Ltd, a company incorporated in Mauritius as its ultimate holding company and SBM (Bank) Holdings Ltd, a company incorporated in Mauritius as its immediate holding company.

## 39. PRIOR YEARS ADJUSTMENTS

### (a) Business Process Excellence and Business Transformation initiatives (BPE/BTI)

The Bank entered into an agreement in respect of Business Process Engineering and Business Transformation Initiatives to align both its strategies and processes with the Technology Transformation Initiative namely Flamingo Project and also to align with the high performance Bank.

The Bank viewed the contract as the acquisition of intellectual property rights with the deliverables bundled as a single solution and capitalised the cost as intangible assets. However, in 2015, the Bank considered that the contract should not have been viewed as a project in its entirety but should have been split per initiative completed. As such there were initiatives which did not fall under the definition of intangible assets as per IAS 38. These amounts would now be expensed in the year in which they were incurred therefore leading to a prior year adjustment being booked.

### (b) Business aligned technology platform - Flamingo Project

The Bank has embarked on a business aligned technology transformation programme since 2012. The project, namely, "Flamingo Project" was originally planned to go live in August 2013 but due to delays in the implementation process, the release date has been postponed and the new system is now only scheduled to become operational in September 2016, which is 3 years past the initial target date. The significant delays and continuous time extensions have resulted in additional charges payable to service providers which Management attribute mostly to inefficiencies during the software development and implementation phases prior to 31 December 2014. As IAS 38 specifically precludes costs arising from inefficiencies from being capitalised, the Bank has decided to expense these costs, as a prior year adjustment, to recognise the fact that these cost overruns occurred mostly in the prior years and should have been accounted for accordingly. On the basis that these inefficiencies would only have become evident in 2014, Management is of the view that these adjustments should thus be reflected in that year.

## 39. PRIOR YEARS ADJUSTMENTS (CONT'D)

### (b) Business aligned technology platform - Flamingo Project (Cont'd)

Previously the Business aligned technology platform was classified under Other Assets. These have been reclassified to Asset Under Construction in Intangible Assets. Following the transfer from Other Assets to Intangible Assets, the adjustments described above have been made as follows:

| | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|
| *Reclassification from Other Assets to Intangible Assets as Asset under Construction* | | |
| **Other assets:** | | |
| Other assets as previously stated | 2,789,003 | 2,167,910 |
| Transfer to intangible asset as Asset under Construction | (1,706,125) | (731,850) |
| **Other assets as restated** | **1,082,878** | **1,436,060** |
| *Prior year adjustments in respect of BPE/BTI and Flamingo Project* | | |
| **Intangible assets:** | | |
| Intangible assets previously stated | 1,067,723 | 638,857 |
| Transfer from other assets to Intangible Assets (as described above) | 1,706,125 | 731,850 |
| | 2,773,848 | 1,370,707 |
| Amount expensed in respect of BPE/BTI - included under Intellectual Property | (600,986) | (347,493) |
| Amount expensed in respect of Flamingo Project - included under Asset under construction | (920,580) | - |
| **Amount as restated (Note 12)** | **1,252,282** | **1,023,214** |
| Effect on Profit or Loss | (1,174,073) | (347,493) |
| Effect on Equity | (1,521,566) | (347,493) |

### (c) Unallocated receipt

In prior years, all remittances received in the Bank's Nostro at reporting date which were yet to be allocated to the specific accounts to which they pertained to, were not accounted for in the books of the Bank. This is considered as an error and the current financial position has been amended to take into consideration those unallocated receipts. To avoid any distortion in the comparatives being disclosed, the figures for the financial years 2014 and 2013 were also restated.

## 39. PRIOR YEARS ADJUSTMENTS (CONT'D)

### (d) Legal fee income forming an integral part of the effective interest rate of loans and advances

In prior years, the Bank was accounting for its legal fee income upfront. However the Bank has reassessed the nature of those legal fees and considers that they form an integral part of the effective interest rate on loans and advances disbursed. As such, the Bank has calculated the deferred income that arises in respect of the legal fee income and the Financial Statements have been restated accordingly.

The effect on the comparative information regarding point (c) and (d) are disclosed below:

| | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|
| *Prior year adjustments in respect of unallocated receipt and deferred legal fee income* | | |
| **Other liabilities** | | |
| Other liabilities as previously stated | 1,453,314 | 2,135,022 |
| *Prior year adjustments in respect of:* | | |
| Accounting for unallocated receipt | 474,020 | 143,814 |
| Accounting for deferred legal fee income | 219,008 | 233,387 |
| **Other liabilities as restated** | **2,146,342** | **2,512,223** |
| *Cash and cash equivalents - prior year adjustment in respect of unallocated receipt* | | |
| Cash and cash equivalents as previously stated | 7,643,760 | 6,485,251 |
| Accounting for unallocated receipt | 474,020 | 143,814 |
| **Cash and cash equivalents as restated** | **8,117,780** | **6,629,065** |
| *Effect on Profit or Loss* | | |
| Accounting for unallocated receipt | - | - |
| Accounting for deferred legal fee income | 14,379 | (84,069) |
| **Increase/(decrease) in profit before tax** | **14,379** | **(84,069)** |
| *Effect on Equity* | | |
| Accounting for unallocated receipt | - | - |
| Accounting for deferred legal fee income | (219,008) | (233,387) |
| **Decrease in retained earnings** | **(219,008)** | **(233,387)** |

## 39. PRIOR YEARS ADJUSTMENTS (CONT'D)

### (e) Change in accounting policy in respect of portfolio provisioning

Under the Bank of Mauritius Guidelines on Credit Impairment, banks in Mauritius are required to make a provision for credit losses of not less than 1% on their unimpaired loans and advances. In addition to that, as from 2014, the Bank of Mauritius also imposed an additional macro-prudential provisioning on exposures to certain specific sectors of the economy.

The Bank was previously recording its portfolio allowances for credit losses based on its historical loss rate and was making an appropriation of reserves for the shortfall in regulatory provision by transferring such amounts from retained earnings to capital conservation reserve.

As from this year, the Bank is now required to maintain an allowance for credit losses on its Statement of Financial Position as required by the Guidelines of the Bank of Mauritius and to record any changes in that provision in profit or loss. This represents a change in accounting policy and the Bank has accordingly restated its prior financial statements to reflect this change in accounting treatment.

The effect on the comparative information are disclosed below:

| | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|
| **Capital Conservation Reserve:** | | |
| Capital conservation reserve as previously stated | 725,241 | 551,145 |
| Transfer to Retained Earnings | (725,241) | (551,145) |
| Capital conservation reserve as restated | - | - |
| **Allowance for Credit Impairment:** | | |
| Allowance for credit impaiment for the year as previously stated | 1,011,390 | 991,734 |
| Transfer from retained earnings | 551,145 | 551,145 |
| Additional provision / (reversal of excess provision) accounted in profit or loss during the year/period | 68,570 | (88,050) |
| Allowance for credit impairment for the year as restated | 1,631,105 | 1,454,829 |
| **Deferred tax (asset) / liability:** | | |
| Deferred tax asset as previously stated | (162,190) | (145,100) |
| Deferred tax liability as previously stated | 77,329 | 114,459 |
| Net deferred tax asset as previously stated | (84,861) | (30,641) |
| Deferred tax movement following restatement of portfolio provisioning | (86,572) | (63,268) |
| **As restated** | (171,433) | (93,909) |

## 39. PRIOR YEARS ADJUSTMENTS (CONT'D)

### (e) Change in accounting policy in respect of portfolio provisioning (cont'd)

The effect on the comparative information are disclosed below: (cont'd)

| | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|
| **Deferred tax (asset) / liability:** | | |
| **Disclosed as follows in the statement of financial position:** | | |
| Deferred tax asset | (171,433) | (145,100) |
| Deferred tax liability | - | 51,191 |
| **Net deferred tax asset** | (171,433) | (93,909) |

| | As previously stated MUR' 000 | Restatement MUR' 000 | As restated MUR' 000 |
|---|---|---|---|
| **Analysed as follows:** | | | |
| **31 December 2014** | | | |
| - Mauritius Operations | 77,329 | (86,572) | (9,243) |
| - Indian Operations | (162,190) | - | (162,190) |
| | (84,861) | (86,572) | (171,433) |
| **31 December 2013** | | | |
| - Mauritius Operations | 114,459 | (63,268) | 51,191 |
| - Indian Operations | (145,100) | - | (145,100) |
| | (30,641) | (63,268) | (93,909) |

## 39. PRIOR YEARS ADJUSTMENTS (CONT'D)

### (e) Change in accounting policy in respect of portfolio provisioning (cont'd)

The effect on the comparative information are disclosed below: (cont'd)

| | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|
| **Statement of Profit or loss:** | | |
| **Net impairment loss on financial assets:** | | |
| - As previously stated | 432,008 | 829,086 |
| - Restatement in respect of portfolio provisioning | 156,620 | (88,050) |
| **- As restated** | 588,628 | 741,036 |
| **Tax expense:** | | |
| - As previously stated | 672,538 | 857,800 |
| - Restatement in respect of portfolio provisioning | (23,304) | 12,472 |
| **- As restated** | 649,234 | 870,272 |
| Effect on Profit before income tax | (156,620) | 88,050 |
| Effect on Profit or Loss | (133,316) | 75,578 |
| Effect on Equity | (533,146) | (399,827) |
| Effect on Retained earnings | 192,098 | 151,318 |

## 39. PRIOR YEARS ADJUSTMENTS (CONT'D)

(f) The effect of the prior year adjustments discussed above on the statement of comprehensive income and Retained Earnings are described below:

| | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|
| ***Effect on Fee and Commission Income:*** | | |
| Fee and commission income as previously reported | 869,531 | 1,486,003 |
| Restatement: | | |
| - Effect of accounting for deferred legal fee income | 14,379 | (84,069) |
| **Fee and commission income as restated** | **883,910** | **1,401,934** |
| ***Effect on Other Expenses:*** | | |
| Other expenses as previously reported | 638,826 | 942,473 |
| Restatements: | 1,174,073 | 347,493 |
| - Effect of expensing BPE/BTI costs | 253,493 | 347,493 |
| - Effect of expensing inefficiencies in respect of Flamingo Project | 920,580 | - |
| **Other expenses as restated** | **1,812,899** | **1,289,966** |

## 39. PRIOR YEARS ADJUSTMENTS (CONT'D)

(f) The effect of the prior year adjustments on the statement of comprehensive income and retained earnings are described below (cont'd):

| | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|
| ***Effect on Profit before tax:*** | | |
| Profit before tax as previously stated | 3,555,031 | 5,349,984 |
| Restatements: | (1,316,314) | (343,512) |
| - Effect of accounting for deferred legal fee income | 14,379 | (84,069) |
| - Effect of expensing BPE/BTI costs | (253,493) | (347,493) |
| - Effect of expensing inefficiencies in respect of Flamingo Project | (920,580) | - |
| - Effect of a change in accounting policy in respect of Portfolio Provisioning | (156,620) | 88,050 |
| **Profit before tax as restated** | **2,238,717** | **5,006,472** |
| ***Effect on Retained earnings:*** | | |
| Retained earnings as previously stated | 6,485,822 | 15,395,534 |
| Restatements: | (1,548,476) | (429,562) |
| - Effect of accounting for deferred legal fee income | (219,008) | (233,387) |
| - Effect of expensing BPE/BTI costs | (600,986) | (347,493) |
| - Effect of expensing inefficiencies in respect of Flamingo Project | (920,580) | - |
| - Effect of a change in accounting policy in respect of Portfolio Provisioning | 192,098 | 151,318 |
| **Retained earnings as restated** | **4,937,346** | **14,965,972** |

## 40. RELATED PARTY DISCLOSURES

### Accounting policy

For the purposes of these financial statements, parties are considered to be related to the Bank if they have the ability, directly or indirectly, to control the Bank or exercise significant influence over the Bank in making financial and operating decisions, or vice versa, or if they and the Bank are subject to common control. Related parties may be individuals or other entities.

| | | Key management personnel including directors | | | Associates and other entities in which the Bank has significant influence | | | Immediate holding company and entities under common control | | | Entities in which directors, key management personnel and their close family members have significant influence | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **31 Dec 2015 MUR' 000** | 31 Dec 2014 MUR' 000 | 31 Dec 2013 MUR' 000 | **31 Dec 2015 MUR' 000** | 31 Dec 2014 MUR' 000 | 31 Dec 2013 MUR' 000 | **31 Dec 2015 MUR' 000** | 31 Dec 2014 MUR' 000 | 31 Dec 2013 MUR' 000 | **31 Dec 2015 MUR' 000** | 31 Dec 2014 MUR' 000 | 31 Dec 2013 MUR' 000 |
| (a) | Credit facilities | | | | | | | | | | | | |
| (i) | *Loans* | | | | | | | | | | | | |
| | Balance at beginning of year / period | **20,279** | 12,659 | 5,085 | **-** | - | - | **-** | - | - | **224,882** | 280,518 | - |
| | Loans of directors / entities who ceased to be related parties during the year / period | **(7,492)** | - | - | **-** | - | - | **-** | - | - | **(98,305)** | 98,305 | - |
| | Existing loans of new related parties | **448** | - | 116 | **-** | - | - | **-** | - | - | **-** | - | - |
| | Other net movements | **17,666** | 7,620 | 7,458 | **-** | - | - | **-** | - | - | **68,329** | (153,941) | 280,518 |
| | Balance at end of year / period | **30,901** | 20,279 | 12,659 | **-** | - | - | **-** | - | - | **194,906** | 224,882 | 280,518 |
| (ii) | *Off-balance sheet obligations* | | | | | | | | | | | | |
| | Balance at end of year / period | **-** | - | - | **-** | - | 779 | **-** | - | - | **-** | - | - |
| (b) | Deposits at end of year / period | **109,831** | 69,083 | 52,226 | **323,732** | - | 477,001 | **352,740** | 191,286 | 113,047 | **36,250** | 90,978 | 23,613 |
| (c) | Interest income | **1,616** | 1,194 | 645 | **-** | 56,486 | - | **15** | 1 | - | **13,862** | 11,879 | 6,534 |
| (d) | Interest expense | **1,336** | 1,803 | 1,889 | **3,405** | 58,059 | 49,834 | **3,831** | 2,394 | 3,025 | **89** | 1,666 | 966 |
| (e) | Other income | **127** | 76 | 98 | **9,018** | 13,611 | 2,316 | **2,752** | 1,157 | 153 | **1,943** | 5,933 | 783 |
| (f) | Dividend income | **-** | - | - | **-** | - | - | **-** | 60,000 | - | **-** | - | - |
| (g) | Purchase of goods and services | **433** | - | - | **-** | - | 10,167 | **-** | - | - | **-** | - | - |
| (h) | Emoluments | **108,632** | 100,064 | 165,940 | **-** | - | - | **-** | - | - | **-** | - | - |
| (i) | Dividends paid | **-** | - | - | **-** | - | - | **2,375,100** | 335,633 | - | **-** | - | - |

Short term benefits amounted to MUR 108.63 million at the reporting date (2014: MUR 100 million and 2013: MUR 165.94 million) and long term benefits was nil at the reporting date (2014 and 2013: nil).

## 40. RELATED PARTY DISCLOSURES (CONT'D)

Related party transactions in relation to Post Employment Benefit plans are as follows:

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Deposits at end of year / period | **136,606** | 82,422 | 36,919 |
| Interest expense | **782** | 1,183 | 2,167 |
| Other income | **463** | 287 | 367 |
| Contributions paid | **84,017** | 82,657 | 113,693 |
| Transactions of the Bank with the ultimate holding company and the subsidiaries within the Group are disclosed below: | | | |
| Deposits | **216,345** | 176,454 | 175,630 |
| Interest income | **-** | - | 4,227 |
| Interest expense | **202** | 2,394 | 3,122 |
| Non-interest income | **-** | 60,012 | 866,132 |
| Non-interest expense | **900** | 1,195 | 1,249 |
| Transfer / disposal of investment securities | **2,335,207** | 3,565,522 | 33,664 |
| Disposal of freehold land and buildings | **-** | - | 30,277 |
| Transfer of subordinated debts | **-** | 3,565,522 | - |
| Transfer of treasury shares | **-** | 4,875,031 | - |
| Capital contribution arising on treasury shares | **-** | 2,541,744 | - |
| Capital contribution | **-** | 5,521,361 | - |
| Distribution of reserves | **-** | 10,702,652 | - |

Credit facilities to key management personnel and executive directors are as per their contract of employment. All other transactions with key management personnel and directors, whether credit facilities, deposits or purchase of goods and services, are at market terms and conditions and will be settled in cash. Credit facilities are secured except for credit card advances and some personal loans which are granted under an unsecured loan scheme in the normal course of business.

## 41. GROUP RESTRUCTURING

In line with the international trend and at the direction of the regulator, namely - Bank of Mauritius, State Bank of Mauritius Ltd (renamed as SBM Bank (Mauritius) Ltd) had been considering and acting step-by-step since year 2010, the restructuring exercise of the Group by segregating the non-banking operations from the banking operations and the foreign operations from its domestic operations.

Bank of Mauritius in September 2014 approved the "Restructuring Exercise" under Subsection 1 and Subsection 11 of Section 32A of the Banking Act 2004 as amended. The approved structure became effective as from 02 October 2014 ("the appointed day").

## 42 RISK MANAGEMENT

The Board of Directors and Senior Management are ultimately responsible for risk management. Boards approve the risk policies and sets prudential limits and risk tolerance limits, besides regulatory limits, within which the Bank operates. The Senior Management monitors risks totally on an ongoing basis at regular intervals as necessary and is accountable to ensure its operations are within approved policies, prudential limits besides regulatory limits and risk appetite appoved framework. Any deviation and non-compliance are reported to Board Risk Committee who are responsible as over-sight role. The principal risks arising from financial instruments to which the Bank is exposed include credit risk, liquidity risk, market risk, operational risk, strategic risk and reputational risk.

### (a) (i) Categories of financial assets and liabilities

| | **31 December 2015 MUR' 000** | 31 December 2014 (Restated) MUR' 000 | 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|
| **Financial assets** | | | |
| Loans and receivables | **103,560,955** | 99,446,046 | 95,922,903 |
| Available-for-sale *(Note 10 b)* | **13,389,078** | 8,879,001 | 4,774,730 |
| Fair value through profit or loss *(Note 8)* | **144,117** | 205,138 | 249,504 |
| | **117,094,150** | 108,530,185 | 100,947,137 |
| **Financial liabilities** | | | |
| Measured at amortised cost | **108,769,054** | 98,313,525 | 90,041,221 |
| Fair value through profit or loss *(Note 8)* | **120,756** | 146,548 | 238,469 |
| | **108,889,810** | 98,460,073 | 90,279,690 |

## 42 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 2015 | | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value (Restated) | Fair Value (Restated) | Carrying Value (Restated) | Fair Value (Restated) |
| | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 8,978,486 | 8,978,486 | 8,117,780 | 8,117,780 | 6,629,065 | 6,629,065 |
| Mandatory balances with Central Banks | 6,894,736 | 6,894,736 | 6,333,742 | 6,333,742 | 5,223,056 | 5,223,056 |
| Loans to and placements with banks | 1,208,945 | 1,208,945 | 702,133 | 702,133 | 932,428 | 932,428 |
| Trading assets | 144,117 | 144,117 | 205,138 | 205,138 | 249,504 | 249,504 |
| Loans and advances to non-bank customers | 68,377,264 | 68,305,190 | 66,958,033 | 67,590,575 | 69,313,482 | 69,211,821 |
| Investment securities | 31,079,244 | 30,801,570 | 25,611,877 | 25,591,313 | 17,164,615 | 16,953,970 |
| Equity investments | 370 | 370 | 370 | 370 | 397,947 | 397,947 |
| Other assets | 410,988 | 410,988 | 601,112 | 601,112 | 1,037,040 | 1,037,040 |
| | 117,094,150 | 116,744,402 | 108,530,185 | 109,142,163 | 100,947,137 | 100,634,831 |
| **Financial liabilities** | | | | | | |
| Deposits from banks | 798,636 | 798,636 | 620,334 | 620,334 | 271,802 | 271,802 |
| Deposits from non-bank customers | 103,577,789 | 103,632,974 | 90,542,433 | 90,585,030 | 81,276,155 | 81,288,611 |
| Other borrowed funds | 2,132,497 | 2,132,497 | 5,113,005 | 5,113,005 | 6,110,051 | 6,110,051 |
| Subordinated debts | - | - | - | - | 4,200 | 4,200 |
| Trading liabilities | 120,756 | 120,756 | 146,548 | 146,548 | 238,469 | 238,469 |
| Other liabilities | 2,260,132 | 2,260,132 | 2,037,753 | 2,037,753 | 2,379,013 | 2,379,013 |
| | 108,889,810 | 108,944,995 | 98,460,073 | 98,502,670 | 90,279,690 | 90,292,146 |

Except for the levels in which the financial assets and financial liabilities are shown in table 42(a)(iii), the fair values of the other financial assets and financial liabilities are categorised in level 3.

### Significant accounting estimates and judgements

The determination of fair values, estimated by discounting future cash flows and by determining the relative interest rates, is subjective. The estimated fair value was calculated according to interest rates prevailing at the reporting date and does not consider interest rate fluctuations. Given other interest rate assumptions, fair value estimates may differ.

## 42. 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 fair value measurements are those derived from quoted prices (unadjusted) 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 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data.

The table below analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

| | Level 1 MUR' 000 | Level 2 MUR' 000 | Level 3 MUR' 000 | Total MUR' 000 |
|---|---|---|---|---|
| **31 December 2015** | | | | |
| Trading assets | **-** | **144,117** | **-** | **144,117** |
| Loans and advances at fair value | **-** | **-** | **5,438** | **5,438** |
| Investment securities - available-for-sale | **11,088,532** | **-** | **2,300,546** | **13,389,078** |
| | **11,088,532** | **144,117** | **2,305,984** | **13,538,633** |
| Trading liabilities | **-** | **120,756** | **-** | **120,756** |
| **31 December 2014** | | | | |
| Trading assets | 28,477 | 176,661 | - | 205,138 |
| Loans and advances at fair value | - | - | 13,556 | 13,556 |
| Investment securities - available-for-sale | 7,655,852 | - | 1,223,149 | 8,879,001 |
| | 7,684,329 | 176,661 | 1,236,705 | 9,097,695 |
| Trading liabilities | - | 146,548 | - | 146,548 |
| **31 December 2013** | | | | |
| Trading assets | 893 | 248,611 | - | 249,504 |
| Loans and advances at fair value | - | - | 20,158 | 20,158 |
| Investment securities - available-for-sale | 3,803,241 | - | 972,821 | 4,776,062 |
| | 3,804,134 | 248,611 | 992,979 | 5,045,724 |
| Trading liabilities | - | 238,469 | - | 238,469 |

## 42. RISK MANAGEMENT (CONT'D)

### (a) (iii) Fair value measurement hierarchy (cont'd)

Reconciliation for Level 3 fair value measurements:

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Balance at start of year / period | **1,236,705** | 992,979 | 15,661 |
| Additions | **1,077,400** | 250,328 | 992,083 |
| Movement in fair value | **(8,121)** | (6,602) | (14,765) |
| Balance at end of year / period | **2,305,984** | 1,236,705 | 992,979 |

There was no transfer between Level 1 and 2 during the year.

### (b) Credit risk

The Bank is exposed to credit risk through its lending, trade finance, treasury, asset management and leasing activities. Credit risk is the risk of loss arising from the failure of a counterparty to fulfil its contractual or financial obligations to the Bank as and when they fall due. The Bank's credit risk is managed through a portfolio approach with prudential limits set across country, bank, industry, group and individual exposures. The Credit Underwriting team, independent of the origination process, ensures the accumulation of assets within acceptable risk norms using internal and external rating systems for the standardisation of credit assessment. The Bank has a tiered credit sanctioning process depending on the credit quality, exposure type and amount. Credit exposures and risk profile are monitored by the Credit Risk Management unit and reported regularly to the Board Risk Management Committee.

#### (i) Maximum credit exposure

The maximum exposure to credit risk at the reporting date without taking account of any collateral held and other credit enhancements is as disclosed below:

| | 31 December 2015 MUR' 000 | 31 December 2014 (Restated) MUR' 000 | 31 December 2013 (Restated) MUR' 000 |
|---|---|---|---|
| Fund-based exposures: | | | |
| Cash and cash equivalents | **6,822,018** | 5,940,335 | 4,320,595 |
| Mandatory balances with Central Banks | **6,894,736** | 6,333,742 | 5,223,056 |
| Loans to and placements with banks | **1,208,945** | 702,133 | 932,428 |
| Trading assets | **-** | 28,477 | 3,111 |
| Loans and advances to non-bank customers | **70,533,003** | 67,085,633 | 70,527,101 |
| Investment securities | **31,079,244** | 25,611,877 | 17,164,615 |
| Other assets | **410,988** | 601,112 | 397,947 |
| | **116,948,934** | 106,303,309 | 98,568,853 |
| Non-fund based exposures: | | | |
| Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers | **5,137,047** | 5,899,209 | 6,105,695 |
| Credit commitments | **7,472,081** | 7,375,831 | 8,190,974 |
| | **12,609,128** | 13,275,040 | 14,296,669 |

## 42. RISK MANAGEMENT (CONT'D)

### (b) Credit risk (Cont'd)

#### (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 Experian-Transact tool based on a set of personal attributes including income and repayment capacity.

An analysis of credit exposures, including non-fund based facilities, for advances to non-bank customers that are neither past due nor impaired using the Bank's credit grading system is given below:

| | **31 December 2015 MUR' 000** | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Grades: | | | |
| 1 to 3 - Strong | **39,694,942** | 41,822,461 | 42,370,373 |
| 4 to 6 - Satisfactory | **24,821,639** | 24,952,479 | 26,860,614 |
| 7 to 10 (including unrated) - weak | **14,735,322** | 11,331,408 | 13,460,129 |
| | **79,251,903** | 78,106,348 | 82,691,116 |

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 5,548.1 million** (2014: MUR 4,969.0 million and 2013: MUR 3,523.6 million) for the Bank.

All cash and cash equivalents, loans and placements with banks and loans and receivables – investment securities are held with financial institutions having grades 1 to 5.

#### (iii) Collateral and other credit enhancements

The use of credit risk mitigants is an integral part of the credit risk management process and is documented in the Bank 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

## 42. RISK MANAGEMENT (CONT'D)

### (b) Credit risk (Cont'd)

#### (iv) Ageing of receivables that are past due but not impaired:

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Up to 1 month | 149,022 | 433,204 | 351,485 |
| Over 1 month and up to 3 months | 119,235 | 374,213 | 398,368 |
| | 268,257 | 807,417 | 749,853 |

#### (v) Impaired financial assets

Loans and advances are assessed for impairment when objective evidence, such as default or delinquency in interest or principal payments, significant financial difficulty of the counterparty or evidence that the borrower will enter bankruptcy or financial re-organisation, indicate that the account may be impaired.

The carrying amount of impaired financial assets and specific allowance held are shown below:

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Loans and advances *(Note 9d)* | 3,621,971 | 1,446,911 | 1,387,295 |
| Specific allowance held in respect of impaired advances *(Note 9d)* | 2,342,443 | 803,511 | 763,326 |
| Fair value of collaterals of impaired advances | 1,227,730 | 627,236 | 710,326 |

## 42. RISK MANAGEMENT (CONT'D)

### (b) Credit risk (cont'd)

#### (vi) Credit concentration of risk by industry sectors

Total outstanding credit facilities, net of deposits where there is a right of set off, including guarantees, acceptances, and other similar commitments extended by the Bank to any one customer or group of closely-related customers for amounts aggregating more than 15% of its capital base, classified by industry sectors:

| | 31 December 2015 MUR' 000 | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| **Portfolio** | | | |
| Agriculture | 2,695,992 | 3,071,913 | 2,821,745 |
| Building Contractors | 2,039,169 | - | 1,957,592 |
| Commerce- Wholesale | 3,287,651 | - | 3,357,301 |
| Manufacturing Textiles | 1,809,589 | - | - |
| Real Estate | 3,066,204 | - | - |
| Tourism | 5,622,342 | 5,586,711 | 6,088,113 |
| | 18,520,947 | 8,658,624 | 14,224,751 |

### (c) Liquidity risk

Liquidity risk is the potential earnings volatility arising from being unable to fund assets at reasonable rates over required maturities. The Bank ensures that sufficient liquidity is maintained to fund its day-to-day operations, meet deposit withdrawals and loan disbursements. Liquidity risk is managed by setting prudential limits on maturity mismatches, liquid assets ratios, concentration of deposits by type and by entity. Liquidity gap analysis is used to measure and monitor the mismatches by time bucket and currency under realistic and stress scenarios.

(i) The tables below show the expected timing of cash flows for financial assets and liabilities of the Bank, slotted as per the rules defined by the Bank of Mauritius.

| | Up to 1 month 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 2015** | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 8,971,595 | 6,891 | - | - | - | - | 8,978,486 |
| Mandatory balances with Central Banks | 578,324 | 194,088 | 146,089 | 331,267 | 425,022 | 5,219,946 | 6,894,736 |
| Loans to and placements with banks | 87,045 | 290,422 | - | 678,910 | - | 152,568 | 1,208,945 |
| Loans and advances to non-bank customers | 6,954,915 | 4,485,320 | 4,687,932 | 8,200,411 | 19,199,670 | 28,260,469 | 71,788,717 |
| Investment securities | 309,886 | 1,617,131 | 2,388,039 | 3,779,899 | 13,307,894 | 9,676,395 | 31,079,244 |
| Other assets | 410,988 | - | - | - | - | - | 410,988 |
| | 17,312,753 | 6,593,852 | 7,222,060 | 12,990,487 | 32,932,586 | 43,309,378 | 120,361,116 |

## 42. RISK MANAGEMENT (CONT'D)

### (c) Liquidity risk (cont'd)

| | 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 |
|---|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | | |
| Deposits from banks | 798,636 | - | - | - | - | - | 798,636 |
| Deposits from non-bank customers | 8,688,005 | 2,915,732 | 2,194,662 | 4,976,530 | 6,384,994 | 78,417,866 | 103,577,789 |
| Other borrowed funds | - | 72,323 | 74,882 | 189,731 | 609,342 | 1,186,219 | 2,132,497 |
| Other liabilities | 2,260,132 | - | - | - | - | - | 2,260,132 |
| **Total financial liabilities** | 11,746,773 | 2,988,055 | 2,269,544 | 5,166,261 | 6,994,336 | 79,604,085 | 108,769,054 |
| **Liquidity Gap** | 5,565,980 | 3,605,797 | 4,952,516 | 7,824,226 | 25,938,250 | (36,294,707) | 11,592,062 |
| **31 December 2014** | | | | | | | |
| Financial assets | 15,623,551 | 5,341,834 | 7,951,401 | 13,143,233 | 26,385,995 | 41,510,138 | 109,956,152 |
| Financial liabilities | 12,646,356 | 4,759,808 | 5,626,216 | 9,308,852 | 12,971,884 | 52,309,677 | 97,622,793 |
| Liquidity Gap | 2,977,195 | 582,026 | 2,325,185 | 3,834,381 | 13,414,111 | (10,799,539) | 12,333,359 |
| **31 December 2013** | | | | | | | |
| Financial assets | 16,135,377 | 9,061,926 | 6,078,020 | 10,887,845 | 23,793,059 | 35,798,012 | 101,754,239 |
| Financial liabilities | 13,360,191 | 4,099,420 | 5,220,942 | 7,006,833 | 13,985,136 | 45,987,927 | 89,660,449 |
| Liquidity Gap | 2,775,186 | 4,962,506 | 857,078 | 3,881,012 | 9,807,923 | (10,189,915) | 12,093,790 |

(ii) The table below shows the remaining contractual maturities of financial liabilities:

| | On Demand MUR' 000 | Up to 3 months MUR' 000 | 3-6 months MUR' 000 | 6-12 months MUR' 000 | 1-2 years MUR' 000 | Over 2 years MUR' 000 | Total MUR' 000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Deposits | 85,004,764 | 144,510 | 53,654 | 173,624 | 10,351,189 | 3,887,358 | 99,615,099 |
| Other borrowed funds | - | 72,008 | 82,822 | 191,975 | 321,868 | 1,522,235 | 2,190,908 |
| Other liabilities | - | 1,178,313 | - | - | - | - | 1,178,313 |
| **31 December 2015** | 85,004,764 | 1,394,831 | 136,476 | 365,599 | 10,673,057 | 5,409,593 | 102,984,320 |
| **31 December 2014** | 75,099,331 | 6,083,110 | 2,325,538 | 5,633,600 | 4,359,838 | 4,456,863 | 97,958,280 |
| **31 December 2013** | 65,594,937 | 7,937,557 | 1,821,132 | 3,735,337 | 5,850,211 | 5,109,455 | 90,048,629 |

## 42. RISK MANAGEMENT (CONT'D)

### (d) Market risk

Market risk is the risk of loss resulting from adverse movement in market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank's market risks are monitored by the Market Risk Team and reported to the Market Risk Forum and Board Risk Committee on a regular basis.

#### (i) Interest rate risk

The Bank's interest rate risk arises mostly from mismatches in the repricing of its assets and liabilities. The Bank uses an interest rate gap analysis to measure and monitor the interest rate risk. Prudential limits for currency wise gaps, expressed as a percentage of assets, have been set for specific time buckets and earnings at risk is calculated based on different shock scenarios across major currencies.

The table below analyses the Bank's interest rate risk exposure in terms of the remaining period to the next contractual repricing date or to the maturity date, whichever is the earlier. The 'up to 3 months' column include the financial assets and liabilities which have floating rates of interest that do not reprice at set dates, but rather reprice whenever the underlying interest rate index changes.

| | Up to 3 Months MUR' 000 | 3-6 Months MUR' 000 | 6-12 Months MUR' 000 | 1-2 Years MUR' 000 | 2-5 Years MUR' 000 | Over 5 Years MUR' 000 | Total MUR' 000 |
|---|---|---|---|---|---|---|---|
| **31 December 2015** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 1,537,714 | - | - | - | - | - | 1,537,714 |
| Loans to and placements with banks | 909,770 | - | 138,251 | - | 151,750 | - | 1,199,771 |
| Loans and advances to non-bank customers | 58,432,029 | 4,286,859 | 1,979,136 | 295,844 | 3,859,796 | 2,696,119 | 71,549,783 |
| Investment securities | 1,927,017 | 2,388,039 | 3,856,485 | 5,295,486 | 15,287,553 | 2,324,664 | 31,079,244 |
| **Total assets** | 62,806,530 | 6,674,898 | 5,973,872 | 5,591,330 | 19,299,099 | 5,020,783 | 105,366,512 |
| **Liabilities** | | | | | | | |
| Deposits from non-bank customers | 59,235,640 | 692,197 | 2,024,773 | 2,529,205 | 302,438 | 1,461 | 64,785,714 |
| Other borrowed funds | 667,499 | 1,420,423 | 43,485 | - | - | - | 2,131,407 |
| **Total liabilities** | 59,903,139 | 2,112,620 | 2,068,258 | 2,529,205 | 302,438 | 1,461 | 66,917,121 |
| On balance sheet interest rate sensitivity gap | 2,903,391 | 4,562,278 | 3,905,614 | 3,062,125 | 18,996,661 | 5,019,322 | 38,449,391 |
| Off balance sheet interest rate sensitivity gap | 507,882 | - | (296,864) | (157,004) | (54,014) | - | - |
| | 3,411,273 | 4,562,278 | 3,608,750 | 2,905,121 | 18,942,647 | 5,019,322 | 38,449,391 |

## 42. RISK MANAGEMENT (CONT'D)

### (d) Market risk (cont'd)

#### (i) Interest rate risk (cont'd)

| | Up to 3 Months MUR' 000 | 3-6 Months MUR' 000 | 6-12 Months MUR' 000 | 1-2 Years MUR' 000 | 2-5 Years MUR' 000 | Over 5 Years MUR' 000 | Total MUR' 000 |
|---|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | | |
| Total assets | 67,146,592 | 4,956,703 | 6,441,682 | 4,052,034 | 12,281,702 | 2,810,920 | 97,689,633 |
| Total liabilities | 80,112,838 | 4,198,267 | 842,837 | 170,012 | 3,010,701 | 1,323 | 88,335,978 |
| On balance sheet interest rate sensitivity gap | (12,966,246) | 758,436 | 5,598,845 | 3,882,022 | 9,271,001 | 2,809,597 | 9,353,655 |
| Off balance sheet interest rate sensitivity gap | 610,242 | - | 9,924 | (342,930) | (277,236) | - | - |
| | (12,356,004) | 758,436 | 5,608,769 | 3,539,092 | 8,993,765 | 2,809,597 | 9,353,655 |
| **31 December 2013** | | | | | | | |
| Total assets | 69,459,673 | 2,941,780 | 3,314,023 | 3,272,617 | 9,210,608 | 1,248,167 | 89,446,868 |
| Total liabilities | 75,175,397 | 1,854,643 | 1,388,279 | 136,196 | 2,647,735 | 4,200 | 81,206,450 |
| On balance sheet interest rate sensitivity gap | (5,715,724) | 1,087,137 | 1,925,744 | 3,136,421 | 6,562,873 | 1,243,967 | 8,240,418 |
| Off balance sheet interest rate sensitivity gap | 819,232 | - | (43,845) | 10,199 | (785,586) | - | - |
| | (4,896,492) | 1,087,137 | 1,881,899 | 3,146,620 | 5,777,287 | 1,243,967 | 8,240,418 |

Various scenarios are used to measure the effect of the changing interest rates on net interest income including the standardised approach of 200bp parallel shock over a 12-month period assuming a static balance sheet, as shown below.

| | **31 December 2015 MUR' 000** | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Increase/(decrease) in profit | **136,902** | (189,467) | (65,750) |

#### (ii) Fair value hedges

The Bank establishes fair value hedge accounting relationships for interest rate risk on some of its fixed rate customer loans. At 31 December 2015, the aggregate notional principal of interest rate swaps designated as fair value hedges was **MUR 540.6 million** (2014: MUR 626.7 million and 2013: MUR 792.3 million) with a net fair value liability of **MUR 6.5 million** (2014: MUR 13.1 million and 2013: MUR 19.3 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 5.4 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.

## 42. RISK MANAGEMENT (CONT'D)

### (d) Market risk (cont'd)

#### (iv) Currency risk

Foreign exchange risk arises from open and imperfectly offset or hedged positions. Imperfect correlations across currencies and international interest rate markets pose particular challenges to the effectiveness of foreign currency hedging strategies. The Bank exercises strict control over its foreign currency exposures. The Bank reports on foreign currency positions to the Central Bank and has set up conservative internal limits in order to mitigate foreign exchange risk. To manage their foreign currency exposures, dealers operate within prudential limits approved by the Board including intraday/overnight open exposures, stop loss and authorised currencies. These trading limits for Mauritius and Indian Operations are reviewed at least once annually by the Board / Board Risk Management Committee. The Middle Office closely monitors the Front Office and reports any excesses and deviations from approved limits to the Market Risk Forum and to the Board Risk Management Committee.

The tables below show the carrying amounts of the monetary assets and liabilities, denominated in currencies other than the functional currency of each entity.

| | USD<br>MUR' 000 | GBP<br>MUR' 000 | EURO<br>MUR' 000 | INR<br>MUR' 000 | OTHER<br>MUR' 000 | TOTAL<br>MUR' 000 |
|---|---|---|---|---|---|---|
| **31 December 2015** | | | | | | |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 3,132,813 | 395,554 | 1,875,028 | 4,318 | 407,007 | 5,814,720 |
| Mandatory balances with Central Banks | 513,494 | 78,870 | 210,953 | - | - | 803,317 |
| Loans to and placements with banks | 633,623 | - | - | - | 151,109 | 784,732 |
| Trading assets | 110,087 | 5,168 | 2,665 | 3,106 | 367 | 121,393 |
| Loans and advances to non-bank customers | 11,345,328 | 690 | 4,527,795 | - | 5,600 | 15,879,413 |
| Investment securities | 6,743,566 | 1,539,672 | 1,232,194 | 68,937 | 215,777 | 9,800,146 |
| Other assets | 53,393 | 6,457 | 23,924 | - | 2,078 | 85,852 |
| Total monetary financial assets | 22,532,304 | 2,026,411 | 7,872,559 | 76,361 | 781,938 | 33,289,573 |
| **LIABILITIES** | | | | | | |
| Deposits from banks | - | - | - | 13 | - | 13 |
| Deposits from non-bank customers | 21,416,671 | 2,666,200 | 7,092,770 | 27 | 608,299 | 31,783,967 |
| Other borrowed funds | 1,001,113 | - | 1,087,834 | - | - | 2,088,947 |
| Trading liabilities | 41,943 | 10,118 | 7,476 | 1,717 | 39,083 | 100,337 |
| Other liabilities | 828,866 | 26,013 | 117,703 | 1,706 | 10,974 | 985,262 |
| Total monetary financial liabilities | 23,288,593 | 2,702,331 | 8,305,783 | 3,463 | 658,356 | 34,958,526 |
| On balance sheet position | (756,289) | (675,920) | (433,224) | 72,898 | 123,582 | (1,668,953) |
| Off balance sheet position | 952,862 | 620,230 | 43,343 | (67,961) | (125,273) | 1,423,201 |
| Net currency position | 196,573 | (55,690) | (389,881) | 4,937 | (1,691) | (245,752) |

## 42. RISK MANAGEMENT (CONT'D)

### (d) Market risk (cont'd)

#### (iv) Currency risk (cont'd)

| | USD MUR' 000 | GBP MUR' 000 | EURO MUR' 000 | INR MUR' 000 | OTHER MUR' 000 | TOTAL MUR' 000 |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| Total monetary financial assets | 18,088,058 | 2,421,282 | 7,144,858 | 9,599 | 1,358,635 | 29,022,432 |
| Total monetary financial liabilities | 18,155,766 | 2,468,959 | 7,471,190 | 8,036 | 1,268,037 | 29,371,988 |
| On balance sheet position | (67,708) | (47,677) | (326,332) | 1,563 | 90,598 | (349,556) |
| Off balance sheet position | (316,267) | 42,818 | 173,546 | 98,782 | (64,111) | (65,232) |
| Net currency position | (383,975) | (4,859) | (152,786) | 100,345 | 26,487 | (414,788) |
| **31 December 2013** | | | | | | |
| Total monetary financial assets | 13,931,758 | 1,199,112 | 6,074,191 | 2,049 | 1,191,831 | 22,398,941 |
| Total monetary financial liabilities | 14,562,044 | 1,445,881 | 6,018,514 | 490 | 1,233,741 | 23,260,670 |
| On balance sheet position | (630,286) | (246,769) | 55,677 | 1,559 | (41,910) | (861,729) |
| Off balance sheet position | 1,100,854 | 219,041 | (130,381) | (256) | 66,604 | 1,255,862 |
| Net currency position | 470,568 | (27,728) | (74,704) | 1,303 | 24,694 | 394,133 |

*Value-at-Risk Analysis*

The Bank uses Value-at-Risk (VAR) to estimate the potential foreign exchange loss arising from adverse movements in an ordinary market environment. To calculate VAR, the Bank uses the historical method which assumes that historical changes in market values are representative of future changes. The VAR is based on the previous 12 months data. SBM 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, SBM would expect to incur losses greater than the VAR estimates, or about two to three times a year. The use of 10 days holding period and a one-year historical observation period are in line with the Basel II recommendation.

The Bank's VAR amounted to:

| | **31 December 2015 MUR' 000** | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Minimum for the year | **206** | 241 | 143 |
| Maximum for the year | **2,593** | 3,925 | 3,848 |
| Year - End | **747** | 1,268 | 837 |

## 42. RISK MANAGEMENT (CONT'D)

### (d) Market risk (cont'd)

#### (v) Equity price sentivity analysis

The Bank is exposed to equity price risks arising from equity investments. Available-for-sale equity investments are held for strategic rather than for trading purposes and the Bank does not actively trade in these investments. Changes in prices / valuation of these investments are reflected in the *Statement of comprehensive income*, except for impairment losses which are reported in the *Statement of profit or loss*. Changes in prices of held-for-trading investments are reflected in the *Statement of profit or loss*.

A 5% increase in the price of equities held at the reporting date would have resulted in an unrealised gain to the statement of comprehensive income or statement of profit or loss as reflected below. A 5% decrease would have resulted in an equivalent loss being booked.

| | **31 December 2015 MUR' 000** | 31 December 2014 MUR' 000 | 31 December 2013 MUR' 000 |
|---|---|---|---|
| Statement of comprehensive income | **18** | 18 | 19,897 |
| Statement of profit or loss | **-** | 144 | 87 |
| | **18** | 162 | 19,984 |

### (e) Accounting policies

Details of the accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability and equity instruments are disclosed in *Note 5* to the financial statements (accounting policies).

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS

The Bank of Mauritius requires the Bank to disclose its assets and liabilities, income and expenditure classified into Segment A and B. Segment B activity which includes Indian operations is essentially directed to the provision of international financial services that give rise to 'foreign source income'. Segment A activity and relates to all banking business other than Segment B activity. Expenditure incurred by the Bank but which is not directly attributable to its income derived from Mauritius or its foreign source income is apportioned in a fair and reasonable manner. Segmental reporting is based on the internal reports regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess their performance. The Bank is the only reportable segment.

### (a) Statement of financial position

| | Notes | Segment A 31-Dec 2015 MUR' 000 | Segment B 31-Dec 2015 MUR' 000 | Bank 31-Dec 2015 MUR' 000 | Segment A 31-Dec 2014 (Restated) MUR' 000 | Segment B 31-Dec 2014 (Restated) MUR' 000 | Bank 31-Dec 2014 (Restated) MUR' 000 | Segment A 31-Dec 2013 (Restated) MUR' 000 | Segment B 31-Dec 2013 (Restated) MUR' 000 | Bank 31-Dec 2013 (Restated) MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | | |
| Cash and cash equivalents | 43l | 3,328,419 | 5,650,067 | 8,978,486 | 2,594,243 | 5,523,537 | 8,117,780 | 3,037,258 | 3,591,807 | 6,629,065 |
| Mandatory balances with Central Banks | | 6,758,533 | 136,203 | 6,894,736 | 6,208,810 | 124,932 | 6,333,742 | 5,113,319 | 109,737 | 5,223,056 |
| Loans to and placements with banks | 43m | 271,645 | 937,300 | 1,208,945 | 290,312 | 411,821 | 702,133 | 165,746 | 766,682 | 932,428 |
| Trading assets | 43n | 66,251 | 77,866 | 144,117 | 165,523 | 39,615 | 205,138 | 39,194 | 210,310 | 249,504 |
| Loans and advances to non-bank customers | 43o | 57,748,804 | 10,628,460 | 68,377,264 | 55,592,186 | 11,365,847 | 66,958,033 | 57,291,251 | 12,022,231 | 69,313,482 |
| Investment securities | 43p | 17,690,536 | 13,388,708 | 31,079,244 | 16,733,246 | 8,878,631 | 25,611,877 | 12,787,832 | 4,376,783 | 17,164,615 |
| Equity investment | | - | 370 | 370 | - | 370 | 370 | - | 397,947 | 397,947 |
| Investment in subsidiaries | | - | - | - | - | - | - | 175 | 1,157 | 1,332 |
| Property and equipment | 43q | 2,629,946 | 149,820 | 2,779,766 | 2,568,548 | 146,388 | 2,714,936 | 2,439,291 | 146,110 | 2,585,401 |
| Intangible assets | 43r | 2,166,157 | 204,234 | 2,370,391 | 1,155,095 | 97,187 | 1,252,282 | 972,101 | 51,113 | 1,023,214 |
| Deferred tax assets | | 66,356 | 210,411 | 276,767 | 6,976 | 164,457 | 171,433 | 65,145 | 79,955 | 145,100 |
| Other assets | 43s | 637,177 | 228,776 | 865,953 | 918,327 | 164,551 | 1,082,878 | 1,154,482 | 281,578 | 1,436,060 |
| **Total assets** | | 91,363,824 | 31,612,215 | 122,976,039 | 86,233,266 | 26,917,336 | 113,150,602 | 83,065,794 | 22,035,410 | 105,101,204 |
| LIABILITIES | | | | | | | | | | |
| Deposits from banks | 43t | 462,152 | 336,484 | 798,636 | 488,368 | 131,966 | 620,334 | 69,736 | 202,066 | 271,802 |
| Deposits from non-bank customers | 43u | 78,431,300 | 25,146,489 | 103,577,789 | 73,531,583 | 17,010,850 | 90,542,433 | 65,858,636 | 15,417,519 | 81,276,155 |
| Other borrowed funds | 43v | 247,308 | 1,885,189 | 2,132,497 | 679,502 | 4,433,503 | 5,113,005 | 1,778,401 | 4,331,650 | 6,110,051 |
| Trading liabilities | 43n | 68,672 | 52,084 | 120,756 | 76,164 | 70,384 | 146,548 | 27,425 | 211,044 | 238,469 |
| Current tax liabilities | | 371,242 | - | 371,242 | 87,721 | - | 87,721 | 246,591 | - | 246,591 |
| Deferred tax liabilities | | - | - | - | - | - | - | 53,411 | (2,220) | 51,191 |
| Other liabilities | 43w | 1,259,162 | 1,117,164 | 2,376,326 | 1,517,461 | 628,881 | 2,146,342 | 2,248,392 | 263,831 | 2,512,223 |
| Subordinated debts | | - | - | - | - | - | - | 4,200 | - | 4,200 |
| **Total liabilities** | | 80,839,836 | 28,537,410 | 109,377,246 | 76,380,799 | 22,275,584 | 98,656,383 | 70,286,792 | 20,423,890 | 90,710,682 |
| SHAREHOLDER'S EQUITY | | | | | | | | | | |
| Stated capital | | | | 310,000 | | | 310,000 | | | 303,740 |
| Capital contribution | | | | 8,063,106 | | | 8,063,106 | | | - |
| Retained earnings | | | | 3,940,391 | | | 4,937,346 | | | 14,965,972 |
| Other reserves | | | | 1,285,296 | | | 1,183,767 | | | 1,454,096 |
| | | | | 13,598,793 | | | 14,494,219 | | | 16,723,808 |
| Treasury shares | | | | - | | | - | | | (2,333,286) |
| Total equity | | | | 13,598,793 | | | 14,494,219 | | | 14,390,522 |
| **Total equity and liabilities** | | | | 122,976,039 | | | 113,150,602 | | | 105,101,204 |

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

### (b) Statement of profit or loss

| | Notes | Segment A Year ended 31-Dec 2015 MUR' 000 | Segment B Year ended 31-Dec 2015 MUR' 000 | Bank Year ended 31-Dec 2015 MUR' 000 | Segment A Year ended 31-Dec 2014 (Restated) MUR' 000 | Segment B Year ended 31-Dec 2014 (Restated) MUR' 000 | Bank Year ended 31-Dec 2014 (Restated) MUR' 000 | Segment A 18 months to 31-Dec 2013 (Restated) MUR' 000 | Segment B 18 months to 31-Dec 2013 (Restated) MUR' 000 | Bank 18 months to 31-Dec 2013 (Restated) MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest income | | 4,875,712 | 1,193,485 | 6,069,197 | 5,122,005 | 1,151,076 | 6,273,081 | 7,363,184 | 1,732,756 | 9,095,940 |
| Interest expense | | (1,533,643) | (468,543) | (2,002,186) | (1,879,067) | (433,202) | (2,312,269) | (2,572,736) | (729,302) | (3,302,038) |
| **Net interest income** | 43c | 3,342,069 | 724,942 | 4,067,011 | 3,242,938 | 717,874 | 3,960,812 | 4,790,448 | 1,003,454 | 5,793,902 |
| Fee and commission income | | 584,779 | 386,272 | 971,051 | 675,942 | 207,968 | 883,910 | 882,789 | 519,145 | 1,401,934 |
| Fee and commission expense | | (8,845) | (18,485) | (27,330) | (24,298) | (3,164) | (27,462) | (22,478) | (20,241) | (42,719) |
| Net fee and commission income | 43d | 575,934 | 367,787 | 943,721 | 651,644 | 204,804 | 856,448 | 860,311 | 498,904 | 1,359,215 |
| Dividend income | 43e | - | 14 | 14 | 60,000 | 1,903 | 61,903 | 587,206 | 284,197 | 871,403 |
| Net trading income | 43f | 351,492 | 105,257 | 456,749 | 238,432 | 118,577 | 357,009 | 340,164 | 156,979 | 497,143 |
| Other operating income | 43g | 137,924 | 134,716 | 272,640 | 171,830 | 461,529 | 633,359 | 4,915 | 455,207 | 460,122 |
| **Non interest income** | | 1,065,350 | 607,774 | 1,673,124 | 1,121,906 | 786,813 | 1,908,719 | 1,792,596 | 1,395,287 | 3,187,883 |
| **Operating income** | | 4,407,419 | 1,332,716 | 5,740,135 | 4,364,844 | 1,504,687 | 5,869,531 | 6,583,044 | 2,398,741 | 8,981,785 |
| Personnel expenses | 43h | (1,025,944) | (158,925) | (1,184,869) | (900,635) | (164,674) | (1,065,309) | (1,413,889) | (252,756) | (1,666,645) |
| Depreciation and amortisation | | (144,826) | (14,165) | (158,991) | (146,957) | (17,021) | (163,978) | (251,943) | (25,723) | (277,666) |
| Other expenses | 43i | (621,276) | (148,306) | (769,582) | (1,675,659) | (137,240) | (1,812,899) | (1,137,941) | (152,025) | (1,289,966) |
| **Non-interest expense** | | (1,792,046) | (321,396) | (2,113,442) | (2,723,251) | (318,935) | (3,042,186) | (2,803,773) | (430,504) | (3,234,277) |
| **Profit before net impairment loss on financial assets** | | 2,615,373 | 1,011,320 | 3,626,693 | 1,641,593 | 1,185,752 | 2,827,345 | 3,779,271 | 1,968,237 | 5,747,508 |
| Net impairment loss | 43j | (1,044,098) | (829,266) | (1,873,364) | (390,804) | (197,824) | (588,628) | (168,730) | (572,306) | (741,036) |
| **Operating profit** | | 1,571,275 | 182,054 | 1,753,329 | 1,250,789 | 987,928 | 2,238,717 | 3,610,541 | 1,395,931 | 5,006,472 |
| Tax expense | 43k | (396,702) | (12,099) | (408,801) | (639,012) | (10,222) | (649,234) | (892,470) | 22,198 | (870,272) |
| **Profit for the year/period** | | 1,174,573 | 169,955 | 1,344,528 | 611,777 | 977,706 | 1,589,483 | 2,718,071 | 1,418,129 | 4,136,200 |

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

| | Segment A Year ended 31-Dec 2015 MUR' 000 | Segment B Year ended 31-Dec 2015 MUR' 000 | Bank Year ended 31-Dec 2015 MUR' 000 | Segment A Year ended 31-Dec 2014 MUR' 000 | Segment B Year ended 31-Dec 2014 MUR' 000 | Bank Year ended 31-Dec 2014 MUR' 000 | Segment A 18 months to 31-Dec 2013 MUR' 000 | Segment B 18 months to 31-Dec 2013 MUR' 000 | Bank 18 months to 31-Dec 2013 MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|
| **(c) Net interest income** | | | | | | | | | |
| **Interest income** | | | | | | | | | |
| Cash and cash equivalents | 6,531 | 34,267 | 40,798 | 6,945 | 32,795 | 39,740 | 7,805 | 19,480 | 27,285 |
| Loans to and placements with banks | - | 25,393 | 25,393 | - | 26,170 | 26,170 | - | 39,228 | 39,228 |
| Loans and advances to non-bank customers | 4,249,603 | 662,229 | 4,911,832 | 4,488,477 | 719,094 | 5,207,571 | 6,599,852 | 1,190,308 | 7,790,160 |
| Investment securities | 619,578 | 507,794 | 1,127,372 | 626,577 | 357,039 | 983,616 | 752,621 | 419,444 | 1,172,065 |
| Trading assets | - | (38,661) | (38,661) | 6 | (8,786) | (8,780) | 2,842 | 64,284 | 67,126 |
| Other | - | 2,463 | 2,463 | - | 24,764 | 24,764 | 64 | 12 | 76 |
| Total interest income | 4,875,712 | 1,193,485 | 6,069,197 | 5,122,005 | 1,151,076 | 6,273,081 | 7,363,184 | 1,732,756 | 9,095,940 |
| **Interest expense** | | | | | | | | | |
| Deposits from banks | - | - | - | - | - | - | - | (47) | (47) |
| Deposits from non-bank customers | (1,530,287) | (385,285) | (1,915,572) | (1,806,166) | (328,316) | (2,134,482) | (2,555,654) | (492,844) | (3,048,498) |
| Other borrowed funds | (3,356) | (83,258) | (86,614) | (7,751) | (104,886) | (112,637) | (17,082) | (236,411) | (253,493) |
| Subordinated debts | - | - | - | (64,902) | - | (64,902) | - | - | - |
| Other | - | - | - | (248) | - | (248) | - | - | - |
| Total interest expense | (1,533,643) | (468,543) | (2,002,186) | (1,879,067) | (433,202) | (2,312,269) | (2,572,736) | (729,302) | (3,302,038) |
| **Net interest income** | 3,342,069 | 724,942 | 4,067,011 | 3,242,938 | 717,874 | 3,960,812 | 4,790,448 | 1,003,454 | 5,793,902 |
| **(d) Net fee and commission income** | | | | | | | | | |
| **Fee and commission income** | | | | | | | | | |
| Retail banking customer fees | 334,991 | 5,660 | 340,651 | 334,910 | 5,136 | 340,046 | 452,541 | 13,187 | 465,728 |
| Corporate banking customer fees | 153,600 | 79,135 | 232,735 | 217,981 | 9,262 | 227,243 | 231,353 | 152,587 | 383,940 |
| Card income | 96,188 | 301,477 | 397,665 | 123,048 | 193,570 | 316,618 | 198,895 | 353,371 | 552,266 |
| Other | - | - | - | 3 | - | 3 | - | - | - |
| Total fee and commission income | 584,779 | 386,272 | 971,051 | 675,942 | 207,968 | 883,910 | 882,789 | 519,145 | 1,401,934 |
| **Fee and commission expense** | | | | | | | | | |
| Interbank transaction fees | - | (17,545) | (17,545) | (11,631) | (2,179) | (13,810) | - | (18,997) | (18,997) |
| Other | (8,845) | (940) | (9,785) | (12,667) | (985) | (13,652) | (22,478) | (1,244) | (23,722) |
| Total fee and commission expense | (8,845) | (18,485) | (27,330) | (24,298) | (3,164) | (27,462) | (22,478) | (20,241) | (42,719) |
| **Net fee and commission income** | 575,934 | 367,787 | 943,721 | 651,644 | 204,804 | 856,448 | 860,311 | 498,904 | 1,359,215 |

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

| | Segment A Year ended 31-Dec 2015 MUR' 000 | Segment B Year ended 31-Dec 2015 MUR' 000 | Bank Year ended 31-Dec 2015 MUR' 000 | Segment A Year ended 31-Dec 2014 MUR' 000 | Segment B Year ended 31-Dec 2014 MUR' 000 | Bank Year ended 31-Dec 2014 MUR' 000 | Segment A 18 months to 31-Dec 2013 MUR' 000 | Segment B 18 months to 31-Dec 2013 MUR' 000 | Bank 18 months to 31-Dec 2013 MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|
| **(e) Dividend income** | | | | | | | | | |
| Available-for-sale securities | - | 14 | 14 | 60,000 | 1,903 | 61,903 | 587,000 | 284,123 | 871,123 |
| Trading securities | - | - | - | - | - | - | 206 | 74 | 280 |
| | - | 14 | 14 | 60,000 | 1,903 | 61,903 | 587,206 | 284,197 | 871,403 |
| **(f) Net trading income** | | | | | | | | | |
| Fixed income securities | 19 | (856) | (837) | 17 | 585 | 602 | 64 | 2,286 | 2,350 |
| Equities | - | (125) | (125) | (29) | (237) | (266) | (302) | (205) | (507) |
| Foreign exchange | 351,473 | 106,607 | 458,080 | 238,444 | 118,387 | 356,831 | 340,402 | 140,822 | 481,224 |
| Other | - | (369) | (369) | - | (158) | (158) | - | 14,076 | 14,076 |
| | 351,492 | 105,257 | 456,749 | 238,432 | 118,577 | 357,009 | 340,164 | 156,979 | 497,143 |
| **(g) Other operating income** | | | | | | | | | |
| Gain on sale of available-for-sale securities: | | | | | | | | | |
| Investment securities | 136,722 | 134,938 | 271,660 | 171,790 | 83,480 | 255,270 | 19,668 | 93,723 | 113,391 |
| Equity investments | - | (220) | (220) | - | 377,946 | 377,946 | - | 361,481 | 361,481 |
| Other | 1,202 | (2) | 1,200 | 40 | 103 | 143 | (14,753) | 3 | (14,750) |
| | 137,924 | 134,716 | 272,640 | 171,830 | 461,529 | 633,359 | 4,915 | 455,207 | 460,122 |
| **(h) Personnel expenses** | | | | | | | | | |
| Wages and salaries | 721,317 | 122,509 | 843,826 | 610,544 | 128,494 | 739,038 | 926,031 | 185,627 | 1,111,658 |
| Other social security obligations | 12,148 | 1,346 | 13,494 | 10,994 | 1,266 | 12,260 | 14,952 | 1,752 | 16,704 |
| Contributions to defined contribution plans | 56,961 | 9,236 | 66,197 | 52,441 | 8,283 | 60,724 | 72,966 | 13,020 | 85,986 |
| Cash-settled share-based payments | 2,542 | - | 2,542 | 6,471 | - | 6,471 | 26,293 | 3,847 | 30,140 |
| Increase in liability for defined benefit plans | 31,611 | 1,590 | 33,201 | 31,373 | 1,716 | 33,089 | 41,532 | 1,859 | 43,391 |
| Staff welfare cost | 14,526 | 1,115 | 15,641 | 14,428 | 3,568 | 17,996 | 43,414 | 6,028 | 49,442 |
| Management and professional charges | 33,478 | 3,103 | 36,581 | 32,176 | 4,998 | 37,174 | 123,955 | 19,541 | 143,496 |
| Security and cleaning services | 68,792 | 5,705 | 74,497 | 49,469 | 4,319 | 53,788 | 69,103 | 6,041 | 75,144 |
| Other | 84,569 | 14,321 | 98,890 | 92,739 | 12,030 | 104,769 | 95,643 | 15,041 | 110,684 |
| | 1,025,944 | 158,925 | 1,184,869 | 900,635 | 164,674 | 1,065,309 | 1,413,889 | 252,756 | 1,666,645 |

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

| | Segment A Year ended 31-Dec 2015 MUR' 000 | Segment B Year ended 31-Dec 2015 MUR' 000 | Bank Year ended 31-Dec 2015 MUR' 000 | Segment A Year ended 31-Dec 2014 MUR' 000 | Segment B Year ended 31-Dec 2014 MUR' 000 | Bank Year ended 31-Dec 2014 MUR' 000 | Segment A 18 months to 31-Dec 2013 MUR' 000 | Segment B 18 months to 31-Dec 2013 MUR' 000 | Bank 18 months to 31-Dec 2013 MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|
| **(i) Other expenses** | | | | | | | | | |
| Software licensing and other information technology cost | 259,612 | 97,078 | 356,690 | 1,178,802 | 80,928 | 1,259,730 | 502,666 | 76,737 | 579,403 |
| Auditors' remuneration (audit and other services): | | | | | | | | | |
| -Principal auditors | 5,189 | 1,013 | 6,202 | 14,797 | 909 | 15,706 | 6,175 | 965 | 7,140 |
| -Other auditors | 150 | 23 | 173 | - | 451 | 451 | - | 211 | 211 |
| Utilities | 48,843 | 6,054 | 54,897 | 46,924 | 6,024 | 52,948 | 66,129 | 8,246 | 74,375 |
| Professional charges | 108,341 | 18,431 | 126,772 | 268,227 | 16,940 | 285,167 | 370,476 | 33,149 | 403,625 |
| Marketing costs | 44,220 | 330 | 44,550 | 37,449 | 277 | 37,726 | 37,449 | 5,451 | 42,900 |
| Rent, repairs and maintenance | 81,602 | 6,376 | 87,978 | 64,079 | 5,781 | 69,860 | 75,737 | 5,825 | 81,562 |
| Licence and other registration fees | 18,874 | 1,673 | 20,547 | 18,000 | 1,587 | 19,587 | 16,860 | 1,535 | 18,395 |
| Other | 54,445 | 17,328 | 71,773 | 47,381 | 24,343 | 71,724 | 62,449 | 19,906 | 82,355 |
| | 621,276 | 148,306 | 769,582 | 1,675,659 | 137,240 | 1,812,899 | 1,137,941 | 152,025 | 1,289,966 |
| **(j) Net impairment loss on financial assets** | | | | | | | | | |
| Portfolio and specific provisions: | | | | | | | | | |
| - On-balance sheet advances | 1,055,040 | 828,427 | 1,883,467 | 395,343 | 204,556 | 599,899 | 192,232 | 562,389 | 754,621 |
| Bad debts written off for which no provisions were made | 370 | 977 | 1,347 | 124 | - | 124 | 153 | - | 153 |
| Recoveries of advances written off | (6,593) | - | (6,593) | (4,663) | (6,369) | (11,032) | (23,655) | (6,661) | (30,316) |
| Other | (4,719) | (138) | (4,857) | - | (363) | (363) | - | 16,578 | 16,578 |
| | 1,044,098 | 829,266 | 1,873,364 | 390,804 | 197,824 | 588,628 | 168,730 | 572,306 | 741,036 |
| *Of which:* | | | | | | | | | |
| *Credit exposure* | 1,048,817 | 829,404 | 1,878,221 | 390,804 | 198,187 | 588,991 | 168,730 | 555,728 | 724,458 |
| *Other financial assets* | (4,719) | (138) | (4,857) | - | (363) | (363) | - | 16,578 | 16,578 |
| | 1,044,098 | 829,266 | 1,873,364 | 390,804 | 197,824 | 588,628 | 168,730 | 572,306 | 741,036 |
| **(k) Tax expense** | | | | | | | | | |
| Income tax expense | 473,722 | 26,588 | 500,310 | 696,797 | 22,022 | 718,819 | 895,259 | 150,586 | 1,045,845 |
| Deferred tax income | (77,020) | (14,489) | (91,509) | (57,785) | (11,800) | (69,585) | (2,789) | (172,784) | (175,573) |
| | 396,702 | 12,099 | 408,801 | 639,012 | 10,222 | 649,234 | 892,470 | (22,198) | 870,272 |

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

### (l) Cash and cash equivalents

| | Segment A 31-Dec 2015 MUR' 000 | Segment B 31-Dec 2015 MUR' 000 | Bank 31-Dec 2015 MUR' 000 | Segment A 31-Dec 2014 (Restated) MUR' 000 | Segment B 31-Dec 2014 (Restated) MUR' 000 | Bank 31-Dec 2014 (Restated) MUR' 000 | Segment A 31-Dec 2013 (Restated) MUR' 000 | Segment B 31-Dec 2013 (Restated) MUR' 000 | Bank 31-Dec 2013 (Restated) MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|
| Cash in hand | 1,893,360 | - | 1,893,360 | 1,996,620 | - | 1,996,620 | 2,151,863 | - | 2,151,863 |
| Foreign currency notes and coins | - | 263,108 | 263,108 | - | 180,825 | 180,825 | - | 156,607 | 156,607 |
| Unrestricted balances with Central Banks [1] | 1,336,689 | 38 | 1,336,727 | 565,843 | 24,071 | 589,914 | 885,395 | - | 885,395 |
| Loans and placements with banks [2] | 98,370 | 1,439,344 | 1,537,714 | 31,780 | 3,024,998 | 3,056,778 | - | 878,166 | 878,166 |
| Balances with banks | - | 3,947,577 | 3,947,577 | - | 2,293,643 | 2,293,643 | - | 2,557,034 | 2,557,034 |
| | 3,328,419 | 5,650,067 | 8,978,486 | 2,594,243 | 5,523,537 | 8,117,780 | 3,037,258 | 3,591,807 | 6,629,065 |

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

[2] The balances above include loans and placements with banks having an original maturity of up to three months.

### (m) Loans to and placements with banks

| | Segment A 31-Dec 2015 MUR' 000 | Segment B 31-Dec 2015 MUR' 000 | Bank 31-Dec 2015 MUR' 000 | Segment A 31-Dec 2014 MUR' 000 | Segment B 31-Dec 2014 MUR' 000 | Bank 31-Dec 2014 MUR' 000 | Segment A 31-Dec 2013 MUR' 000 | Segment B 31-Dec 2013 MUR' 000 | Bank 31-Dec 2013 MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|
| Loans to and placements with banks | | | | | | | | | |
| - in Mauritius | 271,645 | - | 271,645 | - | - | - | 165,746 | - | 165,746 |
| - outside Mauritius | - | 937,300 | 937,300 | 290,312 | 411,821 | 702,133 | - | 766,682 | 766,682 |
| | 271,645 | 937,300 | 1,208,945 | 290,312 | 411,821 | 702,133 | 165,746 | 766,682 | 932,428 |
| **Remaining term to maturity** | | | | | | | | | |
| Up to 3 months | 271,645 | 105,822 | 377,467 | - | 93,025 | 93,025 | - | 106,700 | 106,700 |
| Over 3 months and up to 6 months | - | 152,568 | 152,568 | - | 152,619 | 152,619 | - | 299,767 | 299,767 |
| Over 6 months and up to 12 months | - | 678,910 | 678,910 | 290,312 | 6,409 | 296,721 | 165,746 | 360,215 | 525,961 |
| Over 1 year and up to 2 years | - | - | - | - | 159,768 | 159,768 | - | - | - |
| | 271,645 | 937,300 | 1,208,945 | 290,312 | 411,821 | 702,133 | 165,746 | 766,682 | 932,428 |
| **(n) Trading assets** | | | | | | | | | |
| Government securities | - | - | - | - | 25,590 | 25,590 | 893 | - | 893 |
| Equities | - | - | - | - | 2,887 | 2,887 | - | 1,742 | 1,742 |
| Derivative assets | 66,251 | 77,866 | 144,117 | 165,523 | 11,138 | 176,661 | 38,301 | 208,568 | 246,869 |
| | 66,251 | 77,866 | 144,117 | 165,523 | 39,615 | 205,138 | 39,194 | 210,310 | 249,504 |
| **Trading liabilities** | | | | | | | | | |
| Derivative liabilities | 68,672 | 52,084 | 120,756 | 76,164 | 70,384 | 146,548 | 27,425 | 211,044 | 238,469 |

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

### (o) Loans and advances to non-bank customers

| | Segment A 31-Dec 2015 MUR' 000 | Segment B 31-Dec 2015 MUR' 000 | Bank 31-Dec 2015 MUR' 000 | Segment A 31-Dec 2014 (Restated) MUR' 000 | Segment B 31-Dec 2014 (Restated) MUR' 000 | Bank 31-Dec 2014 (Restated) MUR' 000 | Segment A 31-Dec 2013 (Restated) MUR' 000 | Segment B 31-Dec 2013 (Restated) MUR' 000 | Bank 31-Dec 2013 (Restated) MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|
| Governments | 1 | - | 1 | 208 | - | 208 | - | - | - |
| Retail customers | 28,090,823 | 6,589 | 28,097,412 | 28,160,330 | 9,020 | 28,169,350 | 27,717,090 | 7,308 | 27,724,398 |
| Credit cards | 523,350 | 6,589 | 529,939 | 518,995 | 9,020 | 528,015 | 493,805 | 7,308 | 501,113 |
| Mortgages | 17,271,142 | - | 17,271,142 | 17,043,288 | - | 17,043,288 | 16,414,566 | - | 16,414,566 |
| Other retail loans | 10,296,331 | - | 10,296,331 | 10,598,047 | - | 10,598,047 | 10,808,719 | - | 10,808,719 |
| Corporate customers | 32,129,887 | 1,806,083 | 33,935,970 | 28,863,435 | 1,469,080 | 30,332,515 | 30,708,965 | 1,919,604 | 32,628,569 |
| Entities outside Mauritius | - | 9,755,334 | 9,755,334 | - | 10,087,065 | 10,087,065 | - | 10,415,344 | 10,415,344 |
| | 60,220,711 | 11,568,006 | 71,788,717 | 57,023,973 | 11,565,165 | 68,589,138 | 58,426,055 | 12,342,256 | 70,768,311 |
| Less allowance for credit impairment | (2,471,907) | (939,546) | (3,411,453) | (1,431,787) | (199,318) | (1,631,105) | (1,134,804) | (320,025) | (1,454,829) |
| | 57,748,804 | 10,628,460 | 68,377,264 | 55,592,186 | 11,365,847 | 66,958,033 | 57,291,251 | 12,022,231 | 69,313,482 |
| **Remaining term to maturity:** | | | | | | | | | |
| Up to 3 months | 9,092,403 | 2,574,322 | 11,666,725 | 5,936,456 | 1,743,619 | 7,680,075 | 9,930,459 | 1,945,869 | 11,876,328 |
| Over 3 months and up to 6 months | 2,085,810 | 395,130 | 2,480,940 | 1,663,666 | 601,659 | 2,265,325 | 1,540,628 | 969,644 | 2,510,272 |
| Over 6 months and up to 12 months | 3,006,775 | 1,720,725 | 4,727,500 | 3,688,428 | 2,403,775 | 6,092,203 | 3,417,028 | 1,168,506 | 4,585,534 |
| Over 1 year and up to 2 years | 3,792,645 | 1,164,361 | 4,957,006 | 2,680,665 | 722,584 | 3,403,249 | 1,369,790 | 2,295,257 | 3,665,047 |
| Over 2 years and up to 5 years | 11,763,741 | 4,150,538 | 15,914,279 | 12,806,524 | 4,100,624 | 16,907,148 | 11,626,060 | 4,454,977 | 16,081,037 |
| Over 5 years | 30,479,337 | 1,562,930 | 32,042,267 | 30,248,234 | 1,992,904 | 32,241,138 | 30,542,090 | 1,508,003 | 32,050,093 |
| | 60,220,711 | 11,568,006 | 71,788,717 | 57,023,973 | 11,565,165 | 68,589,138 | 58,426,055 | 12,342,256 | 70,768,311 |

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

### (o) Loans and advances to non-bank customers (cont'd)

Allowance for credit impairment by industry sectors

| | 31-Dec-2015 | | | | | 31-Dec-14 | 31-Dec-13 |
|---|---|---|---|---|---|---|---|
| | Gross amount of loans | Impaired loans | Specific allowance for credit impairment | Portfolio allowance for credit impairment | Total allowances for credit impairment | Total allowance for credit impairment (Restated) | Total allowances for credit impairment (Restated) |
| | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 |
| **Segment A** | | | | | | | |
| Agriculture and Fishing | 3,081,347 | 789 | 18 | 30,740 | 30,758 | 18,957 | 34,164 |
| Manufacturing | 3,026,773 | 57,416 | 39,022 | 39,108 | 78,130 | 67,042 | 63,031 |
| *of which EPZ* | *687,224* | *2,280* | *2,280* | *16,359* | *18,639* | *27,340* | *34,415* |
| Tourism | 11,225,395 | 7,518 | 4,948 | 224,153 | 229,101 | 168,101 | 124,832 |
| Transport | 374,000 | 22,455 | 12,319 | 51,037 | 63,356 | 19,283 | 10,036 |
| Construction | 3,882,564 | 359,280 | 164,918 | 73,846 | 238,764 | 186,336 | 95,799 |
| Financial and business services | 3,066,725 | 440,725 | 431,583 | 24,926 | 456,509 | 18,782 | 11,406 |
| Traders | 5,202,172 | 334,026 | 180,962 | 47,446 | 228,408 | 102,217 | 142,017 |
| Personal | 26,015,766 | 837,929 | 623,592 | 403,530 | 1,027,122 | 793,827 | 589,269 |
| *of which credit cards* | *523,350* | *64,713* | *64,713* | *4,803* | *69,516* | *57,963* | *45,157* |
| Professional | 187,336 | - | - | 1,762 | 1,762 | 1,747 | 1,978 |
| Others | 4,158,633 | 256,990 | 87,278 | 30,719 | 117,997 | 55,495 | 62,272 |
| | 60,220,711 | 2,317,128 | 1,544,640 | 927,267 | 2,471,907 | 1,431,787 | 1,134,804 |
| **Segment B** | | | | | | | |
| Agriculture and Fishing | 482,586 | 81,450 | 44,550 | 4,011 | 48,561 | 58,625 | 8,766 |
| Manufacturing | 2,189,873 | 158,438 | 21,730 | 30,217 | 51,947 | 55,775 | 52,559 |
| *of which EPZ* | *64,275* | - | - | *643* | *643* | *625* | - |
| Tourism | 818,631 | - | - | 6,792 | 6,792 | 10,223 | 11,372 |
| Transport | 1,048,337 | 587,345 | 344,205 | 4,610 | 348,815 | 10,487 | 10,511 |
| Construction | - | - | - | - | - | - | 71,113 |
| Financial and business services | 1,593,702 | - | - | 62,764 | 62,764 | 7,554 | 8,861 |
| Traders | 1,445,481 | - | - | 14,370 | 14,370 | 18,394 | 2,640 |
| Personal | 1,797,011 | 32,580 | 4,329 | 3,532 | 7,861 | 9,092 | 14,478 |
| *of which credit cards* | *6,589* | - | - | *27* | *27* | *35* | *23* |
| Global Business Licence holders | 519,732 | - | - | 5,055 | 5,055 | 4,703 | 16,099 |
| Others | 1,672,653 | 445,030 | 382,989 | 10,392 | 393,381 | 24,465 | 123,626 |
| | 11,568,006 | 1,304,843 | 797,803 | 141,743 | 939,546 | 199,318 | 320,025 |

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

### (p) Investment securities

Remaining term to maturity

| | 31-Dec-2015 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Up to 3 months MUR' 000 | 3-6 months MUR' 000 | 6-9 months MUR' 000 | 9-12 months MUR' 000 | 1-2 years MUR' 000 | 2-5 years MUR' 000 | Over 5 years MUR' 000 | No specific maturity MUR' 000 | Total MUR' 000 | 31-Dec-14 MUR' 000 | 31-Dec-13 MUR' 000 |
| **Segment A** | | | | | | | | | | | |
| **Investment securities - loans and receivables** | | | | | | | | | | | |
| Government bonds and treasury notes | - | 651,829 | 104,876 | - | 2,283,853 | 7,493,754 | 1,291,380 | - | 11,825,692 | 10,086,296 | 7,468,002 |
| Treasury bills | 421,728 | 856,331 | 152,934 | 494,997 | - | - | - | - | 1,925,990 | 4,619,339 | 2,807,318 |
| Bank of Mauritius bills / notes | - | 259,944 | 147,469 | - | 1,674,177 | 868,967 | 588,037 | - | 3,538,594 | 1,690,962 | 2,062,288 |
| Corporate bonds | - | - | - | - | - | 400,260 | - | - | 400,260 | 336,649 | 450,224 |
| | 421,728 | 1,768,104 | 405,279 | 494,997 | 3,958,030 | 8,762,981 | 1,879,417 | - | 17,690,536 | 16,733,246 | 12,787,832 |
| **Available-for-sale investment securities** | | | | | | | | | | | |
| - Investment in subsidiaries | - | - | - | - | - | - | - | - | - | - | 175 |
| **Total Segment A** | 421,728 | 1,768,104 | 405,279 | 494,997 | 3,958,030 | 8,762,981 | 1,879,417 | - | 17,690,536 | 16,733,246 | 12,788,007 |
| **Segment B** | | | | | | | | | | | |
| **Available-for-sale investment securities** | | | | | | | | | | | |
| Government bonds | 12,054 | 6,684 | - | - | 108,936 | 599,411 | 568,238 | - | 1,295,323 | 1,374,117 | 826,492 |
| Treasury bills / notes | 162,908 | - | - | - | - | - | - | - | 162,908 | 126,007 | 865,490 |
| Securities issued by government bodies | 96 | - | - | - | - | - | - | - | 96 | 354 | 345 |
| Bank bonds | 601,068 | 164,293 | 810,214 | 1,182,435 | 1,187,826 | 4,425,719 | 847,660 | - | 9,219,215 | 6,155,374 | 1,712,006 |
| Corporate paper and preference shares | 791,552 | 170,550 | 328,740 | 135,896 | 191,144 | 682,294 | - | - | 2,300,176 | 1,222,779 | 972,450 |
| Other investment securities | - | - | - | - | 149,630 | - | 261,360 | - | 410,990 | - | - |
| Total investment securities | 1,567,678 | 341,527 | 1,138,954 | 1,318,331 | 1,637,536 | 5,707,424 | 1,677,258 | - | 13,388,708 | 8,878,631 | 4,376,783 |
| Equity investment | - | - | - | - | - | - | - | 370 | 370 | 370 | 397,947 |
| Investment in subsidiaries | - | - | - | - | - | - | - | - | - | - | 1,157 |
| **Total Segment B** | 1,567,678 | 341,527 | 1,138,954 | 1,318,331 | 1,637,536 | 5,707,424 | 1,677,258 | 370 | 13,389,078 | 8,879,001 | 4,775,887 |
| **Total investment securities** | 1,989,406 | 2,109,631 | 1,544,233 | 1,813,328 | 5,595,566 | 14,470,405 | 3,556,675 | 370 | 31,079,614 | 25,612,247 | 17,563,894 |

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

### (q) Property and equipment

| | Freehold land and buildings MUR' 000 | Buildings on leasehold land MUR' 000 | Other tangible fixed assets MUR' 000 | Motor vehicles MUR' 000 | Progress payments MUR' 000 | Total MUR' 000 |
|---|---|---|---|---|---|---|
| **Net book value at 31 December 2015** | | | | | | |
| Segment A | **770,013** | **1,502,377** | **293,249** | **1,866** | **62,441** | **2,629,946** |
| Segment B | **142,869** | **-** | **6,865** | **-** | **86** | **149,820** |
| **Bank** | **912,882** | **1,502,377** | **300,114** | **1,866** | **62,527** | **2,779,766** |
| **Net book value at 31 December 2014** | | | | | | |
| Segment A | 765,854 | 1,554,326 | 183,705 | 6,887 | 57,776 | 2,568,548 |
| Segment B | 139,441 | - | 6,874 | 73 | - | 146,388 |
| **Bank** | 905,295 | 1,554,326 | 190,579 | 6,960 | 57,776 | 2,714,936 |
| **Net book value at 31 December 2013** | | | | | | |
| Segment A | 434,712 | 1,709,115 | 221,960 | 10,313 | 63,191 | 2,439,291 |
| Segment B | 138,665 | - | 7,145 | 300 | - | 146,110 |
| **Bank** | 573,377 | 1,709,115 | 229,105 | 10,613 | 63,191 | 2,585,401 |

### (r) Intangible assets

| SOFTWARE | **31-Dec 2015 MUR' 000** | 31-Dec 2014 (Restated) MUR' 000 | 31-Dec 2013 (Restated) MUR' 000 |
|---|---|---|---|
| **Net Book Value** | | | |
| Segment A | **2,166,157** | 1,155,095 | 972,101 |
| Segment B | **204,234** | 97,187 | 51,113 |
| **Bank** | **2,370,391** | 1,252,282 | 1,023,214 |

### (s) Other assets

| | **Segment A 31-Dec 2015 MUR' 000** | **Segment B 31-Dec 2015 MUR' 000** | **Bank 31-Dec 2015 MUR' 000** | Segment A 31-Dec 2014 (Restated) MUR' 000 | Segment B 31-Dec 2014 (Restated) MUR' 000 | Bank 31-Dec 2014 (Restated) MUR' 000 | Segment A 31-Dec 2013 (Restated) MUR' 000 | Segment B 31-Dec 2013 (Restated) MUR' 000 | Bank 31-Dec 2013 (Restated) MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|
| Accounts receivable | **129,124** | **88,782** | **217,906** | 288,749 | 50,998 | 339,747 | 611,560 | 159,777 | 771,337 |
| Balances due in clearing | **148,011** | **38,140** | **186,151** | 208,791 | 29,919 | 238,710 | 241,412 | 24,339 | 265,751 |
| Tax paid in advance | **-** | **98,162** | **98,162** | - | 79,286 | 79,286 | - | 93,196 | 93,196 |
| Non-banking assets acquired in satisfaction of debts | **6,613** | **-** | **6,613** | 63 | - | 63 | 161 | - | 161 |
| Expenses paid in advance | **271,019** | **141** | **271,160** | 313,982 | 130 | 314,112 | 230,959 | 2,671 | 233,630 |
| Others | **82,410** | **3,551** | **85,961** | 106,742 | 4,218 | 110,960 | 70,390 | 1,595 | 71,985 |
| | **637,177** | **228,776** | **865,953** | 918,327 | 164,551 | 1,082,878 | 1,154,482 | 281,578 | 1,436,060 |

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

| | Segment A 31-Dec 2015 MUR' 000 | Segment B 31-Dec 2015 MUR' 000 | Bank 31-Dec 2015 MUR' 000 | Segment A 31-Dec 2014 MUR' 000 | Segment B 31-Dec 2014 MUR' 000 | Bank 31-Dec 2014 MUR' 000 | Segment A 31-Dec 2013 MUR' 000 | Segment B 31-Dec 2013 MUR' 000 | Bank 31-Dec 2013 MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|
| **(t) Deposits from banks** | | | | | | | | | |
| Demand deposits | 462,152 | 336,484 | 798,636 | 488,368 | 131,966 | 620,334 | 69,736 | 202,066 | 271,802 |
| **(u) Deposits from non-bank customers** | | | | | | | | | |
| **(i) Retail customers** | | | | | | | | | |
| Current accounts | 11,245,991 | 2,370,492 | 13,616,483 | 9,289,568 | 2,064,309 | 11,353,877 | 8,432,550 | 1,684,565 | 10,117,115 |
| Savings accounts | 39,064,212 | 1,340,971 | 40,405,183 | 33,192,040 | 1,120,789 | 34,312,829 | 30,117,318 | 1,109,268 | 31,226,586 |
| Time deposits with remaining term to maturity: | | | | | | | | | |
| Up to 3 months | 967,646 | 398,371 | 1,366,017 | 1,142,479 | 329,142 | 1,471,621 | 1,161,609 | 497,782 | 1,659,391 |
| Over 3 months and up to 6 months | 834,252 | 419,885 | 1,254,137 | 794,346 | 339,006 | 1,133,352 | 757,341 | 193,358 | 950,699 |
| Over 6 months and up to 12 months | 1,710,998 | 1,774,731 | 3,485,729 | 1,524,312 | 841,594 | 2,365,906 | 1,512,636 | 1,311,193 | 2,823,829 |
| Over 1 year and up to 5 years | 3,083,631 | 2,595,551 | 5,679,182 | 3,209,072 | 2,986,855 | 6,195,927 | 3,211,132 | 2,545,261 | 5,756,393 |
| Over 5 years | - | 1,400 | 1,400 | - | 1,261 | 1,261 | - | 1,213 | 1,213 |
| Total time deposits | 6,596,527 | 5,189,938 | 11,786,465 | 6,670,209 | 4,497,858 | 11,168,067 | 6,642,718 | 4,548,807 | 11,191,525 |
| | 56,906,730 | 8,901,401 | 65,808,131 | 49,151,817 | 7,682,956 | 56,834,773 | 45,192,586 | 7,342,640 | 52,535,226 |
| **(ii) Corporate customers** | | | | | | | | | |
| Current accounts | 11,478,210 | 12,611,543 | 24,089,753 | 12,315,306 | 8,043,752 | 20,359,058 | 9,497,923 | 5,994,107 | 15,492,030 |
| Savings accounts | 3,286,960 | 7,890 | 3,294,850 | 5,397,562 | 941 | 5,398,503 | 4,527,989 | 1,078 | 4,529,067 |
| Time deposits with remaining term to maturity: | | | | | | | | | |
| Up to 3 months | 2,527,571 | 2,206,627 | 4,734,198 | 2,040,994 | 275,611 | 2,316,605 | 2,064,756 | 785,143 | 2,849,899 |
| Over 3 months and up to 6 months | 26,651 | 295,478 | 322,129 | 84,323 | 329,917 | 414,240 | 63,540 | 725,327 | 788,867 |
| Over 6 months and up to 12 months | 246,674 | 1,083,984 | 1,330,658 | 271,070 | 347,224 | 618,294 | 183,402 | 253,127 | 436,529 |
| Over 1 year and up to 5 years | 353,914 | 39,566 | 393,480 | 292,313 | 327,676 | 619,989 | 449,110 | 313,673 | 762,783 |
| Over 5 years | - | - | - | - | 2,773 | 2,773 | - | 2,424 | 2,424 |
| Total time deposits | 3,154,810 | 3,625,655 | 6,780,465 | 2,688,700 | 1,283,201 | 3,971,901 | 2,760,808 | 2,079,694 | 4,840,502 |
| | 17,919,980 | 16,245,088 | 34,165,068 | 20,401,568 | 9,327,894 | 29,729,462 | 16,786,720 | 8,074,879 | 24,861,599 |
| **(iii) Government** | | | | | | | | | |
| Current accounts | 1,747,833 | - | 1,747,833 | 1,888,248 | - | 1,888,248 | 1,759,774 | - | 1,759,774 |
| Savings accounts | 1,853,931 | - | 1,853,931 | 1,950,402 | - | 1,950,402 | 1,994,242 | - | 1,994,242 |
| Time deposits with remaining term to maturity: | | | | | | | | | |
| Up to 3 months | 112 | - | 112 | 136,729 | - | 136,729 | 122,509 | - | 122,509 |
| Over 3 months and up to 6 months | 406 | - | 406 | 407 | - | 407 | 407 | - | 407 |
| Over 6 months and up to 12 months | 2,242 | - | 2,242 | 2,245 | - | 2,245 | 2,398 | - | 2,398 |
| Over 1 year and up to 5 years | 66 | - | 66 | 167 | - | 167 | - | - | - |
| Total time deposits | 2,826 | - | 2,826 | 139,548 | - | 139,548 | 125,314 | - | 125,314 |
| | 3,604,590 | - | 3,604,590 | 3,978,198 | - | 3,978,198 | 3,879,330 | - | 3,879,330 |
| | 78,431,300 | 25,146,489 | 103,577,789 | 73,531,583 | 17,010,850 | 90,542,433 | 65,858,636 | 15,417,519 | 81,276,155 |

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

### (v) Other borrowed funds

| | Segment A 31-Dec 2015 MUR' 000 | Segment B 31-Dec 2015 MUR' 000 | Bank 31-Dec 2015 MUR' 000 | Segment A 31-Dec 2014 MUR' 000 | Segment B 31-Dec 2014 MUR' 000 | Bank 31-Dec 2014 MUR' 000 | Segment A 31-Dec 2013 MUR' 000 | Segment B 31-Dec 2013 MUR' 000 | Bank 31-Dec 2013 MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|
| Borrowings from Central Banks - for refinancing | 203,758 | - | 203,758 | 250,967 | - | 250,967 | 367,018 | - | 367,018 |
| Other financial institutions | | | | | | | | | |
| for refinancing | - | 1,885,189 | 1,885,189 | - | 1,959,843 | 1,959,843 | - | 1,480,060 | 1,480,060 |
| other | - | - | - | - | 2,385,460 | 2,385,460 | - | 2,250,000 | 2,250,000 |
| Borrowings from banks | | | | | | | | | |
| in Mauritius | 43,550 | - | 43,550 | 428,535 | - | 428,535 | 1,411,383 | - | 1,411,383 |
| abroad | - | - | - | - | 88,200 | 88,200 | - | 601,590 | 601,590 |
| | 247,308 | 1,885,189 | 2,132,497 | 679,502 | 4,433,503 | 5,113,005 | 1,778,401 | 4,331,650 | 6,110,051 |

### (w) Other liabilities

| | Segment A 31-Dec 2015 MUR' 000 | Segment B 31-Dec 2015 MUR' 000 | Bank 31-Dec 2015 MUR' 000 | Segment A 31-Dec 2014 (Restated) MUR' 000 | Segment B 31-Dec 2014 (Restated) MUR' 000 | Bank 31-Dec 2014 (Restated) MUR' 000 | Segment A 31-Dec 2013 (Restated) MUR' 000 | Segment B 31-Dec 2013 (Restated) MUR' 000 | Bank 31-Dec 2013 (Restated) MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|
| Bills payable | 92,584 | 9,669 | 102,253 | 141,543 | 5,626 | 147,169 | 85,570 | 8,277 | 93,847 |
| Accruals for expenses | 310,797 | 10,025 | 320,822 | 444,688 | 12,306 | 456,994 | 379,332 | 12,324 | 391,656 |
| Dividend payable | - | - | - | - | - | - | 516,358 | - | 516,358 |
| Accounts payable | 284,737 | 201,755 | 486,492 | 283,712 | 134,312 | 418,024 | 303,756 | 92,629 | 396,385 |
| Deferred income | 202,925 | 24,968 | 227,893 | 248,919 | 811 | 249,730 | 265,961 | 3,696 | 269,657 |
| Balance due in clearing | 142,504 | 4,946 | 147,450 | 184,909 | 37 | 184,946 | 251,775 | 785 | 252,560 |
| Balances in transit | 106,336 | - | 106,336 | 122,345 | - | 122,345 | 325,936 | - | 325,936 |
| Pension liability | 88,930 | - | 88,930 | 75,573 | - | 75,573 | 96,941 | - | 96,941 |
| Others | 30,349 | 865,801 | 896,150 | 15,772 | 475,789 | 491,561 | 22,763 | 146,120 | 168,883 |
| | 1,259,162 | 1,117,164 | 2,376,326 | 1,517,461 | 628,881 | 2,146,342 | 2,248,392 | 263,831 | 2,512,223 |

## 43. SUPPLEMENTARY INFORMATION AS REQUIRED BY BANK OF MAURITIUS (CONT'D)

### (x) Memorandum items

| | Segment A 31-Dec 2015 MUR' 000 | Segment B 31-Dec 2015 MUR' 000 | Bank 31-Dec 2015 MUR' 000 | Segment A 31-Dec 2014 MUR' 000 | Segment B 31-Dec 2014 MUR' 000 | Bank 31-Dec 2014 MUR' 000 | Segment A 31-Dec 2013 MUR' 000 | Segment B 31-Dec 2013 MUR' 000 | Bank 31-Dec 2013 MUR' 000 |
|---|---|---|---|---|---|---|---|---|---|
| (a) Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers | | | | | | | | | |
| Acceptances on account of customers | 201,825 | 4,814 | 206,639 | 477,581 | 18,426 | 496,007 | 291,273 | 1,794 | 293,067 |
| Guarantees on account of customers | 2,933,380 | 682,690 | 3,616,070 | 4,005,469 | 424,219 | 4,429,688 | 3,911,411 | 218,673 | 4,130,084 |
| Money guarantees | 896,052 | 31,138 | 927,190 | 513,386 | 46,985 | 560,371 | 708,855 | 30,973 | 739,828 |
| Letters of credit and other obligations on account of customers | 393,509 | 381,946 | 775,455 | 597,124 | 381,365 | 978,489 | 649,693 | 347,513 | 997,206 |
| Other contingent items | - | 945 | 945 | 118,620 | 318,778 | 437,398 | - | 24,230 | 24,230 |
| | 4,424,766 | 1,101,533 | 5,526,299 | 5,712,180 | 1,189,773 | 6,901,953 | 5,561,232 | 623,183 | 6,184,415 |
| (b) Commitments | | | | | | | | | |
| Undrawn credit facilities | 6,506,626 | 965,455 | 7,472,081 | 6,030,794 | 1,345,037 | 7,375,831 | 7,617,922 | 573,052 | 8,190,974 |
| | 6,506,626 | 965,455 | 7,472,081 | 6,030,794 | 1,345,037 | 7,375,831 | 7,617,922 | 573,052 | 8,190,974 |

## 44. RESERVES

***Available-for-sale reserve***

This reserve comprises fair value movements recognised on available-for-sale financial assets.

***Foreign currency translation reserve***

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of foreign operations.

***Statutory reserve***

This reserve represents transfers from retained earnings in accordance with the Banking Act 2004. A sum equal to not less than 15% of the profit for the year is transferred each year until the balance is equal to the amount paid as stated capital.

***Capital conservation reserve***

It includes among others:

- The difference between the actual historical loss ratio and the statutory general provision of 1% which is done through a transfer from Retained Earnings, in line with the Bank of Mauritius Guidelines on Credit Impairment Measurement and Income Recognition.

***Property revaluation reserve***

The property revaluation reserve is used to record increases in the fair value of land and buildings (net of deferred tax on the revalued asset) and decreases to the extent that such decreases relates to an increase on the same asset previously recognised in equity.

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having vision.

# FARSIGHTED

# FINANCIAL REVIEW

| | Year December 2015 (Audited) | Year December[b] 2014 (Audited) | 12 months December[bd] 2013 (Unaudited) | 18 months December[ab] 2013 (Audited) | Year June[b] 2012 (Audited) |
|---|---|---|---|---|---|
| **Statement of profit or loss (MUR million)** | | | | | |
| Interest income | **6,069** | 6,273 | 6,120 | 9,096 | 5,688 |
| Interest expense | **2,002** | 2,312 | 2,184 | 3,302 | 2,594 |
| Net interest income | **4,067** | 3,961 | 3,936 | 5,794 | 3,094 |
| Non-interest income | **1,673** | 1,909 | 2,281 | 3,188 | 3,207 |
| Gross revenue | **5,740** | 5,870 | 6,217 | 8,982 | 6,301 |
| Non-interest expense | **2,113** | 3,042[f] | 2,350 | 3,234 | 1,593 |
| Depreciation and amortisation | **159** | 164 | 186 | 278 | 178 |
| Net impairment loss on financial assets | **1,873** | 589 | 579 | 741 | 174 |
| Profit before income tax and net impairment loss on financial assets | **3,627** | 2,827 | 3,867 | 5,748 | 4,708 |
| Profit before income tax | **1,753** | 2,239 | 3,288 | 5,006 | 4,534 |
| Profit for the year/period | **1,345** | 1,589 | 2,729 | 4,136 | 3,972 |
| | | | | | |
| **Statement of financial position (MUR million)** | | | | | |
| Total assets | **122,976** | 113,151 | 105,101 | 105,101 | 93,722 |
| Gross loans and advances to non-bank customers | **71,789** | 68,589 | 70,768 | 70,768 | 63,205 |
| Gilt-edged securities | **18,749** | 17,897 | 14,030 | 14,030 | 10,959 |
| Bank bonds | **9,219** | 6,155 | 1,712 | 1,712 | 1,904 |
| Other investments | **3,112** | 1,560 | 1,822 | 1,822 | 2,179 |
| Deposits from non-bank customers | **103,578** | 90,542 | 81,276 | 81,276 | 75,533 |
| Shareholder's equity | **13,599** | 14,494 | 14,391 | 14,391 | 13,335 |
| Tier 1 capital | **9,667** | 11,736 | 11,505 | 11,505 | 10,666 |
| Risk-weighted assets | **75,142** | 70,200 | 70,150 | 70,150 | 65,497 |

| | Year December 2015 (Audited) | Year December[b] 2014 (Audited) | 12 months December[bd] 2013 (Unaudited) | 18 months December[ab] 2013 (Audited) | Year June[b] 2012 (Audited) |
|---|---|---|---|---|---|
| **Statement of financial position (average[c] MUR million)** | | | | | |
| Assets | **118,063** | 109,126 | 101,901 | 99,412 | 93,366 |
| Loans and advances to non-bank customers | **70,189** | 69,679 | 69,203 | 66,987 | 60,168 |
| Gilt-edged securities | **18,323** | 15,964 | 12,915 | 12,494 | 13,430 |
| Bank bonds | **7,687** | 3,934 | 1,836 | 1,808 | 1,764 |
| Deposits from non-bank customers | **97,060** | 85,909 | 79,323 | 78,405 | 72,965 |
| Shareholder's equity | **14,047** | 14,442 | 14,146 | 13,863 | 13,510 |
| Working funds | **122,296** | 112,280 | 104,408 | 101,858 | 93,458 |
| Tier 1 capital | **10,701** | 11,621 | 11,731 | 11,085 | 9,580 |
| Interest earning assets | **104,193** | 95,785 | 90,140 | 87,249 | 82,064 |
| Interest bearing liabilities | **101,012** | 91,577 | 84,757 | 82,743 | 77,534 |
| **Performance ratios (%)** | | | | | |
| Risk adjusted return on capital (RAROC)[d] | **24.48** | 31.03 | 56.80 | 57.23 | 53.22 |
| Capital adequacy ratio | **14.88** | 18.75 | 18.49 | 18.49 | 17.53 |
| Tier 1 Capital adequacy ratio | **12.86** | 16.72 | 16.40 | 16.40 | 16.28 |
| Profit before income tax[d]/ average risk-weighted assets | **2.41** | 3.19 | 4.65 | 4.91 | 7.30 |
| Profit before income tax[d]/ average assets | **1.49** | 2.05 | 3.23 | 3.35 | 4.86 |
| Profit before income tax[d]/ average shareholder's equity | **12.48** | 15.50 | 23.24 | 24.01 | 33.56 |
| Profit before income tax[d]/ average Tier 1 capital | **16.38** | 19.27 | 28.03 | 30.03 | 47.33 |
| Return on average risk-weighted assets[d] | **1.85** | 2.27 | 3.86 | 4.05 | 6.40 |
| Return on average assets[d] | **1.14** | 1.46 | 2.68 | 2.77 | 4.25 |
| Return on average shareholder's equity[d] | **9.57** | 11.01 | 19.29 | 19.84 | 29.40 |
| Return on average Tier 1 capital[d] | **12.56** | 13.68 | 23.26 | 24.81 | 41.46 |

| | **Year December 2015 (Audited)** | Year December[b] 2014 (Audited) | 12 months December[bd] 2013 (Unaudited) | 18 months December[ab] 2013 (Audited) | Year June[b] 2012 (Audited) |
|---|---|---|---|---|---|
| **Efficiency ratios (%)** | | | | | |
| Cost to income (excluding dividend income) | **54.66** | 58.29 | 46.89 | 43.89 | 35.98 |
| Cost to income | **36.82** | 51.83 | 37.80 | 36.01 | 25.28 |
| **Asset quality ratios (%)** | | | | | |
| Gross impaired advances to gross advances | **5.05** | 2.11 | 1.96 | 1.96 | 0.92 |
| Net impaired advances to net advances | **1.87** | 0.96 | 0.90 | 0.90 | 0.29 |
| **Other key data** | | | | | |
| Number of employees | **1,167** | 1,103 | 1,098 | 1,098 | 1,109 |
| Number of service units | **47** | 47 | 47 | 47 | 46 |
| Exchange rate (USD : MUR) | **35.91** | 31.78 | 30.00 | 30.00 | 30.93 |
| Exchange rate (INR : MUR) | **0.543** | 0.504 | 0.485 | 0.485 | 0.556 |

Notes:

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

b Restated for comparative purposes.

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

d Figures for 18 months ended 31 December 2013 annualised to 12 months.

e One-time dividend of MUR 1.47 billion received from a subsidiary.

f Write off of certain expenditures pertaining to inefficiency in the implementation of the core system project and Business Transformation Initiatives (BTI).

A high level review of the market environment and changes in regulatory framework is described below for a better understanding of the financial position and performance of SBM Bank (Mauritius) Ltd ('SBM Bank' or the 'Bank').

The domestic environment continued to be challenging with poor demand for credit as the private sector credit growth was again negligible and exacerbated by refinancing of bank loans from rights/ equity and debt issues by corporates besides the macro-prudential policy measures taken by the Bank of Mauritius (BOM). The excess liquidity at record level coupled with low demand for credit led to aggressive pricing for loans and bids for Government securities. The quality of the assets of the banking sector has suffered as impaired loans have been rising in the face of slow recovery and unemployment of around 8 percent. The collapse of a large conglomerate with activities in the banking and insurance sector and its ramifications impacted the financial services industry.

However, we are observing encouraging signs of a pickup in the domestic economy with the double digit growth in tourist arrivals in 2015 and large scale projects such as smart cities projects, solar power, infrastructural projects and government initiatives to boost the SME sector.

The BOM has relaxed the macro-prudential policy measures referred to above in January 2015 and is also not going ahead with the aggregate large credit exposure limits reduction to 600 percent of banks' capital base; the limit of 800 percent is maintained.

The implementation of the Bank's core banking system and other applications has reached an advanced stage with over 100 staff from business deputed to the project.

## Overview of results

The table below shows an analysis of the current year performance against last year.

## Abridged Statement of Profit or Loss

| | Year<br>31 Dec 2015<br>MUR m | Year<br>31 Dec 2014<br>(Restated)<br>MUR m |
|---|---|---|
| Interest income | **6,069.20** | 6,273.08 |
| Interest expense | **(2,002.19)** | (2,312.27) |
| **Net interest income** | **4,067.01** | 3,960.81 |
| **Non-interest income** | **1,673.12** | 1,908.72 |
| **Operating income** | **5,740.13** | 5,869.53 |
| **Non-interest expense** | **(2,113.44)** | (3,042.18) |
| **Profit before net impairment loss on financial assets** | **3,626.69** | 2,827.35 |
| Net impairment loss on financial assets | **(1,873.36)** | (588.63) |
| **Profit before income tax** | **1,753.33** | 2,238.72 |
| Tax expense | **(408.80)** | (649.24) |
| **Profit after tax for the year** | **1,344.53** | 1,589.48 |

Profit after tax for the year under review amounted to MUR 1.34 billion, representing a decrease of 15.41 percent compared to 2014. The main reasons for the decrease are discussed, analysed and explained in this financial review section.

## Revenue growth

The main revenue streams are (i) net interest income (interest income less interest expense), (ii) non-interest income or fee income comprising mainly fees and commission, income from card business and exchange income and (iii) trading income. Operating income for 2015 amounted to MUR 5.74 billion compared to MUR 5.87 billion, a slight decrease of 2.20 percent, mostly because net interest income has been under pressure for the reasons explained below and there was a one-time gain from disposal of equity investments of MUR 377.95 million in 2014. It will be noted that dividend income of over MUR 550 million received from associate and subsidiaries in the previous years are now booked at the holding company level following the Group restructuring in October 2014 which resulted in SBM Bank being a wholly owned subsidiary with no subsidiaries and associates.

## Net interest income

Net interest income, a key driver of profit growth for the past years has been under pressure due to the difficult market conditions described above; squeezing of margins as a result of the continuing excess liquidity has encouraged corporates to raise short-term loans and roll them over at fine pricing to fund long-term requirements and/or refinance overdrafts carrying higher pricing. The lower demand for credit impacted our credit to deposit ratio which decreased from 75.75 percent as at 31 December 2014 to 69.31 percent as at 31 December 2015 thereby tilting the asset mix towards lower interest earning assets, namely government securities and bank bonds. The average yields on government securities portfolio stood at 4.83 percent for 2015 compared to 5.63 percent for 2014. Other factors such as higher impaired advances, funding of the core banking system and Business Transformation Initiatives, idle cash holdings and excess capital streamed up to the holding company on the restructuring date impacted negatively on interest income.

Interest income decreased from MUR 6.27 billion for the year ended 31 December 2014 to MUR 6.07 billion for the year under review, representing a decrease of 3.25 percent. The decrease in interest income was partly mitigated by better liability management. Deposits growth was mostly in low cost current accounts and savings accounts (CASA) deposits and foreign currency (FCY). The Bank reduced its interest rate on deposits twice during the year and no interest is paid on CASA for non-retail account holders. The result was a decrease in interest expense from MUR 2.31 billion to MUR 2.00 billion over the same period, or 13.41 percent. The combined effect in net interest income was a decrease of 2.68 percent in 2015 compared to last year. Net interest margin stood at 3.43 percent for the year ended 31 December 2015 compared to 3.68 percent for the year 2014.

## Non-interest income

Non-interest income witnessed a decrease of 12.34 percent from MUR 1.91 billion for the year ended 31 December 2014 to MUR 1.67 billion for the year ended 31 December 2015. Excluding dividend income and non-recurrent profits on sale of equity investments included in 2014, a satisfactory growth of 13.92 percent was achieved in 2015. The table below shows the main components of the Bank's non-interest income.

| | Year Dec 2015 MUR m | Year Dec 2014 MUR m | Variance MUR m | Variance % |
|---|---|---|---|---|
| Foreign exchange gain | 458.08 | 356.83 | 101.25 | 28.37 |
| Net fee and commission income | 545.93 | 540.15 | 5.78 | 1.07 |
| Card income including e-commerce income | 397.66 | 316.62 | 81.04 | 25.60 |
| Gains on sale of investment securities | 271.66 | 255.27 | 16.39 | 6.42 |
| **Subtotal** | **1,673.33** | **1,468.87** | **204.46** | **13.92** |
| Dividend income | 0.01 | 61.90 | (61.89) | (99.98) |
| (Loss)/Gain on sale of equity investments | (0.22) | 377.95 | (378.17) | (100.06) |
| **Total** | **1,673.12** | **1,908.72** | **(235.60)** | **(12.34)** |

The increase in fees and commission income was mitigated by lower increase in loan related commission due to lower number of loans disbursed. Besides poor demand for credit, the Bank has also been selective in growing retail loans as it has nearly reached the set target based on our risk appetite. E-commerce and card income recorded an increase of 25.60 percent against last year as a result of higher volume of e-commerce transactions.

Exchange income increased by MUR 101.25 million to MUR 458.08 million for the year under review, mostly from our domestic operations.

A key driver of the growth in non-interest income was gains on dealing/sale of securities, namely gilt-edged securities and foreign bank bonds. Both our Mauritian and Indian operations continue to book significant gain on sale of bonds instruments in available-for-sale investments securities portfolio.

The decrease in dividend income was due to the Group restructuring whereby equity investments in non-banking entities were transferred to the holding company and thus the dividends received on those investments have been booked at the holding company.

The ratio of non-interest income excluding dividend income and gain on sale of equity investments to average assets stood at 1.42 percent for 2015 against 1.35 percent for 2014. Non-interest income as a percentage of gross revenue stood at 29.15 percent for 2015 against 32.52 percent for 2014.

### Non-interest expense

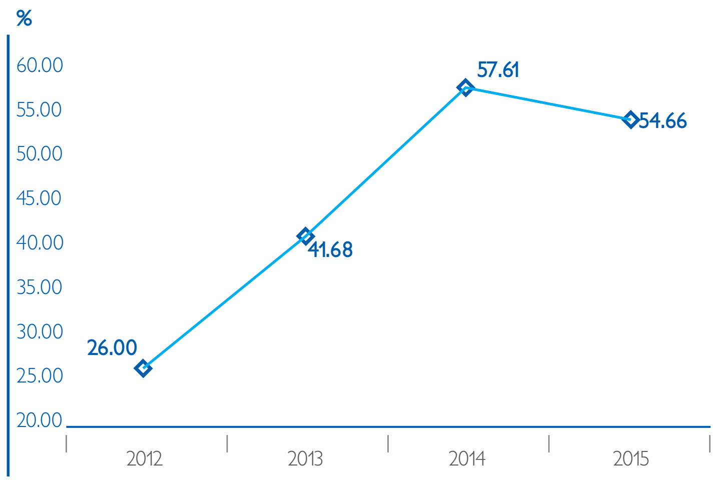
Non-interest expense amounted to MUR 2.11 billion for the year 2015 compared to MUR 3.04 billion for 2014; the latter period included prior year adjustments of MUR 1.17 billion in respect of write off on derecognition of certain expenditures pertaining to inefficiency of the core system under implementation and Business Process Engineering/Initiatives which do not qualify as intangibles. The table below shows the components of operating expenses.

| | Year Dec 2015 | Year Dec 2014 | Variance | |
|---|---|---|---|---|
| | MUR m | MUR m | MUR m | % change |
| Personnel costs | 1,184.87 | 1,065.31 | 119.56 | 11.22 |
| Property costs (including depreciation) | 233.22 | 210.66 | 22.56 | 10.71 |
| System costs (including depreciation and amortisation) | 499.37 | 1,585.35 | (1,085.98) | (68.5) |
| Other expenses | 195.98 | 180.87 | 15.11 | 8.35 |
| **Total** | **2,113.44** | **3,042.19** | **(928.75)** | **(30.53)** |

Personnel costs increased by MUR 119.56 million on account of normal annual increase on salaries and pensions and increase in headcount.

Cost to income ratio calculated as non-interest expenses over operating income less net impairment loss on financial assets stood at 54.66 percent in 2015 and 57.61 percent in 2014 against average of around 35 percent. This was primarily on account of higher systems costs, partial write-off of Business Process Engineering expenditures and impairment loss on financial assets.

Cost to Income




### Net impairment loss on financial assets

Net impairment loss on advances amounted to MUR 1.87 billion for the year ended 31 December 2015 against a restated balance of MUR 588.63 million for the year 2014. Impairment loss was essentially of specific type as the advances portfolio provision amounted to MUR 240.77 million and represented only 12.85 percent of the total provision charge for the year ended 31 December 2015. Portfolio provision made in respect of the macro-prudential policy measures amounted to MUR 148.83 million for the year ended 31 December 2015 compared to MUR 174.10 million for 2014. Mauritius operations accounted for 93.09 percent of the specific provision out of which 43.77 percent related to a couple of clients in Segment B operations and 56.23 percent in Segment A. Segment A specific provision arose mainly from a large conglomerate in the financial services sector which went into administration. Specific provision in the books of our overseas branches made up the balance of 6.91 percent of the total bank specific provisioning and was from a few corporate accounts.

Please refer to Note 39 for the change in policy on portfolio provision.

## Loans and advances

Gross advances increased by MUR 3.20 billion or 4.66 percent to reach MUR 71.79 billion as at 31 December 2015. The increase was attributable mostly to our corporate Segment A. Our domestic advances market share increased from 20.94 percent as at 31 December 2014 to 21.22 percent as at 31 December 2015 whereas the market grew by MUR 11.57 billion or 4.26 percent over the same period. Advances at our overseas operations grew by MUR 0.49 billion for the year under review to MUR 3.78 billion at 31 December 2015 whereas Segment B/cross-border advances registered a decrease of 5.84 percent compared to December 2014 as a large short-term trade facility was repaid on 31 December 2015 at maturity. Advances denominated in FCY (mostly in US dollars) as a proportion of total advances remained at 27 percent, at the same level as at 31 December 2014. Retail advances represented 39.14 percent of total credit portfolio and market share of 30.94 percent. A breakdown of the credit portfolio by economic sectors and level of provision held has been disclosed in Note 9 to the Financial Statements.

## Credit quality

Impaired advances amounted to MUR 3.62 billion, significantly higher by MUR 2.17 billion compared to 31 December 2014. The increase in impaired advances was mostly from Mauritius operations. The Bank had to classify a large exposure of a conglomerate which went into great financial difficulties when the regulatory bodies appointed administrators as its financial conditions were not sustainable. The Bank was also hit by two customers in Segment B with large exposures. The overseas operations accounted for 11.15 percent of the total impaired advances. The Bank has enhanced the credit process for the booking of credit at our overseas branches, in particular all advances for overseas branches are sanctioned by the Board Credit Committee at Head Office and the credit book is being grown on a prudent and selective basis. Specific provision increased from MUR 803.51 million as at 31 December 2014 to MUR 2.34 billion as at 31 December 2015, representing provision coverage of 64.67 percent, against 55.53 percent at 31 December 2014. The uncovered portion was adequately covered by collateral, suitably discounted to reflect prevailing market conditions and expected time of realisation/receivables.

The ratio of gross impaired advances to gross advances deteriorated significantly from 2.11 percent at 31 December 2014 to 5.05 percent as at 31 December 2015 and net impaired advances to net advances deteriorated from 0.96 percent to 1.87 percent over the same period.

In accordance with the BOM Guideline on Credit Impairment Measurement and Income Recognition, a minimum portfolio provision of 1 percent of adjusted performing advances is made in the books. However for some sectors where the historical loan loss rate which is based on our actual long-term average loss experience is higher than the minimum 1 percent, the historical loan loss rate is applied. The credit portfolio is classified into different sectors. As the loan book registered an increase in the current year, the portfolio provision increased by MUR 827.59 million to reach MUR 1,069.01 million at 31 December 2015. Additional portfolio provisions in accordance with the macro-prudential policy measures issued by BOM amounted to MUR 322.92 million as at 31 December 2015 compared to MUR 174.10 million for 2014.

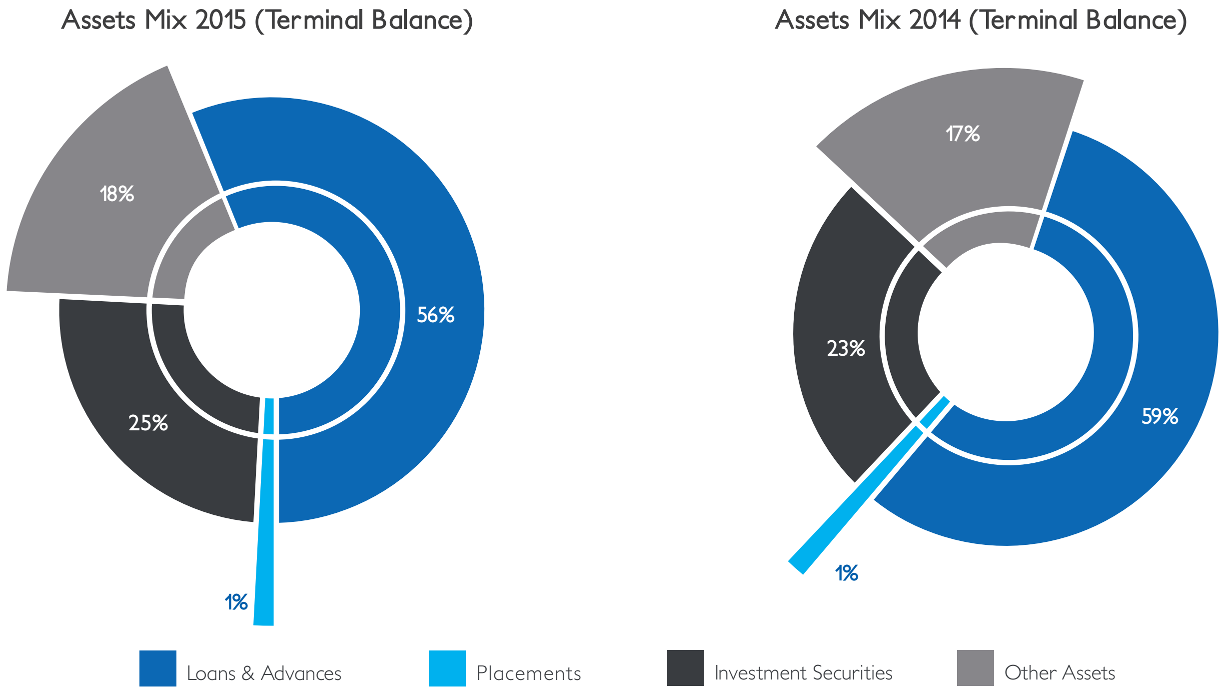
## Investment securities and placements

As the domestic market advances increased moderately by 4.26 percent in 2015, our deposits continued to increase significantly as people tended to place their deposits with large strong banks in the prevailing economic climate. The Bank did not have much opportunities for deployment of MUR funds other than in gilt-edged securities and placements with banks. Investment securities comprised fixed income government securities (60.32 percent), international bank bonds (29.66 percent) and the balance in corporate bonds and commercial papers. Investment securities increased by MUR 5.47 billion or 21.35 percent to reach MUR 31.08 billion as at 31 December 2015. The average yield on the investment securities portfolio for the year under review was 3.98 percent against 4.56 percent for the year 2014. The lower yield coupled with a substantial increase in the investment securities portfolio impacted net interest margin and profitability. Investment securities amounting to MUR 2.33 billion were transferred to SBM Holdings Ltd by way of dividends in specie during the year under review.

Short-term loans and placements with banks increased from MUR 702.13 million as at 31 December 2014 to MUR 1.21 billion as at 31 December 2015.

### Intangibles and other assets

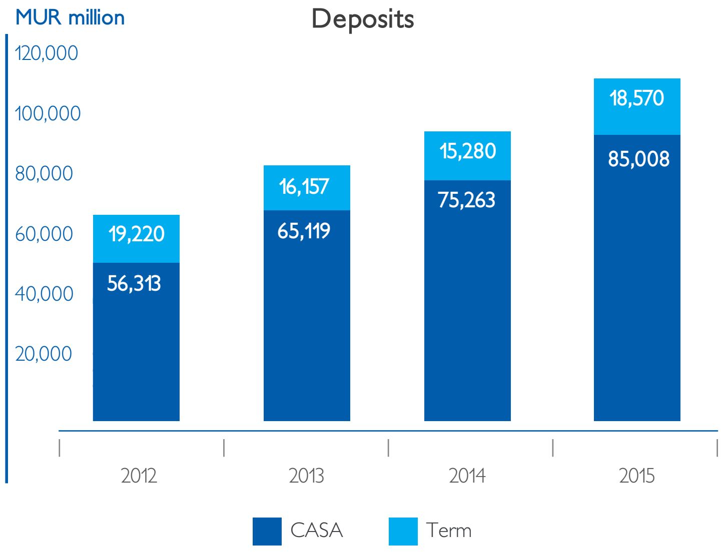
Other assets include an amount of MUR 271.16 million with respect to software licences and implementation of core banking solutions and other applications currently in progress.




### Deposits and borrowings

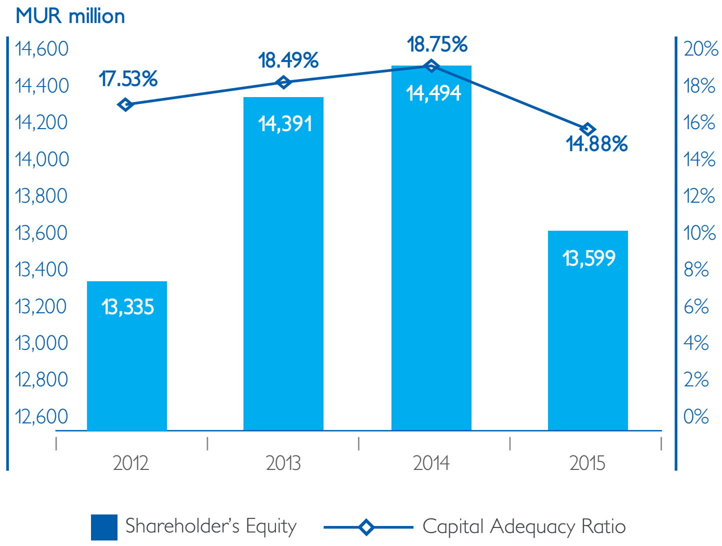
Total deposits from non-bank customers increased by 14.40 percent from MUR 90.54 billion as at 31 December 2014 to reach MUR 103.58 billion as at 31 December 2015. The growth was driven by lower cost current account and savings account deposits (CASA) which increased by MUR 9.75 billion from MUR 75.26 billion as at 31 December 2014 to MUR 85.01 billion as at 31 December 2015. CASA accounted for 82.07 percent of total deposits as at 31 December 2015, down from 83.12 percent at 31 December 2014. Out of the MUR 13.04 billion increase in total deposits, foreign currency (FCY) deposits accounted for MUR 8.61 billion thereby increasing the mix of FCY to total deposits from 27.39 percent at 31 December 2014 to 32.26 percent at 31 December 2015. Term deposits increased from MUR 15.28 billion to MUR 18.57 billion over the same period with higher growth in FCY term deposits offset by a decrease in MUR term deposits. Domestic market share of CASA deposits represented 25.12 percent whereas market share for Segment A deposits amounted to 20.74 percent as at 31 December 2015.

Other borrowed funds decreased by MUR 2.98 billion to reach MUR 2.13 billion as at 31 December 2015 as the Bank repaid on maturity USD 75 million line of credit at relatively higher pricing. The bulk of the borrowings were in USD and EUR from foreign financial/development institutions at competitive pricing.




## Shareholder's fund

The shareholder's fund decreased by 6.18 percent from MUR 14.49 billion at 31 December 2014 to MUR 13.60 billion at 31 December 2015. Retained earnings were restated in respect of write off on derecognition of certain expenditures pertaining to inefficiency of the core system under implementation and Business Process Engineering/Initiatives and portfolio provisioning which impacted the shareholder's equity for 2014 to decrease by MUR 1.55 billion (please refer to Note 39 of the Financial Statements). Dividend amounting to MUR 2.37 billion was paid during the year. Return on average shareholder's equity stood at 9.57 percent at 31 December 2015 due to lower profits for the period under review. The Bank maintained adequate capitalisation levels, including capital adequacy ratio of 14.88 percent, with Common Equity Tier 1 capital (CET1) making 12.86 percent. See the capital management section for more details.



## Performance versus objectives

| Indicator | Objectives for 2015 | Performance 2015 | Target for 2016 |
|---|---|---|---|
| Profit after tax for the year | To grow by more than 4 percent | As a result of the exceptionally high impairment charge, the Bank recorded a profit of MUR 1.34 billion, and could not achieve the target for 2015. However, in terms of operating income, the Bank did fairly well with an increase of 4.53 percent compared to 2014 excluding the one-time gain on disposal of equity investments of MUR 377.95 million in 2014. | The Bank is forecasting a growth in profits of around 60 percent given the lower profit base for 2015 and a normalised impairment charge. |
| Return on Average Assets (ROA) | To maintain ROA above 2.5 percent | The Bank registered an increase of 8.19 percent in average assets from December 2014 to December 2015 and coupled with a significantly lower profit impacting on ROA of only 1.14 percent for 2015. | The Bank expects to catch up in 2016 with a return on average assets of at least 1.9 percent. |
| Return on Equity | Target above 15 percent | As a result of lower profit for 2015, the Bank generated a return on average equity of 9.57 percent for 2015. | The Bank is expecting to achieve better results and optimising on capital to generate more income in the coming five years. For 2016, the Bank is expecting an improvement over 2015 results with a return on equity of at least 15 percent. |
| Advances and Deposits | To grow average advances and deposits by 8.4 percent and 7.7 percent respectively | Average deposits increased by 12.98 percent and average advances by 0.73 percent. | To grow average advances and deposits by 14 percent and 10 percent respectively. |
| Assets Quality | To maintain net impaired assets ratio below 1 percent | Net impaired ratio for December 2015 stood at 1.87 percent compared to 0.96 percent for 2014. Increased mostly on account of one major conglomerate in the domestic market classified as impaired during the year. | To target net impaired assets ratio below 1.5 percent. |
| Cost to Income Ratio (CI Ratio) | To contain ratio below 40 percent including expected higher system costs | The cost to income ratio for 2015 was 54.66 percent, higher than last year mostly on account of higher impairment charge. | The CI ratio is expected to be around 47 percent as the Bank is projecting an increase in operating costs with implementation of the full-fledged Technology Transformation Platform and also as it will invest in capacity-building in terms of human capital. The ratio is expected to gradually improve as the Bank starts reaping the benefits of its investment in technology and human resources. |

## Review of the operating environment

### Mauritius

Despite the challenging economic conditions, the Mauritian economy continued to expand, albeit with sectors still operating with excess supply conditions. Economic growth for 2015 is estimated at 3.1 percent. The various sectors of economic activity appear to be weathering the global uncertainties well although, given the fragile external environment, some sectors continue to operate with some degree of spare capacity. All major economic sectors, save construction and sugarcane, have contributed positively to growth. The manufacturing, financial and insurance activities, accommodation and food service activities, and wholesale and distributive trade sectors make the highest contribution to growth. On the flip side, following another contraction in 2014, the construction sector performed poorly in 2015 as a result of a slowdown in commercial and residential buildings expenditure.

Investment has been affected by soft economic conditions, muted business confidence, corporate indebtedness and slow recovery in key exports markets. Unemployment increased marginally to 7.9 percent. Inflation remained low by historical standards. The repo rate was reduced to 4.4 percent from 4.65 percent in November 2015. Domestic and external imbalances remained broadly contained. Credit growth evolution continued to be weak within a low interest rate environment and persistent excess liquidity.

Going forward, the economy could be expected to gather some pace with sectors like tourism gaining momentum.

### India

India made visible progress during 2015, to the extent of being described by the International Monetary Fund (IMF) Managing Director as "a bright spot amid the economic woes faced by other major emerging market countries." Public investment driven by faster implementation of key projects, private investment driven by greater ease of doing business, private consumption driven by higher wages and purchasing power, and falling oil and commodity prices led to a gradual pickup in economic growth momentum, despite a poor monsoon-season rainfall and continued weakness in global demand. Though widening, the current account deficit is being largely financed by rising FDI flows. Inflation eased sharply and the Reserve Bank of India cut interest rates four times during the year.

Sufficiently capitalised and well-regulated, the banking sector continues to be driven by strong economic growth, easier access to credit, positive business sentiment and improved consumer confidence. Even so, difficult conditions were manifested in the form of non-performing loans and high leverage ratios for some companies.

Going forward, India's economy and banking sector are expected to improve as a sense of optimism stems from the government's measures to raise India's profile as a business and investment destination.

## Review by lines of business

### Retail Banking

Offering an extensive range of products from savings accounts to mortgages/educational loans, debit and credit card products, payment solutions like SBM Billpay, bancassurance, asset management, internet banking and mobile banking solutions, among many others, SBM Bank boasts a wide distribution network and a strong franchise in the domestic retail banking landscape, of which SBM Bank has over 30 percent of market share.

In financial year 2015, the Bank focused more on quality advances and maintaining market share to a reasonable level. The mortgage market has been very active with fierce competition from other financial institutions.

Despite a significant and unplanned growth in deposits following the collapse of a major financial group, the Bank managed to contain the growth in interest expenses. Retail Banking seized this opportunity to channel the deposits towards asset management products offered by the SBM Group.

During the year, Retail Banking pursued efforts towards the setup of dedicated Bancassurance kiosks to support growth in non-interest income; the setup of a dedicated Retail Treasury Desk to monitor and capture foreign currency transactions; bringing banking closer to the workplace; revamping its product offering to better cater for the needs of customers; redefining its focus on private banking and wealth management; and upskilling its human capital, among others. Enhancing customers' journey continues to be our priority and we have implemented a number of initiatives to improve customers' experience.

## Corporate and Institutional Banking (CIB)

*Domestic Corporate Banking*

Aiming to adapt to the evolving market and growing demand for more sophisticated products, our CIB team has continued to make every effort to provide bespoke solutions suitable for our customer needs. Our product suite has expanded from traditional banking products to specialised trade finance solutions and adaptive project financing.

In the wake of a lacklustre credit appetite in the market, we have undertaken several initiatives to consolidate early steps into modern banking solutions. CIB reinforced the team with specialists in both trade finance and project finance. During the year, several initiatives have been implemented to bolster the team capacity and new products have been released to our corporate clients. Going forward, CIB is looking into further ground-breaking products and services to assist our clients into achieving greater dimensions in their future projects, ensuring that we serve as a one-stop shop for clients, from providing debt financing to trade financing and cash management.

*Global Business Banking*

The share of our Segment B business in the market is just under 2 percent. Our Global Business Banking team has expanded and endeavours to offer financial solutions in order to service the wide spectrum of international players in the market. Besides generic foreign currency account opening and transactional banking services, the team also acknowledges the growing traffic in international trade and therefore has engineered over the year brand-new structured trade finance products and value-chain solutions. The Bank has developed and pursues development of a robust relationship network with a number of top-tier financial institutions across the Asian and African continents to ensure we service clients both in Mauritius and into these emerging markets. We continue to accompany our Mauritian corporates as they venture into new markets.

Throughout the year 2015 and in line with SBM Group's strategy to increase our global footprint, the team has carried out various missions across the Indian Ocean and the region and has successfully partnered with several Financial Institutions. We have actively pursued opportunities to expand our footprint in targeted geographies of Asia and East Africa and further leverage Mauritius's strategic location and its membership in the SADC and COMESA blocs.

## SME Banking

SBM SME Banking offers a bundle of products and services suited to the business needs of its target customers. These include import loans, term loans, leasing/asset financing, bank overdrafts, working capital loans, letter of credit, bank guarantees, bill discounting, as well as payment services.

SME Banking, which covers some 5 percent of our total banking business, recorded a lukewarm performance amidst persisting challenges. The needs of customers remain varied and necessitate continous development with regard to product offering and service levels. Thus, to better serve SME customers, the Bank is working to revamp its strategy towards SMEs and restructure the SME Banking division. As part of this effort, the Bank established 6 SME hubs around the island in 2015 with the objective of nurturing proximity with customers to be able to accompany them in their daily banking needs in a more convenient manner.

### Financial Institutions Group

Responsible for developing and managing relationships with banks, Non-Banking Financial Institutions, Multilateral Institutions, Development Financial Institutions, Sovereigns and Public Sector Enterprises, the Financial Institutions Group (FIG) uses a large network of correspondent banks and focuses on providing banking services to facilitate international trade and cross-border payment operations.

Serving customers across geographical borders, FIG offers trade finance solutions (LC-based products, trade loans, and guarantees and risk participation products), transaction solutions (payment, liquidity, cash letter solutions, INR remittances), and lending solutions (syndication participation, bilateral/club lending).

To support the growth agenda for FIG, SBM Group has recently signed partnership agreements with reputed financial institutions. It has also embarked on a strategy to offer banks in East Africa trade finance facilities to allow SBM Bank to be a confirming and financing bank in either the primary market or the secondary market through risk participations it has signed with international banks operating in East Africa.

### Financial Markets

The Financial Markets division offers a comprehensive suite of products ranging from plain vanilla to sophisticated products and services, tailor made to the needs of customers to manage a broad range of risks. Products/services include spots, forwards, swaps, currency options, structured products and money market instruments.

Financial Markets performed satisfactorily, recording good growth in exchange income as well as securities trading income. A number of initiatives supported performance including the introduction of new products such as structured products and exotic currency transactions, diversification of the revenue profile and the pursuit of independent retail treasury and Non-Resident Indians’ desks.

### Card Issuing, POS and E-Commerce

The year 2015 marked the integration of the Bank’s card system with other systems in use at the Bank, which helped to enhance the existing card product offering. Besides, the Bank launched UnionPay International (UPI) cards, an important acquisition campaign to grow its card customer base, campaigned to facilitate and promote credit card usage, and undertook initiatives to activate dormant cards and raise card spending. SBM Bank maintains its market position as the second-largest card issuer in the domestic market.

In 2015, transaction volumes on POS terminals rose as compared to the previous year. The Bank upped efforts to safeguard its position as a preferred choice for merchants. With a keen eye on mobility and technology, the Bank is readying to transition to the mobile channel and has already partnered with key service providers to serve customers in an innovative way that allows for payment of transactions anywhere, anytime at their fingertips via mobile banking. During 2015, initiatives focused on risk reduction, growing the acquiring business, building capacity, among others.

To crown our efforts, SBM Bank was awarded “Best E-Commerce Bank East Africa 2015” and “Most Innovative Prepaid Card (SBM Smile Prepaid Cards) East Africa 2015” by the Global Banking and Finance Review Awards 2015.

A key ingredient in innovation is
the ability to break rules.

# EFFICIENCY

# RISK MANAGEMENT

## RISK PHILOSOPHY

SBM Bank (Mauritius) Ltd ('SBM Bank' or the 'Bank') values rigorous risk management as an integral part of its growth strategy across all lines of business. With a dynamic approach to risk management, the Bank remains committed towards ensuring effective and efficient risk processes and optimal returns within set risk appetite.

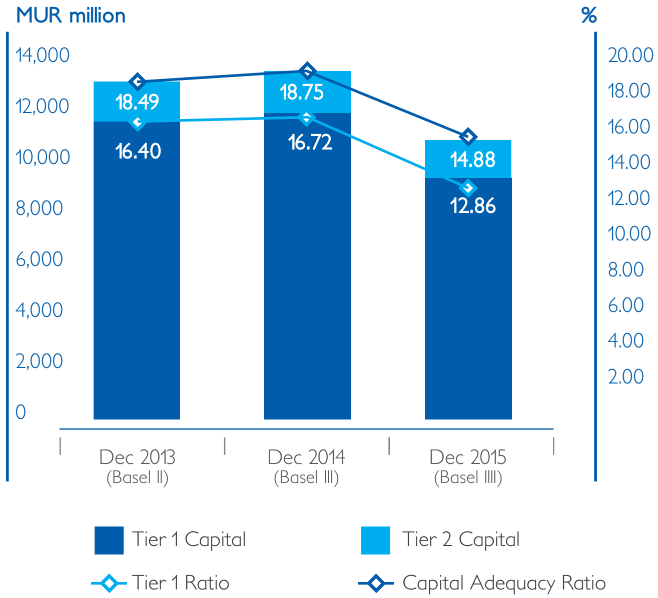
### Mission

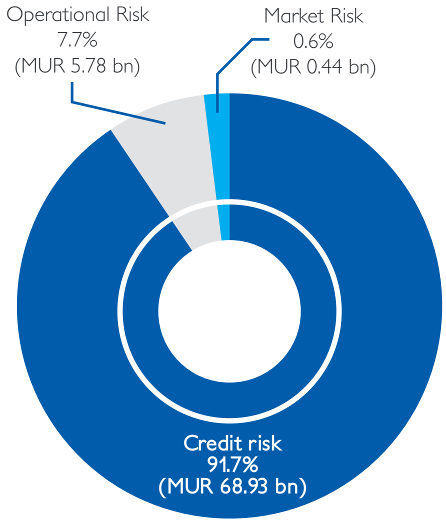
The Bank is committed towards embedding a risk culture in its organisation and embraces risk management as a core competency that allows it to optimise risk-taking through objectivity and transparency.

## Executive summary

In 2015, the domestic economy as well as global economies witnessed anemic growth rates coupled with increased market volatility and vigorous competition. Despite major challenges faced, our performance showed resilience and capabilities to withstand economic headwinds.

### Strong Capital Position: Capital Adequacy Ratio & Risk-Weighted Exposures

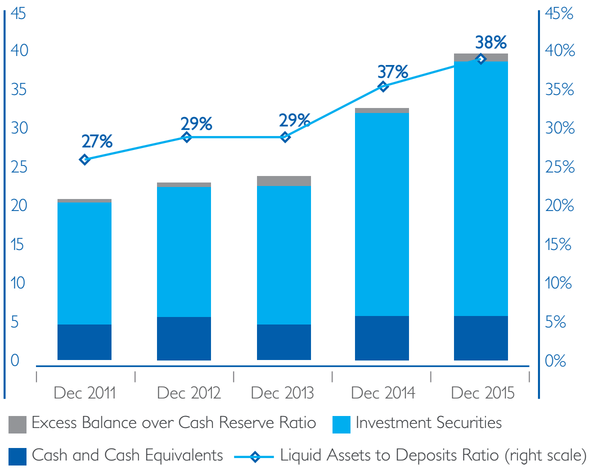



As on 31 December 2015, the capital base of the Bank was MUR 11,184 million and the Capital Adequacy Ratio was 14.88 percent well above the minimum requirement of 10 percent. Our Indian banking operations also abide by the minimum capital requirement set by the host regulators which is at 9 percent.

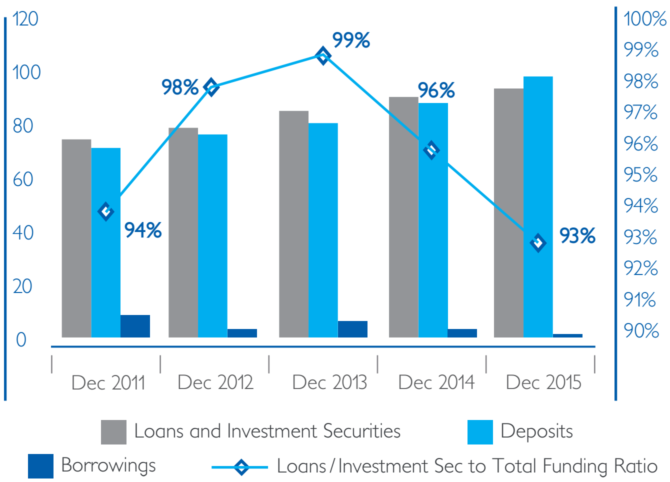
## Liquidity Risk

The Bank's liquidity and funding position is supported by its large and well diversified non-bank customer deposit base by type and maturity.



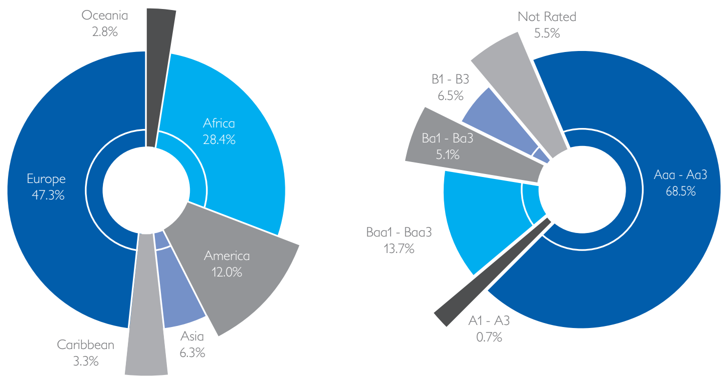

## Funding Risk

Customers' savings, current and call accounts accounted for 82.21 percent of the deposit base as at 31 December 2015 which is adequate to counterbalance the impact of a stressed funding environment.

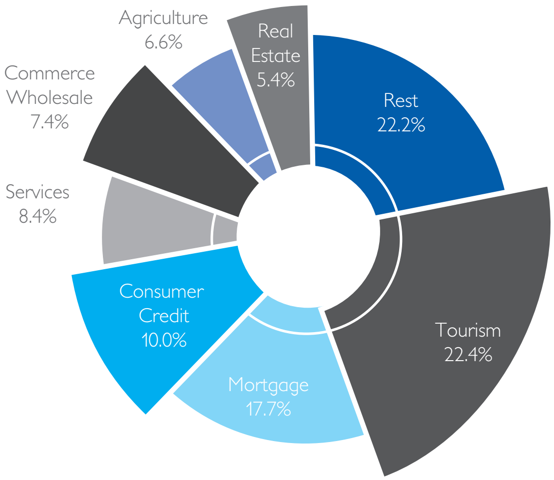



## Breakdown of Risk-Weighted Exposures on countries (excluding Mauritius and India) by region and external rating

SBM Bank managed country risk within an established framework that includes limits setting for each country. The Bank has enhanced its framework to incorporate future strategy for expansion in African and Asian countries.



## Diversified Credit Risk Profile - By Portfolio




Mauritius Operations represented 89.6 percent of the total risk-weighted exposures for Bank credit risk.

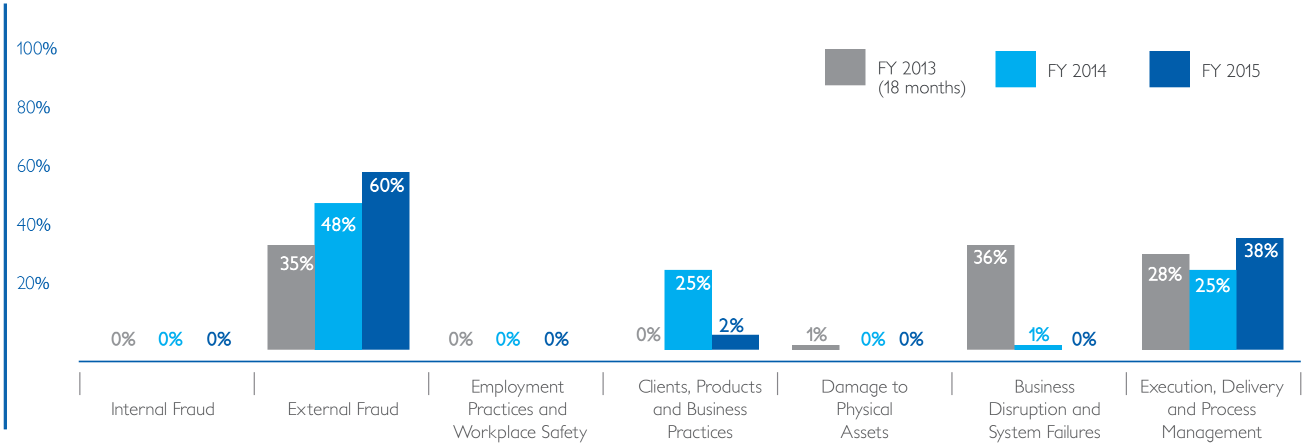
Note: Over 85 percent of the exposures are backed by eligible collaterals in line with BOM Guideline on Standardised Approach to Credit Risk.

The Bank has a well-diversified portfolio of loans and advances with diversified income streams.

Portfolios are being monitored closely and future facilities for sectors experiencing poor growth rates are subject to more vigilance.

## Operational Loss Events by Risk Category % of Total Loss Events by Value

A conducive control environment with robust operational risk policies, processes, systems as well as appropriate risk culture within the organisation has contributed in maintaining a low operational loss experience over the years. The Bank continues to take counter-measures to prevent recurrence of operational risk events.



# RISK MANAGEMENT

## 1. Introduction

### 1. Risk Management Framework

The Bank has an integrated and robust risk management framework in place to identify, assess, manage and report risks and risk adjusted returns in a reliable and consistent manner. The framework is based on transparency, management accountability, independent oversight which is comprehensive enough to capture all risks that the Bank is exposed to and has flexibility to accommodate any change in business activities. Key elements of the effective risk management framework are:

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

The risk management framework is the foundation for comprehensive management of risks facing the Bank. It outlines clear responsibilities and accountabilities for managing risk.

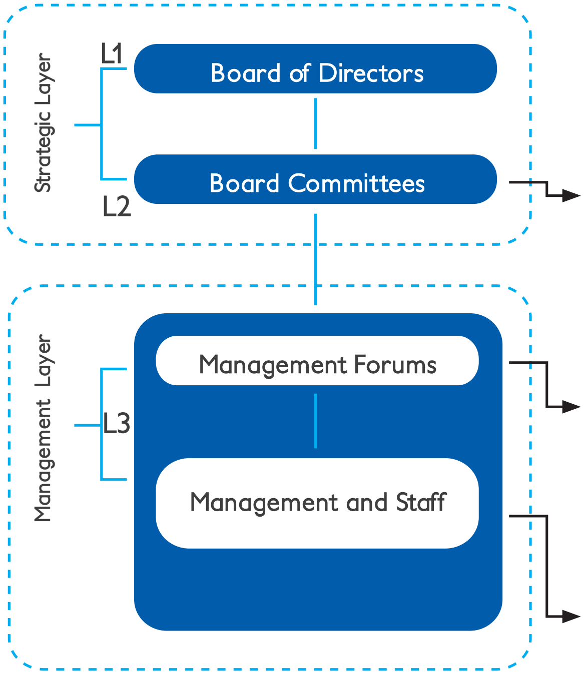
The Board assisted by its Committees—(a) the Corporate Governance & Conduct Review Committee, (b) the Audit Committee, (c) the Risk Management Committee, (d) the Strategy Committee, (e) the Remuneration Committee, (f) the Credit Committee—has oversight responsibilities in relation to risk management, adherence to internal policies and compliance with the prudential, regulatory and legal requirements.

The aggregate enterprise-wide risk profile and portfolio appetite are discussed at the respective risk management forums. The Head of Risk Management Team reports to the Chief Executive with direct access to the Board Chairperson and the Risk Management Committee.

The executive management would be 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 chart below illustrates the inter-relationship among the Board, Board Committees and Management Forums that have the majority of risk oversight responsibilities for the Bank.

## RISK MANAGEMENT FRAMEWORK




| CONSTITUTION | ROLE | RESPONSIBILTIES |
|---|---|---|
| Both executive and independent directors | Oversight | The Board is responsible to authorize management to maintain an effective Risk Framework, and oversees compliance with safe , ethical and sound banking practices. |
| A mixture of independent, experts and executive directors wherever allowed. | Escalation | The Board Committees include Audit, Risk Management, Strategy, Corporate Governance and Conduct Review and Credit. |
| Key members of management including the Chief Executive | Ownership | 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.<br><br>The aggregate enterprise-wide risk profile and portfolio appetite are discussed at the respective Risk Management Forums |
| Credit Risk Team, Market Risk Team and Operational Risk Team | Coordination | The Team acts as a coordinator and facilitates the monitoring and reporting of significant risks across the organisation. |

Note: Where applicable, each entity within the Bank has its own Board, Board Committees and Management Forums.

### 1.1 Risk Management Governance

The Group adopts the three lines of defence principle when it comes to risk taking where each line of defence has a clear responsibility;

| | FIRST LINE OF DEFENCE | SECOND LINE OF DEFENCE | THIRD LINE OF DEFENCE |
|---|---|---|---|
| **RESPONSIBILITY** | Strategy, Performance and Risk Management | Policy and Monitoring | Independent Assurance |
| **FUNCTION** | Support/Business Units | Corporate Oversight Functions | Audit |
| **KEY ACTIVITIES** | Identification and Management of Risks | Framework, Risk, Oversight and Reporting | Independent Challenge and Review of Adequacy and Effectiveness of Processes and Controls |

Working closely with the support units, the business units are our first line of defence with a clear responsibility for risk. This includes identification of risks and the reporting of any changes in the risk profile of the clients or positions.

As a second line of defence, corporate oversight functions such as Risk Management and Compliance are responsible for developing, overseeing and reporting on risk frameworks. In addition, they are responsible for identifying individual and portfolio risk; approving transactions and trades, and ensuring that they are within approved limits; and monitoring and reporting on the portfolio, taking into account current and future potential developments through stress testing.

Finally, Audit represents the third line of defence, in providing an independent assessment and assurance to the Audit Committee on the robustness, adequacy and effectiveness of our internal controls related to processes, risk and control governance.

The Group bases its business operations on conscious and disciplined risk-taking. It believes that independent risk management, compliance and audit processes with proper management accountability are critical to the interests and concerns of its stakeholders.

## 2. Risk Appetite Framework

SBM Bank maintains a comprehensive Bank-wide risk appetite framework, providing a robust foundation for risk appetite setting and management across the Bank. A key element of the framework is a detailed statement of the Board-approved risk appetite which is aligned to the Bank's financial and capital plans.

The framework also encompasses a suite of policies, processes, controls and systems for assessing the appropriate level of risk appetite required to constrain its overall risk profile. The framework is guided by the following strategic risk objectives:

- Maintaining Bank-wide capital adequacy on both a regulatory basis and under stressed conditions;
- Promoting stability of earnings;
- Ensuring sound management of liquidity and funding risk;
- Minimising reputational risk; and
- Managing and controlling business conduct risk.

Bank-wide risk appetite is determined in conjunction with the financial 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 and is the means through which the Bank's strategic risk objectives, financial resources and business plans are all aligned.

Allocations to each risk category are cascaded down to each entity's Board for approval. The following chart provides an overview of key Bank-wide quantitative and qualitative aspects covered in its risk appetite statement for the Bank and how they are cascaded.

## RISK APPETITE

### Financial Risk

**Credit Risk**

- Borrower
- Industry
- Country
- Bank
- NBFC
- Sovereign

**Market Risk**

- Trading book
- Banking book

**Liquidity Risk**

- Currency
- Legal entity

### Non-Financial Risk

**Operational Risk**

- Process
- People
- IT
- Compliance

**Reputational Risk**

**Business and Strategic Risk**

- Macroeconomic environment
- Competitive environment
- Regulatory environment

**Other Risks**

- 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)

### 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. The Bank's limits can be found in its prudential limits document.

### Risk Targets

Risk target is the optimal level of risk that the Bank wants to take in pursuit of a specific goal. Setting the risk target should be based on the desired return, on the risks implicit in trying to achieve those returns and on SBM Bank'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.

Note: Breaching a risk tolerance level serves as a red alert for the management; the risk position must be reduced and preventive actions must be taken. Breaching a risk limit, however, acts more like an early warning signal, triggering corrective actions that are taken to maintain the current risk level.

### 2.1 Risk Controls

A core aspect of the Bank's risk appetite framework is a sound system of integrated risk controls to maintain its risk profile within its overall risk appetite. The risk controls are intended to:

- limit overall risk-taking to the Bank's risk appetite;
- trigger senior management discussions with the businesses involved, risk management and governance committees in case of substantial change in the overall risk profile;
- ensure consistent risk measurement across businesses;
- provide a common framework for the allocation of resources to businesses; and
- provide a basis for protecting the Bank's capital base and meeting strategic risk objectives.

The Bank has established a control structure which manages the Bank's risk profile using multiple metrics, including concentration ratios against the allocated capital, value-at-risk (VaR), scenario analysis and various exposure limits at Bank level. The overall risk limits are approved upon recommendation from the Board Risk Committee.

### 2.2 Policy Governance

A top down approach has been adopted for the dissemination and implementation of the policies from the Board to the management. Similarly, a top down approach is in place with respect to risk appetite, which the Board reviews and approves on an annual basis with the aim of ensuring that it is consistent with the Bank's strategy, policies, business and regulatory environment and stakeholders' requirements beside competitive-edge. 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.

**Policy Governance Principles**


**Key Objectives**

- *Align stakeholders to the strategies leading to effective realisation of the Bank's strategic goals*
- *Build strong values to strengthen the Bank's growing reputation and brand value*
- *Enable compliance to regulatory norms and infusion of industry leading practices*
- *Ensure consistency of experience across entities and geographies*

The policies are designed with clarity on: the intended effects to be produced, the intended recipients of those effects, and the intended worth of the effects. The policies are centrally managed and are in the custodianship of the Risk Management Team and any proposal for change must go through the Head of Risk Management who ensures that the approval process is followed.

### 3. Risk Overview

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

| Key Risks | Arising from | Measurement, monitoring and management of risk |
|---|---|---|
| Credit Risk | | |
| *Credit risk is defined as the risk that the Bank will suffer economic loss due to a bank 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 the Bank, credit risk generates the largest regulatory capital requirement. | Credit risk is:<br>• **measured** as risk-weighted exposures for performing and non-performing exposures.<br>• **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.<br>• **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:<br>• **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;<br>• **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<br>• **managed** using risk limits approved by the Board. |

| Key Risks | Arising from | Measurement, monitoring and management of risk |
|---|---|---|
| **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.<br><br>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:<br>• **measured** using internal metrics including stressed cash flow projections, coverage ratios and advances to core funding ratios;<br><br>• **monitored** against the Bank's liquidity and funding risk framework and overseen by the Asset and Liability Management Committees (ALCOs) of different entities and the Board Risk Management Committee; and<br><br>• **managed** on a stand-alone basis with no reliance on any Bank entity. |
| **Operational Risk** | | |
| *Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.* | Operational risk arises from human error, inappropriate conduct, failures in systems, processes and controls, or natural and man-made disasters. It is inherent to all products, activities, processes and systems, and is generated in all business and support areas. | Operational risk is:<br>• **measured** using the risk and control assessment process which allows identification and evaluation of risks and effectiveness of controls;<br><br>• **monitored** through regular risk assessment procedures, key risk indicators and internal loss database; and<br><br>• **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. |

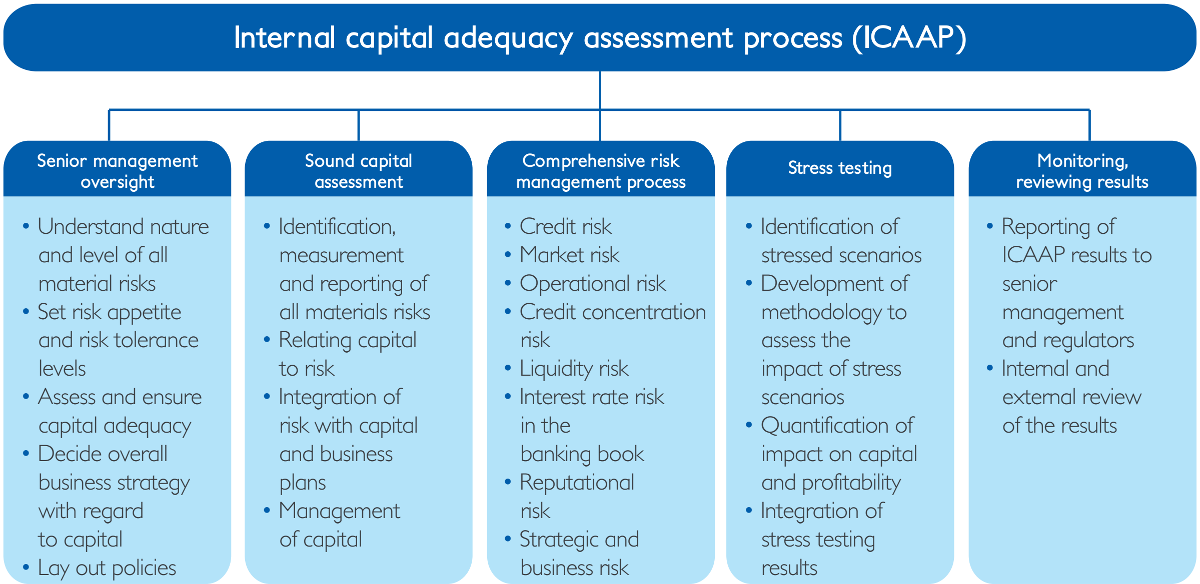
| Key Risks | Arising from | Measurement, monitoring and management of risk |
|---|---|---|
| Reputational Risk | | |
| *The potential that negative perceptions of the Bank's conduct or business practices may adversely impact its profitability or operations through an inability to establish new or maintain existing customer/client relationships.* | Reputational risk arises from failure to meet stakeholder expectations as a result of any action, event or situation caused by the Bank or its employees that can adversely impact on the Bank's reputation. | Reputational risk is:<br>• **measured** by reference to our reputation as indicated by our dealings with all relevant stakeholders, including media, regulators, customers and employees;<br>• **monitored** through analysis of root cause for justified complaints and reporting to appropriate forums/committees; and<br>• **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 the Bank Code of Conduct. |
| Business and Strategic Risk | | |
| *The risk of loss resulting from incorrect assumptions about external or internal factors, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic or competitive environments.* | Strategic risks are risks that affect or are created by an organisation's business strategy and strategic objectives, which are critical to the growth and performance of the Bank. Pursuing an unsuccessful business plan represents a possible source of loss to the Bank. | Business and Strategic Risk is:<br>• **measured** by using several key internal indicators and metrics as a yardstick which enables us to measure the progress against fulfilling the objective;<br>• **monitored** against our risk appetite set out by the Board whilst taking into consideration our internal capabilities and growth prospects; and<br>• **managed** by the Board who sets the objectives for the Bank in terms of growth orientation in consultation with our strategy team. |

It is important to both evaluate each risk type separately and assess their combined impact on the Bank, which helps ensure that the overall risk profile remains within the Bank-wide risk appetite. The primary evaluation methods used to assess Bank-wide quantifiable risks include assessing the risk-bearing capacity through ICAAP (defined below) and stress testing.

### 3.1 ICAAP Framework

SBM Bank conducts an Internal Capital Adequacy Assessment Process (ICAAP) to determine a forward-looking assessment of its capital requirements given the Bank's business strategy, risk profile, risk appetite and capital plan. This process incorporates the Bank's risk management processes and governance framework. A range of stress tests is applied to the base capital plan. These, coupled with risk management practices and contingency plans including the recovery plans, are used to assess its internal capital adequacy requirements.

The purpose of the ICAAP is to ensure that each entity/segment maintains sufficient capital levels at all times to cover the risks associated with its business activities, for legal/regulatory compliance purposes and in accordance with the Basel II and III requirements, besides keeping a cushion for uncertainties and for supporting depositors' confidence. The framework for capital management is based on Pillar I, II and III requirements and the process is detailed as follows.




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 recovery plans is to outline how to respond to a financial stress situation that would significantly impact the Group's capital or liquidity position. Therefore, it lays out a set of defined actions aimed to protect the organisation, its customers and the markets, and prevent a potentially more costly resolution event.

### 3.2 Risk-bearing capacity and Stress Testing

The risk-bearing capacity analysis is a key part of overall bank management and the Bank's Internal Capital Adequacy Assessment Process. The purpose is to ensure that sufficient capital is held for the risk profile of the Bank at all times. The Bank complements its regular standardised 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.

Key scenarios include 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, whether scheduled or ad hoc, both in the form of sensitivity and scenario analysis, either for a specific risk type or for SBM Bank as a whole. The stress tests can represent various economic situations from mild recession to extreme shock. Macroeconomic stress tests are used to check risk-bearing capacity in the face of assumed adverse changes in the economic environment. The underlying scenarios, which are the plausible and negative developments in the economy, are applied across all risk types.

Stress testing is conducted at least annually or at suitable intervals given the prevailing microeconomic and macroeconomic conditions. All stress tests are documented, including contingency plans, exit strategies and mitigating actions appropriate to different scenarios.

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

## 2. Capital Management

### Overview

The Bank has a sound capital management framework for: (i) capital planning and allocation of fund across entities/lines of business; (ii) management and measurement of capital consumption; and (iii) monitoring availability of capital and assessing its adequacy.

The Bank has a strong capital base to support the risks associated with its diversified businesses. Strong capital levels contribute to safety for the Bank's customers, foster investor confidence, meet the requirements of regulators, correspondent banks and support strong credit ratings. It also allows the Bank to tap growth opportunities and thereby enhance shareholder value.

The Bank's capital management framework guided by our comprehensive Internal Capital Adequacy Assessment Process, aimed at ensuring that the Bank's capital is adequate to meet current and future risks, withstands stress situations and achieves its strategic objectives.

### Regulatory capital

Capital adequacy standards for Mauritian banks are regulated by BOM. These standards are largely consistent with international standards set by the Basel Committee on Banking Supervision (BCBS). BOM has issued guidelines, reporting requirements and disclosure guidance which are in line with the Basel III reforms.

# RISK MANAGEMENT

With the implementation of the Basel III framework being phased in from July 2014 till January 2020, banks are called upon to meet higher capital standards.

The Bank has applied the Basel framework since its implementation. The framework is made up of three pillars:

**Pillar 1**

Covers the calculation of risk-weighted assets for credit risk, counterparty credit risk, market risk and operational risk

**Pillar 2**

Covers the consideration of whether additional capital is required over and above the Pillar 1 risk calculations. A firm's own internal models and assessments support this process.

**Pillar 3**

Covers external communication of risk and capital information by banks as specified in the Basel rules to promote transparency and good risk management

In Mauritius, banks are currently required to maintain, at all times, a minimum capital adequacy ratio (CAR) of 10 percent.

By January 2020, banks will be required to meet new minimum capital ratio requirements namely Common Equity Tier 1 (CET 1) of 6.5 percent, Tier 1 CAR of 8 percent, Total CAR of 12.5 percent including a Capital Conservation Buffer of 2.5 percent plus additional capital surcharge for domestic systemically important banks (D-SIBs).

Capital ratios are a means to monitor the capital adequacy and the financial strength of banks. The primary regulatory risk-based capital ratios, CET 1, Additional Tier 1 and CAR, are determined by dividing capital components by risk-weighted assets. A strong capital base reduces the risk of bank failure by providing a cushion against potential losses.

Below table gives the definitions of CET 1, Additional Tier 1 and Tier 2 Capital:

| Common Equity Tier 1 | Additional Tier 1 capital | Tier 2 capital |
|---|---|---|
| • Common shares that meet the criteria for classification as common shares for regulatory purposes<br>• Stock surplus (share premium) resulting from the issue of instruments included Common Equity Tier 1<br>• Retained earnings<br>• Accumulated other comprehensive income and other disclosed reserves<br>• Common shares issued by consolidated subsidiaries and held by third parties (i.e. minority interest) that meet the criteria for inclusion in Common Equity Tier 1 capital<br>• Regulatory adjustments applied in the calculation of Common Equity Tier 1 | • Instruments that meet the criteria for inclusion in Additional Tier 1 capital (and are not included in Common Equity Tier 1)<br>• Stock surplus (share premium) resulting from the issue of instruments included in Additional Tier 1 capital<br>• Instruments issued by consolidated subsidiaries and held by third parties that meet the criteria for inclusion in Additional Tier 1 capital and are not included in Common Equity Tier 1<br>• Regulatory adjustments applied in the calculation of Additional Tier 1 capital | • Instruments that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital)<br>• Stock surplus (share premium) resulting from the issue of instruments included in Additional Tier 2 capital<br>• Instruments issued by consolidated subsidiaries and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital<br>• Certain loan loss provisions<br>• Regulatory adjustments applied in the calculation of Tier 2 capital |

The Bank's internal target includes an adequate buffer over the regulatory minimum.

During the year ended December 2015, the Bank remained above the minimum regulatory requirement with Tier 1 and total capital ratios of 12.86 percent and 14.88 percent respectively.

BOM also designated five banks in Mauritius as domestic systemically important banks (D-SIBs) including the Bank, based on the assessment of five factors, namely size, exposure to large groups, interconnectedness, complexity and substitutability. The D-SIBs guideline issued by BOM focuses on the impact that the distress or failure of banks will have on the domestic economy. The Bank is thus subject to additional loss absorbency requirements, which will be applicable in a phased manner as from 01 January 2016 and become fully effective by 01 January 2019. The Bank is expected to maintain an operating buffer above the minimum capital ratio requirements.

### Regulatory capital ratios

SBM Bank (Mauritius) Ltd became a wholly owned subsidiary of SBM Holdings Ltd effective from 02 October 2014 following the restructuring of the SBM Group in line with regulatory requirements and best practices. The main objectives of the restructuring exercise were: (i) segregation of banking operations from the non-banking and (ii) ring-fencing of capital at each operating entity level to avoid contingent effect.

SBM Holdings Ltd shall receive dividends from the operating entities in the Group which shall be utilised for:

(i) Payment of dividends to the shareholders in line with the policy of the Group; and

(ii) Allocating capital/funds for business development/growth and investments.

As at year end, the capital adequacy ratio of Mauritius Operations was 12.32 percent with a Tier 1 ratio of 10.28 percent. The capital position of our India Operations was also strong with a ratio of 45.36 percent. The capital ratios continue to be comfortably above the applicable regulatory capital ratio requirements for 2016 (including the D-SIBs surcharge). The high CAR points to the healthy capital of the Bank and its sound funding profiles to deal with stressed situations.

The capital base of the Bank was MUR 11,184 million as at end of December 2015, a decrease of MUR 1,989 million from the prior year. Ploughback of profits during the year was offset against payment of dividend amounting to MUR 2,375 million to the holding company along with an increase of MUR 1,118 million in intangible assets.

The following table depicts the evolution in capital and ratio for SBM Bank (Mauritius) Ltd:

| Regulatory Capital (1) - MUR million | | Restated | |
|---|---|---|---|
| | 31 Dec 2015 | 31 Dec 2014 | 31 Dec 2013 |
| | Basel III | | Basel II |
| **Common Equity Tier 1 Capital** | | | |
| Share capital | 310 | 310 | 304 |
| Capital contribution | 8,063 | 8,063 | - |
| Statutory reserve | 530 | 528 | 522 |
| Retained earnings | 3,905 | 4,902 | 14,966 |
| Accumulated other comprehensive income and other disclosed reserves | (495) | (644) | (784) |
| Treasury (own) shares | - | - | (2,333) |
| Other intangible assets | (2,370) | (1,252) | (1,023) |
| Deferred tax | (277) | (171) | (145) |
| **Common Equity Tier 1 Capital** | **9,667** | **11,736** | **11,505** |
| **Additional Tier 1** | **-** | **-** | **-** |
| **Tier 1 Capital (T1 = CET1 + AT1)** | **9,667** | **11,736** | **11,505** |
| **Tier 2 Capital** | | | |
| Other reserves | 578 | 600 | 772 |
| Portfolio provision & loan loss reserves | 939 | 828 | 692 |
| **Tier 2 Capital** | **1,517** | **1,428** | **1,463** |
| **Total Regulatory Capital** | **11,184** | **13,164** | **12,968** |
| **Risk-Weighted Assets** | | | |
| Credit risk | 68,927 | 64,334 | 64,736 |
| Market risk | 439 | 487 | 277 |
| Operational risk | 5,775 | 5,379 | 5,137 |
| **Total Risk-Weighted Assets** | **75,142** | **70,200** | **70,150** |
| Common Equity Tier 1 capital ratio (%) | 12.86 | 16.72 | 16.40 |
| Tier 1 capital ratio (%) | 12.86 | 16.72 | 16.40 |
| Total capital ratio (%) | 14.88 | 18.75 | 18.49 |

(1) Effective 01 July 2014 regulatory capital ratios are determined in accordance with Basel III rules.

## Risk-weighted assets

The Bank adheres to the BOM Guideline on Standardised Approach to Credit Risk for the computation of the capital requirements for credit risk. The Standardised Approach assesses capital requirements using standard industry-wide risk weight based on a detailed classification of asset types.

Risk-weighted assets (RWA) represent the Bank's exposure to credit, market and operational risk and are computed by applying BOM-prescribed risk weights to both on- and off-balance sheet exposures.

In general, under the Standardised Approach, residential property secured lending products and retail products are risk-weighted at 35 percent and 75 percent respectively while corporate products receive a 100 percent risk weight. The Bank also uses the ratings assigned by External Credit Assessment Institutions (ECAIs), approved by BOM such as Standard & Poor's, Moody's Investors Service and Fitch for evaluation of credits/exposures related to advances, placements and investments.

Credit risk, as the dominant risk, remained the key driver of growth in risk-weighted assets during the year and closely tracked the change in advances. The total RWA at year end was MUR 75,142 million, representing an increase of MUR 4,942 million from 2014.

The decrease in the risk-weighted capital adequacy ratio as at end of December 2015 is due to an increase of 7.04 percent in risk-weighted assets whereas capital base decreased by 15.04 percent over the same period.

| | | | | Restated | |
|---|---|---|---|---|---|
| | 31 Dec 2015 | | | 31 Dec 2014 | 31 Dec 2013 |
| On-balance sheet assets - MUR million | Amount After CRM* | Weight % | Weighted Assets | Weighted Assets | Weighted Assets |
| Cash items | 2,304 | 0-20 | 30 | 42 | 48 |
| Claims on sovereigns | 19,508 | 0-100 | 535 | 491 | 458 |
| Claims on central banks | 8,503 | 0-50 | 447 | 344 | 245 |
| Claims on banks | 17,484 | 20-100 | 6,830 | 5,357 | 2,003 |
| Claims on non-central government public sector entities | 812 | 0-100 | 524 | 788 | 940 |
| Claims on corporates | 32,913 | 100 | 32,913 | 27,974 | 28,678 |
| Claims on retail segment | 9,158 | 75 | 6,868 | 6,975 | 7,609 |
| Claims secured by residential property | 15,561 | 35-125 | 6,277 | 6,123 | 6,304 |
| Claims secured by commercial real estate | 4,369 | 100-125 | 4,461 | 7,770 | 9,829 |
| Past due claims | 1,291 | 50-150 | 1,341 | 661 | 781 |
| Fixed assets/other assets | 5,756 | 100 | 5,756 | 4,515 | 4,326 |
| **Total On-Balance Sheet** | **117,659** | | **65,982** | **61,040** | **61,222** |

* Credit Risk Mitigation

## 3. Market Risk

Capital charge for market risk is computed as per BOM Guideline on Measurement and Management of Market Risk which is closely aligned to Basel II Standardised Measurement Method.

All of the Bank's derivative contracts are OTC foreign exchange forward transactions that are privately negotiated between the Bank and the counterparties to the contracts.

Foreign exchange forwards are contracts in which one party contracts with another to exchange a specified amount of one currency for a specified amount of a second currency at a future date or range of dates.

Interest rate risk refers to the current or potential risk to earnings and capital arising from adverse movements in interest rates affecting the banking book assets, liabilities and off-balance sheet positions.

| Off-balance sheet assets - MUR million | Credit Conversion Factor (%) | 31 Dec 2015 | | | | 31 Dec 2014 | 31 Dec 2013 |
|---|---|---|---|---|---|---|---|
| | | Nominal Amount | Credit Equivalent Amount | Weight % | Risk-Weighted Assets | Risk-Weighted Assets | Risk-Weighted Assets |
| Direct credit substitutes | 100 | 287 | 277 | 0 - 100 | 274 | 527 | 405 |
| Transaction-related contingent items | 50 | 4,334 | 2,120 | 0 - 100 | 2,009 | 2,261 | 2,274 |
| Trade-related contingencies | 20 | 905 | 180 | 0 - 100 | 170 | 182 | 192 |
| Other commitments | 0 - 20 | 7,472 | 516 | 0 - 100 | 492 | 324 | 643 |
| **Total non-market-related risk-weighted assets** | | **12,997** | **3,094** | | **2,945** | **3,294** | **3,514** |
| Interest rate contracts | 1 to 4 | 2,600 | 104 | 50 | 52 | 49 | 17 |
| Foreign exchange contracts | 2 to 5 | 9,778 | 239 | 20 - 100 | 194 | 261 | 137 |
| **Total market-related risk-weighted assets** | | **12,378** | **343** | | **246** | **310** | **154** |
| Total Off-Balance Sheet | | | | | 3,191 | 3,604 | 3,668 |

Capital base and risk-weighted assets are computed as per the guidelines in force at the year ends. The 2015 and 2014 ratios are computed based on the Basel III methodology while 2013 ratios are based on Basel II as advocated by the Bank of Mauritius.

### Foreign exchange risk

These risks may be incurred as a result of imbalances between the foreign currency composition of assets and liabilities from an on-balance sheet perspective as well as through the execution of derivatives such as foreign exchange forwards from an off-balance sheet angle.

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

| MUR million | 31 Dec 2015 | 31 Dec 2014 | 31 Dec 2013 |
|---|---|---|---|
| **Aggregate net open foreign exchange position** | 193.51 | 176.71 | 122.52 |

## Operational risk

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

The following table sets out, at the dates indicated, the operational risk capital charge:

| MUR million | 31 Dec 2015 | 31 Dec 2014 | 31 Dec 2013 |
|---|---|---|---|
| Capital charge for operational risk | 577.52 | 537.91 | 513.71 |

## Planning, managing and monitoring capital

The Board of Directors of SBM Bank (Mauritius) Ltd maintains an active oversight over the Bank's capital adequacy levels. Capital is managed and monitored based on planned changes in the Bank's strategy, identified changes in its operating environment or changes in its risk profile.

As part of the Bank's comprehensive ICAAP, sources and uses of capital are continuously measured and monitored through financial metrics, including regulatory thresholds, and economic capital. Any potential business acquisitions, investments or strategic initiatives are reviewed and approved by the Bank's Strategy Committee to ensure effective deployment of capital. The Bank continues to maintain strong, high quality capital levels which position it well for future business growth.

## Outlook

The Bank's strategic focus is to maintain an optimal mix of high quality capital, while continuing to generate capital to support economically profitable asset growth and the active management of the business portfolio. Capital will be prudently managed to support organic growth initiatives and selective acquisitions that enhance shareholders returns, while maintaining full compliance with evolving regulatory changes.

# 4. Credit Risk

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.

## 1. Definition

The Bank defines credit risk, as per the international norms, as the risk of potential loss arising from the inability or failure of a borrower or counterparty to meet its obligations towards the Bank. The granting of credit is one of the Bank's major sources of income and, as a significant risk, the Bank dedicates considerable resources to its management.

## 2. Principles and Process of Credit Risk Management

The chart below details the principles of sound credit risk management that the Bank has in place together with policies/practices related to the assessment of asset quality, the adequacy of provisions and reserves, and the disclosure of credit risk.

**Principles of sound Credit Risk Management**

**Establishing an appropriate credit risk environment**

- Responsibility of the Board for approving and periodically reviewing the credit risk strategies and policies.
- Responsibility of senior management for implementing and developing the credit risk strategies and policies
- Identify and manage credit risk inherent in all products and activities

**Operating under a sound credit granting process**

- Operate withing sound, well-defined credit-granting criteria
- Establish overall credit limits at the level of individual borrowers and counterparties and groups of connected counterparties
- Clearly-established process for approving new credits as well as the amendment, renewal and re-funding of existing credits

**Maintaining an appropriate credit administration, measurement and monitoring process**

- Ongoing administration of various credit risk-bearing portfolios
- Monitoring the condition of individual credits, including determining the adequacy of provisions and reserves
- Develop and utilize an internal risk rating system in managing credit risk
- Information system and analytical techniques that enable management to measure the credit risk

**Ensuring adequate controls over credit risk**

- Establish a system of independent, ongoing assessment of the bank's credit risk management processes
- Ensure that the credit-granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits
- Have a system in place for early remedial action on deteriorating credits, managing problem credits and similar workout situations

Effective credit risk management is a structured process to identify, measure, control, and monitor and manage risk on a consistent basis. This requires careful consideration of proposed extensions of credit, the setting of specific limits, monitoring during the life of the exposure, active use of credit mitigation tools and a disciplined approach to recognising credit impairment.

### 3. Credit Risk Governance & Oversight

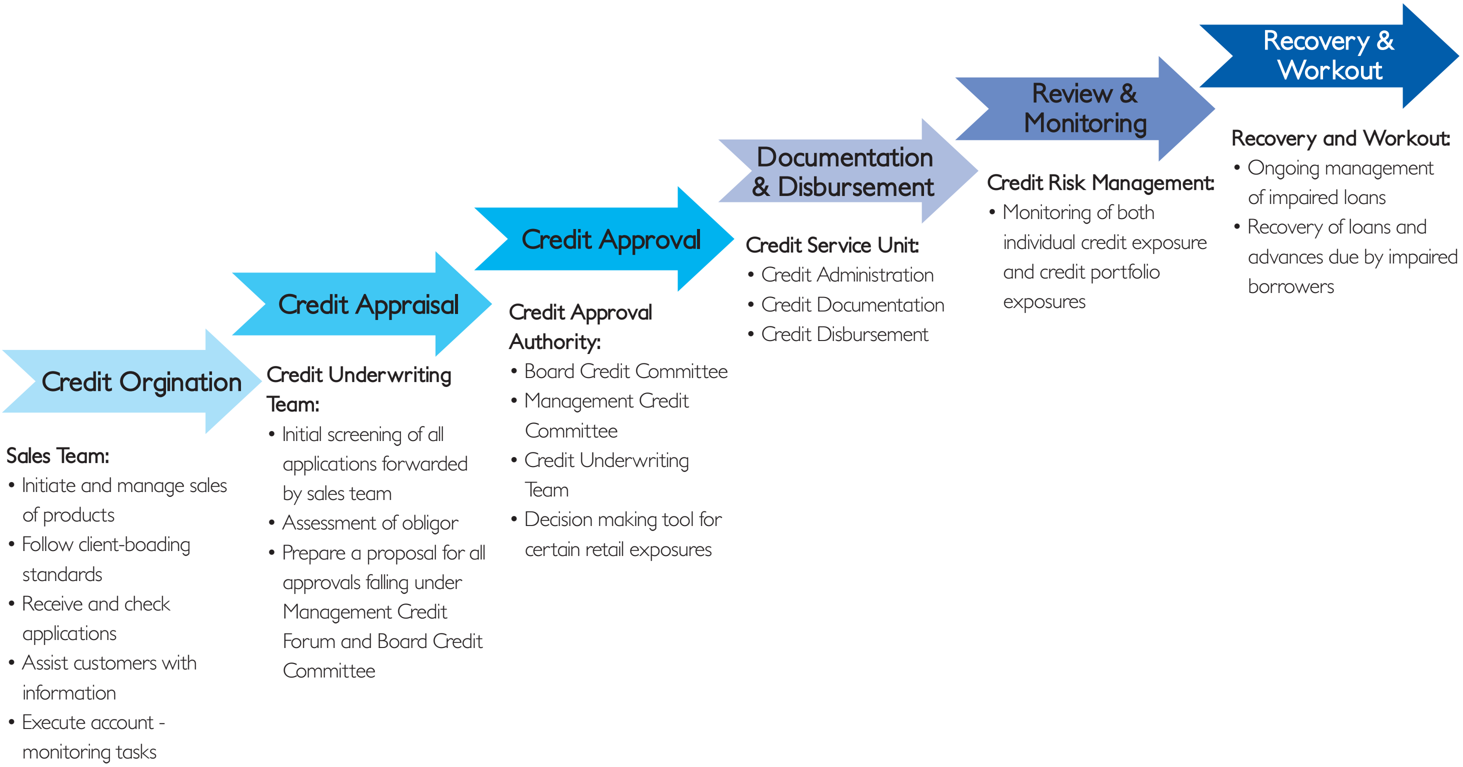
The Bank has in place a centralised risk management framework which is completely independent from other business divisions where credit decision standards are consistently applied in line with the Bank's credit risk policy. The Head of Risk Management leads the credit risk function and credit risk matters are discussed at the Portfolio and Credit Risk Forum. The latter is then reported to the Risk Management Committee on a quarterly basis.

The Bank's credit risk management process is as follows:

| Identify | Measure | Control | Monitor | Report |
|---|---|---|---|---|
| Identify and priotise potential risk of losses from customers failing to repay their debts when they fall due | Make use of quantitative and qualitative tools to measure severity of risks, including credit risk mitigation instruments | Establish key control processes and best practices, including limit setting, early warning signals and classification of customers in watchlist | Independent monitoring of credit risk by the Risk Management Team | Ensure that top risks and issues are being highlighted to the management and Board |

### 4. Credit Risk Approval Process

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




### 5. Internal Rating Systems

The Bank employs a set of credit ratings for the purpose of internally rating counterparties to whom we are exposed. Credit ratings are intended to reflect the risk of default of each counterparty. Ratings are assigned based on internally developed rating models and processes, which are subject to governance and internally independent validation procedures. The rating tools are as follows:

| Rating Tools | Description |
|---|---|
| Moody's Risk Advisor (MRA) | The MRA tool is used for **business banking** clients and it is based on the borrower's financial condition, as well as outlook, industry and economic conditions, access to capital and management strength. |
| Small Business Underwriting Matrix | The matrix is used for **Small and Medium Enterprises** and it is based on the borrower's financial position, repayment capacity and collateral strength. |
| Experian Transact | This tool is used to assess **consumer** credit risk on an individual basis. |

Note: Customers with rating category between 6 and 10 are closely monitored through watchlist and weak category exposures reporting.

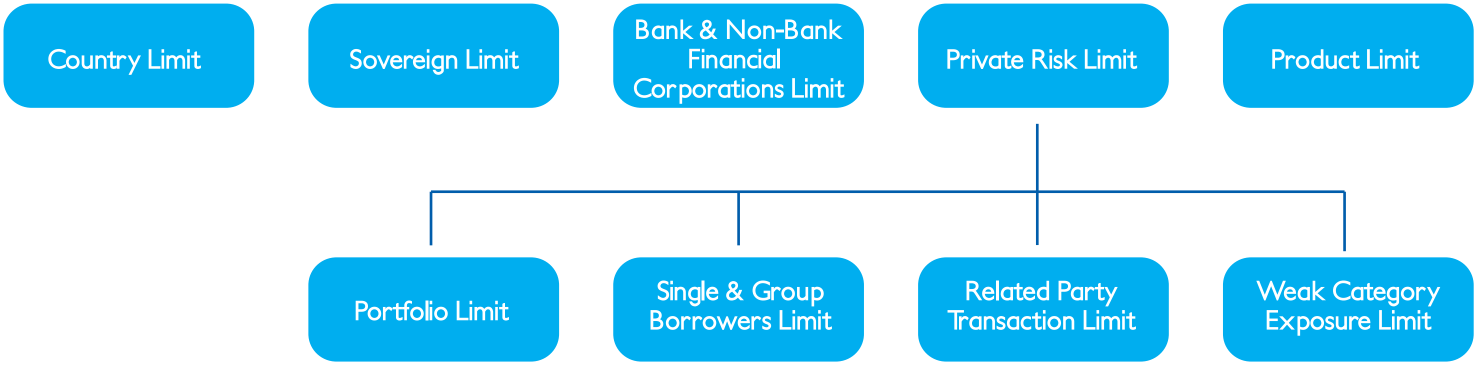
An upgrade to the Moody's Risk Advisor tool is expected in 2016 with an enhanced internal rating model to reflect better the economic environment and market conditions while assessing a client.

### 6. Credit risk including country risk limits overview

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.

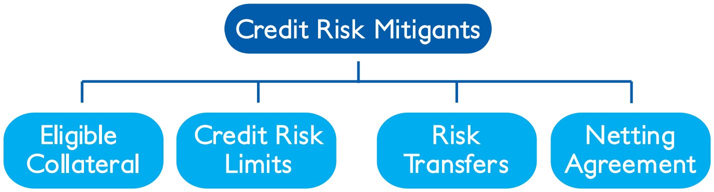
The Risk Management Team monitors credit concentration risks against a set of internal prudential limits which are reviewed annually to align with industry norms while also adhering to regulatory limits. Any deviation from the tolerance limits would be brought to the attention of management and reported 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:

**Enterprise-wide limit structure**



## 7. Credit Risk Mitigation

Besides establishing the Bank'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:




Collateral is a security in the form of an asset, such as cash and marketable securities, which serves to mitigate the inherent risk of credit loss and to improve recoveries in the event of a default. 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.

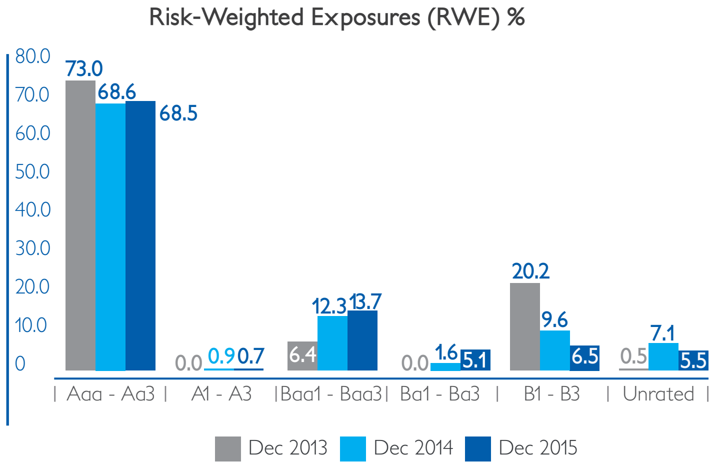
## 8. Credit Risk Profile as at 31 December 2015

### Country Risk

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

The following chart depicts the distribution of risk-weighted exposures by rating on countries excluding Mauritius and India, countries where the Bank has physical presence.

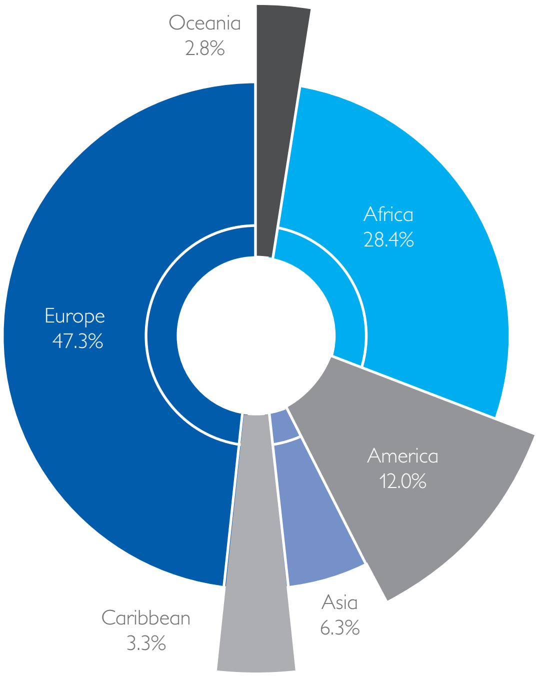
**Rating-wise Risk-Weighted Exposures on countries (excluding Mauritius and India) as at 31 December 2015**




**Breakdown of Risk-Weighted Exposures on countries (excluding Mauritius and India) by region and operations:**

| Operations: | Mauritius | India | Others | Total |
|---|---|---|---|---|
| RWE to Bank's allocated capital to credit risk (No. of times) | 6.15 | 1.78 | 1.52 | 9.45 |

Out of which, others comprise the following regions:

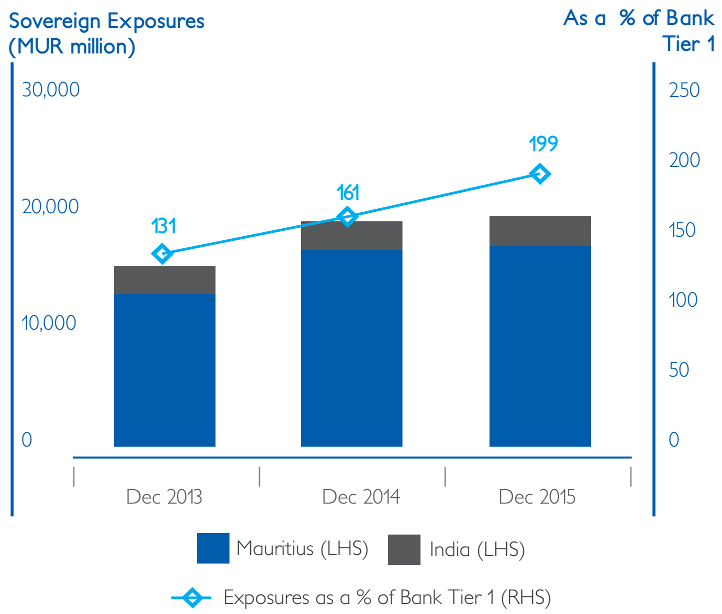



## Sovereign Risk

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

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

Breakdown of Sovereign Risk Exposures as at 31 December 2015




The Bank has exposures to governments mainly in countries where it has physical presence. As at 31 December 2015, total sovereign exposures stood at MUR 19.25 billion, representing 199 percent of the Bank Tier 1 capital (December 2014: MUR 18.90 billion, 161 percent), with the highest exposure pertaining to the Government of Mauritius amounting to MUR 17.97 billion.

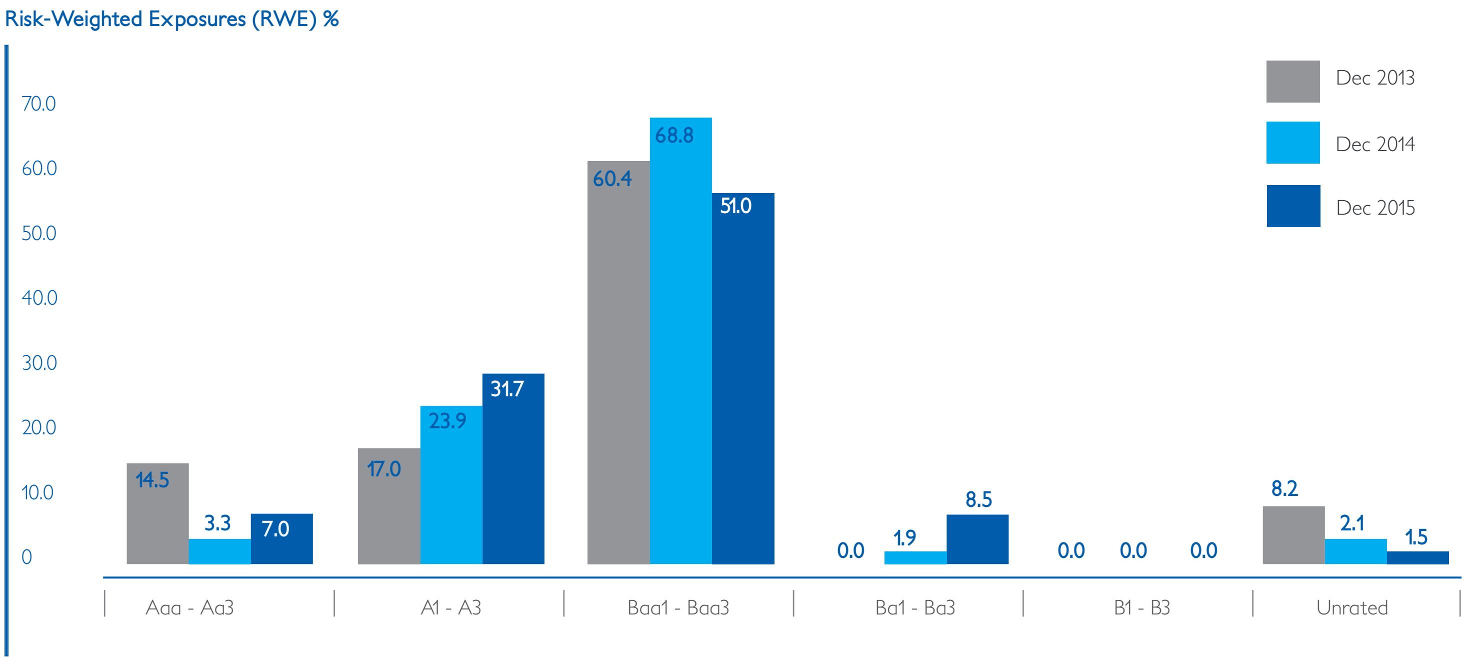
However, the exposures to the Government of Mauritius carry a zero risk weight under Basel III requirements and BOM guidelines. On a risk-weighted basis, the sovereign risk-weighted exposures were MUR 0.64 billion, representing 6.7 percent of the Bank's Tier 1 capital.

## Bank Risk

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

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

### Bank Risk-Weighted Exposures by Rating as at 31 December 2015




As at 31 December 2015, total bank risk-weighted exposures stood at USD 486.76 million, representing 1.81 times the Bank's Tier 1 capital (December 2014: USD 464.40 million, 1.42 times).

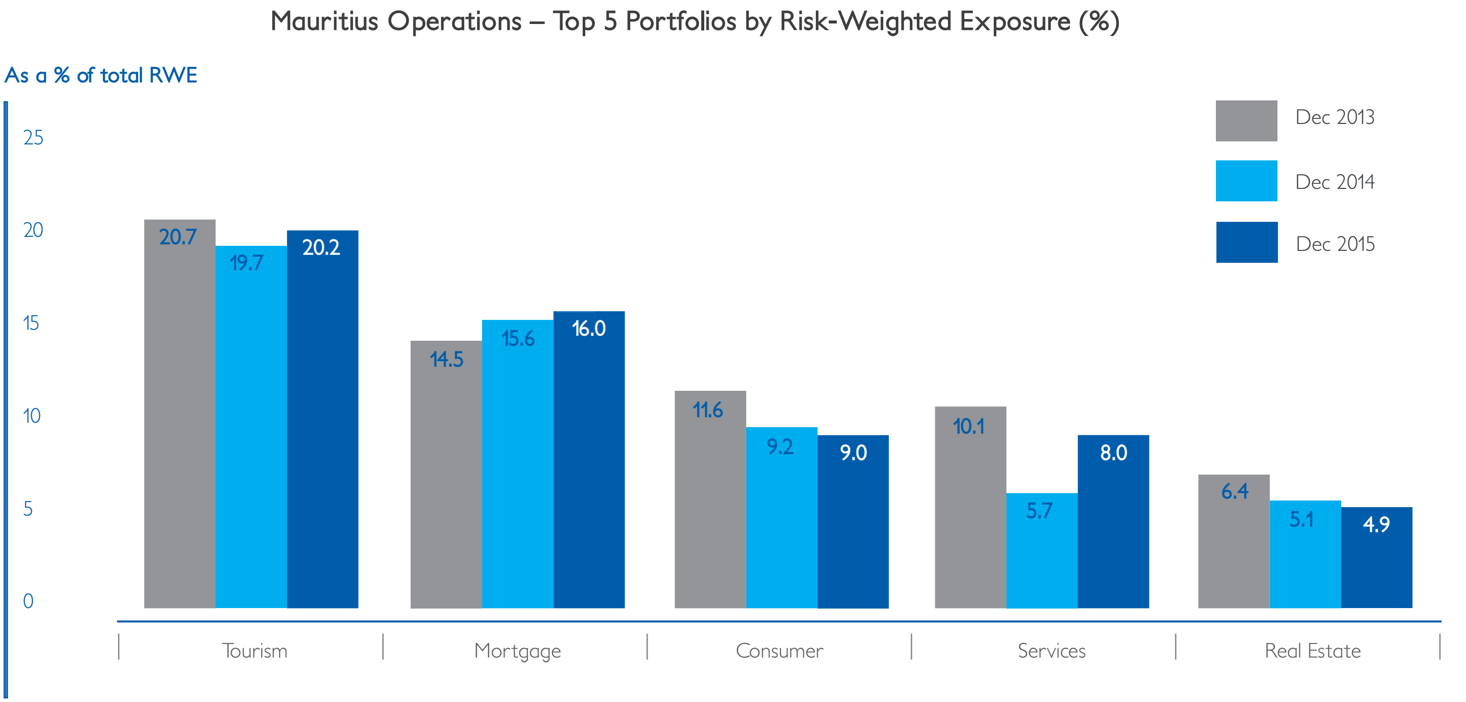
Note: SBM Bank has concentration to banks with rating range Baa1-Baa3 and where the Bank has physical presence.

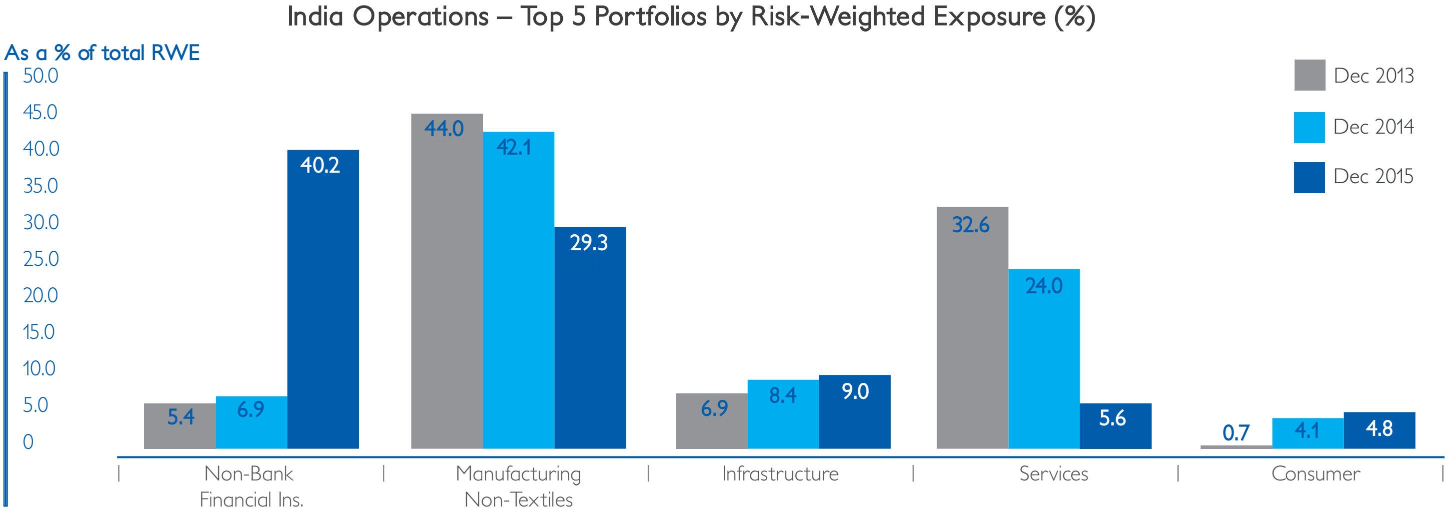
## Private Risk

### Portfolio Concentration

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

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





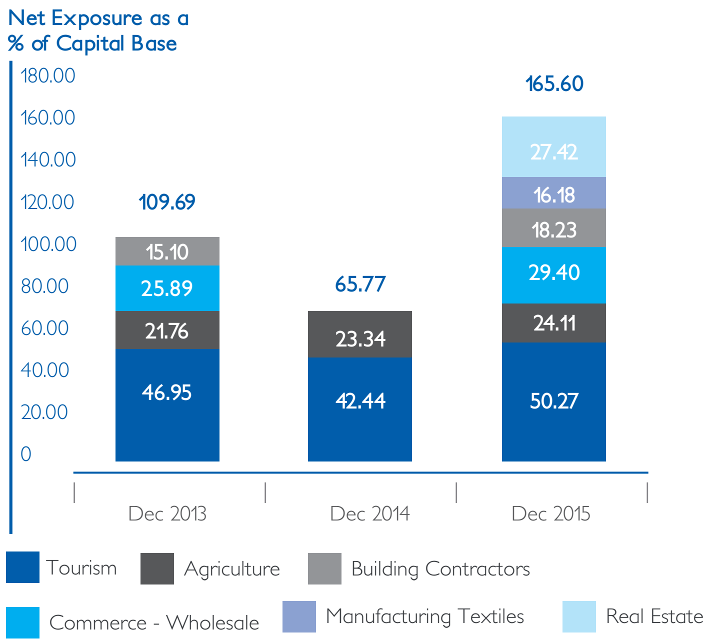

## Customer Concentration

The Bank monitors single large exposures, groups of closely related exposures and aggregate of large exposures above 15 percent of capital base against regulatory limits (shown in table below) as per the guidelines issued by the regulator. The Bank is even more conservative in this aspect and sets much stricter internal prudential limits than those set by the Bank of Mauritius while using Capital Allocated to Credit Risk instead of the Bank's capital base.

### Regulatory credit concentration limit for Mauritius Operations

| Regulatory Credit Concentration Limit – Mauritius Operations | As at 31 Dec 2015 |
|---|---|
| Credit exposure to any single customer shall **not exceed 25 percent** of the Bank's capital base | 21.4% |
| Credit exposure to any group of closely-related customers shall **not exceed 40 percent** of the Bank's capital base | 29.4% |
| Aggregate large credit exposures to all customers and groups of closely related customers above 15 percent of the Bank's capital base shall **not exceed 800 percent** of the Bank's capital base | 165.6% |

**Aggregate large credit exposures to all customers and groups of closely related customers above 15 percent of the Bank's capital base**




### Related Party Transactions

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

a. a person who has significant interest, that is owning directly or indirectly 10 percent 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;

e. a person or class of persons who has been designated by the BOM as a related party.

As at 31 December 2015, the aggregate of non-exempted exposures to related parties represented 19.80 percent of the Bank's Tier 1 capital, which is within the regulatory limit of 150 percent (December 2014: 3.50 percent).

## 5. Market Risk

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

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

## 1. Market Risk Guiding Principles

The diagram below depicts the key principles of Market Risk Management.

**Establishing an appropriate market risk environment**

- Responsibility of the Board for approving the market risk strategies and market risk policy.
- Responsibility of the senior management for implementing the market risk strategies and market risk policy.
- Holding capital commensurate with the level of market risk it undertakes.

**Operating under a sound market risk framework**

- Adequate separation of duties in key elements of the risk management process to avoid potential conflicts of interest.
- Establish and enforce operating limits and other practices that maintain exposures within levels.
- It is essential that SBM Bank's market risk procedures are clearly defined and consistent with the nature and complexity of its activities.

**Principles of sound Market Risk Management**

**Maintaining an appropriate measurement and monitoring process**

- Identifying the risks inherent in new products and activities and ensuring these are subject to adequate procedures and controls before being introduced or undertaken.
- Having market risk measurement systems that capture all material sources of market risk and that assess the effect of changes in the market in ways that are consistent with the scope of their activities.

**Ensuring adequate controls over market risk**

- Control functions with clearly defined duties that are sufficiently independent from position-taking functions of the Bank.
- Major hedging or risk management initiatives shall be approved in advance by the Board or its appropriate delegated committee.

## 2. Market Risk Governance & Oversight

The Board approves the market risk appetite taking into consideration the market risk capital set aside and then sets the strategy that balances with the Bank's business goals. The Bank defines its appetite for market risk 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.

In setting the market risk strategy and the limits, the Bank considers the following:

- economic and market conditions and their impact on market risk;
- whether the Bank has the expertise and abilities to identify, monitor and control the market risk;
- the Bank's portfolio mix and how it would be affected if more market risk were assumed; and
- the stress testing outcomes.

The Bank has an independent market risk team to identify, control and monitor the market risk exposures against a set of prudential limits approved by the Board. 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 limits approved. 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 setting out the strategy that justifies an increase in limits.

## 3. Market Risk Measurement and Management

The Bank has a well-defined documentation for the measurement approach and methodology. It uses a range of methodologies to monitor and limit market risk exposures while maintaining a market risk profile which suits the risk appetite of the organisation. These methodologies include:

- Sensitivity analysis;
- Value at Risk (VaR);
- Stress testing; and
- Limits of equivalent positions and/or nominal, limits aimed at reducing the volume of effective losses or protecting results generated during the period, loss triggers and stop losses.

In this way, the market risk area has a structure of limits sufficiently granular to conduct an effective control of the various types of market risk factors on which an exposure is maintained.

The valuation methodologies applied by the Bank are in line with leading market practices. In addition, any new product goes through an approval process with independent assessment by the Risk Management Team prior to approval from the Board Risk Management Committee. Risks on derivatives are continually reviewed to ensure that complexities of the products are adequately monitored and controlled.

## 4. Interest Rate Risk

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

### 4.1 Interest Rate Risk Measurement and Management

The Bank's interest rate risk management is aimed at maximising the risk-adjusted net interest income within the tolerable level of interest rate risk and risk appetite. Excessive interest rate risk can engender significant threats to the Bank's earnings and its capital base.

As such, with a view to achieving its targets, the Bank manages proactively its mismatched positions by controlling the impact of changes in interest rates on the Bank. The Bank has established explicit and prudent currency-wise and time bucket-wise interest rate risk limits based on its overall risk profile. It takes into account strategic considerations and market conditions.

In line with the BOM Guideline on the Measurement and Management of Market Risk, the Bank uses risk management techniques and methodologies, such as analysis of currency-wise repricing gaps and sensitivity analysis on earnings. The Bank also avails of hedging instruments that minimise interest rate risk and that effectively manages the impact of interest rate changes on the Bank's assets and liabilities.

Earnings-at-risk measures the sensitivity of net interest revenue arising out of plausible shocks in market rates over the ensuing 12 months. It highlights the exposure of the Bank to various sensitivity factors such as changes in interest rates and pricing strategies on the Bank's earnings.

At 31 December 2015, a 25 basis point parallel rate change would have an impact of MUR 17 million on net interest income while for a 200 basis point parallel rate shock as required by the banking regulator, the impact would be MUR 137 million, representing 1.42 percent of the Bank's Tier 1 capital.

## 5. Foreign Exchange Risk

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

Foreign exchange rates can be subject to large and unexpected sudden swings, and understanding and managing the risks associated with exchange rate volatility can be complex.

The Bank is exposed to two sources of foreign exchange risk: translational foreign currency exposure and transactional foreign exchange exposure.

Investments in overseas branches and subsidiaries create capital resources denominated in foreign currency. Changes in the value of the investments due to currency movements are recorded in the currency translation reserve, resulting in movement in equity (as per accounting policies) if currency risk cover is not feasible or not available or not legally allowed.

### 5.1 Foreign Exchange Risk Measurement and Management

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

For the financial year under review, the regulatory limit for Aggregate FX Open Position for Mauritius Operations was 15 percent of Tier 1 capital. For Indian Operations, the Reserve Bank of India has set a limit of INR 300 million.

#### *Value at Risk (VaR)*

VaR is used to quantify the potential loss arising from adverse foreign exchange movements under normal market conditions. Given that foreign exchange positions are also subject to exceptional market movements, crisis situations and worst case scenarios are also used as part of stress testing exercises. While VaR reflects the potential losses under normal market environment, stress testing captures the Bank's exposure to plausible but low-probability events in abnormal market conditions.

The methodology used to calculate VaR is based on historical data and assumes that historical changes in market values are representative of future movements. The VaR is based on data for the previous 12-month period. 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 methodology of using a ten-day holding period and a one-year historical observation period are in accordance with Basel II recommendations on quantitative standards for Market Risk Measurement.

The VaR as detailed in the table below was insignificant relative to the Bank's Tier 1 capital, MUR 0.75 million as at 31 December 2015 (31 December 2014: MUR 1.27 million, 31 December 2013: MUR 0.88 million).

| | As at 31 December 2015 (MUR '000) | As at 31 December 2014 (MUR '000) | As at 31 December 2013 (MUR '000) |
|---|---|---|---|
| Bank | 747 | 1,268 | 837 |

The accuracy and robustness of the VaR methodology is evaluated using backtesting. This method involves comparing the daily VaR results against actual trading revenue. The Bank also simulates for a one-day time horizon at 99 percent confidence level that would best reflect the market environment. The rationale behind this principle is that it is assumed open foreign currency positions can be liquidated in the market over one single day.

Exposures in foreign currency are given in Note 42(d) to the Financial Statements.

## 6. 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.

The Bank is exposed to risks in respect of both locally and internationally quoted securities and commodities. Changes in prices can be caused by factors specific to the individual security and/or its issuer and/or factors affecting the market (country-specific or global) as a whole.

The Bank's Investment Policy ensures that exposures are sufficiently diversified and within the risk appetite based on available economic capital. Each trading portfolio has its own market risk limit framework encompassing controls including trading mandates, permitted product lists and a new product approval process.

As at 31 December 2015, the Bank's trading book exposure was within the prudential limits set by the Board.

## 6. Funding and Liquidity Risk

Funding and liquidity management have been basic elements in the Bank's business strategy and a fundamental pillar, together with capital, in supporting its balance sheet strength.

Liquidity has gained importance in the last few years because of the tensions in financial markets against the backdrop of the global financial crisis. The liquidity risk framework remains robust and no material changes were brought to policies and practices for the management of liquidity and funding risks in 2015.

Liquidity risk arises from the following:

- Funding liquidity risk - the risk that the Bank will not be able to meet efficiently the expected and unexpected current and future cash flows and collateral needs, without affecting either its daily operations or its financial condition; and
- Market liquidity risk - the risk that the Bank cannot easily offset or eliminate a position at the prevailing market price because of inadequate market depth or market disruption.

## 1. Liquidity Risk Framework

The Bank has established a robust liquidity risk management framework that ensures it maintains 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. It has clearly articulated a liquidity risk tolerance that is appropriate for its business strategy. The Board is responsible for approving, on recommendation of the Risk Management Committee, the strategy, policies, practices and risk tolerance related to the management of liquidity at least annually.

The Bank has devised written policies and procedures which have the threefold objectives of:

- Elaborating the process for managing liquidity;
- Detailing the lines of responsibilities; and
- Describing the different frameworks to evaluate, scrutinise and control liquidity.

The policies have as prime purpose the handling of unanticipated falls or alterations in funding sources availability. These incorporate trimming down surplus funding concentration, by diversifying sources and profiles of funding. Such policies also aim at safeguarding a portfolio of superior quality and marketable debt securities. The Indian banking operations are also required to comply with their local regulators' liquidity requirements and to be self-sufficient for their local currency funding needs.

The Bank's primary sources of funding include (i) deposits, which are its most stable and lowest cost source of long-term funding, (ii) long-term borrowings and (iii) shareholders' equity. These sources may be supplemented by short-term borrowings of desired levels and maturities. In order to avoid excess reliance on a particular category of customers or product type or currency, the Bank has put in place a strategy which ensures diversification and prevents undue concentration. A wide set of funding and depositors' concentration ratios are regularly monitored and reported to senior management regularly.

## 2. Liquidity Risk Management

The currency-wise gap analysis is the primary means to evaluate the disparity between assets and liabilities (both on- and off-balance sheet) that mature within a specific interlude. The Bank maintained a strong liquidity position for the major currencies individually and on a consolidated basis. The funding base is mainly in MUR, USD and EUR. The long-term liabilities comprise term deposits, term borrowings and a core portion of non-term deposits. Based on the behavioural analysis of non-term deposits, it has been observed that a major portion of the Bank's deposits is stable and it is expected that these will remain with the Bank over the long term. An analysis of the Bank's consolidated Liquidity Gaps is provided in the Risk Management disclosures, Note 42(c) to the Financial Statements.

### Scenario analysis and Stress Testing

An array of liquidity scenarios, covering a series of explicit events, is developed, analysed, and reported to the ALCO and Market Risk Forum and to the Board Risk Management Committee. In the case of a potential or actual crisis, the Bank has a formal contingency plan in place that clearly sets out the process, responsibilities and strategies for addressing liquidity shortfalls in unexpected situations. As at 31 December 2015, the Bank had a sound, positive liquidity gap and was amply capable of meeting future expected cash flows both in local currency and major foreign currencies.

## 3. Liquidity Risk Measurement

The Bank uses multiple strategies and methodologies to monitor its liquidity risk.

The key aspects of liquidity in 2015 were as follows:

### (a) High liquidity reserve

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 Bank's liquid assets echo a sound liquidity standing, adequate to counterbalance the impact of a stressed funding environment. It is capable of utilising its own resources extensively and to invest in higher yielding assets. It also strives to attain the right trade-off between liquidity and profitability.

| Liquidity Ratios | Dec 2015 | Dec 2014 | Dec 2013 | Dec 2012 | Dec 2011 |
|---|---|---|---|---|---|
| **Liquid Asset to Deposits Ratio** | 38.38% | 37.03% | 29.18% | 28.83% | 27.07% |
| **Loans to Total Deposits** | 65.51% | 73.45% | 84.99% | 85.83% | 84.82% |
| **Loans to Total Funding** | 64.20% | 69.55% | 79.07% | 80.42% | 76.75% |

(b) The Mauritius and India banking operations were in compliance with **Basel III Liquidity Coverage Ratio (LCR)** and the **Net Stable Funding Ratio (NSFR)**, well ahead of schedule. The minimum requirement has been set initially at 60 percent, effective 01 January 2015, by the Basel Committee on Banking Supervision and would rise in equal steps to reach 100 percent in 2019. The LCR is designed to ensure banks maintain an adequate level of unencumbered cash and highly liquid securities that can be converted to cash to meet liquidity needs under an acute 30-day stress scenario.

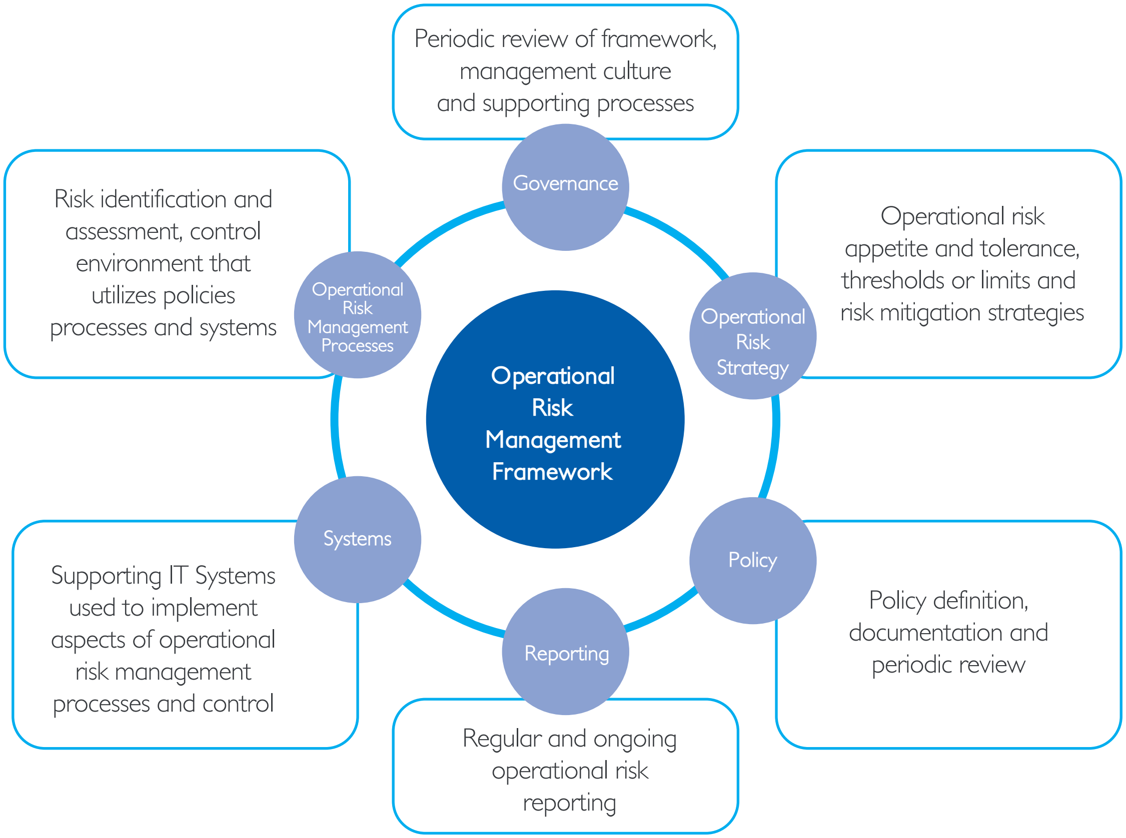
Under the LCR guidelines, the estimated LCR was 133 percent as at 31 December 2015 (31 December 2014: 118 percent, 31 December 2013: 132 percent) for Mauritius Operations and 1,254 percent as at 31 December 2015 (31 December 2014: 668 percent) for India Operations. The net stable funding ratio (NSFR), on the other hand, is a longer term measurement of a bank's funding capability over a one-year horizon. As at 31 December 2015, the NSFR stood at 107 percent (31 December 2014: 101 percent, 31 December 2013: 124 percent) for the Mauritius Operations, which was already above the Basel III requirement of 100 percent.

## 7. Operational Risk

Operational risk is inherent in all business activities and has been defined by the Basel Committee on Banking Supervision as "the risk of loss resulting from inadequate or failed internal processes, people, systems or external events".

The Bank has a robust operational risk management framework with the objective to ensure that operational risks within the Bank are identified, monitored, managed and reported in a structured, systematic and consistent manner. The various risks that the Bank is exposed to are actively monitored and it strives to mitigate those risks that it has influence upon to ensure that those risks are within the defined risk appetite. More so, the Bank is subject to external events beyond its control, e.g. political intervention, natural calamities, or other rare unpredictable events, to which the Bank strives to be responsive.

**Figure 1: Operational Risk Management Framework**




The details of the framework are set out below:

- Governance will help establish, approve and periodically review various aspects of the operational risk management framework. It is also responsible for establishing a management culture, and supporting processes for operational risk management.
- Operational Risk Management Processes lay out a mechanism for risk identification and assessment using the various risk assessment tools and activities, such as Business Line Mapping, Risk Control Self-Assessment (RCSA), Internal Loss Data, Risk Register, KRI and Risk Register Heat Map. The processes also include setting up the control environment to manage the risks which have been identified earlier.

- Operational Risk Strategy leverages risk identification and assessment to formalise the operational risk appetite and tolerance, thresholds or limits for inherent and residual risk, and risk mitigation strategies and instruments.
- Policy helps define and document the operational risk within the Bank and provide guidelines for compliance during periodic audits.
- Systems form part of the supporting technology landscape used to implement aspects of operational risk management processes and controls.
- Reporting helps monitor operational risk profile and material exposures to losses through relevant Management Information Systems (MIS).

As part of the 2015 self-assessment process, the following key operational risks have been identified:

### 1. Information Technology (IT) Risk

The Bank is conscious that IT is a key enabler for achieving its business objectives and strategies including reaching out to and meeting customer needs. It is expected that 2016 will witness a major business-aligned technology transformation which is a timely response to refresh its technology and accommodate future aspirations and geographical expansion. In a project of such scale involving implementation of 27 key IT systems including the Core Banking System replacement, the Change Management team plays a vital role ensuring the effective management of the project resources and the transition to the new technology platforms.

The IT risk management team is responsible for establishing the Information Technology risk management framework, and promotes information risk management policies and practices across the Bank in order to manage technology risks and safeguard information system assets. The framework (which covers risk governance, communication, monitoring, assessment, mitigation and acceptance) is supported by a set of IT policies and standards, control processes and risk mitigation programmes. These include:

- To have a comprehensive IT Security awareness training programme, extended to new and existing staff and contractors.
- To deploy security solutions at the data, application, database, operating systems and network layers to monitor and contain the various forms of cyber-attacks.
- To deploy strong access control and authentication mechanisms to protect its premises and systems (including customer data and transactions).
- The testing of its Disaster Recovery infrastructure and Business Contingency Procedures (DR/BCP) to minimise the duration and impact of business disruptions. This includes the implementation of a data backup and periodic testing strategy for the storage of critical information.
- To assess compliance with standards and procedures.
- To work closely with IT sourcing partner and to ensure that the risks associated with reliance on third party are mitigated.
- To track risk and performance metrics to identity and mitigate system security and performance risks promptly.

### 2. Regulatory Compliance Risk

The Bank continuously monitors and accommodates regulatory changes and failure to comply with applicable laws and regulations could result in regulatory sanctions, financial loss or damage to the reputation of the Bank. The Bank has an independent Regulatory Compliance team 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 Bank and delivers timely advice in relation to compliance queries.

### 3. Fraud Risk

All the employees within the Bank are expected to act with integrity at all times to safeguard the Bank's reputation, protect customers and company resources. The Bank Fraud Management Policy framework consists of four major phases—Deterrence, Detection, Mitigation and Response to fraud. The various elements of an effective anti-fraud strategy are all closely interlinked and each plays a significant role in combating fraud.

1. Fraud Deterrence shall be the Bank's major thrust as the aftermath of fraud is costly, time consuming and, at times, disruptive.
2. Fraud Detection shall list the actions and activities intended to identify and locate a fraud prior to it happening.
3. Fraud Mitigation begins after a fraudulent activity is detected and stops it from happening or reoccurring.
4. The Bank's integrity is safeguarded by documenting the procedures the Bank shall adopt in case fraud happens.

The Bank shall have a consistent and comprehensive action plan to combat suspected and detected incidents of fraud. The action plan ensures that fraud is taken seriously and all fraud incidents will undergo thorough investigation by an independent fraud risk department, recently set up in 2015. The Head of Fraud Prevention has direct access to the Board Audit Committee without interference from management and has been tasked with upgrading the fraud risk framework.

The Bank follows the following key guiding principles:

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

The evolution of losses by category shows an increase in external fraud both in number and value in 2015 (refer to charts on the next page). This increase is primarily on account of electronic fraud and the Bank continued improving the security of customers in the usual operations, as well as improvements in processes and technology.

**Cybercrime** is ranked among the top security threat worldwide and the frequency and intensity of attacks are increasing. The Bank has taken measures on top of existing IT security measures to strengthen its resilience against e-banking fraud, while at the same time 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, the Bank 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.

Chart 1: Distribution of net losses by operational risk category - % of Total

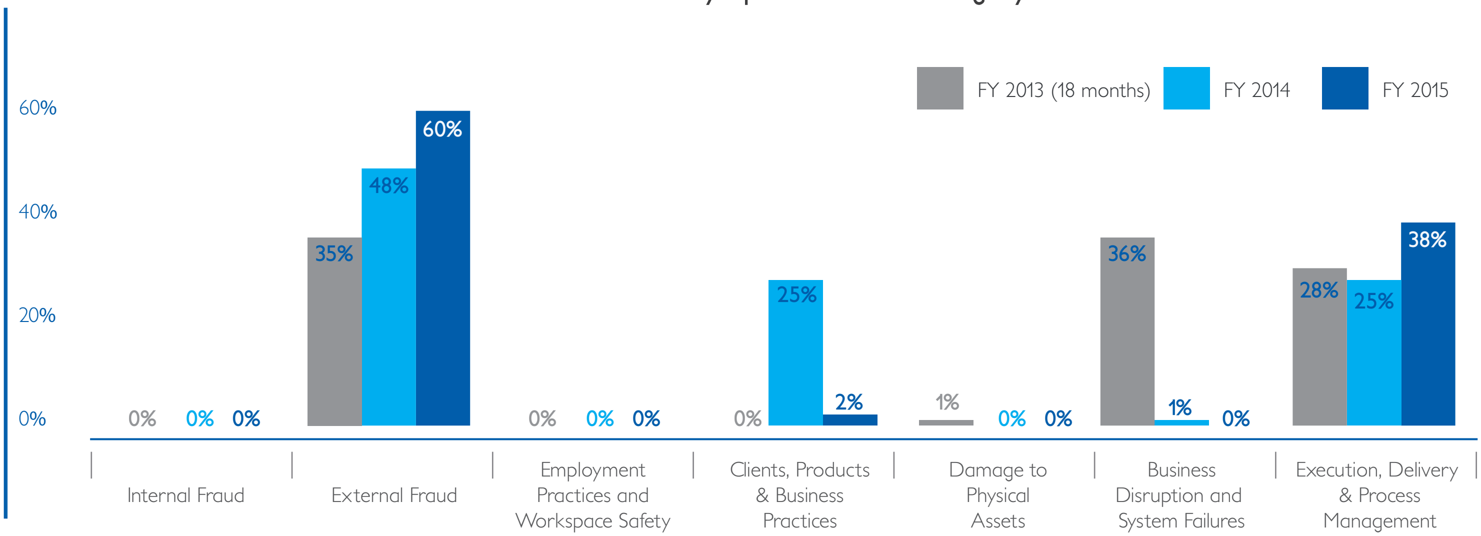
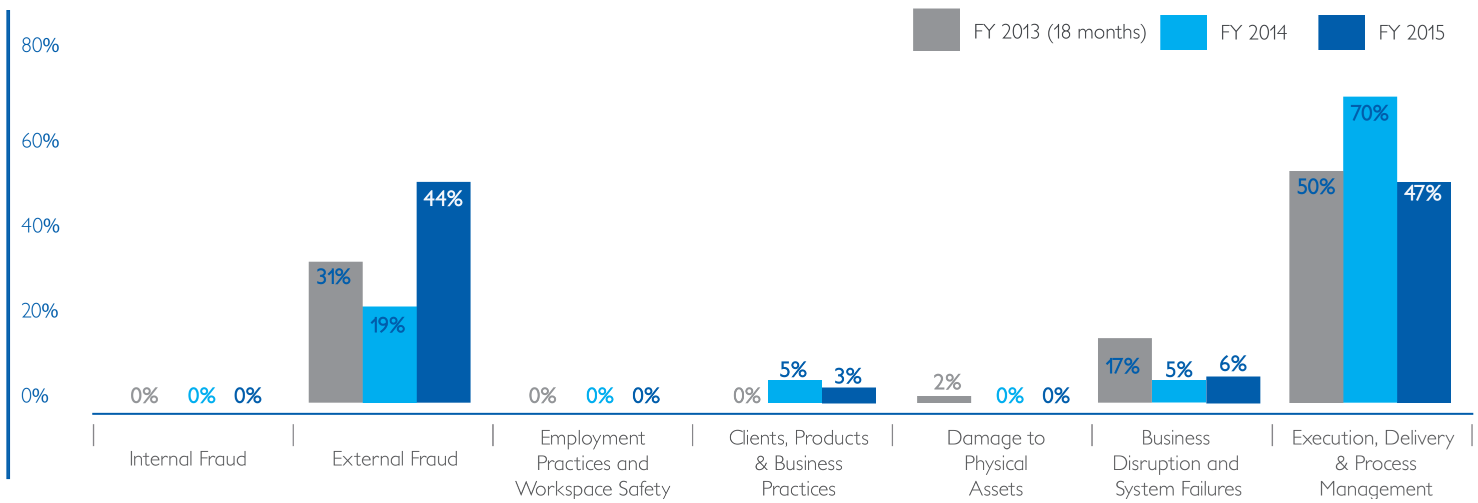



Chart 2: Distribution of number of events by operational risk category - % of Total



The proportion of events for Execution, Delivery and Process Management has increased to 38 percent (2014: 28 percent) although the actual number of events has in fact decreased to 47 percent (2014: 70 percent).

External Fraud with 60 percent (2014: 48 percent) is the category with the highest proportion of losses by amount where high volume events are consistent with industry experience, driven by an increase in the number of incidents to 44 percent (2014: 19 percent) related primarily to card skimming and email spoofing of clients where clients have been victims.

The Bank has mitigation measures in response to the main risk sources and these measures are turned into action plans. The Bank aims at continuous improvement in the security of its customers and some of the measures are:

- The use of chip cards (EMV standard)
- Continue to encourage 3D Secure mechanism that enables authentication of on-line shopping transactions
- More robust protocols to validate cards when used on ATMs and for purchases
- Improved security in ATMs including the use of anti-skimming devices
- Coverage of our premises with CCTV cameras
- 24/7 proactive risk management team for real-time monitoring of transactions worldwide
- Customer awareness campaign
- 24/7 hotline
- Call back customers in case of suspicious transaction

# AMBITION

Innovation is change
that unlocks new values.

# INTERNAL AUDIT

## AND ASSURANCE

# INTERNAL AUDIT AND ASSURANCE

The Internal Audit function at SBM Bank (Mauritius) Ltd provides independent and objective assurance to management and the Board with respect to the Bank's operations. By following a systematic and disciplined approach, Internal Audit helps the Bank to accomplish its objectives by evaluating and recommending improvements to risk management systems, internal controls and governance process.

The Internal Audit department is governed by an internal audit charter approved by the Audit Committee. Internal Audit reports directly and functionally to the Audit Committee while it reports administratively to the Chief Executive. The head of the department has a direct reporting line to the Chairperson of the Audit Committee. Moreover, the head of Internal Audit has regular meetings with the Chairperson of the Audit Committee, in the absence of management representatives, with a view to enhance Internal Audit's independence.

The Audit Committee reviews and approves Internal Audit's plan and resources, and evaluates the effectiveness of the function. Audits are conducted following a risk-based audit methodology which is in line with global best practices. All businesses of the Bank are audited to identify key risks and to assess control adequacy and effectiveness. Audit findings are discussed, then finalised with management and the various heads of departments. All audit reports are thereafter tabled at the Audit Committee, on a quarterly basis. The internal audit reports, as well as the methodologies, are reviewed and discussed at large with the Chairperson and other members of the Audit Committee.

The Internal Audit team at the Bank is composed of auditors with a mix of banking and auditing experience. Senior team members are fully qualified auditors/accountants, while the junior members are pursuing their studies in that direction. In addition, Internal Audit has certified information systems auditors to audit the information technology used by the Bank.

Looking ahead, in line with the ongoing IT transformation project at the Bank, the Internal Audit department will in 2016 be equipped with an integrated audit software, Pentana Audit Work System (PAWS), designed to manage and automate a wide range of audit operations. The new system will contain a centralised secured repository for all the audit works, investigations and other audit related matters. PAWS comprises several modules which allow risks and controls to be assessed, assurance works to be planned and carried out, audit reports to be automatically produced, and actions to be raised and tracked over a web-based interface.

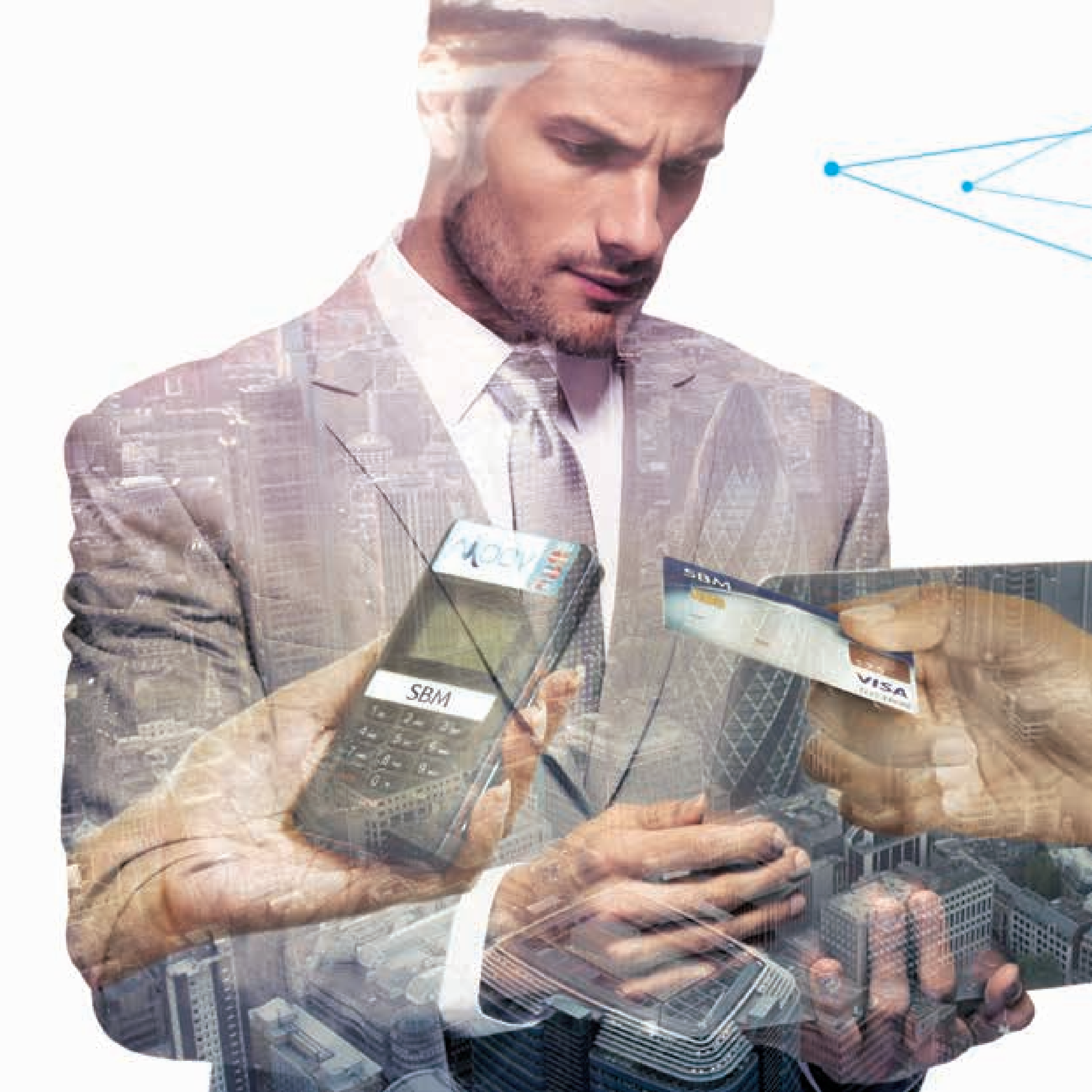
A team of end-users from the Internal Audit department has been extensively involved in hands-on training and testing of the system in a simulation environment. PAWS will not only provide more clarity on the work performed by the Internal Audit function but shall also standardise the way audits are conducted to ensure compliance with international standards.

In addition, Internal Audit currently makes use of Computer Assisted Audit Tools for the analysis of large volumes of data to detect anomalies up to the transaction level in near real time.

During the year under review, Internal Audit completed audits of internal control and information systems as per its pre-approved audit plan. The team also performed audit of the SBM Indian Operations, as well as overseeing the work of the foreign based auditors. Control weaknesses and proposed management corrective actions and remedial measures implemented were reported to the Audit Committee on a quarterly basis.

Internal Audit has also extended its capabilities and specialisation to non-audit services such as conducting analytics on various products and account maintenance features, exceptions identification and forensic investigations amongst other special assignments.

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


SBM
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VISA

Creative thinking fuels
innovation.

MODERN

# CORPORATE
## GOVERNANCE

## Statement on Corporate Governance

Corporate governance is the method by which a corporation is directed, administered, or controlled. Corporate governance concerns the relationships among the various internal and external stakeholders involved as well as the governance processes designed to help a corporation achieve its goals. It is most often viewed as both the structure and the relationships which determine corporate direction and performance. The board of directors is typically central to corporate governance. Its relationship to the other primary participants, typically shareholders and management, is critical. Additional participants include employees, customers, suppliers, and creditors. The corporate governance framework also depends on the legal, regulatory, institutional and ethical environment of the community.

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

## Statement of Compliance

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

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

Reporting Period: 01 January 2015 to 31 December 2015

We, the Directors of SBM Bank (Mauritius) Ltd, confirm, to the best of our knowledge, that SBM Bank (Mauritius) Ltd has complied with the obligations and requirements under the Code of Corporate Governance in all material aspects.

**Nayen Koomar Ballah***

Chairperson

**Philip Ah-Chuen**

Chairperson of Corporate Governance & Conduct Review Committee

23 March 2016

* The Chairperson of the Bank is not an independent director. However, the Bank has received approval from the Bank of Mauritius authorising Mr Nayen Ballah to act as Chairperson for the Bank for a period of 1 year.

## Board Governance Framework

The Board of Directors of the Bank is fully committed to ensuring that its policies and practices in the critical areas of financial reporting, remuneration reporting and corporate governance meet high levels of disclosure and compliance with the aim of maximising long-term value creation for the shareholders. The Board is directly accountable to the shareholders and each year the Bank holds its annual meeting at which the eligible directors and new suitable nominated candidates submit themselves for re-election to the Board.

The Code and Guideline require the Board to be comprised of an appropriate balance of executive, non-executive and independent non-executive directors under the firm and objective leadership of a chairperson to ensure that the corporate objectives are achieved in an efficient, transparent and professional way, and in the best interest of the shareholders and other stakeholders of the Bank. The Board of Directors of the Bank comprises 2 executive directors and 6 non-executive directors out of which 5 are independent. The Board of the Bank has a mix of directors with the required skills, expertise and experience to fulfil the essential oversight role. The Chairperson, Mr Ballah, is a non-executive director and the Bank of Mauritius had acceded to the Bank's request to appoint Mr Ballah as Chairperson of the Board and as Director of the Bank.

## Profile of the Board of Directors of SBM Bank (Mauritius) Ltd

### Mr NAYEN KOOMAR BALLAH

Mr Ballah is presently the Secretary for Home Affairs. He holds a Bachelor of Arts degree, Political Science & Economics and Honours (English), from the University of Punjab, India, and a Diploma in Public Administration & Management from the University of Mauritius. He started his career as Teacher/ Education Officer in 1978. 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), and the Ministry of Public Infrastructure, NDU, Land Transport & Shipping (2011–2014). He was appointed as Chairperson of SBM Bank (Mauritius) Ltd on 30 June 2015.

### Mr PHILIP AH-CHUEN

Mr Philip Ah-Chuen holds a BTech (Hons) from Brunel University, England, and an MSc in Industrial Administration from Aston University, England. He is a Fellow of the Mauritian Institute of Management (FMIM) and of the Mauritius Institute of Directors (FMIoD). He is presently the executive director of Allied Motors Co. Ltd and a non-executive director of Chue Wing & Company Ltd (ABC Foods).

A former Lecturer at the University of Mauritius, Mr Ah-Chuen has also taught on the Masters in Business Administration (Surrey) programs. He has chaired the Excellence in Education National Jury Panel and the Appointments Committee at the Mauritius Institute of Education (2007–2015). In November 2015, he was nominated Commissioner of the Public Service Commission.

He joined the Board of SBM Bank (Mauritius) Ltd in June 2015 and is an independent non-executive director.

## Mr CHANDRADEV APPADOO

Mr Appadoo is a fellow of the Association of Chartered Certified Accountants (FCCA) and is also an Associate of the Chartered Institute of Bankers (ACIB), UK. He has worked for over 30 years at the SBM Group at various divisions and levels including Retail, Corporate Banking, Finance, Legal, Compliance, Risk Management, Operations Management, and SBM Group Company Secretary. He is currently heading the Finance, Value Based Performance Management, and Facilities Management teams of the Bank. He is a non-executive director of SME Partnership Fund and NRF Equity Investment Ltd. He joined the Board of SBM Bank (Mauritius) Ltd in December 2011 and is an executive director.

## Mr MAHMADALLY BURKUTOOLA

Mr Burkutoola is a Member of the Association of Accounting Technicians of London. He is also a Member of the Institute of Chartered Secretaries and Administrators of UK.

Mr Burkutoola is currently working as a Management Consultant and Project Manager. He started his career as a Semi Senior Auditor with Deloitte Kemp Chatteris and moved through various areas of the financial, banking, insurance, ICT/BPO, quality assurance, logistics, and aviation sectors; he has occupied responsible positions abroad and locally. He joined the Board of SBM Bank (Mauritius) Ltd in June 2015 and is an independent non-executive director.

## Mr RAJAKRISHNA CHELLAPERMAL

Mr Rajakrishna (Sandy) Chellapermal holds a Bachelor Honours degree in Business Economics from the University of London. Mr Chellapermal, with a professional experience in excess of 30 years, specialises in international trade development, international marketing, investment promotion and special economic zones.

His career spans both the private sector, where he served as Trade Promotion adviser at the Mauritius Chamber of Commerce and Industry, and the public sector, where he was Director General of The Mauritius Freeport Authority.

He is now a consultant of International Finance Corporation (IFC) of the World Bank Group and is also a consultant for local projects. He joined the Board of SBM Bank (Mauritius) Ltd in June 2015 and is an independent non-executive director.

## Mr RISHIKESH HURDOYAL

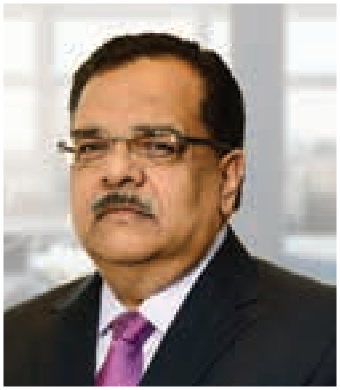
Mr Rishikesh Hurdoyal holds a Bachelor of Art degree in Law and Management from the University of Mauritius. He also holds an LLM in International Law with International Relations from the University of Kent. In addition, Mr Hurdoyal holds a postgraduate diploma in law from London Metropolitan University and completed the Bar Vocational Course at The City Law School, London. Since September 2012, Mr Hurdoyal has been a practising lawyer.

He joined the Board of SBM Bank (Mauritius) Ltd in June 2015 and is an independent non-executive director.

## Mr VIVEKANAND LOCHUN

Mr Lochun holds a Master's Degree in Electrical and Electronic Engineering from the University of Manchester, and a Maitrise Es Sciences in Electronique, Electrotechnique et Automatique (EEA) with ICT Major (option Informatique) from the University of Haute Alsace, Mulhouse, France.

He is a former Chief Executive Officer of Pansoft Ltd; currently, he is the Special Adviser in matters of ICT and Advanced Technologies at the Ministry of Finance and Economic Development (MOFED), and Chairman of the Sugar Insurance Fund Board (SIFB). Mr Lochun joined the Board of SBM Bank (Mauritius) Ltd in June 2015 and is an independent non-executive director.



## Mr JAIRAJ SONOO, *C.S.K.*

Mr Sonoo joined the Bank on 14 September 2012 as Chief Executive, Banking (Indian Ocean Islands), and holds a Masters in Business Administration (MBA) from University of Surrey, UK. He has 36 years' experience in banking and had previously spent more than 33 years at the Bank in various positions amongst which Executive Vice-President (Indian Operations) before heading the Retail Banking Division. He resigned from the Bank in February 2010 to take up the position of Chief Executive of one of the local commercial banks. Mr Sonoo is an executive director of the Board of Directors of SBM Bank (Mauritius) Ltd.

## Role and Responsibilities of the Board of Directors as per the Code

The designation of executive, non-executive and independent non-executive director has evolved in practice. For the purposes of this Code (and for disclosure in the annual report) the capacity of the director at SBM Bank (Mauritius) Ltd has been categorised as follows:

### Executive director

A director who is involved in the day-to-day management and/or is in full-time salaried employment of the Bank and/or any of its subsidiaries.

### Non-executive director

A director not involved in the day-to-day management and not a full-time salaried employee of the Bank or its subsidiaries and not meeting the criteria for independence as mentioned below.

### Independent director

A director who is a non-executive and who:

(a) 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 Bank;

(b) has not been employed by the Bank or the group of which the Bank currently forms part, in any executive capacity for the preceding three financial years;

(c) is not a professional advisor to the Bank or the group other than in a director capacity;

(d) is not a significant supplier to, debtor or creditor of, or customer of the Bank or group, or does not have a significant influence in a group related company in any one of the above roles;

(e) has no significant contractual relationship with the Bank or group;

(f) 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;

(g) in the case of banks, the Bank of Mauritius's definition of independent applies.

## Role and Responsibilities of the Board of Directors

The role of the Board of Directors is to oversee the management and to represent the interests of the shareholders and other stakeholders. The Board meets in regular session at least quarterly, and as otherwise required. Directors review advance meeting materials that are provided to each director ahead of each meeting. Each director is encouraged and expected to ask questions and raise issues with management to ensure the conduct of careful and cautious oversight. The responsibilities of the Board of Directors of the Bank include the following:

- Formulate the strategy of the Bank and set its corporate objectives, mission, values, and operating budget;
- Delegate authority to and empower the executive management to implement strategies, policies and plans approved by the Board;
- Monitor and evaluate management's implementation of strategies, policies, value based performance, and rewards;
- Ensure that policies, procedures, and a healthy and robust risk management framework—benchmarking to international best practices appropriate to financial listed institutions—and system of internal controls are in place to safeguard the Bank's assets and reputation;

- Identify key risk areas and key performance indicators (KPIs) of the business;
- Ensure that the Bank complies with all relevant laws, rules, regulations, policies, the Code, the Guideline and best business practice, and establish mechanisms by which breaches of policies, laws, controls and good corporate governance practices are reported and acted upon;
- Ensure adequate succession planning for senior management;
- Approve the recruitment or promotion to senior executive positions and above, as directors; approve the recruitment of officers and expatriates proposed by the Chairperson and their remuneration, benefits and other terms and conditions of the service contract of such officers;
- Approve the interim and audited financial statements of the Bank;
- Determine the level of Board fees for Directors for onward recommendation to the shareholders;
- Approve the productivity bonus of Senior Executives based on agreed KPIs;
- Ensure effective communication with shareholders and relevant stakeholders;
- Approve strategic capital investment of the Bank, new business lines and products;
- Assess both internal and external auditors' work; and
- Exercise leadership, enterprise, integrity and judgment in directing the Bank.

## Board Committees

Board Committees are a mechanism to assist the Board and its directors in discharging their duties through a more comprehensive evaluation of specific issues, followed by well-considered recommendations to the Board.

SBM Bank's Board has established six Board Committees to help it in discharging its duties and responsibilities as detailed below. The Committees report to the Board through their respective chairmen and minutes of all Committee meetings are submitted to the Board, and they must be prepared to answer appropriate and legitimate questions pertaining to the Committee's work to the Board. The Board Committees of the Bank are as follows:

- Audit
- Corporate Governance & Conduct Review
- Credit
- Remuneration & Nomination
- Risk Management
- Strategy

The roles and responsibilities of each Committee are defined in their Terms of Reference which are reviewed by the Board on an annual basis. The Board ensures that the Bank is being managed in line with the Group's objectives through the deliberations and reporting of its various Committees.

The composition of the Board Committees of SBM Bank (Mauritius) Ltd and their Terms of reference are summarised below.

## Audit Committee

### Chairperson

Mr M. Burkutoola

### Members

Mr P. Ah-Chuen
Mr R. Chellapermal
Mr R. Hurdoyal

### Terms of Reference

### Financial Reporting

The Audit Committee, made up of independent directors, provide assurance that financial disclosures made by management reasonably portray the Bank's financial conditions, results of operations and long-term commitments. To accomplish this, the audit committee:

- 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 treatments or on disclosures
- Consider the quality of financial information disclosed to the shareholders and other stakeholders
- Review the financial reporting process with a view to ensuring Bank's compliance with accounting standards and financial matters and the applicable laws and regulations

### External Audit

- Make recommendations for the appointment and retention of the external auditors
- Review and discuss the scope of the audit and audit plan
- Consider differences of opinion between management and the external auditors
- Evaluate the performance, objectivity and independence of the external auditors
- 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

### Internal Audit

- Review the objectives of the internal audit function and the annual plan of action
- Review the scope of internal audit and audit plan
- 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 auditor
- 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
- 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
- Identify any change necessary to the agreed audit scope or to other services as a result of any weaknesses or deficiencies revealed

### Focus on the year ahead

- Continue to monitor the maturity of internal financial controls
- Continue to monitor key financial accounting and reporting developments that are likely to impact the Bank
- 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 Bank
- Continue to monitor regulatory developments, feedback from the Bank's response to interaction with regulators
- Review reports relating to financial crime, material incidents, mitigation strategies and remedial actions
- Review reports from management

## Credit Committee

### Chairperson

Mr N.K. Ballah

### Members

Mr C. Appadoo

Mr M. Burkutoola

Mr R. Chellapermal

Mr V. Lochun

Mr J. Sonoo, *C.S.K.*

### Terms of Reference

- Review the methodologies for assessing the country risks and recommend appropriate country exposure limits
- Review the methodologies for assessing bank risks and recommend appropriate bank exposure limits
- Review and approve all facilities exceeding the delegated authority of the Management Credit Forums as set out in the Credit Policy
- Review and approve the restructure/reschedule of credit facilities as per the Credit Policy
- Ensure that concentrations of risks are within the risk tolerance of the Bank
- Review and approve substantial equity investments
- Meet at least once a month* to approve facilities within their sanctioning authority and present the minutes of proceedings of the meetings to the Board

Note: * The frequency of the Credit Committee has been changed to weekly effective 25 March 2016.

## Corporate Governance & Conduct Review Committee

### Chairperson

Mr P. Ah-Chuen

### Members

Mr N.K. Ballah
Mr M. Burkutoola
Mr R. Hurdoyal

### Terms of Reference

- Ensure that adequate policies and procedures are in place to comply with the requirements of the Code and the Bank of Mauritius Guidelines
- Ensure compliance with the Code of Ethics and Business Conduct
- Assess non-financial management policies and practices relating to safety, health and environment, equal opportunities, human capital development
- Review the Corporate Governance Report to be published in the Annual Report, taking into consideration the "comply or explain" principle
- Ensure that communication with shareholders and stakeholders is effective and timely
- Review on an annual basis the Board's Charter
- Ensure accurate disclosure of directors' remuneration and that transactions with related parties are at arm's length
- Meet at least once annually and present the minutes of proceedings of meetings to the Board

### Focus for the year ahead

- Evaluate the adequacy, efficiency and appropriateness of the governance framework and practices on an ongoing basis
- Ensure corporate governance best practice and statutory compliance
- Review Related Party Transactions

## Remuneration & Nomination Committee

### Chairperson

Mr N.K. Ballah

### Members

Mr P. Ah-Chuen
Mr V. Lochun
Mr J. Sonoo, *C.S.K.*

### Terms of Reference

- Focus and review of Key Performance Indicators (KPIs)
- Recruitment or promotion to Senior Officer level and above, and to recommend the remuneration, benefits and other terms and conditions of the service contracts of such officers to the Board
- Recommend to the Board the terms and conditions of the service contract, including remuneration packages, of the Executive Directors
- Review and recommend to the Board the terms and conditions of the service contracts of other directors both executive and non-executive if any, including compensation benefits for those services
- Review the reward policy to ensure that the Bank's executives are fairly rewarded for their efforts to the Bank's overall performance and also to demonstrate to all the stakeholders in the business that the remuneration of the Senior Executives is done objectively
- Reward Senior Executives based on KPIs such as economic value added, RAROC, profitability, business levels
- Recommend to the Board the productivity bonus policy for employees
- Recommend to the Board salary revisions and service conditions of other employees of the Bank, taking into consideration suggestions/demands of Trade Unions
- Review and recommend to the Board policy on staff welfare and fringe benefits

- Determine the level of Board fees for directors to be recommended to the shareholder
- Meet at least 3 times annually and present the minutes of proceedings of meetings to the Board

### Focus for the year ahead

- Ensure proper succession planning for directors
- Ensure adequate training are provided to the directors

## Risk Management Committee

### Chairperson

Mr R. Chellapermal

### Members

Mr C. Appadoo
Mr N.K. Ballah
Mr R. Hurdoyal
Mr V. Lochun
Mr J. Sonoo, *C.S.K.*

### Terms of Reference

- Set, communicate, and monitor high level policy and procedures on Credit Risk including Credit Risk mitigation
- Ensure clear assignment of Credit Risk Policy to the Credit Risk team and ensure that they have frameworks to monitor their risks and control failures
- Maintain a Bank-wide framework for Credit Risk so that business and support functions can consistently identify, assess and respond to internal and external changes in operating environment
- Review methodologies for assessing the credit risks and recommend credit exposure limits to Board for approval
- Review the delegated lending authority framework including the sanctioning powers and composition of the Credit Committee and Forums and recommend to the Board for approval
- Review large exposures and large impaired assets
- Collate information and trends on gaps, risks, breaches and control failures
- Grant dispensation for non-compliance with policy as required

### Focus for the year ahead

- Continue to monitor the current and future risk profile of the Bank to ensure that the Bank is managed within risk appetite relative to the strategy
- Monitor and review the Bank'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 Bank
- Continue to monitor industry-wide operational risk trends and incidents to ensure proactive response by the Bank
- Continue to monitor the capital adequacy of the Bank and review the impact of significant transactions on capital

## Strategy Committee

### Chairperson

Mr N.K. Ballah

### Members

Mr P. Ah-Chuen
Mr C. Appadoo
Mr V. Lochun
Mr R. Chellapermal
Mr J. Sonoo, *C.S.K.*
Mr M. Burkutoola*
Mr R. Hurdoyal*

### Terms of Reference

- Review strategic plans and annual or quarterly corporate objectives and budgets
- Review effectiveness of the Bank's strategies
- Review the issues of fundamental importance and proposals from management that are material to the Bank's objectives
- Approve and monitor large projects
- Ensure that capital is fully optimised / capital management
- Review and monitor the investment in information technology and strategic assets and ensure that they are prioritised according to the Bank's strategy
- Meet at least twice annually and present the minutes of proceedings of meetings to the Board

### Focus for the year ahead

- Ensure the strategic investments or disinvestments made are in line with the Bank strategy
- Recommend to the Board any large projects for consideration

Note: * Messrs M. Burkutoola and R. Hurdoyal were appointed as members of the Strategy Committee effective 16 March 2016.

## Succession Planning

Chief Executive and director succession are quintessential board composition issues. Having smooth transitions in these leadership roles is crucial to an organisation's long-term success. The Board of SBM Bank ensures proper succession planning, that is, at times a director retires, the Board ensures that candidates with sufficient skills and experience are identified to ensure that the Board's competence and balance are either maintained or enhanced, taking into account the Bank's current and future needs.

The eight directors holding office at 31 December 2015 were appointed during the financial year. Mrs Kalindee Bhanji and Messrs Shakeel Summun and Rohit Ramnawaz resigned as directors on 31 December 2014, and Professor Andrew Scott resigned from the Board effective 01 January 2015. Mr Medha Gunputh and Dr Jameel Khadaroo, who were appointed on 04 February 2015, retired at the Bank's Annual Meeting held in June 2015. The following directors also retired from the Board at the Bank's Annual Meeting in June of last year: Mr Muni Krishna T Reddy, *G.O.S.K.*, *F.S.I.D.*, Mr Dheerendra Kumar Dabee, *S.C.*, *G.O.S.K.*, Mr Aakash Kalachand, Mr Joel Rault, Mr Alain Rey, and Mr Regis Yat Sin, *C.S.K.*, G.O.S.K.

Mr Nayen Koomar Ballah was appointed as Chairperson of the Board effective 30 June 2015. The new Board has extended its appreciation to the outgoing directors for their invaluable contribution over the years.

## Induction Programme and Ongoing Training/ Education

SBM Bank ensures that an induction course is provided to the new directors 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 Bank.

In order to become familiar with the Bank, as well as the functioning of the Board of Directors, newly-appointed directors receive a variety of materials, including a Directors' Handbook, which provide an overview of the Bank, its operations, its Constitution, policies, applicable laws, rules and regulations pertaining to the Bank. They are also provided with access to key management personnel to provide additional information, including significant issues currently facing the Bank. Management will also maintain a program to ensure directors are kept abreast of the updates to rules and regulations and other matters relevant to their positions as directors of a large financial institution.

## Board Evaluation

With the goal of increasing the effectiveness of the Board of Directors and its relationship to managements, the Code requires every board to evaluate its performance as a whole and the performance of its committees. Each director needs to participate in an annual performance evaluation of the Board and the Committees on which he or she serves to determine whether the Board and its Committees are functioning effectively.

A self-evaluation questionnaire has been designed for the Bank to evaluate the performance of its Board and Board Committees and individual directors. Appropriate measures are taken from this exercise to refine the questionnaire, governance structure and responsibilities based on feedback and comments received from the directors. Board and Committee evaluations conducted in past years have led to a number of enhancements to Board Meeting processes.

## Board and Board Committee Meetings

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

The Audit Committee members meet separately with the external auditors at the start of each meeting in the absence of management and internal auditors, followed by a separate session with the internal auditors in the absence of management and external auditors.

The executive management is invited to attend the Board and Board Committee meetings as and when required.

## Attendance of the Board of SBM Bank (Mauritius) Ltd

The table below shows the Board attendance of the directors of SBM Bank (Mauritius) Ltd for the period 01 January 2015 to 31 December 2015.

Attendance of the Board, Board Committee and Annual Meeting (AM) for the period January 2015 to December 2015:

| | | Board | Audit(i) | Credit(ii) | Nomination & Remuneration | Risk Management(iii) | Corporate Governance & Conduct Review | Strategy Committee | Annual Meeting 2015 |
|---|---|---|---|---|---|---|---|---|---|
| **No. of meetings held** | | 14 | 9 | 12 | 5 | 5 | 4 | 2 | 1 |
| **Directors** | ***Note:*** | | | | | | | | |
| Reddy, M K T, *G.O.S.K.*[1] | a | 10 | - | 6 | - | 3 | - | - | - |
| Appadoo, C | b | 12 | - | 11 | - | 1 | - | 1 | 1 |
| Dabee, D K, *S.C., G.O.S.K.*[1] | c | 5 | - | 5 | 1 | 2 | - | - | - |
| Kalachand, A K[1] | a | 9 | 3 | - | - | 2 | 1 | - | 1 |
| Rey, A J G R[1] | a | 9 | 4 | 6 | 3 | - | 2 | - | 1 |
| Sonoo, J, *C.S.K.* | b | 14 | - | 11 | 2 | 5 | - | 2 | 1 |
| Yat Sin, R, *C.S.K., G.O.S.K.*[1] | a | 9 | - | 6 | 3 | - | 2 | - | 1 |
| Gunputh, M[1] | c | 9 | - | 5 | 3 | 2 | - | - | 1 |
| Rault, J[1] | a | 8 | - | 4 | 3 | 1 | 2 | - | - |
| Khadaroo, J[1] | a | 9 | 4 | 4 | - | - | - | - | 1 |
| Lochun, V[2] | a | 4 | - | 5 | 2 | 2 | - | 2 | - |
| Ballah, N K[2] | c | 4 | - | 6 | 2 | 1 | 1 | 2 | - |
| Ah-Chuen, P[2] | a | 4 | 4 | - | 2 | - | 2 | 2 | - |
| Burkutoola, M[2] | a | 4 | 5 | 6 | - | - | 2 | - | - |

| | | Board | Audit(i) | Credit(ii) | Nomination & Remuneration | Risk Management(iii) | Corporate Governance & Conduct Review | Strategy Committee | Annual Meeting 2015 |
|---|---|---|---|---|---|---|---|---|---|
| **No. of meetings held** | | 14 | 9 | 12 | 5 | 5 | 4 | 2 | 1 |
| **Directors** | ***Note:*** | | | | | | | | |
| Chellapermal, R[2] | a | 4 | 5 | 5 | - | 2 | - | 2 | - |
| Hurdoyal, R[2] | a | 4 | 5 | - | - | 2 | 2 | - | - |
| | | | | | | | | | |
| | | | | | | | | | |
| **In attendance** | | | | | | | | | |
| Appadoo, C | b | - | 6 | - | 1 | - | - | - | - |
| Reddy, M K T | a | - | 3 | - | 2 | - | 2 | - | - |
| Sonoo, J, *C.S.K.* | b | - | 7 | - | 2 | - | 4 | - | - |

a - Independent Non-Executive Director

b - Executive Director

c - Non-Executive Director

[1] Resigned on 30 June 2015

[2] Appointed on 30 June 2015

*Note:*

(i) The external auditors and the internal audit team are in attendance at the Audit Committee

(ii) The Corporate Credit team is in attendance at the Credit Committee

(iii) The Risk Management Team is in attendance at the Risk Management Committee

## Independence of Board Committees

Most of the directors of the Bank are independent Directors who provide support to the Chairperson and also serve as an intermediary for the non-executive directors when necessary.

## Directors' Interest

The directors of the Bank confirm that they have followed the absolute prohibition principles and notification requirements of the model code for securities transactions by directors in accordance with Appendix 6 of the Stock Exchange of Mauritius Listing Rules. All new directors are required to notify the Company Secretary in writing of their holdings in SBM Holdings Ltd securities.

The following directors hold shares in SBM Holdings Ltd as at 31 December 2015:

| | Direct Shareholding | Indirect Shareholding |
|---|---|---|
| Mr Philip Ah-Chuen | 400,000 | 670,000 |
| Mr Chandradev Appadoo | 342,000 | 151,000 |
| Mr Jairaj Sonoo, *C.S.K.* | - | 500,000 |

Section 48 of the Banking Act and Section 148(1) of the Companies Act 2001 require 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 and withdraw from deliberations, discussions and the decision making process.

The Secretary is responsible for maintaining a register of directors' interests to ensure SBM Bank complies with the provisions of the Companies Act 2001 and the Banking Act 2004.

## Remuneration of Directors

The fees received by the non-executive directors during the reporting period are set out in the table below.

(a) Directors' Emoluments – Non-Executive Directors

| Name of Non-Executive Director | 2015 (MUR '000) |
|---|---|
| Mr M K T Reddy, *G.O.S.K., F.S.I.D.* – Former Chairperson[a] | 74,013 |
| Mr Dheerendra Kumar Dabee, *S.C., G.O.S.K.*[a] | 390 |
| Mr Medha Gunputh[a] | 475 |
| Dr Jameel Khadaroo[a] | 350 |
| Mr Aakash Krishan Kalachand[a] | 540 |
| Mr Joel Rault[a] | 420 |
| Mr Alain Rey[a] | 645 |
| Mr Regis Yat Sin, *C.S.K., G.O.S.K.*[a] | 570 |
| Mr Nayen Koomar Ballah[b] – Chairperson since 01 July 2016 | 1,065 |
| Mr Philip Ah-Chuen[b] | 525 |
| Mr Mahmadally Burkutoola[b] | 495 |
| Mr Rajakrishna Chellapermal[b] | 480 |
| Mr Rishikesh Hurdoyal[b] | 300 |
| Mr Vivekanand Lochun[b] | 465 |
| **TOTAL** | **80,733** |

Note:

[a] Resigned on 30 June 2015

[b] Appointed on 30 June 2015

(b) Directors' Emoluments – Executive Directors

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

| Name of Executive Director | 2015 (MUR '000) |
|---|---|
| Mr Jairaj Sonoo, *C.S.K.* | 17,945 |
| Mr Chandradev Appadoo | 9,893 |
| **TOTAL** | **27,838** |

## Segregation of the Chairperson and Chief Executive Roles

The separation of the Chairperson and Chief Executive roles increases the Board's independence from management and thus leads to better monitoring and oversight.

Mr Nayen Koomar Ballah was appointed as the Bank's Chairperson effective 30 June 2015. He is a non-executive director and responsible for leading the Board, ensuring its effective functioning and setting its agenda, in consultation with the Secretary, the Chief Executive and the directors. He ensures that the Board observes the highest standard of integrity and good governance. The Chairperson has the respect and confidence of the Board, which are vital to the effective performance of his role.

Mr Jairaj Sonoo, *C.S.K.*, is the Chief Executive of the Bank. He is responsible for fostering 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 mindset and drive the business forward.

## Directors' Service Contract

Mr Sonoo's employment contract of three years with the Bank, commencing 14 September 2012, was extended for a further period of two years during the reporting period. Mr Chandradev Appadoo's five-year contract with the Bank will expire on 31 December 2017.

Mr Muni Krishna T. Reddy, *G.O.S.K., F.S.I.D.*, was entitled as per his service contract to an annual fee of MUR 33.3 million, including bonuses, payable half yearly in advance, and was paid net of taxes besides expatriate benefits such as fully maintained house, car, travel, medical, gratuity of 25 percent of his annual emoluments, in lieu of family life-time pension for past services as Chief Executive Officer. Mr Reddy's contract was terminated on 30 June 2015 when he ceased to be the Chairperson of the Board of Directors of the Bank.

## Significant Contract

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

## Directors and Officers Liability Insurance

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

## Management Team

The Board of Directors has delegated the authority to the executive management to manage the day to day running of the Bank's business and affairs. Matters are debated and decisions are taken collectively on a unanimous basis. The issues are escalated to the next higher authority for review in the event of no unanimity. All of the main Management Forums are chaired by the Chief Executive, Banking (Indian Ocean Islands), and include:

- **Executive Forum**

  The Forum meets weekly to review and take decisions on the day to day running of the business and affairs of the Bank with the exception of credit approvals.

- **Management Credit Forum**

  The Forum meets twice weekly to review and sanction credit proposals within its delegated authority.

  The Minutes of Proceedings of this Forum are escalated to the Board Credit Committee for information.

- **Valued Based Performance Review Forum**

  It reviews and monitors the performance and achievement against budgets/targets of the various lines of business on a monthly basis.

- **Asset and Liability Forum**

  It oversees the management of the Bank's liquidity risk, interest rate risk, foreign exchange risk, and other market risks on a monthly basis or as often as required.

- **Operational Risk Forum**

  The Forum meets on a monthly basis to review, *inter alia*, the reports of the internal auditors and external auditors, flaws in credit documentation, operational policies, standards and practices, and IT related issues.

- **Portfolio & Credit Risk Forum**

  It reviews, on a quarterly basis, portfolio risk profiles and makes suitable recommendations to the Risk Management Committee.

- **Investment Forum**

  The Forum meets on a monthly basis to review the appropriateness of the investment plan in light of economic and business conditions affecting the Bank, and make recommendations for Board approval as may be appropriate. It also reviews and discusses financial risks across the investment portfolio and reports to the Board/Risk Management Committee.

- **Disclosure Forum**

  It reviews the adequacy of the Bank's disclosures to comply with legal and regulatory requirements and best practices. The Minutes of Proceedings of this Forum are escalated to the Corporate Governance and Conduct Review Committee.

## Management's Profile

The profile of the Management Team is as follows:

- *Front Office*

**SONOO Jairaj, *C.S.K.*, Masters in Business Administration (MBA)**

**Chief Executive, Banking (Indian Ocean Islands)**

Mr Sonoo joined SBM on 14 September 2012 as Chief Executive, Banking (Indian Ocean Islands), and holds a Masters in Business Administration (MBA) from University of Surrey, UK. He has 36 years' experience in banking and had previously spent more than 33 years at SBM in various positions amongst which Executive Vice-President (Indian Operations) before heading the Retail Banking Division. He resigned from the Bank in February 2010 to take up the position of Chief Executive of one of the local commercial banks. Mr Sonoo is an executive director of the Board of Directors of SBM Bank (Mauritius) Ltd.

### TAHER Aslam, MSc, MBA

### Head of Corporate and Institutional Banking

Mr Taher started his banking career in Mauritius with the Banque Nationale de Paris Intercontinentale (BNP Paribas) within Private Banking and Wealth Management. He has since held senior positions in major international banking institutions, such as Barclays Bank and HSBC. He originally joined the SBM Bank in 2009 as Team Leader Corporate Banking. In July 2012 he took the position of Director, Financial Institutions Group and Corporate Banking, with the Standard Chartered Bank (Mauritius) Ltd before coming back to SBM in October 2013 to head the Corporate and Institutional Banking Division. He reports to the Chief Executive of the Bank.

### VENKATESWARA RAO Parvataneni, MBA, CAIIB, DBM

### Head of Financial Markets Division

Mr P.V. Rao joined SBM on 03 December 2010 as Head of Treasury Indian Operations. He has 32 years of experience in banking with SBM and Indian banks. Prior to joining SBM, he was Head – FX, Global Markets Group, IndusInd Bank Ltd. Mr P.V. Rao is currently Head of Financial Markets Division.

- *Others*

| | | |
|---|---|---|
| BALLOO Eddirao | - | Sales, Branches & Private Banking |
| GHOORAH Bye Samah | - | Small and Medium Enterprise |
| GOWREESUNKUR Ragini | - | Custody |
| HURKOO Dharmendranath | - | Small and Medium Enterprise |
| IYEMPERMALL Josue | - | Corporate Banking |
| JANKEE Ratan Kumar | - | Corporate Banking |
| LUTCHMAH Rajnish | - | Corporate Banking |
| MANIKION Veeren | - | E-Commerce |
| MEWASINGH Ajit Prakash | - | Private Banking |
| POLIAH Carlo Parmasiven | - | Bancassurance |
| ROUX Francois | - | Trade Finance & International Business |
| SHIU Beekramduth | - | Corporate Banking |

- *Middle Office*

### SEEYAVE Pauline Sybille Cheh, MA (Cantab), ACA

### Head of Credit Underwriting

Ms Seeyave was previously managing a portfolio of clients in Audit and Business Assurance in an international firm of Chartered Accountants in London before joining the SBM Group in 2002. She has previously headed various functions within the SBM Group including Corporate Banking, Risk Management, Value Based Performance Management, and Finance. She was an executive director of the Board from December 2010 to December 2011. She is presently the Head of Credit Underwriting and reports to the Chief Executive.

- *Others*

| | | |
|---|---|---|
| DABEEDOOAL Sudhir | - | Retail Credit |
| DAMREE Shyam | - | Corporate Credit |
| GUNESS Ravi | - | Recovery & Workout |
| LI PAK MAN Kwon | - | Risk Management & Compliance |
| MOONEESAWMY Nandrajen | - | Credit Administration |
| RAMLAGUN Malinee Devi | - | Corporate Credit |

*Back Office*

**APPADOO Chandradev, FCCA, ACIB**

**Chief Financial Officer**

Mr Appadoo is a fellow of the Association of Chartered Certified Accountants (FCCA) and is also an Associate of the Chartered Institute of Bankers (ACIB). He has worked for over 30 years at SBM at various divisions and levels including Retail, Corporate Banking, Finance, Legal, Compliance, Risk Management, Operations Management, and Group Company Secretary. He is currently heading the Finance, Value Based Performance Management, and Facilities Management teams of the Bank. He is a non-executive director of SME Partnership Fund and NRF Equity Investment Ltd. He joined the Board of SBM Bank (Mauritius) Ltd in December 2011 and is an executive director. He reports to the Chief Executive.

- *Others*

| | | |
|---|---|---|
| ■ AMIRAN Mahmad Eshan | - | Flamingo Project Team |
| ■ AUTAR Avinash Asheesh | - | Flamingo Project Team |
| ■ BABOOLALL Kabirsingh | - | Finance |
| ■ BHEEKA Shailendre | - | Risk Management |
| ■ BHURUTH Tejbahadoosingh (Ashwin) | - | Flamingo Project Team |
| ■ BUNGSY Vikash* | - | Human Resources |
| ■ DURSUN Hemant Kumar | - | Facilities Management |
| ■ GAYAN Amrit | - | Flamingo Project Team |
| ■ GOINDEN Sivakrisna | - | Finance |
| ■ GONPOT Deochand | - | Human Resources |
| ■ GUJJALU Ragnish | - | Operations Management |
| ■ LALLAH SAIB Irshaad* | - | Flamingo Project Team |
| ■ MADARBUX Shah Nourani | - | Flamingo Project Team |
| ■ MOOROOGAN Darrma Rajan | - | Flamingo Project Team |
| ■ PAREATHUMBY Soopaya | - | Data Centre and IT Production Platform |
| ■ PERSAND-GUJADHUR Rita Devi | - | Value Based Performance Management |
| ■ PEERUN Vikash | - | Fraud, Risk Management Division |
| ■ PILLAY Vimalah | - | Operations Management |
| ■ SAWOKY Neelesh Sharma | - | Internal Audit |
| ■ SREEKEESSOON Shailendrasingh | - | Strategy & Research |

Note: * Resigned February 2016

## Management Succession and Talent Management

Succession planning is a systematic approach to ensuring leadership continuity within an organisation by recruiting and/or encouraging individual employee growth and development. It strengthens relationship and information flow between the Board and the senior management team. Effective succession planning activities have a positive impact on performance management not only in terms of ensuring that key positions will remain filled with competent performers but also in terms of saving money on external recruitment and training which can be significantly more expensive than promoting from within.

Having the right people in the right roles is a critical driver of the Bank's performance. Processes have been put in place to ensure continuous engagement between the Board and management beyond the Chief Executive's direct reports.

## Role and Function of Company Secretary

The Company Secretary shall be responsible for advising the Board through the Chairperson on all governance matters. Under the direction of the Chairperson, the Company Secretary's responsibilities include ensuring good information flows within the Board and its Committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required.

- The Company Secretary plays a key role in the application of corporate governance in a company.
- The Company Secretary should ensure that the company complies with its constitution and all relevant statutory and regulatory requirements, codes of conduct and rules established by the Board.
- The Company Secretary must provide the Board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interests of the company.
- The Company Secretary is a central source of guidance and advice to the Board on matters of ethics and good governance.
- The Company Secretary is the focal point of contact within a company for institutional and other shareholders.
- The Company Secretary should be subjected to a fit and proper test of suitability in the same manner recommended for a new director.
- All directors shall have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with.

Mrs Dayawantee Ramjug Chumun is the Secretary of the Board and Board Committees.

## Donations

For financial year 2015, MUR 1,567,116 was donated to the SBM Staff Children Education Trust and MUR 300,000 to the Council of Religions.

The Board confirms that there was no political donation during the financial period under review as per the Bank's policy.

## Related Party Transactions

In accordance with the Bank of Mauritius (BOM) Guideline on Related Party Transactions and the Bank's policy, the Corporate Governance & Conduct Review Committee reviews and approves, on a quarterly basis, all related party transactions above a set threshold that are conducted during the previous quarter. All transactions with a related party must be carried out on terms and conditions that are at least as favourable to the Bank as market terms and conditions. The matters reviewed by the Committee are reported to the Board of Directors after each meeting.

The BOM Guideline on Related Party Transactions is more stringent than the International Accounting Standard 24 - Related Party Disclosures in that a person holding directly or indirectly 10 percent or more of the capital or voting rights of the Bank falls within the definition of a related party.

As per the BOM Guideline on Related Party Transactions, related parties are classified into 3 categories for the purpose of reporting exposures:

### Category 1

This includes credit exposures to:

(a) a person who 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) above;

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

(f) any entity in which the financial institution has significant interest, excluding a subsidiary of the financial institution as mentioned in 16(e).

### Category 2

This includes credit 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.

### Category 3

This includes credit exposures to senior officers, which are within the terms and conditions of employment contracts.

Note 40 of the Financial Statements outlines the on- and off-balance sheet items and other related party transactions for the past years. None of the advances to related parties were impaired as at 31 December 2015.

## Constitution

The amendments to the Constitution of the Bank were approved at the last shareholders' meeting held in June 2015.

## Shareholder Agreement

A shareholders' agreement dated 02 October 2014 has been signed among SBM Holdings Ltd, SBM (Bank) Holdings Ltd, SBM Mauritius Ltd, and the Bank.

SBM Bank is a wholly owned subsidiary of SBM (Bank) Holdings Ltd with effect from 02 October 2014 through SBM Mauritius Ltd (which is in process of winding up) and ultimately owned by SBM Holdings Ltd, a company listed on the Stock Exchange of Mauritius.

## Dividend Policy

SBM Bank (Mauritius) Ltd's dividend policy requires distribution of its profits for the year subject to approval from BOM and the solvency test under Section 61(2) of the Companies Act 2001 being satisfied.

## Timetable of Important Events

| Financial Year 2015 | |
|---|---|
| Financial Year End | 31 December 2015 |
| Dividend payment | November 2015 |
| Annual Meeting | June 2016 |
| **Financial Year 2016** | |
| Financial Year End | 31 December 2016 |
| Unaudited quarterly earnings report | within 45 days from the quarter ending March, June and September |
| Audited Financial Statements for the year ending 31 December 2016 | within three months from end of December 2016 |
| Dividend payment | Subject to Board's discussion and approval |
| Annual Meeting | June 2017 |

## Auditors' Fees

In line with good governance and following the concern expressed by the shareholders at previous Annual Meetings for a rotation of the statutory auditors, the Board of Directors of SBM Holdings Ltd issued a Request for Proposal to three reputable auditing firms registered with the Financial Reporting Council namely (i) Ernst & Young, (ii) PricewaterhouseCoopers and (iii) KPMG. The Board of Directors of the Bank deliberated and recommended to the shareholders the appointment of Ernst & Young as statutory auditors for the financial year ending 31 December 2015. The proposal was approved at the shareholders' meeting held in June of last year. The table below shows the fees to the auditors for the reporting period:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Audit | Other Services | Audit | Other Services |
| | MUR '000 | MUR '000 | MUR '000 | MUR '000 |
| **Ernst & Young** | | | | |
| *SBM Bank (Mauritius) Ltd* | | | | |
| Statutory Audits and quarterly reviews | 6,000 | - | - | - |
| **Deloitte** | | | | |
| *SBM Bank (Mauritius) Ltd* | | | | |
| Statutory Audits and quarterly reviews | 173 | - | 7,930 | - |
| Special Audit | - | - | 1,840 | - |
| Other | - | 889 | - | 5,936 |
| **Other auditors** | | | | |
| *SBM Bank (Mauritius) Ltd (Indian Operations)* | | | | |
| GD Apte & Co | 202 | - | 454 | - |

## Risk Management

The risk management framework of SBM Bank is set out in the Risk Management Report at pages 142 to 183 of the Annual Report.

## Remuneration, Health & Safety

### Statement of Remuneration Philosophy

Our remuneration and reward performance practices are legally compliant, competitive in the labor market and reflect positively on the Bank's reputation. It is in alignment with the Bank's overall business strategy, values, key priorities and long-term goals. We aim at providing equal and motivational remuneration to our employees to retain, motivate and encourage them to perform at their best while attracting candidates with the right skills and talent. The Bank's salary and reward structures are linked to our strategic objectives and work towards sustained and long-term value creation with our employees. We do not tolerate any form of unfair discrimination. We provide certain core benefits such as retirement benefits, medical aid or insurance benefits and parental leave across the Bank.

### Equal Opportunity and Diversity

SBM Bank (Mauritius) Ltd has adopted and applied an Equal Opportunity Policy, in line with the Equal Opportunity Act 2008, geared towards building an organisation where the employees will make full use of their talents, skills, experience and competence, and where the employees feel respected and valued regardless of their status, that is, their age, caste, colour, creed, ethnic origin, impairment, marital status, place of origin, political opinion, race, sex or sexual orientation. The Bank undertakes that selection for employment, promotion, transfer and training, and access to benefits, facilities and services will be fair and based solely on merit. All employees are trained on the policy, which is also available on the intranet portal for consultation.

### Health and Safety

We value and protect the health and safety of our employees and any person conducting business within the premises of the Bank as far as it is reasonably practicable. Our Health & Safety policy has been designed and its objectives are to ensure compliance with the Occupational Safety & Health Act 2005 and adopt best practices in the field of Health & Safety. SBM Bank (Mauritius) Ltd, as a dedicated employer acknowledges that it has a duty under the current Occupational Safety Health Act 2005 to take all appropriate measures to ensure that the employees, stakeholders and contractors work in a conducive and safe environment. A Health & Safety Policy has been signed by the Chief Executive to show the engagement and commitment of the senior management in ensuring a safe and healthy workplace for all the employees. The Bank shall thrive to comply with the occupational Safety and Health Act 2005 and the related legislations.

### Code of Conduct

The Bank maintains a code of business conduct and ethics which articulates for employees, shareholders, customers and suppliers the standards of conduct, including conflicts of interest matters, to which the Bank expects to adhere. Directors are also required to abide by the code of conduct. Any dispensation from the conflict of interest requirements of such code in favour of a director or executive officer will be subject to approval by the Board. In the case of the consideration of such dispensation in favour of a director, such director shall not participate in the deliberation or voting relating to such dispensation.

## Environment Sustainability Statement

With increasing emphasis being laid on sustainable development and the adoption of new legislations, such as the Energy Efficiency Act and the Building Control Act, for the use of renewable sources of energy and embracing concepts of green building, as a leading financial institution and responsible organisation, the Bank is fully committed to apply sustainability practices at its workplace and the community at large.

The Bank aims to be a showcase leader in environmental best practices and to be a sustainable organisation, whilst offering premium services to its stakeholders.

The Bank is committed to set up an environmental sustainability policy and improve its sustainability performance. Sustainability principles and practices are being embedded in the different aspects of our operations besides the integration of environmental considerations into our business decisions.

### Reducing Greenhouse Gas Emissions

We are committed to reduce the carbon emissions generated from our operations; this is being dealt with in a phased manner when equipment replacement is carried out based on the asset life cycle and obsolescence.

Furthermore, as part of the air-conditioning replacement plan at SBM Tower, the design of the system has been reviewed to enable the installation of new equipment with the following sustainability characteristics:

- Soft start and enhanced components ensuring improved energy efficiency.
- Use of non-CFC refrigerant which is harmless to the environment and complying with local environmental regulations pertaining to ozone depleting substances and global warming gases.
- Modern computerised controls enabling the air-conditioning equipment to operate at optimum range.

We expect the new equipment to be fully operational by June 2017.

### High-Energy Efficiency Equipment

Procurement of goods and services is being effected paying particular attention to their energy efficiency characteristics and their low environmental impact over their lifetime.

For instance, the new lift equipment currently being installed at SBM Tower is 20 percent more energy efficient with gearless drives, variable-frequency technology and regenerative drives that re-feed the power back into the system.

At our service units, consideration is being given to the replacement of air-conditioning equipment by inverter-type ones, which are 25 percent more energy efficient; this is being carried out in a phased manner based on the asset life cycle.

### New Project Works

Sustainable design is being incorporated in new property development projects and refurbishment of our premises encompassing the whole life cycle from construction stage through operations and management till final disposal of the facilities.

For information, during the recent refurbishment works carried out at our Flacq service unit, an energy-efficient and intelligent lighting control system equipped with presence and motion detectors has been installed in order to reduce energy consumption to an optimum level.

Besides, the air-conditioning system installed is of an inverter-type technology which reduces the electrical demand through optimal use of the compressor.

### Clean Energy System

The installation of photovoltaic systems is being envisaged for the heating of the swimming pool at SBM Park; a feasibility study is underway. We are also exploring the possibility of installing solar panels at selected service units; this initiative spans until June 2017.

### Outsourced Services

Sustainability principles and practices are incorporated in the terms and conditions of our outsourced contracts; e.g. for the cleaning services, emphasis is laid on the use of eco-friendly chemicals/bio-degradable type, with right dosages, in the daily activities in addition to the use of energy efficient equipment.

More so, service providers and suppliers are continuously coached and briefed on the necessity for the protection of environment, raising their awareness upon environmental issues and enhancing their environmental sustainability capabilities.

### Waste Management

The concept of preventing, reducing, recycling and re-using waste is currently adopted for effective waste management, e.g.

- Paperless Board meetings through the use of iPads;
- Used oils emanating from servicing of generators and compressors are sent for recycling at Ecofuel Ltd;
- Toners/ink cartridges are recycled for scrap metal;
- Batteries—the maintenance contractor has an agreement with an established local battery supplier/dealer which has a safe, sound and environmentally-friendly approach to recycle or dispose such used materials.

### Green Space

The setting up of green space areas is taken into account for new property development projects of the Bank.

Besides, since 2004, SBM Bank has been sponsoring and maintaining the landscaped areas at La Vigie Round-About and the adjoining islands along the motorway.

### Conclusion

SBM Bank reassures its customers, investors, stakeholders and the community at large of its commitment, dedication and engagement to reduce its environmental impact and thereby bringing positive and proactive contribution for a clean and sustainable environment for the future generations.

## Corporate Social Responsibility

Our Corporate Social Responsibility (CSR) activities reflect our philosophy of implementing sound business practices; innovating to realise products and services; assisting the communities in which we operate; and helping to shape a better, more sustainable society. Similar to SBM Group, we believe that these activities both benefit society and enhance corporate value.

Our Bank's 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. In line with our philosophy to create a sustainable society, we are of the view that empowerment through education also requires a conducive environment. Thus, most of our projects focus on providing the relevant tools and opportunities to vulnerable groups so that they are adequately equipped and skilled to enhance their employability to improve their current financial situation.

- **SBM Scholarship Scheme for bright and needy students**

Our priority areas of intervention 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 has culminated into its recognition at national level when SBM Bank was named the **'Overall Winner'** of the **BDO CSR Awards 2010** as well as the **Winner of the 'Education and Sports' category**.

The Bank 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);** scholarships were awarded to a first batch of students in 2011. As at December 2015, the Bank has awarded nearly 1,800 scholarships to needy students from Mauritius and Rodrigues who have performed well at Higher School Certificate exams to follow courses at tertiary level or vocational courses at the Mauritius Institute of Training and Development.

**From left to right:**
Late **Mr. Mangayah RAMANJOOLOO**, Trustee of The SBM Education Fund
**Mr. André LAM**, Chairman of The SBM Education Fund
**Ms. Yonella LATOUCHE**, scholarship beneficiary
**Mr. Kee Chong LI KWONG WING**, Chairman of SBM Holdings Ltd
**Mr. Viraj SEETHIAH**, scholarship beneficiary
**Ms. Mushiirah Bibi PERSAND**, scholarship beneficiary
**Mr. Jairaj SONOO**, Chief Executive of SBM Bank (Mauritius) Ltd
**Mr. Komal GUJADHUR**, Acting Head Marketing & Communications of SBM

In the same wave, the Bank donated some 400 refurbished PCs to several non-governmental organisations and associations as part of SBM IT project to help children of vulnerable groups to be versed in Information, Communication and Technology tools. This project was initiated through the **E-Inclusion Foundation**.

In line with SBM Group's strategy of providing skills through education to combat poverty, the Bank has carried out several other projects by supporting the following organisations:


From left to right:

**Mr. Komal GUJADHUR,** Acting Head Marketing & Communications of SBM
**Mr. Kee Chong LI KWONG WING**, Chairman of SBM Holdings Ltd
**Mrs. Rose Marie Franchette GASPARD-PIERRE LOUIS**, Deputy Chief Commissioner of Rodrigues
**Ms. Marie Prissila PIERRE LOUIS**, scholarship beneficiary
**Mr Eddirao BALLOO**, Head of Sales, Branches & Private Banking of SBM
**Mrs. Doris ROUSSETY**, Branch Manager of SBM Rodrigues

- ## ABAIM

ABAIM adopts a holistic approach to poverty alleviation, empowerment, and acquisition of skills through music, arts, culture and sports. The Bank has been a partner of ABAIM since 2008. ABAIM is currently running services for around 120 underprivileged children and their parents, and blind persons.

- ## Gandhian Basic School

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

- ## Teen Hope

DLD Teen Hope School Project, being under the responsibility of the Noyau Social Cité La Cure, has as mission to support poor children victims of neglect and violence to become responsible citizens, build up their self-confidence to find a job and contribute towards the development of society. The NGO works with deprived children of Cité La Cure who have not been able to complete the Primary Cycle.

Similar to GBS, this NGO caters for boys and girls aged between 12 and 16 years old not attending school (mainly those having failed CPE twice), aiming to give them a basic education in literacy, numeracy and life skills so that they become responsible citizens. The Bank has given its support to Teen Hope by providing education facilities to more than 80 adolescents (including a daily breakfast to the students).

- ## Sailing Pour Tous

Sailing Pour Tous is an NGO which aims at helping needy children to discover the pleasures of sailing in a secure environment. It is in operation since 2013 and mainly targets children of 7 to 14 years old from vulnerable groups. It has till now helped 420 children. The idea consists mainly of making sailing—an activity practised mainly by the rich—accessible to the poor. The NGO furthermore educates these children about the necessary skills related to their training and increases their awareness about safety measures.

- **Social Entrepreneurship Award**


**From left to right:**

Honourable **Mrs. Fazila JEEWA-DAUREEAWOO**, Minister of Social Security, National Solidarity and Reform Institutions

Two representatives of the NGO "Autisme Maurice"

**Mr. Kee Chong LI KWONG WING**, Chairman of SBM Holdings Ltd

The Bank collaborated with the Ministry of Social Security, National Solidarity and Reform Institutions and the NGO Trust Fund to launch the first edition of the Social Entrepreneurship Award in 2015, which is a business plan competition for NGOs. Social entrepreneurship is an innovative concept whereby entrepreneurship principles are applied to organise, create and manage a venture to bring about social change. This represents an opportunity for NGOs to ensure the economic empowerment of their beneficiaries and at the same time to diversify their income base and move from dependency to sustainability. There were 3 winners: Association Pour Personnes En Larmes (APPEL), Autisme Maurice and Groupe Elan.

## SBM Internal CSR

With a view to maintain proximity with its 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 are encouraged to organise fundraising activities in favour of NGOs/community organisations of their choice, with the SBM 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 SBM Group also brings its contribution to the blood bank by regularly organising blood donation activities throughout the island. These initiatives are supported by both employees and customers.

**From left to right:**

**Mr. Gérard HEBRARD**, General Manager of CEB

**Mr. Nayen Koomar BALLAH**, Chairman of SBM Bank (Mauritius) Ltd

**Mr. Kee Chong LI KWONG WING**, Chairman of SBM Holdings Ltd

**Mr. Seety NAIDOO**, Chairman of CEB

**Mr. Matthieu DISCOUR**, Regional Director for Mauritius and Seychelles of "L'Agence Française de Développement"

# INNOVATIVE

Creative thinking empowers our people by adding strength to their natural abilities, improves teamwork and generates innovation.

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