# SBM HOLDINGS LTD

# INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS
# FOR THE QUARTER ENDED 31 MARCH 2018

**SBM HOLDINGS LTD**

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**FOR THE QUARTER ENDED 31 MARCH 2018**

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## 1 Management Discussion and Analysis

The management of SBM Holdings Ltd (the "Group") is pleased to present their Management Discussion and Analysis, in accordance with the Bank of Mauritius Guideline on Public Disclosure of Information for the quarter ended 31 March 2018.

### 1.1 Financial Review

#### 1.1.1 Group key financial highlights

| Area of performance | **Quarter ended 31 March 2018** | Quarter ended 31 March 2017 | Year ended 31 December 2017 |
|---|---|---|---|
| Shareholders' equity (MUR million) | **25,104** | 24,203 | 25,165 |
| Capital adequacy ratio (%) | **19.67** | 23.00 | 19.98 |
| Earnings Per share (Cents) | **28.92** | 22.52 | 99.73 |
| Market Price per Share (MUR) | **7.68** | 7.10 | 7.50 |
| Price to Book Ratio | **0.79** | 0.76 | 0.77 |
| Profit before credit loss and tax (MUR million) | **1,091** | 993 | 4,184 |
| Profit attributable to equity holders (MUR million) | **747** | 581 | 2,575 |
| Return on average assets (%) | **1.52** | 1.50 | 1.51 |
| Return on average risk-weighted assets (%) | **2.39** | 2.36 | 2.05 |
| Return on average shareholders' equity (%) | **11.95** | 9.74 | 10.52 |
| Cost to income (%) | **45.07** | 42.07 | 44.75 |
| Gross impaired advances to gross advances (%) | **5.09** | 5.89 | 4.47 |
| Net impaired advances to net advances (%) | **2.43** | 2.24 | 1.98 |

## 1 Management Discussion and Analysis (continued)

### 1.1 Financial Review (continued)

#### 1.1.2 Revenue

Interest income for the quarter ended 31 March 2018 was MUR 1,888 million. The main source of interest income was interest on loans and advances which amounted to MUR 1,488 million. Interest expense for the period under review was MUR 562 million which includes interest on deposits of MUR 458 million.

Non-interest income increased by 3 % to reach MUR 661 million for the quarter ended 31 March 2018. Profit arising from dealing in foreign currencies increased from 166 million for the quarter ended 31 March 2017 to 176 million for the quarter ended 31 March 2018 . Net gain/(loss) from dealing from financial instruments increased from 140 million for the quarter ended 31 March 2017 to 152 million for the quarter ended 31 March 2018

The Group has recorded profit before impairment loss and tax of MUR 1,091 million for the quarter ended 31 March 2018, as compared to MUR 993 million for the corresponding period last year.

#### 1.1.3 Cost Control

Operating expenses of the Group for the quarter ended 31 March 2018 was MUR 896 million.

| | **Quarter ended 31 March 2018** | Quarter ended 31 March 2017 | Year ended 31 December 2017 |
|---|---|---|---|
| | **MUR' 000** | MUR' 000 | MUR' 000 |
| Personnel expenses | **457,200** | 358,921 | 1,618,992 |
| Depreciation and amortisation | **179,467** | 145,550 | 669,966 |
| Other expenses | **258,882** | 216,424 | (1,099,274) |
| **Operating expenses/Non-interest expense** | **895,549** | 720,895 | 1,189,684 |

The increase in personnel expenses is attributable to annual increment during the quarter under review and increase in head count. Increase in other expense is due to IT related costs related to the flamingo depreciation cost and flamingo related cost hence impacting quarter end March 2018.

## 1 Management Discussion and Analysis (continued)

### 1.1 Financial Review (continued)

#### 1.1.4 Credit Exposure

The Group regularly reviews the diversification of its credit portfolio and factors affecting the economic environment. As far as possible, the Group refrains from having concentrations of risk associated with large exposures, representing credit risk concentration through large advances to single or groups of related clients. While being an important element in the management of risk exposure, the capital strength is a factor that quite often limits the appetite.

The Group's strategy is to achieve a right balance between growth, liquidity and profitability through a well-diversified portfolio spread over different sectors of the economy and is in line with the industry practice. The classification is provided in notes 9.4.3 on page 22.

## 1 MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1.1 Financial Review (Continued)

### 1.1.5 Credit Quality

IFRS 9 replaces IAS 39 and addresses classification, measurement and derecognition of financial assets and liabilities, the impairment of financial assets measured at amortised cost or fair value through other comprehensive income and general hedge accounting.

**Impairment**: IFRS 9 replaces the IAS 39 'incurred loss' impairment approach with an 'expected credit loss' approach. The revised approach applies to financial assets including finance lease receivables, recorded at amortised cost or fair value through other comprehensive income; loan commitments and financial guarantees that are not measured at fair value through profit or loss are also in scope. The expected credit loss approach requires an allowance to be established upon initial recognition of an asset reflecting the level of losses anticipated after having regards to amongst other things, expected future economic conditions. Subsequently the amount of the allowance is affected by changes in the expectations of loss driven by changes in associated credit risk.

**Classification and measurement:** IFRS 9 requires financial assets to be classified into one of the following measurement categories: fair value through profit or loss, fair value through other comprehensive income and amortised cost. Classification is made on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income.

**General Hedge Accounting:** The new hedge accounting model aims to provide a better link between risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. The standard does not explicitly address macro hedge accounting solutions, which are being considered in a separate IASB project – Accounting for Dynamic Risk Management. Until this project is finalised, the IASB has provided an accounting policy choice to retain IAS 39 hedge accounting in its entirety or choose to apply the IFRS 9 hedge accounting requirements. The Group has elected to continue applying hedge accounting as set out in IAS 39 to all hedge relationships until the project on accounting for dynamic risk management has been finalised.

In line with IFRS 9, The Group has elected not to restate the comparative figures for prior quarter.

**Implementation programme**

The Group has run a centrally managed IFRS 9 programme sponsored by the Chief Executive Officer, in consultation with Deloitte, which has included business functions and subject matter experts on methodology, data sourcing and modelling, IT processing and reporting. The Group's implementation of IFRS 9 has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and developing an impairment methodology to support the calculation of the Expected Credit Loss allowance. The Group commenced in September 2016 the development of an approach for reviewing business models and methodology for testing the Solely Payments of Principal and Interest ('SPPI') criteria of IFRS 9. Concurrently, The Group also developed its approach for assessing significant increase in credit risk, incorporating forward looking information, including macro-economic factors (implemented in 2017), preparing the required IT systems and process architecture, as well as development of a related IFRS 9 governance and control framework.

## 1 MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1.1 Financial Review (Continued)

### 1.1.5 Credit Quality (Continued)

The Group has performed a final parallel run based on 31 March 2018 data. Overall governance of the programme's implementation has been through The Group's IFRS 9 Steering Committee and includes representation from Finance, Risk, Credit and Credit Services Unit, Audit and IT. Guidance and training on IFRS 9 across The Group has been delivered across businesses and functions as part of The Group's control process and implementation program. The Group enhanced its governance environment to ensure an updated framework for classification and measurement, and impairment by implementing appropriate validations and controls over new key processes and significant areas of judgement. The specific process and business controls under this updated framework are being incorporated and finalized. Governance over the Expected Credit Loss calculation process is shared across Risk and Finance functions.

**Hedge Accounting- Applies IAS 39**

IFRS 9 also includes guidance on hedge accounting. The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The Group intends to continue applying IAS 39's hedge accounting, although it will implement the amended IFRS 7 hedge accounting disclosure requirements, until the macro hedge accounting project has been completed.

The Group has adjusted its opening retained earnings at the date of initial application i.e. 01 January 2018. The Group has elected not to restate its comparatives.

Total expected credit loss allowance on loans and advances book as at 31 March 2018 amounted to MUR 4,365.53 million. As for other financial assets, the total expected loss allowance amounted to MUR 256.86 million.

A provision amounting to MUR 57.34 million in accordance with IFRS 9 was accounted in the books of the foreign operations whereas for Mauritius Operations regulatory provisioning was higher than the required amount per IFRS 9 as at 31 March 2018.

Further disclosure is available in Note 9.14.

## 1 Management Discussion and Analysis (continued)

### 1.1 Financial Review (continued)

#### 1.1.6 Assets and Liabilities

Total assets of the Group stood at MUR 202,344 million at 31 March 2018 compared to MUR 194,021 million at 31 December 2017, an increase of MUR 8,323 million.

Loans and advances accounted for 51.35 % of total assets at 31 March 2018, while Investment in securities and equity investments amounted to MUR 53,330 million at 31 March 2018. Cash and cash equivalents including nostro balances with banks abroad totalled MUR 16,083 million at the reporting date.

Deposits from non-banking customers reached MUR 152,912 million at 31 March 2018, an increase of 5.57 % as compared to 31 December 2017.

#### 1.1.7 Capital Structure

The Group has followed the Guidelines of the Bank of Mauritius and has implemented the Standardised Approach to the measurement of credit, market and operational risk.

The Group maintains its capital structure within prudential and supervisory limits and ensures it has adequate capacity for future development and growth.

The table below show the components of Tier 1 and Tier 2 Capital for the Group and the resulting capital adequacy ratios which stood at 19.67% at 31 March 2018 as compared to the statutory requirement of 10 %.

| | **31 March 2018** | 31 March 2017 | 31 December 2017 |
|---|---|---|---|
| | **MUR'000** | MUR'000 | MUR'000 |
| **Capital Base** | | | |
| Tier 1 | **19,944,060** | 19,068,352 | 20,010,395 |
| Tier 2 | **4,802,832** | 5,036,629 | 5,098,823 |
| | **24,746,892** | 24,104,981 | 25,109,218 |
| **Risk Weighted Assets** | | | |
| On balance sheet | **105,694,717** | 92,529,195 | 107,705,105 |
| Off balance sheet | **11,045,331** | 4,836,516 | 9,124,627 |
| Operational Risk | **8,274,667** | 6,937,888 | 8,513,888 |
| Market Risk | **788,321** | 504,559 | 340,387 |
| | **125,803,036** | 104,808,159 | 125,684,007 |
| **Capital Adequacy Ratio** | **19.67%** | 23.00% | 19.98% |
| **Tier 1 Capital Adequacy Ratio (%)** | **15.85%** | 18.19% | 15.92% |

## 1 Management Discussion and Analysis (continued)

### 1.1 Financial Review (continued)

#### 1.1.7 Capital Structure (continued)

#### 1.1.7.1 Credit Risk

The Group applies the Guidelines issued by the Bank of Mauritius on Standardised approach to Credit Risk for its evaluation of the Capital requirements for Credit Risk. The regulatory credit risk capital requirement is determined by applying the appropriate risk weights provided in the guidelines to the credit based on its rating assigned by External Credit Assessment Institutions, particularly for sovereign, Central banks of other countries as well as other banking institutions, to each credit exposure.

### 1.2 Risk Management Policies and Controls

The Group has a comprehensive risk management framework to identify, measure, monitor, evaluate and manage the risks assumed in conducting its activities.

The Group has adopted the Basel III recommendations and is compliant with the Bank of Mauritius guidelines.

The Group Risk Management team is responsible for the design and application of risk management framework, and is independent of business units.

The framework is integrated within the Group strategy and business planning processes. The effectiveness of this framework is enhanced by strong risk governance, which includes active participation of the Board of Directors, senior executives and business line management in the risk management process.

#### 1.2.1 Credit Risk Concentration

The Group has complied with the requirements on credit concentration limit and remains within the regulatory limits.

The Group has complied with the Bank of Mauritius requirements on credit concentration limit and remains within the regulatory limits. 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 Banking Group to any one customer or group of closely-related customers for amounts aggregating more than 10% of its tier 1 capital amounted to MUR 31,586 million representing only 158.37% of its tier 1 capital, well within the 800% allowed under the BOM guideline on credit concentration risk.

## 1 Management Discussion and Analysis (continued)

### 1.2 Risk Management Policies and Controls (continued)

#### 1.2.2 Related Party Transactions

The Group provides regular banking services to its related parties in the ordinary course of business. These services are on terms similar to those offered to non-related parties.

Outstanding loans to executive officers of SBM totalled MUR 78.56 million as at 31 March 2018.

On and off balance sheet exposures to related parties after set off amounted to MUR 2,133 million representing 1.86 % of aggregate on and off balance sheet exposures and 10.69 % of Tier 1 Capital, well within the limit of 60% as per guideline on related party transactions.

There is no related party exposure which is non-performing as at the reporting date.

#### 1.2.3 Market risk

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

#### 1.2.4 Interest rate risk

This is the risk of loss due to changes in the level, slope and curvature of the yield curve, the volatility of interest rate and mortgage prepayment rates.

The Group actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from Group's funding and investment activities is managed in accordance with established procedures which are designed to control the risk to income and economic value of shareholders' equity. The impact of the effect of a specified shift in interest rates on the Group's annual net income and the economic value are periodically assessed.

#### 1.2.5 Equity risk

This is the risk of loss due to changes in the prices, volatility, of individual equity instruments and equity indices.

Market risk is monitored consistently and reported to the senior management on a daily basis and to SBM's Asset and Liability Committee ("ALCO"). Movements of major currencies, trends and forecasts are analysed in ALCO. Furthermore, the matching of SBM's Assets and Liabilities is closely monitored by using gap analysis.

## 1 Management Discussion and Analysis (continued)

### 1.2 Risk Management Policies and Controls (continued)

#### 1.2.6 Foreign Exchange risk

Foreign exchange risk is defined as the risk arising from movement in exchange rate from one currency to another. The Group mitigates this risk by exercising stringent control over its foreign currency exposure by setting prudential limits. The overall exposure to foreign exchange is reported by the treasurer to the Asset and Liability Committee ("ALCO").

#### 1.2.7 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations on a timely manner at reasonable prices. Financial obligations include mainly liabilities to depositors, lending and investment commitments.

ALCO provides senior management oversight of liquidity risk and meets on a monthly basis to review Group's liquidity profile or more frequently if required.

#### 1.2.8 Operational risk

Operational risk is the risk of loss, whether direct or indirect, to which the Group is exposed due to external events, human error, or the inadequacy or failure of processes, systems or controls. According to the Basel Committee, it is defined as: "the risk of loss resulting from inadequate or failed internal processes, people, systems or external events." Operational risk, in some form, exists in each of the Group's business and support activities, can result in financial loss, regulatory sanctions and damage to Group reputation.

The Group has developed policies, standards and assessment methodologies to ensure that operational risk is appropriately identified, managed and controlled.

#### 1.2.9 Internal audit

The internal audit team directly reports to the Audit Committee. It performs an independent appraisal of the Group's compliance with internal control systems, accounting practices, information systems, providing assurance regarding the group's corporate governance, control systems and risk management processes. This function operates as per good corporate governance practices.

#### 1.2.10 Compliance

The Group is committed to the highest standards of business integrity, transparency and professionalism in its activities. The purpose of compliance function is to ensure that all business transactions and activities comply with appropriate laws, regulations, policies, guidelines and ethical standards.

The compliance function operates as per good corporate governance practices. This unit is fully operational and attends regularly all the Compliance Committees organised by the Bank of Mauritius.

## 2. Statement of Corporate Governance Practices

### 2.1 The Board of Directors

Company law requires the Board to prepare financial statements for each financial year which indicates fairly the financial position, financial performance, changes in equity and cash flows of the Group and the Company. In preparing those financial statements, the Board is required to:

• select suitable accounting policies and apply them consistently;
• make judgements and estimates that are reasonable and prudent;
• state whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board confirms that these interim condensed financial statement have been prepared in accordance with IAS 34.

The Directors of the Company are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Banking Act 2004 and the Companies Act as applicable. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors delegates the day to day running of the Group and Company to various Forums and Committees. The Board of Directors is made up of the following Members;

| | Appointment date |
|---|---|
| Mr. Kee Chong Li Kwong Wing, G.O.S.K. Chairman | 14-Apr-15 |
| Mr Azim Fakhruddin Currimjee | 28-Jun-16 |
| Mr. Medha Gunputh | 04-Feb-15 |
| Mr. Maxime Hardy | 30-Jun-15 |
| Mr. Vidianand Lutchmeeparsad | 30-Jun-15 |
| Mr. Ramprakash Maunthrooa | 30-Jun-15 |
| Mr. Roodesh Muttylall | 30-Jun-15 |
| Mr Subhas Thecka | 23-Jun-17 |

The Committees reporting to the Board are as follows:
• Audit Committee
• Corporate Governance & Conduct Review Committee
• Investment & Credit Committee
• IT Steering Committee*
• Regional Expansion Steering Committee
• Nomination & Remuneration Committee
• Risk Management Committee
• Steering Committee on Seychelles*
• Strategy Committee

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

*Constitute of representatives of SBM (Bank) Mauritius Ltd.

Following reconstitution of the Board, membership of the Sub committees is accordingly reviewed.

**3. Statement of Management's Responsibility for Financial Reporting**

The Group's financial statements have been prepared by management, who 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 and the requirements of the Companies Act have been applied and management has exercised its judgment and made best estimates as deemed necessary.

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

The Group's Board of Directors, acting in part through the Audit Committee, which comprise of independent directors who are not officers or employees of the Group, 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 Group's Internal Auditor, who has full and free access to the Audit Committee, conducts a well designed programme of internal audits in coordination with the Group's external auditor. In addition, the Group's compliance function maintains policies, procedures and programmes 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 Group as it deems necessary.

The Group's External Auditor, Messrs Ernst & Young, has full and free access to the Board of Directors and its committees to discuss the audit and matters arising there from, such as their observations on the fairness of financial reporting and the adequacy of internal controls.

Approved by the Board on 11 May 2018 and signed on its behalf by:

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

**Subhas THECKA**
Chairman, Audit Committee

# REVIEW REPORT TO THE BOARD OF DIRECTORS OF

# SBM HOLDINGS LTD

We have reviewed the accompanying interim condensed statements of financial position of SBM Holdings Ltd the "Company") and its subsidiaries (the "Group") as of 31 March 2018, and the related interim condensed statements of profit or loss and other comprehensive income, changes in equity and abridged cash flows for the quarter then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim condensed financial information in accordance with IAS 34 interim Financial Reporting. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

## Scope of Review

We conducted our review in accordance with International Standards on Review Engagements 2410, "Review of Interim financial information Performed by the Independent Auditor of the Entity." A review of the interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information does not present fairly, in all material respects, the financial position of the Group and the Company as at 31 March 2018, and of their financial performance and their cash flows for the quarter then ended in accordance with IAS 34 Interim Financial Reporting.

ERNST & YOUNG
Ebène, Mauritius

Date: 11 MAY 2018

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

SBM HOLDINGS LTD



**AS AT 31 MARCH 2018**

| | | The Group | | | The Company | | |
|---|---|---|---|---|---|---|---|
| | Notes | Unaudited 31 March 2018 | Unaudited 31 March 2017 | Audited 31 December 2017 | Unaudited 31 March 2018 | Unaudited 31 March 2017 | Audited 31 December 2017 |
| | | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents | 9.4.1 | 16,083,245 | 13,765,989 | 16,331,538 | 21,975 | 205,677 | 73,223 |
| Mandatory balances with Central Banks | | 8,897,412 | 7,916,841 | 8,966,717 | - | - | - |
| Loans to and placements with banks | | 10,205,076 | 5,902,158 | 8,897,399 | - | - | - |
| Derivative financial instruments | | 1,796,987 | 425,821 | 1,356,774 | - | - | - |
| Loans and advances to non-bank customers | 9.4.2 | 103,906,201 | 83,341,051 | 103,128,838 | - | - | - |
| Investment securities | | 45,949,779 | 40,051,580 | 40,000,421 | 1,405,279 | 4,053,374 | 1,461,801 |
| Equity investments | | 6,026,644 | 5,696,292 | 6,137,779 | 4,292,925 | 4,261,347 | 4,292,925 |
| Investment in associate | | 1,353,116 | 1,275,880 | 1,336,902 | 1,272,977 | 1,272,977 | 1,272,977 |
| Investment in subsidiaries | | - | - | - | 24,665,178 | 21,854,773 | 24,665,178 |
| Property and equipment | | 2,838,802 | 2,768,970 | 2,854,218 | 7,250 | 4,009 | 3,106 |
| Intangible assets | | 3,876,302 | 3,721,886 | 3,875,613 | - | - | - |
| Deferred tax assets | | 93,961 | 203,626 | 95,461 | - | - | - |
| Other assets | | 1,316,006 | 508,890 | 1,039,721 | 457,737 | 202,781 | 70,448 |
| **Total assets** | | 202,343,531 | 165,578,984 | 194,021,381 | 32,123,321 | 31,854,938 | 31,839,658 |
| **LIABILITIES** | | | | | | | |
| Deposits from banks | | 693,043 | 1,891,888 | 689,265 | - | - | - |
| Deposits from non-bank customers | 9.5 | 152,912,200 | 124,848,274 | 144,850,676 | - | - | - |
| Other borrowed funds | | 13,449,386 | 7,550,896 | 13,686,203 | - | - | - |
| Derivative financial instruments | | 1,474,176 | 430,097 | 1,334,641 | - | - | - |
| Current tax liabilities | | 213,680 | 461,864 | 124,195 | 1,005 | 1,804 | 1,005 |
| Deferred tax liabilities | | 206,308 | - | 170,905 | - | 64 | - |
| Other liabilities | | 4,581,544 | 2,369,026 | 4,299,258 | 263,798 | 262,412 | 5,501 |
| Subordinated debts | | 3,709,126 | 3,823,669 | 3,701,466 | 3,709,126 | 3,823,669 | 3,701,466 |
| **Total liabilities** | | 177,239,463 | 141,375,714 | 168,856,609 | 3,973,929 | 4,087,949 | 3,707,972 |
| **SHAREHOLDERS' EQUITY** | | | | | | | |
| Stated capital | | 32,500,204 | 32,500,204 | 32,500,204 | 32,500,204 | 32,500,204 | 32,500,204 |
| Retained earnings | | 2,594,098 | 1,199,583 | 2,410,007 | 1,282,385 | 936,783 | 1,242,101 |
| Other reserves | | (5,115,203) | (4,621,486) | (4,870,408) | (758,166) | (794,967) | (735,588) |
| | | 29,979,099 | 29,078,301 | 30,039,803 | 33,024,423 | 32,642,020 | 33,006,717 |
| Less treasury shares | | (4,875,031) | (4,875,031) | (4,875,031) | (4,875,031) | (4,875,031) | (4,875,031) |
| **Total equity attributable to equity holders of the parent** | | 25,104,068 | 24,203,270 | 25,164,772 | 28,149,392 | 27,766,989 | 28,131,686 |
| **Total equity and liabilities** | | 202,343,531 | 165,578,984 | 194,021,381 | 32,123,321 | 31,854,938 | 31,839,658 |
| Contingent liabilities | 9.6 | 26,451,487 | 20,107,411 | 26,856,831 | | | |

Approved by the Board of Directors and authorised for issue on 11 May 2018.

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

**Subhas THECKA**
Chairman, Audit Committee

The notes on pages 20 to 45 form part of these interim condensed financial statements.

SBM HOLDINGS LTD

6. INTERIM UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS

FOR THE QUARTER ENDED 31 MARCH 2018



| | | The Group | | | The Company | | |
|---|---|---|---|---|---|---|---|
| | Notes | **Unaudited Quarter ended 31 March 2018** | Unaudited Quarter ended 31 March 2017 | Audited Year ended 31 December 2017 | **Unaudited Quarter ended 31 March 2018** | Unaudited Quarter ended 31 March 2017 | Audited Year ended 31 December 2017 |
| | | **MUR' 000** | MUR' 000 | MUR' 000 | **MUR' 000** | MUR' 000 | MUR' 000 |
| Interest income | | **1,887,789** | 1,537,101 | 7,007,347 | **14,493** | 41,096 | 131,045 |
| Interest expense | | **(561,845)** | (473,160) | (2,239,586) | **(36,329)** | (37,642) | (149,011) |
| **Net interest income/(expense)** | 9.7 | **1,325,944** | 1,063,941 | 4,767,761 | **(21,836)** | 3,454 | (17,966) |
| Fee and commission income | | **322,896** | 258,814 | 1,268,893 | **-** | - | - |
| Fee and commission expense | | **(6,484)** | (5,766) | (29,385) | **(15)** | - | (339) |
| **Net fee and commission income/(expense)** | | **316,412** | 253,048 | 1,239,508 | **(15)** | - | (339) |
| Profit arising from dealing in foreign currencies | | **176,167** | 165,580 | 560,843 | **-** | - | - |
| Net gain on sale of securities | | **16,272** | 87,814 | 464,433 | **-** | - | 12,765 |
| Dividend income | | **57** | 3,385 | 21,501 | **350,300** | 201,500 | 1,270,535 |
| Net gain/(loss) from dealing from financial instruments | | **152,051** | 139,988 | 516,538 | **(6,006)** | (1,044) | 67,735 |
| Other operating income | | **-** | 3 | 1,221 | **1,656** | (11,328) | - |
| **Non-interest income** | | **660,959** | 649,818 | 2,804,044 | **345,935** | 189,128 | 1,350,696 |
| **Operating income** | | **1,986,903** | 1,713,759 | 7,571,805 | **324,099** | 192,582 | 1,332,730 |
| Personnel expenses | | **(457,200)** | (358,921) | (1,618,992) | **(15,734)** | - | (18,843) |
| Depreciation and amortisation | | **(179,467)** | (145,550) | (669,966) | **(396)** | (301) | (1,203) |
| Other expenses | | **(258,882)** | (216,424) | (1,099,274) | **(9,505)** | (17,679) | (61,566) |
| **Non-interest expense** | | **(895,549)** | (720,895) | (3,388,232) | **(25,635)** | (17,980) | (81,612) |
| **Profit before credit loss** | | **1,091,354** | 992,864 | 4,183,573 | **298,464** | 174,602 | 1,251,118 |
| Credit loss on financial assets | 9.10 | **(237,546)** | (297,047) | (1,115,280) | **-** | - | - |
| **Operating profit** | | **853,808** | 695,817 | 3,068,293 | **298,464** | 174,602 | 1,251,118 |
| Share of profit of associate | | **18,332** | - | 92,005 | **-** | - | - |
| **Profit before tax** | | **872,140** | 695,817 | 3,160,298 | **298,464** | 174,602 | 1,251,118 |
| Income tax expense | 9.8 | **(125,473)** | (114,443) | (585,375) | **-** | (450) | 2,895 |
| **Profit for the quarter / year attributable to equity holders of the parent** | | **746,667** | 581,374 | 2,574,923 | **298,464** | 174,152 | 1,254,013 |
| Earnings per share (Cents) | | **28.92** | 22.52 | 99.73 | | | |

The notes on pages 20 to 45 form part of these interim condensed financial statements.

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **Unaudited Quarter ended 31 March 2018** | Unaudited Quarter ended 31 March 2017 | Audited Year ended 31 December 2017 | **Unaudited Quarter ended 31 March 2018** | Unaudited Quarter ended 31 March 2017 | Audited Year ended 31 December 2017 |
| | **MUR' 000** | MUR' 000 | MUR' 000 | **MUR' 000** | MUR' 000 | MUR' 000 |
| **Profit for the quarter / year attributable to equity holders of the parent** | **746,667** | 581,374 | 2,574,923 | **298,464** | 174,152 | 1,254,013 |
| **Other comprehensive income :** | | | | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | | | | |
| Decrease in revaluation of property | **(1,027)** | - | - | **-** | - | - |
| Share of other comprehensive loss of associate | **(2,118)** | - | 290 | **-** | - | - |
| Remeasurement of defined benefit pension plan (net of deferred tax) | **-** | - | (32,876) | **-** | - | - |
| | **(3,145)** | - | (32,586) | **-** | - | - |
| *Items that may be reclassified subsequently to profit or loss:* | | | | | | |
| Exchange differences on translation of foreign operations | **(11,794)** | 79,575 | (65,347) | **-** | - | - |
| Movement in fair value of available-for-sale investments | **-** | (4,200) | 144,422 | **-** | - | 52,013 |
| Fair value re-cycled on disposal of available-for-sale investments | **-** | - | (228,618) | **-** | - | 15,058 |
| Fair value realised on reclassification of available-for-sale investments to Investment in associate | **-** | - | - | **-** | 7,692 | - |
| Equity instrument at FVOCI-Net movement in fair value | **(110,969)** | - | - | **-** | 0 | - |
| Debt instruments at fair value through other comprehensive income: | **(109,280)** | - | - | **(22,579)** | - | - |
| Net movement in fair value during the quarter | **(117,963)** | - | - | **(22,579)** | - | - |
| Net gain on derecognition of financial instruments at fair value through other comprehensive income | **8,682** | - | - | **-** | - | - |
| | **(232,043)** | 75,375 | (149,543) | **(22,579)** | 7,692 | 67,071 |
| **Total other comprehensive (loss) / income for the quarter / year** | **(235,188)** | 75,375 | (182,129) | **(22,579)** | 7,692 | 67,071 |
| **Total comprehensive income attributable to equity holders of the parent for the quarter / year** | **511,479** | 656,749 | 2,392,794 | **275,885** | 181,844 | 1,321,084 |

The notes on pages 20 to 45 form part of these interim condensed financial statements.

| Group | Stated Capital | Treasury Shares | Statutory Reserve | Revenue Reserve | Fair Value Reserves | Net Property Revaluation Reserve | Net Translation Reserve | Net Other Reserve | Restructure Reserve | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 |
| **At 01 January 2017** | 32,500,204 | (4,875,031) | 592,187 | 865,100 | (231,667) | 157,777 | 175,194 | 1,276 | (5,380,340) | 23,804,700 |
| Profit for the quarter | - | - | - | 581,374 | - | - | - | - | - | 581,374 |
| Other comprehensive income for the quarter | - | - | - | - | (4,200) | - | 79,575 | - | - | 75,375 |
| Total comprehensive income for the quarter | - | - | - | 581,374 | (4,200) | - | 79,575 | - | - | 656,749 |
| Transfer to retained earnings | - | - | - | 11,288 | - | (11,288) | - | - | - | - |
| Dividend | - | - | - | (258,179) | - | - | - | - | - | (258,179) |
| **At 31 March 2017** | 32,500,204 | (4,875,031) | 592,187 | 1,199,583 | (235,867) | 146,489 | 254,769 | 1,276 | (5,380,340) | 24,203,270 |
| | | | | | | | | | | |
| **At 01 January 2017** | 32,500,204 | (4,875,031) | 592,187 | 865,100 | (231,667) | 157,777 | 175,194 | 1,276 | (5,380,340) | 23,804,700 |
| Profit for the year | - | - | - | 2,574,923 | - | - | - | - | - | 2,574,923 |
| Other comprehensive income for the year | - | - | - | (32,876) | (84,196) | - | (65,347) | 290 | - | (182,129) |
| Total comprehensive income for the year | - | - | - | 2,542,047 | (84,196) | - | (65,347) | 290 | - | 2,392,794 |
| Transfer to statutory reserve | - | - | 1,779 | (1,779) | - | - | - | - | - | - |
| Transfer to retained earnings | - | - | - | 37,361 | - | (37,361) | - | - | - | - |
| Dividend | - | - | - | (1,032,722) | - | - | - | - | - | (1,032,722) |
| **At 31 December 2017** | 32,500,204 | (4,875,031) | 593,966 | 2,410,007 | (315,863) | 120,416 | 109,847 | 1,566 | (5,380,340) | 25,164,772 |
| | | | | | | | | | | |
| **At 01 January 2018** | **32,500,204** | **(4,875,031)** | **593,966** | **2,410,007** | **(315,863)** | **120,416** | **109,847** | **1,566** | **(5,380,340)** | **25,164,772** |
| Impact of adopting IFRS 9 | **-** | **-** | **-** | **(314,004)** | **-** | **-** | **-** | **-** | **-** | **(314,004)** |
| Restated opening balance under IFRS 9 | **32,500,204** | **(4,875,031)** | **593,966** | **2,096,003** | **(315,863)** | **120,416** | **109,847** | **1,566** | **(5,380,340)** | **24,850,768** |
| Profit for the quarter | **-** | **-** | **-** | **746,667** | **-** | **-** | **-** | **-** | **-** | **746,667** |
| Other comprehensive loss for the quarter | **-** | **-** | **-** | **-** | **(220,249)** | **(1,027)** | **(11,794)** | **(2,118)** | **-** | **(235,188)** |
| Total comprehensive income for the quarter | **-** | **-** | **-** | **746,667** | **(220,249)** | **(1,027)** | **(11,794)** | **(2,118)** | **-** | **511,479** |
| Transfer to statutory reserve | **-** | **-** | | | | | | | | |
| Transfer to retained earnings | **-** | **-** | **-** | **9,607** | **-** | **(9,607)** | **-** | **-** | **-** | **-** |
| Dividend | **-** | **-** | **-** | **(258,179)** | **-** | **-** | **-** | **-** | **-** | **(258,179)** |
| **At 31 March 2018** | **32,500,204** | **(4,875,031)** | **593,966** | **2,594,098** | **(536,112)** | **109,782** | **98,053** | **(552)** | **(5,380,340)** | **25,104,068** |

The notes on pages 20 to 45 form part of these interim condensed financial statements.

**7 . INTERIM UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**
**FOR THE QUARTER ENDED 31 MARCH 2018**



| Company | Stated capital MUR' 000 | Treasury shares MUR' 000 | Retained earnings MUR' 000 | Fair value reserve MUR' 000 | Total equity MUR' 000 |
|---|---|---|---|---|---|
| At 01 January 2017 | 32,500,204 | (4,875,031) | 1,020,810 | (802,659) | 27,843,324 |
| Profit for quarter | - | - | 174,152 | - | 174,152 |
| Other comprehensive loss for the quarter | - | - | - | 7,692 | 7,692 |
| Total comprehensive income for the quarter | - | - | 174,152 | 7,692 | 181,844 |
| Dividend | - | - | (258,179) | - | (258,179) |
| At 31 March 2017 | 32,500,204 | (4,875,031) | 936,783 | (794,967) | 27,766,989 |
| | | | | | |
| At 01 January 2017 | 32,500,204 | (4,875,031) | 1,020,810 | (802,659) | 27,843,324 |
| Profit for the year | - | - | 1,254,013 | - | 1,254,013 |
| Other comprehensive loss for the year | - | - | - | 67,071 | 67,071 |
| Total comprehensive income for the year | - | - | 1,254,013 | 67,071 | 1,321,084 |
| Dividend | - | - | (1,032,722) | - | (1,032,722) |
| At 31 December 2017 | 32,500,204 | (4,875,031) | 1,242,101 | (735,588) | 28,131,686 |
| | | | | | |
| At 01 January 2018 | **32,500,204** | **(4,875,031)** | **1,242,101** | **(735,588)** | **28,131,686** |
| Profit for the quarter | **-** | **-** | **298,464** | **-** | **298,464** |
| Other comprehensive loss for the quarter | **-** | **-** | **-** | **(22,579)** | **(22,579)** |
| Total comprehensive income for the quarter | **-** | **-** | **298,464** | **(22,579)** | **275,885** |
| Dividend | **-** | **-** | **(258,179)** | **-** | **(258,179)** |
| **At 31 March 2018** | **32,500,204** | **(4,875,031)** | **1,282,385** | **(758,167)** | **28,149,392** |

**SBM HOLDINGS LTD**

**8. INTERIM UNAUDITED CONDENSED STATEMENT OF CASH FLOWS**
**FOR THE QUARTER ENDED 31 MARCH 2018**



| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **Unaudited Quarter ended 31 March 2018** | Unaudited Quarter ended 31 March 2017 | Audited Year ended 31 December 2017 | **Unaudited Quarter ended 31 March 2018** | Unaudited Quarter ended 31 March 2017 | Audited Year ended 31 December 2017 |
| | **MUR'000** | MUR'000 | MUR'000 | **MUR'000** | MUR'000 | MUR'000 |
| Net cash from / (used in) operating activities | **141,835** | 1,301,856 | 922,948 | **(404,667)** | 30,559 | 3,801,568 |
| Net (used in) / cash from financing activities | **(229,157)** | 3,023,186 | 6,740,105 | **7,660** | (41,703) | (1,030,697) |
| Net cash (used in)/from investing activities | **(160,971)** | (49,261) | (821,723) | **345,759** | 201,500 | (2,712,969) |
| **Net change in cash and cash equivalents** | **(248,293)** | 4,275,781 | 6,841,330 | **(51,248)** | 190,356 | 57,902 |
| Cash and cash equivalents at beginning of quarter / year | **16,331,538** | 9,490,208 | 9,490,208 | **73,223** | 15,321 | 15,321 |
| **Cash and cash equivalents at end of quarter / year** | **16,083,245** | 13,765,989 | 16,331,538 | **21,975** | 205,677 | 73,223 |

The notes on pages 20 to 45 form part of these interim condensed financial statements.

## 9 Notes to the Financial Statements

### 9.1 General information

SBM Holdings Ltd (the "Company") is a public company incorporated on 10 November 2010 and domiciled in Mauritius. The Company is listed on the Stock Exchange of Mauritius as from 03 October 2014 pursuant to the Group restructuring approved by the Bank of Mauritius. The address of its registered office is SBM Tower, 1 Queen Elizabeth II Avenue, Port Louis, Mauritius.

The Group operates in the financial services sector, principally commercial banking.

### 9.2 Accounting policies

These interim unaudited condensed financial statements do not include all the information and disclosures contained in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

#### 9.2.1 Basis of preparation

These interim financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2017 of the Group.

### 9.3 Application of new and revised International Financial Reporting Standards (IFRS)

#### 9.3.1 New standards, interpretations and amendments applied by the Group

In the current period, the Group has applied all the revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 01 January 2018.

The nature and the effect of these changes are disclosed below.

Where the standards may have an effect on the financial position and performance of the Group, these are being described below:

| Standards | Effective date |
|---|---|
| IFRS 9 Financial instruments | 01-January-18 |
| IFRS 15 Revenue | 01-January-18 |
| IFRIC 22 Foreign currency transactions and advance consideration | 01-January-18 |

Where the adoption of the standard or interpretation or improvement is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

**9 Notes to the financial statements (Continued)**

**9.3 Application of new and revised International Financial Reporting Standards (IFRS) (Continued)**

**9.3.1 New standards, interpretations and amendments applied by the Group (Continued)**

**IFRS 9 Financial instruments**

For IFRS 9 Financial instruments refer to Note 9.14.

**IFRS 15 Revenue**

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

The 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
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The new revenue standard supersedes all existing revenue recognition requirements under IFRS. The Group adopted the new standard on the required effective date using the full retrospective method. During the first quarter of financial year 2018, the Group performed a detailed analysis and concluded that IFRS 15 did not have a material impact on its financial position and performance therefore leading to no adjustments required on prior year financial statements.

**IFRIC 22 Foreign currency transactions and advance consideration**

The interpretation addresses foreign currency transactions or parts of transactions where:

- There is consideration that is denominated or priced in a foreign currency;
- The entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- The prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

The above interpretation had no impact on the existing policy of the Group and therefore no adjustments were required to the financial statements.

**9 Notes to the Financial Statements (Continued)**

**9.4.1 Cash and cash equivalents**

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **Unaudited 31 March 2018** | Unaudited 31 March 2017 | Audited 31 December 2017 | **Unaudited 31 March 2018** | Unaudited 31 March 2017 | Audited 31 December 2017 |
| | **MUR'000** | MUR'000 | MUR'000 | **MUR'000** | MUR'000 | MUR'000 |
| Cash in hand | **750,748** | 1,321,715 | 1,842,521 | - | - | - |
| Foreign currency notes and coins | **673,274** | 208,261 | 327,026 | - | - | - |
| Unrestricted balances with central banks | **936,716** | 928,942 | 1,494,175 | - | - | - |
| Loans and placements with banks | **5,526,277** | 5,355,989 | 5,819,471 | - | - | - |
| Balances with banks | **8,196,230** | 5,951,082 | 6,848,345 | **21,975** | 205,677 | 73,223 |
| | **16,083,245** | 13,765,989 | 16,331,538 | **21,975** | 205,677 | 73,223 |

**9.4.2 Loans and advances to non-bank customers**

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **Unaudited 31 March 2018** | Unaudited 31 March 2017 | Audited 31 December 2017 | **Unaudited 31 March 2018** | Unaudited 31 March 2017 | Audited 31 December 2017 |
| | **MUR'000** | MUR'000 | MUR'000 | **MUR'000** | MUR'000 | MUR'000 |
| 1.Government | **2,788,136** | 603 | 2,458,655 | - | - | - |
| 2. Retail customers | **33,071,887** | 28,598,176 | 31,990,963 | - | - | - |
| 2.1 Credit cards | **545,739** | 517,146 | 559,351 | - | - | - |
| 2.2 Mortgages | **20,485,500** | 17,478,923 | 19,834,763 | - | - | - |
| 2.3 Other retail loans | **12,040,649** | 10,602,107 | 11,596,849 | - | - | - |
| 3.Corporate customers | **35,746,295** | 37,422,804 | 38,364,068 | - | - | - |
| 4.Entities outside Mauritius (including offshore / Global Business Licence Holders) | **36,665,412** | 21,771,765 | 34,384,155 | - | - | - |
| | **108,271,730** | 87,793,348 | 107,197,841 | - | - | - |
| *Less impairment allowance* | **(4,365,529)** | (4,452,297) | (4,069,003) | - | - | - |
| | **103,906,201** | 83,341,051 | 103,128,838 | - | - | - |

**9.4.3 Gross Advances by industry sectors**

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **Unaudited 31 March 2018** | Unaudited 31 March 2017 | Audited 31 December 2017 | **Unaudited 31 March 2018** | Unaudited 31 March 2017 | Audited 31 December 2017 |
| | **MUR'000** | MUR'000 | MUR'000 | **MUR'000** | MUR'000 | MUR'000 |
| Agriculture and fishing | **4,548,233** | 5,539,340 | 4,224,704 | - | - | - |
| Manufacturing | **8,611,011** | 5,051,173 | 6,476,511 | - | - | - |
| *of which EPZ* | ***1,068,156*** | *1,163,784* | *1,013,525* | - | - | - |
| Tourism | **11,193,792** | 9,799,080 | 11,203,632 | - | - | - |
| Transport | **3,740,070** | 1,221,030 | 1,513,115 | - | - | - |
| Construction | **7,741,772** | 5,224,123 | 7,185,805 | - | - | - |
| Financial and business services | **12,714,784** | 12,641,364 | 13,513,693 | - | - | - |
| Traders | **16,115,750** | 10,030,043 | 19,937,146 | - | - | - |
| Personal | **31,944,058** | 26,875,984 | 31,125,000 | - | - | - |
| *of which credit cards* | ***545,739*** | *521,727* | *559,351* | - | - | - |
| Professional | **2,050,186** | 246,134 | 1,843,720 | - | - | - |
| Global Business Licence holders | **2,670,585** | 4,842,582 | 2,438,163 | - | - | - |
| Others | **6,941,489** | 6,322,495 | 7,736,352 | - | - | - |
| | **108,271,730** | 87,793,348 | 107,197,841 | - | - | - |

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.4.4 Allowance for credit impairment

| | The Group | | |
|---|---|---|---|
| | Specific allowance for credit impairment | Portfolio allowance for credit impairment | Total |
| | MUR' 000 | MUR' 000 | MUR' 000 |
| **At 01 January 2017** | 3,105,952 | 1,044,728 | 4,150,680 |
| Exchange differences | (1,988) | 2,389 | 401 |
| Loans written off | (1,578) | - | (1,578) |
| Allowance for credit impairment for the quarter | 194,290 | 108,504 | 302,794 |
| **At 31 March 2017** | **3,296,676** | **1,155,621** | **4,452,297** |
| **At 01 January 2017** | 3,105,952 | 1,044,728 | 4,150,680 |
| Acquisition of new business | 605,704 | - | 605,704 |
| Exchange differences | (37,033) | (2,400) | (39,433) |
| Loans written off | (1,749,383) | - | (1,749,383) |
| Allowance for credit impairment for the year | 815,902 | 285,533 | 1,101,435 |
| **At 31 December 2017 (Note 9.14)** | **2,741,142** | **1,327,861** | **4,069,003** |

| | Stage 1 | Stage 2 | Stage 3 | Provisioning per IFRS 9 | BOM Provisioning | Total |
|---|---|---|---|---|---|---|
| | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 |
| **At 01 January 2018 (Note 9.14)** | 647,777 | 492,943 | 2,741,142 | 3,881,862 | 245,661 | **4,127,523** |
| Increase in impairment | - | - | 281,755 | 281,755 | 34,268 | **316,023** |
| Assets derecognised (excluding write offs) | (1,906) | (34,389) | (39,591) | (75,886) | - | **(75,886)** |
| Amount written off | - | - | (2,790) | (2,790) | - | **(2,790)** |
| Foreign exchange adjustments | 739 | (1,798) | 3,133 | 2,074 | (1,415) | **659** |
| **At 31 March 2018** | 646,610 | 456,756 | 2,983,649 | 4,087,015 | 278,514 | **4,365,529** |

**Reconciliation with amount recorded under loans and advances:**

| | |
|---|---|
| ECL allowance for stage 1 and stage 2 | **1,103,366** |
| ECL allowance for stage 3 | **2,983,649** |
| | **4,087,015** |
| Additional provisioning as per regulatory requirements | **278,514** |
| **Total ECL allowance as at 31 March 2018** | **4,365,529** |

**9 Notes to the Financial Statements (Continued)**

**9.5 Deposits from non-bank customers**

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **Unaudited 31 March 2018** | Unaudited 31 March 2017 | Audited 31 December 2017 | **Unaudited 31 March 2018** | Unaudited 31 March 2017 | Audited 31 December 2017 |
| | **MUR'000** | MUR'000 | MUR'000 | **MUR'000** | MUR'000 | MUR'000 |
| Retail | **82,129,154** | 68,729,735 | 81,825,006 | **-** | - | - |
| Corporate | **63,444,751** | 48,726,583 | 55,429,045 | **-** | - | - |
| Government | **7,338,295** | 7,391,956 | 7,596,625 | **-** | - | - |
| | **152,912,200** | 124,848,274 | 144,850,676 | **-** | - | - |

**9.6 Contingent liabilities**

**Acceptance,guarantees, letter of credit, endorsements and other obligations on account of customers**

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **Unaudited 31 March 2018** | Unaudited 31 March 2017 | Audited 31 December 2017 | **Unaudited 31 March 2018** | Unaudited 31 March 2017 | Audited 31 December 2017 |
| | **MUR'000** | MUR'000 | MUR'000 | **MUR'000** | MUR'000 | MUR'000 |
| Acceptances on account of customers | **1,138,722** | 960,684 | 804,367 | **-** | - | - |
| Guarantees on account of customers | **8,194,833** | 4,786,201 | 7,565,487 | **-** | - | - |
| Letters of credit and other obligations on account of customers | **1,208,938** | 1,169,537 | 2,129,501 | **-** | - | - |
| Undrawn credit facilities | **13,873,452** | 10,992,413 | 14,238,833 | **-** | - | - |
| Money guarantees | **-** | - | - | **-** | - | - |
| Other contingent items | **-** | - | - | **-** | - | - |
| | **24,415,944** | 17,908,835 | 24,738,188 | **-** | - | - |

**Others**

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **Unaudited 31 March 2018** | Unaudited 31 March 2017 | Audited 31 December 2017 | **Unaudited 31 March 2018** | Unaudited 31 March 2017 | Audited 31 December 2017 |
| | **MUR'000** | MUR'000 | MUR'000 | **MUR'000** | MUR'000 | MUR'000 |
| Inward bills held for collection | **157,801** | 173,924 | 188,954 | **-** | - | - |
| Outward bills sent for collection | **1,877,741** | 2,024,652 | 1,929,689 | **-** | - | - |
| | **2,035,542** | 2,198,576 | 2,118,643 | **-** | - | - |
| Total | **26,451,487** | 20,107,411 | 26,856,831 | | | |

**9 Notes to the Financial Statements (Continued)**

**9.7 Net interest income**

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **Unaudited Quarter ended 31 March 2018** | Unaudited Quarter ended 31 March 2017 | Audited Year ended 31 December 2017 | **Unaudited Quarter ended 31 March 2018** | Unaudited Quarter ended 31 March 2017 | Audited Year ended 31 December 2017 |
| | **MUR'000** | MUR'000 | MUR'000 | **MUR'000** | MUR'000 | MUR'000 |
| **Interest income** | | | | | | |
| Cash and cash equivalents | **60,011** | 26,586 | 135,336 | - | - | - |
| Loans to and placements with banks | **21,147** | 12,549 | 54,836 | - | - | - |
| Loans and advances to customers | **1,487,979** | 1,128,177 | 5,387,346 | - | - | - |
| Investment securities | **356,764** | 367,575 | 1,455,691 | **14,493** | 41,096 | 131,045 |
| Trading assets | **(38,287)** | 2,177 | (31,902) | - | - | - |
| Other | **175** | 37 | 6,040 | - | - | - |
| **Total interest income** | **1,887,789** | 1,537,101 | 7,007,348 | **14,493** | 41,096 | 131,045 |
| **Interest expense** | | | | | | |
| Deposits from banks | - | - | - | - | - | - |
| Deposits from non-bank customers | **(458,088)** | (416,683) | (1,926,008) | - | - | - |
| Other borrowed funds | **(67,428)** | (18,835) | (164,567) | - | - | - |
| Subordinated debts | **(36,329)** | (37,642) | (149,011) | **(36,329)** | (37,642) | (149,011) |
| Other | - | - | - | - | - | - |
| **Total interest expense** | **(561,845)** | (473,160) | (2,239,586) | **(36,329)** | (37,642) | (149,011) |
| **Net interest income** | **1,325,944** | 1,063,941 | 4,767,761 | **(21,836)** | 3,454 | (17,966) |

**9 Notes to the Financial Statements (Continued)**

**9.8 Taxation**

| Income tax | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **Unaudited Quarter ended 31 March 2018** | Unaudited Quarter ended 31 March 2017 | Audited Year ended 31 December 2017 | **Unaudited Quarter ended 31 March 2018** | Unaudited Quarter ended 31 March 2017 | Audited Year ended 31 December 2017 |
| | **MUR'000** | MUR'000 | MUR'000 | **MUR'000** | MUR'000 | MUR'000 |
| Income tax expense | **84,487** | 87,332 | 248,392 | **-** | - | (3,835) |
| Deferred tax income | **35,403** | 16,001 | 296,571 | **-** | - | (64) |
| Corporate Social responsibility contribution | **5,583** | 11,111 | 40,412 | **-** | 450 | 1,004 |
| | **125,473** | 114,444 | 585,375 | **-** | 450 | (2,895) |

**9.9 Dividend**

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **Unaudited Quarter ended 31 March 2018** | Unaudited Quarter ended 31 March 2017 | Audited Year ended 31 December 2017 | **Unaudited Period ended 31 March 2018** | Unaudited Period ended 31 March 2017 | Audited Year ended 31 December 2017 |
| | **MUR'000** | MUR'000 | MUR' 000 | **MUR'000** | MUR'000 | MUR' 000 |
| Dividend declared during and prior period | **258,179** | 258,179 | 1,032,722 | **258,179** | 258,179 | 1,032,722 |
| Less dividend paid | **(258,179)** | (258,179) | (1,032,722) | **(258,179)** | (258,179) | (1,032,722) |
| Dividend payable | **-** | - | - | **-** | - | - |

**9.10 Credit loss**

| | Unaudited | | | |
|---|---|---|---|---|
| **Quarter ended 31 March 2018** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Loans and advances to customers | (15,009) | (40,590) | 242,164 | 186,565 |
| Loans and placements with banks | 856 | - | - | 856 |
| Debt instruments measured at amortised cost | 9,232 | - | - | 9,232 |
| Loan commitments | (2,953) | - | - | (2,953) |
| Off balance sheet items (Guarantees, Letters of credit, Acceptances) | (6,735) | - | - | (6,735) |
| **Total credit loss under IFRS 9** | (14,608) | (40,590) | 242,164 | 186,966 |
| Additional provisioning per regulatory requirements | - | - | - | 52,305 |
| Recoveries | - | - | - | (1,725) |
| **Total credit loss** | **(14,608)** | **(40,590)** | **242,164** | **237,546** |

**9 Notes to the Financial Statements (Continued)**

**9.11 SEGMENT INFORMATION**

| | | | Group | | |
|---|---|---|---|---|---|
| | **Banking** | **Non-bank financial institutions** | **Non financial institutions** | **Intersegment adjustments** | **Group Total** |
| | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 | MUR' 000 |
| Revenue from external customers | 2,143,389 | 41,424 | 363,935 | - | 2,548,748 |
| Revenue from other segments of the entity | 712,183 | 536 | - | (712,719) | - |
| Total gross revenue | 2,855,572 | 41,960 | 363,935 | (712,719) | 2,548,748 |
| Operating income | 2,329,486 | 41,948 | 327,605 | (712,136) | 1,986,903 |
| Profit after tax | 1,126,089 | 31,774 | 300,981 | (712,177) | 746,667 |
| Segment assets | 215,244,736 | 1,592,874 | 32,864,513 | (47,358,592) | 202,343,531 |

**9 Notes to the Financial Statements (Continued)**

**9.12 FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

| **Group** | **Unaudited 31 March 2018** | | **Audited 31 December 2017** | |
|---|---|---|---|---|
| **Financial assets** | **Carrying Value MUR'000** | **Fair Value MUR'000** | Carrying Value MUR'000 | Fair Value MUR'000 |
| Cash and cash equivalents | **16,083,245** | **16,083,245** | 16,331,538 | 16,331,538 |
| Mandatory balances with Central banks | **8,897,412** | **8,897,412** | 8,966,717 | 8,966,717 |
| Loans to and placements with banks | **10,205,076** | **10,205,076** | 8,897,399 | 8,897,399 |
| Derivative financial instruments | **1,796,987** | **1,796,987** | 1,356,774 | 1,356,774 |
| Loans and advances to non-bank customers | **103,906,201** | **103,818,367** | 103,128,838 | 103,057,726 |
| Investment securities | **45,949,779** | **46,940,392** | 40,000,421 | 42,525,808 |
| Equity investments | **6,026,644** | **6,026,644** | 6,137,779 | 6,137,779 |
| Other assets | **1,022,911** | **1,022,911** | 765,324 | 765,324 |
| | **193,888,255** | **194,791,034** | 185,584,790 | 188,039,065 |
| **Financial liabilities** | | | | |
| Deposits from banks | **693,043** | **693,043** | 689,265 | 689,265 |
| Deposits from non-bank customers | **152,912,200** | **152,919,813** | 144,850,676 | 144,855,080 |
| Other borrowed funds | **13,449,386** | **13,449,386** | 13,686,203 | 13,686,203 |
| Derivative financial instruments | **1,474,176** | **1,474,176** | 1,334,641 | 1,334,641 |
| Other liabilities | **2,491,927** | **2,491,927** | 2,076,706 | 2,076,706 |
| Subordinated debts | **3,709,126** | **3,709,126** | 3,701,466 | 3,701,466 |
| | **174,729,858** | **174,737,470** | 166,338,957 | 166,343,361 |

| **Company** | **31 March 2018** | | 31 December 2017 | |
|---|---|---|---|---|
| **Financial assets** | **Carrying Value MUR'000** | **Fair Value MUR'000** | Carrying Value MUR'000 | Fair Value MUR'000 |
| Cash and cash equivalents | **21,975** | **21,975** | 73,223 | 73,223 |
| Investment securities | **1,405,279** | **1,453,686** | 1,461,801 | 1,508,806 |
| Equity investments | **4,292,925** | **4,292,925** | 4,292,925 | 4,292,925 |
| Other assets | **457,737** | **457,737** | 70,448 | 70,448 |
| | **6,177,916** | **6,226,323** | 5,898,397 | 5,945,402 |
| **Financial liabilities** | | | | |
| Other liabilities | **263,798** | **263,798** | 5,423 | 5,423 |
| Subordinated debts | **3,709,126** | **3,709,126** | 3,701,466 | 3,701,466 |
| | **3,972,924** | **3,972,924** | 3,706,889 | 3,706,889 |

**9.13 Impairment testing of goodwill**

As at 31 March 2018, the carrying amount of the goodwill acquired following the business combination is as follows:

| | MUR'000 |
|---|---|
| Goodwill on acquisition of SBM Bank (Kenya) Limited (previously known as "Fidelity Commercial Bank Limited") | 417,715 |
| Foreign exchange differences | (4,536) |
| **Carrying value as at 31 March 2018** | 413,179 |
| Carrying value as at 31 December 2017 | 401,556 |
| Carrying value as at 31 March 2017 | - |

The recoverable amount of the investment in SBM Bank (Kenya) Limited has been determined based on value in use calculation using the cash flow projections from financial budgets approved by senior management covering a period of five years. The pre-tax discount rate applied to cash flow projections is at 22%. As a result of the analysis, management did not identify any impairment.

The key assumptions used for the Value-In-Use (VIU) impairment calculation are:

***Net interest margin:*** Net interest margin is based on the average achieved in the preceding years.

***Discount rate:*** Discount rate represents the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and specific risk of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on specific circumstances of the Kenyan Bank and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into consideration both debt and equity. The cost of equity is derived by using comparable industries data adjusted for country risk and size of the bank. The cost of debt is based on the interest-bearing borrowings.

***Growth rate estimates:*** Rates are based on management's best estimates of the Group's and industry's growth rate.

Increase in 5% of the discount rate will not result in an impairment of goodwill.

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

In these interim financial statements, the Group has applied IFRS 9 and IFRS 7R, effective for annual periods beginning on or after 1 January 2018, for the first time.

**IFRS 9 Financial Instruments**

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Group elected, as a policy of choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9.

Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in the note below.

***Classification and Measurement***

IFRS 9 requires that the classification of financial asset debt instruments is determined based on the business models that the Group has in place for managing those assets as at 1 January 2018. For those assets that are not held for trading or managed on a fair value basis, a further assessment has been undertaken of the contractual cash flows that were in place at the time of origination of the assets to determine if they are consistent with those of a basic lending arrangement. That is, whether they have cash flows that are solely payments of principal and interest (‘SPPI’). Where the cash flows are consistent with SPPI, assets are classified at amortised cost or at fair value through other comprehensive income (FVOCI). Where assets do not have SPPI consistent cash flows, or where they are held for trading or managed on a fair value basis, they have been classified and measured at FVTPL. Following the initial classification of financial assets, they can only be reclassified to another measurement category if there is a change in the business model.

Under IFRS 9, the classification and subsequent measurement of financial assets is principally determined by the entity’s business model. The standard sets out three types of business model:

- **Hold to collect**: it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest from the customer. These assets are accounted for at amortised cost.

- **Hold to collect and sell:** this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change. These assets are accounted for at fair value through other comprehensive income (FVOCI).

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

***Classification and Measurement (Continued)***

**Hold to sell:** the Group originates or purchases an asset with the intention of disposing of it in the short or medium term to benefit from capital appreciation. These assets are held at fair value through profit or loss (FVTPL). The Group may also designate assets at FVTPL upon initial recognition where it reduces an accounting mismatch. An entity may elect to measure certain holdings of equity instruments at FVOCI, which would otherwise have been measured at FVTPL.

The Group has assessed its business models in order to determine the appropriate IFRS 9 classification. The Retail and Commercial Banking loan books are generally held to collect contractual cash flows until the lending matures and meet the criteria to remain at amortised cost. Certain portfolios are subject to higher levels of sales and have been classified as FVOCI. The Group also has assets which are managed on a fair value basis and continue to be accounted for at FVTPL.

In order to be accounted for at amortised cost or FVOCI, it is necessary for individual instruments to have contractual cash flows that are solely payments of principal and interest (SPPI). A small proportion of the Group's assets does not meet this requirement, and have therefore been reclassified to FVTPL.

**SPPI Test**

In assessing whether the contractual cash flows have SPPI characteristics, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

**Business model test**

The Group makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management. Factors considered include:

- how the performance of the product business line is evaluated and reported to the Group's management;
- how managers of the business model are compensated, including whether management is compensated based on the fair value of assets or the contractual cash flows collected;
- the risks that affect the performance of the business model and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ("hold to collect") are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("Hold to collect and sell") are classified as held at FVOCI.

Both hold to collect business and a hold to collect and sell business model involve holding financial assets to collect the contractual cash flows.

However, the business models are distinct by reference to the frequency and significance that asset sales play in meeting the objective under which a particular Bank of financial assets is managed. Hold to collect business models are characterised by asset sales that are incidental to meeting the objectives under which a Bank of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in the credit risk of financial assets but sales for other reasons should be both infrequent and insignificant.

Cash flows from the sale of financial assets under a hold to collect and sell business model in contrast are integral to achieving the objectives under which a particular Bank of financial assets are managed. This may be the case where frequent sales of financial assets are required to manage the Bank's daily liquidity requirements or to meet regulatory requirements to demonstrate liquidity of financial instruments.

Sales of assets under hold to collect and sell business models are therefore both more frequent and more significant in value than those under the hold to collect model.

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

**Financial liabilities held at amortised cost**

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

**Financial guarantee contracts and loan commitments**

The Group issues financial guarantee contracts and loan commitments in return for fees. Under a financial guarantee contract, the Group undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantee contracts and loan commitments issued at below market interest rates are initially recognised as liabilities at fair value and subsequently at the higher of the expected credit loss provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

**Impairment of financial assets**

Expected credit losses (ECL) are determined for all financial debt instruments that are classified at amortised cost or fair value through other comprehensive income, undrawn commitments and financial guarantees.

An expected credit loss represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive over the contractual life of the instrument

**Measurement**

Expected credit losses are computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of an instrument.

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

**Measurement (Continued)**

Forward looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates, house price indices and commodity prices amongst others. These assumptions are incorporated using the Group’s most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Group is exposed to credit risk. However, for certain revolving credit facilities, which include credit cards or overdrafts, the Group’s exposure to credit risk is not limited to the contractual period. For these instruments, the Group estimates an appropriate life based on the period that the Group is exposed to credit risk, which includes the effect of credit risk management actions such as the withdrawal of undrawn facilities.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgement. As a practical expedient, the Group may also measure credit impairment on the basis of an instrument’s fair value using an observable market price.

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Cash shortfalls are discounted using the effective interest rate (or credit-adjusted effective interest rate for POCI instruments) on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

**Approach for determining expected credit losses**

For material loan portfolios, the Group has adopted a sophisticated approach for determining expected credit losses that makes extensive use of credit modelling. Where available, the Group has leveraged existing advanced Internal Ratings Based (IRB) regulatory models used to determine regulatory expected loss.

For portfolios that follow a standardised regulatory approach, the Group has developed new models where these are sufficiently material.

For the sophisticated approach, the IFRS 9 credit models use three key inputs to derive the expected credit loss: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These components are defined as follows:

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

**Approach for determining expected credit losses (Continued)**

**PD:** The probability at a point in time that a counterparty will default, calibrated over up to 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2) and incorporating the impact of forward looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts.

The PD is estimated at a point in time which means that it will fluctuate in line with the economic cycle. The term structure of the PD is based on statistical models, calibrated using historical data and adjusted to incorporate forward looking economic assumptions.

**LGD:** The loss that is expected to arise on default, incorporating the impact of forward looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the Group expects to receive.

The Group estimates LGD based on the history of recovery rates and considers the recovery of any collateral that is integral to the financial asset, taking into account forward looking economic assumptions where relevant.

**EAD:** The expected balance sheet exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments, together with the impact of forward-looking economic assumptions where relevant.

To determine the expected credit loss, these components are multiplied together (PD for the reference period (up to 12 months or lifetime) x LGD at the beginning of the period x EAD at the beginning of the period) and discounted to the balance sheet date using the effective interest rate as the discount rate.

**Backstop**

Across all portfolios, accounts that are 30 or more days past due on contractual payments of principal and/or interest that have not been captured by the criteria above are considered to have experienced a significant increase in credit risk.

Expert credit judgement may be applied in assessing significant increase in credit risk to the extent that certain risks may not have been captured by the models or through the above criteria. Such instances are expected to be rare, for example due to events arising close to the reporting date.

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

**Recognition**

***(i) 12 months expected credit losses (Stage 1)***

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

***(ii) Significant increase in credit risk (Stage 2)***

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset. Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in ECL. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or roll rate approach is applied to compute ECL significant increase in credit risk is primarily based on 30 days past due.

Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default (PD) since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent these are correlated to changes in credit risk. We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk.

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring). A non-purely precautionary early alert/ watchlist account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management.

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

**Recognition (Continued)**

***(ii) Significant increase in credit risk (Stage 2)***

Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances amongst other factors.

***(iii) Credit impaired (or defaulted) exposures (Stage 3)***

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest.

Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired. Evidence that a financial asset is credit impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligation/s;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower; and
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

Irrevocable lending commitments to a credit impaired obligor that have not yet been drawn down are also included within the stage 3 credit impairment provision to the extent that the commitment cannot be withdrawn.

Loss provisions against credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present values of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

**Modified financial instruments**

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within 'Impairment' in the income statement within a corresponding decrease in the gross value of the asset. If the modification involved a concession that the Group would not otherwise consider, the instrument is considered to be credit impaired and is considered forborne.

ECL for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur.

In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in ECL recognised within impairment.

**Forborne loans**

Forborne loans are those loans that have been modified in response to a customer's financial difficulties. Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms.

Forbearance can be initiated by the client, the Group or a third party including government sponsored programmes or a conglomerate of credit institutions. Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants.

**Transfers between stages**

Assets will transfer from stage 3 to stage 2 when the assets are no longer considered to be credit impaired. Assets will not be considered credit impaired only if the customer makes payments such that they are paid to current in line with the original contractual terms. In addition:

- Loans that were subject to forbearance measures must remain current for 12 months before they can be transferred to stage 2; and
- Retail loans that were not subject to forbearance measures must remain current for 180 days before they can be transferred to stage 2 or stage 1.

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

**Transfers between stages (Continued)**

Assets may transfer to stage 1 if they are no longer considered to have experienced a significant increase in credit risk. This will be immediate when the original PD based transfer criteria are no longer met (and as long as none of the other transfer criteria apply). Where assets were transferred using other measures, the assets will only transfer back to stage 1 when the condition that caused the significant increase in credit risk no longer applies (and as long as none of the other transfer criteria apply).

**Improvement in credit risk/ Curing**

A period may elapse from the point at which instruments enter lifetime expected credit losses (stage 2 or stage 3) and are reclassified back to 12 month expected credit losses (stage 1).

For financial assets that are credit-impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms.

For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in credit risk.

Where significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to stage 1 when the original PD based transfer criteria are no longer met. Where instruments were transferred to Stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to Stage 1. This includes instances where management actions led to instruments being classified as Stage 2, requiring that action to be resolved before loans are reclassified to Stage 1.

**Key judgements**

***Forward-looking information***

To capture the effect of changes to the economic environment in the future, the computation of probability of default (PD), loss given default (LGD) and so ECL incorporates forward-looking information; assumptions on the path of economic variables and asset prices that are likely to have an effect on the repayment ability of the Group’s clients.

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as GDP. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

***Significant accounting estimates and judgements***

From 01 January 2018

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

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

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

**Statutory portfolio allowance**

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

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

**Credit cards and other revolving facilities**

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities with one day's notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is 7 years for both corporate and retail products.

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

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

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

**Collateral valuation**

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

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

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.15 Transition from IAS 39 to IFRS 9

**Collateral repossessed**

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

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

**Write-offs**

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

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.14 Transition from IAS 39 to IFRS 9 (Continued)

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

Summary of impact on classification and measurement of financial assets and liabilities as on January 1, 2018.

| | | | As on January 1, 2018 | | |
|---|---|---|---|---|---|
| **Particulars** | **IAS 39 measurement category** | **New measurement category under IFRS 9** | **Original carrying amount under IAS 39** | **New carrying amount under IFRS 9** | **Movement booked in Retained earnings** |
| | | | **MUR'000** | **MUR'000** | **MUR'000** |
| Cash and cash equivalents | Loans & receivables | Amortised cost | 16,331,538 | 16,331,538 | - |
| Loans to and placements with Banks | Loans and receivables | Amortised cost | 8,897,399 | 8,865,143 | 32,257 |
| Derivative financial instruments | Fair value through P&L | Fair value through P&L | 1,356,774 | 1,356,774 | - |
| Loans and advances to non bank customers | Loans and receivables | Amortised cost | 103,128,839 | 103,071,426 | 57,411 |
| Investments - AFS (Equity and/or Debt Instruments) | Available for sale | Fair value through OCI | 17,407,366 | 17,407,366 | - |
| Investments - HFT | Fair value through P&L | Fair value through P&L | 6,676,489 | 6,630,408 | 46,081 |
| Investments - HTM | Held to maturity | Amortised cost | 33,323,932 | 33,318,672 | 5,260 |
| Deposits from banks | Amortised cost | Amortised cost | 689,265 | 689,265 | - |
| Deposits from non-bank customers | Amortised cost | Amortised cost | 144,850,676 | 144,850,676 | - |
| Derivative financial instruments | Fair value through P&L | Fair value through P&L | 1,334,641 | 1,334,641 | - |
| Other liabilities | Amortised cost | Amortised cost | 4,581,547 | 4,581,547 | - |
| Other borrowed funds | Amortised cost | Amortised cost | 13,686,203 | 13,686,203 | - |
| Off balance sheet items | Off balance sheet | Off balance sheet | 12,508,770 | 12,392,809 | 115,961 |
| Other credit commitments | Off balance sheet | Off balance sheet | 14,238,833 | 14,181,798 | 57,035 |
| ***Total adjustments made to retained earnings*** | | | | | **314,004** |

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.14 Transition from IAS 39 to IFRS 9 (Continued)

Reconciliation of impairment allowance balance between IAS 39 and IFRS 9 : This table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected credit loss model as on January 1, 2018.

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

| | MUR'000 |
|---|---|
| Closing balance under IAS 39 (31 December 2017) | 2,410,007 |
| *IFRS 9 adjustments:* | |
| Recognition of IFRS 9 ECLs including those measured at FVOCI | (309,723) |
| EIR adjustments made in foreign operations | (4,281) |
| | (314,004) |
| Opening balance under IFRS 9 (01 January 2018) | 2,096,003 |

## 9 NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 9.14 Transition from IAS 39 to IFRS 9 (Continued)

The table below sets out a comparison of impairment loss provisions under IAS 39 to those under IFRS 9

| | 01 January 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Loss provisions per IAS 39 | | | Expected credit loss per IFRS 9 | | | | | | |
| Expected credit losses impact | Portfolio impairment provisions MUR '000 | Individual impairment provisions MUR '000 | Total MUR '000 | Stage 1 MUR '000 | Stage 2 MUR '000 | Stage 3 MUR '000 | Total MUR '000 | Additional provision per BOM Guidelines MUR '000 | Revised Total following IFRS 9 adjustments MUR '000 | Adjustments in respect of IFRS 9 MUR '000 |
| Loans and advances to customers | 1,327,861 | 2,741,142 | 4,069,003 | 647,777 | 492,943 | 2,741,142 | 3,881,864 | 245,661 | 4,127,525 | 58,522 |
| Loans to banks | - | - | - | 12,348 | 1,591 | - | 13,939 | - | 13,939 | 13,939 |
| Placements with banks | - | - | - | 18,318 | - | - | 18,318 | - | 18,318 | 18,318 |
| Debt securities- Amortised Cost | - | - | - | 46,081 | - | - | 46,081 | - | 46,081 | 46,081 |
| Debt securities- Fair Value at Other Comprehensive Income | - | - | - | - | - | - | - | - | - | - |
| Off Balance Sheet Items (incl. financial guarantees) | - | - | - | 115,961 | - | - | 115,961 | - | 115,961 | 115,961 |
| Other credit commitments | - | - | - | 56,903 | - | - | 56,903 | - | 56,903 | 56,903 |
| TOTAL | 1,327,861 | 2,741,142 | 4,069,003 | 897,388 | 494,534 | 2,741,142 | 4,133,067 | 245,661 | 4,378,728 | 309,724 |