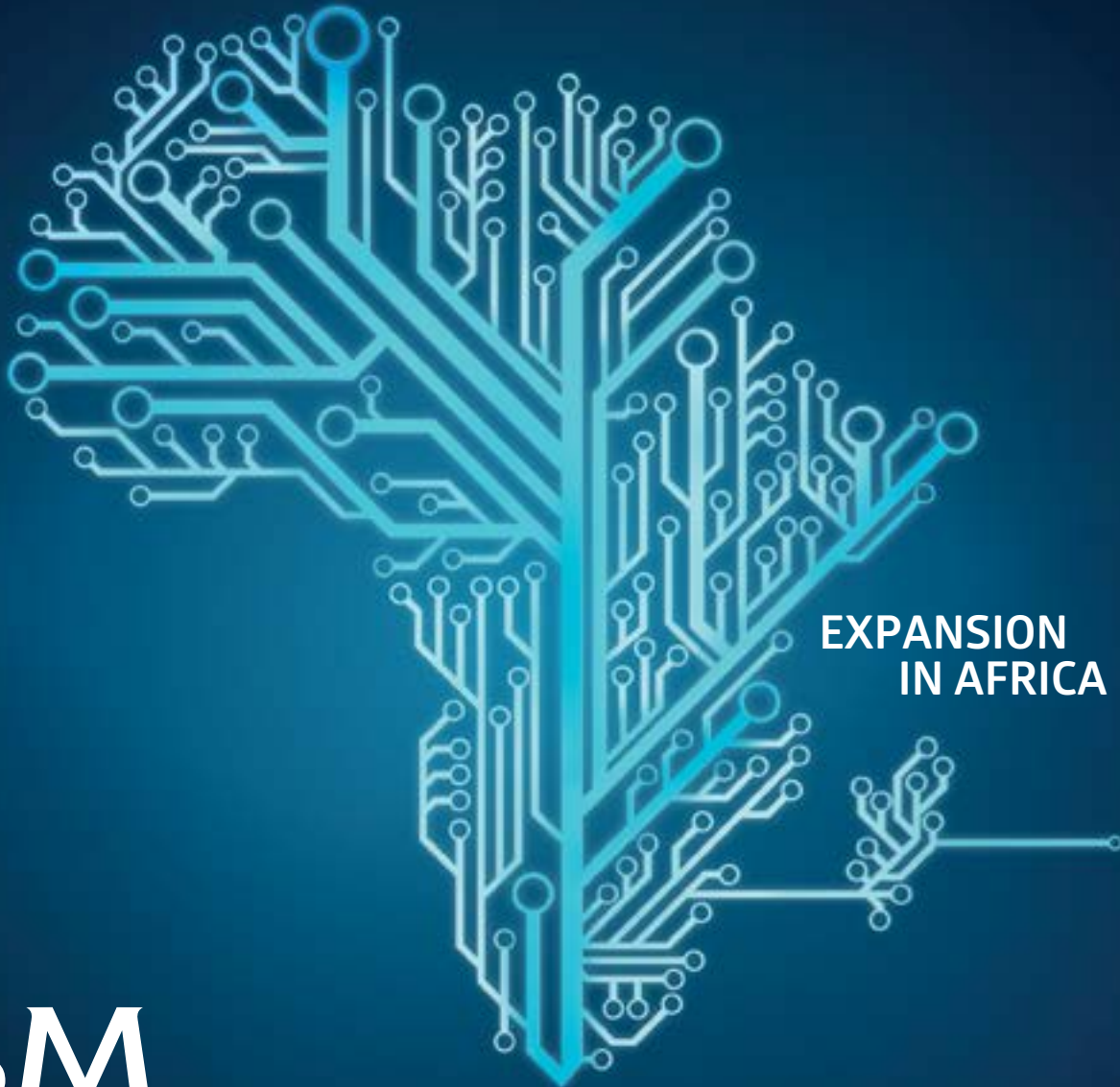


# SBM HOLDINGS LTD



EXPANSION  
IN AFRICA

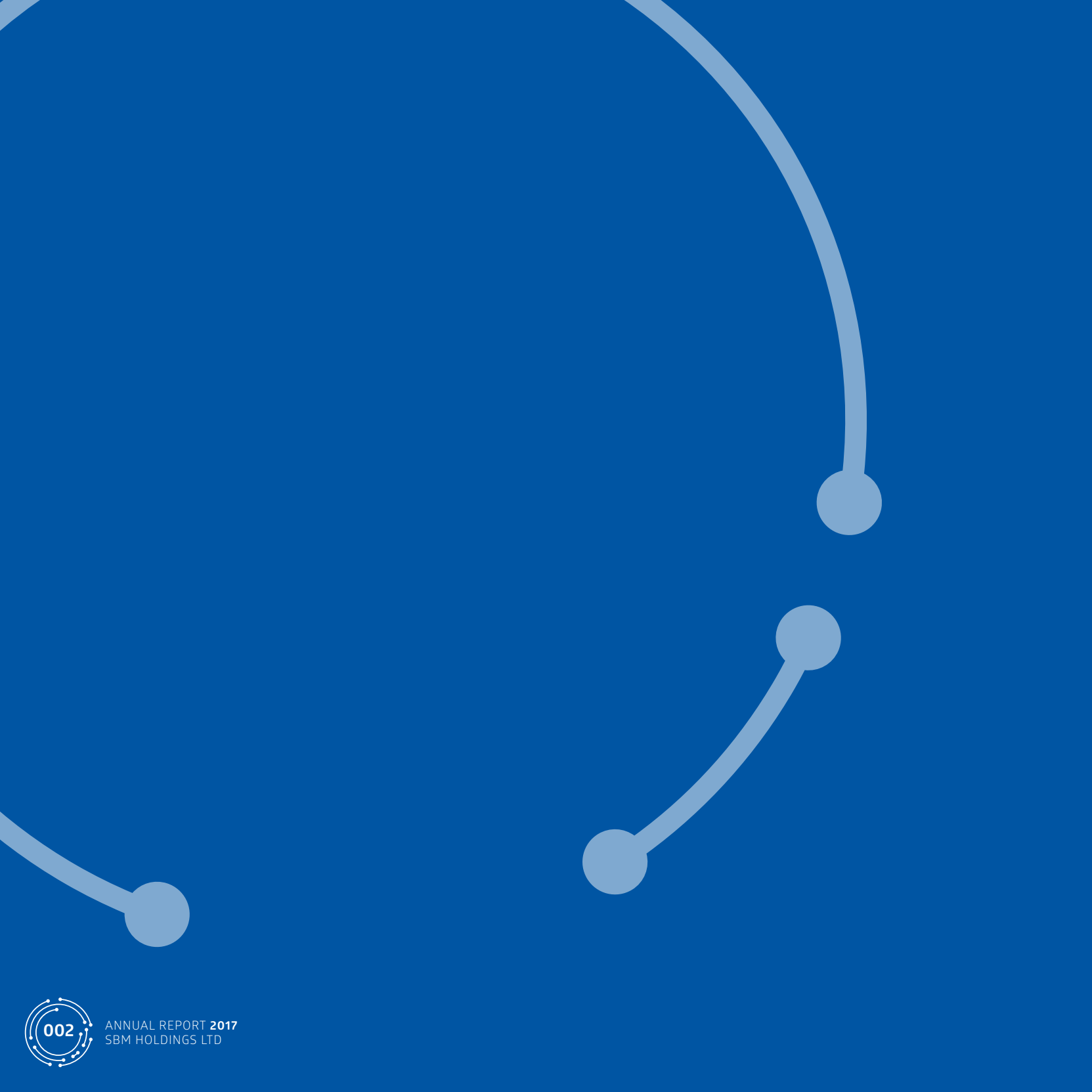
# SBM

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ANNUAL  
REPORT 2017

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# Caution regarding forward-looking statements

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

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

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

# VISION, MISSION, GOAL AND CORE VALUES

## VISION

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

## MISSION

Our mission is threefold:

1. To build lasting relationships with our customers by offering distinctive products and exceptional service;
2. To be the employer of choice for the top talents in the markets we serve;
3. To prudently manage risk and costs.

In so doing, our intent is to achieve strong and sustained returns for our shareholders, meet the relevant needs of our stakeholders and support the development of the community at large.

## GOAL

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







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



# Chairman's Letter

Dear Shareholders and Valued Partners

I am pleased to present the results of SBM Holdings Ltd in this jubilee year of the Republic of Mauritius.

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



Our organisation has always been and will always be in support of our nation and its people. Over two years ago, we took the initiative with the assistance of McKinsey to redefine, align and recalibrate our strategy. We had been listening very carefully to our shareholders and other stakeholders about what they expected from us and we, as their Board, wanted to ensure that we executed our strategy in line with their wishes. Our key strategic pillars are namely: consolidation, diversification, regionalisation, modernisation and capacity building.

Employees being the backbone of our Group, we have, in 2017, continued to build and strengthen our human capital, and have recruited top talents for key positions. We have also reviewed our HR policies and set up a Training Academy for our staff. Following an international recruitment exercise, our Group also welcomed Andrew Bainbridge as the Group CEO at the start of 2018. Andrew has extensive experience throughout Africa, Asia and the Middle East, across retail, corporate, commercial and SME segments, financial institutions and digital banking. With his solid professional background at senior management level, I am sure that his appointment will provide a new impetus to the realisation of the Group's vision and goals. Andrew will closely support and drive the implementation of our regionalisation and diversification strategy.

In order to achieve its strategic objectives, the Group has also started an exercise of reviewing and streamlining its processes, strengthening its risk management framework, and reviewing its organisation and governance structure. These initiatives

should enable the execution of our strategy on a sound footing by adapting to the changing strategic orientations of the Group.

We also continue to give back to the community through our various Corporate Social Responsibility activities. I am happy to say that we are now at the 9th edition of our SBM Scholarship Scheme, and have up to now allocated some 2,250 scholarships to bright and needy students. Our employees are also very committed to the society and have once again contributed to various social initiatives. More details of our CSR activities can be found on pages 123 to 131.

Our efforts to put our customers first in our daily businesses and activities have been recognised at the international level. In 2017, SBM Bank (Mauritius) Ltd was awarded 'Best Retail Bank-Mauritius' by the Banker Africa and we also won the Best Retail Bank Mauritius 2017 and Best e-Commerce Bank Mauritius 2017 by Global Banking and Finance Review. SBM Securities Ltd was also awarded the Best Stockbroker – Indian Ocean 2017 by Capital Finance International (CFI).

We have, during last year, continued to focus on strategy execution, as highlighted below:

### Regional expansion

After beginning our Africa foray in Kenya in May 2017, through the acquisition of the ex-Fidelity Commercial Bank, we have, in line with our regional expansion strategy into East Africa, initiated the acquisition of the carved out assets and liabilities of Chase Bank (Kenya) Limited (in

Receivership). This should enhance SBM Kenya's profile on the market in line with the Group's ambition to become a Tier 1 player in the medium term. Moreover, we have expanded our branch network in Madagascar by opening our 5th branch for better proximity with customers. In the same vein, SBM is the first foreign bank to have been granted the Wholly Owned Subsidiary (WOS) Licence by the Reserve Bank of India. This licence will allow us to amalgamate all our branches into a full-fledged wholly-owned subsidiary of the SBM Group and operate as SBM Bank (India) Limited to better serve our Indian customers. Our strategic expansion in Kenya and India should position us as a financial bridge in the Asia-Africa corridor and should help us attract Indian investors who want to invest in and trade with Africa. We also plan to further expand our cross-border banking business, which has posted remarkable growth over the past two years on the back of the recruitment of domain experts, relationship-building with regional banks, and greater synergy with overseas operations of the Group. While we are set to increase the share of cross-border business within the Group, we are also conscious of the different types and levels of risk that such a strategy entails, and are rigorously monitoring these.

We have also given focus to our Indian, Madagascar and Global Fund Investments to ensure that they maintain a robust performance whilst enhancing their global best practices. Our aim is to offer our clients a seamless financial service, tailor made to their individual needs, no matter where they operate.

# Chairman's Statement (cont'd)

## Enhanced Services

In the last year, we have established a private banking advisory service that is distinctive. We have achieved this by refining our value proposition and building a strong private banking team. As part of our consolidation initiatives, we have revamped our product offering and are now proposing additional innovative products and services to our customers, especially in the local market. We have, for instance, launched SBM Now, which offers customers access to several core products at one go. Furthermore, we have entered into a partnership with FSA (Fonds de Solidarité Africain) for the guarantee of bank loans and resources especially to SMEs. We have also set up additional dedicated SME desks in some main regions with the intention of being closer to this customer segment and making banking facilities readily available. At the end of January this year, we initiated a soft launch of SBM Microfinance, which provides credit facilities to the very small entrepreneurs who are largely unserved or underserved through normal banking channels due to lack of collateral. Through SBM Microfinance, we will partner with them to move towards financial self-sufficiency. SBM will also be the first local Microfinance institution to introduce an innovative concept in the field of Microfinance, namely The Joint Liability Group Financing model, which is highly successful in India. The SBM Microfinance team is currently carrying out a sample testing of the new services and model on a three-month pilot period. This will allow us to assess both our internal structure and the market potential, which will help us decide whether we need to increase our resources for this segment as well as the way forward.

Furthermore, we now offer Investment Banking advisory services to local and international clients across a variety of disciplines including: raising of

funds in debt capital markets and equity capital markets, mergers and acquisitions, and private equity solutions.

Introducing new offerings is in line with our ambition to make banking and financial services accessible to everyone by providing a range of products and services that meet customers' specific needs under a single roof. We want to partner with our clients in their success.

This year, we will also continue to consolidate our business, especially in the retail and wholesale banking segments.

## Better Banking

We are mindful that we serve a great range of different clients. From small children with savings accounts to high net worth clients to large businesses and corporations, all of you are important to us. We are putting a lot of focus on creating a unique and seamless customer experience, which is key to driving loyalty and long-term growth. We will therefore continue to leverage our technology platform for more digital interactions with our customers. This should allow us to respond to their evolving needs and most importantly, offer convenient, reliable and accessible banking facilities.

We focused strongly on improving our service to our retail clients this past year and will continue to do so in 2018. We are achieving this through our focus on improving and refurbishing our branches and more critically through an enhanced customer experience supported by technology and increased training of our staff through the SBM Training Academy. Some milestones achieved in 2017 in this respect include:

- Launch of a Mobile Banking application – SBM Mobile Banking
- Introduction of Online Loan applications

- Launch of Signature Pad, to facilitate account opening or changes to customers' existing accounts among others
- eStatement initiative
- Strategic partnership with Alipay – We are the first bank to partner with the leader of digital financial services and lifestyle platform Alipay, which is operated by Ant Financial Services, a sister company of Alibaba
- Launch of SBM Now to fulfil our customers' expectation for excellent service quality

## Diversification

The Group has undertaken various different initiatives during 2017. To grow our revenue base, we have further developed our non-banking arm. This enables us to provide a broader range of solutions to our customers in an efficient and reliable manner. SBM was the first Mauritian banking group to obtain an investment banking licence in Mauritius, and has been involved in both DCM and ECM deals in 2017, including the pioneering issue and listing of AFREXIMBANK's Depository Receipts. Indeed, this deal marked a series of firsts, namely:

- (1) The first time that a supranational Bank opened its capital to the general public through the emission of Depository Receipts;
- (2) The first time that a supranational bank listed its Depository Receipts on an African Stock Market;
- (3) The first time that a Mauritian Stockbroker issued Depository Receipts, and
- (4) The first time that the Stock Exchange of Mauritius listed Depository receipts. The amount raised of USD 165,872,000, was also the highest pre-listing capital raise in Mauritius.

We have also been the arranger of MUR 1.5 billion Secured Notes Programme for a domestic corporate. Additionally, we have launched several

structured products like leveraged notes, capital protected notes and the Ghana Coco Bond. We have also reorganised our sales team and enhanced the synergies between the various business entities of the Group. Moreover, we have revamped our wealth management and asset management businesses, leading to a strong increase in assets under management.

In April 2017, we incorporated the Africa Infrastructure & Industrialisation Fund, which has as objective to use external funding sources to finance mainly African Infrastructure and Special Economic Zones projects on a Public-Private Partnership (PPP), Build-Operate-Transfer (BOT) or other basis and domestic infrastructure developments in Mauritius. Last year, we also launched the SBM Mauritius Infrastructure Development Company Ltd, which acts as an investment vehicle to facilitate the realisation of public infrastructure projects.

## Strong Focus on People, Processes and Best Practice

Without a doubt, our people are our greatest asset. In 2017, significant effort was expended towards creating an SBM Training Centre – which was launched early this year. Through this centre, we hope to ensure that our staff are able to offer even better service through targeted technical and leadership skills training, in line with the training needs analysis that has been completed.

Last year, we also carried out a survey to gauge the level of engagement and satisfaction among employees. The outcome of the survey has allowed us to identify areas for improvement, some of which are already being implemented – such as the conversion of a bigger proportion of the employees from contractual employment to permanent employment. We continue to support career progression by offering the chance to

move and grow within the organisation. We place strong focus on having the right people in the right place. For 2018, we will embed a stronger retention strategy of our best people whilst attracting top talent through our solid brand.

From our quality standards to our reporting standards, in line with global best practices, we are constantly working on ways to do things better for our stakeholders. We will not rest until we have achieved this goal.

### Our top priorities for the coming year are:

- Focus on our expansion toward Africa and the region
- Continue to establish a healthy organisation by improving our ability to attract and retain talent by fostering a learning culture
- Promote effective governance by embracing and embedding best practices
- Continue to improve on our strong risk culture to enable the organisation to grow prudently
- Maintain effective digital platforms that ensure our clients enjoy a seamless experience that folds time and geographies.

Going forward, we will aim to achieve more sustainable growth, by diversifying our current operations and expanding our network abroad. We will continue to increase our cross-border activities as well as our wealth management and investment banking activities.

We will also remain focused on our strategy, and execute our strategic initiatives in a disciplined manner, which should bring in more business and profitability.

In line with the new Code for Corporate Governance, we have endeavoured to bring to you an annual report that is clear, transparent and easy to read and understand. We want to set the example in our country and in our sector, and embrace all of our shareholders and stakeholders

as equally important.

I would like to offer my heartfelt thanks to the Board of Directors, the Chief Executive Officers and all of our people who have worked with so much dedication to achieve these results. I am proud to be associated with them as we work toward our vision of becoming the Bank of the Future.

Finally, I would like to thank you, Our Shareholders, for belief in the Board and for your continued support to this wonderful organisation. We will do our very best to ensure that you continue to look towards your organisation with pride.

The Board of Directors and I wish to thank you – the Group's valued shareholders and stakeholders – for your trust in the SBM Group. We will continue to deliver value to you all and look forward to catering for your evolving needs. We remain committed to positioning the SBM Group as a leading and responsible organisation, which looks after its customers, people and various stakeholders. We also wish to thank the staff of SBMH for their loyalty and commitment towards our stakeholders.



**Kee Chong LI KWONG WING, G.O.S.K.**  
Group Chairman  
SBM Holdings Ltd



# Group CEO'S Letter

**Andrew Bainbridge**  
*Group Chief Executive Officer*

## Dear Shareholders and Valued Partners

I am honoured to be appointed as the Group Chief Executive Officer of this prestigious organisation.

I look forward to working with my colleagues across the group to offer better services to our customers, better and sustained returns to our shareholders and great experiences to our other stakeholders.

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

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

We have built a solid reputation of integrity, trust, and ethical behaviour in all of our businesses. This strong foundation allows us to prudently lend to individuals as well as businesses of all sizes. By doing so, we create jobs, drive economic opportunity and, importantly, help our clients and customers to achieve their own corporate and personal ambitions.

In all aspects of our Mauritius operations, our commitment to stakeholders extends far beyond our various product offerings. We are full partners and we are committed to having a positive impact in the communities in which we live and work. The Bank employs nearly one thousand and five hundred highly

trained and dedicated people. Our nationwide network of branches ensures that we have a positive impact on all the communities that we serve. We are anchored in the DNA of the nation.

At SBM we are committed to sustainable business practices, to minimising our environmental footprint and to good corporate governance. Where we have the opportunity, the Group takes a leadership position on important social issues such as the support for education, development of sport and the support of small and medium enterprise. Our staff members have been personally involved in community enrichment initiatives.

## Performance highlights

The year under review presented a few major challenges. Firstly, costs went up significantly reflecting the full-year impact of the implementation of the new IT systems, which went live in September 2016. Secondly, impairment charges went up, largely related to our legacy book in India. Nonetheless, the Group was able to show a 11.52% year-on-year increase in profit after tax to MUR 2,575 million, as business volumes were ramped up and the suite of solutions was enriched in line with client needs. Total assets grew by 32.08% to reach MUR 194,021 million while the Group's shareholders' equity increased from MUR 23,805 million to MUR 25,165 million. The capital adequacy ratio and the Tier 1 ratio declined in line with the growth in assets, but remained within regulatory limits at 19.98% and 15.92% respectively. Return on average shareholders' equity improved slightly to 10.52%. The performance by geography and cluster is discussed below.



# Group CEO'S Letter (cont'd)

## Mauritius – banking

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

Despite difficult operating conditions marked by persisting excess liquidity and an ensuing squeeze in margins, the performance of Mauritius banking operations improved in 2017 as compared to the previous year. Operating income increased by 16.77% from MUR 5,884 million in 2016 to MUR 6,871 million. Profit after tax for the year ended 31 December 2017 increased to MUR 3,303 million compared to MUR 2,393 million for the previous year, representing a rise of 38.03% compared to the financial year 2016. The improved profitability was driven by an increase in interest income from Segment B loans and advances, as well as an upswing in gains in trading income and dealings in financial instruments, mitigated by increased costs. These were mostly linked to the full year amortisation of the software following go-live of IT systems in September 2016, and to personnel costs.

The cost to income ratio stood at 41.42% for the year ended 31 December 2017 (2016: 41.53%).

Deposits from non-bank customers increased by 30.33% to reach MUR 134,385 million as at December 2017 from MUR 103,115 million as at 31 December 2016. This increase was from a mix of both low cost savings and current accounts and foreign currency term deposits.

Total assets grew by MUR 43,334 million or 33.58%, from MUR 129,045 million as at 31 December 2016 to MUR 172,379 million as at 31 December 2017, mainly on account of an increase in loans and advances of MUR 25,725 million.

The shareholders' equity stood at MUR 19,270 million as at 31 December 2017 (2016: MUR 15,947 million).

## Mauritius – non-banking financial cluster

Profit after tax from the non-banking financial cluster improved from MUR 25 million in 2016 to MUR 75 million in 2017, driven by two major investment banking deals in the ECM and DCM space. Although the contribution to the overall profitability of the Group is relatively limited, the cluster plays an important role in the Group's endeavour to provide a comprehensive financial services offering to its clients, in line with their evolving needs. In this respect, the year also marked the introduction of factoring services. Total assets for the non-banking financial cluster increased from MUR 243 million to MUR 1,649 million due to new additions in equity investments and fair value gain on investments.

## India

Our branches in India registered a loss of MUR 691 million in 2017, as compared to a loss of MUR 185 million in the previous year. The underperformance results mainly from an increase in net impairment losses from MUR 302 million in 2016 to MUR 759 million in 2017. The negative impairment trend relates mostly to the legacy book, mostly underwritten prior to 2013. The main challenges then were lack of complete information on the borrowers, non-perfection of security, high ticket size and flawed target market. We have now strengthened our due diligence process. For instance, apart from stringent analysis of financial statements for corporates, we have increased the scope of our due diligence through various external sources like calls to credit rating agencies/other banks, peer group analysis, Probe Reports, CIBIL (Credit Information Bureau India Limited) reports and CRILC checks wherein we are now getting access to the company's credit history, background, charges registered, details of other borrowings, group companies, legal cases, etc. We are also now insisting on sizeable collateral security and its perfection upfront and are targeting large corporates with good ratings. Today we know customers and their past track record better as systems have become more transparent, hence lower risks. Net NPA level in India stood at 1.77% as at 31 December 2017.

During the year, total assets rose by 25.96% from MUR 8,154 million as at 31 December 2016 to MUR 10,271 million as at 31 December 2017, mainly driven by advances growth. Shareholders' equity stood at MUR 2,023 million (2016: MUR 2,744 million) which was attributable to the losses made during the 2017.

## Kenya

On 10th of May 2017, the SBM Group successfully completed the acquisition of Fidelity Commercial Bank Limited through SBM Africa Holdings Ltd, a 100% subsidiary of SBM Holdings Ltd. As at date, the SBM Group has a 100% stake in the Bank which has been renamed SBM Bank (Kenya) Limited.

As at 31 December 2017, total assets of the Bank stood at MUR 3,321 million with a gross loan and advances book of MUR 2,079 million. Deposits from non-bank customers stood at MUR 2,081 million with shareholders' equity of MUR 399 million.

From 11 May 2017 to 31 December 2017, the Bank made a loss of MUR 65 million which was mainly due to exceptional reversal of interest income due to accounts fully provisioned being wrongly classified as normal accounts on the system. During the period under review, SBM Bank (Kenya) Limited has put emphasis on capacity building, processes, procedures, policies as well as reinforcing the IT system to stabilise the business and provide a solid platform for growth.

## Madagascar

Total assets of the Madagascar operations increased by 20% from MUR 1,201 million as at 31 December 2016 to MUR 1,442 million as at 31 December 2017 due to an increase in loans and advances to customers of MUR 424 million, mitigated by a decrease in investment securities of MUR 162 million. Deposits from non-bank customers rose by MUR 222 million.

Despite an increase in pre-provision profit from MUR 22 million to MUR 45 million, profit after tax decreased by 53.33% to MUR 7 million for the year ended 31 December 2017 as compared

to MUR 15 million a year earlier. This is mainly due to an increase in net impairment of MUR 30 million due to a portfolio provision.

## Creating long term shareholder value

In line with our 2020 strategy, our goal remains to offer excellent customer service whilst delivering growing shareholder value.

We are focused on key strategies that will ensure sustainable performance. These areas are:

- Growing our market share in Africa and the region
- Acquiring new clients through a targeted acquisition strategy
- Improving our service offering to our existing clients through our seamless delivery
- Creation of a unique private banking experience
- Expansion of our asset management business
- Extending our reach in global and cross border deals
- Offering an investment banking advisory service for corporate clients
- Continuing to grow our international banking activities in Madagascar, Kenya and India underpinned by prudent controls
- Retaining and attracting the best people

## Outlook

In 2018, we expect to continue to benefit from our cohesive operating model, which seeks to use expertise from all across the Group for the benefit of the whole Group. As we continue to expand both geographically and in the range of services provided to our clients and customers, we will ensure that our operating model also evolves, providing clear direction and accountability, strong controls and supportive functions to our growing businesses.



In line with our 2020 strategy, our goal remains to offer excellent customer service whilst delivering growing shareholder value.





# Group CEO'S Letter (cont'd)

## Mauritius

The implementation of major public infrastructure projects, as well as an expected uptick in private sector investment, should provide some support to credit demand in 2018. In parallel, planned initiatives by the Bank of Mauritius to absorb excess liquidity should help maintain margins. The Group is well positioned to take advantage of opportunities arising in the external environment, and sustain its market share in the domestic market with a focus on improved service quality.

We were very pleased by the progress made in Mauritius in 2017, across both the Bank and the NBFC. We expect to see progress continue in 2018, with the two entities working more closely together to ensure seamless service provision to our clients. Our cross-selling will incentivise the right behaviours in terms of delivering to our clients, leading to great service and strong long-term returns.

In our Mauritian banking business, we recognise that we have a leading domestic franchise and an emerging and fast-growing International (Segment B) franchise. Our focus will continue to be on improving service and enhancing efficiency in the domestic business, where our range of delivery channels makes us easy to do business with. In the International business, we recognise

the need for strong Credit and Risk disciplines and will grow these in line with our aspirations for this business.

In terms of our people, we strengthened our foundations in 2017 through the commissioning of our staff training centre and conducting a comprehensive training needs analysis. We will build on this in 2018 through the establishment of a new induction programme and the delivery of ongoing core training and development.

## India

We expect to complete the process of converting our Indian operations to a Wholly Owned Subsidiary during 2018 and then intend to expand our footprint. India is a country of significant opportunity in banking terms but also contains significant challenges in terms of complexity and knowing the various markets within the country. We have spent considerable time on our strategy for India, informed by our experience of operating there over two decades, and will strive to build a long-term, sustainable retail and commercial banking business there.

## Kenya

Our entry into Kenya was achieved in 2017 through the acquisition of what is now SBM Bank Kenya Limited. This operation has been stabilised through 2017 and we are now ready to grow our business, with the increased political and economic stability evident post the election period providing a better operating environment for us.

## Madagascar

We continued to grow and develop our business in Madagascar in 2017 and plan further branch openings in 2018. We see opportunities for further growth in Madagascar and are working on options on how to realise such growth.

## Regulatory framework

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

We have invested in improving our high standards of corporate governance through adoption of the Code for Corporate Governance as a driver for sustainability and improvement. We will continue to invest in maintaining the highest standards of corporate governance, in the interests of all of our stakeholders.

## Continuing to build on a strong foundation

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

We remain absolutely committed to delivering on our core values of:

- Putting our customers first in everything we do
- Committing to world-class standards in every area of our business
- Treating our employees with integrity and respect - and in turn expecting high-level performance
- Adhering to the highest possible ethical standards and
- Being prudent in taking risks with shareholder and depositor funds.

Please be assured that we will use our values to help guide us as we seek to execute on our clear strategy, whether this manifests in setting service standards, expanding our business or rewarding our people. I want us to be clear that executing in line with our values is what helps to define us in the eyes of all our stakeholders, be they customers, shareholders, our communities or other parties.



**Andrew Bainbridge**  
Group Chief Executive Officer

# SBM

at a glance

**527,237**

Total number of customers

**18,013**

Total number of shareholders

**1,889**

Total number of employees

**667,542**

No. of e-Commerce Users in 2017

**71,647**

No. of registered  
SMS Banking customers

**81,815**

No. of registered  
Internet Banking customers

**Branches:**

**43**

Mauritius  
(including counters)

**5**

Madagascar

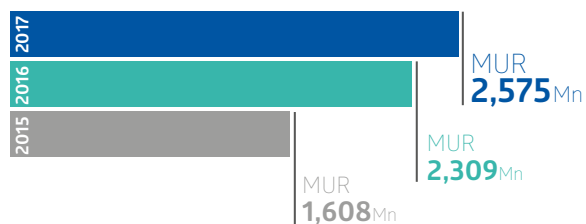
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India

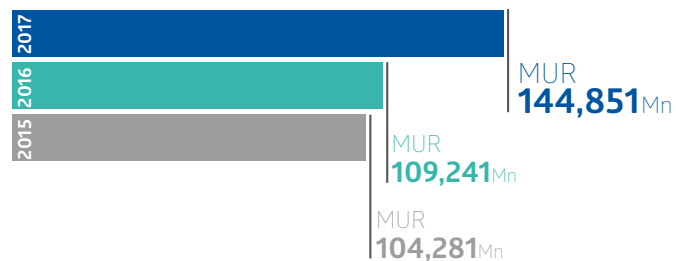
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Kenya

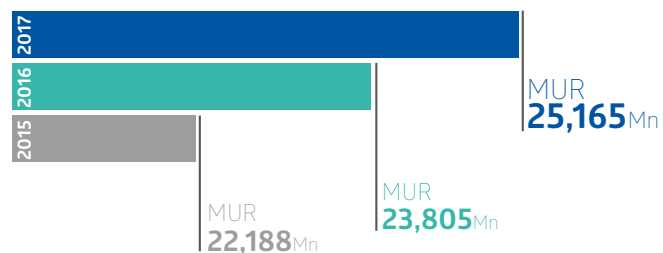
## Profit for the year



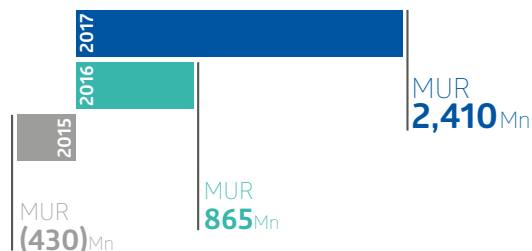
## Customer deposits



## Shareholders' equity



## Retained earnings



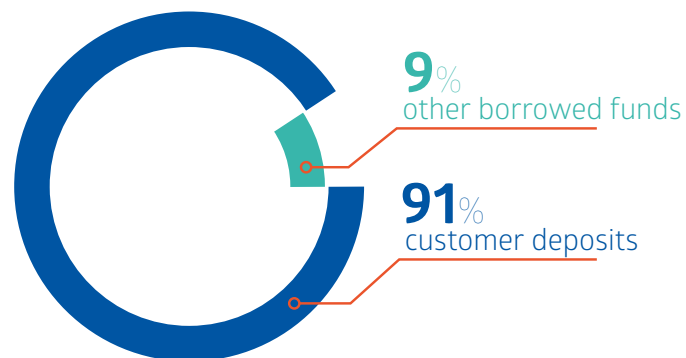
119

ATMs

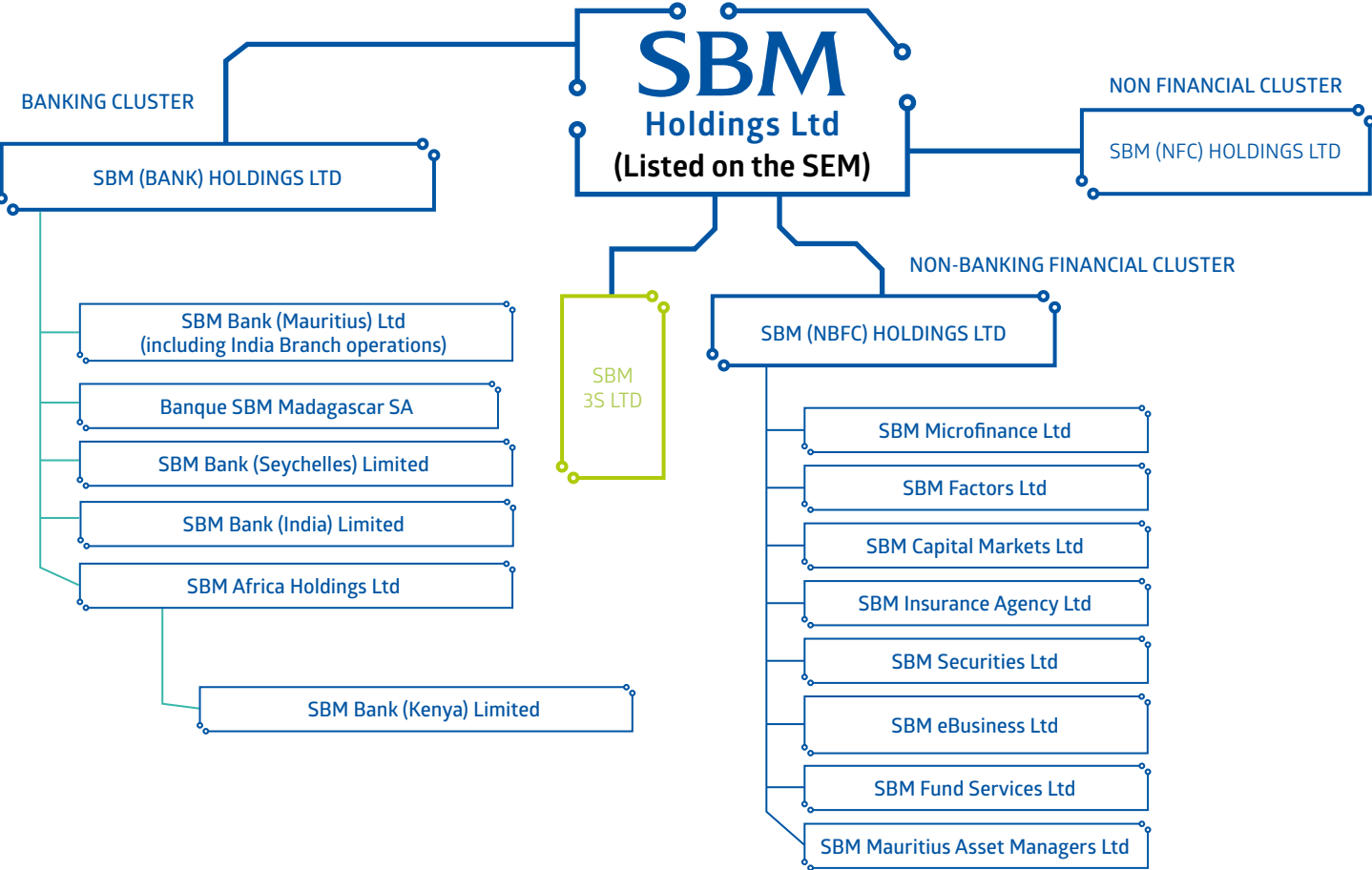
4,530

POS terminals

## Sources of funds



# Group Structure



## Why Invest with us:

- > Well anchored in the Mauritian landscape - We have proved our trustworthiness through our long track record of growing with the Mauritian people
- > The Group has adequate capital base and strong liquidity, with rising profitability
- > We expect our non-banking activities and regional expansion to support future growth through positive contribution to financial performance
- > We have a focused approach to risk management
- > We regularly engage with our shareholders and investors through Annual Meeting of Shareholders, Analyst Meeting, participation in investor and other conferences, one-to-one meetings and press communiqués among others
- > The Group is a socially responsible organisation with investment in both time and capital over many social projects
- > We have sustainable business practices across natural, intellectual, financial, IT and people resources
- > We have a strong brand that is truly representative of our customers



“

WE WILL REMAIN FOCUSED  
ON OUR STRATEGY,  
AND EXECUTE OUR  
STRATEGIC INITIATIVES IN  
A DISCIPLINED MANNER,  
WHICH SHOULD BRING  
IN MORE BUSINESS AND  
PROFITABILITY.

”





# Board of Directors



Subhas Thecka

Medha Gunpath

Roodesh Muttylall

Vidianand  
Lutchmeepsad



○ Kee Chong  
Li Kwong Wing  
*G.O.S.K*

○ Maxime Hardy

○ Azim Currimjee

○ Ramprakash  
Maunthrooa



# Profile of the Board of Directors of SBM Holdings Ltd

The Directors for SBM Holdings Ltd are:



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

## Skills and Experience

Mr Kee Chong LI KWONG WING, G.O.S.K. (KC Li) is a well respected and gifted economist. He is the founder of the National Mutual Fund which was the first Fund Manager in Mauritius to launch a Unit Trust and a Property Fund. He is also founder of the Mauritius International Trust Co. Ltd, one of the first professional firms to provide trust and tax planning services to international clients. Over many years, Mr KC Li has diligently and successfully served the public sector of Mauritius through holding many positions as Chairman of the Stock Exchange Commission, the State Investment Corporation Management Ltd and the National Advisory Council on Prices and Consumer Protection and also as Advisor to the Minister of Finance.

Mr KC Li has also served as consultant to the United Nations Economic Commission for Africa (UNECA), the U.N. Industrial Development Organisation (UNIDO) and the Finance and Investment Sector Coordinating Unit (FISCU) of the Southern African Development Community (SADC) Council of Finance Ministers.

Mr KC Li brings his many years of professional experience to the Board where he is known for his strong and decisive leadership skills and for his farsighted strategic thinking. He has been a Member of the Board of SBM Holdings Ltd since April 2015.

## Other Current Appointments

Mr KC Li is a Member of the Board of Directors of the State Insurance Company of Mauritius Ltd, Mauritius Technologies Holdings Ltd, African Export-Import Bank and also sits on the Board of several Emerging Market Funds and Asia Hedge Funds. Mr KC Li also serves on the Board of the following entities across the SBM Group namely SBM (NBFC) Holdings Ltd, SBM 3S Ltd, SBM eBusiness Ltd, SBM Africa Equity Fund Ltd, SBM Capital Markets Ltd, SBM Microfinance Ltd, SBM Factors Ltd, SBM Capital Management Ltd (under process of winding up), SBM (Mauritius) Infrastructure Development Company Ltd, SBM Infrastructure General Partner Limited, SBM Bank (Kenya) Limited, SBM Bank (Seychelles) Limited and Banque SBM Madagascar SA.

## Board Committee Membership

Investment & Credit Committee (Chairman), IT Steering Committee (Chairman), Regional Expansion Steering Committee (Chairman), Risk Management Committee (Member), Steering Committee on Seychelles (Chairman), Strategy Committee (Chairman)



### Mr. Azim Fakhruddin CURRIMJEE

#### Skills and Experience

Mr Azim Currimjee is the Managing Director of the Food & Beverages Cluster of the Currimjee Group of Companies and the Managing Director of Quality Beverages Ltd. He holds a BA in Mathematics from Williams College, Massachusetts and an MBA from Trinity College, Dublin. Mr Currimjee has over 25 years of experience in Industry. He has led large textile organisations in the past and has been leading a significant food and beverage business for the last 16 years. Mr. Currimjee was elected to the Board of SBM Holdings in June 2016 and is an Independent Non-Executive Director.

#### Other Current Appointments

Mr Currimjee is also on the Board of all the principal companies of the Currimjee Group of Companies as a Non-Executive Director. He was the President of the Mauritius Chamber of Commerce and Industry from March 2016 to March 2018, a responsibility he also held in 2007. In addition, Mr Currimjee is the First Vice President of the COMESA Business Council and the Vice President of the Economic Development Board of Mauritius. Mr. Currimjee is also a Director of SBM Bank (Kenya) Limited.

#### Board Committee Membership

Audit Committee (Member), IT Steering Committee (Member), Nomination & Remuneration Committee (Member), Regional Expansion Steering Committee (Member), Risk Management Committee (Chairman), Steering Committee on Seychelles (Member), Strategy Committee (Member)



### Mr. Medha GUNPUTH

#### Skills and Experience

Mr Gunputh is currently the Permanent Secretary in the Ministry of Defence and Rodrigues. He has enjoyed a long and distinguished career as a public servant. After graduating with a Bachelor of Science at the University of Punjab and a Diploma in Public Administration & Management at the University of Mauritius, Mr Gunputh dedicated his professional life to serving the people of the Republic of Mauritius with passion and dedication.

Mr Gunputh has been a Director on many Boards. As a Board Member, he brings his experience in the public sector and his ability to astutely question the status quo, interrogate risk and ably participate in the creation of Group strategy. He was elected as Director of SBM Holdings Ltd in February 2015 and is a Non-Executive Director.

#### Other Current Appointments

Mr Gunputh is a Director of the Mauritius Post Ltd, SBM (NFC) Holdings Ltd and SBM Bank (Kenya) Limited.

#### Board Committee Membership

Corporate Governance & Conduct Review Committee (Member), Investment & Credit Committee (Member), IT Steering Committee (Member), Nomination & Remuneration Committee (Chairman), Regional Expansion Steering Committee (Member), Risk Management Committee (Member), Steering Committee on Seychelles (Member)



### Mr. Maxime HARDY

#### Skills and Experience

Mr Hardy is a dedicated and ethical professional for doing business with passion and integrity. With over thirty-five years of experience across various key sectors, Mr Hardy's financial expertise has assisted organisations through challenging times including mergers and aggressive growth strategies.

Hard-working and highly perfectionist, Mr Hardy strives for performance. He is methodical and highly organised. He is well recognised for his core values of trust, integrity and honesty. Mr Hardy is a fellow of the Institute of Accounting Technicians in the UK and is currently the General Manager at BROLL Property & Facilities Management Ltd. He was elected as Director of the Board of SBM Holdings Ltd in June 2015 and is an Independent Non-Executive Director.

#### Other Current Appointments

Mr. Hardy is on the Board of Palmar Ltée, Mon Loisir Ltée and SBM Bank (Seychelles) Limited.

#### Board Committee Membership

Audit Committee (Member), Corporate Governance and Conduct Review Committee (Member), Nomination & Remuneration Committee (Member), Steering Committee on Seychelles (Member), Strategy Committee (Member)

## Profile of the Board of Directors of SBM Holdings Ltd (cont'd)



### Mr. Vidianand LUTCHMEEPARSAD

#### Skills and Experience

Mr. Lutchmeeparsad holds a Master in Business Administration from the University of Mauritius and also holds post graduate qualifications from universities in India and Australia. He has gathered diverse experience in various fields such as Total Quality Management, Management of Change, Implementation of ISO 9000, Organisational structures and strategic management amongst others. Mr Lutchmeeparsad has chaired the Project Plan Committee which has the mandate to examine the feasibility of Capital Projects which are thereafter included in the Public Sector Investment Programme. Besides, Mr. Lutchmeeparsad has been involved in socio cultural activities since the last 15 years.

Mr. Lutchmeeparsad is currently the Permanent Secretary of the Ministry of Finance and Economic Development. He has a long experience in Government Administration from 1988 to date. Initially he has worked on the Public Sector Management Improvement Programme along with Price Waterhouse

(International). He was elected as Director of the Board of SBM Holdings Ltd in June 2015 and is a Non-Executive Director. Mr Lutchmeeparsad is known for his wisdom and knowledge in a number of fields and sectors and for his deep compassion for the less fortunate in Mauritius.

#### Other Current Appointments

Director on the Board of State Investment Corporation Ltd, Landscape (Mauritius) Ltd, NIC Health Care Limited, National Day Celebrations Co Ltd, National Insurance Co Ltd and Mauritius Technologies Holdings Ltd. He is also Chairman of Landscape (Facilities) Ltd.

#### Board Committee Membership

Corporate Governance & Conduct Review Committee (Member), Investment & Credit Committee (Member), Nomination & Remuneration Committee (Member), Regional Expansion Steering Committee (Member), Risk Management Committee (Member), Strategy Committee (Member).



### Mr. Roodesh MUTTYLALL

#### Skills and Experience

Mr Muttylall holds the Chartered Financial Analyst designation and is a Fellow Member of The Association of Chartered Certified Accountants, UK. He is an Associate Member of The Institute of Chartered Secretaries and Administrators, UK and also holds a Master's Degree in Finance from the University of Mauritius.

Mr Muttylall is currently the Chief Finance Executive of a Group operating in the hospitality sector. He was formerly the Financial Controller of a Global Business Company and has several years of experience in similar positions in the hotel sector. He worked for SBM Group between 2000 and 2001.

He joined the Board of SBM Holdings Ltd in June 2015 and is an Independent Non-Executive Director.

#### Board Committee Membership

Audit Committee (Member), Corporate Governance & Conduct Review Committee (Chairman), Investment & Credit Committee (Member), Nomination & Remuneration Committee (Member), Regional Expansion Steering Committee (Member).



## Mr. Ramprakash MAUNTTHROOA

### Skills and Experience

Mr Maunthrooa is a Fellow Member of the Institute of Chartered Secretaries and Administrators – UK (FCIS) and a Fellow Member of the Chartered Institute of Transport – UK (FCIT). Mr. Maunthrooa has spent more than two decades in the port sector. Mr Maunthrooa works as Senior Advisor at the Prime Minister's Office (PMO) since January 2015. He was Director General (CEO) of the Mauritius Ports Authority (MPA) up to October 1998. He has also served as Chairman of the MPA from October 2000 to November 2003. Mr Maunthrooa was also the Managing Director of the Board of Investment of Mauritius from July 2010 to August 2011. Mr Maunthrooa joined the Board of SBM Holdings Ltd as Independent Non-Executive Director in June 2015 and with his vast experience in the public sector and methodical work approach, he adds value to the Board of the SBM Holdings Ltd.

### Other Current Appointments

Mr Maunthrooa also serves on the Board of Air Mauritius, the State Insurance Company of Mauritius (SICOM), SBM (NBFC) Holdings Ltd, SBM (Bank) Holdings Ltd and SBM (NFC) Holdings Ltd.

### Board Committee Membership

Corporate Governance & Conduct Review Committee (Member), Investment & Credit Committee (Member), Nomination & Remuneration Committee (Member), Regional Expansion Steering Committee (Member), Risk Management Committee (Member), Steering Committee on Seychelles (Member), Strategy Committee (Member)



## Mr. Subhas THECKA

### Skills and Experience

Mr Thecka is a Fellow of the Association of Chartered Certified Accountants (UK) and a member of the Mauritius Institute of Professional Accountants (MIPA). He is the holder of an MBA from Glasgow Caledonian University in Scotland and is currently a Senior Lecturer at the Charles Telfair Institute.

Appointed to the Board in June 2017 as Independent Non-Executive Director, Mr Thecka is a valuable member of the Board as he contributes with his financial knowledge and expertise and is known for his wisdom and diplomacy. His balance of knowledge in both the financial and marketing fields is very much appreciated at the Board.

### Board Committee Membership

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

# Boards of Directors of our Subsidiaries

## SBM (Bank) Holdings Ltd



**Mr Nayan Koomar BALLAH,  
G.O.S.K.  
Chairman of the Board**

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

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



**Mr Raj DUSSOYE**

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

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

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



**Mr. Ramprakash  
MAUNTHROOA**

Profile on page 029



**Mr Andrew BAINBRIDGE**

Mr. Bainbridge, a British citizen naturalised in Seychelles, is a Fellow Member of the Institute of Directors in Southern Africa and a Fellow of the Institute of Financial Services in the UK. Mr Bainbridge is currently the Group CEO of SBM Holdings Ltd, a position he took up in January 2018. He is also the Chair of the Infrastructure Crisis Facility Debt Pool LLP and the Chair of the Private Infrastructure Development Group. Prior to taking up the role with SBM Holdings Ltd, he was the Group Head, US Supervisory Remediation Programme, the Global Head of Commercial Clients and the Chief Risk Officer for the Western Hemisphere (Africa, India, Middle East, Europe and the Americas) for Standard Chartered Bank. He was earlier the CEO of BMI Bank and previously the Managing Director of Barclays PLC for Africa and Indian Ocean regions. Mr. Bainbridge is Director of SBM (NBFC) Holdings Ltd. He has also been appointed as Director of SBM (Bank) Holdings Ltd on 16 April 2018.

# Profile of the Board of Directors

## SBM Bank (Mauritius) Ltd



**Mr Nayan Koomar BALLAH,  
G.O.S.K. – Chairman of the  
Board**

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**Mr Philip AH-CHUEN**

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

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



**Mr Mahmadally  
BURKUTOOLA**

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

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



**Mr Rajakrishna  
CHELLAPERMAI**

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

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

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



## Profile of the Board of Directors

### SBM Bank (Mauritius) Ltd (cont'd)



**Mr Raj DUSOYE - Chief Executive**

Profile on page 030



**Mr Ishwar Anoopum GAYA**

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

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



**Mr Rishikesh HURDOYAL**

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

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



**Mr Michel Arnaud MOOTHOSAMY**

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

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

## Profile of the Board of Directors

### SBM (NBFC) Holdings Ltd



**Mrs Veronique LIM HOYE YEE**

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

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

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



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

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**Mr Lakshmana LUTCHMENARRAIDOO**

Mr. Lakshmana (Kris) Lutchmenarraido is the Chief Executive of SBM (NBFC) Holdings Ltd since 15 January 2017. He is a seasoned banking professional with over 40 years' experience across the banking and financial services sectors. During the 13 years he spent at SBM, he held various positions across the bank namely Branch Manager, Head of Internal Audit, and Assistant General Manager. He then moved on to occupy the highest positions in various prominent entities such as Mauritius Leasing Company Ltd, Mauritius Post Ltd, Mauritius Post and Cooperative Bank Ltd, La Prudence Mauricienne Assurances Ltée and Mauritius Union Assurance Co. Ltd, where he held the position of Group CEO from January 2011 to December 2014. Subsequently he was appointed as Group Managing Director at Phoenix East Africa Assurance Company Ltd., based in Kenya and supervising operations in Kenya, Tanzania, Uganda and Rwanda, post occupied up till July 2016. Mr. Lutchmenarraido holds a Banking Diploma from FinAfrica Institute, Milan, Italy.



**Mr Ramprakash MAUNTHROOA**

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## Profile of the Board of Directors

### SBM (NBFC) Holdings Ltd (cont'd)



**Mr Andrew BAINBRIDGE**

Profile on page 030



**Mr Thierry HUGNIN**

After qualifying as a Chartered Accountant in England and Wales in 1993, Mr. Huginin worked in investment banking in London with a focus on emerging markets. He later joined Blakeney Management, a London-based investment management firm, investing in public and private equity markets in Africa and the Middle East.

He returned to Mauritius in 2003 as Chief Investment Officer of Ciel Investment, one of the leading industrial and investment groups in the Indian Ocean, to establish their private equity business. In 2008, he co-founded Kibo Capital Partners Ltd.; the firm manages two private equity funds (Kibo I and II) focusing on the growth capital in Eastern and Southern Africa and the islands of Indian Ocean. In 2014, he became the Managing Partner of Kibo Capital Partners Ltd.



**Mr. J P Pierre Marrier  
D'UNIENVILLE**

Mr. J P Pierre Marrier d'Unienville was born in Mauritius in 1969 and educated at the college du St Esprit. He graduated with a Licence in "Sciences économiques" at the University Paul Cezanne in Aix en Provence, France. He then attended and graduated from Institut d'Etudes Politiques de Paris. After working with Ernst & Young in Paris, he returned to Mauritius in 1996.

His first job was as Finance Manager at Phoenix Camp Mineral Ltd, which he left to create the Mauritius branch of South African investment bank, Brait. He ran Brait Mauritius from 1994 to 2004, acting as Investment Banker/advisor on a number of transactions.

In July 2004, Mr. d'Unienville acquired Brait Mauritius, which was then renamed Infinite Corporate Finance Ltd, and he continued to source, advise on and structure acquisitions and disposals, as Infinite remained active on the mergers and acquisitions market.

In December 2007, Infinite acquired Le Warehouse Ltd from IBL, and Mr. Marrier d'Unienville started personally running the company, Infinite's major investment, from January 2009.



**Mr Roshan Ramoly**

Mr. Ramoly has worked in the financial services and banking industry for more than 12 years at senior managerial levels. Before branching out into the financial services industry, he started his career as a Management Consultant with KPMG and DCDM Consulting.

Mr. Ramoly has worked for 10 years with the Cim Group, where he ended as the Managing Director of Cim Stockbrokers, the largest stockbroking firm in Mauritius, while simultaneously being the Chief Executive Marketing, Communications and CSR for group.

Mr. Ramoly joined Barclays Bank Mauritius from 2012 to 2014 as Head of Strategy, Marketing, Communications, Citizenship and Events. During his tenure at Barclays, he was also responsible for Customer Experience for more than a year.

Currently he is the Director of LinearArc Solutions that offers consultancy and training services in Customer Experience for the financial services sector.

# Profile of the Board of Directors

## Banque SBM Madagascar SA



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

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**Mr Raj DUSOYE**

Profile on page 030



**Mr Jean Marc ULCOQ**

Jean Marc is an acknowledged, result-oriented leader with proven success and extensive experience in finance issues, compliance and planning of strategies in Mauritius and the Indian Ocean region, managing both at Operational/Financial as well as at directorship level of many companies, including listed companies in Mauritius, South Africa, Madagascar, Reunion and Mayotte. Over the years he has developed strong leadership, communication and organisational skills throughout various investment projects.

Jean Marc was actively involved in the task team set up by the Government of Mauritius, for the framing of the Code of Governance for Listed Companies in Mauritius. Acquired expertise in ensuring government compliance within the organisation. He is a Fellow Member of the Association of Chartered Certified Accountants (UK), and Fellow Member of the Mauritius Institute of Directors

# Profile of the Board of Directors

## Banque SBM Madagascar SA



**Mr Leckram DAWONAUTH**

Leckram holds a Master in Banking and Finance for Development – Finafrica, in association with Bocconi University and University of Milan, Italy and has been an experienced banker for many years. He has been a Board Member of Banque SBM Madagascar from July 2015. Leckram's career has involved International Consulting working, among others, for the United Nations FAO (Food and Agriculture Organization – Investment Centre, [www.fao.org](http://www.fao.org)) and IFAD (International Fund for Agricultural Development, [www.ifad.org](http://www.ifad.org)). Full time staff member with FAO. He was the Chief Executive of Banque SBM Madagascar, from October 2012 to June 2015.

He is known for his expertise in finance structuring and all aspects of banking.



**Mr Damase ANDRIAMANOHISOA**

Born in Madagascar, Mr Andriamanohisoa holds diplomas in Education and Banking. He is a lecturer in Management, Law and Finance. Mr Andriamanohisoa is an experienced director. He sits on the boards of several companies and of the Syndicat des Industries de Madagascar.

Since April 2015, Mr Andriamanohisoa is the General Manager of Societe d'Importation et de Matériels Automobiles. He is member of the Steering Committee of the Fonds de Garantie Partielle de Portefeuille since 2014. From May 2009 to February 2014, he was the Chairman of the board of directors of BNICA. He was also: Member of the Steering Committee of Groupe Fraise since March 2006; Financial advisor to TALOUMIS Group since March 2006; Consultant-Manager of consulting firm DMS-CONSULTING since March 2006; and Secretary General, Head of Large Companies, Head of Working Capital Credit to Enterprises, Deputy Head of the Investment Credit department, Consultant for financing of investments and Credit Manager at BNI.

## Profile of the Board of Directors

### SBM Bank (Kenya) Limited



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

Profile on page 026



**Mr Raj DUSSOYE**

Profile on page 030



**Mr. Azim Fakhruddin CURRIMJEE**

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# Profile of the Board of Directors

## SBM Bank (Kenya) Limited (cont'd)



**Mr. Medha GUNPUTH**

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**Mr Nayan Koomar BALLAH,  
G.O.S.K.**

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**Mr Sharad RAO**

Mr Rao is an advocate at law who was called to the Bar in 1959. Formerly the Director of Public Prosecutions of Kenya, and Chairman of the Judges and Magistrates Vetting Board, he has enjoyed a distinguished career in both Uganda and in Kenya where he has handled a number of high profile civil and criminal cases.

Mr Rao has served on several commercial and sporting federations and committees including those set up by the Olympics Committee.

He remains very active in society both legally and philanthropically. In 2016 he was awarded the prestigious Kenyan Presidential award of `Elder of the Burning Spear - EBS, for outstanding and distinguished services to the nation`.



**Mr James Boyd MCFIE**

James McFie is a highly respected academic. Educated at Balliol College, Oxford University, he is currently the Director of the School of Accountancy, Strathmore University. He is also the chairman of two listed companies namely Sasini Limited and Centum Limited and has previously served on the boards of the Kenyan Capital Markets Authority and the Standard Media Group Limited amongst others. Mr McFie has also published a number of papers and presented at high level international seminars organized by the World Bank and IOSCO.

He was awarded the Moran of the Burning Spear by the President of Kenya in 2007 for his contribution to educational research and national development.



**Mrs Flora W. MUTAHI**

Flora Mutahi is the founder and CEO of Melvin Marsh International Ltd. She is a seasoned entrepreneur having worked in both the public and private sectors and has extensive local and international experience in strategic leadership, business development, market penetration and marketing. She currently serves on the boards of the Kenya Association of Manufacturers, COMESA Business Council and Jubilee Kenya Ltd.



**Mr Jotham Mutoka**

Jotham Mutoka joined SBM group from East African Development Bank (EADB) where he was Country Manager for Kenya. He brings on board a wealth of experience in business development and relationship management having worked with several financial institutions in the region. Before joining EADB, he was the Regional Head of corporate business development for East Africa with Bank of Africa Group, in charge of Kenya, Uganda, Tanzania, Burundi and Djibouti. He also worked as Head of Business Development at Bank of Africa Kenya, and Head of Corporate Banking with the same institution.

He started his banking career at Citibank NA Nairobi in 1996 as a management trainee and worked with the institution for three years before joining Credit Agricole Indosuez in 1999, where he was a corporate relationship manager.

He holds a post graduate degree in business management (MBA - Finance) from University of Nairobi and a Bachelor of Commerce degree (Banking and Finance) from Kenyatta University.



# Strategy Report



**SHAILEN SREEKEESSOON**  
**Head of Strategy and Research**  
SBM Holdings Ltd

## Letter from Head of Strategy and Research

Dear Shareholders,  
Reading this report thus far, you may already have noticed a change in the way we are reporting. We are using transparency and heightened compliance in our reporting as a key part of our governance strategy. It is the responsibility of the Board to derive the strategy of the organisation that will deliver both sustainability and shareholder value in a way that is responsible.

Here at SBM, the Board works in close partnership with the Chief Executives, the Senior Management team, the Strategy Team and external consultants like McKinsey to make sure that we get this right. The results, we hope, will speak for themselves.

We had set out twin objectives of at least doubling our asset size between 2015 and 2020, and maintaining a top tier return on equity. Two years down the line, the asset book has grown by 42.49%, which positions us nicely to achieve the asset growth objective. At 10.52%, the average return on equity remains in the top quartile of banks in Mauritius. But we are confident that we can increase it further as our strategy continues to unfold in a disciplined manner.

Some of the initiatives are already showing in the results. For instance, cross-border business has expanded significantly, contributing a large share in asset and profit growth. Similarly, the contribution of the non-banking financial cluster has improved on the back of investment banking deals. We expect that the cross-border and non-banking financial businesses will continue to be drivers of business growth.

On the other hand, other initiatives will take more time to make a meaningful impact on the financials. These include our overseas expansion initiatives and our wealth management business. In parallel, enabling initiatives covering human capital, organisation and governance, risk management, and technology are initially adding to costs, but are increasingly expected to support business growth and sustainability going forward.

Overall, we have made good progress in 2017 and we start 2018 in a better position than we have been for several years. While we recognise that there is much more to achieve, we have every reason to feel positive about our prospects. However, we will not be able to generate sustainable returns unless we act at all times with good values and remain focused on best governance practices.

I am very pleased to present this strategy report for the year 2017. I would like to thank the Board, the Senior Management Team and my colleagues in the Strategy and Research department for their collaboration and I wish you all a successful 2018.

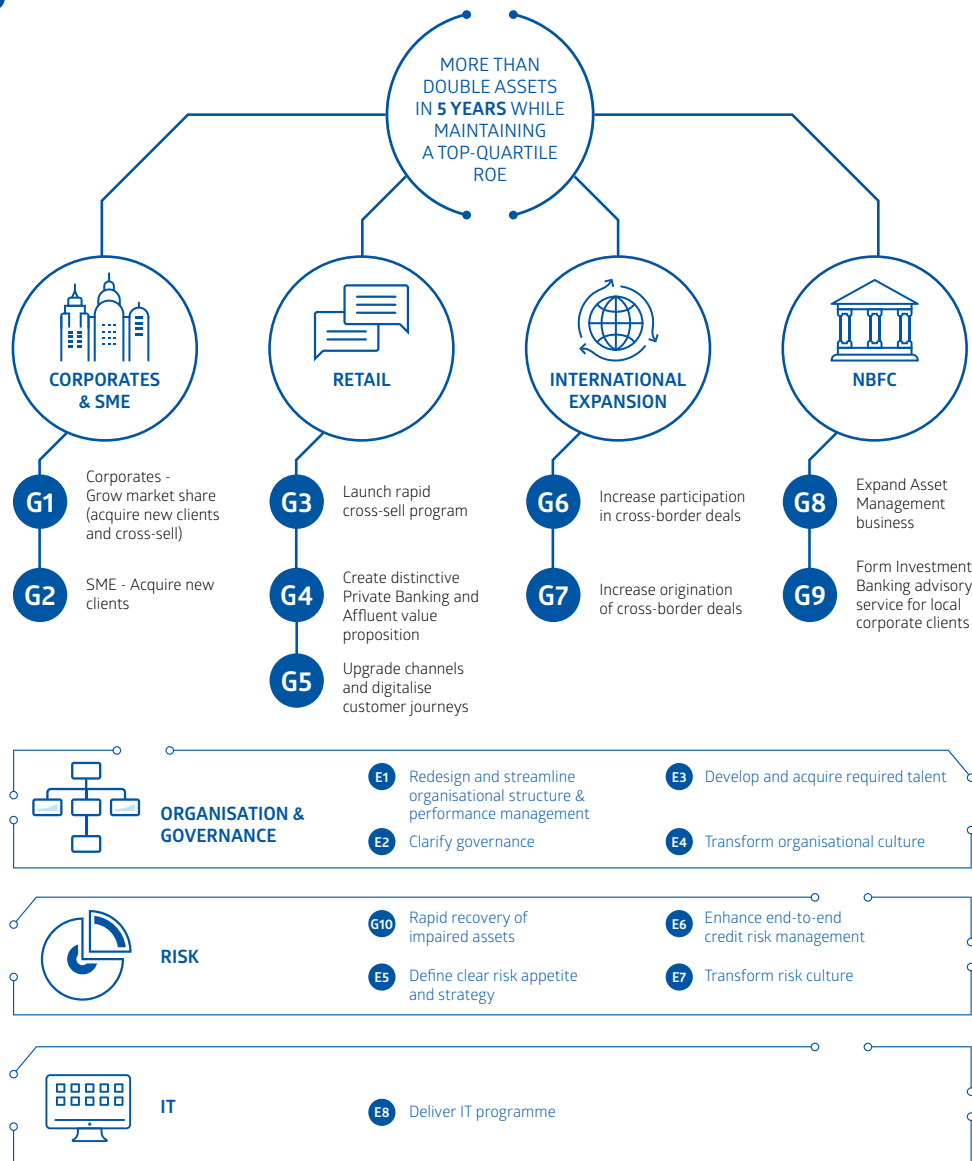
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Overall, we have made good progress in 2017 and we start 2018 in a better position than we have been for several years.”

# Strategic Focus Areas

SBM Group has adopted a growth strategy with focus on 10 priority growth initiatives (G1 to G10) and 8 key enablers (E1 to E8) under the following five themes:

1. Consolidation – expanding the Group's banking business in Mauritius by enhancing its product offering and service quality, acquiring new customers and increasing the share of wallet of customers within the Bank [G1, G2 and G3]
2. Diversification – enriching the client offer with a suite of investment and advisory solutions, mostly through the Mauritius non-banking cluster, and establishing a solid high net worth proposition [G4, G8 and G9]
3. Regionalisation – growing the Group's business beyond Mauritian borders, with increased participation in and origination of cross-border deals [G6 and G7]. In addition, SBM is investing toward the establishment of a strong footprint in continental Africa while laying the foundation for a better access to the Indian market.
4. Modernisation – leveraging the recently implemented IT platform to modernise the product offering, the channels of service delivery and the customer experience while simultaneously optimising the cost to serve [G5 and E8].
5. Capacity Building – building capacity to provide a solid base to support the growth agenda of the Group, notably in the areas of organisation and governance, human capital, risk management, and technology [E1-E8, G10]



## Consolidation initiatives

During 2017, the Group's corporate banking market share increased from 18.7% in December 2016 to 20.2% in December 2017, in line with the G1 and G2 growth initiatives related to the Group's corporate banking and SME businesses. Additionally, with the launch of SBM Microfinance and the setting up of dedicated SME desks in branches, the revamped SME coverage model contributed largely to the Group's improved market share in corporate banking. In 2018, the Group has the objective of increasing the corporate banking market share and fee-based income by improving sales process efficiency and by moving up the value chain through structured financing and advisory services.

Synergy across the Group was also improved by the initiation of a cross-selling initiative and a customer referral model between the banking and non-banking arms of the Group. In 2018, with staff getting more acquainted with the cross-selling and customer referral initiatives, cooperation between the banking and non-banking business lines will improve for the benefit of our customers who will be offered a wider range of financial solutions. This should contribute positively toward new client acquisition and existing client retention.

## Diversification

With the bulk of its income currently being generated from the Mauritian banking sector, the Group places diversification as one of its top priorities so as to consolidate the revenue base. With the launch of SBM Factors, the Group added another range of products to its current portfolio and it now offers a more comprehensive value proposition to its clients. In addition, the Group's diversification strategy was reinforced through enhanced collaboration between SBM Private

Wealth, the wealth management arm of the group, and the non-banking cluster with a view to offering adapted financial solutions to HNW clients.

The performance of the non-banking cluster of the Group was strengthened with SBM Capital Markets Ltd receiving its investment banking license in May 2017. The non-banking cluster positively contributed to the Group's revenue with the management of a Bond Issue of MUR 1.5 billion for a local corporate and the issuance of structured products such as the Ghana Coco Bond. But the landmark achievement was the placement of AFREXIMBANK's USD 165 M depository receipts, the highest ever capital raised on the Mauritius Stock Exchange. SBM Securities Ltd acted as the lead broker on the placement of the depository receipts and was rewarded by winning the 'Best Stockbroker – Indian Ocean 2017' awarded by Capital Finance International (CFI).

The Group will continue its diversification strategy in 2018 by expanding its asset management business and by increasing non-funded income through the further development of its investment banking advisory service.

## Regionalisation

In view of a maturing domestic market, the growth strategy of the Group places much emphasis on expanding its international business both through the increased participation in and origination of cross-border deals. In 2017, the organisational structure of the Bank's International Division was revamped with the current portfolio of clients being distributed according to geography. Moreover, efforts were stepped up to accommodate different time zones in a bid to better service international clients.

In 2018, the Group will continue developing its Segment B portfolio by increasing visibility through roadshows and stronger marketing efforts.

Regarding the regional expansion strategy, the Group acquired Fidelity Commercial Bank Ltd in Kenya, which was subsequently renamed SBM Bank (Kenya) Limited. This is SBM's first foot fall in continental Africa. Additionally, SBM's international presence was further strengthened through the opening of a 5<sup>th</sup> branch in Madagascar. Another milestone was reached with the award of the Wholly Owned Subsidiary (WOS) license to SBM Bank (India) Limited by the Reserve Bank of India (RBI), which will provide more leeway to the Group in expanding its operations in the fast growing Indian market, with due consideration to prudent risk management.

In 2018, subject to deal realisation, the Group will continue to expand its operations across continental Africa through the proposed acquisition of carved out assets and liabilities of Chase Bank (Kenya) Limited (In Receivership). Furthermore, the Group intends to review and right-size under-performing branches and representative offices.

## Modernisation

In line with the digital banking strategy of the Group, several services were launched in 2017, including online loan applications – a first in Mauritius - and SBM Now, which allows customers to access a range of SBM products and services within an hour. The products and services included in the SBM Now offering are:

- Instant Debit Card and PIN Issuance
- Activation of the Top-Up service
- Internet Banking
- Automatic Registration of SBM Billpay/Orange Money on customers' demand
- Mobile Banking Application

## Strategic Focus Areas (cont'd)

The Group's new website, designed with our customers in mind, was launched in 2017. It offers a modern user interface, streamlined menus, and intuitive navigation, with accessibility and responsiveness on all devices. Moreover, the Group's commitment to digital banking was further upheld with the introduction of digital signature pads in branches and a campaign to encourage the adoption of paperless statements.

In 2018, the Group will further develop its modernisation strategy with increased focus on the migration of clients toward digital channels. Moreover, it will build on the partnership created in 2017 with Ant Financial, a sister company of Alibaba, to expand the use of Alipay, Alibaba's financial and lifestyle platform, in the region.

### Capacity Building

The Group's governance structure is being reviewed in line with the strategy. A Group Executive Forum has been set up to monitor strategic initiatives and performance against strategy whilst addressing cross-entity issues. In January 2018, a seasoned Group CEO was appointed with the objective of enhancing the synergy between the banking and non-banking clusters and to drive the Group's regional expansion strategy.

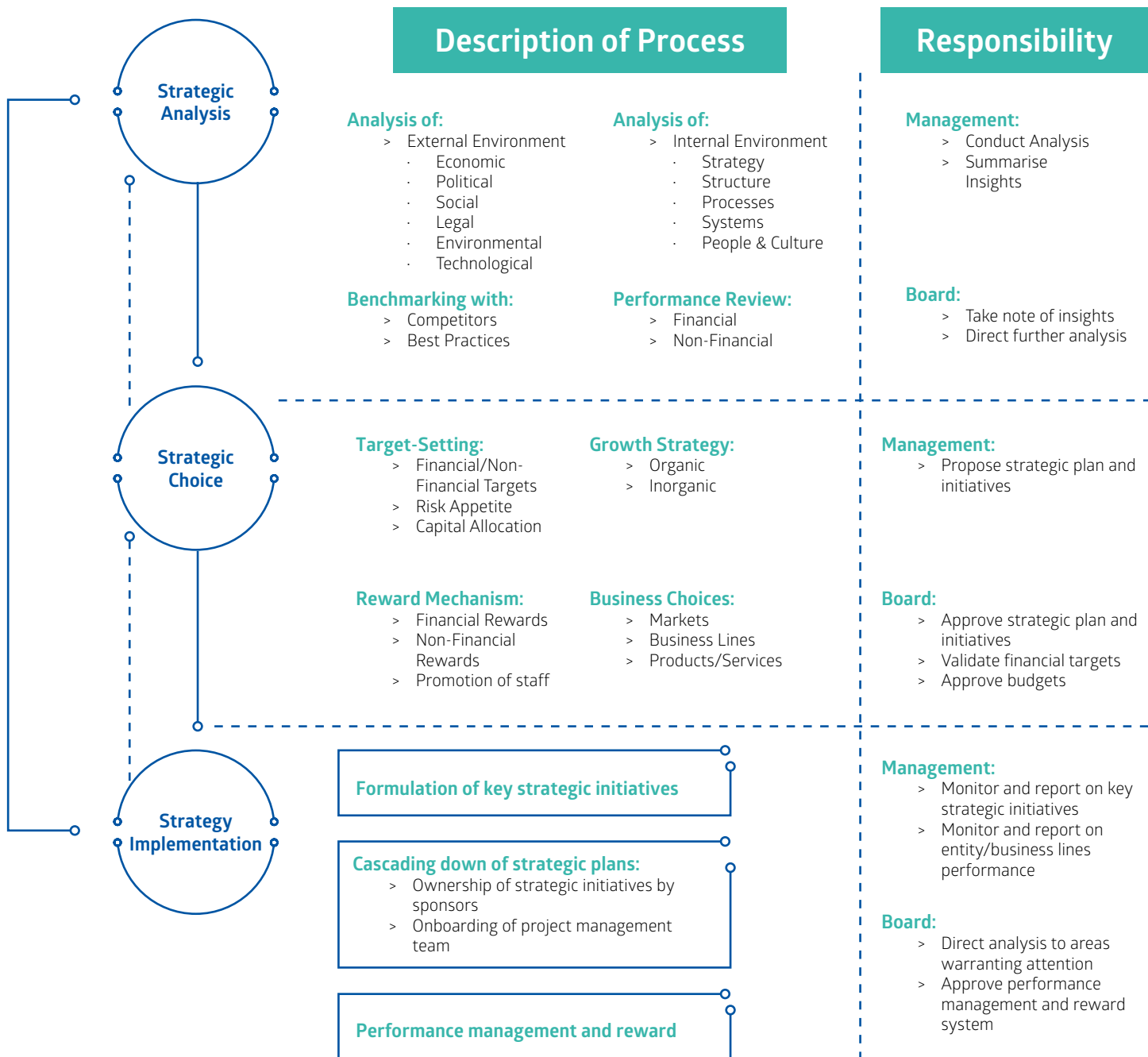
With the objective of acquiring, developing and retaining talent, a number of initiatives were undertaken in 2017, including: a job evaluation and grading exercise which will allow the redesign and streamlining of the organisational structure, gradual replacement of fixed term employee contracts by permanent work contracts, and the creation of a training academy. Additionally, a staff engagement survey was carried out in 2017 to better understand and tackle our employees' needs and to enhance staff welfare. The survey will become a recurring

exercise, and the evolution of the engagement score will be tracked as part of the performance management system for the leadership team.

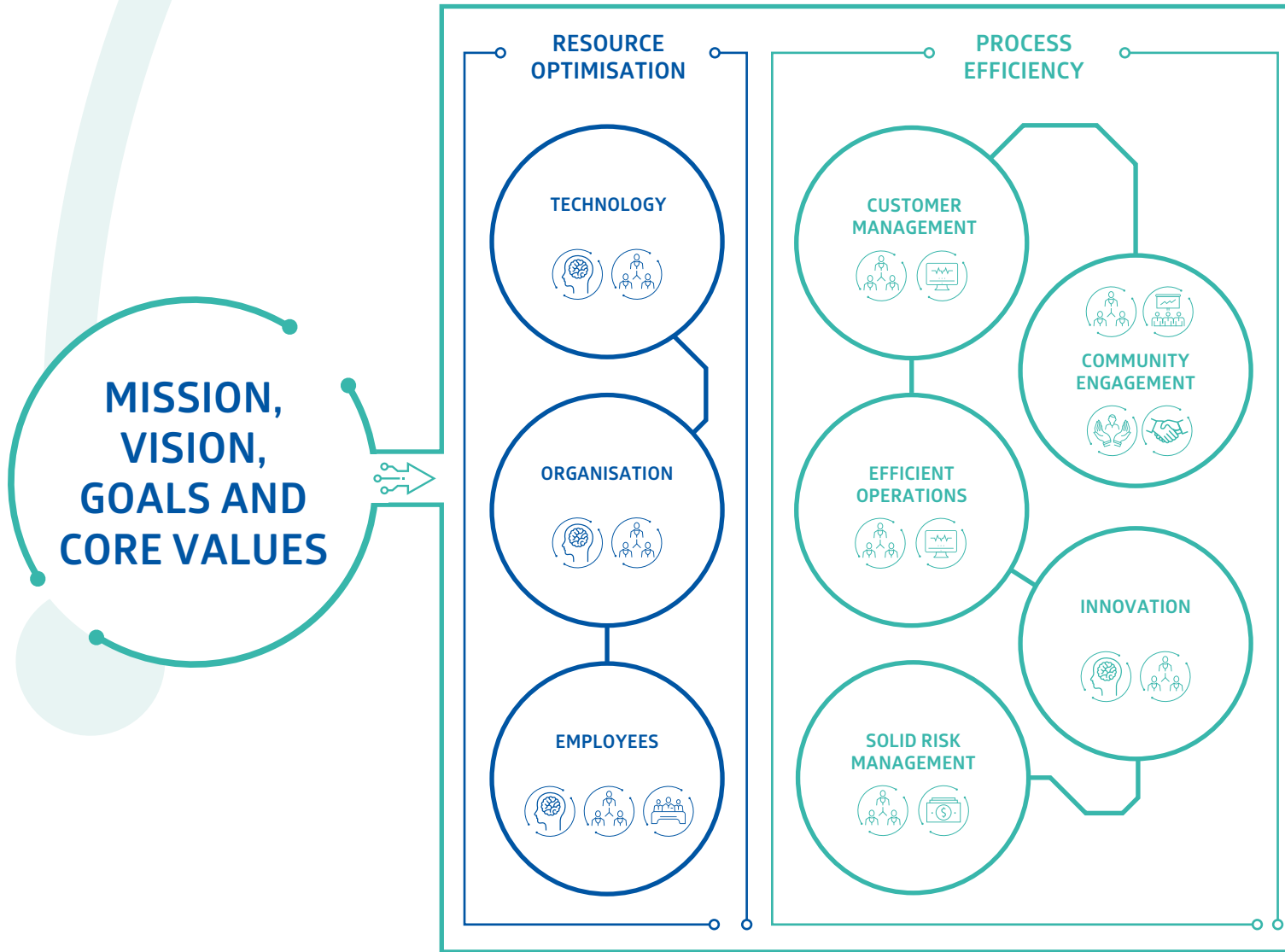
On the risk front, a risk control self-assessment exercise (RCSA) was carried out in order to identify risk areas, and plan mitigating actions accordingly. Going forward, several initiatives are planned to further consolidate the risk management framework. These include a review of the end-to-end credit risk management process and a review of the risk appetite reflecting projected changes in the exposure profile in line with the expansion strategy.

### The Strategy Process

The Board of Directors is involved in establishing the strategic framework for the organisation, in setting the overall strategic direction, and in monitoring progress toward strategic goals. The above is achieved via regular Board meetings, regular Board committee meetings and an annual strategy/planning retreat. The Strategy Process is described on the next page. The Board of Directors has taken an active part in driving the strategy and the strategic initiatives, and in monitoring performance against the strategy. In 2018, the process will be further enhanced, with broader involvement of boards of different entities, among others.



# Our Strategic Model of Sustainable Value Creation



**EXTERNAL FACTORS**

ECONOMIC  
AND FINANCIAL  
CONDITIONS

LAWS AND  
REGULATIONS

CHANGING  
CONSUMER  
BEHAVIOUR

COMPETITION

**CUSTOMER  
ADVOCACY**

**CUSTOMER  
VALUE  
PROPOSITION**



**BRAND  
ENHANCEMENT**



**GLOBAL  
NETWORK  
LEVERAGE**



**ROBUST PROFIT  
MODEL**

**PRODUCTIVITY  
ENHANCEMENT**



**BUSINESS  
GROWTH**



COMMUNITY



INVESTORS

OUR VALUE  
CREATION

**MUR**  
**5.4** BN



REINVESTMENT



EMPLOYEES



REGULATORS





“

ALL ORGANISATIONS  
SHOULD BE HEADED  
BY AN EFFECTIVE BOARD.

RESPONSIBILITIES AND  
ACCOUNTABILITIES WITHIN  
THE ORGANISATION  
SHOULD BE CLEARLY  
IDENTIFIED.

”

# CORPORATE GOVERNANCE REPORT

- › Principle One: Governance Structure
- › Principle Two: The Board & Committees
- › Principle Three: Directors' Appointment Procedures
- › Principle Four: Directors' Duties, Remuneration & Performance
- › Principle Five: Risk Governance & Internal Control
- › Principle Six: Reporting with Integrity
- › Principle Seven: Audit
- › Principle Eight: Stakeholder Relations

# Corporate Governance Report

Dear Shareholders and Valued Partners,

I am very proud to present to you this report on Corporate Governance for the financial year 2017.

All the Directors of SBM Holdings Ltd and the Directors who sit on the Boards of our subsidiaries are skilled, knowledgeable and experienced professionals, carefully selected to be highly effective in the governance of our organisation. We assume full responsibility for leading and controlling the organisation and for meeting, to the best of our knowledge, all requirements laid down by law both in the Republic of Mauritius and in other countries and jurisdictions where we are present.

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

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

On behalf of the Committee,

Mr. Roodesh Muttylall

Chairman of the Corporate Governance & Conduct Review Committee

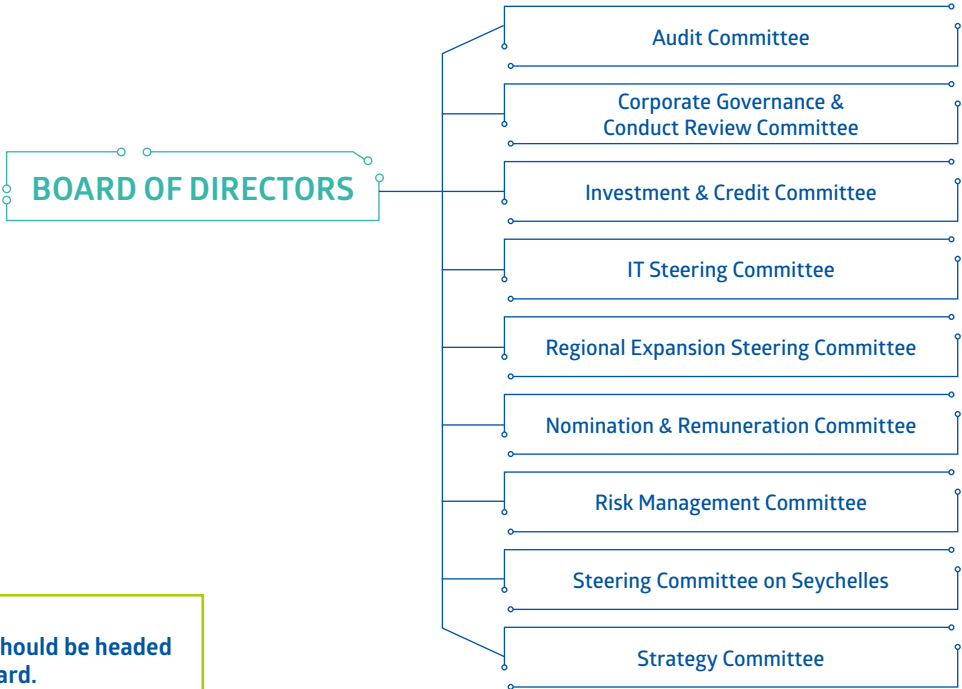
# Principle ONE - Governance Structure

The Board takes its fiduciary responsibilities very carefully. Each Director is appointed with the understanding of the amount of time and care that they will need to devote to the Board and to the organisation in order for it to prosper. The Board has approved all the key guiding documents and policies and affirms each key governance role.

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

- Code of Ethics
- Board Charter
- Organisation chart

*These documents have been drafted with the skills, knowledge and expertise of the Board who have not only been fully involved but have unanimously approved these important documents and seek to adhere to them by spirit and by letter. These documents as well as Board policies are reviewed and updated if necessary at least annually.*



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



“

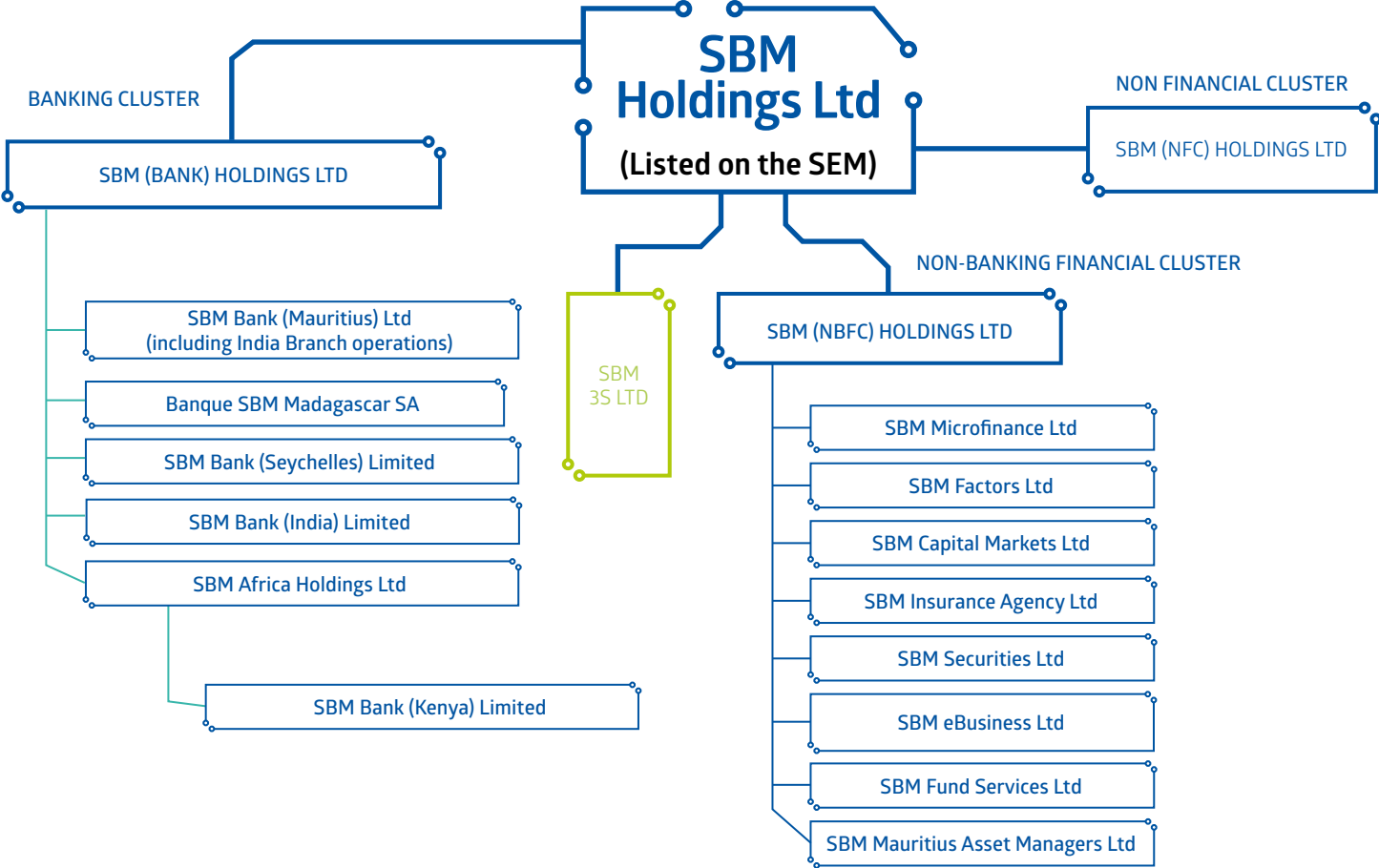
As a public interest entity, the Board of Directors has made a concerted effort to be an example and to become full adopters of the new National Code of Corporate Governance in its belief that good governance is not simply a matter of compliance but also a lever for growth and sustainability. ”

# Corporate Governance Report (cont'd)

## Key Governance Responsibilities

The Board takes particular note of the following key governance positions which are critical to the Board's performance against its strategy and achievement of a high level of good governance. The Board has approved all of the key governance positions within the organisation and the corresponding accountabilities that are matched with these key positions.

The Group's organisation structure is currently under review in a bid to enhance Group synergy and reinforce controls, while adhering to regulatory requirements. The organigram will be derived from the Group structure, which is depicted below:





Note:

**SBM (Bank) Holdings Ltd holds:**

- 99.99% share in SBM Bank (India) Limited
- 99.90% share in SBM Bank (Seychelles) Limited (0.10% held by SBM Holdings Ltd)
- 99.99% share in Banque SBM Madagascar SA

**SBM Africa Holdings Ltd holds:**

- 99.80% share in SBM Bank (Kenya) Limited

**Other shareholders of Banque SBM Madagascar SA are:**

- SBM Securities Ltd, SBM Fund Services Ltd & SBM Mauritius Asset Managers Ltd hold 1 share each (Total of 0.01%) in Banque SBM Madagascar SA

**Other shareholders of SBM Bank (Kenya) Limited are:**

- SBM Overseas One Ltd, SBM Overseas Two Ltd, SBM Overseas Three Ltd & SBM Overseas Four Ltd hold 1 share each (Total of 0.2%) in SBM Bank (Kenya) Limited

**In process of winding up:**

- SBM Madagascar Ltd (Banking Cluster)
- SBM Capital Management Ltd (Non-Banking Financial Cluster)
- SBM Custody Services Ltd (Non-Banking Financial Cluster)

**Representative office and in process of closing:**

- SBM Bank Rep. Office, Yangon Myanmar

**SBM Bank (India) Limited**

- The amalgamation is in progress. SBM Bank (India) Limited received the final banking licence on 06 December 2017 to commence banking in India through wholly owned subsidiary mode
- As per RBI, SBM Bank (India) Limited is required to have 7 shareholders
- SBM (Bank) Holdings Ltd holds the majority of the shares: 499,999,994 (99.99%)
- \*SBM Overseas One Ltd, SBM Overseas Two Ltd, SBM Overseas Three Ltd, SBM Overseas Four Ltd, SBM Overseas Five Ltd & SBM Overseas Six Ltd hold 1 share each (Total of 0.01%) in SBM Bank (India) Limited

*[\*These non-operating, Special Purpose Vehicle (SPV) were incorporated in June 2016 in order to satisfy regulatory shareholding requirements for setting up banking entities overseas]*

# Corporate Governance Report (cont'd)

## Key Governance Positions

### Chairman of the Board

The key responsibilities of the Chairman of the Board are as follows:

- To provide leadership to the Board to ensure it functions effectively.  
The Board believes that it is in the best interests of all stakeholders for the Board to have the flexibility to determine the most qualified and appropriate individual to serve as Chairman of the Board and to ensure that the candidate is an Independent Director;
- To plan the Board's annual schedule of meetings and agendas, in consultation with the Group Chief Executive Officer, Company Secretary and other Directors as appropriate;
- To coordinate with the Company Secretary to ensure that the Board receives the appropriate quantity and quality of information in a timely manner to enable it to make informed decisions;
- To chair all meetings of the Board and ensure that meetings are conducted efficiently and effectively;
- To call special meetings, where required;
- To facilitate full and candid Board discussions, ensure all Directors exercise their skills, knowledge and expertise on key Board matters and assist the Board in achieving a consensus;
- To develop teamwork and a cohesive Board culture and facilitate formal and informal communication with and among Directors;
- To help ensure that action items established by the Board are tracked with the assistance of the Company Secretary and appropriate follow-up action is taken as necessary;
- To make recommendations to the Nomination & Remuneration Committee and Corporate Governance & Conduct Review Committee as to Committee membership and Committee Chairs, for approval by the Board;
- To work with Committees' chairs to ensure that each Committee functions effectively and keeps the Board apprised of actions taken;
- To be authorised to attend all Committee meetings, as appropriate;
- To chair annual and special meetings of shareholders;
- To collaborate with the Nomination & Remuneration Committee in identifying and recruiting new Board Members;
- To collaborate with the Nomination & Remuneration Committee and Corporate Governance & Conduct Review Committee on the performance and structure of the Board of Directors and its Committees, including the performance of individual Directors;
- To ensure that an annual Board evaluation exercise is carried out; and
- To maintain a close working relationship with the Group Chief Executive Officer and other key senior staff.

Mr Kee Chong LI KWONG WING, *G.O.S.K* is the Chairman of the Board and a brief profile is found on page 26.

### Group Chief Executive Officer

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

The key responsibilities of the GCEO are as follows:

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

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

Mr Andrew Bainbridge is the Group Chief Executive Officer of SBM Holdings Ltd and a brief profile is found on page 30.

### Chairman of the Risk Management Committee

The Chairman of the Risk Management Committee works in close cooperation with and provides support and advice to the Chairman of the Board. He has the following responsibilities:

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

The Chairman of the Risk Management Committee of SBM Holdings Ltd is Mr Azim Currimjee and a brief profile is found on page 27.

### Chairman of the Corporate Governance & Conduct Review Committee

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

- To provide expertise in the areas of corporate governance;
- To ensure the Board is up to standard with global and national good governance standards;
- To ensure that an update of each Corporate Governance & Conduct Review Committee meeting is presented to the Board;
- To ensure that the Board receives regular and ongoing training and development;
- To ensure that the policies around conduct and ethical standards are regularly upheld and transparency adhered to by the Board and Senior Management;

- To oversee the production of the Group's Annual Report each year; and
- To ensure that an independent evaluation is carried out each year and that the recommendations from that evaluation are implemented.

The Chairman of the Corporate Governance & Conduct Review Committee of SBM Holdings Ltd is Mr Roodesh Muttylall and a brief profile is found on page 28.

## Other Key Governance Positions

### Group Chief Financial Officer

Reporting to the GCEO, the responsibilities of the Group Chief Financial Officer (GCFO) are as follows:

- To proactively manage cash flows in a leveraged environment;
- To manage financial capital;
- To communicate capital requirements/implications of business decisions to GCEO and Board of Directors;
- To conduct meaningful proactive analysis to improve key business decisions focusing on management of working capital;
- To grow equity value – increase gross profit and reduce debt;
- To ensure efficient deployment of capital expenditures;
- To define the financial strategy with direction from the Board;
- To provide useful financial insights to help make informed decisions about formulating and executing business strategy;
- To establish internal control processes required to manage and grow the business;
- To anticipate and correct problems in advance;
- To drive the annual budget process and the monthly reporting;
- To effectively lead the finance / accounting team by hiring and retaining top-grade talent;
- To mentor and develop the team by managing work allocation, training, problem resolution, performance evaluation, and the building of an effective team dynamic;
- To develop and coach existing team and proactively replace underperformers as needed;
- To expand financial reporting systems to determine daily and weekly gross profit estimates;
- To drive effective internal and external communication interactions;
- To effectively manage sponsor, bank, Board of Directors and financial advisor relationships;
- To carry out the fiduciary duties of the CFO position;
- To lead the financial evaluation of mergers and acquisitions proposals;
- To develop and maintain systems of internal controls to safeguard financial assets of the Group;
- To structure, negotiate, and finalise purchase agreements;
- To lead systems integration efforts.

The Group is in process of appointing a GCFO.

# Corporate Governance Report (cont'd)



## Our Senior Management Team

### i) Mr Andrew Bainbridge

#### Group Chief Executive Officer

Andrew, a British citizen naturalised in Seychelles, is a Fellow Member of the Institute of Directors in Southern Africa and a Fellow of the Institute of Financial Services in the UK. Mr. Bainbridge is currently the GCEO of SBM Holdings Ltd, a position he took up in January 2018. He is also the Chair of the Infrastructure Crisis Facility Debt Pool LLP and the Chair of the Private Infrastructure Development Group. Prior to taking up the role with SBM Holdings Ltd, Andrew was the Group Head, US Supervisory Remediation Programme, the Global Head of Commercial Clients and the Chief Risk Officer for the Western Hemisphere (Africa, India, Middle East, Europe and the Americas) for Standard Chartered Bank. He was earlier the CEO of BMI Bank and previously the Managing Director of Barclays PLC for Africa and Indian Ocean regions. Mr. Bainbridge is Director of SBM (NBFC) Holdings Ltd. He has also been appointed as Director of SBM (Bank) Holdings Ltd on 16 April 2018.



### ii) Mr Shailendrasingh Sreekeessoon (Shailen)

#### Head of Strategy and Research

Shailen is a banking strategy professional with strong drive and proven track record of fostering positive change and driving performance against strategy. He has a solid background in strategy and analysis in the banking sector underscored by his solid foundation in economics, finance and accounting.

Shailen holds a BSc in Economics, with first class honours, and an MSc in Finance and Economics from the London School of Economics and Political Science. He is also a Fellow Member of the Association of Chartered Certified Accountants (FCCA) and his responsibilities include:

- To drive strategy analysis, formulation, implementation and review
- To conduct country, sector and company research, and investment analysis
- To drive external publications (annual report, SBM Insights, investor presentations)
- To manage external stakeholders (ratings agencies, analysts and investors)
- To support in capital planning and fund raising
- To support in product development, business diversification and geographic expansion
- To support innovation and change management

He is a Director of the following entities across SBM Group namely: SBM Overseas One Ltd, SBM Overseas Two Ltd, SBM Overseas Three Ltd, SBM Overseas Four Ltd, SBM Overseas Five Ltd, SBM Overseas Six Ltd and SBM Microfinance Ltd.



### iii) Mr Kabir Singh Baboolall (Kavi)

#### Head of Project Implementation & Capital Management

Kavi is a finance professional with a career spanning almost 15 years. He is a Fellow Member of the Institute of Chartered Accountants in England and Wales (FCA) and holds a BSc in Accounting and Finance from the University of Warwick, UK. He is currently the Head of Project Implementation & Capital Management for SBM Holdings Ltd and has been seconded as interim Chief Finance Officer for SBM Bank (Mauritius) Ltd since September 2017. He has gained extensive exposure in the UK investment banking sector with HSBC and has run his own company advising/managing projects for 2 European investment banks, the Royal Bank of Scotland and UBS before relocating to Mauritius. He is a Director of the following entities across SBM Group namely: SBM Factors Ltd, SBM Overseas One Ltd, SBM Overseas Two Ltd, SBM Overseas Three Ltd, SBM Overseas Four Ltd, SBM Overseas Five Ltd and SBM Overseas Six Ltd.



### (iv) Mr Sivakrisna Goinden (Kovi)

#### Team Leader Finance

Kovi is a finance professional with more than 15 years of experience in the accounting field out of which nearly 11 years have been spent in the banking sector. He is a Fellow Member of the Association of Chartered Certified Accountants (FCCA) and holds a Post Graduate Diploma in Business Administration from the Herriot Watt University, UK. He is currently responsible for the finance and procurement function of SBM Holdings Ltd, SBM (Bank) Holdings Ltd and SBM (NFC) Holdings Ltd and seconded to SBM Bank (Mauritius) Ltd. He is also highly involved in SBM Bank (Kenya) Limited and, with his financial/banking background, his involvement in expansion strategy and projects of the Group has been vital.

# Corporate Governance Report (cont'd)

## Principle TWO - The Structure of the Board and Its Committees

The Board of SBM Holdings Ltd has attempted to create the right balance and composition in such a way as to best serve the organisation. The Board is appropriately constituted and has an appropriate mix of experience, diversity and all Directors wholly endorse the belief in diversity which is expressed both in the Board Charter and in the Code of Ethics. The Board is a unitary Board and presently comprises eight Non-Executive Directors of which six are Independent Non-Executive Directors. The Board is led by Mr Kee Chong LI KWONG WING, *G.O.S.K.*

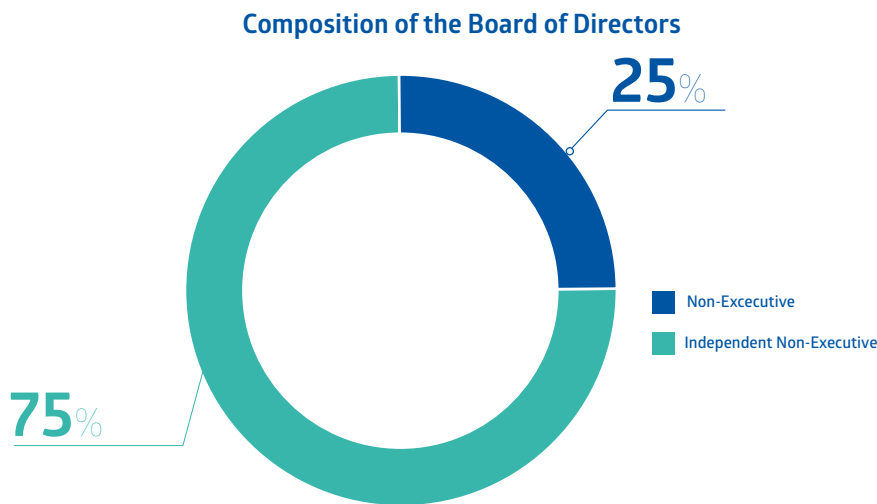
Mr Andrew Bainbridge has joined SBM Holdings Ltd as the Group Chief Executive Officer in January 2018. The proposal to appoint Mr Bainbridge as Executive Director of SBM Holdings Ltd will be considered at the forthcoming Annual Meeting of the Company scheduled in June 2018.

Only Board Members attend each Board meeting for the duration of the Meeting, with other officers of the Company/Bank, advisors and other subject matter experts only attending on invitation for as long as it is deemed necessary by the Chairman. The use of alternate Directors is discouraged. This is made possible by the careful drafting of the annual Board Calendar that is set out each year by the Chairman of the Board with the assistance of the Company Secretary. A clear division of responsibilities at the Board level ensures that no one Director has unfettered powers in decision making.

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

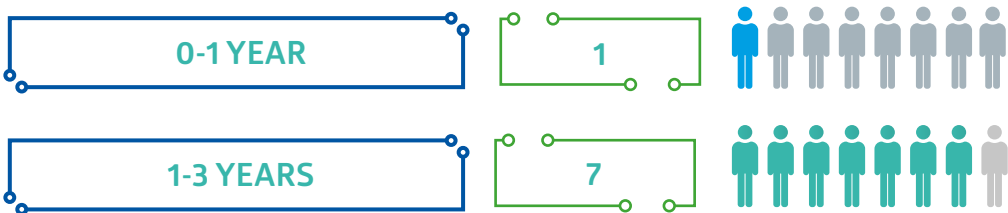
The profiles of the Board Members are found on pages 26 to 29 of this Annual Report. All Directors are resident in Mauritius.

### Balance of Executive, Non-Executive and Independent Non-Executive Directors



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

### Length of Tenure - Chairman & Non-Executive Directors



### Industry/Background Experience

Financial Services	2
Public Administration	2
Current/recent Chair/CEO	3
Accountancy	5
Economics	1
Tourism	1
Manufacturing/Services/Textile	1

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

Name of Director	Category
Mr Kee Chong Li Kwong Wing, <i>G.O.S.K</i>	Independent
Mr Azim Fakhruddin Currimjee	Independent
Mr Medha Gunpath	Non-Executive
Mr Maxime Hardy	Independent
Mr Vidianand Lutchmeeparsad	Non-Executive
Mr Ramprakash Maunthrooa	Independent
Mr Roodesh Muttylall	Independent
Mr Subhas Thecka	Independent



# Corporate Governance Report (cont'd)

## Powers of the Board

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

## Board Meetings

The Board holds a minimum of four Board meetings annually and Special Board meetings are convened when necessary. The Board met 16 times during the Financial Year ended 31 December 2017 and deliberated on the following topics:

### Board of Directors Focus Areas 2017 Summary

Strategy	<ul style="list-style-type: none"><li>Reviewed the strategic orientations and budget plans of all the banking and non-banking entities of the Group;</li><li>Reviewed plans for the rebranding of the Group;</li><li>Monitored the expansion initiatives in the following countries:<ul style="list-style-type: none"><li>Kenya;</li><li>Madagascar;</li><li>Seychelles;</li><li>India</li></ul></li><li>Monitored the implementation of initiatives proposed by McKinsey, an international consultancy firm, hired to devise a strategy roadmap for the Group</li></ul>
Finance	<ul style="list-style-type: none"><li>Reviewed and approved the Group's financial statements on a quarterly basis;</li><li>Assessed and monitored the Group's financial performance against budget;</li><li>Approved declaration of dividend;</li><li>Reviewed the valuation of equity investments held by the Group;</li><li>Reviewed the reports from Internal Audit and Fraud Risk;</li><li>Reviewed the capital requirements of the Group;</li><li>Monitored the implementation of IFRS 9 which became effective as from 01 January 2018.</li></ul>

Board of Directors Focus Areas 2017  
Summary

Governance & Risk	<ul style="list-style-type: none"><li>• Appointed a Group CEO, in line with its expansion strategy and good governance;</li><li>• Reviewed the Charter and the Terms of Reference of the Board and its Committees respectively;</li><li>• Discussed the New National Code of Corporate Governance for Mauritius and how to effectively implement its requirements across the Group;</li><li>• Reviewed and approved the policies of the Group;</li><li>• Reviewed the findings of the evaluation of the Board and its Committees;</li><li>• Reviewed related party transactions on a quarterly basis;</li><li>• Reviewed the structure, size and composition of the Board and its Committees;</li><li>• Ensured that the Group has a solid risk management system in place in terms of people, systems, policies, controls and reporting;</li><li>• Monitored the implementation of a governance review remediation plan on a quarterly basis.</li></ul>
Technology	<ul style="list-style-type: none"><li>• Monitored the implementation of the IT projects undertaken by the Group;</li><li>• Brought focus on the need for digitalisation of the Group processes.</li></ul>

Board attendance

The following table depicts the attendance at Board/Board Committees meetings of all the Directors during 2017:

# Corporate Governance Report (cont'd)

## Attendance of the Board/Board Committees of SBM Holdings Ltd ('SBMH') - 2017

	No. Of Meetings held	Directors	Mr. Kee Chong Li Kwong Wing, G.O.S.K. <sup>1</sup>	Mr. Azim Fakhruddin Currinjee <sup>2</sup>	Mr. Medha Gunputh <sup>3</sup>	Mr. Maxime Hardy <sup>4</sup>	Mr. Vidianand Luthmeeparsad <sup>4</sup>	Mr. Ramprakash Maunthrooa <sup>4</sup>	Mr. Roodesh Mutyall <sup>4</sup>	Mr. Ouma Shankar Ochit <sup>5</sup>	Mr. Subhas Thecka <sup>6</sup>	
		Notes										
Board	16		16	13	15	16	14	8	13	8	7	
Nomination & Remuneration Committee	8		3	3	7	7	7	4	4	-	-	
Regional Expansion Steering Committee	8		7	8	6	-	7	5	3	-	-	
Risk Management Committee	4		4	3	2	-	4	-	-	2	2	
IT Steering Committee	7		7	7	5	-	-	-	-	3	3	
Audit Committee	4		-	3	-	4	-	-	4	2	2	
Strategy Committee	4		4	3	1	1	4	3	-	2	2	
Steering Committee for East Africa	1		1	1	1	-	-	-	-	-	-	
Steering Committee on Seychelles	5		5	3	4	5	-	1	-	-	-	
Investment & Credit Committee	4		4	-	2	-	1	4	3	2	2	
Corporate Governance and Conduct Review Committee	4		-	1	2	4	3	4	4	-	-	
AGM	1		1	1	1	1	1	1	1	1	-	

1 Appointed on 14 April 2015

2 Appointed on 28 June 2016

3 Appointed on 04 February 2015

4 Appointed on 30 June 2015

5 Resigned on 23 June 2017

6 Appointed on 23 June 2017

7 Director of SBM Bank (Mauritius) Ltd, appointed as Member of IT Steering Committee

8 Director of SBM Bank (Mauritius) Ltd

	IN ATTENDANCE	Mr. Kee Chong Li Kwong Wing, G.O.S.K.	Mr. Ishwar Anoopum Gaya <sup>7</sup>	Mr. Mahmadally Burkutoola <sup>7</sup>	Mr. Michel Arnaud Moothoosamy <sup>8</sup>	Mr. Rajakrishna Chellapermal <sup>8</sup>	Mr. Rishikesh Hurdoyal <sup>8</sup>	Mr. Nayen Koomar Ballah <sup>8</sup> G.O.S.K.	Mr. Philip Ah-Chuen <sup>8</sup>	Mr. Raj Dussoye <sup>8,9</sup>	Mr. Ragnish Gujjalu <sup>10</sup>	Mr. Chandradev Appadoo <sup>11</sup>	Mr. Jairaj Sonoo <sup>12</sup>	Mr. Eddirao Balloo <sup>13</sup>	Mr. Lakshmana Lutchmenarraido <sup>9</sup>	Mr. Shailendrasingh Sreekeessoon <sup>9</sup>	Mr. Kabirsingh Baboolall <sup>9</sup>	Mr. Parvataneni Venkateswara Rao <sup>9</sup>	Mr. Moses John Harding <sup>9</sup>	Mr. Sivakrisna Goinden <sup>9</sup>
	-	2	2	2	2	2	2	1	2	8	1	1	-	-	1	3	2	-	7	2
	1	-	-	-	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	4	-	-	4	-	-	7	5	-	8	3
	-	-	-	-	-	-	-	-	-	4	-	-	-	-	-	-	-	-	3	-
	-	7	7	-	1	-	-	-	-	7	1	-	-	-	2	-	5	-	5	-
	-	-	-	-	-	-	-	-	-	2	-	1	-	-	-	-	2	-	-	2
	-	-	-	-	-	-	-	-	-	3	-	-	-	-	-	4	1	-	4	-
	-	-	-	-	-	-	-	1	-	1	-	-	1	-	-	-	1	-	1	1
	-	-	-	-	-	-	-	-	-	1	5	3	2	3	-	2	3	-	3	-
	-	-	-	-	-	-	-	-	-	1	-	1	-	-	-	1	2	2	2	1
	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

9 SBM Executive Management

10 SBM Executive Management and Member of the Steering Committee of Seychelles

11 SBM Executive Management who ceased to be an employee effective 04 December 2017 and former Member of the Steering Committee of Seychelles

12 SBM Executive Management who resigned effective 13 September 2017

13 SBM Executive Management who ceased to be an employee effective 30 April 2018

# Corporate Governance Report (cont'd)

## Board Committees

The Board has carefully considered the work that it needs to carry out in order to be effective and in order to perform against strategy. To this end, a number of Committees have been set up as follows:

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

*\*the Committee was discontinued during the reporting year.*

The objectives of these Committees are as follows:

- To bring focus and appropriate expertise and specialisation to the consideration of specific Board issues;
- To enhance Board efficiency and effectiveness;
- To enable key issues to be studied in depth;
- To make recommendations to the Board.

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

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

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

## (i) AUDIT COMMITTEE

### Composition and Purpose

The Audit Committee assists the Board in fulfilling its responsibility with respect to (i) safeguarding of assets, (ii) operation of adequate systems & control processes, (iii) oversight of the Group's consolidated financial statements, financial reporting process, systems of internal accounting and financial controls; (iv) statements in compliance with all applicable legal requirements and accounting standards, (v) the performance of internal audit function and (vi) the engagement of the Group's external auditors and the evaluation of the external auditors' qualifications, independence and performance.

The Committee comprises four Independent Non-Executive Directors.

Members	Category
Mr Subhas Thecka (Chairman)	Independent
Mr Azim Fakhruddin Currimjee	Independent
Mr Maxime Hardy	Independent
Mr Roodesh Muttlylall	Independent

### Roles and Responsibilities

#### Financial Reporting

- Provide assurance that financial disclosures made by Management reasonably portray SBMH and its subsidiaries' financial conditions, results of operations and long term commitments. To accomplish this, the Audit Committee shall critically examine and review the quality and integrity of the financial statements of the Group, including its annual and half yearly reports, interim reports and any other formal announcement relating to the organisation's financial performance;
- Consider the appropriateness of the accounting policies applied and whether they are prudent and consistent with prior practice and comply with regulations and legal requirements;
- Consider the validity of any changes in accounting treatment or disclosure by comparing with the previous year;
- Review (i) critical accounting issues and (ii) capital adequacy & internal control;
- Review significant estimates based on judgment which are included in the financial statements;
- Review adequacy of provisions including provision for credit impairment losses;

- Consider any difference of opinion between auditors and Management on the level of provisions, on accounting treatment or on disclosure;
- Discuss with Senior Management and external auditors the overall results of the audit, quality of financial statements and any concerns raised by external auditors;
- Review the financial reporting process with a view to ensuring Group compliance with accounting standards and financial matters and the applicable laws and regulations;
- Where requested by the Board, the Committee shall review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders and other stakeholders to assess the Group's performance, business model and strategy.

### External Audit

- Consider and make recommendations to the Board, to be put to the shareholders for approval at the Annual Meeting, the appointment, re-appointment and retention of the Group's external auditors;
- Review and discuss the scope of the audit and audit plan, including for the subsidiaries;
- Consider differences of opinion between Management and the external auditor;
- Evaluate the performance, objectivity and independence of the external auditor;
- Obtain assurance from the auditors that adequate accounting records are maintained;
- Receive audit reports and ensure that Management is taking appropriate corrective action in a timely manner to address control weaknesses and non-compliance with laws and policies identified by auditors;
- Review any representation letter(s) requested by the external auditor before they are signed by Management;
- Review the management letter and Management's response to the auditor's findings and recommendations;
- Develop and implement policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter;
- Meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without Management being present, to discuss the auditors on any issues arising from the audit.

### Internal Audit

- Recommend the appointment or termination of the Head of Internal Audit in consultation with the Nomination & Remuneration Committee to the Board for approval;
- Review the objectives of the internal audit function and the annual plan of action;
- Review the scope of internal audit and approve the audit plan to ensure that these are risk-based and address all activities over a measurable cycle;
- Assess the adequacy and performance of the internal audit function and ensure the function has the necessary resources and access to information to enable them to fulfil its mandate and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- Review significant matters reported by the internal auditor;
- Review significant differences between Management and the internal auditors;
- Review the cooperation and coordination between the internal and external auditors;
- Meet the Head of Internal Audit at least once a year without the presence of Management

### Internal Control Systems

- Review the systems of internal controls to ascertain its adequacy and effectiveness;
- Ensure that there is appropriate structure for identifying, monitoring, managing compliance risk as well as reporting system to advise the Committee of non-compliance on a timely basis;
- Review and discuss any previously identified material weaknesses in controls and deficiencies in system;
- If considered necessary, recommend additional procedures to enhance the system of internal controls;
- Review internal and external auditors' reports (management letter) and Management's response thereto and consider status of actions taken by Management;
- Receive audit reports and ensure that Management is taking appropriate corrective action in a timely manner to address control weaknesses and non-compliance with laws and policies identified by auditors;
- Review response thereto and consider status of actions taken by management;
- Identify any change necessary to the agreed audit scope or to other services as a result of any weaknesses or deficiencies revealed.

# Corporate Governance Report (cont'd)

## (ii) CORPORATE GOVERNANCE & CONDUCT REVIEW COMMITTEE

### Composition and Purpose

The Board of SBM Holdings Ltd has established the Corporate Governance & Conduct Review Committee to ensure that the Group's Policies on corporate governance are in accordance with the applicable laws and regulations and that sound governance principles are adopted across the Group. This Committee comprises five Members as follows:

Members	Category
Mr Roodesh Muttylall (Chairman)	Independent
Mr Medha Gunpath	Non-Executive
Mr Maxime Hardy	Independent
Mr Vidianand Lutchmeeparsad	Non-Executive
Mr Ramprakash Maunthrooa	Independent

### Roles and Responsibilities

- Advise the Board on all aspects of corporate governance and recommend the adoption of best practices as appropriate for SBMH as well as the Group;
- Determine and develop the Group's general policy on corporate governance in accordance with the applicable Code of Corporate Governance and best international practices;
- Annually review the Group's policies - such as related party policy and conflict of interest policy, amongst others - and procedures to ensure their continuing adequacy and enforcement;
- Recommend to the Board any close period during which the Directors and any other persons in the Group who are privy to price sensitive information shall not be permitted to trade in shares or securities of the Group;
- Review the corporate governance report to be published in SBMH's annual report;
- Ensure that disclosures are made in the annual report in compliance with the Companies Act, Code of Corporate Governance and SEM Listing Rules and any other applicable laws;
- Report any breach of the Corporate Governance Code to the Board of SBMH for any remedial action;
- Review any statements on ethical standards or requirements for SBMH and assist in developing such standards and requirements;
- Give recommendations on situations involving any breach of SBMH's Code of Ethics;
- Monitor developments in the area of corporate governance and recommend initiatives to maintain the highest standards of corporate governance;

- Fulfil its oversight responsibilities with regards to the size, composition and structure of the Board and its Committees;
- Ensure accurate disclosure of Directors' remuneration and that transactions with related parties are at arm's length;
- Assess non-financial management policies and practices relating to safety, health and environment, equal opportunities and human capital development;
- Provide all Directors with appropriate continuing training opportunities so as to maintain and/or enhance their skills and abilities as Directors;
- Propose and review annually the Corporate Social Responsibility plan and budget;
- Take note of all proposed significant related party transactions and situations involving a Board Member or affiliate's potential or actual conflict of interest;
- Take note of credit exposures to related parties / Directors;
- Review all proposed material transactions and practices of SBMH to ensure that any transaction with the related parties that may have a material effect on the stability and solvency of SBMH or the Group are identified and dealt with in a timely manner;
- Report periodically to the Board of Directors on matters reviewed by it, including exceptions to policies, processes and limits;
- Take note of the Minutes of Proceedings of the Disclosure Forum;
- Review the composition and Terms of Reference of the Disclosure Forum

## (iii) INVESTMENT & CREDIT COMMITTEE

### Composition and Purpose

The Investment & Credit Review Committee was established to review the investment and credit portfolios of the Group, across clusters/operating companies and monitors its productivity and efficiency. The Committee comprises the following Members:

Members	Category
Mr Kee Chong Li Kwong Wing, G.O.S.K (Chairman)	Independent
Mr Medha Gunpath	Non-Executive
Mr Vidianand Lutchmeeparsad	Non-Executive
Mr Ramprakash Maunthrooa	Independent
Mr Roodesh Muttylall	Independent
Mr Subhas Thecka	Independent



### Roles and Responsibilities

- Review the performance of the Investment portfolio (quarterly)
  - SBM NBFC cluster (Mauritius, India, Kenya and Madagascar)
  - SBM NFC cluster
  - NFC
  - Surplus liquidity in SBMH Balance Sheet
- Review the performance of the Credit portfolio (quarterly)
  - Segment A of SBM Bank (Mauritius) Ltd (SBMBM)
  - Segment B of SBM Bank (Mauritius) Ltd (SBMBM)
  - SBM India Operations
  - SBM Bank (Kenya) limited
  - Banque SBM Madagascar SA (BSBMM)

MIS formats for monitoring of the above will be templated appropriately to track the movement of performance to the desired hygiene parameters as set by the Board of SBMH. The focus will be on reward/return on the credit/investment portfolio of the Group, while the risk coverage will be performed by the Risk Management Committee of the Board

- Review and recommend to the Board the Investment Policy of the Group and operating entities (annually)
- Review and recommend to the Board the Credit Policy (including pricing) of the banking cluster (annually)
- Review and recommend to the Board the investment policy of surplus liquidity (annually)
- Plan Capital requirements of SBMH covering pipeline investments/ capital deployment of organic and inorganic growth, and to recommend suitable capital raising options to SBMH Board (domestic and/or overseas issuance). The review of Term sheet of such issuance will be done with recommendation to the Board for approval.

### (iv) IT STEERING COMMITTEE

#### Composition and Purpose

The Board of SBM Holdings Ltd (SBMH) has established the IT Steering Committee to approve (within its approval threshold as set by the Board) or recommend to the Board of SBMH for approval all budgeted IT projects, whether at the group or individual operating entity level, as well as monitor their implementation. The Committee comprises the following Members:

Members	Category
<b>Representatives of the Board of SBM Holdings Ltd</b>	
Mr Kee Chong Li Kwong Wing, <i>G.O.S.K</i> - Chairman	Independent
Mr Azim Currimjee	Independent
Mr Medha Gunputh	Non-Executive
Mr Subhas Thecka	Independent
<b>Representative of the SBM Bank (Mauritius) Ltd</b>	
Mr Mahmadally Burkutoola	Non-Executive
Mr Ishwar Anoopum Gaya	Non-Executive

### Roles and Responsibilities

- The primary responsibilities of the Committee are to identify IT project priorities, to provide strategic planning and direction and approval of IT projects, whether at the individual or Group level;
- Ensure that the IT strategy is aligned to the strategic goals of the Group;
- Identify and align business solutions which leverage technology;
- In consultation with Executive Management, identify ways to improve the quality, value and management of information and business systems;
- Prioritise strategies and projects in consultation with Executive Management;
- Review and approve IT projects and their implementation plans;
- Monitor and receive reports on the implementation of IT projects against project plans, with emphasis on quality, risk management and benefits realisation;
- Take action to ensure IT strategic plans are delivered within agreed budget and timeframe;
- Gear the definition of a consolidated IT Group strategy, ensuring optimisation of costs whilst reducing risks;
- Review the IT landscape and the implications in the financial industry and the Group operations through reports provided by the IT function;
- Recommend to the Board of SBMH for approval all group/cluster budgeted IT projects;
- Approve individual entity IT projects followed by appropriate individual entity Board approval.

# Corporate Governance Report (cont'd)

## (v) NOMINATION & REMUNERATION COMMITTEE

### Composition and Purpose

The Nomination & Remuneration Committee was set up to ensure that employees are paid based on performance and also that pay is set at a level which allows the Group to attract, retain and motivate employees, but is no more than necessary to ensure that the Group accelerates the delivery of shareholder value. It is also responsible for remuneration, succession planning and other Board concerns including their ongoing training and access to technical support and information.

The Members of the Committee are as follows:

Members	Categories
Mr Medha Gunpath (Chairman)	Non-Executive
Mr Azim Currimjee	Independent
Mr Maxime Hardy	Independent
Mr Vidianand Lutchmeeparsad	Non-Executive
Mr Ramprakash Maunthrooa	Independent
Mr Roodesh Muttylall	Independent

### Roles and Responsibilities

- Review on an annual basis the remuneration policy and HR related policies of the Group;
- Review and recommend to the Board the performance based remuneration by reference to the Group's goals and objectives and review Key Performance Indicators (KPI);
- Ensure that Board Members receive thorough orientation on Board governance and key strategic issues facing the Group;
- Recommend to the Board to accept or decline any tendered resignation of a Director;
- Review on an on-going basis current Directors' performance and attendance at Board and Committee meetings;
- Identify qualified candidates for Board Membership and for the position of Chairperson of the Board, Chairperson of the Committees and their Members;
- Review and recommend to the Board the reward to Senior Management based on KPIs such as economic value added, RAROC, profitability, business levels etc.;
- Recommend the recruitment or promotion of senior SBMH personnel and recommend their remuneration, benefits and other terms and conditions of employment with coverage of Divisional Leaders and above of all operating companies, however decisions of Management/Nomination &

Remuneration of Board of operating companies for Team Leaders would be submitted for noting/ratification;

- Attract, retain and motivate executive Management of the quality required to run the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders.
- Obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity. To help it fulfil its obligations the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the Company but within any budgetary restraints imposed by the Board;
- Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
- Review the reward policy to ensure that SBMH executives are fairly rewarded for their efforts to the Group's overall performance and demonstrate to all the stakeholders in the business that the remuneration of the Senior Management is done objectively;
- Recommend to the Board the productivity bonus policy for employees;
- Recommend to the Board the salary revisions and service conditions of other employees of SBMH, taking into consideration the demands of trade unions;
- Review and recommend to the Board the policy on staff welfare and fringe benefits;
- Determine the level of Board fees for Directors to be recommended to shareholders;
- Ensure that no Director or senior executive is involved in deciding their own remuneration;
- Ensure that remuneration for employees in risk management, compliance and audit functions is determined independently of other business areas;
- Provide technical expertise and strategic guidance where required with respect to the recruitment of senior management within the Group;
- Review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive Directors, Company Secretary and other designated senior executives and the performance targets to be used;
- Within the terms of the agreed policy and in consultation with the Chairperson and/or CEO, as appropriate, determine the total individual remuneration package of each executive Director, the Company Chairperson and other designated senior executives including bonuses, incentive payments and share options or other share awards;
- Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- Oversee any major changes in employee benefits structures throughout the Company or Group;
- Agree and recommend to the Board the policy for authorising claims for expenses from the Directors;
- Work and liaise as necessary with all other Board Committees.

## (vi) REGIONAL EXPANSION STEERING COMMITTEE

### Composition and Purpose

The Board of SBM Holdings Ltd has set up the Regional Expansion Steering Committee to review progressively the expansion initiatives beyond Mauritius. In order to diversify the concentration of risk and maximise returns, the Committee shall consider expansion opportunities in other geographies in banking or non-banking sectors, as proposed by the executive, in line with the strategy agreed by the Board. The Committee has the following Members:

Members	Category
Mr Kee Chong Li Kwong Wing, <i>G.O.S.K</i> (Chairman)	Independent
Mr Azim Currimjee	Independent
Mr Medha Gunpath	Non-Executive
Mr Vidianand Lutchmeeparsad	Non-Executive
Mr Ramprakash Maunthrooa	Independent
Mr Roodesh Muttylall	Independent

### Roles and Responsibilities

- Identify opportunities to ensure the Group meets its strategic vision of deriving 50% of the PAT of the Group from operating companies outside Mauritius in the Asia – Africa corridor by 2022;
- Define and approve inorganic opportunities to build capacity expansion either through portfolio purchases or entry strategy through acquisition;
- Review and approve appropriate and suitable acquisitions/Joint Venture partners, as the case may be, aligning and to achieve with the strategic intent of our Bank/Group;
- Approve the appointment of competent teams/firms, transaction advisors to carry out valuation exercises, accounting/financial, legal due diligence exercises or transactional work or such other service provider as may be necessary as proposed by management;
- Approve the overall due diligence /transaction advisory exercises as proposed by Management;
- Approve entry by Management into non-binding negotiations or discussions with the appropriate target(s) in terms of acquisitions, mergers or asset purchases and make recommendations to the Board for approval;
- Take such other steps as may be incidental to the objective of geographical expansion as also with the strategic intent and/or such other decisions as may be necessary from time to time;
- Monitor the performance of external investments to ensure that desired returns are delivered from investments in foreign assets.

## (vii) RISK MANAGEMENT COMMITTEE

### Composition and Purpose

The Risk Management Committee was set up to supervise the Group's overall current and future risk appetite, oversee the Senior Management's implementation of the risk appetite framework and reporting on the state of risk. It shall assist the Board in fulfilling its responsibility with respect to (i) oversight of SBM Group risk management framework, including policies and practices in managing credit, market, operational, legal, compliance and other risks (ii) oversight of Group's policies and practices related to funding risk, liquidity risk and price risk which are significant components of market risk and risk pertaining to capital management. The Committee comprises the following Members:

Members	Category
Mr Azim Currimjee (Chairman)	Independent
Mr Medha Gunpath	Non-Executive
Mr Kee Chong Li Kwong Wing, <i>G.O.S.K</i>	Independent
Mr Vidianand Lutchmeeparsad	Non-Executive
Mr Ramprakash Maunthrooa	Independent
Mr Subhas Thecka	Independent

### Roles and Responsibilities

- Ensure that the Group has a solid and effective risk management infrastructure in place, in terms of people, systems, policies, controls and reporting;
- Adopt the risk appetite for the Group, as recommended to and approved by the Board, in the context of capital adequacy and the Group's strategy;
- Establish and review the adequacy of risk management control techniques and methodologies and monitor their effectiveness, particularly in the areas of credit, market, liquidity and operational risks;
- Monitor the Group's risk profile - its ongoing and potential exposure to risks of various types;
- Review the Group's risk profile particularly the risk trends, risk concentrations, key performance indicators and the performance versus the risk appetite;
- Review, on quarterly basis, high value exposure on credit portfolio with benchmark of individual exposure of over 10% of PAT;
- Review, on quarterly basis, high value exposure on investment portfolio with benchmark of individual exposure of over 5% of the total portfolio;
- Review interest rate sensitive exposure and liquidity gap of more than 10% in specific time bucket with higher focus on foreign currency portfolio;

# Corporate Governance Report (cont'd)

- Review, on quarterly basis, the trading portfolio of Treasury and various derivative products linked to Commodities, CDS, Currencies, Interest rate; etc.;
- Monitor Management’s performance in controlling risk, in light of the established policies, procedures and limits of authority, and approve any departure from the acceptable prudential norms;
- Evaluate the stress-testing scenarios and risk implications with regards to the Group’s strategic and other material investments;
- Receive and act upon relevant reports from the regulators, and internal and external auditors, in respect of risk management guidelines and specific risk events;
- Review Group policies for management of risks particularly in the areas of credit, market, interest rate, liquidity, operational and technological risks, and make recommendations thereon;
- Review adequacy of insurance coverage, material outsourcing arrangements, the Disaster Recovery Plan and Business Continuity Plan;
- Monitor material legal cases brought against the Group and its subsidiaries and major events of fraud and irregularities;
- Review and recommend to the Board the ‘Risk Management Report’ published in the Annual Report;
- Ensure appropriate methodologies and systems are in place to identify and adequately assess and manage operational risks;
- Review of the principal risks, including but not limited to credit, market, liquidity, operational, legal, compliance and reputational risk and the actions taken to mitigate these risks;
- Ensure that GCEO facilitates training programmes for Directors and Senior Management to enable them to have a robust understanding of the nature of the business, the nature of the risks, the consequences of risks being inadequately managed and the techniques for managing the risks effectively;
- Receive periodic information on risk exposures and risk management activities from senior officers of the Group;
- Review and assess Group-wide risk, portfolio risk profile and the portfolio management plan and recommend improvements, where appropriate;
- Discuss, review and recommend to the Board any other matter or issue which is relevant to the Risk Management of the Group.

## (viii) STEERING COMMITTEE ON SEYCHELLES

### Composition and Purpose

The Board of SBM Holdings Ltd (“SBMH”) has set up the Steering Committee on Seychelles to oversee and drive the implementation of banking operations in the Seychelles. The Members of the Committee are:

Members	Category
Mr Kee Chong Li Kwong Wing, <i>G.O.S.K</i> (Chairman)	Independent
Mr Azim Currimjee	Independent
Mr Ragnish Gujjalu	Senior Management of SBM Bank (Mauritius) Ltd
Mr Medha Gunputh	Non-Executive
Mr Maxime Hardy	Independent
Mr Ramprakash Maunthrooa	Independent

### Roles and responsibilities

- Identify, interview and appoint the CEO, Directors and Senior Management of the Seychelles banking entity including determining terms and conditions of appointment;
- Review and approve a project execution plan with clear timelines;
  - Financial planning;
  - Resource planning;
  - Determining logistics and branch setup;
  - Infrastructure/systems setup;
  - Risk management - policies and procedures;
- Monitor and control the operating company;
- Launch RFPs and appoint competent teams/firms, transaction advisors to carry out valuation exercises, accounting/financial, legal due diligence exercises or transactional work or such other service provider as may be necessary (within budget);
- Approve all costs relating to the appointment of teams/firms or transactions advisors to carry out due diligence exercises/transaction advisory or valuation exercises or such other service provider as may be necessary as well as other incidental costs within such budget as may be approved by the Board.

## (ix) STRATEGY COMMITTEE

### Composition and Purpose

The Board of SBM Holdings Ltd has established the Strategy Committee, which will discuss and make proposals to the Board on the Group's strategy, monitor key performance targets set in line with the strategy and review the strategic investments and the utilisation of capital to ensure they are in compliance with the Group's mission, vision and objectives.

The Members of the Committee are:

Members	Category
Mr Kee Chong Li Kwong Wing, <i>G.O.S.K</i> (Chairman)	Independent
Mr Azim Currimjee	Independent
Mr Maxime Hardy	Independent
Mr Vidianand Lutchmeeparsad	Non-Executive
Mr Ramprakash Maunthrooa	Independent
Mr Subhas Thecka	Independent

### Roles and Responsibilities

- Review and recommend the Group strategy, business plans, annual budget and capital structure to the Board;
- Review and recommend strategic investments or divestments in strategic assets to the Board;
- Review and recommend the delegation of authority to Management Committees;
- Oversee the business strategy of the Group;
- Advise on key performance indicators and targets for businesses and geographies;
- Review performance against set KPIs and targets;
- Provide recommendations to the Board on investments, capital expenditure and expenses that exceed the limits that can be authorised by the Management Committees and are strategic in nature;
- Provide recommendation on large projects to the Board and monitor large projects;
- Ensure that capital is fully optimised through effective capital management;
- Provide recommendation to the Board on new businesses and geographies to be explored;
- Provide recommendation to the Board on raising of funds;

- Review and recommend manpower requirements provided by different reporting executive business forums;
- Discuss, review and recommend to the Board any such matters or issues which pertain to the strategy of the Group;
- Consider and review the type of organisational structures and functions necessary for implementing strategic plans;
- Review issues of fundamental importance and proposals from Management that are material to the Group's long term objectives and goals.

## MANAGEMENT COMMITTEES

### (i) Group Executive Forum

The Board of SBM Holdings Ltd has set up a Group Executive Forum (GEF) to ensure proper execution of the Group's strategies and to deal with the following key challenges posed from the current organisation structure namely:

- Gaps in governance
- Absence of performance monitoring framework at Group level
- Lack of focus on non-bank and non-Mauritius operations
- Lack of focus on Group synergy, Group image, and Investor Relations
- Gaps in certain functional areas
- The GEF is led by the Group Chief Executive Officer and comprises Chief Executives of the operating entities—SBM Bank (Mauritius) Ltd, NBFC cluster, SBM Bank (Kenya) Limited, Banque SBM Madagascar and SBM India Operations, the Head of Strategy and Research and key executives of SBM Bank (Mauritius) Ltd double-hatting as Group Functional Heads, namely:
  - Head of Finance
  - Head of Human Resources
  - Head of Legal & Corporate Affairs
  - Head of Risk Management
  - Chief Information Officer
  - Head of Operations

The Committee meets twice monthly. The Minutes of Proceedings of the GEF are submitted to the Board of SBM Holdings Ltd.

# Corporate Governance Report (cont'd)

## (ii) Disclosure Forum

The Disclosure Forum reviews the adequacy of the Bank's disclosures to ensure compliance with legal and regulatory requirements and best practices. The Committee has the following Members:

- Mr Deenesh Ghurburrun
- Mr Dipesh Jhowry
- Mr Kwon Li Pak Man
- Mr Shailen Sreekeessoon

The Committee meets twice annually. The Minutes of Proceedings of this Forum are submitted to the Corporate Governance and Conduct Review Committee.

## The Company Secretary

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

Mrs Dayawantee Ramjug Chumun (Poonam) is an Associate of the Institute of Chartered Secretaries and Administrators (UK) and an ACCA Affiliate. She started her career with SBM in 2002 and joined the SBM Corporate Affairs Team in 2007. She was appointed as the Company Secretary of SBM Holdings Ltd in March 2015. She also oversees the Company Secretarial functions of Banque SBM Madagascar SA and assist the Company Secretarial/Legal Team in Kenya, India and Seychelles. She was the Company Secretary of the SBM NBFC cluster (2011 to 2015) and SBM Bank (Mauritius) Ltd (2015-2016). Poonam has extensive experience in Company Secretarial and Corporate Governance matters.

## Role and Responsibilities

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

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



“

BOARD  
ACTIVITIES  
INCLUDING  
SUBSIDIARIES

”



# SBM (Bank) Holdings Ltd

SBM (BANK) HOLDINGS LTD		
Name of Directors	Date of Appointment	Category
1. Mr Nayen Koomar BALLAH, G.O.S.K	27.07.15	Chairman, Non-Executive Director
2. Mr Raj DUSOYE	20.09.16	Executive Director
3. Mr Ramprakash MAUNTHROOA	27.07.15	Non-Executive Director
4. Mr Andrew BAINBRIDGE	16.04.18	Non-Executive Director

## BOARD ATTENDANCE FOR YEAR 2017

No. of Meetings Held during the Year	4
Directors	
Mr Nayen Koomar BALLAH, G.O.S.K	4
Mr Raj DUSOYE	4
Mr Ramprakash MAUNTHROOA	4

The Board of Directors of SBM (Bank) Holdings Ltd met on a quarterly basis during the Financial Year ended 31 December 2017 and deliberated on the following topics:

## Board Focus Areas

- Reviewed and approved the Audited Financial Statements and the financial analysis
- Reviewed the development and approved the investment in overseas expansion projects
- Reviewed and approved the financial results on a quarterly basis
- Reviewed the financial analysis of the company and its subsidiaries on a quarterly basis.
- Approved dividends to the shareholder on a quarterly basis

## Donations

Contribution to SBM Staff Children Education Fund

2017 (MUR'000)
1,545
1,545

# SBM (NBFC) Holdings Ltd

Attendance at Board Meetings for 2017

No. of Meetings Held during the Year	6
<b>Directors</b>	
Mr. Kee Chong Li Kwong Wing, <i>G.O.S.K</i>	6
Mr. Pierre D'Unienville	5
M. Thierry Hugnin	5
Mr. Ramprakash Maunthrooa	2
Mr. Lakshmana Lutchmenarraido*	4
Mr. Roshan Ramoly	5
Mr. Ouma Shankar Ochit**	4

\*Mr. Lakshmana Lutchmenarraido was appointed on the 31st March 2017.

\*\*Mr. Ouma Shankar Ochit resigned on the 21st June 2017.

## Summary of Board Discussions

### Appointment of Chief Executive Officer

Mr. Lakshmana (Kris) Lutchmenarraido joined as Chief Executive – SBM (NBFC) Holdings Ltd on 16 January 2017. Mr Lutchmenarraido is a seasoned banking professional with over 40 years' experience across the Banking & Financial services sectors. He spent 13 years within the SBM Group across his career. He has as mandate to drive and transform the Non-Banking Financial Cluster with a view to bringing a new impetus to the cluster and increase its share of profits within the Group.

## Expansion of business operations

### SBM Mauritius Asset Managers Ltd (SBM MAM)

Assets Under Management (AUM) grew from MUR 6.9 billion to MUR 8.5 billion.

The Africa Value Fund was set up and USD 1.5 million were mobilised during the year.

SBM MAM raised Bonds for MUR 1.50 billion for account of a major domestic corporate.

SBM MAM also set up SBM (Mauritius) Infrastructure Development Company Ltd, which acts as a SPV for raising the USD 500 million loan from the EXIM Bank of India, to finance Infrastructure Projects for account of the Government.

### SBM Capital Markets Ltd

SBM Capital Markets Ltd was set up and was the first company to obtain an Investment Banking License in Mauritius in July 2017.

### SBM Factors Ltd

SBM Factors was launched during the year and is now operational.

### SBM Microfinance Ltd

Operations were to be started by mid-November 2017 but difficulties have been experienced in finding a software supplier. It was thus decided that SBM Microfinance would operate under the umbrella of SBM Bank (Mauritius) Ltd for the initial six months until the required software is obtained.

# Corporate Governance Report (cont'd)

## Bancassurance

Business gathered momentum as branch staff have been trained on the products and have KPI targets for cross-selling NBFC products in line with client needs.

## Africa Infrastructure and Industrialisation Fund, LP

The approval of the Bank of Mauritius was obtained on 12 July 2017 for SBM Holdings Ltd to commit USD 1 million in the Fund. A shareholders' agreement between SBM Holdings Ltd, Mauritius Africa Fund and Africa Infrastructure Investment Holdings Company Ltd was finalised and three potential Investment Committee Members have also been identified.

## SBM Africa Equity Fund Ltd

Fund raising has been quite challenging due to the size of the local market and novelty of the Fund. SBMH committed USD 10.0million and a Subscription agreement with Catalyst Fund II was signed with a commitment of USD 5 million and total contribution to KIBO Fund II amounted to USD 2.363 million out of a total capital commitment of USD 5 million.

## AFREXIMBANK

The various companies under SBM NBFC Cluster were appointed as Transaction Advisor, Arranger, Depository, Sponsoring Broker, Custodian, Registrar and Transfer and Paying Agent to AFREXIMBANK in respect of its equity offering on the Stock Exchange of Mauritius amounting to a maximum of USD 300 million by way of depository receipts.

During the year, there was a transfer of 1,250 shares in AFREXIMBANK from SBM (NFC) Holdings Ltd to SBM (NBFC) Holdings Ltd.

Loan facilities have been extended to staff members who wanted to invest in AFREXIMBANK's Depository Receipts.

## Human Resources

A high staff turnover rate was observed owing to a competitive job market.

The Group HR policy is currently being reviewed to make the Group a more attractive employer.

## Adoption of amended Constitution and Board Charter of SBM (NBFC) Holdings Ltd

Amendments were made to the Constitution of SBM (NBFC) Holdings Ltd to bring clarity to the objects of each cluster within the Group and to ensure that the current structures meet the strategic objectives of the Group.

The Board of SBM (NBFC) Holdings Ltd adopted a Board Charter in November 2017.

## Outlook for 2018

Based on the experience gathered with the AFREXIMBANK DR issue, SBM Capital Markets will put more emphasis on Debt / Capital raising during the year, and are already working on a few potential deals.

We are embarking on Fund raising for The Africa Infrastructure and Industrialisation Fund for investment in certain projects identified on the African continent.

SBM MAM has set some ambitious objectives for the year, targeting to increase the AUM to MUR 15 billion, whilst launching a few more structured products.

SBM Factors is now gradually moving towards cruising speed and is expected to generate good profits during the year.

With the setting up of SBM Bank in Kenya, SBM (NBFC) Holdings is working on extending its services and products to the East African market.

The first moves will be on Bancassurance and Stockbroking; CIS Funds will be launched later in the year. Meanwhile, we shall encourage our clients there to invest in the funds we have set up in Mauritius, and in our Africa funds.

2017 has seen a sharp rise in the level of profits in this cluster, and we expect to double the figures during the current year.

# Principle THREE - Directors Appointment Procedures

## Appointment

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

- Skills, knowledge and expertise required on the Board;
- Skills, knowledge and expertise of the proposed Director;
- Previous experience as a Director;
- Specific roles required on the Board such as Chairman of a Committee;
- Balance required on the Board such as gender and age;
- Independence where required;
- Reputation of the proposed Director in the country;
- Amount of time the proposed Director is able to devote to the business of the Board;
- The fees requested from each prospective Director; and
- Conflicts of interests.

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

The Nomination & Remuneration Committee reviews the proposals for the appointment of prospective Directors and makes its recommendations to the Board. The Board will agree each appointment and put forward to the shareholders at the Annual Meeting by way of ordinary resolution for approval.

Once a prospective Director has accepted a seat on the Board, he/she is asked to sign a Letter of Appointment which carefully outlines the following:

- Term of office;
- Time commitment expected from each Director;
- Confidentiality;
- Conflicts of Interests;
- Directors liability insurance;
- Right to independent advice;
- Mandatory induction programme;
- Training and development programme; and
- Board policies and procedures.

As per Section 14.3 of the Constitution of SBM Holdings Ltd, each Director shall be elected by a separate resolution at the Annual Meeting of Shareholders for a period not exceeding three years and may be re-elected for a second term not exceeding three years and thereafter be eligible for re-election after a cooling period of two years or as permitted by the Bank of Mauritius. ("Year" shall mean in the present context any period between two Annual Meetings).

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

# Corporate Governance Report (cont'd)

## Succession planning

The Board considers its succession very carefully in its annual strategy session. The Board assumes full responsibility for succession planning.

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

1. GCEO;
2. Independent and other Non-Executive Directors on the Board;
3. Senior Management Team; and
4. Any other positions within the organisation at the discretion of the Chairman and GCEO in consultation with the Board.

The Nomination & Remuneration Committee shall oversee and review succession plans from time to time and recommend the same to the Board. The Committee shall proactively review the succession requirements for the Board and carry out the due diligence process to determine the suitability of every person who is being considered for being appointed or re-appointed as a Director of the Board based on his educational qualification, experience and track record. The proposed candidate shall be evaluated by the Nomination & Remuneration Committee to determine the eligibility and fit and proper criteria as per the Companies Act 2001 and thereafter such candidature shall be recommended to the Board for its consideration and approval.

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

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

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

# Principle FOUR - Directors' Duties, Remuneration and Performance

## Legal Duties

All of the Directors on the Board including any alternate Directors are fully apprised of their fiduciary duties as laid out in the Act.

## Code of Ethics

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

Training sessions are held periodically throughout the organisation and its subsidiaries to ensure full compliance with this Code. A copy of the Code of Ethics is available on the website. The Board regularly monitors and evaluates compliance with its Code of Ethics.

## Induction

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

Topics covered by the inductions are:

- Shareholders' agreement, Constitution and Board Charter
- Code of Ethics
- Regulatory framework of Mauritius
- Directors duties
- The new Code for Corporate Governance in Mauritius
- Risk management framework
- Directors Indemnity Insurance
- Organisation chart
- Operations of the Company and its subsidiaries
- Introduction to key stakeholders including staff, legal and Board advisors

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

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

# Corporate Governance Report (cont'd)

## Continuous Development Programme

In the year under review, the Director Development Programme was designed specifically for this Board.

The following topics were covered:

- Key functions and responsibilities of the Board
- Setting the Company strategic direction
- Making a difference as a Director
- How to avoid capture: a guide to conflicts of interest
- Shareholder relationship management
- CSR and corporate governance links
- The effective Board: proven case studies
- Board approaches to strategic risk management
- Holding Board committees to account
- Fraud, Whistleblowing, Anti-bribery and Anti-corruption
- Family Owned and/or Controlled Corporations and Related Topics
- The Dragonfly perspective: Better decision-making by Boards
- Corporate governance trends in Africa
- Building your company's ESG Capital: an investment success
- Tensions in value creation: which goals, how and for whom?
- 360-degree evaluation for Director strengths and development opportunities

All of the Directors attended five development sessions that were held in house.

## Board Evaluation

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

In January 2018, the Board has appointed an Independent Board Evaluator to evaluate the performance of the Board, its Committees, individual Directors and its policies and procedures.

The evaluation process comprised:

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

During 2018, the evaluation was carried out by Reverend K. Andersen, an Independent Evaluator with expertise in Corporate Governance and the local business landscape, who made the following findings and recommendations:

- Succession planning of all key positions in the Group should be carefully monitored as a key risk
- Retention of key staff should be a key focus area for the coming year
- Attendance of all Directors for the full duration of board meetings
- Enhancing synergies between all entities and the holding company
- Deepening and enhancing a positive risk culture
- Improving on all corporate governance indicators

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

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

Board Members have a fiduciary duty to conduct themselves without conflict to the interests of SBM Holdings Ltd and its subsidiaries. In their capacity as Board Members, they must subordinate personal, individual business, third-party, and other interests to the welfare and best interests of SBM Holdings Ltd and its subsidiaries.

A conflict of interest occurs when a present transaction or relationship might conflict with a Board Member's obligations owed to SBM Holdings Ltd and its subsidiaries and the Board Member's personal, business or other interests.

All conflicts of interest are not necessarily prohibited or harmful. However, full disclosure of all actual and potential conflicts and a determination by the disinterested Board Members – with the interested Board Member(s) recused from participating in debates and voting on the matter are required.

## Remuneration

Each year, the remuneration of the Board is reviewed by the Nomination & Remuneration Committee which makes its recommendations to the Board. Remuneration of both Directors and the Senior Management Team is based on performance and effort. No Director at SBM Holdings Ltd or its subsidiaries has received shares in lieu of remuneration.

The following policy on remuneration has been adopted by the Board:

### SBM Holdings Ltd - Remuneration Policy

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

In line with good governance, the Board of Directors is also recommended to adopt a Remuneration Policy applicable to the Board of Directors and the

Executive Management and that the Policy is tabled for Board's approval on an annual basis. The recommendations are based on Corporate Governance best practice and apply to the Members of the Board of Directors and Executive Management of SBM Holdings Ltd and its subsidiaries. Any agreements between SBM Holdings Ltd or its subsidiaries and the Board of Directors or the Executive Management concerning fixed remuneration or incentive pay must be subject to this policy.

### Board of Directors

The ordinary Members of the Board of Directors receive a fixed base fee as consideration for their Board duties. In addition, the Board Members may receive a fixed fee for their work on Committees established by the Board of Directors. The remuneration of the Board of Directors is determined on the basis of standards in the market and reflects demands to competencies and efforts in light of the scope of their work and the number of Board meetings. The fees payable to the Board of Directors are approved at the Annual Meeting of Shareholders.

The total fees earned by Directors in 2016 and 2017 in their capacity as Board Members are listed below:

Name of Directors	SBM Holdings Ltd	Other Subsidiaries	SBM Holdings Ltd	Other Subsidiaries
	2017	2017	2016	2016
	MUR '000	MUR '000	MUR '000	MUR '000
Mr Kee Chong Li Kwong Wing, <i>G.O.S.K</i>	2, 680	3, 264	2, 505	1, 350
Mr Azim Fakhruddin Currimjee	1, 540	200	645	-
Mr Medha Gunpath	1, 600	424	1, 740	240
Mr Maxime Hardy	860	-	735	-
Mr Roodesh Muttylall	880	-	690	-
Mr Subhas Thecka <sup>1</sup>	540	-	-	-
Mr Vidianand Lutchmeeparsad	965	-	1, 120	-
Mr Ramprakash Maunthrooa	1, 015	600	1, 080	480
Mr Ouma Shankar Ochit <sup>2</sup>	525	120	900	240
Dr Jameel Khadaroo <sup>5</sup>	-	-	615	120
<b>Directors of SBM Bank (Mauritius) Ltd</b>				
Mr Mahmadally Burkutoola <sup>3</sup>	180	1, 170	240	1, 231
Mr Nayen Koomar Ballah <sup>4</sup> <i>G.O.S.K</i>	105	2, 894	90	3, 000
Mr Rajakrishna Chellapermal <sup>4</sup>	15	1, 080	90	960
Mr Philip Ah-Chuen <sup>4</sup>	15	900	90	1, 080
Mr Ishwar Anoopum Gaya <sup>3</sup>	180	630	210	240
Mr Vivekanand Lochun <sup>6</sup>	-	-	235	405

<sup>1</sup> Appointed on 23 June 2017

<sup>2</sup> Retired on 23 June 2017

<sup>3</sup> Directors of SBM Bank (Mauritius) Ltd and Member of IT Steering Committee

<sup>4</sup> Director of SBM Bank (Mauritius) Ltd and former Member of Board Committee of SBMH

<sup>5</sup> Retired on 28 June 2016

<sup>6</sup> Retired on 27 June 2016



# Corporate Governance Report (cont'd)

## Executive Management

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

The Board of Directors and the Executive Management evaluate the fixed salary annually based on the results from the previous period and with due consideration to the trend within the market standards.

## Information Technology and Information IT Security

The Board of Directors realises that in today's era of technology, it is important to have a strategic alignment of information security with business strategy in order to achieve organisational goals. As such, the Board ensures that appropriate resources are allocated for the implementation of an information and IT security framework within the organisation. Moreover, all companies within the Group have established a risk management register to ascertain that risks are systematically identified and mitigated so as to minimise the potential impact on information resources.

The Group has in place an Information Security policy and an IT Risk policy, which are regularly reviewed by the Risk Management Committee and the Board. The Risk Management Committee is mandated by the Board to ensure that adequate controls and information systems are in place to implement the Group's policies.

The company is also embracing technological change and is having most of digital information hosted in a secured manner. This supports the strategy to cater for the growth of the organisation across multiple physical locations and to ensure business continuity. Furthermore, the company has implemented security policies to ensure that data is safeguarded both within its premises as well as those hosted on the private cloud including access rights granted only to authorised personnel, password expiry and complexity policy implemented and backup of digital information.

## Directors' interest and dealings in SBM shares

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

The table below outlines the interests of the Directors of SBMH and its subsidiaries as at 31 December 2017.

Directors	Direct shareholding	Indirect shareholding
Mr Kee Chong LI KWONG WING, <i>G.O.S.K.</i>	-	26,310

No other director had an equity stake in SBMH or its subsidiaries either directly or indirectly as at 31 December 2017 apart from the above mentioned Director.

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

# Principle FIVE - Risk Governance and Internal Control

The Group has adopted a well-established risk and governance framework which is founded on the three lines of defence principle. It enables Management to maximise risk adjusted returns while remaining within the Board-approved risk appetite and risk tolerance levels. This approach promotes transparency, accountability and consistency through clear identification and segregation of risks. Moreover, it ensures the protection of the Group's reputation and is consistent with its objective of increasing shareholder value.

Risk governance continues to ensure that regulatory and business requirements are fully embedded in our business processes and governance frameworks across all risk functions. Hence, in addition to ensuring adequacy of credit risk governance, it facilitates identification and escalation of major risks such as operational risk, market risk and liquidity risk whilst providing assurance to the Board. This role falls under the responsibility of the Head of Risk Management who has direct and unfettered access to the Board Chairman and the Risk Management Committee.

Moreover, the Compliance Team proactively supports the Senior Management and business through effective compliance risk management practices to ensure the business is within statutory supervisory and regulatory requirements thereby mitigating regulatory sanctions and reputational risk.

The role of Internal Audit is to provide independent, objective assurance services designed to add value and improve the Group's operations. Audits are carried out to review the adequacy and effectiveness of the Group's system of internal controls, as per the Board approved risk-based audit plan. In conducting reviews, the Internal Auditors are alert to indicators of fraud and opportunities that could allow fraud, such as control weaknesses. In doing so, the Internal Auditors obtain reasonable assurance that business objectives for the process under review are being achieved and material control deficiencies are detected. SBM Bank (Mauritius) Ltd, SBM India Operations, SBM Bank (Kenya) Limited, Banque SBM Madagascar SA and SBM (NBFC) Holdings Ltd have their own permanent Audit function, with the Head reporting directly and functionally to the respective Audit Committee and administratively to the respective Chief Executive. When audits are done, the findings/reports go to the respective Management and Audit Committee. At SBMH Audit Committee level, we submit a consolidated high level summary of all findings for the subsidiaries.

## Internal Control

The Risk Management Committee, which recommends the Group's policies to Board for approval, ensures that risks are maintained within approved limits and any deviation is reported in a timely manner and is duly authorised. The Audit Committee, on the other hand, reviews both internal and external audit reports on systems and controls in place to manage those risks.

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

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

## Corporate Governance Report (cont'd)

The first line of defence has the responsibility to identify and manage risks on a day-to-day basis at an operational level in accordance with agreed appetite, policies and controls. The second line of defence functions provide independent oversight and assurance and ensure that specific risks are managed effectively as close to the source as possible. It sets the frameworks within the parameters and risk appetite set by the Board and reports to the Management and Board Governance Committees. The third line of defence is the Audit function which provides an independent and objective assurance to the Board and Senior Management on the effectiveness of the first and second lines of defence.

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

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

### Risk and Compliance Report

The complete Risk Management Report can be found on pages 148 to 201.

### Whistle Blowing Policy

The Group has established a Whistle Blowing Policy which sets out the procedures for whistle blowing. A copy of the Whistle Blowing Policy will be available on the Group website.

The staff may report allegations or concerns through the hotline, email and PO box facilities or, depending on the staff's choice, through an immediate supervisor or, a higher level supervisor within the organisation or, to the GCEO if the staff feels uncomfortable discussing the matter to a supervisor or foresees a potential conflict of interest. The staff should report via the:

- Hotline: +230 207 0178
- Email address: [whistleblowing@sbmgroup.mu](mailto:whistleblowing@sbmgroup.mu)
- PO Box address: P.O. Box 11, Caudan, Port Louis

The Board has taken note of the need for strong policies and procedures against any form of bribery and corruption and will make this one of its focal points for 2018.

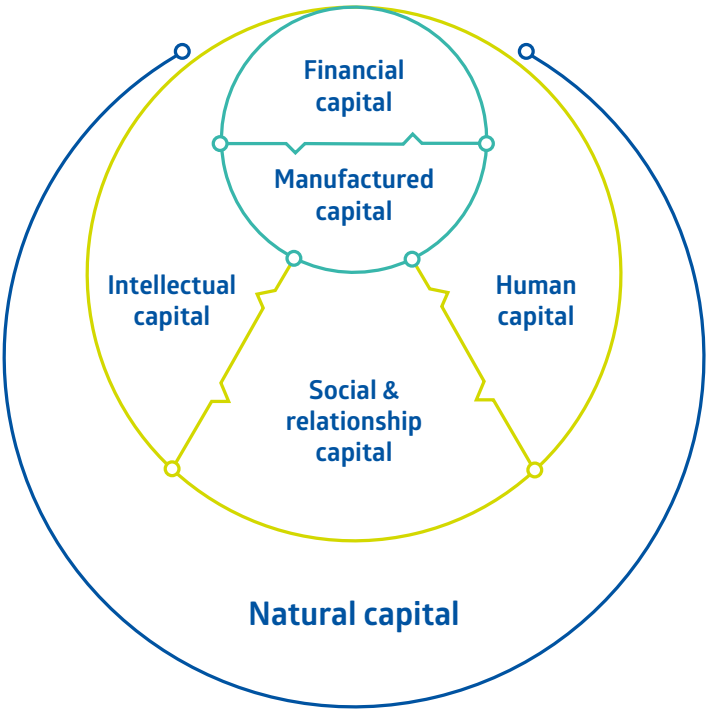
# Principle SIX - Reporting with Integrity

The Annual Report is published in full on the Group's website

The financial review is set out on pages 203 to 307 of the Annual Report.

The complete Risk Management Report is set out on pages 148 to 201 of the Annual Report

## Integrated Reporting



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

# Corporate Governance Report (cont'd)

The Group has begun the process of aligning the organisation towards operating in a manner that will benefit not only our shareholders but also our customers, our communities and the countries in which we operate. We embrace the principles of Integrated Reporting and you will see evidence of this philosophy throughout this report. Integrated Reporting through the six capitals can be summarised as follows:

## TYPES OF CAPITAL

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

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

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

Our strategic model of sustainable value creation, depicted at pages 46 to 47, maps the relationship between our strategy, our stakeholders, and the different types of capital.



## FINANCIAL CAPITAL

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

### INPUT

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

### OUTPUT

- > Strong balance sheet
- > Attractive shareholders' return



## NATURAL CAPITAL

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

### INPUT

- > Judicious use of:
  - land
  - water
  - energy

### OUTPUT

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



## SOCIAL AND RELATIONSHIP CAPITAL

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

### INPUT

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

### OUTPUT

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



## MANUFACTURED CAPITAL

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

### INPUT

- > Equipment and buildings
- > IT infrastructure

### OUTPUT

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



## HUMAN CAPITAL

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

### INPUT

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

### OUTPUT

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



## INTELLECTUAL CAPITAL

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

### INPUT

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

### OUTPUT

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

## Corporate Governance Report (cont'd)

The Group is committed to moving towards a fully integrated report for the future. Our strategy fully reflects our commitment towards creating a sustainable future by the way we are making use of digital platforms, decreasing our use of natural resources and embedding a culture of sustainability amongst our staff. As further evidence of our total commitment to sustainability, we disclose and extract from our Environmental and Social Risk Policy:

"The Group is committed to a path of environmental sustainability and aims at promoting environmentally responsible business activities, and offering environmentally responsible products and services. It will comply with relevant environmental legislation and regulations applicable to all its operations, as well as incorporating best practice where appropriate. "

The Group's commitment to environmental sustainability:

The Group will not knowingly engage in financing activities with companies purposefully operating in material violation of applicable environmental and social laws.

The Group will assess environmental and social risk in the transaction decision-making process while ensuring that it will not unduly hinder the bank's ability to support clients as they compete in the global markets.

### Applicable Standards

The Group will ensure that all projects are reviewed and evaluated against the following Environmental & Social requirements:

- The Exclusion & Referral List
- The applicable national laws\* on environment, health, safety and social issues and any standards established therein
- The IFC Performance Standards

(\*)This means all relevant E&S permits, consents, licenses, and monitoring of E&S parameters as per the national regulations are to be considered as mandatory compliance requirements for evaluation of a loan application.

Note: If clients have management systems in place as per international frameworks such as ISO 14001 for environmental management, OHSAS 18001 for occupational health and safety, SA8000 for socially acceptable practices in the workplace then it will be considered as good practices.

Our strategy and innovation drive towards a better and leaner organisation without compromising customer service, and with the objective to enhance shareholder value, is becoming evident in our everyday practices. We recognise that one of our biggest risks is to be complacent towards these risks and we focus not only on the capitals that we have strongly mastered but also those that we are striving to harness fully. We are proud of our progress and focus toward this goal as is evidenced in our inputs and outputs below:



## FINANCIAL CAPITAL

The way we spend our financial resources is indicative of our commitment to a sustainable future. We invest in technology and digital platforms, in hiring and retaining the best people, in training our workforce and in support of the social causes of the communities that we serve. This is also evidenced in where we do not spend or where we choose to reduce our spend. This is evidenced in our reduction of spend in electricity and water and in our commitment to save the environment by recycling paper. Choosing to establish an in house top class training facility is also our way of utilising the talent we already have. The recycling of our servers rather than choosing to purchase new ones sends a strong message that we wish to be an example of how sustainability should reflect throughout our business.

### Inputs

- > Dividend income from subsidiaries
- > Profit generated
- > New products such as capital raising, bond raising and structured products
- > Investment in foreign subsidiary
- > Savings on IT, electricity and water
- > Percentage spent on human capital
- > Online onboarding of new clients
- > Enhanced security of client information
- > Specialised financial and compliance training for our staff



### Outputs

- > Increase in Total Assets from MUR 147 billion to MUR 194 billion
- > Increase in Net Profits After Tax from MUR 2.3 billion to MUR 2.6 billion
- > Increase in Total Operating Income from MUR 6.4 billion to MUR 7.6 billion
- > Increase in Price Earnings Ratio from 7.42 times to 7.52 times
- > Enhanced international presence
- > Savings from IT hardware and natural resources through cost saving projects
- > Enhanced ease of doing business over a secure digital platform for our customers
- > Holistic and seamless product offerings to clients produces ease of business



## MANUFACTURED CAPITAL

Our access to manufactured capital in 2017 rests largely in our IT hardware. To this end, we tried to make our hardware last longer and serve the organisation and our clients better with zero compromise on security, ease of doing business and competitiveness.

### Inputs

- > The IT Security status of SBM Kenya was assessed and documented
- > All applications have been assessed for security vulnerabilities and issues found are being remediated
- > Web filtering prevents staff from accessing unsecure Internet pages which ensures enhanced security
- > A draft of the Bank of Mauritius (BOM) IT Risk Guidelines was analysed and translated to a checklist for assessing compliance of SBM. This was done by NII, a well reputed third party providing IT Security consulting services
- > Refurbishing of old servers rather than purchasing new ones



### Outputs

- > Enhanced security for customer data.
- > Security layers on customer data were implemented through a secure applications layer.
- > Enhanced Web filtering added as an additional layer of security for customers accessing the Internet through WiFi, apart from Network Security measures.
- > During working hours, authorised staff can now access internet and browse in a secure way for professional purposes.
- > Reductions on incremental IT capital expenditure to build an asset light footprint



# Corporate Governance Report (cont'd)



## HUMAN CAPITAL

In this report, we have strongly highlighted that our people are our most valuable asset. They are also our biggest capital. In this summary, we focus on the numbers that will show that we walk our talk in line with our values towards a sustainably invested future.

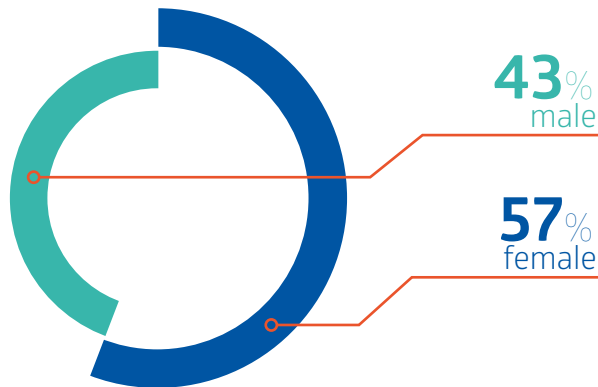
### Inputs

- > In 2017, almost a third of the wealth distributed, MUR 1.6 billion out of MUR 5.4 billion, was spent on our human capital in terms of remuneration, training and investment.
- > For 2017, a total amount of MUR 11 million was invested in training our staff in order to better serve our clients
- > A human capital risk assessment took note of the following
  - Turnover – some employees had to be replaced due to resignation or termination of contract
  - Succession planning – the non-identification of next in line can lead to a stress situation particularly for Senior Management positions
  - Close monitoring of Industrial Relations infringements to see if corrective coaching or disciplinary action was required
  - Full review of HR policies and procedures to ensure that they were in line with our strategy



### Outputs

- > A strong retention effort through the conversion of over 350 contractual works to permanent employees
- > Employee engagement of 26% (average percentage of employees who *strongly agree* to a set of engagement-related questions) of the workforce reporting a collaborative psychological contract and a synergy with the values of the organisation, which is not far from the 33% US/Worldwide engagement index
- > Staff training over all areas of the business from customer care to compliance and technical training
- > A diversified workforce. The group currently employs 57% female and 43% male employees as a fair representation of the communities within Mauritius





## SOCIAL CAPITAL

### Inputs

- > We maintained strong relationships with our various stakeholders by regularly engaging with them
- > We provided products and services for all segments of society in line with their financial needs
- > SBM has core values on putting our customers first in everything we do, treating our employees with integrity and respect, and adhering to the highest ethical standards
- > The Group is a socially responsible organisation
- > The Group is committed to promoting sustainability practices
- > The Group complies with laws, rules and regulations, codes of conduct in matters observing proper standards of market conduct and managing conflicts of interest



### Outputs

- > SBM Group is a leading financial services group in Mauritius and has presently around 23% market share in Mauritius and has the vision to build an international presence by growing market share in Kenya.
- > Market development is a strategy adopted by the Group with the acquisition of Fidelity Commercial Bank in Kenya and the conversion into a Wholly Owned Subsidiary in India.
- > Kenya has a big market potential with its population of 40 million people and SBM Group has the opportunity to build scale
- > Better international brand positioning in the financial services industry
- > Positioning SBM as a brand that is socially connected

# Corporate Governance Report (cont'd)



## INTELLECTUAL CAPITAL

### Inputs

**We view ourselves as thought leaders and encourage innovation and conceptual thinking across all capitals.**

- > The creation of 3S Ltd, which has a focus on incremental improvements and deployment of tools and processes, to continually improve our customer journey as well as developing solutions on innovative technologies and platforms
- > Publication of SBM Insights, a quarterly economic publication issued by the Strategy and Research Team
- > The Strategy and Research Team also provides industry analysis and country reports to internal departments
- > The Strategy and Research Team provides stress testing scenarios with economic forecasts for risk management purposes
- > Digitalisation which has resulted in higher ease of doing business for all of our clients
- > The creation of a Private Banking offering to better serve clients who have these needs
- > Creation and launch of microfinance service to fully support the entrepreneurs amongst our communities and clients
- > Improve response to customer from 2-3 weeks to 48 hours through the use of improved online platforms
- > One of the first in Mauritius to introduce online document upload
- > Contextual use noticed when prospects applied for auto leases online during the SBM sponsored event of the "Salon de L'Automobile"
- > Saving time and energy through Straight Through Processing which was passed on as a financial saving to the customer with no additional processing fees
- > Development partially done by students which provided them industry exposure



### Outputs

- SBM Insights helps stakeholders gain a better understanding of the global, regional and domestic economic landscape, and stimulates debate around topics of interest
- Facilitating informed decision making through comprehensive analysis and transforming this into measurable action plans
- Becoming an innovative organisation which is highly sensitive and responsive to our clients' needs
- Strategy process results in competitive and sustainable advantage through the level of our thought leadership
- Facilitating the development of graduates and school leavers by hiring a selection of same which resulted in knowledge sharing and job creation
- Saving our customers time by enabling them to access banking online without physically queuing or having to come into the bank
- Continuous revision and creation of seamless product offerings to bring enhanced customer experience



## NATURAL CAPITAL

Although our control over and access to natural resources is limited, we vow to use them intelligently and responsibly.

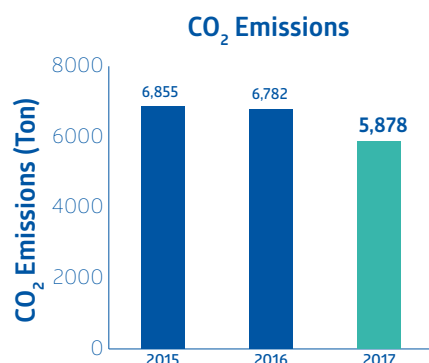
### Input

- Overhaul of air-conditioning system to make it more energy efficient
- Exchange of lightbulbs to green lightbulbs to reduce consumption
- Monitoring of water consumption and creating awareness in the organisation through education
- Enhanced policies and procedures around saving and recycling paper

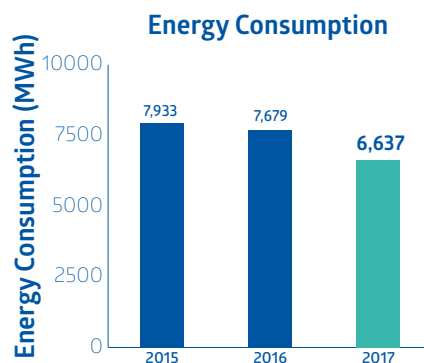
## Outputs

The tables below reflect the outputs which show a lighter footprint on the natural resources for the country.

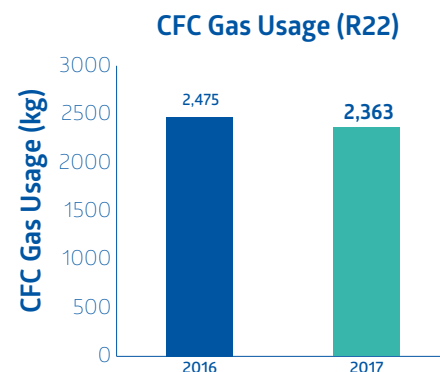
### Replacement of our equipment by more efficient ones



Decrease by 13% in 2017

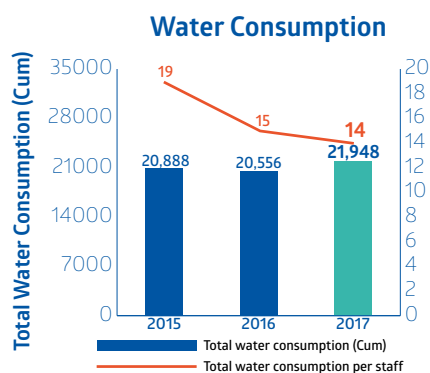


Decrease by 14% in 2017



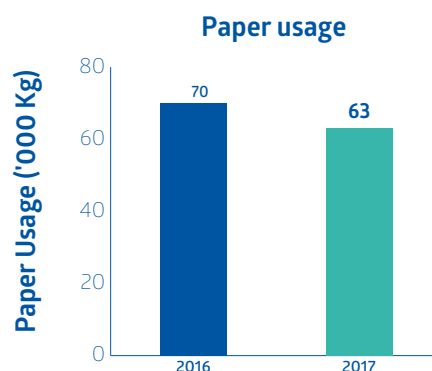
In 2017, the use of equipment making use of CFC gas decreased by 5% and we are aiming to reduce the figure by 90% in 2018.

### Monitoring of water consumption



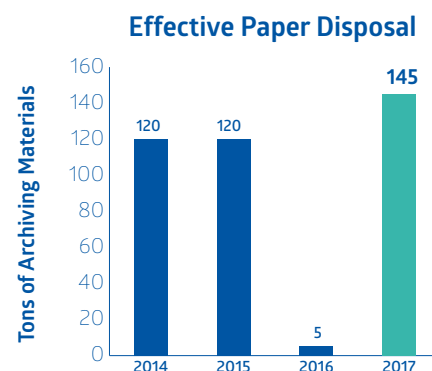
Though a slight increase was noted in total water consumption in 2017, water consumption per staff maintained a decreasing trend.

### Monitoring of Paper Usages



In our quest to reduce our paper usage through the use of i-pads at Board level, e-Statement and minimise printing of documents, a drop of 10% was noted in 2017.

### Paper Disposal



In 2016, minimal shredding was carried out due to Flamingo project (our new IT system), whilst in 2017 we sent 145 tons of archiving materials to be shredded and the output was exported to be reprocessed into finished paper products.

# Corporate Governance Report (cont'd)

## IT REPORT

The Board takes full responsibility for the oversight of the IT Governance of the organisation. For 2017, the following key items were monitored or delivered:

1. An independent team in the IT organisation was set up for IT Governance, Risk and Controls (IT GRC) with the intent of maturing this team into an IT GRC Center of Excellence (COE) for the Group and its entities
2. An overhaul of Group policies and standards to reflect and align to the digital age best practices is an ongoing exercise with the objective of protecting Group's assets and data as key deliverable
3. The continuance of implemented governance practices was monitored and maintained viz. audit support and closure, IT risk reporting, working with reputed vendors for security scanning and vulnerability assessments

## IT Projects

### Improved governance and controls

- An independent team in the IT organisation was setup for IT Governance, Risk and Control (ITGRC) with the intent of maturing this team into an IT GRC Centre of Excellence (COE) for the Group and entities.
- Enhanced best practices within IT operations → All IT policies, standards and guidelines were reviewed and shared with all IT associates through the online eLearning tool. These documents provide guidance to the team on the controls to follow to ensure best practices in execution of the IT operations and new initiatives. This is an annual recurring project that enables prevention of any financial losses due to non-adequate controls within IT operations. This documentation assists in increasing knowledge and skills for implementation of best practices.



- Systems and data access control → The system access processes have been aligned with the Logical Access Control Standard, which is reviewed on monthly basis. The processes ensure that access is provided to only authorised personnel across the Bank.
- Compliance to controls → The team interacts with both internal and external auditors to ensure that all systems and controls are compliant with the industry standards. Over 200 reports have been provided to auditors to complete their assignments. This process is repeated at predetermined frequency of time to provide the required comfort to the Board on satisfactory implementation of IT controls and processes.
- Ensuring adequate resources to assist the business → IT has been strengthened with additional resources in the Data & Analytics, Software Development, Innovation and Projects Implementation Teams. University students were also given the opportunity to get hands-on experience in developing real-life systems for the Group, benefitting them in terms of their knowledge and enhancing their chance of employment.

- Kenya → The IT policies and standards of the Group are implemented by the IT department of SBM Bank (Kenya) Limited. IT Security has also been enhanced prior to the merger of the new acquisition in Kenya. This ensures the protection of the organisation's assets and customers. Established and well reputed vendors are on boarded to scan for security vulnerabilities as well as for penetration testing to detect gaps proactively.
- Change management process → All system changes follow the established change management process for approval in appropriate forums before implementation on production environment. This process also ensures that a thorough testing has been carried out.

### Improved cybersecurity

- Compliance to IT Risk Guidelines of BOM → Bank of Mauritius (BOM) draft IT Risk Guidelines was analysed and translated to a checklist for assessing compliance of SBM. This was done by NII, a well reputed third party providing IT Security consulting services. Gaps identified were addressed to provide a more secure IT environment.

# 100%

**Compliance to IT policy & Procedure**

# 99.88%

**Availability of critical business Infrastructure & Systems**

# 100%

**Availability of Critical Environment**

# 100%

**IT Security attacks stopped**

# 100%

**Availability of disaster recovery environment**

- Security testing for all applications → All applications used in the Bank have been assessed for security vulnerabilities and identified issues are prioritised for remediation. This exercise provided the Bank with improved platform for secured operations.
- Full security gap assessment of SBM Kenya → The end to end IT Security of SBM Bank (Kenya) Limited was assessed and documented. An action plan to address all identified issues has been setup and the issues are being addressed. This exercise ensures that customer data is more secure with enhanced IT security.
- A Cybersecurity COE has been envisaged and steps are being taken to create this team to support the Group's entities and be proactive in preparation to respond to cyber threats.

#### **Improved customer experience**

- Free secure Wi-Fi access to customers → Free Wi-Fi provided to customers at 20 branches across the island for accessing Bank's internet and mobile banking services. This provides a faster service to the customers as well as enables them to use the Bank's online services.
- New intelligent ATM → New ATMs have been deployed to allow cash deposits to be taken and credited automatically to customer accounts on a real-time basis. This improvement helps the customers in having an immediate access to their account and also reduces the time taken as compared to similar transactions done at branch counters.
- Mobile Banking application → SBM Mobile Banking application has been launched on a bilingual platform designed to offer a simple and convenient customer online experience within a secured environment for a wide range of services such as balance enquiries, funds transfers, mobile topup, and bills payments. The SBM Mobile Banking App works on both iOS and Android and abides to the Bank of Mauritius's Security Guidelines and other applicable international security standards to protect customer data. This free service relieves the customers from travelling to the branch to perform banking operations and hence eliminates paperwork at branches.

#### **Improved Business Operations**

- Custody system → Software "Miles Money Ware" has been implemented for the Bank's custody business that provides increased level of investment and services to customers. The implementation of the custody solution improves the quality of services to customers by providing an online client portal for timely information on their portfolio.
- eLearning platform upgrade → The internal eLearning platform was upgraded with added functionalities to link procedures, process maps with policies. The platform is a centralised repository that ensures everyone is aware and knowledgeable of the established banking processes and procedures and allows disparate teams to follow same processes across the Bank.
- SBM India system refresh → The SBM India branch has embarked on a transformation project to upgrade all technology solutions. This upgrade will help to further grow the business in India and will provide customers with better services without any limitation on the technology and platform.

Other projects initiated in 2017 that will improve business efficiency and customer experience are:

- Internet banking system upgrade
- Omnichannel
- Automated XBRL regulatory reporting
- IFRS9 reporting

**> 12 Mn**

**Volume of POS transactions processed**

**> 34 Mn**

**Volume of ATM transactions processed**

**> 300,000**

**Volume of transactions through Internet Banking**

# Corporate Governance Report (cont'd)



## Finance Report

MUR  
**2,575** million

Profit after tax  
2016: MUR 2,309 million



**10.52**%

Return on average shareholders' equity  
2016: 10.04 %



MUR  
**3,160** million

Profit before tax  
2016: MUR 2,989 million



**2.05**%

Return on average risk-weighted assets  
2016: 2.60 %



**99.73** cents

Earnings per share  
2016: 89.43 Cents



**13.34**%

Return on average Tier 1 capital  
2016: 12.53 %



**974.70** Cents

Net Asset Value per share  
2016: 922.20 Cents



**19.98**%

Capital adequacy ratio  
2016: 25.70 %



MUR  
**25,165** million

Shareholders' Equity  
2016: MUR 23,805 million



**1.98**%

Net impaired advances to Net advances  
2016: 2.64 %



**44.75**%

Cost to income ratio  
2016: 42.53 %



MUR  
**5,449** million

Wealth Distributed  
2016: MUR 4,735 million



## Summary of Group Results

### GROUP FINANCIAL RESULTS AND RATIOS

	2017	2016	Change
Net interest income (MUR million)	<b>4,768</b>	4,383	8.78%
Non-interest income (MUR million)	<b>2,804</b>	2,063	35.92%
Net impairment loss on financial assets (MUR million)	<b>1,115</b>	717	55.51%
Operating profit (MUR million)	<b>3,068</b>	2,988	2.68%
Profit after tax (MUR million)	<b>2,575</b>	2,309	11.52%
Net Interest Margin (%)	<b>2.81</b>	3.10	(29) bps
Earnings per share (Cents)	<b>99.73</b>	89.43	11.52%
Dividend per share (Cents)	<b>40.00</b>	40.00	0%
Net assets value per share (Cents)	<b>974.70</b>	922.02	5.71%
Tier 1 to risk weighted assets ratio (%)	<b>15.92</b>	19.90	(398) bps
Capital Adequacy Ratio (%)	<b>19.98</b>	25.70	(572) bps

SBM Group posted a growth in profit after tax of 11.52% for the year ended 31 December 2017 amounting to MUR 2,575 million, up from MUR 2,309 million reported last year. The domestic banking operations continued to be the main driver of profitability in 2017.

The Group incurred higher system cost with full year amortisation of the core banking system and various other applications which went live in September 2016 along with higher impairment loss on financial assets by 55.51%.

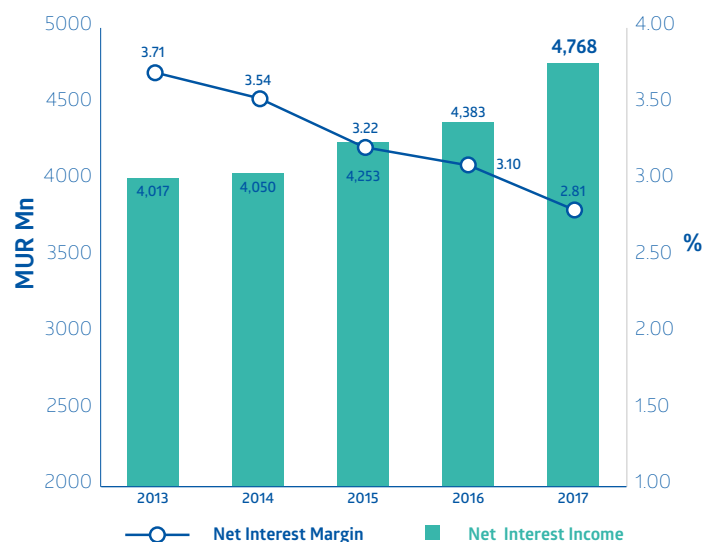
The earnings per share increased from 89.43 cents for 2016 to 99.73 cents for 2017. The Group's net interest margin decreased from 3.10% in 2016 to 2.81% in 2017.

Net loans and advances to non-bank customers were at MUR 103,129 million, compared to MUR 71,625 million or 43.98% growth in 2017 which is mainly attributable to a growth in gross loans and advances in the global business loan portfolio.

Net impairment loss on financial assets increased from MUR 717 million in 2016 to MUR 1,115 million in 2017.

## Income Growth

SBM Group's operating income for the year 2017 increased by 17.47% to stand at MUR 7,572 million as compared to MUR 6,446 million for the previous year. Both net interest income and non-interest income contributed to this increase. Net interest income increased by MUR 385 million or 8.78 % while non-interest income showed a higher growth of MUR 741 million or 35.92%.

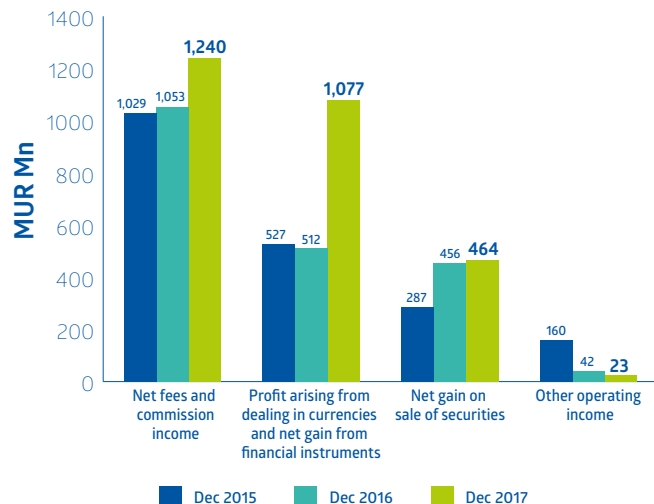


Interest income increased by MUR 757 million, from MUR 6,250 million for the year ended December 2016 to MUR 7,007 million for this financial year. The increase was mainly due to a significant growth in the loans and advances book during 2017. Net loans advances rose by MUR 31,504 million during the year to reach MUR 103,129 million as at 31 December 2017. Interest expense also increased by MUR 373 million, mainly due to growth in the deposit book by MUR 35,609 million (i.e. 32.60% increase). The liability mix improved as average lower cost demand and savings deposits increased which is lower remunerated resulting in an increase in interest expense by only 19.99%.



# Corporate Governance Report (cont'd)

## Breakdown of Non-Interest Income



Non-interest income increased by 35.92% during the year to reach MUR 2,804 million compared to MUR 2,063 million for the year ended December 2016. The main driver of non-interest income growth was net gain from dealing from financial instruments attributable to the derivatives desk and sale of bonds. These were mostly on client accounts in line with our strategy to augment the value proposition through effective financial risk management solutions. Net fee and commission income increased by MUR 187 million which is directly related to higher disbursements of loans and advances during the year and additional fees generated by the non-banking financial cluster.

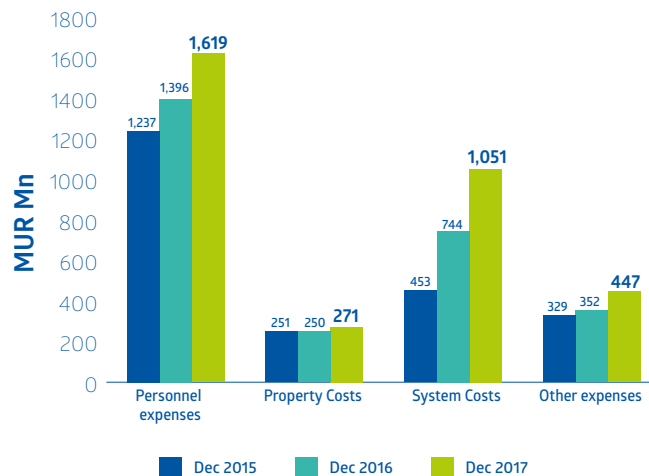
## Non-Interest Expenses

Non-interest expenses, which amounted to MUR 2,742 million for the year ended December 2016, grew by MUR 647 million or 23.60% to reach MUR 3,388 million for the year ended December 2017.

Personnel costs increased by MUR 223 million or 15.97% on account of annual increase in salaries and pensions coupled with an increase in headcount in 2017. During the year, SBM Group completed the acquisition of a bank in Kenya now renamed SBM Bank (Kenya) Limited which also resulted in an increase in personnel expenses.

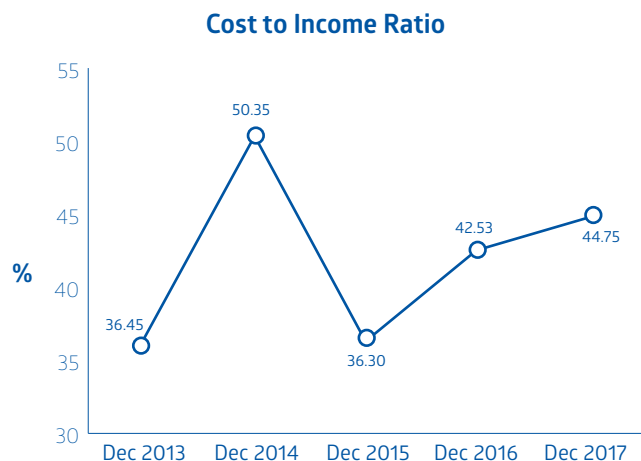
System cost has also increased by MUR 307 million or 41.26% mainly due to depreciation and amortisation of hardware and software of the new core system and other applications which went live in September 2016. The full impact of the annual amortisation and maintenance costs of new system is being borne as from financial year 2017.

## Breakdown of Non-Interest Expense



## Cost to income

In line with the higher IT and HR costs, the cost to income ratio increased from 42.53% for the year ended December 2016 to 44.75% for the year ended December 2017. The increase in the cost to income ratio is mainly due to higher IT costs for 2017 with the go live of the Flamingo system in September 2016 leading to full year amortisation in the financial year along with an increase in other system related costs. Personnel expenses have also increased leading to a deterioration of the cost to income ratio



## Net Credit Impairment Loss on Financial Assets

Net credit impairment loss on advances and other financial assets for the year ended December 2017 amounted to MUR 1,115 million as compared to MUR 717 million for the year ended December 2016. The Indian operations contributed largely to the increase in impairment loss due to some new major additional accounts being impaired during the year. In regards to the Mauritius operations, portfolio provisions increased by MUR 228 million on account of an increase in portfolio provisioning with the growth in the loan book. One of the equity investments held by the Group was also impaired during the year for an amount of MUR 148 million. The Group shall continue with recovery actions to realise collaterals and maximise their recoveries

## Assets Growth

Total assets of the SBM Group grew by MUR 47,125 million from MUR 146,896 million as at 31 December 2016 to MUR 194,021 million as at 31 December 2017, with an increase in net loans and advances by 43.98% or MUR 31,504 million and an increase in liquid assets by MUR 14,152 million.

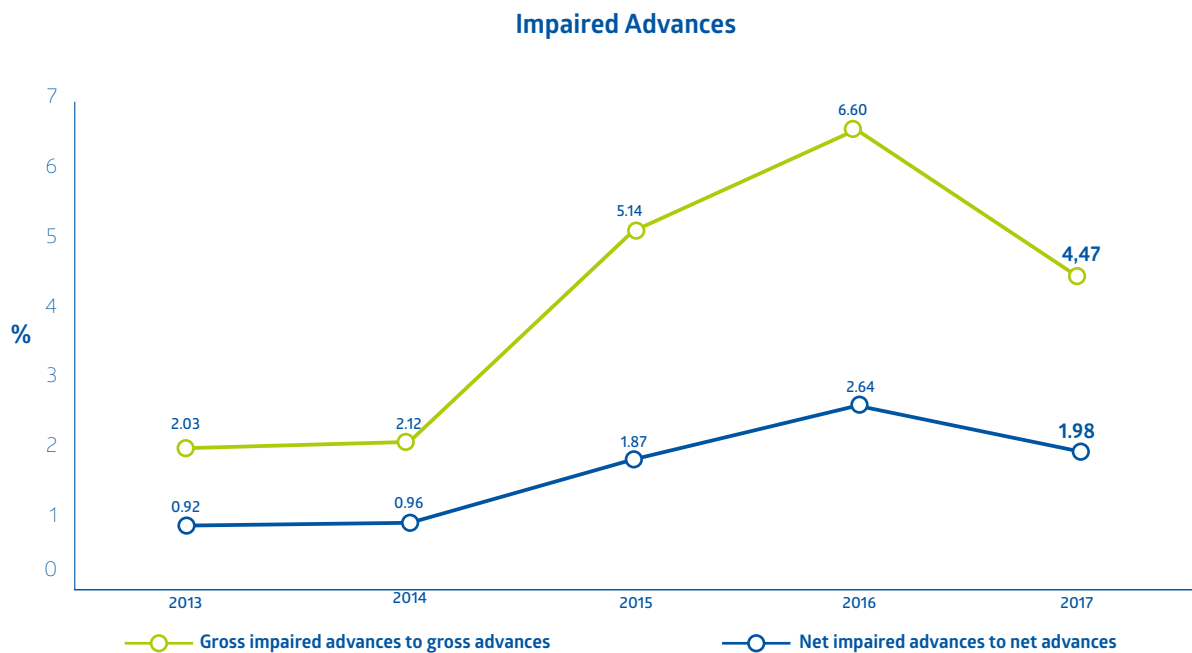
## Loans and Advances

SBM Group's gross advances increased by 41.47% to reach MUR 107,198 million as at 31 December 2017 (2016: MUR 75,776 million). The increase was largely contributed by growth in the international banking/Segment B business. Advances in the overseas operations increased to reach nearly MUR 9,560 million at 31 December 2017 which includes gross loans and advances from the new acquisition in Kenya amounting to MUR 2,079 million. Advances denominated in Foreign Currency as a percentage of total gross loans and advances represented 45.40% at 31 December 2017 compared to 31.14% at 31 December 2016. SBM grew its exposure in Segment B with an increase of MUR 20,301 million during the year while the banking sector registered an overall increase of nearly MUR 7,895 million during the same period, leading to a rise in SBM's market share to 10.82% in December 2017 as compared to 5.89% a year earlier. Segment A market share also increased from 21.94% in December 2016 to 23.39% in December 2017. A breakdown of the credit portfolio by economic sector, and with related level of provisions held, has been disclosed in Note 8 to the Financial Statements.

# Corporate Governance Report (cont'd)

## Impaired Advances and Allowance for Credit Impairment

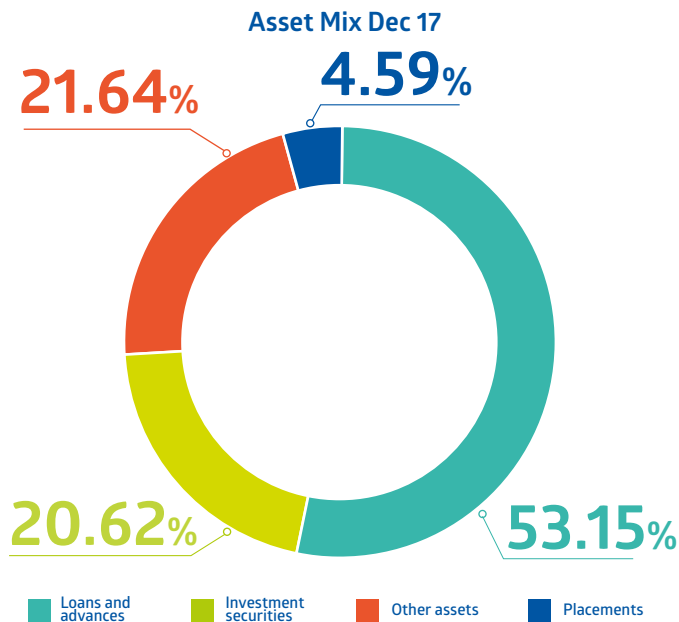
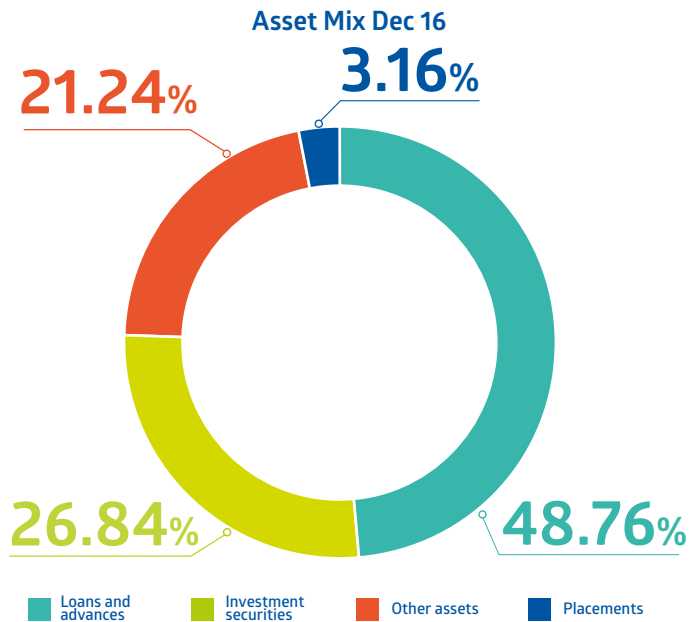
Gross impaired advances decreased from MUR 4,998 million at December 2016 to MUR 4,787 million at December 2017. The gross impaired advances went down due to write offs during the year under review for both the Mauritius and the India operations. This was offset by new accounts being impaired for India operations made during the year. The acquisition in Kenya also increased our gross impaired advances by MUR 1,371 million with a specific provision of MUR 505 million. The Group ensured adequate provisions were maintained as per the guidelines of the respective central banks and International Financial Reporting Standards. Specific allowance for credit impairment stood at MUR 2,741 million, representing a provision coverage ratio of 57.27% (December 2016: 62.14%). The Group's gross impaired advances to gross advances ratio improved from 6.60% in December 2016 to 4.47% in December 2017 and the net impaired advances to net advances ratio significantly decreased from 2.64% to 1.98%.



Investment Securities and Equity Investments

Investment securities, which comprise fixed interest Treasury Bills, Treasury Notes, Government Bonds and Foreign Bank Bonds, grew from MUR 39,431 million as at 31 December 2016 to MUR 40,000 million as at 31 December 2017. The increase is minimal even though there has been significant growth in CASA deposits, as the funds were mostly deployed towards loans and advances given the higher demand for credit facilities during the year.

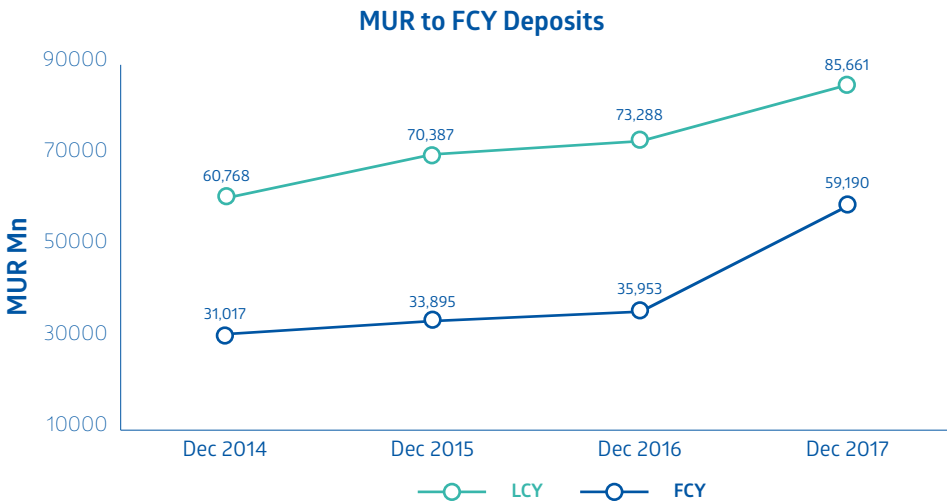
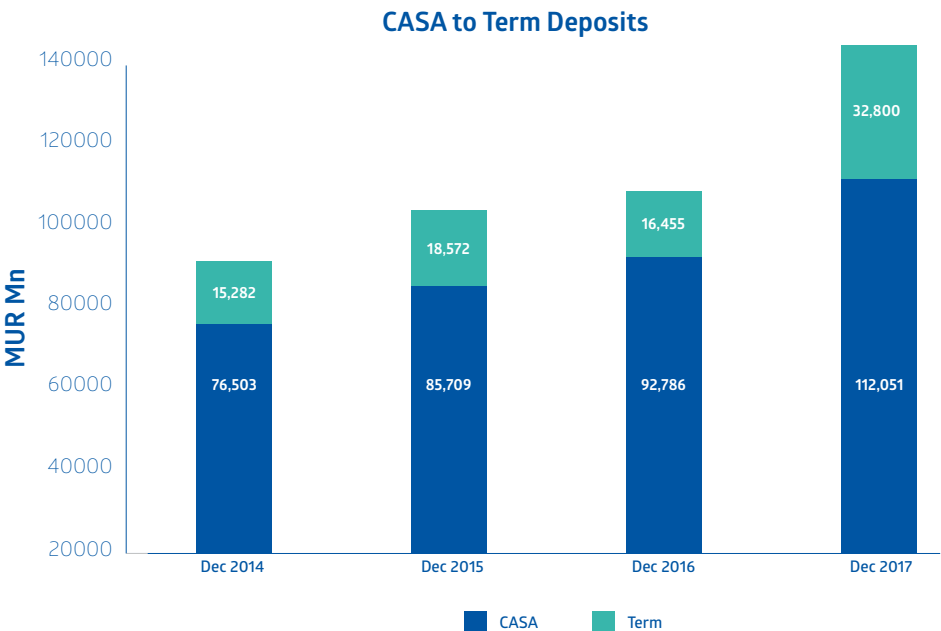
Foreign currency denominated bonds decreased as the excess funds were deployed in foreign currency loans and advances. It was also a deliberate strategy to scale down the fixed interest US dollar bonds of longer maturity as the Group anticipates interest rates to increase in the near term.

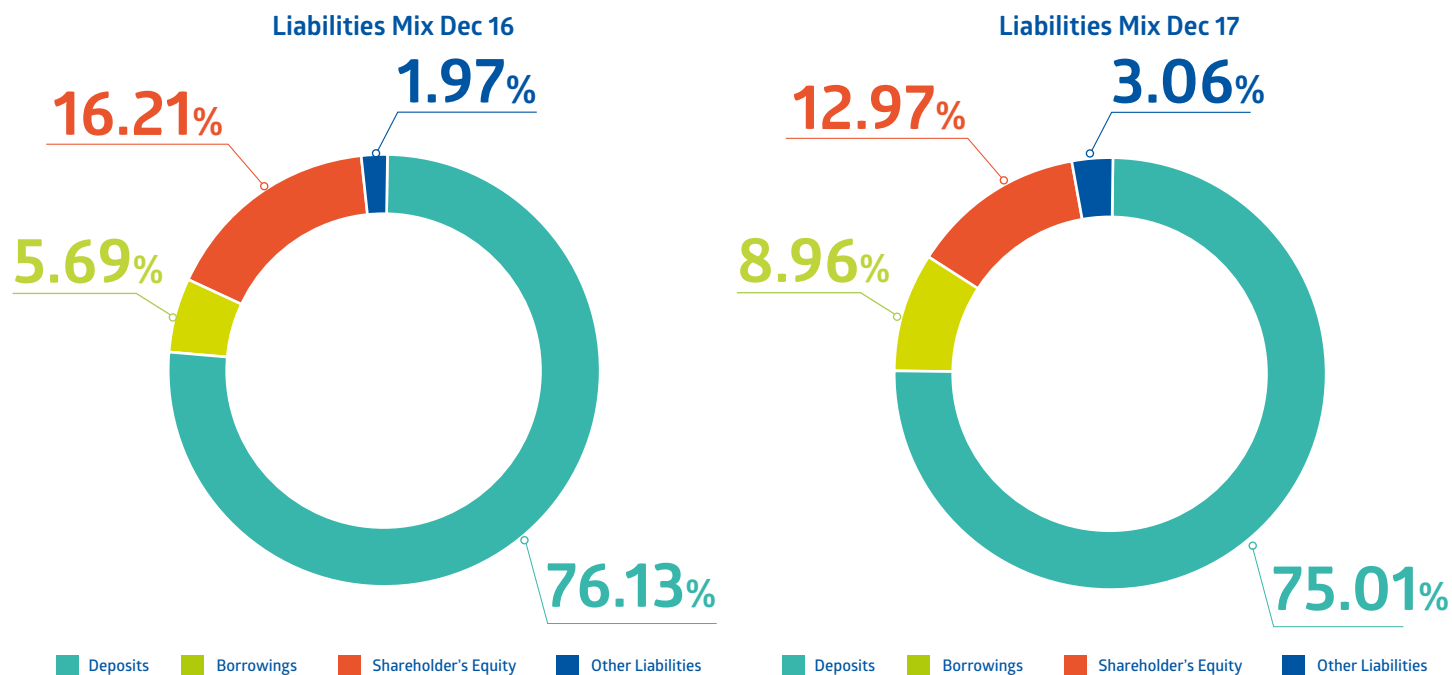


# Corporate Governance Report (cont'd)

## Deposits

Deposits from non-bank customers increased by 32.60% to reach MUR 144,851 million as at 31 December 2017 (31 December 2016: MUR 109,241 million) with current demand and savings deposits (CASA) growing by MUR 19,264 million (20.76%) compared to December 2016. Term deposits also increased by MUR 16,345 million, with a fair share being contributed by the Indian operations and Kenya. Out of the MUR 35,609 million increase in total deposits in 2017, foreign currency (FCY) deposits accounted for MUR 23,237 million thereby increasing the mix of FCY deposits to total deposits from 32.91% at 31 December 2016 to 40.86% at 31 December 2017. Local currency deposits denominated in MUR increased by MUR 12,373 million. Domestic market share of CASA deposits represented 25.24% and market share for Segment A deposits stood at 21.06% as at 31 December 2017.





## Borrowings

SBM Group's borrowings, mainly from refinancing sources, stood at MUR 17,388 million as at 31 December 2017 (2016: MUR 8,351 million). The bulk of the borrowings were in USD and Euro from foreign financial/development institutions being utilised for refinancing activity for certain specific purposes.

# Corporate Governance Report (cont'd)

## Shareholders' Equity

SBM Group shareholders' equity increased by 5.71% to reach MUR 25,164 million as at 31 December 2017 (31 December 2016: MUR 23,805 million) with the retention of the current period profit of MUR 2,575 million, partly offset by dividend payments of MUR 1,033 million during the year. Return on average shareholders' equity stood at 10.52% for the year under review as compared to 10.04% for year 2016.

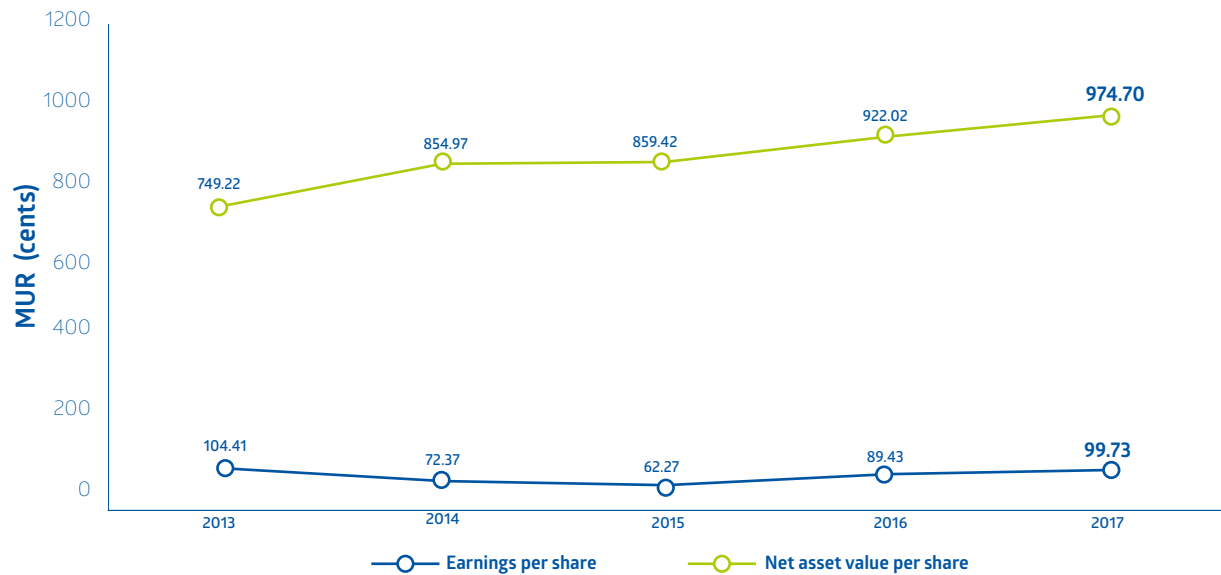
Evolution of SBMH Share Price



On the Official Market, market indices started the month of January 2017 on an optimistic note and maintained their upward trend almost throughout the year. The year under review also saw some market indices reach their all-time high levels. The total return index, SEMTRI, closed at an all-time high level of 7937.87 points on 23 November 2017, whereas the price index, SEMDEX, finished at its record level of 2229.99 points on 28 September 2017. The SEM-ASI and the SEMTRI finished the session of 29 September 2017 at their all-time high, closing at 2290.90 points and 8057.88 points respectively. On the main Board, the SEMDEX (all-share index) ended the period under review at 2202.14 points registering a growth of 21.77% since the start of 2017. The market rally in Mauritius was spurred by the solid performance of some heavy capitalised stocks, a favourable interest rate environment and attractive valuation ratios on some stocks. On the Development & Enterprise Market (DEM), market indices ended 2017 with a bang with both the DEMEX and the DEMTRI setting new records. The DEMEX ended the last session of 2017 at its all-time high level of 229.71 points.

Year 2017 also marked the advent of the first Depositary Receipts (DRs) Listing on the Stock Exchange of Mauritius (SEM) – the AFREXIMBANK DRs with SBM Securities Ltd’s pivotal role as Sponsoring Broker and Depository for the listing. SBM Securities Ltd has been recognised as the Best Stockbroker – Indian Ocean 2017 and one of the most important milestones accomplished by SBM Securities Ltd and recognised by the judging panel is the placement of USD 165 million Depositary Receipts for AFREXIMBANK, the highest ever capital raised on the Stock Exchange of Mauritius (SEM).

In line with market trends, SBMH was on the upside, beginning the year at MUR 6.64 to end at MUR 7.50. SBMH benefitted from improving Profit after Tax in Q3, and the announcement of Non-binding offer for further acquisition of selected assets and liabilities in Kenya as part of the Group’s regionalisation strategy. Additionally, the appointment of the Group Chief Executive Officer announced in December 2017, arguably provided comfort to the markets on strategy execution.



Further analysis on the capital structure and capital adequacy ratio is provided on page 197.



# Corporate Governance Report (cont'd)

## Performance 2017 against objectives

Indicator	Target for 2017	Performance in 2017
<b>SBM Holdings Ltd</b>		
Return on Average Assets (ROA)	With the implementation of a series of initiatives, the Group is projecting an increase in its ROA which should attain at least 2% for 2017.	Whereas the growth in average assets was in line with expectations, at 20.44%, PAT growth was well below target – albeit remaining appreciable at 11.52% - due to a few unforeseen events. These include: (i) Higher than expected impairment charge; (ii) Lower dividend income than expected (iii) Thinner credit margins than earlier anticipated; (iv) A negative contribution of SBM Bank (Kenya) Ltd in its first year of operation. As a result, ROA for 2017 stood at 1.51%.
Return on Average Equity	Return on Average equity is expected to improve in the coming years, with a minimum of 15% for 2017.	Return on average equity improved from 10.04% in 2016 to 10.52% in 2017, but was below the target level, in line with the lower projected PAT growth, as explained above.
Operating Income (excluding Dividend)	The Group is projecting a 2 digit growth rate in net interest income for 2017 with more focus on asset management and growing its loan portfolio, more specifically from Global business. Substantial growth of at least 25% is expected in non-interest income with projected increase in business volumes coupled with targeted increase in income from Treasury Products.	The Group achieved a year-on-year growth of 17.84% in Operating income driven by an uplift of 8.78% (MUR 384 million) in net interest income compared to 2016 with substantial growth in business volumes. In addition, non interest income (excluding dividend) increased by 37.50% or MUR 759 million mostly driven by higher income from Treasury products. Fee-based income also went up appreciably, following growth in business volumes and higher contribution from Non-Banking Operations.
Operating Expense	Operating expenses is expected to grow by at least 25% for 2017 with amortization of the full fledged new information technology platform and also as the Group continues its investment in capacity building.	Operating expenses rose by 23.60% as per expectation with the full year amortisation of the new information technology platform and continued investment in capacity building resulting in a rise of 15.97% in personnel expenses. Of note, the newly acquired bank in Kenya has also added 21% of the total increase for 2017.
Cost to Income ratio (CI)	A slight improvement in the cost to income ratio is expected for 2017 with targeted growth in Operating Income outpacing growth in operating expenses and CI ratio projected to go further down as the Group reaps the full benefit of its huge investment in system and capacity building.	Cost to income ratio stood at 44.75% for FY2017, higher than FY2016 with growth in operating expenses outpacing growth in operating income in 2017.
Net profit for the year	Growth of at least 25%	The Group achieved a Net profit of MUR 2,575 million, representing a year-on-year growth of 11.52%. Although appreciable, the increase is well below the targeted growth of 25% for the reasons enumerated above.

Indicator	Target for 2017	Performance in 2017
<b>SBM (Bank) Holdings Ltd</b>		
Advances	Considering the Mauritian economy is expected to grow by around 4%, SBM Bank Group is targeting an increase of 10% in its rupee loan portfolio while more focus will be laid on growing the Cross Border/ Segment B portfolio with a double digit growth rate.	SBM Bank Group registered a growth of 41.47% (MUR 31,422 million) in gross advances compared to December 2016 with growth mostly emanating from its Cross Border / Segment B portfolio. Moreover, the Domestic segment also did fairly well with a year-on-year growth of 13.71% and further growth in market share.
Deposits	Target is to grow on low cost deposits and in foreign currency, to fund the targeted growth in loan portfolio. MUR deposits is expected to grow by at least 12%.	Deposits from non-bank customers grew by 32.65% or MUR 35,696 million compared to December 2016 mainly in low cost deposits. Foreign Currency deposits increased by 64.63% while MUR deposits grew by 16.88%.
Assets Quality	Net impaired ratio is expected to fall below 2% with targeted growth in advances.	Net impaired ratio improved to 1.98% from 2.64% as at December 2016 with significant growth in advances and a clean up of the bad debts.

## Objectives for 2018

Indicator	Target for 2018
<b>SBM Holdings Ltd</b>	
Return on Average Assets (ROA)	A marginal improvement in ROA to at least 1.60% in 2018
Return on Average Equity	Return on Average Equity to pick up in the coming years, with a minimum of 12% in FY 2018
Operating Income (excluding Dividend)	To grow by at least 20% in 2018 driven by increased business volumes which will help to strengthen Net Interest Income as well as fee based income, coupled with a further increase in income from Treasury Products as well as an uplift in the contribution from the Non-Banking Financial arm.
Operating Expense	Operating expenses are likely to grow further in 2018 in line with the Group's expansion plan and capacity building initiatives
Cost to Income ratio	The CI ratio is expected to increase in FY2018 but should be contained below 46%
Net profit for the year	Growth of at least 20%
<b>SBM (Bank) Holdings Ltd</b>	
Advances	A double digit growth in advances with a smooth growth in MUR loan portfolio and more focus in growing the cross border loan portfolio
Deposits	A moderate increase in MUR deposits is projected in line with the current low interest rate environment while a higher growth in the foreign currency deposit base is targeted so as to fund the fast growing FCY assets book
Assets Quality	Net Impairment ratio expected to remain below 1.8%

# Corporate Governance Report (cont'd)

## Financial summary

SBM GROUP	12 months December 2017	12 months December 2016	12 months December 2015	12 months December <sup>b</sup> 2014	12 months December <sup>b</sup> 2013	18 months December <sup>a</sup> 2013
<b>Key financial highlights (MUR million)</b>						
Profit before income tax and net impairment loss on financial assets	4,184	3,705	3,985	3,108	3,745	5,860
Profit before income tax	3,160	2,989	2,048	2,541	3,276	5,259
Profit for the year/period	2,575	2,309	1,608	1,868	2,696	4,350
Total assets	194,021	146,896	136,162	125,602	111,861	111,861
Shareholders' equity	25,165	23,805	22,188	22,074	19,343	19,343
Tier 1 capital	20,010	18,598	18,254	20,376	12,633	12,633
Risk-weighted assets (including market and operational risks)	125,684	93,480	83,935	79,366	74,750	74,750
Average assets <sup>c</sup>	170,459	141,529	130,882	118,731	108,127	105,342
Average shareholders' equity <sup>c</sup>	24,485	22,997	22,131	20,708	18,645	18,535
Average working funds <sup>c</sup>	177,353	147,833	135,841	120,378	107,524	104,603
Average Tier 1 capital <sup>c</sup>	19,304	18,426	19,315	16,505	12,871	12,135
<b>Key financial ratios (%)</b>						
Capital adequacy ratio	19.98	25.70	28.26	31.41	20.40	20.40
Tier 1 Capital adequacy ratio	15.92	19.90	21.75	25.67	16.90	16.90
Profit before income tax <sup>i</sup> / average risk-weighted assets	2.88	3.37	2.51	3.30	4.39	4.83
Profit before income tax <sup>i</sup> / average assets	1.85	2.11	1.56	2.14	3.03	3.32
Profit before income tax <sup>i</sup> / average shareholders' equity	12.91	13.00	9.25	12.27	17.57	18.86
Profit before income tax <sup>i</sup> / average Tier 1 capital	16.37	16.22	10.60	15.40	25.45	28.81
Return on average risk-weighted assets <sup>f</sup>	2.05	2.60	1.97	2.42	3.61	4.00
Return on average assets <sup>f</sup>	1.51	1.63	1.23	1.57	2.49	2.75
Return on average shareholders' equity <sup>f</sup>	10.52	10.04	7.26	9.02	14.46	15.60
Return on average Tier 1 capital <sup>f</sup>	13.34	12.53	8.32	11.32	20.94	23.83
Cost to income	44.75	42.53	36.30	50.35	39.39	36.45
<b>Share information (based on nominal of 10 cent each)<sup>d</sup></b>						
Earnings per share (Cents) <sup>f</sup>	99.73	89.43	62.27	72.37	104.41	112.03
Dividend per share (Cents) <sup>e,f,g</sup>	40.00	40.00	40.00	45.00	40.00	40.00
Net asset value per share (Cents)	974.70	922.02	859.42	854.97	749.22	749.22
Share price to book value (times)	0.77	0.72	0.83	1.08	1.32	1.15
Dividend yield (%) <sup>e,f</sup>	5.33	6.02	5.63	4.41	3.85	3.85
Earnings yield (%)	13.30	13.47	8.77	7.09	10.04	10.77

<b>SBM GROUP</b>	<b>12 months December 2017</b>	<b>12 months December 2016</b>	<b>12 months December 2015</b>	<b>12 months December<sup>b</sup> 2014</b>	<b>12 months December<sup>b</sup> 2013</b>	<b>18 months December<sup>a</sup> 2013</b>
Total Yield (Cents) <sup>e</sup>	<b>126.00</b>	(6.00)	(270.00)	25.00	180.00	260.00
Cumulative Yield (Cents)	<b>1,149.50</b>	1,023.50	1,029.50	1,299.50	1,274.50	1,274.50
Price earnings ratio (times)	<b>7.52</b>	7.42	11.40	14.09	9.96	9.28
Dividend cover (times)	<b>2.49</b>	2.24	1.56	1.61	2.61	2.81
Market capitalisation (MUR million)	<b>22,781</b>	20,168	21,566	30,982	31,589	31,589
Market price per share (Cents)	<b>750.00</b>	664.00	710.00	1,020.00	1,040.00	1,040.00
Highest	<b>800.00</b>	664.00	1,000.00	1,069.30	1,297.00	1,297.00
Lowest	<b>650.00</b>	630.00	693.10	980.20	1,078.80	1,078.80
Average	<b>744.00</b>	673.14	878.90	1,026.00	1,232.50	1,232.50
Value of shares trades (MUR million)	<b>2,850.86</b>	1,167.28	3,157.55	2,288.58	1,873.83	2,439.12
Value of shares traded as a percentage of Market (%)	<b>7.66</b>	9.34	17.55	13.83	17.74	11.66
<b>Other key data</b>						
Number of employees	<b>1,889</b>	1,527	1,223	1,179	1,168	1,168
Number of employees (Mauritius)	<b>1,593</b>	1,409	1,117	1,074	1,066	1,066
Number of employees (Overseas)	<b>297</b>	118	106	105	102	102
Number of service units	<b>62</b>	51	52	50	49	49
Exchange rate (USD : MUR)	<b>33.41</b>	35.90	35.91	31.78	30.00	30.00
Exchange rate (INR : MUR)	<b>0.523</b>	0.529	0.543	0.504	0.485	0.485
Exchange rate (100 MGA : MUR)	<b>1.036</b>	1.081	1.124	1.234	1.350	1.350
Exchange rate (KES : MUR)	<b>0.324</b>	2.856				

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

<sup>b</sup> Restated

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

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

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

<sup>f</sup> Figures for the 18 months to December 2013 have been annualised.

<sup>g</sup> Dividend per share for 2017 includes a dividend of 10 cents per share payable in 2017.

# Corporate Governance Report (cont'd)

## Cluster results – SBM (Bank) Holdings Ltd

### Three year summary– SBM (Bank) Holdings Ltd

	December 2017	December 2016	December 2015
<b>Consolidated statement of profit or loss (MUR Mn)</b>			
Net interest income	4,773	4,305	4,136
Non interest income	2,513	1,937	1,749
Non interest expense	3,204	2,641	2,174
Depreciation and amortisation	668	348	161
Profit before income tax and net impairment loss on financial assets	4,083	3,601	3,711
Profit before income tax	3,115	2,883	1,777
Profit for the year	2,547	2,225	1,357
<b>Consolidated statement of financial position (MUR Mn)</b>			
Total assets	184,583	135,137	124,015
Gross loans and advances to non-bank customers	107,198	75,776	72,296
Investment securities	38,189	34,775	31,479
Deposits from non-bank customers	145,029	109,333	104,488
Shareholders' equity	19,307	15,905	13,737
Tier 1 capital	14,160	10,701	9,805
Risk-weighted assets (including market and operational risks)	115,517	82,280	75,746
<b>Consolidated statement of financial position (average<sup>a</sup> MUR Mn)</b>			
Average assets	159,860	129,576	119,389
Average loans and advances to customers	91,487	74,036	70,702
Average investment securities	36,482	33,127	25,109
Average deposits from non-bank customers	127,181	106,910	98,214

<sup>a</sup> Averages are calculated using year-end balances.

	December 2017	December 2016	December 2015
Average shareholders' equity	<b>17,606</b>	14,821	14,212
Average Tier 1 capital	<b>12,430</b>	10,253	11,398
Average interest earning assets	<b>143,697</b>	117,417	105,543
Average interest bearing liabilities	<b>137,594</b>	111,479	102,017
<b>Efficiency ratios (%)</b>			
Cost to income	<b>43.97</b>	42.31	36.94
Earnings per share (cents)	<b>33,960.97</b>	29,662.55	18,088.77
Net asset value per share (MUR'000)	<b>257.43</b>	197.61	189.50
<b>Performance ratios (%)</b>			
Capital adequacy ratio	<b>13.85</b>	14.92	14.96
Tier 1 Capital adequacy ratio	<b>12.26</b>	13.01	12.94
Profit before income tax/ average risk-weighted assets	<b>3.15</b>	3.65	2.42
Profit before income tax/ average assets	<b>1.95</b>	2.23	1.49
Profit before income tax/ average shareholders' equity	<b>17.69</b>	19.45	12.50
Profit before income tax/ average Tier 1 capital	<b>25.06</b>	28.12	15.59
Return on average risk-weighted assets	<b>2.58</b>	2.82	1.85
Return on average assets	<b>1.59</b>	1.72	1.14
Return on average shareholders' equity	<b>14.47</b>	15.01	9.55
Return on average Tier 1 capital	<b>20.49</b>	21.70	11.90
<b>Asset quality ratios (%)</b>			
Gross impaired advances to gross advances	<b>4.47</b>	6.60	5.14
Net impaired advances to net advances	<b>1.98</b>	2.64	1.87

# Corporate Governance Report (cont'd)

## Cluster results: Business Review by geographies of operations

### MAURITIUS OPERATIONS

#### Financial performance

	December 2017	December 2016	December 2015
	MUR'M	MUR'M	MUR'M
Net interest income	4,506	4,035	3,812
Net fee and commission income	983	956	917
Other non-interest income	1,382	893	698
Operating income	6,871	5,884	5,427
Non-interest expense	(2,846)	(2,444)	(1,979)
Profit before net impairment loss on financial assets	4,025	3,440	3,448
Net impairment loss on financial assets	(228)	(415)	(1,696)
Profit before tax	3,797	3,025	1,752
Tax expense	(494)	(632)	(423)
Profit after tax	3,303	2,393	1,329
Total assets	172,379	129,045	117,702
Gross loans and advances to customers	97,638	71,913	68,010
Deposits from non-bank customers	134,385	103,115	98,596
Total equity attributable to equity holders of the parent	19,270	15,947	13,531

Total assets increased by 33.58% from MUR 129,045 million as at 31 December 2016 to MUR 172,379 million as at 31 December 2017 as a result of an increase in gross loans and advances to customers of MUR 25,725 million; an increase in cash and cash equivalents of MUR 5,796 million; an increase in derivative financial instruments of MUR 7,815 million; and increase in loans and placements with banks of MUR 4,430 million. Deposits from non-bank customers increased by MUR 31,270 million during the year under review. Shareholders' equity stood at MUR 19,270 million (2016: MUR 15,947 million).

Profit after tax increased by 38.03% to MUR 3,303 million for the year ended 31 December 2017 as compared to MUR 2,393 million in the previous year. Operating income increased by 16.77% (MUR 987 million), mainly attributable to a growth in net interest income by MUR 471 million, from MUR 4,035 million for FY 2016 to MUR 4,506 million for FY 2017; and an increase in non-interest income of MUR 516 million from MUR 1,849 million for FY 2016 to MUR 2,365 million for FY 2017. Non-interest expense increased by 16.45% (MUR 402 million) mainly because of the amortisation of software following Go Live of the Flamingo system in September 2016 and an increase in personnel costs on account of additional staff and salary annual increment. Net impairment decreased by MUR 187 million due to bad debt recovered of MUR 115 million on account of a large conglomerate customer for the year under review. Tax expense decreased to MUR 494 million for FY 2017 compared to MUR 632 million for FY 2016 as a result of: higher capital allowances in respect of new software capitalised; and write off of loans made during the year.

## Cluster results: Business Review by geographies of operations

### India Operations

	December 2017	December 2016	December 2015
	MUR'M	MUR'M	MUR'M
Net interest income	214	219	255
Net fee and commission income	16	17	27
Net trading income	28	8	-
Other operating income	14	18	31
Operating income	272	262	313
Non-interest expense	(138)	(124)	(134)
Profit before net impairment loss on financial assets	134	138	179
Net impairment loss on financial assets	(759)	(302)	(177)
Profit before tax	(625)	(164)	2
Tax (expense)/credit	(66)	(21)	14
(Loss)/profit after tax	(691)	(185)	16
Total assets	10,271	8,154	8,217
Gross loans and advances to customers	6,622	3,297	3,779
Deposits from non-bank customers	7,310	5,188	4,982
Total equity attributable to equity holders of the parent	2,023	2,744	3,003

### Financial performance

Total assets rose by 25.96% from MUR 8,154 million as at 31 December 2016 to MUR 10,271 million as at 31 December 2017. The increase in total assets was mainly attributable to an increase in gross loans and advances by MUR 3,325 million or 100.84%. However, the advances book was affected by write offs of MUR 297 million during the year. Deposits went up by MUR 2,122 million, with the funds being mostly used to fund the growth in loans and advances. Investment securities declined following a deliberate disinvestment move to enable deployment into higher margin loans and advances. Shareholders' equity decreased to MUR 2,023 million (2016: MUR 2,744 million) as a result of the loss made during the financial year 2017.

Indeed, for the year ended 31 December 2017, India operations reported a loss of MUR 691 million as compared to a loss of MUR 185 million for the year ended 31 December 2016. The loss was mainly due to net impairment loss on financial assets amounting to MUR 759 million due to some major customers being impaired during the year. Net interest income went down even though loans and advances increased significantly. This was due to an increase in impaired advances during the year and loans and advances being mainly disbursed during the year end whereby benefits will be reaped in 2018. Non-interest expenses also increased by 11.29% (MUR 14 million) on account of normal yearly salary review and an increase in headcount during the year.



# Corporate Governance Report (cont'd)

## Cluster results: Business Review by geographies of operations

### MADAGASCAR OPERATIONS

	December 2017	December 2016	December 2015
	MUR'M	MUR'M	MUR'M
Net interest income	75	51	68
Net fee and commission income	13	8	6
Net trading income	39	36	65
Operating income	127	95	139
Non-interest expense	(82)	(73)	(60)
Profit before net impairment loss on financial assets	45	22	79
Net impairment loss on financial assets	(31)	(1)	(61)
Profit before tax	14	21	18
Tax expense	(7)	(6)	(10)
Profit after tax	7	15	8
Total assets	1,442	1,201	1,085
Gross loans and advances to customers	989	565	507
Deposits from non-bank customers	1,262	1,040	920
Total equity attributable to equity holders of the parent	140	140	128

### Financial performance

Total assets increased by 20.07% from MUR 1,201 million as at 31 December 2016 to MUR 1,442 million as at 31 December 2017 with an increase in loans and advances to customers of MUR 424 million and a decrease in investment securities of MUR 397 million. Deposits from non-bank customers increased by MUR 222 million. Shareholders' equity stood at MUR 140 million (2016: MUR 140 million) as the profit for the year of MUR 7 million was mitigated by translation loss of MUR 7 million.

Profit after tax decreased by 60% to MUR 7 million for the year ended 31 December 2017 as compared to MUR 15 million a year earlier. Operating income increased by 34% (MUR 32 million). Net interest income increased by 47% (MUR 24 million) while net fee and commission income increased by 62.5% (MUR 5 million). Non-interest expense increased by 12% (MUR 9 million) while net impairment increased by MUR 30 million due to a higher specific and portfolio provision for the year ended 31 December 2017.

## Cluster results: Business Review by geographies of operations

### KENYA OPERATIONS

	Period from 11 May 2017 to 31 December 2017
	MUR'M
Net interest income	(23)
Net fee and commission income	38
Net trading income	6
Other income	1
Operating income	22
Non-interest expense	(138)
Loss before net impairment loss on financial assets	(116)
Net impairment loss on financial assets	51
Loss before tax	(65)
Tax expense	-
Loss after tax	(65)

	December-17
	MUR'M
Total assets	3,321
Gross loans and advances to customers	2,079
Deposits from non-bank customers	2,081
Total equity attributable to equity holders of the parent	399

#### Financial performance

On 10th of May 2017, the SBM Group successfully completed the acquisition of Fidelity Commercial Bank Limited through SBM Africa Holdings Ltd, a 100% subsidiary of SBM Holdings Ltd. As at date, the SBM Group has a 100% stake in the Kenya operations which has been renamed SBM Bank (Kenya) Limited.

As at 31 December 2017, total assets of the Kenya operations stood at MUR 3,321 million with a gross loans and advances book of MUR 2,079 million. Deposits from non-bank customers stood at MUR 2,081 million with a shareholders' equity of MUR 399 million.

From 11 May 2017 to 31 December 2017, the Kenya operations made a loss of MUR 65 million which was mainly attributable to exceptional reversal of interest income due to fully impaired accounts being wrongly classified as performing loans on the system. During the period under review, SBM Bank (Kenya) Limited did not focus on growing the business, but instead emphasised on capacity building consolidating processes, procedures and policies, and reinforcing the IT system to provide a solid and stable foundation for future growth.

### NBFC PERFORMANCE

#### Financial Review – SBM (NBFC) Holdings Ltd

	December 2017	December 2016	December 2015
	MUR'M	MUR'M	MUR'M
Income			
Fees and commissions	180	78	59
Dividend income	4	4	6
	184	82	65
Expenses	(92)	(52)	(42)
Profit before tax	92	30	23
Tax expense	(17)	(5)	(4)
Profit for the year	75	25	19

Total assets	1,649	243	145
Total equity attributable to equity holders of the parent	1,602	175	125

#### Financial performance

The non-banking financial cluster comprises activities such as investment management, brokerage services, CIS administrators, corporate services and factoring services. During the year under review, the cluster made a profit after tax of MUR 75 million compared to a profit of MUR 25 million a year earlier. The increase of MUR 50 million is mainly attributable to higher fees and commission income of MUR 102 million, mitigated by higher administrative expenses of MUR 40 million. Total assets increased from MUR 243 million to MUR 1,649 million due to new additions in equity investments.

# Corporate Governance Report (cont'd)

## SBM Mauritius Asset Managers Ltd

SBM Mauritius Asset Managers Ltd ("SBM MAM") is the investment management arm of the SBM Group. It specialises in providing investment management services to both institutional and individual investors. SBM MAM is regulated by the Financial Services Commission and is licensed to act as Investment Adviser (Unrestricted), CIS Manager and Distributor of Financial Products. SBM MAM currently has over MUR 8,495 million of assets under management. Its portfolio of clients includes mutual funds, pension funds, insurance and investment holding companies and retail investors.

The Company made a profit after tax of MUR 48 million for the year ended 31 December 2017 as compared to MUR 6 million reported last year. Management and retrocession fees received grew from MUR 27 million in 2016 to MUR 38 million (41%). Commission income increased from MUR 4 million in the preceding year to MUR 13 million for the year ended 31 December 2017. Net advisory fees of MUR 44 million were also received during the year. Total Assets Under Management increased from MUR 6,923 million at 31 December 2016 to MUR 8,495 million at 31 December 2017, an increase of 22.7%. Expenses for the year ended 31 December 2017 amounted to MUR 38 million as compared to MUR 24 million for the preceding year, an increase of MUR 14 million (58%). This is mainly due to higher staff costs, IT expenses and property costs.

SBM MAM's in-house funds' performances against their respective benchmarks were as follows:

Performance of in-house funds v/s benchmarks				
Fund Name	Fund Size	2017 (%)	2016 (%)	2015 (%)
SBM Perpetual Fund Ltd	MUR 1,776 M	4.97	3.64	4.09
Benchmark		3.03	3.45	4.09
SBM Universal Fund	MUR 412.9 M	10.5	2.94	0.18
Benchmark		12.2	3.15	0.05
SBM Yield Fund	MUR 52.78 M	7.39	3.31	2.46
Benchmark		4.11	4.49	5.13
SBM India Fund	USD 9.93 M	39.75	2.20	-0.67
Benchmark		44.50	1.29	-5.29
SBM Growth Fund	MUR 119.9 M	13.5	2.75	-
Benchmark		20.3	6.46	-
SBM Maharaja Fund	USD 12.54 M	7.49	1.78	-
Benchmark		4.00	3.50	-
SBM International Funds Ltd	USD 1.6 M	22.3	1.13	-
Benchmark		18.1	2.33	-

### NOTES:

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

## SBM Securities Ltd

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

The Company made a profit after tax of MUR 45 million for the year ended 31 December 2017 compared to MUR 20 million for the previous year. The Company's turnover for the year amounted to MUR 71 million compared to MUR 36 million in the previous year. Total income net of direct costs increased by MUR 34 million (86%). Expenses increased from MUR 17 million for the year ended 31 December 2016 to MUR 22 million for the year ended 31 December 2017.

## SBM Fund Services Ltd

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

The Company made a profit after tax of MUR 4 million for the year ended 31 December 2017 compared to a profit of MUR 1 million a year earlier. The Company's income for the year ended 31 December 2017 amounted to MUR 14 million compared to MUR 7 million for the year ended 31 December 2016. The increase of MUR 7 million is mainly driven by increase in registry and administrative fees received from clients. Expenses increased from MUR 6 million for year ended 31 December 2016 to MUR 8 million for the year ended 31 December 2017 on account of higher staff and property costs.

## SBM Factors Ltd

SBM Factors Ltd holds a factoring license and is regulated by the Financial Services Commission. It provides factoring services to local customers.

The Company made a loss of MUR 5 million for the period ended 31 December 2017. The Company's turnover for the period amounted to MUR 0.02 million while expenses amounted to MUR 5 million for the period ended 31 December 2017. Turnover comprises factoring fee and other fees receivable. The loss is attributable to the fact that the Company launched its activities and started operations in December 2017. Expenses were mainly comprised of staff costs and professional fees.

## NFC PERFORMANCE

### Financial Review – SBM (NFC) Holdings Ltd

	December 2017 MUR'M	December 2016 MUR'M	December 2015 MUR'M
Income	250	8	3
Expenses	(151)	(2)	(1)
Profit before tax	99	6	2
Tax expense	(3)	-	-
Profit for the year	96	6	2
Total assets	735	1,738	469
Total equity attributable to equity holders of the parent	732	1,734	468

### Financial performance

SBM (NFC) Holdings Ltd ("NFC") is an investment holding company having passive equity investments. Total assets of NFC have decreased by MUR 1,003 million to reach MUR 735 million as at 31 December 2017. The main reason for the decrease is:

1. disposal of an equity investment where proceeds were used to repay capital contribution of MUR 507 million and dividend payment of MUR 235 million to the holding company
2. impairment loss through profit and loss of MUR 148 million of an equity investment.

During the year 2017, NFC made a profit of MUR 96 million which was due to a gain of MUR 218 million on disposal of the equity investment mitigated by impairment loss of MUR 148 million of another equity investment.

# Corporate Governance Report (cont'd)



## Risk Report

The Group has adopted a well-established risk and governance framework which is founded on the three lines of defence principle. It enables management to maximise risk adjusted returns while remaining within the Board-approved risk appetite and risk tolerance levels. This approach ultimately promotes transparency, accountability and consistency through clear identification and segregation of risks. Moreover, it ensures the protection of the Group's reputation and is consistent with its objective of increasing shareholder value.

Risk governance continues to ensure that regulatory and business requirements are fully embedded in our business processes and governance frameworks across all risk functions. Hence, in addition to ensuring adequacy of credit risk governance, it facilitates identification and escalation of major risks such as operational risk, market risk and liquidity risk whilst providing assurance to the Board of Directors. This role falls under the responsibility of the Head of Risk Management who has direct access to the Board Chairman and the Risk Management Committee without impediment.

Moreover, the Compliance Team proactively supports Senior Management and business through effective compliance risk management practices to ensure the business is within statutory supervisory and regulatory requirements thereby mitigating regulatory sanctions and reputational risk.

As the third line of defence, the role of the Internal Audit is to provide independent, objective assurance services designed to add value and improve the Group's operations. The Internal Auditors prepare a risk-based audit plan to review the adequacy and effectiveness of the Group's system of internal controls. In conducting reviews, the Internal Auditors are alert to indicators of fraud and opportunities that could allow fraud, such as weaknesses in the internal controls. In doing so, the Internal Auditors obtain reasonable assurance that business objectives for the process under review are being achieved and material control deficiencies are detected. Upon completion of each review, a formal report detailing the audit findings and the appropriate recommendations will be issued to the Chairperson of the Audit Committee, the Chairperson of the Board and the Chief Executive Officer. The timely and proper implementation of all required corrective, preventive or improvement measures are closely monitored. The Internal Auditors report directly to the Audit Committee.



## Human Resources Report

Supporting the 2020 strategy of the Group is at the heart of the HR division's objectives. Human capital is for the most called upon to positively contribute to the success of the set strategy, which cannot be achieved without the unfailing commitment and professionalism of the staff. Human Resource Division ("HRD"), as a strategic partner, has a number of initiatives under its agenda for the coming periods.

Amongst the core strategic initiatives stands the recruitment and retention of talents the Group strives to recruit the top talents through its thorough recruitment and selection process where it ensures that high potentials and professionals are selected. In FY 2017, the Group onboarded 298 new recruits. Besides, as part of the Human Capital strategy, the division launched a number of strategic initiatives such as the job evaluation project which aims at ensuring a fair, equitable and transparent process for comparing the relative size of jobs thus promoting equal opportunities. An Employee Engagement Survey was also conducted in May 2017 and yielded an overall engagement index of 26%. The results of this critical organisational survey have allowed Management and the HR Division to gauge the engagement level and identify both the strengths of the Group in terms of HR Management as well as the areas of improvement.

In support of the staff, the Board of the Group is contemplating the introduction of a health insurance scheme and an E-health card in an iterative approach.

Going forward and in the pipeline is the talent management strategy which will have as core intent to rapidly address critical talent gaps to deliver new strategies alongside the development and implementation of the long term talent management strategy. Also, another long awaited strategy would be the launch of an organisational culture transformation which should assist in supporting the delivery of new strategies through concrete management practices, skills building and senior management role modelling.

The Group has approved the setup of a Corporate Academy the "SBM Academy" with the vision of linking the learning activities directly to the strategy of the Group while concurrently creating a safeguard of organisational culture. The Group aims at inculcating the best banking practices to its employees through onboarding programs, continuous professional development, leadership development programs and career and development plans.

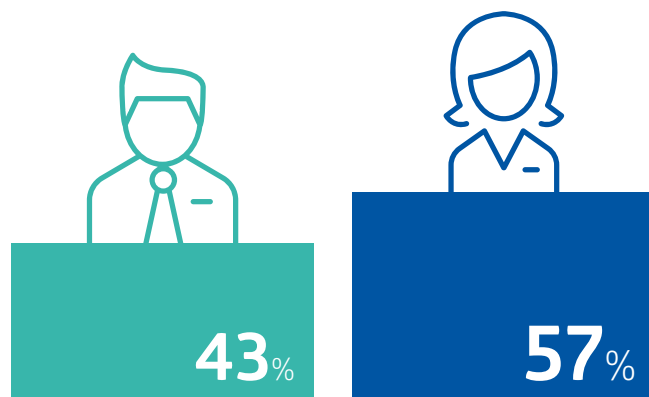
The Group has also embarked on the project of strengthening its performance management system whereby competencies matrix will be included in performance appraisal. A 360-degree feedback exercise was carried out with our Senior Management team with a view to gaining an insight on their current leadership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

The newly revised HR policy will also add to the employee satisfaction index through enhanced benefits. The HR division has also been converting the employment status of 289 staff on contractual basis to permanent basis since October 2017. Additionally, the HR Division is working on a wellness programme for all employees with the objective of promoting work life balance.

## Number of employees

# 1,889

## Employee breakdown by gender:



## Staff Welfare

The SBM Staff Children Education Fund is a charitable trust which has been established by SBM for the education of the children of the Group's employees by providing scholarships to the children for tertiary education tenable in Mauritius or for post graduate studies tenable in either Mauritius or overseas. Each year applications are opened for full-time undergraduate studies with a Tertiary Education Commission (TEC) registered institution in Mauritius and full-time postgraduate studies with a TEC registered institution in Mauritius or an overseas institution recognised by the TEC. So far, around 170 beneficiaries have been funded under this scheme, amounting to around MUR 29 million.

# 170

beneficiaries funded,  
amounting to **MUR 29 million.**

## Training and Development

We value our employees and understand our stakeholders' expectation for a highly competent workforce. To this effect, a total amount of MUR 11 million was spent in 2017 on local and overseas training and certification of staff members across our different divisions. The SBM Academy also reinforce our commitment in upgrading our talents' skills and competences through :

- Development and facilitation of professional learning activities and programmes (technical and soft skills) to enhance performance of the actual workforce
- Promoting and facilitating a Knowledge Sharing Platform
- Defining and implementing a competency framework
- Defining and carrying out talent identification programme in view order to ensure a succession plan
- Developing and carrying out Leadership Development Programmes
- Facilitating research and innovation through collaboration with local and international training institutions
- Enhancing the Organisational Learning & Development (R&D) Culture of the Group

# MUR 11 Mn

was spent in **2017** on local and overseas training.

## Corporate Governance Report (cont'd)

In this spirit, our Financial Markets Division (Front & Back Office) attended the ACI Dealing Certificate and the ACI Operations Certificate. The Association Cambiste Internationale (ACI) is the largest association in the global financial markets, with over 13,000 members in 60 countries and is widely regarded as the benchmark entry-level qualification for front-office and back-office staff. Conversely, with a view to furthering the team's professional outlay, our staff members from the Anti-Fraud Division have completed their professional qualification as Certified Fraud Examiners (CFE). The Association of Certified Fraud Examiners (ACFE) is the world's largest anti-fraud organisation regrouping more than 80,000 professionals. ACFE's mission is to reduce the incidence of fraud and white-collar crime and to assist members in fraud detection and deterrence.

The Group is on fast track to deliver on its strategy of leveraging its human capital potential and to further capitalise on its staff members' expertise.



### Environmental Report

The Group is dedicated to positioning itself as an advocate of environment protection and sustainability.

The Group, being an environment-conscious organisation, has embarked upon and implemented various sustainable and environmentally friendly projects as discussed below:

- Replacement of all lifts at SBM Tower with inverter technology types, thereby allowing efficient use of electricity in driving the lifts compared to the direct drive technology.
- Replacement of the building's main chillers with 4 new industry leading high-efficiency water cooled-chillers, each with a unitary cooling capacity of 500kW and with an Energy Efficiency Ratio (EER) of 3.53 kW/kW. The chillers make use of AdaptiSpeed technology and Adaptive Frequency Drive benefiting customers with a low cost of ownership and silent operation. The equipment uses HFC-134a gas as refrigerant, a gas which has no ozone depletion potential compared to R22 gas which is harmful to the environment. It is to be noted that R22 gas is planned to phase out by 2020. Furthermore, the new installation has already provided for the synchronisation with the DOWA (Deep Ocean Water Applications) setup; thus once DOWA project is operational, SBM Tower will be a sustainable building, operating with the use of eco-friendly Sea Water Air Conditioning.
- Besides, all R22's air-conditioning units installed at the various branches are being replaced with equipment which make use of inverter technology and R410 gas as refrigerant; the project is expected to be completed by June 2018.
- Recycling of used/waste papers and documents which have reached their end of records retention period. This initiative consists of collecting the obsolete documents by a recycling company, whose responsibility is to

shred, compact and export the shredded materials to be converted to usable paper thus contributing meaningfully to the "circular economy" in which materials are used and reused to provide ongoing value. In 2017, a total of 145 tons of archiving materials have been reprocessed. This is consistent with the 3Rs (Reduce, Reuse and Recycle) waste management strategy.

- At our branches, we are gradually replacing our light fittings with LED technology which uses less electricity (75 % less) and which has a service life of 25 times longer and emitting more light on a rupee-to-rupee basis than traditional incandescent bulbs. LED is a highly energy efficient lighting technology which has the potential to primarily change the future of lighting.
- Furthermore, as part of our asset replacement plan, we are substituting all our generators with more fuel efficient ones; thus helping in reducing our carbon footprint.



### Health & Safety Report

Time to respond effectively to an emergency is limited, consequently proper planning is crucial for risk identification, decision making, warning dissemination and evacuation so as to save lives and prevent panic/chaos situation. The protection of people at risk from harm is an important part of the Group/Bank mission. Regular drills (for example fire and flood drills) are being performed to optimise the response time of staff members, customers and visitors from an emergency situation.

Two types of response are in place to respond to an incident:

#### 1 Evacuation:

Evacuation is the immediate and rapid movement of staff members away from the bank premises in an orderly and safe manner during an emergency like fire or bomb threat and to assemble to a safe place for roll call.

#### 2. Shelter in Place

When outside danger is imminent, Shelter in Place means staying inside the bank. This solution provides protection from external hazards, for example flooding, minimises the chance of injury and/or provides the time necessary to allow for a safe evacuation.





## Social Report

### Corporate Social Responsibility Report

#### 1. THE GROUP CORPORATE SOCIAL RESPONSIBILITY (CSR) STRATEGY

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

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

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



#### 2. CSR INITIATIVES FOR FY 2017

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

- I. The SBM Scholarship Scheme
- II. Funding of projects from NGO partners (mainly in the fields of education and empowerment)
- III. SBM staff involvement initiatives



# Corporate Governance Report (cont'd)

## (I) THE SBM SCHOLARSHIP SCHEME

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

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

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

For more information please visit our website.



Teen Hope

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

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





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

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

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

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

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

### A.1 Abaim

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

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

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

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

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

### A.3 Sailing Pour Tous

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

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

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

### A.4 Mo'Zar Espace Artistic

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

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

### A.5 Vent d'un Rêve

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

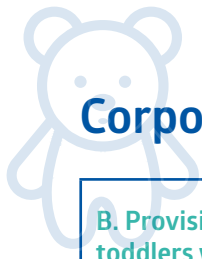
They presently cater for some 150 beneficiaries.

### A.6 Centre of Learning

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

### A.7 Sainte Croix Judo Club

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



# Corporate Governance Report (cont'd)

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

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

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

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

### B.1 SOS Poverty (“Les Abeilles” Day Care Centre)

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

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

### B.2 Terre de Paix

Please see page 130 for more information.

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

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



Shabnaz  
KODORUTH

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

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

*I would like to express my deepest gratitude to the whole team at SBM for giving so many*

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



## C. Provision of educational facilities to disabled children

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

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

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

### C.1 APRIM

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

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

### C.2 Joie de Vivre Universelle

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

### C.3 CEPEH

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

### C.4 ADSP

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

### C.5 Angel Special School and Welfare Association

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

### C.6 APEIM

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

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

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

### C.7 Autisme Maurice

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

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

### C.8 EDYCS Epilepsy Group

EDYCS operates since 1997. They presently cater for nearly 1,500 beneficiaries through various services, namely medical, psychological and therapeutic support, a special school, community educational services, entrepreneurship program, amongst others. They are the only organisation in Mauritius catering exclusively for epilepsy patients. SBM Foundation supported their schooling services and thus enabled 24 beneficiaries to attend school.

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



# Corporate Governance Report (cont'd)

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

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

### D.1 Adolescent Non Formal Education Network (ANFEN)

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

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

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

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

### D.2 DLD Teen Hope School Project

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

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

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

### D.3 Gandhian Basic School (GBS)

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

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

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



## E. Women Empowerment at the grassroots level

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

### E.1 Gender Links Mauritius

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

### E.2 Falcon Citizen League

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

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

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

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

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

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

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

*Thank you for trusting in me.*



**Anne Sophie Charline  
CLAIR**



# Corporate Governance Report (cont'd)

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

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

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



Terre de Paix

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

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

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







# Corporate Governance Report (cont'd)

## Principle SEVEN – Audit

### Directors' responsibilities

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

Any deviations on the above will be reported in the independent auditors' report attached to the financial statements.

### External Audit

#### *Appointment Process*

In line with good governance and following the request of the shareholders at the Annual Meeting held in June 2015 for a rotation of the statutory auditors, the Board of Directors of SBM Holdings Ltd decided to issue a Request for Proposal ("RFP") to three reputable auditing firms registered with the Financial Reporting Council namely (i) Ernst & Young ("EY"), (ii) Pricewaterhouse Coopers ("PwC") and (iii) KPMG in the same year. Ernst & Young was selected during that exercise.

Ernst & Young was re-appointed as the statutory auditors for the financial year ended 31 December 2017 at the shareholders' meeting held in June of last year. They are in office for the last 3 consecutive years for the audit of the financial statements of the Group. The Group commits to complying with the Mauritius Banking Act requirement with regards to the appointment of External Auditors.

#### *Meeting with Audit Committee*

The External Auditors usually meet the Members of the Audit Committee on a quarterly basis without the presence of Management, during which meeting the financial statements of SBM Holdings Ltd and its subsidiaries and the accounting principles adopted are discussed.

#### *Evaluation of the Auditors*

The Audit Committee evaluates the external auditor in fulfilling their duty annually, to make an informed recommendation to the Board for the reappointment of the auditor. The evaluation encompasses an assessment of the qualifications and performance of the auditor; the quality and candour of the auditor's communications with the Audit Committee and the Group; and the auditor's independence, objectivity and professional scepticism.

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

#### Audit Fees and Fees for Other Services

	2017 Audit (MUR'000)	2016 Audit (MUR'000)
<b>SBM Holdings Ltd</b>		
Ernst & Young - Statutory Audit	468	446
Ernst & Young - Other Services*	518	287
<b>SBM (Bank) Mauritius Ltd &amp; Other Subsidiaries</b>		
Ernst & Young - Statutory Audits and quarterly reviews	7,133	7,536
<b>SBM Bank (Mauritius) Ltd - India Operations</b>		
S.R Batliboi & Associates - Statutory Audit	1,533	999
<b>Banque SBM Madagascar SA</b>		
Delta Audit Deloitte Associates - Statutory Audit	363	177
Ernst & Young (Madagascar) - Statutory Audit	363	-
Mazars Fivoarana - Statutory Audit	-	177
<b>SBM Bank (Kenya) Limited</b>		
Ernst & Young - Statutory Audit	5,053	-

\* Other services relate to SBM Holdings Ltd Integrated Reporting. The work is performed by a Team who holds the necessary expertise and is independent of the Audit Team.

# Corporate Governance Report (cont'd)

## Internal Audit

The role of Internal Audit is to provide independent and objective assurance to the Group's Management and to the Board of Directors through the Audit Committee. By following a systematic and disciplined approach, Internal Audit helps the Group to accomplish its objectives by evaluating and recommending improvements to operations, internal controls, risk management systems, and governance process.

The Group Internal Audit is governed by a Group Internal Audit charter approved by the Audit Committee. The Group Internal Audit function is currently being handled by the Internal Audit team of SBM Bank (Mauritius) Ltd, pending implementation of an Internal Audit function at Group level. Within the Group, SBM Bank (Mauritius) Ltd, SBM India Operations, Banque SBM Madagascar SA, SBM Bank (Kenya) Limited and NBFC cluster have their own permanent Internal Audit function, reporting directly and functionally to their respective Audit Committees. The Internal Audit of each entity also has a dotted reporting line to the Group Internal Audit, currently sitting at SBM Bank (Mauritius) Ltd. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee of SBM Holdings Ltd, and also reports administratively to the Group Chief Executive. The Head of Internal Audit has regular meetings with the Chairman of the Audit Committee of SBMH, in the absence of Management representatives, thereby further establishing Internal Audit's independence. Moreover, in order to maintain objectivity, Internal Audit is not involved or responsible for any area of operations within the Group. Within the Group, Internal Audit has unrestricted access to all personnel, documents, records and explanations required in the performance of its duties. The structure and key members' profile of the Internal Audit function is available on the Group Website.

The Audit Committee of SBM Holdings Ltd reviews and approves Internal Audit's plan and resources, and evaluates the effectiveness of the function. The Audit Committee also takes note of the audit plans of all entities within the Group, as well as monitors progress in the execution of the plans. Furthermore, the Audit Committee ensures that across the Group, a consistent risk-based audit methodology is applied. The risk based approach is embodied in the individual audit plans.

All areas of activity across the Group fall under the scope of Internal Audit. The very basic principle in all audit plans is that high risk areas are audited on a more frequent basis. All key processes are audited to identify key risks and to assess control adequacy and effectiveness. Audit procedures are designed in response to the risks identified. Audit findings are discussed and finalised with the respective Heads of Departments and Management. A summary of the audit reports is thereafter tabled at the respective Audit Committees and Group Audit Committee, on a quarterly basis. The findings as well as the methodologies are reviewed and discussed at large with the Chairmen and other members of the Audit Committees.

The Internal Audit teams across the Group are composed of auditors with a mix of banking and auditing experience. Senior team members are fully qualified auditors/accountants, while the other members are pursuing their studies in that direction. In addition, the IT Audit Team has certified information system auditors to audit the information technology used across the Group.

## SBM Holdings Ltd

During the year 2017, the audit plan for SBM Holdings Ltd was achieved at large. Quarterly reviews on key risk areas were introduced during the year both at Group and subsidiary levels with the objective of highlighting areas of potential concern and thereby raising early warning signals for timely corrective actions. Over and above the core audit plan for SBM India Operations, Banque SBM Madagascar SA and SBM Bank (Kenya) Limited, from a Group perspective, an audit of those overseas subsidiaries was carried out by the Internal Audit Team in July, September and December 2017 respectively.

## SBM Bank (Mauritius) Ltd

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

During the year under review, Internal Audit completed 33 out of the 35 core audits planned, representing over 90% completion. Key risk areas such as credit, treasury, finance or operations were fully covered. All

the service units, including Rodrigues branches, have been covered at least once. The IT Audit team completed 70% of its approved plan. The critical systems were covered. A higher completion rate could not be achieved due to staffing issues.

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

### SBM India Operations

The post of Internal Auditor was vacant for much of financial year 2017. However, high risk areas were covered by the Internal Audit Team of SBM Bank (Mauritius) Ltd. In January 2018, an experienced Internal Auditor was recruited and it is expected that the audit function will be stabilised. Of note, there are 2 firms of chartered accountants that provide concurrent audit services to SBM India.

### Banque SBM Madagascar SA

The 2017 audit plan for Banque SBM Madagascar SA was achieved to a large extent. In 2018, there will be greater expectations from the Internal Audit Team of SBM Madagascar. The 2018 plan is in alignment to the Group standards and is now risk based.

An Internal Auditor was recruited in February 2018 to strengthen the team. The auditor spent two weeks at SBM Bank (Mauritius) Ltd as part of his training programme.

### SBM Bank (Kenya) Limited

Being a new acquisition, Internal Audit at SBM Bank (Kenya) Limited managed to complete around 60% of the audit plan. The team had to be reinforced with 1 additional internal auditor.

### SBM (NBFC) Holdings Ltd

SBM (NBFC) Holdings Ltd has its own dedicated audit team since April 2017, with a functional reporting line to the NBFC Audit Committee. The audit plan, approved by the Audit Committee, covers all entities under SBM (NBFC) Holdings Ltd. The 2017 audit plan was achieved at 100%.

In 2018, both at Group and subsidiary level, Internal Audit intends to build on its momentum. The 2018 audit plans will follow the same risk based approach, albeit with greater coverage and depth. New areas such as IFRS 9 and Common Reporting Standards (CRS) reviews have been included. One of the key initiatives for Internal Audit will be the implementation of a data analytics tool, which will allow analysis of large volumes of data in order to detect anomalies up to the transaction level in near real time. This will be implemented at SBM Bank (Mauritius) Ltd and then potentially deployed in other subsidiaries. Another important initiative will be to strengthen the IT Audit team with qualified and experienced resources.

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

# Corporate Governance Report (cont'd)

## Principle EIGHT - Relations with Shareholders and Other Key Stakeholders

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

### Share Capital Structure

The Company has a stated capital amounting to MUR 32,500,203,861 consisting of 3,037,402,230 shares fully paid ordinary shares of no par value which includes Treasury shares of 455,610,330 as at 31 December 2017.

### The Group's Key Stakeholders

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

#### Shareholders

All shareholders have the same voting rights.

The tables below depict:

#### 1. THE MAJOR SHAREHOLDERS OF SBM HOLDINGS LTD AS AT 31 DECEMBER 2017 ARE :

S/N	SHAREHOLDERS	SHAREHOLDINGS
1	NATIONAL PENSIONS FUND	576,258,608
2	SBM HOLDINGS LTD -TREASURY SHARES	455,610,330
3	STATE INSURANCE COMPANY OF MAURITIUS LTD (PENSION FUND)	282,489,390
4	GOVERNMENT OF MAURITIUS	149,526,150
5	STATE INSURANCE COMPANY OF MAURITIUS LTD (PRIVATE PENSION FUND)	105,801,349
6	NATIONAL SAVINGS FUND	80,217,413
7	SWAN LIFE LTD	61,169,371
8	DEVELOPMENT BANK OF MAURITIUS LTD	57,795,000
9	STATE INSURANCE COMPANY OF MAURITIUS LTD ( LIFE FUND )	52,596,570
10	STATE INVESTMENT CORPORATION LTD	42,032,380
TOTAL		1,863,496,561

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

## 2. SHAREHOLDERS SPREAD AS AT 31 DECEMBER 2017:

Shareholders' Spread				
Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1-50,000	15,955	88.58	152,791,360	5.03
50,001-100,000	828	4.60	61,297,812	2.02
100,001-500,000	900	5.00	195,480,327	6.45
500,001-1,000,000	143	0.79	99,978,473	3.29
1,000,001-5,000,000	143	0.79	308,593,463	10.16
5,000,001-10,000,000	15	0.08	102,123,080	3.36
10,000,001-25,000,000	11	0.06	172,587,321	5.68
25,000,001-50,000,000	9	0.05	293,495,218	9.66
50,000,001-100,000,000	4	0.02	241,590,501	7.95
>100,000,000	5	0.03	1,409,464,675	46.40
<b>Total</b>	<b>18,013</b>	<b>100.00</b>	<b>3,037,402,230</b>	<b>100.00</b>

## 3. LOCAL AND FOREIGN SHAREHOLDERS AS AT 31 DECEMBER 2017:

Local and Foreign Shareholders				
	No. of Shareholders	% of shareholders	No. of Shares	% of shares
Foreign	368	2.04	246,694,537	8.12
Local	17,645	97.96	2,790,707,693	91.88
<b>Total</b>	<b>18,013</b>	<b>100.00</b>	<b>3,037,402,230</b>	<b>100.00</b>

### Clients

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

### Financial Partners

Communication with investors, financial institutions and the financial community in general is actively pursued and usually takes place through investor meetings and presentations, investment meetings and press releases. The main recurring topics of discussion are financial performance, transparency and control. The Analyst Meeting presentations delivered by the Group are published on the Group's website.

### Employees

The Group considers its employees as one of the most valuable assets. As part of the Group's performance management process, the personal learning and development plans of employees are evaluated annually between manager and employee. The most important discussion points are development plans and expectations.

# Corporate Governance Report (cont'd)

## Suppliers

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

## Community

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

## Regulators

Relationships with the regulators are considered as critical to the success of the Group and the sustainability of the SBM brand. These relationships are viewed as strategic partnerships to ensure that the Group upholds and maintains global best practices with full transparency.

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

HOW DO WE ENGAGE WITH OUR STAKEHOLDER	THEIR CONTRIBUTION TO VALUE CREATION	WHAT OUR STAKEHOLDERS EXPECT FROM US AND KEY ISSUES RAISED	OUR RESPONSE TO STAKEHOLDER'S CONCERN
Shareholders, debt holders and investment analysts			
<ul style="list-style-type: none"> <li>Published interim results on a quarterly basis</li> <li>Regular presentation and roadshows</li> <li>Annual General Meeting</li> <li>Analyst briefings and regular investor presentation</li> <li>Stock Exchange Announcements</li> <li>The Group's Website</li> <li>External newsletters</li> <li>Electronic communication</li> <li>Reviews by rating agencies</li> </ul>	<ul style="list-style-type: none"> <li>Investors, shareholders and debt holders are a key source of financial capital to support the business operations and sustain growth</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable and attractive return on investment realised over time through dividends, interest and share price growth</li> <li>Strong leadership which provides strategic direction and execution</li> <li>Focus on exemplary corporate governance and ethics</li> <li>Managing risk, capital and liquidity within an appropriate risk appetite</li> </ul>	<ul style="list-style-type: none"> <li>Management has clear financial targets which are communicated. These targets are being monitored by top management to increase profitability and improve key operational ratios via improvement in product offerings in the banking sector, diversification through the non-banking cluster, developing international business in under-banked high-growth geographies, well contained cost to income ratio, growth in advances and deposits amongst others.</li> <li>The Board and its various sub-committees have oversight responsibilities in relation to risk management, corporate governance, and adherence to internal policies. It ensures that the proper strategies and decisions are being adopted and taken respectively for long term value creation.</li> <li>No major shareholder's influence on operations.</li> </ul>

HOW DO WE ENGAGE WITH OUR STAKEHOLDER	THEIR CONTRIBUTION TO VALUE CREATION	WHAT OUR STAKEHOLDERS EXPECT FROM US AND KEY ISSUES RAISED	OUR RESPONSE TO STAKEHOLDER'S CONCERN
<b>Customers</b>			
<ul style="list-style-type: none"> <li>• Promotional and marketing campaigns</li> <li>• Relationship managers, customer meetings and site visits</li> <li>• Customer service</li> <li>• Media (including social media and website)</li> <li>• Roadshows</li> <li>• Delivery channels</li> <li>• Surveys and focus group to measure quality of service and listening to customer' concerns</li> <li>• Events</li> <li>• Communication including electronic, phone calls amongst others.</li> <li>• Give aways</li> </ul>	<ul style="list-style-type: none"> <li>• Customers purchase our products and services to achieve their financial goals and provide the basis for our continued growth.</li> </ul>	<ul style="list-style-type: none"> <li>• Reliable client service, experience and quick turn-around time</li> <li>• Enhanced customer-staff interactions</li> <li>• Proper handling of complaints</li> <li>• Access to financial services that are cost-effective, easy to use and convenient.</li> <li>• Offering innovative and tailor-made products that meet their financial needs.</li> <li>• Trading fairness</li> <li>• Protection against fraud and safety of personal data (customer privacy and data security)</li> <li>• Timely direct communications on changes</li> <li>• Physical infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• We aim to provide a "unique customer service experience" via investment in technology.</li> <li>• We have articulated expected employee behaviours and are rolling out related training programmes in that respect.</li> <li>• We are investing into new product and service offerings based on customer feedback and market insights, and we ensure that they are easily accessible.</li> <li>• We have a dedicated contact centre and complaints desk.</li> <li>• We continually increase customers' awareness of cyber threats and how to prevent them. On the other hand, we invest significantly in secured IT systems.</li> </ul>



## Corporate Governance Report (cont'd)

HOW DO WE ENGAGE WITH OUR STAKEHOLDER	THEIR CONTRIBUTION TO VALUE CREATION	WHAT OUR STAKEHOLDERS EXPECT FROM US AND KEY ISSUES RAISED	OUR RESPONSE TO STAKEHOLDER'S CONCERN
<b>Employees, Management and Directors</b>			
<ul style="list-style-type: none"> <li>• Induction course</li> <li>• Talent retention programme and scholarship schemes</li> <li>• Conferences, team engagement sessions and performance management discussions</li> <li>• On-going training and team building</li> <li>• Regular internal meetings and workshops</li> <li>• CEO and other Executive Members roadshows (e.g. town-hall events)</li> <li>• Welfare activities such as SBM Park</li> <li>• Electronic communication via SBM intranet sites, social media and emails</li> <li>• Internal newsletters</li> <li>• Cultural events</li> <li>• Team members survey and feedback</li> </ul>	<ul style="list-style-type: none"> <li>• Employees and management supply the necessary skills and expertise to deliver on our promises to stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>• A safe, stimulating and rewarding work environment with open communication</li> <li>• Fair remuneration and benefits</li> <li>• Opportunities for career and personal development</li> <li>• Effective performance management and recognition</li> </ul>	<ul style="list-style-type: none"> <li>• Provide competitive remuneration and benefits packages to be the employer of choice</li> <li>• Provide ongoing training and education</li> <li>• Open communication between employees and management</li> <li>• Employee wellness programmes aligned to local and international best practice</li> <li>• Integration of performance management into key development programmes for skills and personal development.</li> <li>• Use the findings of our employee surveys to create tailored action plans to address areas needing improvements.</li> <li>• Collective bargaining agreement in place.</li> </ul>
<b>Government and regulators</b>			
<ul style="list-style-type: none"> <li>• Onsite visits and compliance inspections</li> <li>• Written communications</li> <li>• Filing of returns and reports with all regulators</li> <li>• Participation in forums, conferences and workshops</li> <li>• Regular meetings with regulators</li> </ul>	<ul style="list-style-type: none"> <li>• Government and regulators provide us with our license and regulatory framework in which to operate.</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with relevant legislation and operating in a transparent manner.</li> </ul>	<ul style="list-style-type: none"> <li>• Engage constructively on new policies and regulations affecting Group operations</li> <li>• Compliance with existing rules and regulations</li> <li>• Transparency in disclosures of any relevant information</li> <li>• Ensure on-time filing of reports and returns and payment of relevant fees and taxes.</li> <li>• Proper composition and well defined duties of the Board and Board Committees in place</li> <li>• Fair business practices</li> </ul>

HOW DO WE ENGAGE WITH OUR STAKEHOLDER	THEIR CONTRIBUTION TO VALUE CREATION	WHAT OUR STAKEHOLDERS EXPECT FROM US AND KEY ISSUES RAISED	OUR RESPONSE TO STAKEHOLDER'S CONCERN
<b>Suppliers and Strategic Partners</b>			
<ul style="list-style-type: none"> <li>• Expression of interests</li> <li>• Vendor assessments</li> <li>• Tender process</li> <li>• Contract management and renewal</li> <li>• Ongoing supplier relationship management, supplier visits and one-to-one meetings.</li> <li>• Fairs and exhibitions</li> <li>• Incident handling and escalation</li> </ul>	<ul style="list-style-type: none"> <li>• Suppliers are critical for our business by supporting us in delivering high quality and innovative products and services to sustain growth.</li> <li>• Critical to support our systems and fixing issues</li> </ul>	<ul style="list-style-type: none"> <li>• Fair and reasonable contract terms</li> <li>• Timely payment and renewal of contract</li> <li>• Trade fairness</li> <li>• Participation in events</li> <li>• Timely decisions</li> <li>• Work in a spirit of partnership</li> <li>• Understanding of business roadmap</li> <li>• Good supplier relationship</li> </ul>	<ul style="list-style-type: none"> <li>• Fair payment practices</li> </ul>
<b>Communities</b>			
<ul style="list-style-type: none"> <li>• CSR programmes</li> <li>• Donations</li> <li>• Media coverage and other social networks</li> <li>• Sponsorships</li> <li>• Staff engagement</li> </ul>	<ul style="list-style-type: none"> <li>• Being engaged actively in the community is an effective way to hear from the people that we serve and this will enable us to grow further and achieve our goals</li> <li>• Communities act as a brand ambassador to us</li> </ul>	<ul style="list-style-type: none"> <li>• Helping to provide a sound environment through job creation and undertaking community development programmes in areas of need</li> <li>• Helping the communities at large</li> <li>• Empowerment</li> <li>• Job creation</li> <li>• Supporting the development of the country</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of tools and opportunities to vulnerable groups</li> <li>• Investment in CSR projects</li> <li>• Sponsorships</li> </ul>

### Financial year 2017

Financial year-end	31 December 2017
Declaration of interim Dividend payment	March 2018, May 2018, August 2018, November 2018
Annual Meeting of Shareholders	June 2018

# Corporate Governance Report (cont'd)

Financial year 2018	
Financial year-end	31 December 2018
Unaudited quarterly earnings report	Within 45 days from the quarter ending March, June and September
Audited Financial Statement for the year ending 31 December 2018	Within three months from end of December 2018
Declaration for payment of interim Dividend (if applicable)	March 2019, May 2019, August 2019, November 2019
Annual Meeting of Shareholders	June 2019

## Annual Meeting of Shareholders

The next Annual Meeting of SBM Holdings Ltd is scheduled in June 2018. Appropriate notice of meeting is given to the shareholders, who are given the opportunity to communicate their views and to engage with the Board of Directors and Management with regards to the Group's business activities and financial performance. The Members of the Board and Board Committees as well as the External Auditors and Group Legal Counsel are asked to be present at the meeting. The notice of meeting and proxy forms are published on the website in line with good governance.

The shareholders voted freely according to the resolutions presented.

## Donations

The Group does not make any political donations to any party or any politically affiliated organisation.

## Remediation

As previously stated, the Board has taken steps to remediate the aspects of Corporate Governance Code which they have not applied namely

1. Addressing the gender balance on the Board
2. Conducting an independent Board evaluation

## Gender balance on the Board

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

The active recruitment of a suitable candidate is underway.

## Conducting an Independent Board Evaluation

In December 2017, the Board approved a proposal for an independent Board evaluation.

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

# Other Statutory Disclosures

## Significant Contract

In order to safeguard the interests of SBMH, the Group and its shareholders, and ensure that instructions from SBMH are being safely, soundly and sustainably implemented across the Group, SBMH has entered into shareholders agreements with the following subsidiaries:

- SBM Securities Ltd
- SBM Fund Services Ltd
- SBM Bank (Holdings) Ltd
- SBM (NBFC) Holdings Ltd
- SBM (NFC) Holdings Ltd

## Directors and Officers Liability Insurance

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

# Statement of Compliance

Name of Public Interest Entity: SBM Holdings Ltd

Reporting Period: 1 January 2017 to 31 December 2017

We, the Directors of SBM Holdings Ltd, confirm that to the best of our knowledge that SBM Holdings Ltd has not applied with principles two and four of the Code of Corporate Governance. Reasons for non-application have been provided on page 142.



**Mr Kee Chong Li Kwong Wing, G.O.S.K.**

**Chairman**



**Mr Roodesh Muttylall**

**Chairman – Corporate Governance & Conduct Review Committee**

**Date: 29 March 2018**

# Company Secretary's Certificate

**For the financial year ended 31 December 2017**

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



**Mrs D Ramjug Chumun**

**Company Secretary**

**Date: 29 March 2018**





“GOING FORWARD, WE WILL  
AIM TO ACHIEVE MORE  
SUSTAINABLE GROWTH,  
BY DIVERSIFYING OUR  
CURRENT OPERATIONS  
AND EXPANDING OUR  
NETWORK ABROAD. WE WILL  
CONTINUE TO INCREASE  
OUR CROSS-BORDER  
ACTIVITIES AS WELL AS OUR  
WEALTH MANAGEMENT  
AND INVESTMENT BANKING  
ACTIVITIES.”



# RISK MANAGEMENT REPORT

- › **Why does Risk Management matter?**
- › **Executive Summary**
- › **How are Risks managed?**
- › **A Snapshot of the Principal Risks**
- › **Credit and Counterparty Management**
- › **Market Risk Management**
- › **Operational Risk Management**
- › **Capital Management**

# Managing Risk

in a structured and proactive way  
in delivering our Strategy

“

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

It is a means to ensure  
**SUSTAINABLE** value is created  
in a responsible manner for all  
stakeholders and investors.

SBM aims at a **BALANCED RISK**  
and **REWARD RELATIONSHIP**  
within set risk appetite as the  
organisation acknowledges there is  
**NO REWARD WITHOUT RISK.**

”

# Why does risk management matter?

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

As a diversified financial institution providing primarily banking, wealth management, capital market, insurance and factoring services, as well as undertaking strategic investments, SBM Holdings Ltd and its group of companies embrace risk management as a core competency of their strategy to support business in delivering sustainable growth and help to reinforce their resilience by adopting a holistic and forward-looking approach to risk management.



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



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



These enterprise-wide risk management framework elements are discussed in more detail on page 154.

# Executive Summary

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

## PROGRESS IN 2017

### 1. Comprehensive and consistent risk frameworks

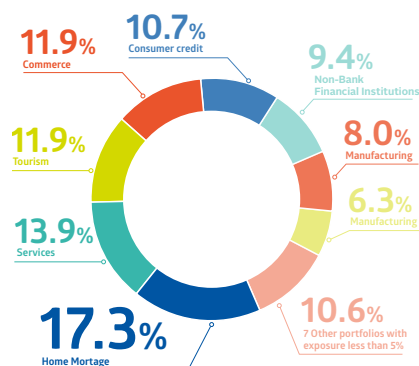


- > A constructive and holistic approach to enhance the enterprise risk management framework with appropriate governance and oversight whilst embedding ownership and responsibility for conduct across all entities in a systematic and sustainable manner
- > Aligning the risk appetite statements with the Group's strategy by balancing growth and controls through a simplified business model
- > Driving diversity and promoting initiatives such as upskilling employees and Senior Management via workshops or webinars to adapt to the changing operating environment due to the rise of new regulatory changes, digitisation and automation

## FOCUS FOR 2018

- > Instill a culture of excellence by improving the expertise and enhancing the skills of our people and how we work together to enhance and strengthen our risk culture
- > Improving process efficiency and productivity by establishing clear roles and responsibilities and improving customer service

### 2. A diversified credit portfolio



- > Adjusting our enterprise wide credit risk appetite to reflect concentration risk limits by country, industry, bank counterparty, single and group borrower
- > Calibrated risk rating tool to reflect the economic business environment in which the customers operate
- > Developing internal country and bank risk frameworks at Group level and assess their effectiveness through stress testing capabilities
- > Diversify our portfolio by reinforcing our presence in new markets
- > Conduct a risk-based approach by considering IFRS 9 impact while maintaining a good balance between risk and return
- > Proactively manage risks to assess the impact of future macroeconomic events

# Executive Summary (cont'd)

## PROGRESS IN 2017

## FOCUS FOR 2018

### 3. Strong balance sheet management

LOAN TO DEPOSIT RATIO  
Banking Group

71.10 %

(Dec 16: 65.57%)

LIQUIDITY COVERAGE RATIO  
Banking Group

130.09 %

(Dec 16: 115.59%)

- > Balance sheet remained resilient, both in terms of its stability and in meeting our various regulatory requirements
- > Maintained disciplined cost management
- > Proactive management of the liquidity coverage ratio and net stable funding ratio with a pragmatic approach
- > Monitoring investments in High Quality Liquid Assets (HQLA) to continuously meet the Liquidity Coverage Ratio requirement
- > The Group's core MUR deposits represented over 90% of the total funding, unchanged from previous year, which is adequate to mitigate the related liquidity and funding risk

- > Actively manage the balance sheet and optimise risk-weighted assets for better returns
- > Increased focus to deliver positive shareholder value through diversification of revenue sources with the successful launch of factoring services through SBM Factors Ltd and microfinance services to encourage small businesses to grow, thus contributing positively towards the welfare of the economy

### 4. Sound capital and liquidity management

Tier 1

15.92 %

(Dec 16: 19.90%)

Capital Adequacy Ratio

19.98 %

(Dec 16: 25.70%)

- > Capital remained adequate, taking into account risk appetite and strategic growth targets with the following capital ratios above the minimum regulatory requirement:
  - > CET1 of 15.92%, above the minimum regulatory requirement of 7.625% inclusive of capital conservation buffer and D-SIB
  - > Total CAR at 19.98%, within the minimum regulatory requirement
- > Enhance capital efficiency while maintaining a strong risk oversight and further improve the quality of our funding base
- > Optimise geographic portfolios by selectively reshaping sub-scale unprofitable markets and prioritising more profitable markets
- > Further enhance our systems to ensure compliance with liquidity regulations, focusing specifically on daily liquidity reporting across all entities

## PROGRESS IN 2017

### 5. Prudent provisioning coverage

Net Impaired  
Advances as a % of Net Advances

**1.98 %**

(Dec 16: 2.64%)

Specific Coverage Ratio

**57.27 %**

(Dec 16: 62.14%)

- > Continued focus on prudent risk management and enhanced effectiveness of our recovery capability
- > Our provisioning remains prudent in line with the BOM Guidelines and our write-off policy remains unchanged
- > The total provisioning as a percent of total advances stood stable at 3.80%

## FOCUS FOR 2018

- > Implementation of IFRS 9 requirements and adopting a proactive risk management and selective origination
- > Focus on early warning signals to manage any areas of weaknesses on a proactive basis
- > Continued prudence in provisioning

### 6. Stable non-financial risk environment

- > Continuous monitoring of operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group
- > Investing in measures against cyber-risk, data security and fraud to manage financial crime risk
- > Roll-out of new risk self-assessment process and controls throughout the organisation
- > Enhancement of the reputational risk model at enterprise level and elements used to mitigate it
- > Adoption of green building principles and measures to reduce the environmental impact of activities
- > Enhance controls, systems and processes to adapt to the evolving financial crime landscape and new challenges associated with digitalisation
- > Adopt an integrated compliance approach to address the demands of the changing regulatory environment
- > Enhance the environmental and social risk appraisal system and broadening the remit of the environmental and social risk business unit to strengthen our capacity to identify, mitigate and manage associated impacts

# How are risks managed?

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

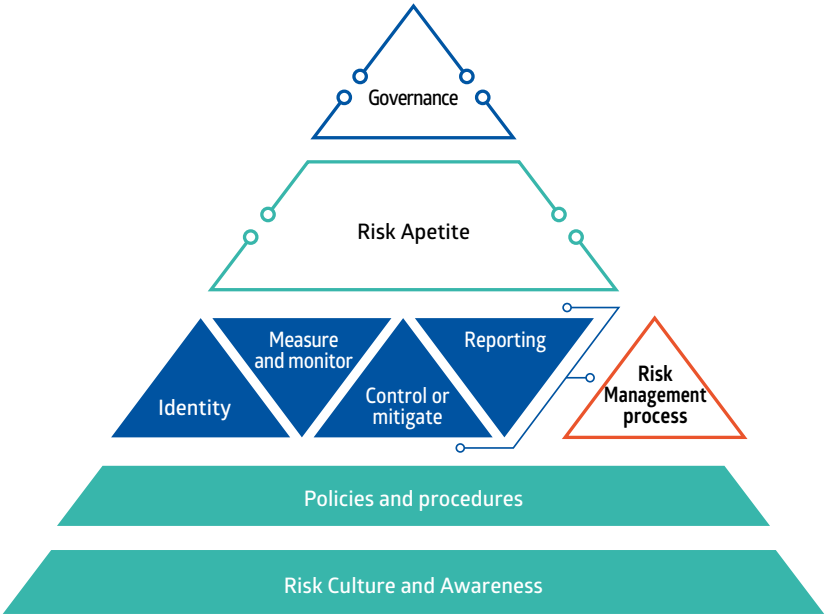
The Group has adopted a risk and governance framework that enables management to maximise risk adjusted returns while remaining within the Board-approved risk appetite and risk tolerance levels. This approach ensures the protection of the Group's reputation and is consistent with its objective of increasing shareholder value. The material types of risks the Group faces are detailed on page 164.

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



## A robust risk management framework

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



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

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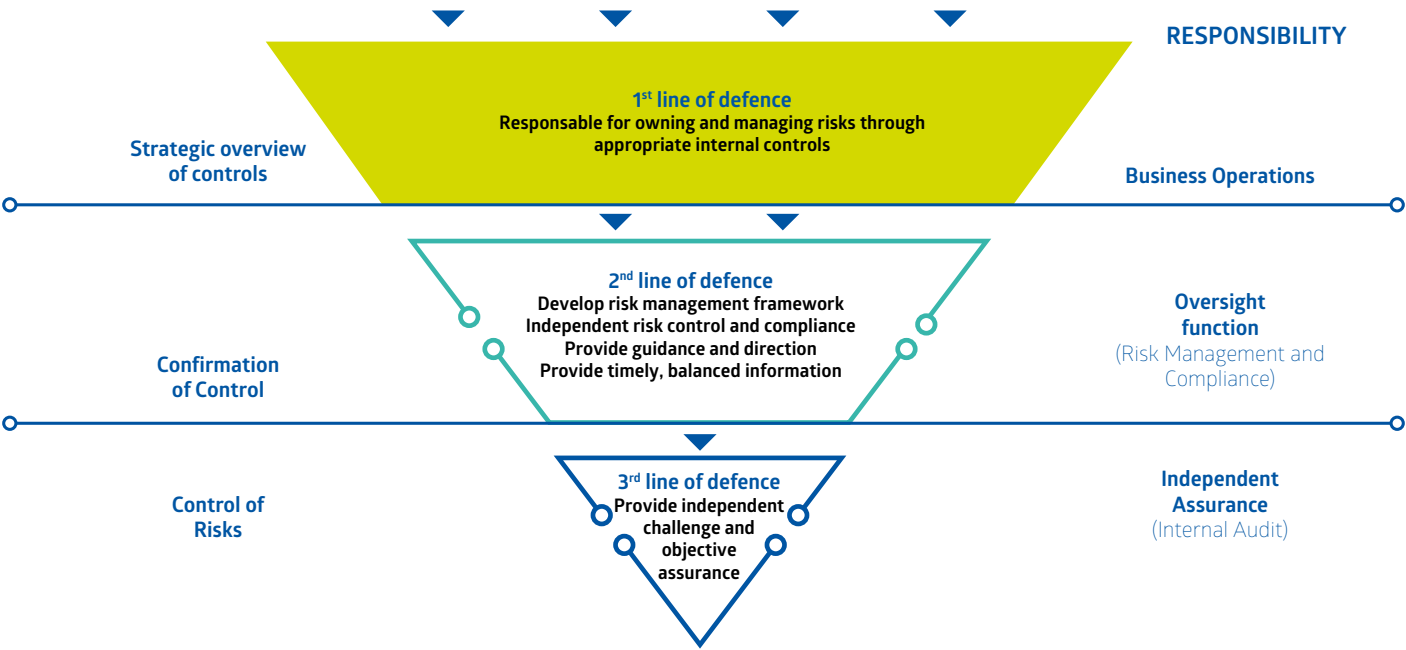
# How are risks managed? (cont'd)



## The three lines of defence

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

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



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

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

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



### A Risk-Awareness Culture

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

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

Main elements of the risk culture:

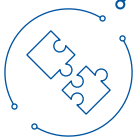


### Tone from Top

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

### Focus on Principal and Emerging Risks

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



### Robust Risk Governance

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

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

# How are risks managed? (cont'd)

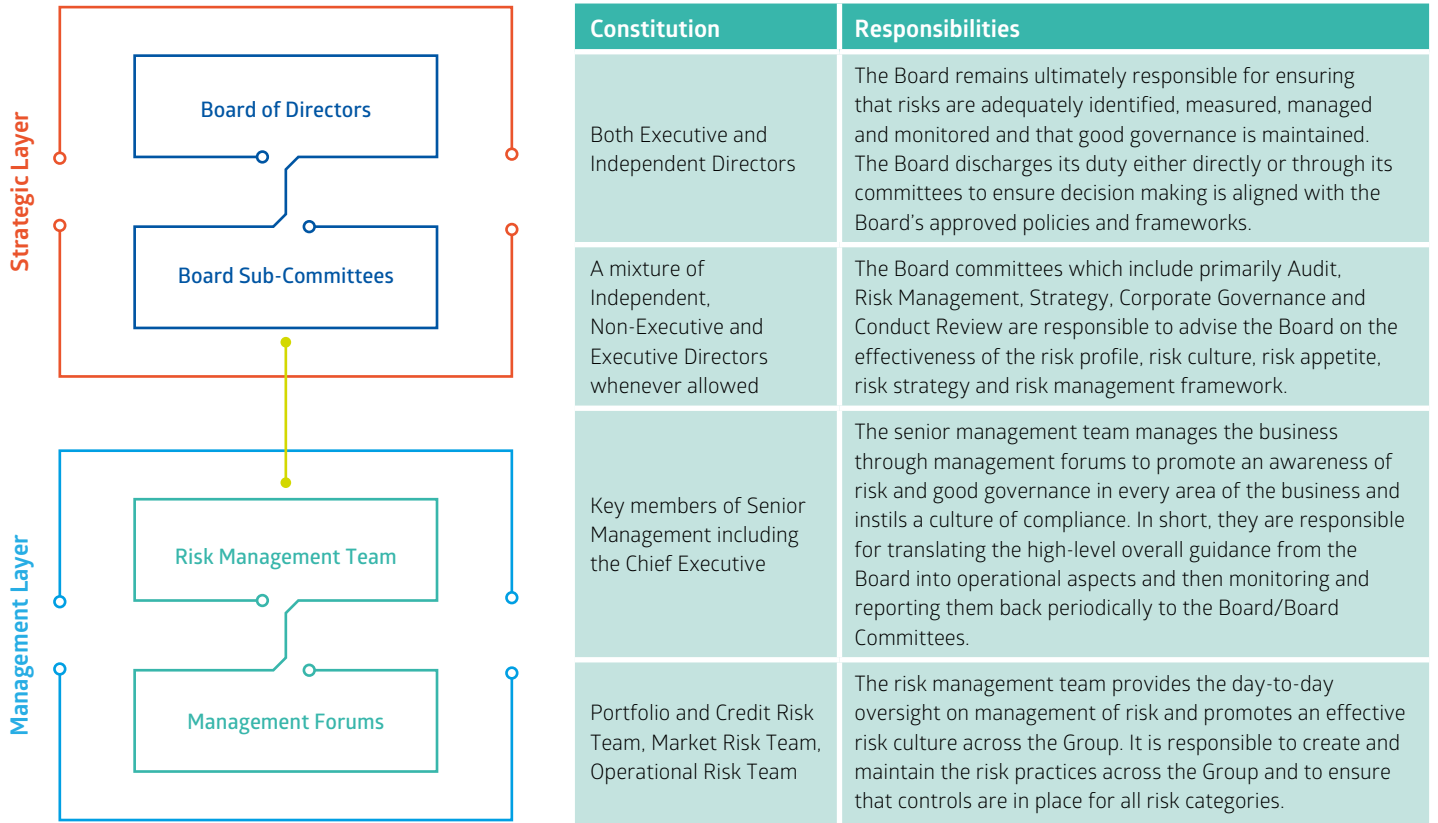


### A Well-Structured Risk Governance

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

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

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



Note: The framework applies to all entities, banking and non-banking, which ultimately report to SBMH for risk reporting and aggregation.



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

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## How are risks managed? (cont'd)



### A Comprehensive Risk Appetite Framework

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

The risk appetite framework bolsters effective risk management by promoting sound risk-taking and ensures that emerging risks and risk-taking activities that would be out of the approved risk appetite are identified, assessed, escalated and addressed in a timely manner. The framework is guided by the following strategic risk objectives:

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

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



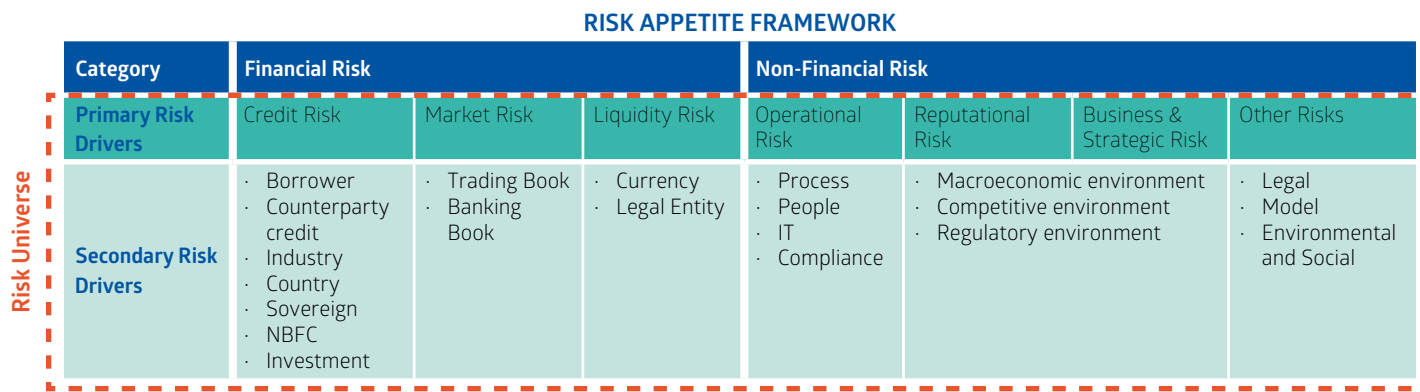
Effective communication of risk appetite  
is essential in embedding appropriate  
risk-taking into the Group's risk culture.



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

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

The following chart provides an overview of the key components of the risk appetite framework encompassing the risk universe:



## RISK CONTROL MECHANISM

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



## Risk Capital Strategy Components

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

# How are risks managed? (cont'd)

## Internal Policies and Limits

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

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

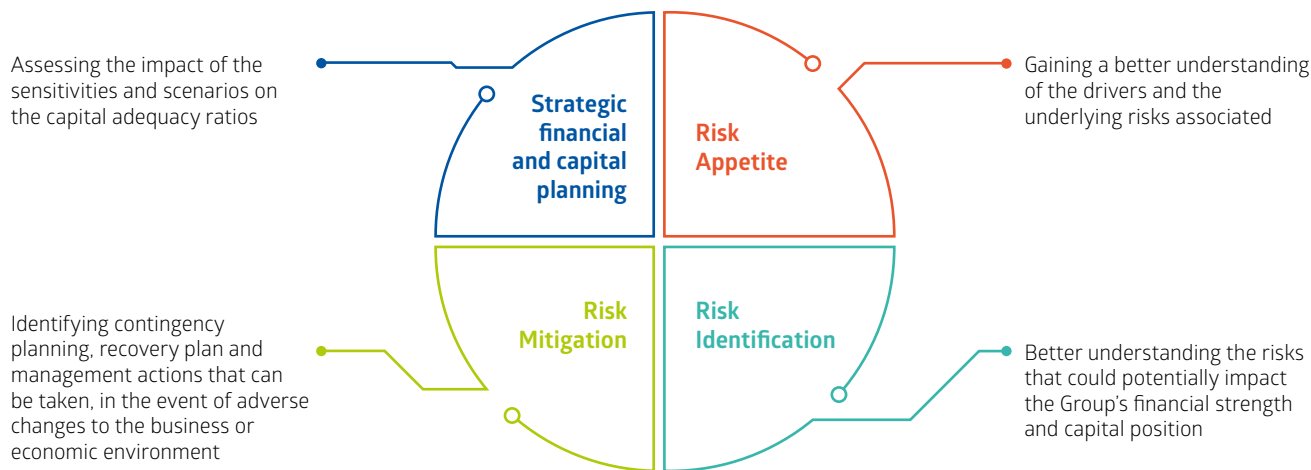
The Board approves all the policies which have clear accountability and ownership and management is responsible and accountable for the effective implementation and monitoring of risk appetite.

## Risk Bearing Capacity and Stress Testing

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

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

Key areas of stress testing usage are summarised in the diagram below:



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

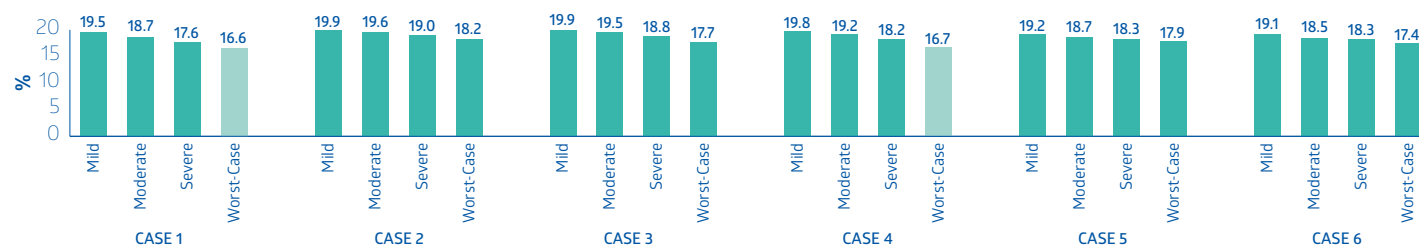
The chart below illustrates an overview of the stress testing process;

Determine Stress Scenarios	Risk Profiling	Impact Assessment	Result Assessment including Implications	Reporting and Agree on Management Actions
Develop the appropriate stress scenarios that are relevant to the nature of business of the Group including significant movement in credit ratings, interest rates, exchange rates, counterparty stage classification and recovery rates at different level of severity (Mild, Moderate, Severe).	Translate these scenarios into loss levels on various types of risks such as Credit, Market and Liquidity risk. For Credit risk, ECL computation involves classifying counterparty in 3 stages under IFRS 9 before stressing on different parameters.	Calculates the solvency needs, combined with buffer requirement and the capital adequacy under each scenario and assess their impact on the Profit or Loss and capital level.	All the results and methodology are evaluated and documented including the contingency plans and mitigating actions as appropriate.	The Board Risk Committee annually reviews the Group's risk appetite and then analyses the impacts of stress scenarios on the Group's capital forecast in order to understand and manage the Group's projected capital adequacy.

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

Stress Testing Scenarios		Mild	Moderate	Severe	Worst-Case
		(as a percentage of total exposures in specific portfolio getting impaired)			
A drop in global outbound tourism, especially from European market, thus a lacklustre growth and political tensions in the Eurozone will likely impact on tourist arrivals as well as on the Euro.					
Neighbouring countries might be more attractive to tourists such that we lose most of our tourists to competitors, again leading to loss of businesses for hotels and the food/ accommodation sector , thus dragging the economic growth					
Case 1	Overall Credit Exposures	2%	5%	10%	15%
Case 2	Tourism & Airline Services	5%	20%	50%	100%
A drastic escalations of tensions across the Middle East, Korean Peninsula, Russia, South China Sea and East China Sea, will likely resonate on the Mauritian inflation rate and external balance. Business confidence will be destroyed thus resulting into lower private investment. Export-oriented enterprises will be affected the most, hence deteriorating the current account deficit					
Case 3	Export-oriented sectors	5%	20%	50%	100%
Case 4	Segment B	5%	20%	50%	100%
Sensitivity Analysis related to Credit Concentration Risk					
Case 5	Top group of closely connected borrower(s)	1	2	3	4
Case 6	Top single borrowers	2	4	5	10

Results of the Stress Testing on Capital Adequacy Ratio:





# A snapshot of the Principal Risks

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

Key Risks	Arising from	Measurement, Monitoring and Management of Risk
<b>Credit Risk</b>		
<b>Credit Risk is defined as the risk that the Group will suffer economic loss due to a Single/ Group borrower or counterparty failing to fulfil its financial or other contractual obligations</b>	Credit risk arises when funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off balance sheet. Amongst the risks faced by the Group, credit risk generates the largest regulatory capital requirement.	Credit risk is: <ul style="list-style-type: none"> <li>· <b>measured</b> as risk weighted exposures for performing and non-performing exposures.</li> <li>· <b>monitored</b> within regulatory and prudential limits by borrowers, portfolios, country and bank, approved by the Board within a framework of delegated authorities. Regular review of portfolio to proactively manage any delinquency and minimise any undue credit concentrations.</li> <li>· <b>managed</b> through a robust risk control framework which outlines clear and consistent policies, principles and guidance.</li> </ul>
<b>Market Risk</b>		
<b>Market Risk is the risk of loss that arises due to changes in market conditions that may adversely impact the value of assets or liabilities, or otherwise negatively impact earnings.</b>	Market risk losses arise from variations in the market value of trading and non-trading positions resulting from changes in interest rate risk, foreign exchange risk and price risk, and in their implied volatilities.	Market risk is: <ul style="list-style-type: none"> <li>· <b>measured</b> in terms of value at risk, which is used to estimate potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence, augmented with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables;</li> <li>· <b>monitored</b> using measures including the sensitivity of net interest income and the sensitivity of structural foreign exchange which are applied to the market risk positions within each risk type; and</li> <li>· <b>managed</b> using risk limits approved by the Board.</li> </ul>
<b>Funding and Liquidity Risk</b>		
<b>The inability to meet contractual and contingent financial obligations, on and off balance sheet as they may come due. Our primary liquidity objective is to provide adequate funding for our business throughout market cycles, including periods of financial stress.</b>	Liquidity risk arises from mismatches in the timing of cash flows. Funding risk arises when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.	Liquidity and funding risk is: <ul style="list-style-type: none"> <li>· <b>measured</b> using internal metrics including stressed cash flow projections, coverage ratios and advances to core funding ratios;</li> <li>· <b>monitored</b> against liquidity and funding risk framework and overseen by the Asset and Liability Management Committee ('ALCO') and the Board Risk Management Committee; and</li> <li>· <b>managed</b> on a stand-alone basis with no reliance on any Group entity.</li> </ul>

Key Risks	Arising from	Measurement, Monitoring and Management of Risk
<b>Operational Risk</b>		
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.	Operational risk arises from human error, inappropriate conduct, failures in systems, processes and controls or natural and man-made disasters. It is inherent in all products, activities, processes and systems and is generated in all business and support areas.	Operational risk is: <ul style="list-style-type: none"> <li>· <b>measured</b> using the risk and control assessment process which allows identification and evaluation of risks and effectiveness of controls;</li> <li>· <b>monitored</b> through regular risk assessment procedures, key risk indicators and internal loss database; and</li> <li>· <b>managed</b> through an appropriate control environment with robust operational risk policies, processes, systems as well as appropriate risk culture within the organisation which contribute in maintaining a low operational loss experience over the years.</li> </ul>
<b>Business and Strategic Risk</b>		
The risk of loss resulting from incorrect assumptions about external or internal factors, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic or competitive environments.	Strategic risks are risks that affect or are created by an organisation's business strategy and strategic objectives, which are critical to the growth and performance of the Group. Pursuing an unsuccessful business plan represents a possible source of loss to the Group.	Business and Strategic Risk is: <ul style="list-style-type: none"> <li>· <b>measured</b> by using several key internal indicators and metrics as a yardstick which enable us to measure the progress against fulfilling the objective; and</li> <li>· <b>monitored</b> against our risk appetite set out by the Board whilst taking into consideration our internal capabilities and growth prospects; and</li> <li>· <b>managed</b> by the Board who sets the objectives for the Group in terms of growth orientation in consultation with our strategy team.</li> </ul>
<b>Reputational Risk</b>		
The potential that negative perceptions of the Group's conduct or business practices may adversely impact its profitability or operations through an inability to establish new or maintain existing client relationships.	Reputational risk arises from failure to meet stakeholder expectations as a result of any action, event or situation caused by the Group or its employees that can adversely impact the Group's reputation.	Reputational risk is: <ul style="list-style-type: none"> <li>· <b>measured</b> by reference to our reputation as indicated by our dealings with all relevant stakeholders, including media, regulators, customers and employees;</li> <li>· <b>monitored</b> through analysis of root cause for justified complaints and reporting to appropriate forums/committees; and</li> <li>· <b>managed</b> through a framework where all employees are responsible for identifying and managing reputational risk that may occur within their respective areas of business. These responsibilities form part of SBM Code of Conduct.</li> </ul>

# Credit and Counterparty Risk Management

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

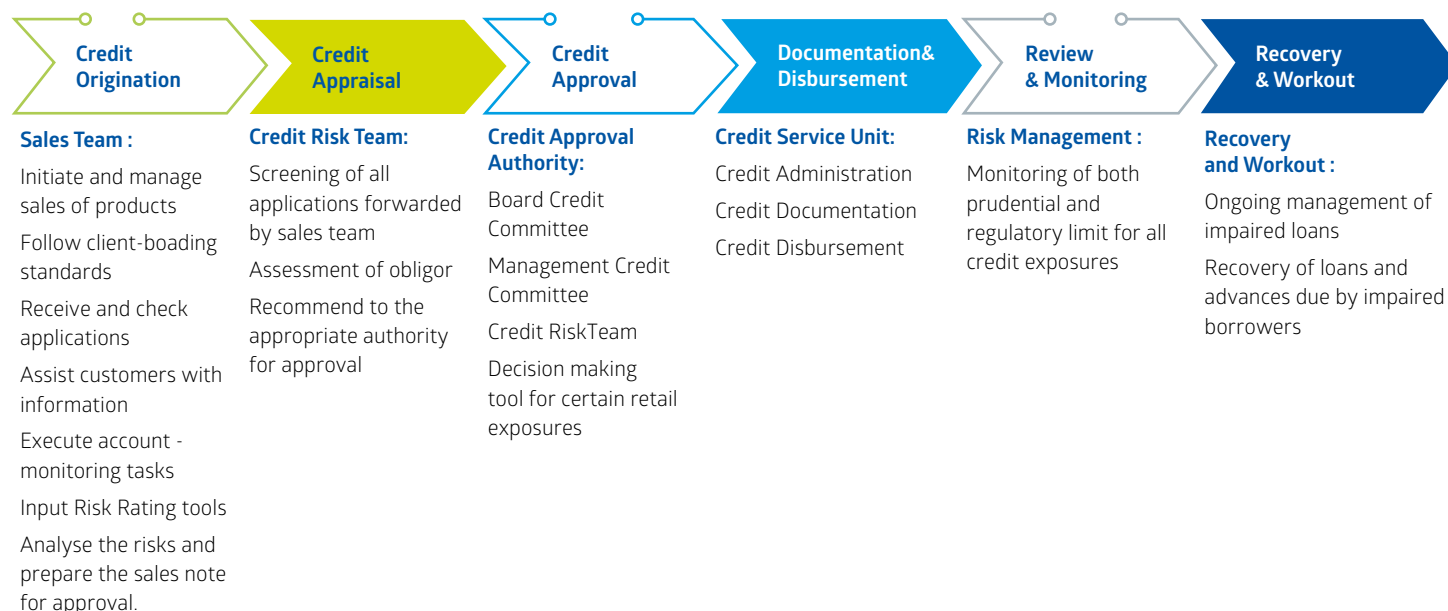
**Counterparty Credit Risk (CCR)** creates a bilateral risk of loss because the market value of a transaction can be positive or negative for either counterparty. CCR exposures are subject to the same credit oversight limit framework and approval process as outlined below. However, given the nature of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

## Credit Risk Governance

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

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

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





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



<b>1. Credit Origination</b>	<p>Lending officers are responsible for recommending credit decisions based on the completion of appropriate due diligence and they assume accountability for the risks.</p> <p>This entails analysing the customer's credit quality, risk operations, solvency and profitability to be obtained on the basis of the risk assumed. Credit ratings are assigned while onboarding customers which is supplemented by the expert advice of the credit officers.</p> <p>The ratings given to customers are regularly reviewed, incorporating the latest available financial information and customer's experience in the business.</p>
<b>2. Credit Appraisal</b>	<p>Credit officers approve these credit decisions and are accountable for providing both an objective assessment of the lending recommendations and independent oversight of the risks assumed by the lending officers.</p>
<b>3. Credit Approval</b>	<p>The credit decision-making is made within the Board approved delegated authority which is appropriate to the size and risk of each transaction in accordance with comprehensive corporate policies, standards and procedures governing the conduct of activities in which credit risk arises.</p>
<b>4. Credit Risk Mitigation</b>	<p>Collateral is used for credit risk mitigation purpose to minimise losses that would otherwise be incurred in the event of a default. Depending on the type of borrower or counterparty, the assets available and the structure and term of credit obligations, collateral can take various forms:</p> <ul style="list-style-type: none"> <li>· financial and other collateral, which enables the Group to recover all or part of the outstanding exposure by liquidating the collateral asset provided, in cases where the borrower is unable or unwilling to fulfil its primary obligations.</li> <li>· the Group in some cases holds guarantees, letters of credit and similar instruments from third parties which enable it to claim settlement from them in the event of default on the part of the counterparty. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties.</li> <li>· netting agreements are utilised in accordance with relevant regulatory and internal policies and require a formal agreement with the customer to net the balances.</li> </ul> <p>The Group has an acceptable list of collaterals for each operation in line with their host regulatory guidelines. The list undergoes periodic valuation ensuring their continuous legal enforceability and realisation value. The policies and processes for collateral valuation and management are driven by legal documentation that is agreed with our counterparties and the credit services unit.</p> <p>The Group also seeks credit insurance to transfer the credit risk to the insurance counterpart.</p>

# Credit and Counterparty Risk Management (cont'd)

5. Review	All credit exposures are subject to regular monitoring. Performing accounts are reviewed on a regular basis, at least annually. The frequency of review increases in accordance with the likelihood and size of potential credit losses, with deteriorating higher-risk situations referred to the Special Asset Team for closer attention, when appropriate.
6. Monitoring	<p>The Risk Management Team monitors the portfolio and credit concentration risks against a set of internal prudential limits which are reviewed at least annually to align with industry norms while adhering to regulatory limits. Any deviation from the tolerance limits would be brought to the attention of Management and reported to the Risk Management Committee for appropriate actions. In addition, regular stress testing and scenario analysis based on current economic credit cycle, are an integral part of risk assessment and monitoring. The structure of the internal prudential limits is as follows:</p> <pre> graph TD     A[Country Limit] --- B[Sovereign Limit]     B --- C[Bank &amp; Non Bank Financial Corporations Limit]     C --- D[Private Risk Limit]     D --- E[Product Limit]     D --- F[Portfolio Limit]     D --- G[Single &amp; Group Borrowers Limit]     D --- H[Related Party Transaction Limit]     D --- I[Weak Category exposure Limit] </pre>
7. Reporting	Reporting is provided at least monthly to the Portfolio and Credit Risk Forum, and quarterly to the Board/Risk Management Committee in order to keep them informed of credit risk developments in our portfolios, including changes in credit risk concentrations, and quality of the portfolio including watch list accounts, non-performing loans, allowances for credit losses, or any breach that needs to be brought to the attention of the committees to facilitate any measures or action plans that they may decide to take, when necessary. Moreover, each entity is required to report concentration risk to their respective Board/Risk Management Committee.

## Credit Risk Profile as at 31 December 2017

SBM's loan book continues to be well-diversified by industry and geographic region with an average weighted risk rating of 5.41 (equivalent to an external rating of Baa1 – Baa3).

Total credit risk weighted exposures were USD 3.2 billion as at 31 Dec 2017 (December 2016: USD 2.3 billion), comprised of both funded and non-funded exposures.

This represents an increase of USD 862M or 37.4% from the prior year.

5.28

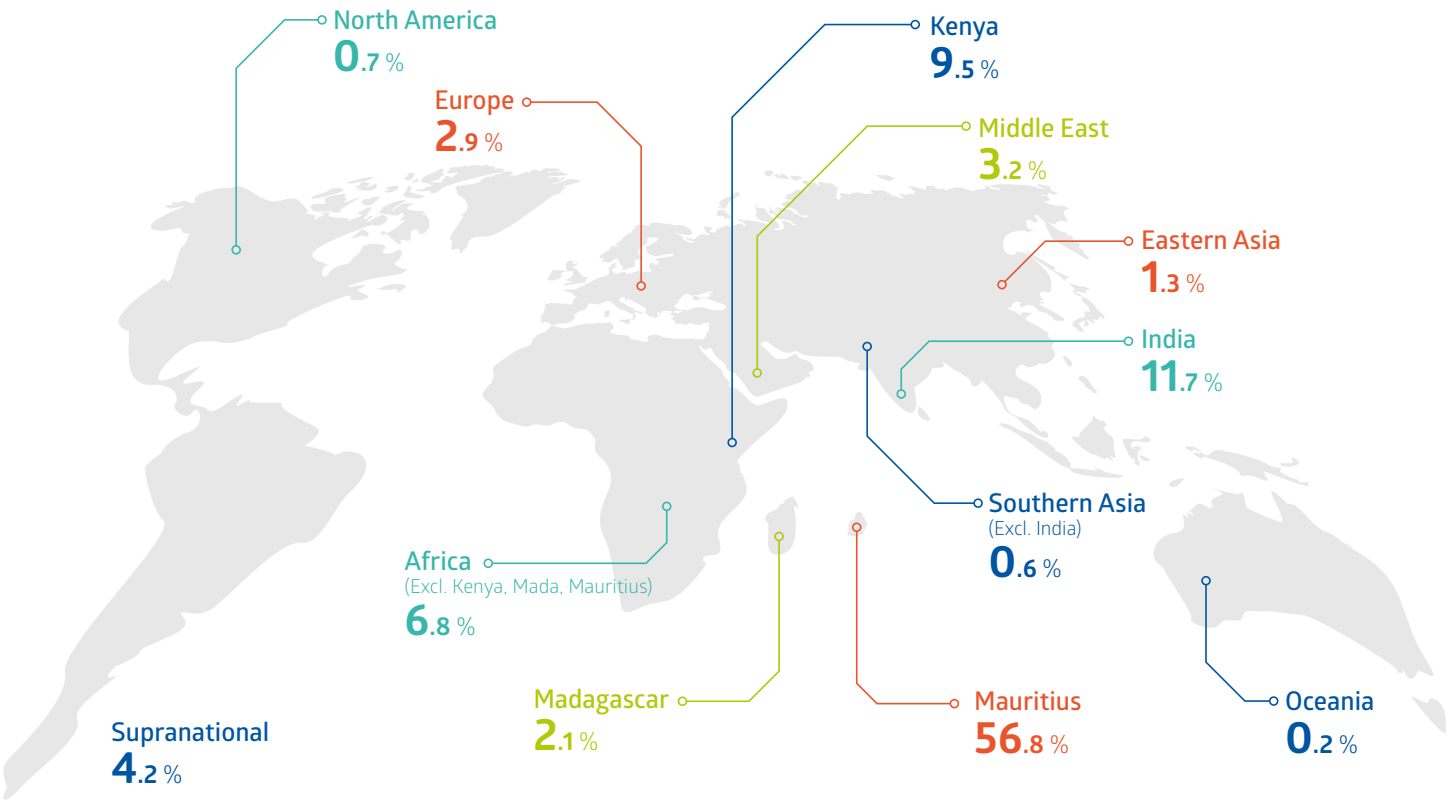
TIMES TO GROUP TIER 1

(Dec 16: 4.45 )

A GROWTH OF

37.4 %

Aggregation of Credit risk weighted exposures



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

# Credit and Counterparty Risk Management (cont'd)

## Country Risk

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

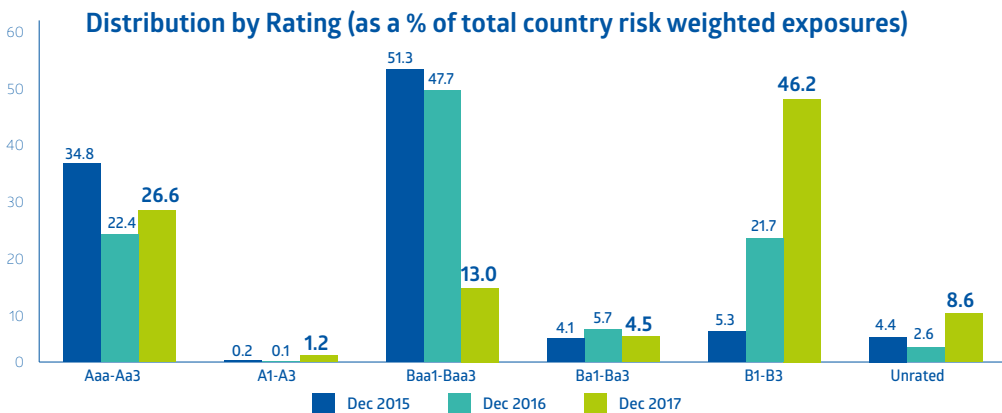
As part of the Group's strategy, the total risk weighted exposures to cross border lending increased by USD 396.6 M from the prior year, which accounted for 151.9% of Group Tier 1 capital (December 2016: 99.1%).

RWE AS A % GROUP TIER 1

151.9 %

(Dec 16: 99.1%)

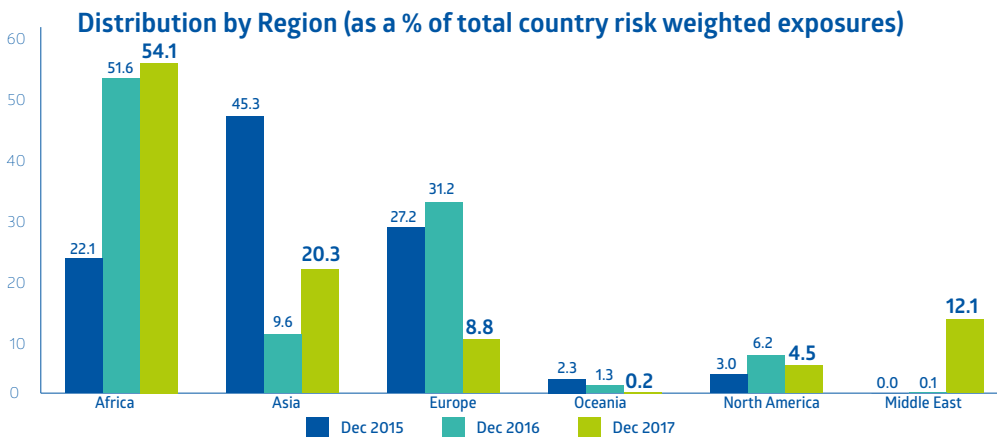
Breakdown of country risk weighted exposures:



“

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

”

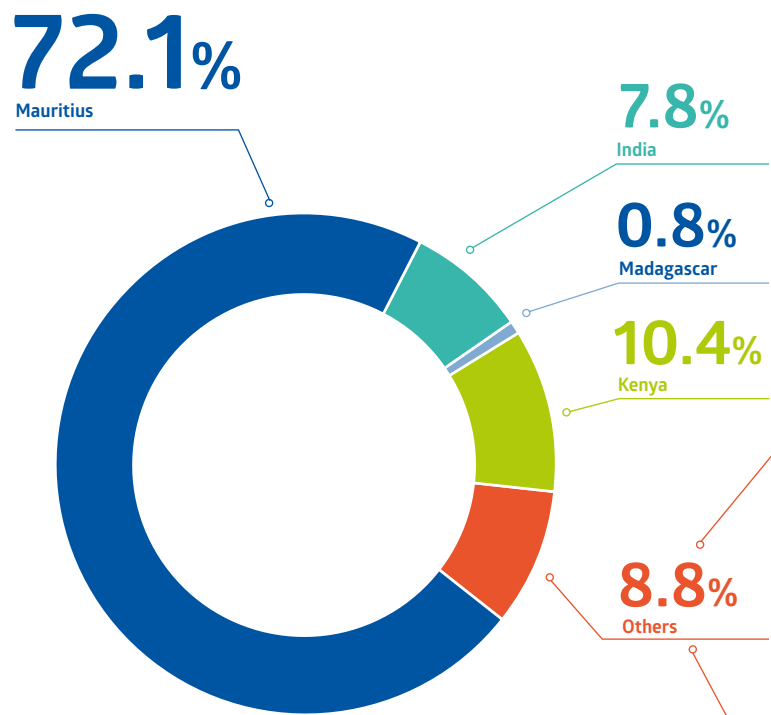


# Sovereign Risk

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

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

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

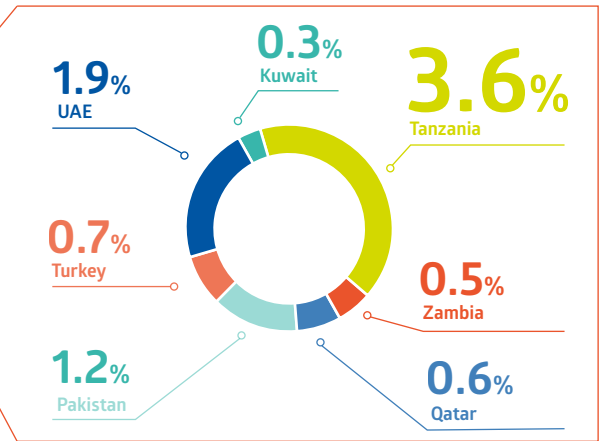


RWE AS A % GROUP TIER 1

26.0 %

(Dec 16: 8.44%)

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



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

As at 31 December 2017, total sovereign exposures stood at MUR 24.4 billion, representing 121.7 percent of the Group Tier 1 capital (December 2016: MUR 20.1 billion, 108 percent) with the highest exposure pertaining to the Government of Mauritius amounting to MUR 17.57 billion. On a risk-weighted basis, the sovereign risk-weighted exposures were MUR 5.2 billion, representing 26.0 percent of the Group's Tier 1 capital. (December 2016: MUR 1.57 billion, 8.43 percent)



# Credit and Counterparty Risk Management (cont'd)

## Bank Counterparty Risk

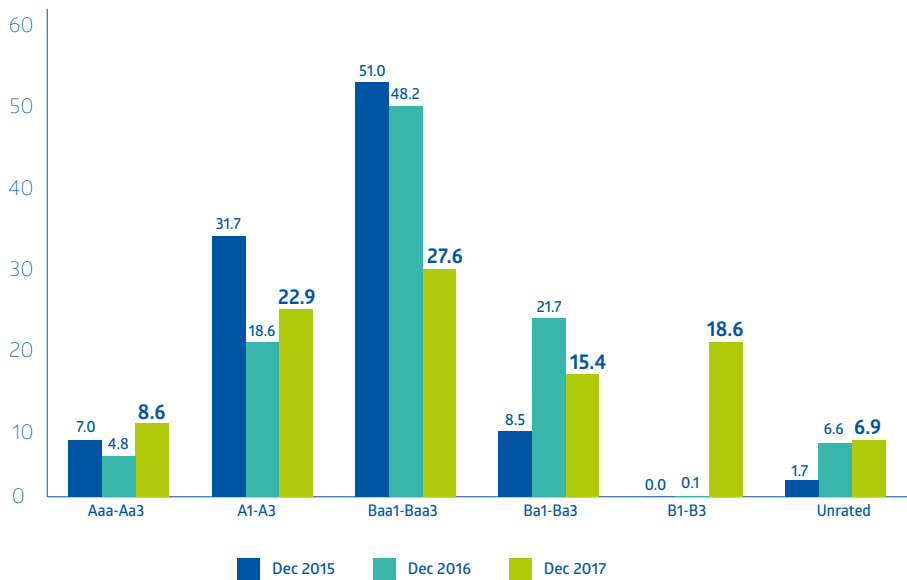
Bank risk is the risk that a bank could default on its debt or other obligations.

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

RWE AS A % GROUP TIER 1

51.6 %  
(Dec 16: 68.9%)

Risk-Weighted Exposures (RWE) %



The Group has concentration to banks with rating range Baa1-B3 primarily in countries where SBM has physical presence.



### Rating

As at 31 December 2017, total risk-weighted exposures to bank counterparties stood at USD 309.22 million, representing 0.52 times the Group's Tier 1 Capital (December 2016: USD 357.41 million, 0.69 times).

# Private Risk

## 1. Portfolio Concentration

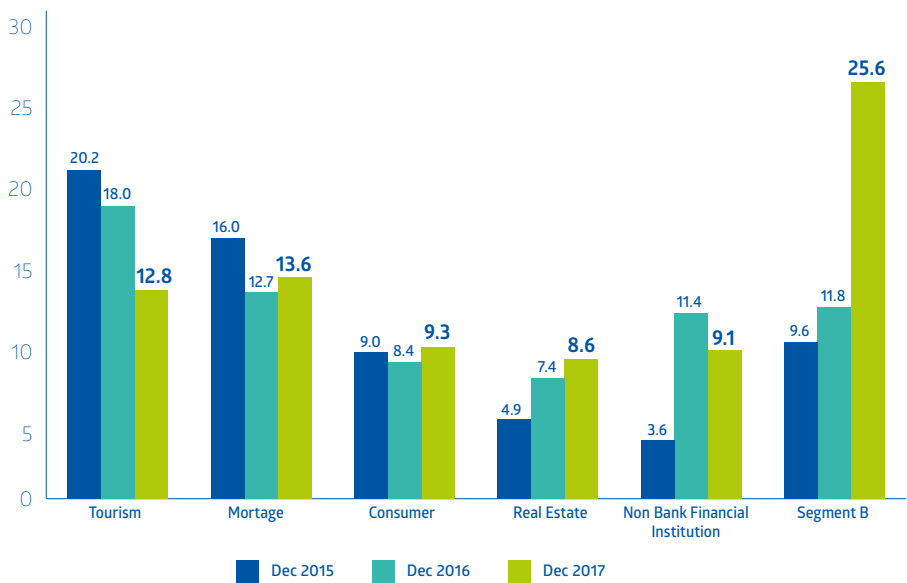
The Group maintains a well-diversified portfolio through internal portfolio limits set for each operations to ensure that the Group is not impacted drastically due to significant concentration in a particular portfolio.

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

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

210.37 %  
(Dec 16: 168.30%)

Mauritius Operations – Top 5 Portfolios by Risk-Weighted Exposure (%) + Segment B  
as a % of total RWE



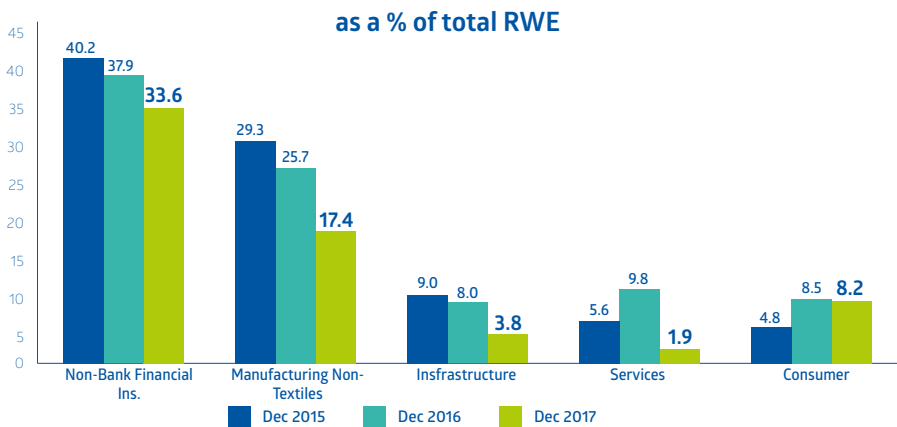
“ This strongly justifies our strategy to establish a strong market position in different parts of Africa while maintaining a well-diversified portfolio. ”

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

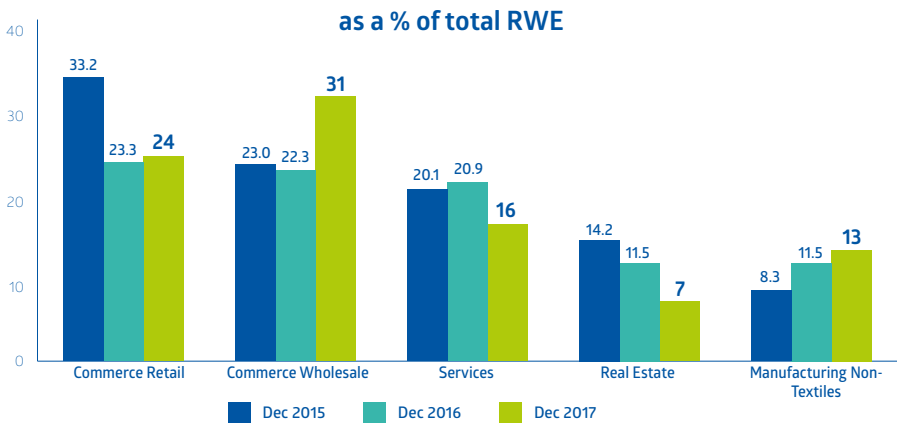
In relation to the Group’s cross-border activities, concentration in Segment B has increased from 11.8% in 2016 to 25.6% in 2017 while still staying well below the internal limit set, with customers mainly in Africa and India. Despite increasing competition and more severe regulations, Africa is set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

# Credit and Counterparty Risk Management (cont'd)

India Operations – Top 5 Portfolios by Risk-Weighted Exposure (%)



Madagascar Operations – Top 5 Portfolios by Risk-Weighted Exposure (%)



“ Further diversification of the portfolio is expected over the year, in line with the Group’s risk appetite. ”

India Operations and Madagascar Operations have a medium concentration sectoral risk.

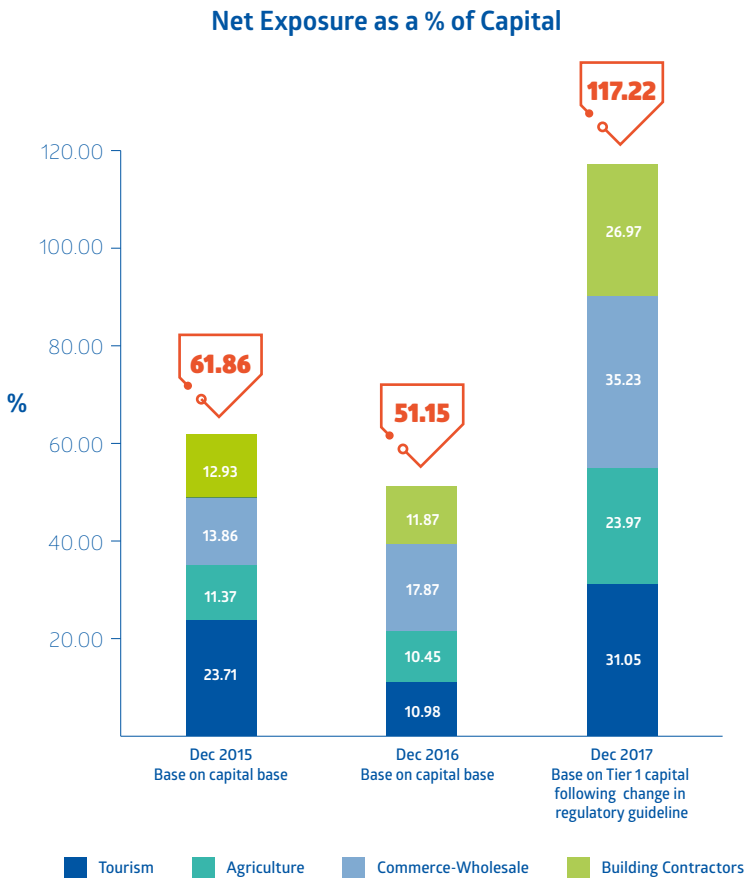
# Private Risk

## 2. Customer Concentration

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

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

Regulatory Credit Concentration Limit	As at 31 Dec 2017
Credit exposure to any single consumer shall not exceed 25% of the Group's Tier 1 Capital	<div>Highest single customer:</div> <div>11.69%</div>
Credit exposure to any group of connected counterparties shall not exceed 40% of the Group's Tier 1 Capital	<div>Highest Group of connected counterparty:</div> <div>18.59 %</div>
Aggregate large credit exposures to all customers and Group of connected counterparties above 10% of Group's Tier 1 Capital shall not exceed 800% of Group's Tier 1 Capital	<div>117.22 %</div>



# Credit and Counterparty Risk Management (cont'd)

## Private Risk

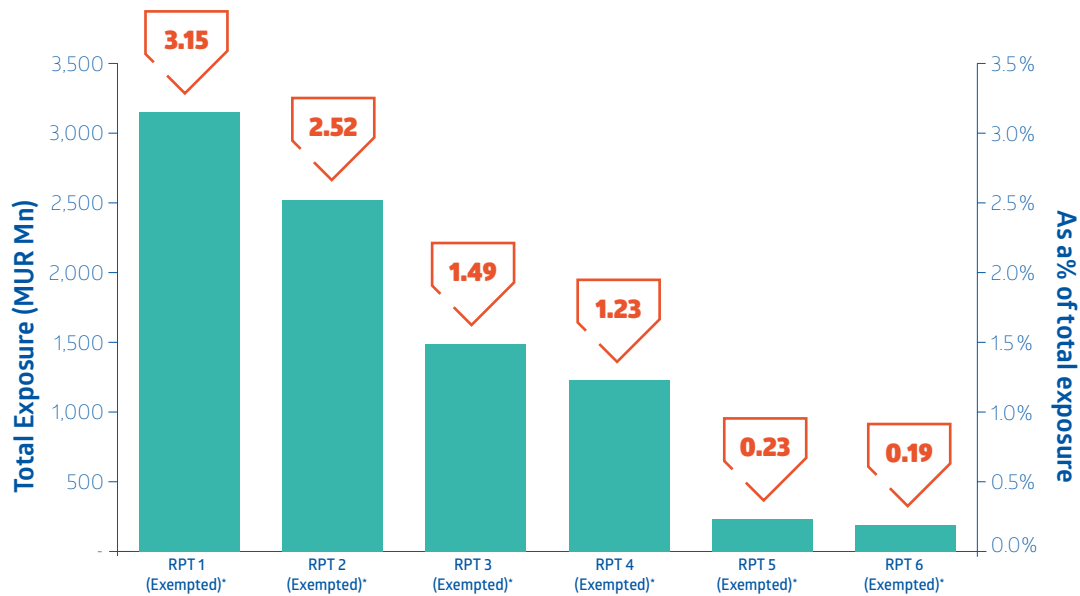
### 3. Related Party Transactions

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

As at 31 December 2017, the aggregate of non-exempted exposures to related parties represented 7.12% of the Group's Tier 1 capital, which is well within the regulatory limit of 60% for category 1 and within the regulatory limit of 150% for categories 1 and 2 (Dec 16: 7.01%).

NON-EXEMPTED EXPOSURE AS % OF GROUP TIER 1

7.12 %  
(Dec 16: 7.01%)



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

# Credit Quality

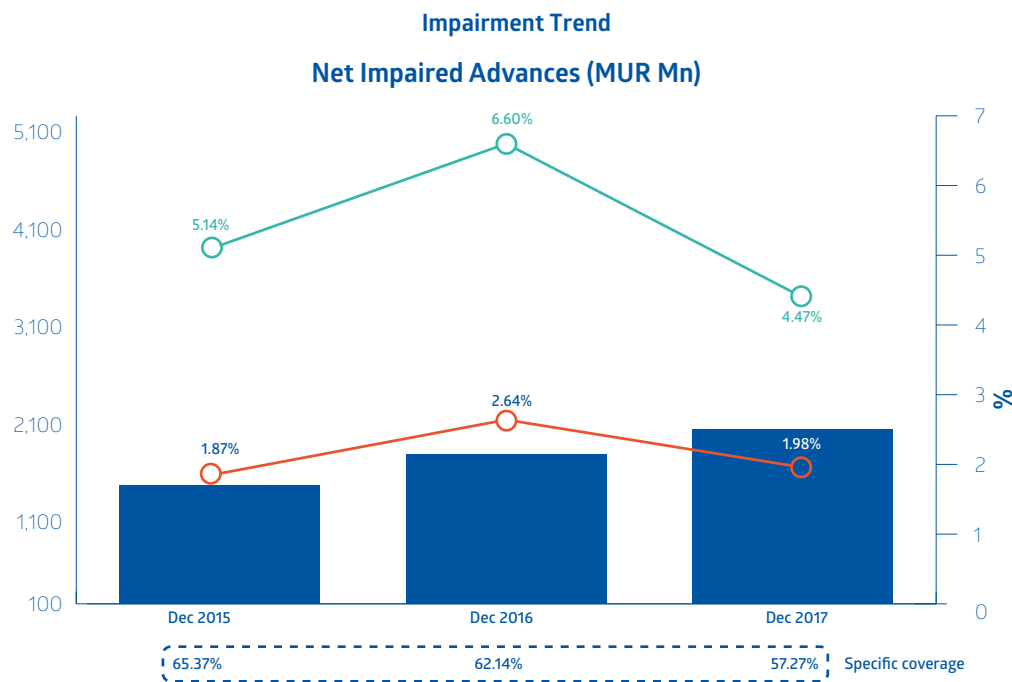
## 1. Impairment

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

Provision for impaired loans, where instalment of principal and interest are due and remain unpaid for 90 days, is maintained in accordance with the local regulator. Moreover, an in-depth recovery plan is adopted to maximise collection in case of impairment.

NET IMPAIRMENT AS A %  
NET ADVANCES

1.98 %  
(Dec 16: 2.64%)



Net non-performing loan as a percentage of net loans is lower from 2.64% in December 2016 to 1.98% in December 2017, following write offs during the year under review for both the Mauritius and the India operations. Monitoring of impairment by sector remains a key index for fuelling the growth strategy.

# Credit and Counterparty Risk Management (cont'd)

## Credit Quality

### 2. Rescheduled advances

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

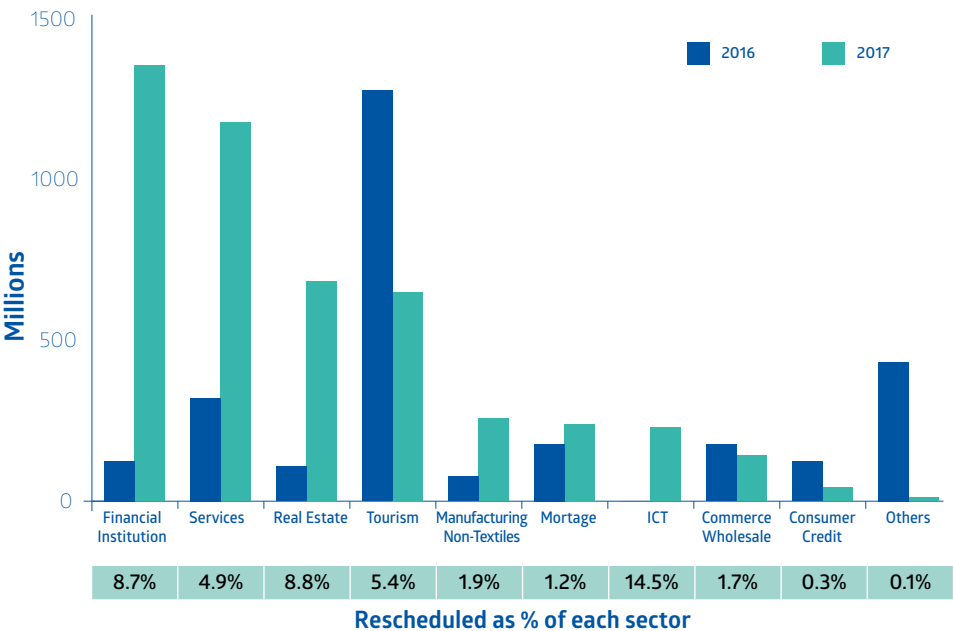
Rescheduling is used as an effective and pro-active mechanism to assist arrears. More so, it is an approach to assist customers who have changed their pay frequency or employer may be experiencing a temporary cash flow problem and who may require relief due to a more permanent change in their circumstances.

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

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

TOTAL RESCHEDULED LOANS AS A % OF TOTAL CREDIT PORTFOLIO

3.67 %  
(Dec 16: 4.34%)



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

# Market Risk Management

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

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

## Market Risk Governance and Oversight

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

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

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



# Market Risk Management (cont'd)

## Market Risk Profile

### Interest Rate Risk

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

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

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

Impact of 200 bps parallel Rate change on NII Mauritius Operations	
Rise in rate	Decline in rate
<b>3.68%</b> (Increase of MUR 217 million)	<b>3.68%</b> (Decrease of MUR 217 million)

	Impact of 200 bps parallel Rate change on NII	
	Rise in rate	Decline in rate
Mauritius Operations	<b>3.68%</b> (Increase of MUR 217 million)	<b>3.68%</b> (Decrease of MUR 217 million)
India Operations	<b>6.59%</b> (Increase of MUR 21 million)	<b>6.59%</b> (Decrease of MUR 21 million)
Madagascar Operations	<b>2.25%</b> (Increase of MUR 0.02 million)	<b>2.25%</b> (Decrease of MUR 0.02 million)
Kenya Operations	<b>22.21%</b> (Decrease of MUR 42.21 million)	<b>22.21%</b> (Increase of MUR 42.21 million)

The interest rate risk in the Banking book is managed by controlling interest rate sensitivities, which measure the immediate effects of interest rate changes on the assets, liabilities and off-balance sheet items. With the composition of the Balance Sheet as at 31 December 2017, the Mauritius Operations expected the Net Interest Income (NII) to rise in an increasing rate scenario and fall in a decreasing rate scenario. An increase of 200 bps in interest rate would result in an improvement of 3.68% in NII (1.85% of Tier 1 capital) whereas a decrease of 200 bps in rate would result in a contraction of 3.68% in NII (1.85% of Tier 1 capital). Some liabilities however, would not be fully impacted by the downward shock of 2% given that their interest rates would not fall below zero percent.

(Repricing Gap figures are provided in Note 39 (d) to the Financial Statements at pages 292 to 295)

# Foreign Exchange Risk

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

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

## MAURITIUS OPERATIONS FX VALUE AT RISK

MUR  
**1.2** Mn

NOT MATERIAL RELATIVE TO THE  
GROUP’S TIER 1 CAPITAL

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

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

Exposures in foreign currency are given in Note 39 (d) to the Financial Statements at pages 296 to 298.

## Value at Risk (VaR)

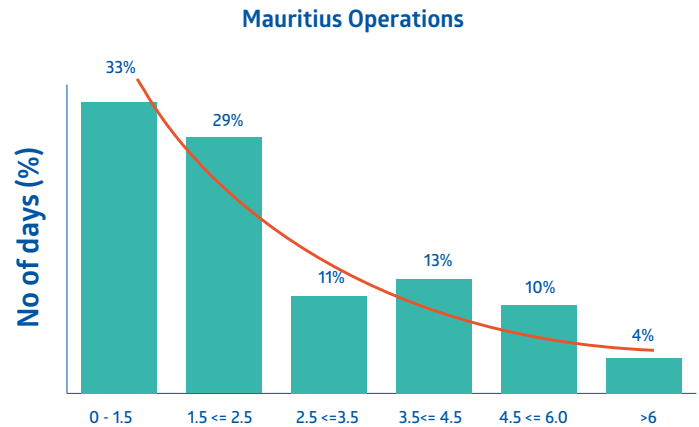
Value at Risk measures the foreign exchange risk based upon a common confidence interval and time horizon. The methodology used to calculate VaR is based on parametric method which assumes that historical returns in the foreign exchange market are representative of future movements. VaR is computed by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

three times a year. The VaR is summarized for the banking group as follows:

MUR	For the year ended 31 December 2017		
	Min	Max	Year end VaR
Mauritius Operations	629,844	7,330,790	1,231,013
India Operations	11,116	172,225	14,248
Madagascar Operations	6	783	85
Kenya Operations	3,335	25,011	12,134

For Mauritius Operations, the VaR values were not material relative to the Group’s Tier 1 capital, standing at MUR 1.23 million as at 31 December 2017 (31 December 2016: MUR 0.75 million).

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



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

# Market Risk Management (cont'd)

## Price Risk

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

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

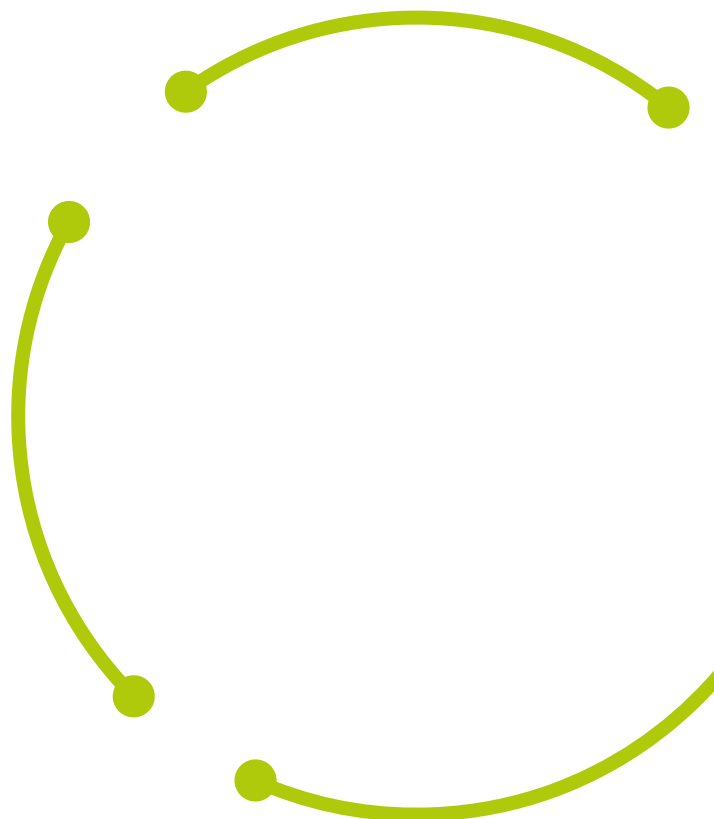
During the year under review, the change in the value of the Group's portfolio was within the prudential limits and the stop loss limits set by the Board.

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

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

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

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



# Liquidity and Funding Risk

## Liquidity Risk

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

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

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

### BANKING GROUP CONSOLIDATED LCR

# 130.09 %

Above the Bank of Mauritius minimum requirement of 100%

### MAURITIUS OPERATIONS NSFR

# 111.71 %

Above the Basel III minimum requirement of 100%

## Liquidity profile

The Group has a decent liquidity position. The Group's liquid assets echo a sound liquidity standing, adequate to counterbalance the impact of a stressed funding environment. It is capable of utilising its own resources

extensively and to invest in higher yielding assets. The primary tools that the Group uses to monitor and manage liquidity risk are: the Basel Liquidity Ratios namely Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR) and the Gap analysis.

## Basel III Liquidity Ratios

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

Mauritius and India Operations were in compliance with both the LCR and NSFR which were above the Basel III minimum requirement of 100%. For other entities, it has not yet been mandated by their local regulators.

The Basel III liquidity ratios are shown in the following table:

Basel III Liquidity Ratios	2017	2016	Minimum threshold as per Basel III
<b>Mauritius Operations</b>			
NSFR	112%	125%	100%
LCR	127%	116%	100%
<b>LCR Consolidated Banking Group</b>	130%	117%	100%

For Mauritius Operations, the LCR ratios for MUR, USD and consolidated were all above the limits set out by the Bank of Mauritius since November 2017. The monthly average of Consolidated LCR for Mauritius and India Operations was 114%, by considering two data monthly points, ie end month of November and December 2017. The daily average High Quality Liquid Assets amounts to MUR 29.4 billion for the period November to December 2017. The Group's portfolio of HQLA is mostly highly A-rated sovereign and Multilateral Development Banks (MDBs) bonds.

# Liquidity and Funding Risk (cont'd)

## Liquidity Gaps

As at 31 December 2017, the behavioural liquidity gaps per banking entity were as below.

### Mauritius Operations

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

## India Operations

**MUR Million**  
**31 December 2017**

### Financial Assets

	Day 1	Day 2-1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-Maturity	TOTAL
Cash and cash equivalents	81	-	-	-	-	-	-	-	81
Mandatory balances with Central Banks	4	49	40	21	83	19	2	-	218
Loans to and placements with banks	1,094	-	-	-	-	-	-	-	1,094
Trading assets	-	-	-	-	-	-	-	58	58
Loans and advances to non-bank customers	66	360	1,070	745	637	2,222	1,441	(838)	5,703
Investment securities	-	130	802	454	620	157	529	-	2,692
Other assets	-	-	-	-	-	-	-	425	425

	1,244	539	1,913	1,220	1,340	2,398	1,972	(355)	10,271
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### Financial liabilities

Deposits from banks	52	-	-	-	-	-	-	-	52
Deposits from non-bank customers	150	1,641	1,351	696	2,786	636	51	-	7,310
Other borrowed funds	228	27	347	-	-	-	-	-	602
Trading liabilities	-	-	-	-	-	-	-	38	38
Subordinated debts	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	2,269	2,269

	430	1,667	1,698	696	2,786	636	51	2,307	10,271
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Liquidity Gap	814	(1,128)	215	524	(1,446)	1,761	1,921	(2,661)	-
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The Negative Liquidity Gaps for India operations were within both prudential and regulatory limits.

# Liquidity and Funding Risk (cont'd)

## Madagascar Operations

<b>MUR Million</b> <b>December 31, 2017</b>	<b>Day 1</b>	<b>Day 2-1 month</b>	<b>1-3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-3 years</b>	<b>Over 3 years</b>	<b>Non- Maturity</b>	<b>TOTAL</b>
<b>Financial Assets</b>									
Cash and cash equivalents	90	41	-	-	-	-	-	-	132
Mandatory balances with Central Banks	5	11	-	-	-	6	-	132	155
Loans to and placements with banks	-	-	-	-	-	52	-	-	52
Trading assets	-	-	-	-	-	-	-	-	-
Loans and advances to non-bank customers	21	207	226	134	125	97	46	7	864
Investment securities	-	202	-	-	-	-	-	-	202
Other assets	-	-	-	-	-	-	-	38	38
	117	462	226	134	125	155	46	177	1,441
<b>Financial liabilities</b>									
Deposits from banks	5	-	-	-	-	-	-	-	5
Deposits from non-bank customers	43	90	2	2	-	50	-	1,074	1,262
Other borrowed funds	-	-	-	-	-	-	-	-	-
Trading liabilities	-	-	-	-	-	-	-	-	-
Subordinated debts	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	175	175
	48	90	2	2	-	50	-	1,249	1,441
Liquidity Gap	69	371	224	133	125	105	46	(1,072)	-

## Kenya Operations

**MUR Million**  
**December 31, 2017**

### Financial Assets

	Day 1	Day 2-1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-Maturity	TOTAL
Cash and cash equivalents	38	-	-	-	-	-	-	-	38
Mandatory balances with Central Banks	289	-	-	-	-	-	-	-	289
Loans to and placements with banks	-	520	-	-	-	-	-	-	520
Trading assets	-	-	-	-	-	-	-	231	231
Loans and advances to non-bank customers	-	482	37	7	303	163	433	-	1,426
Investment securities	-	-	-	62	-	48	823	-	933
Other assets	-	-	-	-	-	-	-	364	364
	327	1,002	37	70	303	211	1,257	595	3,802

### Financial liabilities

Deposits from banks	-	936	134	-	-	-	-	-	1,070
Deposits from non-bank customers	9	1,292	324	219	226	13	-	-	2,081
Other borrowed funds	-	-	-	-	-	-	-	-	-
Trading liabilities	-	130	-	-	-	-	-	-	130
Subordinated debts	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	520	520
	9	2,358	457	219	226	13	-	520	3,802

Liquidity Gap	318	(1,356)	(420)	(149)	77	198	1,257	75	-
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Kenya Operations is a relatively new operation and particular attention is paid to the short term liquidity gap and is closely monitored. The strategy is to opt for more stable funding, which will result in a better liquidity matching.



# Liquidity and Funding Risk (cont'd)

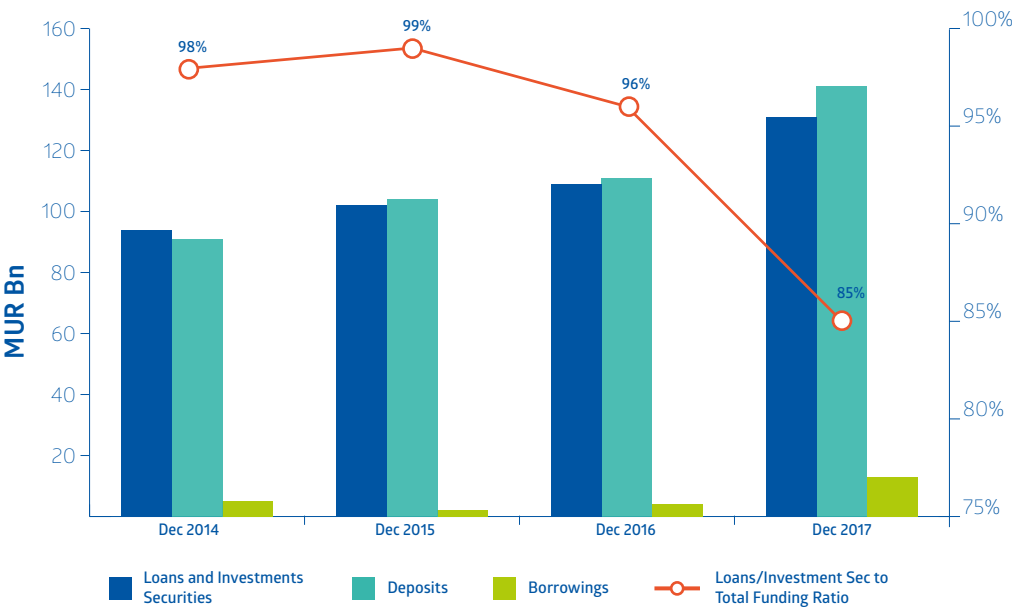
## Funding Risk

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

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

	Loans to Total Deposits		Loans to Total Funding	
	2017	2016	2017	2016
Mauritius Operations	71%	66%	65%	63%
India Operations	78%	55%	72%	55%
Madagascar Operations	68%	45%	68%	45%
Kenya Operations	69%	-	45%	-

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



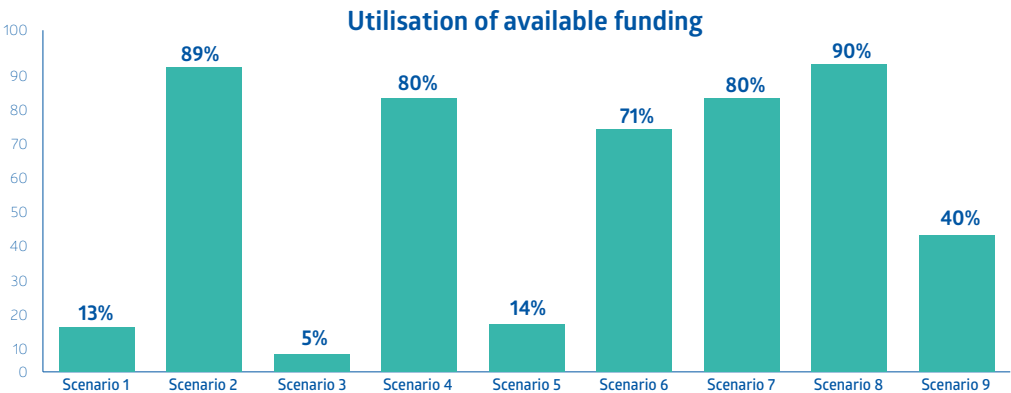
### Scenario analysis and Stress Testing

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

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

Stress testing scenarios		Available Funding
Scenario 1	10% withdrawal on all deposits accounts	✓
Scenario 2	30% withdrawal on all deposits accounts	✓
Scenario 3	10% increase in impairment of loans and advances	✓
Scenario 4	40% increase in impairment of loans and advances	✓
Scenario 5	10% withdrawal on all deposits accounts and 10% increase in impairment of loans and advances	✓
Scenario 6	25% withdrawal on all deposits accounts and 30% increase in impairment of loans and advances	✓
Scenario 7	25% withdrawal on all deposits accounts and 40% increase in impairment of loans and advances	✓
Scenario 8	30% withdrawal on all deposits accounts and 40% increase in impairment of loans and advances	✓
Scenario 9	50% withdrawal on USD deposits held by GBC customers	✓

The resulting impact of the scenarios on the immediate available funding is depicted in the following graph.



# Operational Risk Management

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

The framework intends to protect the Group against financial losses, physical and reputational damages in an efficient and practical manner based on the following principles:

1. Implementation of data protection mechanism across all entities of the Group in compliance with internal policies and laws;
2. Definition and segregation of the roles and responsibilities of the three lines of defense;
3. Clearly defined and accepted risk appetite statement (RAS);
4. The definition and monitoring of key risk indicators;
5. The reporting of key risk metrics to senior management and the Board;
6. The formulation and approval of policies by the Board;
7. Monitoring of business environment and geo-political configuration;
8. Performance of scenario analysis forecasting worst case scenarios; and
9. Strong risk culture driven by the Board and senior management.



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



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

The Group developed and adapted internal policies and procedures, implemented appropriate segregation of duties, restricted system access, defined operational limits, implemented business and system disaster recovery plans, contracted insurance policies and implemented robust risk monitoring mechanisms to cater for the specific lines of business, environments and regulations of the different entities and jurisdictions.

The following tools allow the identification and monitoring of operational risk:

- The capture and analysis of loss data;
- The development of a risk register;
- The definition and monitoring of Key Risk Indicators (KRI);
- The conduct of Risk and Control Self-Assessment (RCSA);
- The review of processes through performance of control attestation; and
- The alignment of the different entities with the Group risk management philosophy through the regular interaction with the Group Risk Management function.

*"The newly acquired banking entity in Kenya opens up growth opportunities in the African continent whilst bringing along its own set of social and political risks specific to the region. Conscious of these risks, operational risks and controls have been accordingly adopted."*

## 1. Information Technology Risk

**Information Technology** is a key enabler for achieving our business objectives and initiatives to reach out to customers and meet their needs.

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

The Group is currently in the process of aligning the technology platforms of the different entities and jurisdictions to accommodate the Group's current and future aspirations.

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

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



We are continuously monitoring developments in new technologies and the digitisation trend which are capable of disrupting our ability to adapt to the evolving customer demand. Digitisation has become one of the priorities of the Group and we ensure associated risks are identified and managed.



## 2. Business Continuity Management

Any incident, large or small, natural, accidental or deliberate has the potential of causing major disruption to the Group's operations and its ability to deliver products and services. In addition, the Group is also conscious of the changing climatic environment and threats such as extreme weather conditions. In this context, the Group has, over time, developed response mechanisms to protect our assets and people. A dedicated full time experienced Business Continuity Management team which falls under the leadership of the Head of Risk coordinates with the various entities and jurisdictions to ensure smooth and continuous operations. The team is fully involved with the development of proactive arrangements and procedures that ensure the resiliency of the Group.

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

The Group is prepared to face known risks and at the same time is conscious of the unpredictable nature of risks and understands that each situation requires a dynamic and adapted response.

**A Crisis Management Team, under the leadership of the respective entities' Chief Executives, takes prompt action to minimise impact on service delivery and to build a communication channel with key stakeholders.**

# Operational Risk Management (cont'd)

## 3. Compliance Risk

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

The Group has an independent Regulatory Compliance team which assesses compliance risk and also manages the risk of breaches and sanctions relating to Anti-Money Laundering and combatting the Financing of Terrorism. The Group Regulatory Compliance team acts as a contact point with the different entities and jurisdictions, and delivers timely advice in relation to compliance queries.

As a proactive measure, the method of doing compliance verification/ check was reviewed gradually in 2017. A risk based approach was adopted whereby compliance check was being carried out prior to the on-boarding of customers, especially for local corporate, Global businesses, SMEs and foreign customers – both individuals and companies. This system mitigates the reputational risk the Group could have faced.

The Group's Policy on AML/CFT has been amended and aligned with the revised Guidance Notes on AML/CFT issued by the Bank of Mauritius and as required by local authority in the country of operations. This alignment ensures that there is no gap in the Group's policy which avoids the Group facing regulatory actions from the local regulator or legal actions from other legal authorities.

On-going regular trainings especially on AML/CFT are dispensed to front lines staff members to strengthen skills, knowledge and arouse the awareness of the employees of their role and obligations. Staff members then have to undergo a written test. This process ensures that our staffs are up to date with the regulatory requirements and that they are always working in line with the requirements of the Regulator.

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

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

## 4. Fraud Risk

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

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

The Group operates within the following key guiding principles:

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

In addition, Mauritius Operations has a Proactive Risk Management team involved in the card issuing and acquiring business, which constantly monitors card transactions on a 24/7 basis. The team has successfully prevented over 400 cards related frauds, some of which could have caused significant loss to the customers and the Group.

## 5. Reputational Risk

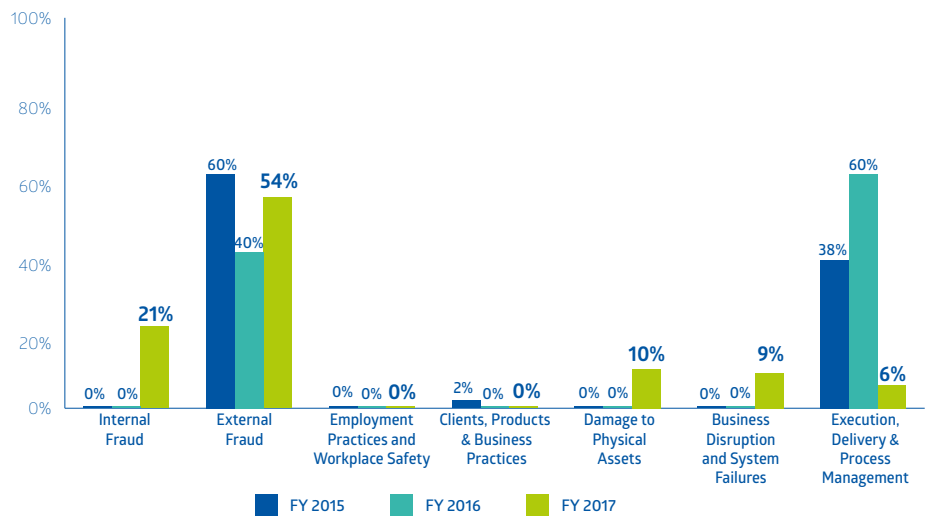
Reputational risk is the risk that the Group's reputation is damaged by one or more than one reputation event, as reflected, among other, in negative publicity about business practices, conducts or financial conditions of its various entities. Such negative publicity, whether true or not, may impair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

**Dedicated complaints handling teams within each entity remain alert and sensitive to customer complaints and ensure that all complaints are treated with the utmost sincerity, confidentiality and fairness. Furthermore, each banking entity has a Complaints Committee, comprising senior executives as members, which meets on regularly basis to ensure appropriate actions are taken to address the complaints. A report on the complaints is submitted on a quarterly basis to the Corporate Governance and Conduct Review Committee.**

Operational Risk Profile as at 31 December 2017

Operational Loss

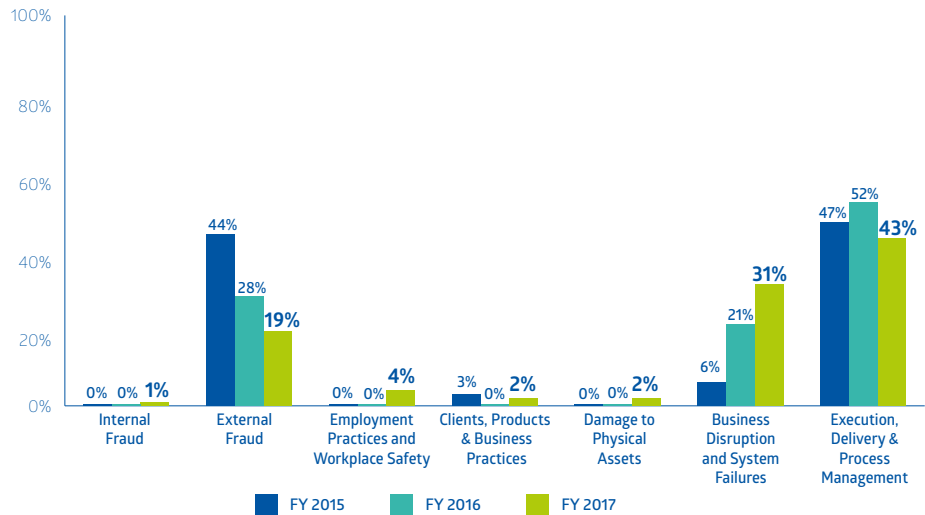
% Total Operational Loss



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

Financial loss associated with Business Disruption and System Failures and Process Execution has been minimal. However, during the year some entities experienced some unfortunate system downtimes which have since been resolved following the prompt intervention of the IT team and the Business Continuity Management team.

% Total Count



# Capital Management

**Capital management is the process by which the Group ensures that it has sufficient capital and other loss absorbing instruments to operate effectively including meeting minimum regulatory requirements for each of its subsidiaries and at consolidated level, operating within the Board approved risk appetite and supporting its strategic goals.**

Capital management has a dual role of ensuring a competitive return to the shareholders and maintaining a solid capital foundation that covers risks inherent to the Group's business supports its business segments and protects its clients.

Primary Objectives	Core Practices
Capital adequacy requirements are met at all times and sufficient capital is available to support the Group's strategy	Meet minimum regulatory requirements in all jurisdictions  Maintain capital buffers over regulatory minimum
Maintain adequate capital to cover the Group's current and forecast business needs and associated risks in order to provide a viable and sustainable business offering	Maintain a capital plan on a short-term and medium-term basis aligned with the Group's strategic objectives balancing capital generation of the business with business growth and shareholder distributions

The Group has a diversified balance sheet with a strong capital base that is compliant with Basel III requirements. As at end of December 2017, the Group's Capital Adequacy Ratio (CAR) and Tier 1 ratio stood at 19.98% and 15.92% respectively, which is well above the minimum regulatory requirement.

## Capital Planning

The Group has a sound and comprehensive policy and process for evaluating its overall capital adequacy commensurate with the overall risk profile, business projections and capital management strategies. Assessing capital adequacy is an integral part of capital planning and strategy. SBM ensures that it has enough capital to meet management's business needs in accordance with its risk appetite, along with competitive returns to shareholders, under both normal market conditions and a range of severe but plausible stress testing scenarios.

Capital planning is based on the most recent actual and estimated financial data available. These data are used to project future capital requirements taking into account its business development targets. Capital planning consists of comparing the capital ratio targets with projections of future capital consumption, and testing their robustness in a stressed macroeconomic environment. Capital is managed and monitored, ensuring capital plans remain appropriate at any time, the capital adequacy ratio of the Group remains at least above the regulatory minimum requirement.

The Group assesses its capital requirements on multiple bases, with the Group's capital plan set in consideration of the Group's risk profile and appetite, strategic and performance objectives, regulatory requirements, and market and internal factors, including the results of stress testing. The aim is to ensure that the organisation manages its capital resources at an optimal level in support of growth-related objectives.

The Investment & Credit committee meets on a quarterly basis to review the Group's investments, resource allocation and future capital requirements.

The Group's capital position is monitored on a continuous basis and reported quarterly to the Board and at regular intervals throughout the year to the Risk Committee.

The Group allocates capital across its Subsidiaries that aim to optimise the utilisation of capital resources, taking into account applicable regulatory requirements, strategic and business objectives and risk appetite.

Regulatory Requirement

Regulatory capital requirements for SBM are determined in accordance with the capital adequacy requirements guidelines issued by the BOM, which are based on the capital standards developed by the Basel Committee on Banking Supervision (BCBS).

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

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

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

BOM guidelines provide for the following additional capital requirements that phase in over time:

- (i) Capital Conservation Buffer(CCB)
- (ii) Domestic Systemically Important Bank (DSIB)

These requirements must be satisfied entirely with capital that qualifies as Common Equity Tier1.

CCB aims at promoting the conservation of capital and the build-up of adequate buffers above the minimum during normal times (i.e outside periods of stress), which can be drawn down as losses are incurred during a stressed period. CCB began to phase in on 1 January 2017 and will continue to do so in increments of 0.625% per year until it reaches 2.5% of risk-weighted assets on 1 January 2020.

SBM also has to comply with the Guideline for dealing with DSIBs issued by the BOM in June 2014, due to its systemic importance which is based on the assessment of five key factors, namely size, exposure to large groups, interconnectedness, complexity and substitutability. Banks qualifying as DSIBs are required to hold a capital surcharge ranging from 1.0% to 2.5% of their risk weighted assets depending on their systemic importance.

The BOM makes an assessment every year based on the end-June figures so as to identify domestic banks which are systemically important. The DSIB buffer also began to phase in on 1 January 2016 and will continue to do so through 1 January 2019.



## Capital Management (cont'd)

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

	MINIMUM REGULATORY RATIOS APPLICABLE TO SBM						
	2014	2015	2016	2017	2018	2019	2020
	1 July	1 Jan	1 Jan	1 Jan	1 Jan	1 Jan	1 Jan
Minimum CET 1 CAR	5.5%	6.0%	6.5%	6.5%	6.5%	6.5%	6.5%
Minimum Tier 1 CAR	6.5%	7.5%	8.0%	8.0%	8.0%	8.0%	8.0%
Capital Conservation Buffer (CCB)				0.625%	1.25%	1.875%	2.5%
D-SIB Buffer : Minimum additional loss absorbency			0.375%	0.50%	1.125%	1.50%	1.5%
Minimum Tier 1 CAR plus CCB + DSIBs	6.5%	7.5%	8.375%	9.125%	10.375%	11.375%	12.0%
Minimum Total CAR plus CCB + DSIBs	10.0%	10.0%	10.375%	11.125%	12.375%	13.375%	14.0%



Capital Adequacy Ratio (CAR) is an important parameter for judging the strength and soundness of the banking system.



## Capital Structure

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

### 1. CET 1 Capital

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

### 2. Additional Tier 1 Capital

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

### 3. Tier 2 capital

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

SBM's solid capital position ensures that each entity within the Group is compliant with the minimum capital requirements set by the local regulator. The overall capital base increased over the year, primarily due to profit accumulation.

At 31 December 2017, the Common Equity Tier 1 (CET 1), Tier 1 and total capital ratios of the Group remained strong at 15.92%, 15.92% and 19.98% respectively. All capital ratios were well above regulatory minimum requirements and in line with the SBM's risk appetite and strategic ambitions.

# Capital Management (cont'd)

## Risk Weighted Assets (RWA)

RWA measures the Group's exposures and is calculated in accordance with the BOM guideline on Standardised Approach which assesses capital requirements using standard industry-wise risk weights based on a detailed classification of asset types. In general, under the Standardised Approach, residential property secured lending products are risk weighted at 35% up to a certain threshold and Retail products are risk weighted at 75%. SBM also uses ratings assigned by External Credit Assessment Institutions (ECAIs) such as Standard & Poor's, Moody's Investors Service and Fitch as approved by BOM for evaluation of credit/exposures related to advances, placements and investments. All claims on Corporates may be risk weighted at 100% or lower depending on their rating. Effective 31 October 2017, BOM also allows banks to use the credit ratings assigned by CARE Ratings (Africa) Private Ltd, for risk-weighting of claims on Corporates.

The table below shows the capital adequacy calculation for SBM Group at 31 December 2017 together with prior period comparatives:

### Figures in MUR'million

#### Capital Base

##### Common Equity Tier 1 Capital (CET 1)

Share Capital

Retained Earnings

Other Reserves

##### CET 1: Regulatory adjustments

Treasury (own) shares

Goodwill and Intangible Assets

Deferred Tax Assets

##### Common Equity Tier 1 Capital (CET 1)

##### Additional Tier 1 (AT 1)

##### Tier 1 capital (T1 = CET1 + AT1)

##### Tier 2 Capital

Subordinated Debt

Other Reserves (45% of surplus arising from Revaluation of land & Buildings)

Portfolio Provisions

##### Tier 2 Capital

##### Total Regulatory capital

##### Risk-Weighted Assets

##### Credit risk

Weighted amount of on-balance sheet assets

Weighted amount of off-balance sheet exposures

##### Market risk

Aggregate net open foreign exchange position

Capital charge for trading book position exceeding 5% or more of its total assets

##### Operational risk

Weighted risk assets for operational risk

##### Total Risk Weighted Assets

Common Equity Tier 1 capital ratio (%)

Tier 1 capital ratio (%)

Total capital ratio (%)

	Dec 2017	Dec 2016	Dec 2015
<b>Capital Base</b>			
<b>Common Equity Tier 1 Capital (CET 1)</b>			
Share Capital	32,500	32,500	32,500
Retained Earnings	1,347	(196)	(430)
Other Reserves	(4,991)	(4,845)	(6,294)
<b>CET 1: Regulatory adjustments</b>			
Treasury (own) shares	(4,875)	(4,875)	(4,875)
Goodwill and Intangible Assets	(3,876)	(3,770)	(2,371)
Deferred Tax Assets	(95)	(215)	(277)
<b>Common Equity Tier 1 Capital (CET 1)</b>	<b>20,010</b>	<b>18,598</b>	<b>18,254</b>
<b>Additional Tier 1 (AT 1)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>20,010</b>	<b>18,598</b>	<b>18,254</b>
<b>Tier 2 Capital</b>			
Subordinated Debt	3,238	3,835	3,835
Other Reserves (45% of surplus arising from Revaluation of land & Buildings)	533	549	579
Portfolio Provisions	1,328	1,045	1,049
<b>Tier 2 Capital</b>	<b>5,099</b>	<b>5,429</b>	<b>5,464</b>
<b>Total Regulatory capital</b>	<b>25,109</b>	<b>24,027</b>	<b>23,718</b>
<b>Risk-Weighted Assets</b>			
<b>Credit risk</b>	<b>116,830</b>	<b>86,320</b>	<b>77,371</b>
Weighted amount of on-balance sheet assets	107,705	82,830	74,178
Weighted amount of off-balance sheet exposures	9,125	3,490	3,193
<b>Market risk</b>	<b>782</b>	<b>222</b>	<b>194</b>
Aggregate net open foreign exchange position	340	222	194
Capital charge for trading book position exceeding 5% or more of its total assets	442	-	-
<b>Operational risk</b>	<b>8,072</b>	<b>6,938</b>	<b>6,370</b>
Weighted risk assets for operational risk	8,072	6,938	6,370
<b>Total Risk Weighted Assets</b>	<b>125,684</b>	<b>93,480</b>	<b>83,935</b>
<b>Common Equity Tier 1 capital ratio (%)</b>	<b>15.92</b>	<b>19.90</b>	<b>21.75</b>
<b>Tier 1 capital ratio (%)</b>	<b>15.92</b>	<b>19.90</b>	<b>21.75</b>
<b>Total capital ratio (%)</b>	<b>19.98</b>	<b>25.70</b>	<b>28.26</b>

As at 31 December 2017, RWA of the Group stood at MUR 125.7 billion, a substantial uplift of 34.5% compared to 31 December 2016, triggered by a significant increase in its loan portfolio in Segment B coupled with additional assets from the newly acquired bank in Kenya. SBM Bank – Mauritius Operations accounted for 83.5% of the total Group’s RWA while SBM-Indian branches and foreign banking subsidiaries contributed to 6% and 2.8% respectively.

Despite the strong growth in business in 2017 as well as the acquisition of a new banking entity in Kenya, the Group had, on a consolidated basis, a comfortable capital base and capital ratios as at 31 December 2017, which were well above the prescribed regulatory limit. The Group’s Banking Cluster remains the core contributor to profit.

As at 31 December 2017, all the entities within the Banking Cluster had maintained their respective capital adequacy ratios comfortably above the minimum applicable regulatory requirements as per their respective host regulator, as shown in the table below:

	SBM Bank – Mauritius Operations	SBM Bank – Indian Ops	Banque SBM Madagascar	SBM Bank – Kenya Ops
Minimum Regulatory Requirement (%)	11.125	11.50	8.00	14.50
Actual CAR (%)	12.83	24.33	16.28	16.40

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The Group has a strong capital base and is fully compliant with Basel III requirements as prescribed by BOM.

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## Capital Management (cont'd)

The following tables provide figures for the RWA of the SBM Banking cluster after credit risk mitigation (CRM) for both on-balance sheet and off-balance sheet assets:

	31 Dec 2017			31 Dec 2016	31 Dec 2015
	Amount	Weight %	Weighted Assets	Weighted Assets	Weighted Assets
<b>On-balance sheet assets - MUR Million</b>					
Cash Items	2,171	0-20	0	1	30
Claims on Sovereigns	36,819	0-100	3,055	1,030	535
Claims on Central banks and International Institutions	12,505	0-100	772	365	447
Claims on MDBs	2,745	0	0	0	0
Claims on Banks	26,175	20-150	12,570	9,457	6,831
Claims on Non-Central Government Public Sector Entities	517	0-100	196	408	524
Claims on Corporates	53,108	20-100	52,643	36,998	33,312
Claims included in the Regulatory Retail Portfolio	7,667	75	5,750	6,382	6,869
Claims secured by residential property	20,165	35-125	8,309	5,925	6,277
Claims secured by Commercial Real Estate	2,988	100	2,988	3,456	4,461
Past due claims	1,937	50-150	2,329	2,091	1,344
Other assets	9,243	100	9,243	6,103	5,778
<b>Total On Balance Sheet</b>	<b>176,040</b>		<b>97,855</b>	<b>72,215</b>	<b>66,408</b>

	31 Dec 2017					31 Dec 2016	31 Dec 2015
	Credit Conversion Factor (%)	Nominal Amt (Rs m)	Credit Equivalent Amt (Rs m)	Weight %	Risk Weighted Assets (Rs m)	Risk Weighted Assets (Rs m)	Risk Weighted Assets (Rs m)
<b>Off-balance sheet assets</b>							
Direct Credit Substitutes	100	3,255	3,255	0 - 100	3,234	1,108	277
Transaction-Related Contingent items	50	4,225	2,112	0 - 100	2,012	1,524	2,009
Trade-Related Contingencies	20	2,422	484	0 - 100	488	230	175
Other Commitments	0 - 20	14,239	1,493	0 - 100	1,412	411	492
<b>Total non-market-related risk-weighted assets</b>		<b>24,141</b>	<b>7,344</b>		<b>7,146</b>	<b>3,273</b>	<b>2,953</b>
Interest Rate contracts	0-1.5	5,030	43	50	22	47	52
Foreign Exchange contracts	1-5	94,668	2,183	20 - 100	1,863	170	194
Credit derivative contracts	10-20	334	67	150	100		
<b>Total market-related risk-weighted assets</b>		<b>100,032</b>	<b>2,293</b>		<b>1,985</b>	<b>217</b>	<b>246</b>
<b>Total Off Balance Sheet</b>			<b>9,637</b>		<b>9,131</b>	<b>3,490</b>	<b>3,199</b>

The Banking Group's on-balance sheet assets before credit risk mitigation increased by MUR 49.7 billion or 37.6%, mostly triggered by substantial growth of 41.5% in gross loans and advances primarily to cross border Segment B and overseas clients.

Non market related Off-balance sheet RWA showed a significant growth with increase in guarantees, letter of credit and commitments. Commitments to extend credit are off-balance sheet arrangements that represent our commitment to customers to grant them credit in the form of loans or other financings for specific amounts and maturities, subject to meeting certain conditions.

### Market-related off-balance sheet transactions

SBM adheres to the Standardised Approach as outlined by BOM in its Guideline on Measurement and Management of Market Risk for computation of capital on market risk. As per this methodology, which is closely aligned with Basel II Standardised Measurement Method, a banking institution is required to hold additional capital whenever its overall position in trading book activities exceeds 5% or more of its total assets. A banking institution is encouraged to hold a capital buffer that adequately covers the interest rate risk exposures arising from non-trading activities. During the year under review, SBM has substantially grown its derivatives book on behalf of its customers and those positions were hedged accordingly.

### Foreign Exchange Risk

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

MUR million	Dec 2017	Dec 2016	Dec 2015
Aggregate net open foreign exchange position	340.4	222.1	194.0

### Operational Risk

SBM adopted the Alternative Standardised Approach for the computation of capital for Operational risk. SBM's capital charge for Operational Risk is increasing year on year, in line with growing business volumes and gross income.

The following table sets out, for the period indicated, the operational risk capital charge for the Banking Group:

MUR million	Dec 2017	Dec 2016	Dec 2015
Capital charge for Operational Risk	775	635	595

### Leverage Ratio

The Leverage ratio is intended by the Basel Committee on Banking Supervision to serve as a simple, transparent, non-risk based leverage ratio to supplement the Basel III risk-based capital requirements, to help avoid the build-up of excessive leverage and to capture both on- and off-balance-sheet exposure

As at 31 December 2017, the leverage ratio for the Group and the Banking Group stood at 9.6% and 6.49% respectively against the Basel Committee on Banking Supervision recommended minimum of 3%. As at date, there is no regulatory requirement to compute the leverage ratio.

### Looking Ahead

A key focus for the year ahead will be to ensure that the Group and all its banking entities remain adequately capitalised and positioned to respond to higher capital requirements prescribed by regulatory authorities in the countries in which they operate. The Group will continue to apply a forward-looking approach to better understand the unique risks of each country where it operates, to not only manage them, but to also realise the growth opportunities they present in a sustainable manner.

SBM will continue to pursue its strategy of prudently managing its financial capital to provide an appropriate balance between debt and equity and the associated costs and at the same time ensuring adequate return from each investment.





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

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# Independent Auditors' Report

## to the members of SBM HOLDINGS LTD

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of SBM Holdings Ltd (the "Company") and its subsidiaries (the "Group") set out on pages 212 to 307 which comprise the statements of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

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

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and

the Company in accordance with the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key Audit Matters*

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

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

Key Audit Matter	How the matter was addressed in the audit
<b>Impairment of loans and advances</b>  The Group has net loans and advances portfolio of MUR 103,129 million as at 31 December 2017. As explained in the accounting policies, these loans and advances are carried at amortised cost, less allowance for credit impairment (MUR 4,069 million). This provision is accounted for if, at the reporting date, there is objective evidence, for example the existence of payment arrears, that not all the contractually agreed cash flows will be collected. Failure to promptly recognise objective evidence of the risk of uncollectability and/or errors in the provisioning can result in incorrect valuation of the loan and advances portfolio in the financial statements.	 We assessed and tested the design and operating effectiveness of the controls over specific and collective impairment calculations including the quality of underlying data and systems.  Collective impairment allowances are calculated based on the guidelines imposed by the Bank of Mauritius. Such guidelines require the Group to make portfolio provisions of not less than 1% on unimpaired loans and advances. The Bank of Mauritius also imposes additional macro- prudential provisioning of up to 1% on exposures to certain specific sectors of the economy.

Key Audit Matter	How the matter was addressed in the audit
<p><b>Impairment of loans and advances (continued)</b></p> <p>Refer to Note 8 for accounting policy on loans and advances and allowance for credit impairment. Given the relative size of loans and advances of the Group (53% of total assets), we identified the valuation of loans and advances as a key audit matter.</p>	<p>As this basis represents a departure from IAS39, the Group also determines what the collective impairment would have been under the standard using the incurred loss model and evaluates the impact of the departure. We reviewed the portfolio provisioning under both bases and assessed the impact of the difference on the overall presentation of the financial statements</p> <p>In particular we re-performed the calculations of collective impairment under both methods. In respect of the provisioning as per the Bank of Mauritius guidelines, we assessed the appropriateness of the calculation made by management and the identification of loans to be included within the calculation. For collective impairment under IAS39, we assessed the appropriateness of the model used including the inputs and assumptions.</p> <p>For specific impairments, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows discounted at the original effective interest rate of the loans and advances. Where cash flows for large credits include the realisable value of collateral securing the credit, the value of such collateral is based on the opinion of independent and qualified appraisers. We thus also assessed the independence and the qualification of the appraisers. Areas of focus included the SME lending portfolios in India and the lending portfolios with loans to large corporates in Mauritius.</p> <p>We ensured that all loans with objective evidence of impairment have been properly identified by management by:</p> <ul style="list-style-type: none"> <li>• Reviewing the minutes of the impaired asset review forum, Management Credit forum, Board Credit Committee;</li> <li>• Obtaining and testing loan arrears reports and ensuring that all arrears exceeding 90 days are included in the specific impairment analysis;</li> <li>• Identifying loan facilities meeting certain criteria such as financial difficulties of the borrower, restructured loans, insufficient collaterals and exposures to sectors in decline.</li> </ul>

# Independent Auditors' Report to the members of SBM HOLDINGS LTD

## Report on the Audit of the Financial Statements (Continued)

### Key Audit Matters (Continued)

Key Audit Matter	How the matter was addressed in the audit
<b>Impairment of loans and advances (continued)</b>	For loans showing an indication of impairment, we independently assessed the appropriateness of provisioning methodologies and policies and formed an independent view on the levels of provisions booked based on the detailed loan and counterparty information in the credit files. We re-performed calculations within a sample of discounted cash flow models and assessed the reasonableness of assumptions used to support the timing and extent of the cash flows.
<b>Acquisition of Fidelity Commercial Bank Limited</b>  <p>On 10 May 2017, the Group acquired 99.99% equity interest in Fidelity Commercial Bank Limited (now "SBM Bank (Kenya) Limited") for a consideration of MUR 35 (refer to Note 41) plus a contingent consideration.</p> <p>The Group has determined the acquisition to be a business combination under IFRS 3 – 'Business Combinations'. The purchase price allocation (PPA) exercise was performed, whereby assets and liabilities acquired were fair valued and allocated to acquisition price to arrive at the goodwill of MUR 417.7 million.</p>	<p>We have checked the purchase price allocation (PPA) exercise which involves recognising and measuring the identifiable assets acquired and liabilities assumed as set out below. We have checked whether the fair valuation of the identifiable assets and liabilities has been properly done. The procedures are as follows:</p> <p>Investment and government securities</p> <ul style="list-style-type: none"> <li>• We carried out a fair value reassessment exercise which involved comparing market prices used as at 10 May 2017 to that of the quoted prices.</li> </ul>

Key Audit Matter	How the matter was addressed in the audit
<p><b>Acquisition of Fidelity Commercial Bank Limited (continued)</b></p> <p>The identification of assets and liabilities is critical and their fair value measurement is inherently judgemental and require the use of assumptions and estimates. Therefore, we have considered this area to be a key audit matter.</p>	<p>Loans and advances to customers</p> <ul style="list-style-type: none"> <li>• We re-calculated loan loss allowances on an individual and collective basis to test the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collaterals and estimates of recovery on default. We ensured reasonableness of the inputs to impairment, such as recovery rates and discount rates by comparing data and assumptions made to external benchmarks, where available.</li> </ul> <p>Property and equipment and investment properties</p> <ul style="list-style-type: none"> <li>• We have checked whether the independent valuer, valuing the properties, has the relevant experience and expertise.</li> <li>• We reviewed the basis and significant assumptions for valuation of properties and ensured these were in line with market practice.</li> <li>• We corroborated the inputs used in the valuation by comparing them against available industry data.</li> </ul> <p>Other liabilities</p> <ul style="list-style-type: none"> <li>• We evaluated the adequacy of the provisions, amounts due to related parties, contingent provisions and assessed the expected settlement of the liabilities.</li> </ul> <p>Credit facilities</p> <ul style="list-style-type: none"> <li>• We recalculated fair value of the credit facilities made available to the subsidiary including testing of the discount rate used.</li> </ul>

# Independent Auditors' Report to the members of SBM HOLDINGS LTD

## Report on the Audit of the Financial Statements (Continued)

### Key Audit Matters (Continued)

Key Audit Matter	How the matter was addressed in the audit
<b>Acquisition of Fidelity Commercial Bank Limited (continued)</b>	<p>Where assumptions and estimates were used, we performed sensitivity analyses to determine the impact whilst considering the risk of management bias.</p> <p>We have reviewed the purchase agreement to understand the key terms and conditions, and to confirm our understanding of the transaction with the management and to evaluate the assets and liabilities identified in the acquisition accounting against the terms of the agreement.</p> <p>We also evaluated the measurement of the contingent consideration and assessed the probability of meeting the targets as per the Purchase Agreement.</p> <p>We evaluated the appropriateness and completeness of the disclosures under IFRS 3 "Business combination"</p>
<b>Impairment assessment of goodwill</b> <p>Included in the financial statements is goodwill amounting to MUR 417.7 million (refer to note 41). The goodwill recorded in the financial statements arises from the acquisition of Fidelity Commercial Bank Limited and has been allocated entirely to the operations of the subsidiary, SBM Bank (Kenya) Limited which represents the lowest level of CGU at which the goodwill is monitored.</p> <p>The carrying amount of goodwill is subject to annual impairment tests using the value-in-use method.</p> <p>There is inherent uncertainty and significant judgement involved in preparing future cash flow forecasts and applying the appropriate discount rate to determine the value-in-use and recoverable amount of the cash-generating unit. Therefore valuation of goodwill is considered a key audit matter.</p>	<p>Our audit procedures included, amongst others, the following:</p> <ul style="list-style-type: none"> <li>Assessing the appropriateness of the disclosures in the financial statements in accordance with IAS 36- Impairment of Assets;</li> <li>Challenging the assumptions in the Group's impairment testing by: <ul style="list-style-type: none"> <li>Evaluating the consistency and appropriateness of assumptions and methodologies used by the Group, in particular those relating to revenue growth rate and the discount rate applied to the forecasted cash flows in the value-in-use method;</li> <li>Comparing the Group's assumptions with our own assessment in relation to key inputs into the model.</li> <li>Engaged our internal valuation experts to assist in the testing of the discount factor used.</li> </ul> </li> <li>Reviewing the sensitivity analysis performed by the directors and assessing the headroom for errors in estimating the key assumptions used in the goodwill impairment calculation</li> </ul>

Key Audit Matter	How the matter was addressed in the audit
<p><b>Disclosure of IFRS 9- impact</b></p> <p>The Group is adopting IFRS 9 as from 1 January 2018 and have included an estimate of the financial impact of the change in accounting standard in accordance with IAS 8 'Changes in Accounting Estimates and Errors as set out in note 2. This disclosure notes that the Group continues to refine its expected credit loss model and embed its operational processes which may change the actual impact on adoption. Further testing of the financial impact will be performed as part of our 2018 year end audit.</p>	<p>We have performed audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. Specifically we have :</p> <ul style="list-style-type: none"> <li>• Considered the appropriateness of the key technical decisions, judgements, assumptions and elections made by management;</li> <li>• Considered key Classification and Measurement decisions, including Business Model Assessments and Sole Payment of Principal and Interest (SPPI) outcomes;</li> <li>• Involved credit risk modelling in the consideration of credit risk modelling decisions and macroeconomic variables, including forward economic guidance and generation of multiple economic scenarios;</li> <li>• Considered transitional controls and governance processes related to the approval of the estimated transitional impact.</li> </ul>

#### *Other Information*

The directors are responsible for the other information. The other information comprises the Statement of Directors' responsibility for financial reporting and the Report from the Company's Secretary as required by the Companies Act 2001, Management Discussion and Analysis and Corporate Governance Report which we obtained prior to the date of this auditor's report. The Annual Report is expected to be made available to us after that date. Other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

#### *Responsibilities of the Directors for the Financial Statements*

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

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

# Independent Auditors' Report to the members of SBM HOLDINGS LTD

## Report on the Audit of the Financial Statements (Continued)

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions

that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### *Other matter*

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

### **Report on Other Legal and Regulatory Requirements**

#### *Companies Act 2001*

We have no relationship with or interests in the Group and Company other than in our capacity as auditors, tax advisors and dealings in the ordinary course of business.

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

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

#### *Financial Reporting Act 2004*

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

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



**ERNST & YOUNG**  
Ebène, Mauritius



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

Date: 29 March 2018



# Statements of financial position

AS AT 31 DECEMBER 2017

	Notes	THE GROUP			THE COMPANY		
		31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
		MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>ASSETS</b>							
Cash and cash equivalents	5	16,331,538	9,490,208	9,174,135	73,223	15,321	178,060
Mandatory balances with Central Banks		8,966,717	7,097,994	6,919,908	-	-	-
Loans to and placements with banks	6	8,897,399	4,645,911	1,208,945	-	-	-
Derivative financial instruments	7	1,356,774	165,998	144,142	-	-	-
Loans and advances to non-bank customers	8	103,128,838	71,624,874	68,784,195	-	-	-
Investment securities	9 (i)	40,000,421	39,430,829	37,375,824	1,461,801	4,305,882	5,896,350
Equity investments	9 (ii)	6,137,779	5,732,722	6,066,176	4,292,925	4,261,347	5,534,324
Investment in subsidiaries	9 (iii)	-	-	-	24,665,178	21,854,773	20,999,183
Investment in associate	9 (iv)	1,336,902	1,275,880	-	1,272,977	1,272,977	-
Property and equipment	10	2,854,218	2,809,777	2,827,601	3,106	4,309	5,512
Goodwill and other intangible assets	11	3,875,613	3,770,271	2,370,629	-	-	-
Deferred tax assets	17b	95,461	215,260	276,756	-	-	-
Other assets	12	1,039,721	635,984	1,013,780	70,448	1,501	126,773
<b>Total assets</b>		<b>194,021,381</b>	<b>146,895,708</b>	<b>136,162,091</b>	<b>31,839,658</b>	<b>31,716,110</b>	<b>32,740,202</b>
<b>LIABILITIES</b>							
Deposits from banks	14	689,265	2,611,669	751,719	-	-	-
Deposits from non-bank customers	15	144,850,676	109,241,194	104,281,103	-	-	-
Other borrowed funds	16	13,686,203	4,486,008	2,132,497	-	-	-
Derivative financial instruments	7	1,334,641	182,413	120,781	-	-	-
Current tax liabilities		124,195	364,670	391,954	1,005	1,354	16,389
Deferred tax liabilities	17b	170,905	-	-	-	64	19
Other liabilities	18	4,299,258	2,339,683	2,433,536	5,501	5,997	3,493
Subordinated debts	19	3,701,466	3,865,371	3,862,138	3,701,466	3,865,371	3,862,138
<b>Total liabilities</b>		<b>168,856,609</b>	<b>123,091,008</b>	<b>113,973,728</b>	<b>3,707,972</b>	<b>3,872,786</b>	<b>3,882,039</b>
<b>SHAREHOLDERS' EQUITY</b>							
Stated capital	20	32,500,204	32,500,204	32,500,204	32,500,204	32,500,204	32,500,204
Retained earnings/(accumulated losses)		2,410,007	865,100	(430,006)	1,242,101	1,020,810	2,030,144
Other reserves		(4,870,408)	(4,685,573)	(5,006,804)	(735,588)	(802,659)	(797,154)
		30,039,803	28,679,731	27,063,394	33,006,717	32,718,355	33,733,194
Treasury shares	20	(4,875,031)	(4,875,031)	(4,875,031)	(4,875,031)	(4,875,031)	(4,875,031)
<b>Total equity attributable to equity holders of the parent</b>		<b>25,164,772</b>	<b>23,804,700</b>	<b>22,188,363</b>	<b>28,131,686</b>	<b>27,843,324</b>	<b>28,858,163</b>
<b>Total equity and liabilities</b>		<b>194,021,381</b>	<b>146,895,708</b>	<b>136,162,091</b>	<b>31,839,658</b>	<b>31,716,110</b>	<b>32,740,202</b>

Approved by the Board of Directors and authorised for issue on 29 March 2018.



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



**Subhas THECKA**  
Chairman, Audit Committee

# Statements of profit or loss

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	THE GROUP			THE COMPANY		
		31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
		MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Interest income		7,007,347	6,249,765	6,424,315	131,045	227,814	249,758
Interest expense		(2,239,586)	(1,866,491)	(2,171,580)	(149,011)	(149,307)	(133,221)
<b>Net interest income/(expense)</b>	26	<b>4,767,761</b>	<b>4,383,274</b>	<b>4,252,735</b>	<b>(17,966)</b>	<b>78,507</b>	<b>116,537</b>
Fee and commission income		1,268,893	1,081,945	1,058,126	-	-	-
Fee and commission expense		(29,385)	(29,346)	(29,340)	(339)	-	-
<b>Net fee and commission income/(expense)</b>	27	<b>1,239,508</b>	<b>1,052,599</b>	<b>1,028,786</b>	<b>(339)</b>	<b>-</b>	<b>-</b>
Profit arising from dealing in foreign currencies		560,843	536,831	528,966	-	-	-
Net gain on sale of securities		464,433	455,500	286,808	12,765	13,036	16,224
Dividend income	28	21,501	38,864	157,273	1,270,535	27,563	2,597,724
Net gain/(loss) from dealing from financial instruments	29	516,538	(25,108)	(2,057)	67,735	117	3,697
Other operating income	30	1,221	4,265	2,782	-	-	-
<b>Non-interest income</b>		<b>2,804,044</b>	<b>2,062,951</b>	<b>2,002,558</b>	<b>1,350,696</b>	<b>40,716</b>	<b>2,617,645</b>
<b>Operating income</b>		<b>7,571,805</b>	<b>6,446,225</b>	<b>6,255,293</b>	<b>1,332,730</b>	<b>119,223</b>	<b>2,734,182</b>
Personnel expenses	31	(1,618,992)	(1,395,895)	(1,237,004)	(18,843)	(3,830)	(1,355)
Depreciation and amortisation		(669,966)	(350,004)	(161,535)	(1,203)	(1,203)	(501)
Other expenses	32	(1,099,274)	(995,723)	(871,912)	(61,566)	(48,005)	(38,040)
<b>Non-interest expense</b>		<b>(3,388,232)</b>	<b>(2,741,622)</b>	<b>(2,270,451)</b>	<b>(81,612)</b>	<b>(53,038)</b>	<b>(39,896)</b>
<b>Profit before net impairment loss on financial assets</b>		<b>4,183,573</b>	<b>3,704,603</b>	<b>3,984,842</b>	<b>1,251,118</b>	<b>66,185</b>	<b>2,694,286</b>
Net impairment loss on financial assets	33	(1,115,280)	(716,899)	(1,936,840)	-	-	-
<b>Operating profit</b>		<b>3,068,293</b>	<b>2,987,704</b>	<b>2,048,002</b>	<b>1,251,118</b>	<b>66,185</b>	<b>2,694,286</b>
Share of profit of associate	9(iv)	92,005	1,627	-	-	-	-
<b>Profit before income tax</b>		<b>3,160,298</b>	<b>2,989,331</b>	<b>2,048,002</b>	<b>1,251,118</b>	<b>66,185</b>	<b>2,694,286</b>
Tax (expense)/income	17a	(585,375)	(680,429)	(440,448)	2,895	(16,979)	(16,408)
<b>Profit for the year</b>		<b>2,574,923</b>	<b>2,308,902</b>	<b>1,607,554</b>	<b>1,254,013</b>	<b>49,206</b>	<b>2,677,878</b>
Earnings per share (Cents)	34	<b>99.73</b>	<b>89.43</b>	<b>62.27</b>			

The notes on pages 218 to 307 form an integral part of these financial statements.

# Statements of other comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	THE GROUP			THE COMPANY		
		31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
		MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>Profit for the year</b>		<b>2,574,923</b>	2,308,902	1,607,554	<b>1,254,013</b>	49,206	2,677,878
<b>Other comprehensive income :</b>							
<i>Items that will not be reclassified subsequently to profit or loss net of deferred tax:</i>							
Movement in net property revaluation reserve		-	1,530	(2,680)	-	-	-
Underprovision of deferred tax assets on revaluation of property in prior years		-	(24,817)	-	-	-	-
Share of other comprehensive income of associate	9(iv)	290	1,276	-	-	-	-
Remeasurement of defined benefit pension plan	13&17(b)	(32,876)	1,599	(10,877)	-	-	-
		<b>(32,586)</b>	<b>(20,412)</b>	<b>(13,557)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Items that may be reclassified subsequently to profit or loss:</i>							
Exchange differences on translation of foreign operations	38	(65,347)	(80,866)	202,833	-	-	-
Movement in fair value of available-for-sale investments	38	144,422	650,541	(575,701)	52,013	3,826	(767,410)
Fair value reserve re-cycled on disposal of available-for-sale investments	38	(228,618)	(180,697)	(151,166)	15,058	(6,740)	(16,225)
Fair value realised on reclassification of available-for-sale investments to investment in associate		-	(2,591)	-	-	(2,591)	-
		<b>(149,543)</b>	386,387	(524,034)	<b>67,071</b>	(5,505)	(783,635)
<b>Total other comprehensive (loss)/income</b>		<b>(182,129)</b>	365,975	(537,591)	<b>67,071</b>	(5,505)	(783,635)
<b>Total comprehensive income for the year</b>		<b>2,392,794</b>	2,674,877	1,069,963	<b>1,321,084</b>	43,701	1,894,243

The notes on pages 218 to 307 form an integral part of these financial statements.

# Statements of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2017

	Stated capital	Treasury shares	Statutory reserve	(Accumulated losses) / Retained earnings	Net property revaluation reserve	Other reserves (Note 38)	Total equity
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>THE GROUP</b>							
<b>At 01 January 2015</b>	32,500,204	(4,875,031)	583,457	(1,109,410)	273,609	(5,299,166)	22,073,663
Profit for the year	-	-	-	1,607,554	-	-	1,607,554
Other comprehensive loss for the year	-	-	-	(10,877)	(2,680)	(524,034)	(537,591)
Total comprehensive income/(loss) for the year	-	-	-	1,596,677	(2,680)	(524,034)	1,069,963
Transfer to retained earnings	-	-	-	46,720	(46,720)	-	-
Transfer to statutory reserve	-	-	8,730	(8,730)	-	-	-
Dividend (Note 21)	-	-	-	(955,263)	-	-	(955,263)
<b>At 31 December 2015</b>	<u>32,500,204</u>	<u>(4,875,031)</u>	<u>592,187</u>	<u>(430,006)</u>	<u>224,209</u>	<u>(5,823,200)</u>	<u>22,188,363</u>
<b>At 01 January 2016</b>	32,500,204	(4,875,031)	592,187	(430,006)	224,209	(5,823,200)	22,188,363
Profit for the year	-	-	-	2,308,902	-	-	2,308,902
Other comprehensive income/(loss) for the year	-	-	-	1,599	(23,287)	387,663	365,975
Total comprehensive income/(loss) for the year	-	-	-	2,310,501	(23,287)	387,663	2,674,877
Transfer to retained earnings	-	-	-	43,145	(43,145)	-	-
Dividend (Note 21)	-	-	-	(1,058,540)	-	-	(1,058,540)
<b>At 31 December 2016</b>	<u>32,500,204</u>	<u>(4,875,031)</u>	<u>592,187</u>	<u>865,100</u>	<u>157,777</u>	<u>(5,435,537)</u>	<u>23,804,700</u>
<b>At 01 January 2017</b>	<b>32,500,204</b>	<b>(4,875,031)</b>	<b>592,187</b>	<b>865,100</b>	<b>157,777</b>	<b>(5,435,537)</b>	<b>23,804,700</b>
Profit for the year	-	-	-	2,574,923	-	-	2,574,923
Other comprehensive loss for the year	-	-	-	(32,876)	-	(149,253)	(182,129)
Total comprehensive income/(loss) for the year	-	-	-	2,542,047	-	(149,253)	2,392,794
Transfer to statutory reserve	-	-	1,779	(1,779)	-	-	-
Transfer to retained earnings	-	-	-	37,361	(37,361)	-	-
Dividend (Note 21)	-	-	-	(1,032,722)	-	-	(1,032,722)
<b>At 31 December 2017</b>	<u>32,500,204</u>	<u>(4,875,031)</u>	<u>593,966</u>	<u>2,410,007</u>	<u>120,416</u>	<u>(5,584,790)</u>	<u>25,164,772</u>

Other reserve in the balance sheet comprise of statutory reserve, net property revaluation reserve and other reserve.

The notes on pages 218 to 307 form an integral part of these financial statements.

# Statements of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONT'D)

	Stated capital	Treasury shares	Retained earnings	Net unrealised investment fair value reserve	Total equity
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>THE COMPANY</b>					
<b>At 01 January 2015</b>	32,500,204	(4,875,031)	307,529	(13,519)	27,919,183
Profit for the year	-	-	2,677,878	-	2,677,878
Other comprehensive loss for the year	-	-	-	(783,635)	(783,635)
Total comprehensive income/(loss) for the year	-	-	2,677,878	(783,635)	1,894,243
Dividend (Note 21)	-	-	(955,263)	-	(955,263)
<b>At 31 December 2015</b>	<b>32,500,204</b>	<b>(4,875,031)</b>	<b>2,030,144</b>	<b>(797,154)</b>	<b>28,858,163</b>
<b>At 01 January 2016</b>	32,500,204	(4,875,031)	2,030,144	(797,154)	28,858,163
Profit for the year	-	-	49,206	-	49,206
Other comprehensive loss for the year	-	-	-	(5,505)	(5,505)
Total comprehensive income/(loss) for the year	-	-	49,206	(5,505)	43,701
Dividend (Note 21)	-	-	(1,058,540)	-	(1,058,540)
<b>At 31 December 2016</b>	<b>32,500,204</b>	<b>(4,875,031)</b>	<b>1,020,810</b>	<b>(802,659)</b>	<b>27,843,324</b>
<b>At 01 January 2017</b>	<b>32,500,204</b>	<b>(4,875,031)</b>	<b>1,020,810</b>	<b>(802,659)</b>	<b>27,843,324</b>
Profit for the year	-	-	1,254,013	-	1,254,013
Other comprehensive income for the year	-	-	-	67,071	67,071
Total comprehensive income for the year	-	-	1,254,013	67,071	1,321,084
Dividend (Note 21)	-	-	(1,032,722)	-	(1,032,722)
<b>At 31 December 2017</b>	<b>32,500,204</b>	<b>(4,875,031)</b>	<b>1,242,101</b>	<b>(735,588)</b>	<b>28,131,686</b>

Other reserve in the balance sheet comprise of statutory reserve, net property revaluation reserve and other reserve.

The notes on pages 218 to 307 form an integral part of these financial statements.

# Statements of cashflows

FOR THE YEAR ENDED 31 DECEMBER 2017

Notes	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>Net cash from operating activities</b>	<b>1,234,721</b>	1,950,483	6,230,508	<b>3,801,568</b>	2,115,295	1,108,974
<b>Cash flows from / (used in) financing activities</b>						
Increase / (decrease) in other borrowed funds	7,770,802	2,353,511	(2,980,507)	-	-	-
Proceeds from subordinated liabilities debts raised	2,025	3,233	26,658	2,025	(3,753)	26,660
Dividend paid on ordinary shares	(1,032,722)	(1,058,540)	(955,263)	(1,032,722)	(1,058,540)	(955,263)
<b>Net cash from / (used in) financing activities</b>	<b>6,740,105</b>	1,298,204	(3,909,112)	<b>(1,030,697)</b>	(1,062,293)	(928,603)
<b>Cash flows (used in) / from investing activities</b>						
Investment in non-voting redeemable participating shares	(120,754)	(359,585)	-	(120,754)	(360,151)	-
Acquisition of property and equipment	(87,653)	(144,419)	(218,337)	-	-	(6,013)
Acquisition of intangible assets	(173,992)	(1,596,979)	(1,126,688)	-	-	-
Disposal of property and equipment	7,489	824	4,565	-	-	-
Investment in preference shares	-	(350,000)	-	-	-	-
Acquisition of business	12,398	-	-	-	-	-
Investment in subsidiaries	-	-	-	(2,592,215)	(855,590)	-
Acquisition of other equity investments	(459,211)	(512,364)	(705)	-	-	-
Disposal of other equity investments	-	118	(221)	-	-	-
<b>Net cash used in investing activities</b>	<b>(821,723)</b>	(2,962,405)	(1,341,386)	<b>(2,712,969)</b>	(1,215,741)	(6,013)
<b>Net change in cash and cash equivalents</b>	<b>7,153,103</b>	286,282	980,010	<b>57,902</b>	(162,739)	174,358
Net foreign exchange differences	(311,773)	29,791	-	-	-	-
Cash and cash equivalents at start of year	9,490,208	9,174,135	8,194,125	15,321	178,060	3,702
<b>Cash and cash equivalents at end of year</b>	<b>16,331,538</b>	9,490,208	9,174,135	<b>73,223</b>	15,321	178,060

The notes on pages 218 to 307 form an integral part of these financial statements.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 1. GENERAL INFORMATION

SBM Holdings Ltd (the “Company”) is a public company incorporated on 18 November 2010 and domiciled in Mauritius. The Company was listed on the Stock Exchange of Mauritius on 03 October 2014 pursuant to a Group restructuring approved by the Bank of Mauritius. The address of its registered office is SBM Tower, 1 Queen Elizabeth II Avenue, Port Louis, Mauritius.

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

## 2. APPLICATION OF NEW AND REVISED STANDARD AND INTERPRETATIONS

In the current year, the Group and the Company have applied all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB that are relevant to its operations and effective for accounting periods beginning on 01 January 2017.

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

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

### ***Amendments to IAS 12 Income Taxes – effective 01 January 2017***

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

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

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

### ***Standards issued but not yet effective***

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

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

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

#### **IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and will be effective as from 1 January 2018. IFRS 9 includes requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The impairment requirements will lead to significant changes in the accounting for financial instruments for the Group and the Company. The Group and the Company will not restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7 Financial Instruments: Disclosures. Any change in the carrying value of financial instruments upon initial application of IFRS 9 will be recognised in equity.

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

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

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

#### **Impairment**

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

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



# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

#### **Impairment (Cont'd)**

Exposures would be divided into 3 stages as follows:

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

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

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

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

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

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

Increase in allowance for credit losses  
Increase in deferred tax assets  
Decrease in shareholder's equity

#### THE GROUP

MUR 410 million to MUR 450 million  
MUR 69.7 million to MUR 76.5 million  
MUR 340.3 million to MUR 373.5 million

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

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

#### **Classification and measurement**

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

- 1) The business model within which financial assets are managed; and
- 2) Their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest').

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

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

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

The accounting for financial liabilities is largely unchanged.

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

The initial application of the new classification and measurement policies as per IFRS 9 on 1 January 2018 is not expected to result in any material changes to the measurement of the Group's and the Company's financial assets and financial liabilities.

#### *Hedge accounting*

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

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

#### **Classification and measurement (Cont'd)**

##### **IFRS 15 Revenue from Contracts with Customers**

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

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

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

##### **IFRS 16 Leases**

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

Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Group and the Company do not anticipate early adoption of IFRS 16 and are currently evaluating its impact.

### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

- (i) Fair value of equity investments: Note 9 Investments;
- (ii) Fair value of other financial assets and liabilities: Note 39 Risk management, Part 1(a) (ii) fair values;
- (iii) Specific allowance for credit impairment: Note 8 (c) Allowance for credit impairment;
- (iv) Portfolio allowance for credit impairment: Note 8 (c) Allowance for credit impairment;
- (v) Defined benefit pension plan: Note 13 Pension liability;
- (vi) Assessment of useful lives of intangible assets: Note 11 Intangible assets; and
- (vii) Estimated impairment of goodwill: Note 41(d) Impairment assessment of goodwill;

### 4. ACCOUNTING POLICIES

The principal accounting policies adopted by the Group and the Company are as follows:

(a) Basis of preparation

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

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 4. ACCOUNTING POLICIES (CONT'D)

### (a) Basis of preparation (Cont'd)

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

### (b) Statement of compliance

The financial statements have been prepared on the basis of preparation as explained in 4(a) above and in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB) and in compliance with the Companies Act 2001.

### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of SBM Holdings Ltd and its subsidiaries as at 31 December 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### 4. ACCOUNTING POLICIES (CONT'D)

##### (c) Basis of consolidation (Cont'd)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in statement of profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

##### (d) Foreign currency translation

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

- (i) Transactions denominated in foreign currency are converted at the rate prevailing at the date of the transactions.
- (ii) Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into Mauritian Rupees at the rates of exchange ruling at that date.
- (iii) Non-monetary assets and liabilities denominated in foreign currency are reported using the exchange rates at the date of the transactions, if carried at cost, or the exchange rates that existed when the fair values were determined, if carried at fair value.
- (iv) Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the statement of profit or loss for the period. When a gain or loss on a non-monetary item is recognised in equity, any exchange component of that gain or loss shall be recognised in equity. Conversely, when a gain or loss on a non-monetary item is recognised in the statement of profit or loss and other comprehensive income, any exchange component of that gain or loss shall be recognised in the statement of other comprehensive income.
- (v) Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at closing rate. Exchange differences arising are recognised in other comprehensive income.
- (vi) On consolidation, the assets and liabilities of foreign operations are translated into Mauritian Rupee at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at the average rate for the period unless the average is not a reasonable approximation of the cumulative effects of the rates prevailing at the transaction dates; in which case income and expenses are translated at the rates prevailing on the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income (OCI). On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 4. ACCOUNTING POLICIES (CONT'D)

### (d) Foreign currency translation (Cont'd)

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

	31 December 2017	31 December 2016	31 December 2015
USD / MUR	33.41	35.9	35.91
INR / MUR	0.523	0.529	0.543
100 MGA / MUR	1.036	1.082	1.124
KES/MUR	0.324	-	-

The average rates for the following years are:

	31 December 2017	31 December 2016	31 December 2015
USD / MUR	35.54	36.43	35.69
INR / MUR	0.529	0.545	0.559
100 MGA / MUR	1.116	1.104	1.126
KES/MUR	0.328	-	-

### (e) Other financial assets

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

### (f) Financial instruments

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

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

### (g) Derecognition of financial assets

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

#### 4. ACCOUNTING POLICIES (CONT'D)

(h) Sale and repurchase agreements

Gilt-edged securities sold subject to linked repurchase agreements ("repos") are retained in the statement of financial position and the counterparty liability is included in other borrowed funds. Gilt-edged securities purchased under agreements to resell ("reverse repos") are recorded as balances due from other banks. The differences between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective interest method.

(i) Impairment of financial assets

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

When an AFS financial asset is considered to be impaired, its carrying amount is reduced by the impairment loss directly for all financial assets with the exception of loans and advances to customers where the carrying amount is reduced through the use of an allowance account.

Cumulative gains or losses previously recognised in other comprehensive income are reclassified to the statement of profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investments at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity investments, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the net unrealised investment fair value reserve.

(j) Financial liabilities and equity instruments

(i) *Classification as debt or equity*

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

(ii) *Equity instruments*

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

(iii) *Financial liabilities*

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



# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 4. ACCOUNTING POLICIES (CONT'D)

### (j) Financial liabilities and equity instruments (Cont'd)

#### (iv) *Financial guarantee contract*

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

#### (v) *Derecognition of financial liabilities*

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

### (k) Impairment of non-financial assets

The carrying amounts of assets are assessed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated, being the higher of the asset's net selling price and its value in use, to determine the extent of the impairment loss, if any, and the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognised as an expense immediately, unless the asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

### (l) Leasing

#### *The Group as lessor*

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

### (m) Borrowing costs

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

### (n) Provisions

Provisions are recognised when the Group and/or the Company have a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

#### 4. ACCOUNTING POLICIES (CONT'D)

(o) Comparative figures

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

(p) Offsetting financial instruments

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

(q) Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 5. CASH AND CASH EQUIVALENTS

### Accounting policy

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

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

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cash in hand	1,842,521	1,706,637	1,893,359	-	-	-
Foreign currency notes and coins	327,026	320,434	293,586	-	-	-
Unrestricted balances with central banks <sup>1</sup>	1,494,175	12,216	1,489,085	-	-	-
Loans to and placements with banks <sup>2</sup>	5,819,471	3,487,058	1,537,714	-	-	-
Balances with banks	6,848,345	3,963,863	3,960,391	73,223	15,321	178,060
	16,331,538	9,490,208	9,174,135	73,223	15,321	178,060

<sup>1</sup> Unrestricted balances with central banks represent amounts above the minimum cash reserve requirement.

<sup>2</sup> The balances include loans to and placements with banks having an original maturity of up to three months.

## 6. LOANS TO AND PLACEMENTS WITH BANKS

### Accounting policy

Loans to and placements with banks are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest method, less any impairment.

	THE GROUP		
	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000
Loans to and placements with banks			
- In Mauritius	1,104,288	451,829	271,645
- Outside Mauritius	7,793,111	4,194,082	937,300
	8,897,399	4,645,911	1,208,945
Remaining term to maturity			
Up to 3 months	1,438,472	179,715	377,467
Over 3 months and up to 6 months	405,513	1,903,777	152,568
Over 6 months and up to 12 months	1,910,982	71,457	678,910
Over 1 year and up to 2 years	3,150,402	1,078,904	-
Over 2 years and up to 5 years	1,992,030	1,052,470	-
Over 5 years	-	359,588	-
	8,897,399	4,645,911	1,208,945

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 7. DERIVATIVE FINANCIAL INSTRUMENTS

### Accounting policy

#### *Derivative financial instruments*

Derivative financial instruments are initially recorded at fair value and continues to be remeasured at fair value at subsequent reporting dates. The resulting gain or loss is recognised in the *Statement of profit or loss* immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### *Fair value hedges*

Fair value hedges are particularly used to hedge interest rate risk on fixed rate assets and liabilities, both for identified financial instruments (loans and deposits) and for portfolios of financial instruments (in particular term deposits and fixed rate loans).

Changes in the fair value of hedging instruments that are designated and qualify as fair value hedges are recognised in the *Statement of profit or loss*, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If a hedging relationship no longer meets the criteria for fair value hedge, the cumulative adjustment to the carrying amount of the hedged item is amortised to the *Statement of profit or loss* over the residual period to maturity based on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is released to the *Statement of profit or loss* immediately.

### Trading Assets

Derivative assets

### Trading Liabilities

Derivative liabilities

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
1,356,774	165,998	144,142
1,334,641	182,413	120,781

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 7. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

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

### THE GROUP

#### 31 December 2017

Foreign exchange contracts\*  
Interest rate swap contracts  
Cross currency swaps  
Other derivative contracts

Notional Principal Amount	Fair Values		
	Assets	Liabilities	Net
MUR' 000	MUR' 000	MUR' 000	MUR' 000
35,771,192	268,858	(249,755)	19,103
8,348,656	5,566	(5,426)	140
-	1,220	(1,220)	-
67,643,651	1,081,130	(1,078,240)	2,890
111,763,499	1,356,774	(1,334,641)	22,133

#### 31 December 2016

Foreign exchange contracts\*  
Interest rate swap contracts  
Cross currency swaps  
Other derivative contracts

15,591,473	98,282	(85,395)	12,887
2,184,507	7,460	(27,742)	(20,282)
729,218	33,163	(44,218)	(11,055)
1,906,937	27,093	(25,058)	2,035
20,412,135	165,998	(182,413)	(16,415)

#### 31 December 2015

Foreign exchange contracts\*  
Interest rate swap contracts  
Other derivative contracts

14,744,752	85,850	(62,816)	23,034
2,904,292	48,930	(48,603)	327
496,200	9,362	(9,362)	-
18,145,244	144,142	(120,781)	23,361

\* Foreign exchange contracts include forward and spot contracts and swaps

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

### Accounting policy

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

Loans and advances to non-bank customers are classified under loan and receivables and are measured at amortised cost, less allowance for credit impairment. In cases where, as part of the Group's and the Company's asset and liability management activity, fair value hedge accounting is applied to loans and advances measured at amortised cost, their carrying amount is adjusted for changes in fair value related to the hedged exposure refer to note 7 (Derivative financial instruments) for further details on hedge accounting. Allowance for credit impairment consists of specific and portfolio allowances.

1. Governments
  2. Retail customers
  - 2.1 Credit cards
  - 2.2 Mortgages
  - 2.3 Other retail loans
  3. Corporate customers
  4. Entities outside Mauritius (including offshore / Global Business Licence Holders)
- Less allowance for credit impairment (Note 8 (c))

### a. Remaining term to maturity

- Up to 3 months
- Over 3 months and up to 6 months
- Over 6 months and up to 12 months
- Over 1 year and up to 2 years
- Over 2 years and up to 5 years
- Over 5 years

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
2,458,655	-	1
31,990,963	28,099,055	28,097,413
559,351	539,910	529,939
19,834,763	17,315,922	17,271,142
11,596,849	10,243,223	10,296,332
38,364,068	37,012,499	33,935,970
34,384,155	10,664,000	10,262,700
107,197,841	75,775,554	72,296,084
(4,069,003)	(4,150,680)	(3,511,889)
103,128,838	71,624,874	68,784,195
15,438,380	12,173,170	12,109,920
5,618,540	3,643,474	2,497,659
11,727,057	5,095,722	4,728,175
6,571,306	5,090,900	4,970,228
22,833,824	13,927,875	15,947,835
45,008,734	35,844,413	32,042,267
107,197,841	75,775,554	72,296,084

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

### b. Net investment in finance leases

#### Accounting policy

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

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

#### 31 December 2017

Gross investment in finance leases

Less: Unearned finance income

#### Present value of minimum lease payments

Allowance for impairment

#### 31 December 2016

Gross investment in finance leases

Less: Unearned finance income

#### Present value of minimum lease payments

Allowance for impairment

#### 31 December 2015

Gross investment in finance leases

Less: Unearned finance income

#### Present value of minimum lease payments

Allowance for impairment

THE GROUP			
Up to 1 year	After 1 year and up to 5 years	After 5 years	Total
MUR' 000	MUR' 000	MUR' 000	MUR' 000
419,939	822,981	78,637	1,321,557
(63,613)	(91,106)	(4,083)	(158,802)
356,326	731,875	74,554	1,162,755
			(38,373)
			1,124,382
451,572	684,966	31,023	1,167,561
(62,419)	(72,437)	(1,503)	(136,359)
389,153	612,529	29,520	1,031,202
			(70,490)
			960,712
541,203	930,981	33,928	1,506,112
(99,111)	(84,699)	(1,762)	(185,572)
442,092	846,282	32,166	1,320,540
			(73,548)
			1,246,992

Finance lease contracts give the lessees the option to purchase the assets for a residual value at the conclusion of the lease arrangements. The term of lease contracts generally ranges from five to seven years. Finance leases are secured mainly by charges on the leased assets and / or corporate/personal guarantees.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

### c. Allowance for credit impairment

#### Accounting policy

Specific allowances are made on impaired advances and are calculated as the shortfall between the carrying amounts of the advances and their recoverable amounts. The recoverable amount is the present value of expected future cash flows discounted at the original effective interest rate of the advance.

A portfolio allowance for credit losses is maintained in accordance with the guidelines of the Bank of Mauritius as concern SBM Bank (Mauritius) Ltd (the 'Bank'). These guidelines require that the Bank maintains a provision for credit impairment on all unimpaired loans and advances of not less than 1%. In addition, the Bank of Mauritius also imposes additional macro-prudential provisioning up to 1% on exposures to certain specific sectors of the economy. For the other subsidiaries within the group, portfolio allowance is calculated as per IAS 39. The changes in portfolio allowance are charged or credited to the *Statement of profit or loss* at the end of each period.

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

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

#### Significant accounting estimates and judgement

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

The Group's allowance for portfolio impairment is determined based on the guidelines imposed by the Bank of Mauritius for banks licensed by the Bank of Mauritius (BOM). Such guidelines require the Bank regulated by the Bank of Mauritius within 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 those Banks regulated by Bank of Mauritius within the group determined their portfolio provisioning based on the incurred loss model under IAS 39.



# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

### c. Allowance for credit impairment (Cont'd)

#### At 01 January 2015

Exchange differences

Loans written off

Allowance for credit impairment for the year (Note 33)

#### At 31 December 2015

#### At 01 January 2016

Exchange differences

Loans written off

Allowance for credit impairment for the year (Note 33)

#### At 31 December 2016

#### At 01 January 2017

Acquisition of Business

Exchange differences

Loans written off

Allowance for credit impairment for the year (Note 33)

#### At 31 December 2017

THE GROUP		
Specific allowance for credit impairment	Portfolio allowance for credit impairment	Total
MUR' 000	MUR' 000	MUR' 000
811,515	860,662	1,672,177
7,667	961	8,628
(114,363)	-	(114,363)
1,722,242	223,205	1,945,447
2,427,061	1,084,828	3,511,889
2,427,061	1,084,828	3,511,889
(4,671)	(3,459)	(8,130)
(4,606)	-	(4,606)
688,168	(36,641)	651,527
3,105,952	1,044,728	4,150,680
3,105,952	1,044,728	4,150,680
605,704	-	605,704
(37,033)	(2,400)	(39,433)
(1,749,383)	-	(1,749,383)
815,902	285,533	1,101,435
2,741,142	1,327,861	4,069,003

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

### d. Allowance for credit impairment by industry sectors

THE GROUP	31 December 2017					31 December 2016	31 December 2015
	Gross amount of loans	Impaired loans	Specific allowance for credit impairment	Portfolio allowance for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Agriculture and fishing	4,224,704	9,410	6,469	42,696	49,165	100,630	79,663
Manufacturing	6,476,511	1,810,127	1,120,363	87,440	1,207,803	391,843	133,235
<i>of which EPZ</i>	<i>1,013,525</i>	<i>23,207</i>	<i>1,014</i>	<i>42,529</i>	<i>43,543</i>	<i>38,542</i>	<i>19,282</i>
Tourism	11,203,632	9,961	3,136	212,286	215,422	202,253	235,894
Transport	1,513,115	144,485	47,859	15,415	63,274	497,697	412,170
Construction	7,185,805	525,875	138,438	128,074	266,512	235,993	238,764
Financial and business services	13,513,693	42,042	38,657	121,686	160,343	536,235	521,008
Traders	19,937,146	803,105	440,891	147,856	588,747	320,983	337,905
Personal	31,125,000	1,119,127	741,488	470,368	1,211,856	1,174,411	1,035,056
<i>of which credit cards</i>	<i>559,351</i>	<i>87,249</i>	<i>87,249</i>	<i>7,029</i>	<i>94,278</i>	<i>93,622</i>	<i>69,544</i>
Professional	1,843,720	89,674	89,674	17,118	106,792	2,086	1,762
Global Business Licence holders	2,438,163	65,498	-	15,918	15,918	5,354	5,055
Others	7,736,352	167,223	114,167	69,004	183,171	683,195	511,377
	<b>107,197,841</b>	<b>4,786,527</b>	<b>2,741,142</b>	<b>1,327,861</b>	<b>4,069,003</b>	<b>4,150,680</b>	<b>3,511,889</b>

Total impaired loans for 2016 for the Group were MUR 4,998 million (2015: MUR 3,713 million).

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 9. INVESTMENTS

### Accounting policy

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

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

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

### **Held for trading investments**

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

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

### **Loans and receivables**

Refer to note 8 for accounting policy on loans and receivables.

### **Available-for-sale (AFS) investments**

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The fair values of the AFS investment securities are subsequently remeasured based on quoted market prices in active markets or estimated using the dividend growth model, discounted cash flows or net assets value. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates are recognised in the *Statement of profit or loss*. Other changes in the carrying amount of AFS investment securities are recognised in *Other comprehensive income* and accumulated under the heading of Net unrealised investment fair value reserve.

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

Dividends on AFS equity instruments are recognised in profit or loss when the Group's and /or the Company's right to receive the dividends is established.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 9. INVESTMENTS (CONT'D)

### Accounting policy (Cont'd)

#### ***Available-for-sale (AFS) investments (Cont'd)***

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

#### ***Investment in subsidiaries***

##### Financial statements of the Company

Investment in subsidiary companies are carried at cost which is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquirer. Acquisition-related costs are generally recognised in profit or loss as incurred. The carrying amount is reduced to recognise any impairment in the value of individual investments. The impairment loss is taken to *Statement of profit or loss*.

##### Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Business combinations are accounted for using the purchase method of accounting.

#### ***Investment in associate***

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The *Statement of profit or loss* reflects the Group's share of the results of operations of the associate. Any change in the OCI of the investee company is presented as part of the movements in Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in its statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate or joint venture. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax of the associate.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 9. INVESTMENTS (CONT'D)

### Accounting policy (Cont'd)

#### *Investment in associate (Cont'd)*

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate' in the *Statement of profit or loss*.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### Significant accounting estimates and judgements

The fair value of equity investments that are quoted on active markets are based on the quoted prices for these instruments. Valuation techniques used to estimate the fair value of unquoted equity investments include the dividend growth model, discounted cash flows and net assets. Management has made certain assumptions for inputs in the models, such as risk free rate, risk premium, dividend growth rate, future cash flows, weighted average cost of capital, and earnings before interest depreciation and tax, which may be different from actual. Inputs are based on information available at the reporting date.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 9. INVESTMENTS (CONT'D)

Remaining term to maturity

### (i) Investment securities

THE GROUP		31 December 2017								31	31	
		Up to	3-6	6-9	9-12	1-2	2-5	Over	No specific	Total	December	December
		3 months	months	months	months	years	years	5 years	maturity		2016	2015
		MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
(a) Held for trading investment securities												
Government bonds and treasury notes	16,116	-	-	-	41,807	477,041	1,209,502	-	1,744,466	-	-	
Treasury bills	89,504	196,612	378,804	341,005	-	-	-	-	1,005,925	-	-	
Bank of Mauritius bills	153,826	450,043	65,295	1,278,275	-	-	-	-	1,947,439	-	-	
Bank bonds	250,978	477,499	-	123,188	73,398	725,164	-	-	1,650,227	-	-	
Corporate bonds	399,711	140,990	-	170,833	187,754	265,117	-	-	1,164,405	-	-	
	910,135	1,265,144	444,099	1,913,301	302,959	1,467,322	1,209,502	-	7,512,462	-	-	
(b) Loans and receivables - Investment securities												
Government bonds and treasury notes	4,686	648,457	222,267	-	2,445,816	3,489,980	1,853,700	-	8,664,906	16,434,695	14,935,624	
Treasury bills	2,119,293	2,268,326	197,252	49,086	-	-	-	-	4,633,957	3,616,677	2,382,985	
Bank of Mauritius bills / notes	653,610	1,286,433	396,019	204,260	272,175	731,689	-	-	3,544,186	5,523,885	4,034,151	
Corporate bonds	-	200,982	-	-	-	1,398,358	965,737	-	2,565,077	1,394,551	400,260	
	2,777,589	4,404,198	815,538	253,346	2,717,991	5,620,027	2,819,437	-	19,408,126	26,969,808	21,753,020	
(c) Available-for-sale investment securities												
Government bonds	60,168	100,268	202,574	49,923	1,437,042	1,125,876	1,449,050	-	4,424,901	970,160	1,295,323	
Treasury bills / notes	647,666	228,759	567,543	146,530	-	-	-	-	1,590,498	178,414	162,908	
Bank of Mauritius bills	184,085	297,444	125,587	342,903	-	75,391	-	-	1,025,410	-	-	
Securities issued by government bodies	-	-	-	-	-	-	-	-	-	-	96	
Bank bonds	-	155,572	52,054	-	71,588	254,213	-	-	533,427	8,346,766	11,453,314	
Corporate paper and preference shares	232,143	102,169	-	92,407	-	12,672	11,770	-	451,161	2,071,193	2,300,177	
Corporate bonds	12,191	94,228	156,930	167,274	618,445	3,179,443	-	-	4,228,511	544,488	410,986	
Redeemable participating shares	-	-	-	-	-	-	-	825,925	825,925	350,000	-	
	1,136,253	978,440	1,104,688	799,037	2,127,075	4,647,595	1,460,820	825,925	13,079,833	12,461,021	15,622,804	
Total investment securities	4,823,977	6,647,782	2,364,325	2,965,684	5,148,025	11,734,944	5,489,759	825,925	40,000,421	39,430,829	37,375,824	

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 9. INVESTMENTS (CONT'D)

Remaining term to maturity (Cont'd)

### (i) Investment securities (Cont'd)

THE COMPANY	31 December 2017									31	31
	Up to	3-6	6-9	9-12	1-2	2-5	Over	No specific	Total	December	December
	3 months	months	months	months	years	years	5 years	maturity		2016	2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
(a) Loans and receivables											
Government bonds and treasury notes	-	-	-	-	-	-	985,872	-	985,872	2,216,214	3,109,933
Bank of Mauritius bills / notes	-	-	-	-	-	-	-	-	-	181,840	495,557
Treasury bills	-	-	-	-	-	-	-	-	-	9,944	56,765
(b) Available-for-sale investments											
Government bonds and treasury notes	-	-	-	-	-	-	-	-	-	-	-
Bank bonds	-	-	-	-	-	-	-	-	-	1,538,299	2,234,095
Redeemable participating shares	-	-	-	-	-	-	-	475,929	475,929	359,585	-
Total investment securities	-	-	-	-	-	-	985,872	475,929	1,461,801	4,305,882	5,896,350

### (ii) Equity investments

31 December 2017										31 December 2016	31 December 2015
Up to 3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years	No specific maturity	Total			
MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	
-	-	-	-	-	-	-	6,137,779	6,137,779	5,732,722	6,066,176	
-	-	-	-	-	-	-	6,137,779	6,137,779	5,732,722	6,066,176	
-	-	-	-	-	-	-	4,292,925	4,292,925	4,261,347	5,534,324	
-	-	-	-	-	-	-	4,292,925	4,292,925	4,261,347	5,534,324	

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 9. INVESTMENTS (CONT'D)

Remaining term to maturity (Cont'd)

### (iii) Investment in subsidiaries

THE COMPANY	31 December 2017									31 December 2016	31 December 2015
	Up to 3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years	No specific maturity	Total		
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
- SBM (Bank) Holdings Ltd*	-	-	-	-	-	-	-	22,432,485	22,432,485	20,522,112	20,522,112
- SBM (NBFC) Holdings Ltd	-	-	-	-	-	-	-	1,470,895	1,470,895	62,406	62,406
- SBM (NFC) Holdings Ltd	-	-	-	-	-	-	-	761,798	761,798	1,270,255	414,665
	-	-	-	-	-	-	-	24,665,178	24,665,178	21,854,773	20,999,183

\* The indirect investments held by the Company through SBM (Bank) Holdings Ltd are as follows:

#### Operating companies

- SBM Mauritius Ltd - SBM Bank (Mauritius) Ltd
- SBM Madagascar Ltd - Banque SBM Madagascar SA
- SBM Africa Holdings Ltd - SBM Bank (Kenya) Limited

#### Special Purpose Vehicles

- SBM India Ltd
- SBM Myanmar Ltd

31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
-	20,384,912	20,384,912
136,090	136,090	136,090
25	-	-
500	500	500
610	610	610
137,225	20,522,112	20,522,112



# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 9. INVESTMENTS (CONT'D)

### (iii) Investment in subsidiaries (Cont'd)

Details of subsidiaries and associate are as follows:

#### (a) SUBSIDIARIES

					Effective % holding		
					31 December 2017	31 December 2016	31 December 2015
1.0	<i>Banking Segmental Subsidiaries</i>						
1.1	<i>Special Purpose Vehicle for Bank Investments Holding Company</i>						
1.1.1	SBM (Bank) Holdings Ltd	Mauritius	Bank Investment Holding Company	MUR 75,000	100	100	100
1.1.2	SBM Overseas One Ltd	Mauritius	Offshore banking	MUR 25,000	100	100	100
1.1.3	SBM Overseas Two Ltd	Mauritius	Offshore banking	MUR 25,000	100	100	100
1.1.4	SBM Overseas Three Ltd	Mauritius	Offshore banking	MUR 25,000	100	100	100
1.1.5	SBM Overseas Four Ltd	Mauritius	Offshore banking	MUR 25,000	100	100	100
1.1.6	SBM Overseas Five Ltd	Mauritius	Offshore banking	MUR 25,000	100	100	100
1.1.7	SBM Overseas Six Ltd	Mauritius	Offshore banking	MUR 25,000	100	100	100
1.2	<i>Special Purpose Vehicles for single Bank Investment Holding Subsidiaries</i>						
1.2.1	SBM Madagascar Ltd	Mauritius	Investment in Banque SBM Madagascar SA	MUR 60,960	100	100	100
1.2.2	SBM Africa Holdings Ltd	Mauritius	Investment in SBM Bank (Kenya) Limited	MUR 25,000	100	-	-
1.3	<i>Bank Operating Subsidiaries</i>						
1.3.1	SBM Bank (Mauritius) Ltd	Mauritius	Commercial Banking	MUR 310 million	100	100	100
1.3.2	Banque SBM Madagascar SA	Madagascar	Commercial Banking	MGA 7.4 billion	100	100	100
1.3.3	SBM Bank (Kenya) Limited	Kenya	Commercial Banking	USD 1	100	-	-
2.0	<i>Non-Bank Financial Cluster Subsidiaries</i>						
2.1	<i>Special Purpose Vehicle for Non-Bank Investments Holding Company</i>						
2.1.1	SBM (NBFC) Holdings Ltd	Mauritius	Non-Banking Financial Investments Holding Company	MUR 25,000	100	100	100
2.2	<i>Special Purpose Vehicle</i>						
2.2.1	SBM E-Business Ltd	Mauritius	In progress	MUR 625,000	100	100	100

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 9. INVESTMENTS (CONT'D)

### (iii) Investment in subsidiaries (Cont'd)

#### (a) SUBSIDIARIES

				Effective % holding		
				31 December 2017	31 December 2016	31 December 2015
2.3	<i>Non-Bank Operating Subsidiaries</i>					
2.3.1	SBM Fund Services Ltd	Mauritius	Fiduciary services / Back Office processing	MUR 0.5 million	100	100
2.3.2	SBM Mauritius Asset Managers Ltd	Mauritius	Asset Management	MUR 1.6 million	100	100
2.3.3	SBM Securities Ltd	Mauritius	Stockbroking	MUR 1 million	100	100
2.3.4	SBM Capital Management Limited	Mauritius	Investments	USD 125,000	100	100
2.3.5	SBM E-Business Ltd	Mauritius	Card Acquiring & Processing	MUR 25,000	100	100
2.3.6	SBM Custody Services Ltd	Mauritius	Custody Services	MUR 25,000	100	100
2.3.7	SBM Factors Ltd	Mauritius	Factoring	MUR 15 million	-	-
3.0	<i>Non-Financial Cluster</i>					
3.1	SBM (NFC) Holdings Ltd	Mauritius	Non-Financial Holding Company	MUR 25,000	100	100
4.0	<i>Indirect Subsidiary</i>					
4.1	SBM 3S Ltd	Mauritius	Shared Support Services	MUR 25,000	100	100

SBM Holdings Ltd has become the ultimate bank investment holding company after the Group restructuring exercise, with effect from 02 October 2014 .

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 9. INVESTMENTS (CONT'D)

### (iv) Investment in Associate

#### (a) ASSOCIATE

State Insurance Company of Mauritius Ltd

Country of Incorporation and Operation	Business Activity		% Holding		
Mauritius	Long term insurance business and pensions		20		
THE GROUP			THE COMPANY		
31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
1,275,880	-	-	1,272,977	-	-
-	1,272,977	-	-	1,272,977	-
92,005	1,627	-	-	-	-
290	1,276	-	-	-	-
(31,273)	-	-	-	-	-
1,336,902	1,275,880	-	1,272,977	1,272,977	-

At 01 January  
Reclassified from available for sale investment to  
investment in associate  
Share of profit  
Share of other comprehensive income  
Dividend income from associate  
Carrying amount at 31 December

THE GROUP
31 December 2017
MUR' 000
16,331,403
13,951,389
963,960
460,027
92,005
290
1,102,159
1,336,902

Summarised financial information in respect of  
the Group's associate is set out below:  
Total assets  
Total liabilities  
Total revenue  
Total profit for the period  
Share of profit  
Share of other comprehensive income  
Share of net assets  
Carrying amount at 31 December 2017

Total capital commitment of the investee company stood at MUR 35.910 million as at 30 June 2017 (2016:33.152 million). As at 30 June 2017, the investee did not report any contingent liability. (2016: nil)

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 10. PROPERTY AND EQUIPMENT

### Accounting policy

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

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

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

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

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

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

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

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

Assets held under finance leases are recognised as assets at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments and are depreciated over their estimated useful lives. The corresponding liability to the lessor is included in *Other borrowed funds* on the *Statement of financial position*. Lease finance charges are charged to the *Statement of profit or loss* over the term of the leases so as to produce a constant periodic rate of interest on the outstanding obligations under finance leases.

### Impairment of non-financial assets

The carrying amounts of assets are assessed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated, being the higher of the asset's net selling price and its value in use, to determine the extent of the impairment loss, if any, and the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognised as an expense immediately, unless the asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

### THE GROUP

#### Cost or valuation

At 01 January 2015

Additions

Disposals

Revaluation

Translation adjustment

#### At 31 December 2015

Additions

Disposals

Write off

Revaluation

Translation adjustment

#### At 31 December 2016

Additions

Disposals

Write off

Acquisition of new business (Note 41)

Translation adjustment

#### At 31 December 2017

	Freehold land and buildings	Buildings on leasehold land	Other tangible fixed assets	Motor vehicles	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
At 01 January 2015	963,912	1,571,647	1,648,915	20,668	4,205,142
Additions	15,029	-	195,198	6,038	216,265
Disposals	-	-	(22,762)	(12,445)	(35,207)
Revaluation	(2,680)	-	-	-	(2,680)
Translation adjustment	12,657	-	(759)	(116)	11,782
At 31 December 2015	988,918	1,571,647	1,820,592	14,145	4,395,302
Additions	853	1,235	144,561	7,293	153,942
Disposals	-	-	(202,200)	-	(202,200)
Write off	(300)	-	(3,282)	-	(3,582)
Revaluation	-	-	-	-	-
Translation adjustment	(4,383)	-	(2,394)	(117)	(6,894)
At 31 December 2016	985,088	1,572,882	1,757,277	21,321	4,336,568
Additions	-	41,052	53,479	11,290	105,822
Disposals	-	-	(55,774)	(3,601)	(59,375)
Write off	(37,874)	-	-	-	(37,874)
Acquisition of new business (Note 41)	95,189	53,334	131,998	-	280,521
Translation adjustment	(8,777)	(2,062)	(7,190)	(465)	(18,494)
At 31 December 2017	1,033,626	1,665,206	1,879,791	28,545	4,607,168

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

### THE GROUP

#### Accumulated depreciation

At 01 January 2015

Charge for the year

Disposals

Translation adjustment

#### At 31 December 2015

Charge for the year

Write off

Revaluation movement

Translation adjustment

#### At 31 December 2016

Charge for the year

Acquisition of new business (Note 41)

Disposals

Translation adjustment

#### At 31 December 2017

#### Net book value

#### At 31 December 2017

#### Progress payments on tangible fixed assets

#### At 31 December 2016

Progress payments on tangible fixed assets

#### At 31 December 2015

Progress payments on tangible fixed assets

	Freehold land and buildings	Buildings on leasehold land	Other tangible fixed assets	Motor vehicles	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
At 01 January 2015	25,665	17,331	1,452,913	13,706	1,509,615
Charge for the year	15,941	51,949	81,658	3,491	153,039
Disposals	-	-	(22,734)	(10,331)	(33,065)
Translation adjustment	1,650	-	(888)	(123)	639
At 31 December 2015	43,256	69,280	1,510,949	6,743	1,630,228
Charge for the year	13,870	51,976	89,356	2,834	158,036
Write off	-	-	(204,936)	-	(204,936)
Revaluation movement	(1,530)	-	-	-	(1,530)
Translation adjustment	(728)	-	(2,183)	(115)	(3,026)
At 31 December 2016	54,868	121,256	1,393,186	9,462	1,578,772
Charge for the year	14,828	51,996	95,481	4,491	166,796
Acquisition of new business (Note 41)	1,909	-	91,894	7,145	100,948
Disposals	-	-	(49,826)	(3,282)	(53,108)
Translation adjustment	(444)	-	(5,811)	(391)	(6,646)
At 31 December 2017	71,161	173,252	1,524,924	17,425	1,786,762
Net book value	962,465	1,491,954	354,867	11,120	2,820,406
At 31 December 2017					33,812
Progress payments on tangible fixed assets					2,854,218
At 31 December 2016	930,220	1,451,626	364,091	11,859	2,757,796
Progress payments on tangible fixed assets					51,981
					2,809,777
At 31 December 2015	945,662	1,502,367	309,643	7,402	2,765,074
Progress payments on tangible fixed assets					62,527
					2,827,601

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

### THE COMPANY

#### Cost or valuation

At 01 January 2015

Additions

**At 31 December 2015**

**At 31 December 2016**

**At 31 December 2017**

#### Accumulated depreciation

At 01 January 2015

Charge for the year

**At 31 December 2015**

Charge for the year

**At 31 December 2016**

Charge for the year

**At 31 December 2017**

#### Net book value

**At 31 December 2017**

**At 31 December 2016**

**At 31 December 2015**

<b>Motor vehicles</b>	<b>Total</b>
<b>MUR' 000</b>	<b>MUR' 000</b>
-	-
6,013	6,013
6,013	6,013
6,013	6,013
<b>6,013</b>	<b>6,013</b>
-	-
501	501
501	501
1,203	1,203
1,704	1,704
<b>1,203</b>	<b>1,203</b>
<b>2,907</b>	<b>2,907</b>
<b>3,106</b>	<b>3,106</b>
4,309	4,309
5,512	5,512

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

Level 2 fair value

Freehold land and buildings

Buildings on leasehold land

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
1,033,626	985,088	988,918
1,665,206	1,572,882	1,571,647
<b>2,698,832</b>	<b>2,557,970</b>	<b>2,560,565</b>

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

Freehold land and buildings

Buildings on leasehold land

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
508,905	515,142	543,381
374,232	387,557	399,648
<b>883,137</b>	<b>902,699</b>	<b>943,029</b>

The freehold land and buildings are periodically valued based on market value by independent valuation surveyor. Buildings on leasehold land in Mauritius were revalued in September 2014 by an independent Chartered Valuation Surveyor, on an open market value basis. The freehold land and building in India were revalued in March 2014 by independent Chartered Valuation Surveyors on an open market value basis.



# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 11. GOODWILL AND OTHER INTANGIBLE ASSETS

### Accounting policy

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and any previous interest held over the net identifiable assets acquired and liabilities assumed).

After initial recognition, goodwill is measured at cost less any accumulated losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with that disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash generating unit retained.

Intangible assets with identifiable useful lives are tested for impairment annually as at 31 December at CGU level, as appropriate, and when circumstances indicate that the carrying amount may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGU) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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

### Significant accounting estimates and judgements

#### Assessment of useful lives

Determining the carrying amount of intangible assets requires an estimation of the useful lives of these assets which carry a degree of uncertainty. The Directors have used historical information relating to the Group and the industry in which it operates in order to best determine the useful lives of intangible assets.

#### (a) *Assets under construction*

The Group has embarked on a business aligned technology transformation programme since 2012. All costs incurred in respect of this project; namely the "Flamingo Project" were capitalised under "asset under construction". In September 2016, all the assets under construction were transferred to "Software" as the project went live and are now being amortised over their useful lives.

#### (b) *Intellectual property rights*

The Group entered into an agreement in respect of Business Process Engineering and Business Transformation Initiatives to align both its strategies and processes with the Technology Transformation Initiative namely Flamingo Project and also high performance banks. The costs incurred in respect of these initiatives were capitalised as intellectual property rights are now being amortised after the project went live in September 2016.

#### (c) *WIP Software*

The Group is developing some softwares. These costs will be transferred under "Software" as soon as they will be in use in the Group.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 11. GOODWILL AND OTHER INTANGIBLE ASSETS (CONT'D)

### THE GROUP

#### Cost

	Software MUR' 000	WIP Software MUR' 000	Intellectual Property MUR' 000	Assets under construction MUR' 000	Goodwill (Note 41) MUR' 000	Total MUR' 000
At 01 January 2015	884,408	3,317	417,849	806,330	-	2,111,904
Translation adjustment	1,345	-	-	-	-	1,345
Additions	3,132	6,201	107,876	1,013,899	-	1,131,108
Transfers	-	(4,420)	-	-	-	(4,420)

#### At 31 December 2015

Translation adjustment	888,885	5,098	525,725	1,820,229	-	3,239,937
Additions	(478)	-	(5,200)	(36)	-	(5,714)
Disposals	16,609	2,450	62,609	1,518,570	-	1,600,238
Transfer	(129,829)	-	-	-	-	(129,829)
	3,341,410	257,712	(260,359)	(3,338,763)	-	-

#### At 31 December 2016

Translation adjustment	4,116,597	265,260	322,775	-	-	4,704,632
Additions	(5,776)	(2,954)	-	-	(16,159)	(24,889)
Acquisition of new business (Note 41)	52,414	135,269	-	-	-	187,683
Transfer	61,023	-	-	-	417,715	478,738
	312,963	(312,963)	-	-	-	-

#### At 31 December 2017

	4,537,221	84,612	322,775	-	401,556	5,346,164
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#### Accumulated amortisation

At 01 January 2015	859,571	-	-	-	-	859,571
Translation adjustment	1,241	-	-	-	-	1,241
Charge for the year	8,496	-	-	-	-	8,496

#### At 31 December 2015

Translation adjustment	869,308	-	-	-	-	869,308
Charge for the year	(344)	-	-	-	-	(344)
Write off	134,985	-	56,983	-	-	191,968
Transfer	(129,830)	-	-	-	-	(129,830)
	3,259	-	-	-	-	3,259

#### At 31 December 2016

Translation adjustment	877,378	-	56,983	-	-	934,361
Charge for the year	(14,312)	-	-	-	-	(14,312)
Acquisition of new business (Note 41)	446,187	-	56,983	-	-	503,170
	47,332	-	-	-	-	47,332

#### At 31 December 2017

	1,356,585	-	113,966	-	-	1,470,551
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Net book value

#### At 31 December 2017

	3,180,636	84,612	208,809	-	401,556	3,875,613
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At 31 December 2016

	3,239,219	265,260	265,792	-	-	3,770,271
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At 31 December 2015

	19,577	5,098	525,725	1,820,229	-	2,370,629
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# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 12. OTHER ASSETS

### Accounting policy

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

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Accounts receivable <sup>1</sup>	677,651	347,848	226,705	-	-	-
Balances due in clearing	59,131	32,679	186,331	-	-	-
Tax paid in advance <sup>2</sup>	106,916	122,269	107,871	-	-	-
Dividend receivable	-	-	126,267	-	1,000	126,267
Licence fees prepaid	-	-	281,674	-	-	-
Others	196,023	133,189	84,933	70,448	501	506
	<b>1,039,721</b>	<b>635,984</b>	<b>1,013,780</b>	<b>70,448</b>	<b>1,501</b>	<b>126,773</b>

<sup>1</sup> Amounts receivable are generally receivable within three months.

<sup>2</sup> The tax paid in advance is incurred by the Indian Operations and Kenyan Operations. The amount is shown net of current tax payable.

<sup>3</sup> The Group's policy is to dispose of such assets as soon as the market permits.

## 13. PENSION LIABILITY

### Accounting policy

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

Eligible participating employees are entitled to retirement pensions under the SBM Group Pension Fund, a defined benefit scheme. The average retirement age is 65. The assets of the scheme are managed presently by the SBM Mauritius Asset Managers Ltd.

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

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

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

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

Employees who joined after 31 December 2004 are entitled to defined contribution retirement benefit pension arrangements. Employer contributions are expensed in the *Statement of profit or loss* in the period in which they fall due. The defined contribution benefit replaced the defined benefit pension plan as from 01 January 2005. Employees who were initially in the defined benefit pension plan remained in the said plan.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 13. PENSION LIABILITY (CONT'D)

### Accounting policy (cont'd)

#### (iii) Travel tickets/allowances

Employees are periodically entitled to reimbursements of overseas travelling and allowances up to a certain amount depending on their grade. The expected costs of these benefits are recognised in the *Statement of profit or loss* on a straight-line and undiscounted basis over the remaining periods until the benefits are payable.

### Significant accounting estimates and judgements

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

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

#### Reconciliation of net defined benefit liability

Present value of funded defined benefit obligation  
Fair value of planned assets  
Net liability arising from defined benefit obligation (Note 18)

#### Reconciliation of net defined benefit liability

Balance at start of the year  
Amount recognised in statement of profit or loss (Note 31)  
Amount recognised in other comprehensive income  
Less employer contributions  
Balance at end of the year (Note 18)

#### Reconciliation of fair value of planned assets

Balance at start of the year  
Interest income  
Employer contributions  
Benefits paid  
Return on planned assets excluding interest income  
Balance at end of the year

#### Reconciliation of present value of defined benefit obligation

Balance at start of the year  
Current service cost  
Interest expense  
Other benefits paid  
Liability experience loss  
Liability gain due to change in demographic assumptions  
Liability loss / (gain) due to change in financial assumptions  
Balance at end of the year

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
1,037,762	914,202	873,533
(946,010)	(846,495)	(784,441)
91,752	67,707	89,092
67,707	89,091	75,573
26,471	30,098	33,414
39,703	(2,040)	12,798
(42,129)	(49,442)	(32,693)
91,752	67,707	89,092
846,495	784,442	761,332
55,063	55,698	57,438
42,129	49,442	32,693
(40,871)	(26,554)	(23,479)
43,194	(16,533)	(43,543)
946,010	846,495	784,441
914,202	873,533	836,905
23,418	25,563	28,949
58,116	60,233	61,903
(40,871)	(26,554)	(23,479)
-	84,960	-
-	(103,596)	-
82,897	63	(30,745)
1,037,762	914,202	873,533

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 13. PENSION LIABILITY (CONT'D)

### Components of amount recognised in statement of profit or loss

Service cost
Net interest on net employee defined benefit liability
Total expense (Note 31)

### Components of amount recognised in other comprehensive income

Return on planned assets (above)/ below and interest income
Liability experience loss
Liability experience gain due to change in demographic assumptions
Liability experience loss/(gain) due to change in financial assumptions

### Total

### Allocation of planned assets at end of year

Equity - Overseas quoted
Equity - Local quoted
Equity - Local unquoted
Debt - Overseas quoted
Debt - Overseas unquoted
Debt - Local quoted
Debt - Local unquoted
Property - Local
Cash and other

### Total

### Allocation of planned assets at end of year

Reporting entity's own transferable financial instruments

### Principal assumptions used at end of year

Discount rate
Rate of salary increases
Rate of pension increases
Average retirement age (ARA)
Average life expectancy for:
- Male at ARA
- Female at ARA

### Sensitivity Analysis on defined benefit obligation at end of year

Increase due to 1% decrease in discount rate
Decrease due to 1% increase in discount rate

31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
23,418	25,563	28,949
3,053	4,535	4,465
26,471	30,098	33,414
(43,194)	16,533	43,543
-	84,960	-
-	(103,596)	-
82,897	63	(30,745)
39,703	(2,040)	12,798

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
%	%	%
30	30	28
30	32	34
7	-	3
-	3	1
6	-	-
2	-	-
21	23	23
-	1	-
4	11	11
100	100	100

31 December 2017	31 December 2016	31 December 2015
6%	6%	7%
5.5%	6.5%	7.0%
4.0%	4.5%	5.0%
1.0%	1.5%	2.0%
65	65	62
15.9 years	15.9 years	18.0 years
20.0 years	20.0 years	22.5 years

31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
187,452	158,457	183,941
(150,169)	(127,506)	(88,919)

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 13. PENSION LIABILITY (CONT'D)

The above sensitivity analysis has been carried out by recalculating the present value of obligation at end of period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation.

### Future cashflows

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

The Group expects to make a contribution of around MUR 67.46 million to the SBM Group Pension Fund for the next financial year and the weighted average duration of the defined benefit obligation is 16 years.

Pension amounts and disclosures have been based on the report dated 19 February 2018 submitted by an independent firm of Actuaries and Consultants.

The Group sponsors a final salary defined benefit pension plan for a category of its employees. The Group has recognised a net defined benefit liability of MUR 91.75 million as at 31 December 2017 for the plan (31 December 2016: MUR 67.71 million; 31 December 2015: MUR 89.09 million).

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

### Investment risk

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

### Interest risk

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

### Longevity risk

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

### Salary risk

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

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

## 14. DEPOSITS FROM BANKS

### Accounting policy

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

Demand deposits

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
689,265	2,611,669	751,719

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 15. DEPOSITS FROM NON-BANK CUSTOMERS

### Accounting policy

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

- (i) Retail customers  
Current accounts  
Savings accounts  
Time deposits with remaining term to maturity:  
- Up to 3 months  
- Over 3 months and up to 6 months  
- Over 6 months and up to 12 months  
- Over 1 year and up to 5 years  
- Over 5 years  
Total time deposits

### Total deposits from retail customers

- (ii) Corporate customers  
Current accounts  
Savings accounts  
Time deposits with remaining term to maturity:  
- Up to 3 months  
- Over 3 months and up to 6 months  
- Over 6 months and up to 12 months  
- Over 1 year and up to 5 years  
- Over 5 years  
Total time deposits

### Total deposit from corporate customers

- (iii) Government  
Current accounts  
Savings accounts  
Time deposits with remaining term to maturity:  
- Up to 3 months  
- Over 3 months and up to 6 months  
- Over 6 months and up to 12 months  
- Over 1 year and up to 5 years  
Total time deposits

### Total deposit from the Government

### Total deposit from non-bank customers

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
<b>16,530,624</b>	10,488,127	13,649,850
<b>51,100,607</b>	43,166,430	40,720,718
<b>2,503,486</b>	1,339,913	1,366,017
<b>2,370,258</b>	770,196	1,254,137
<b>6,093,287</b>	2,452,511	6,306,121
<b>1,886,990</b>	3,367,041	2,858,790
<b>1,339,754</b>	1,054,397	1,400
<b>14,193,775</b>	8,984,058	11,786,465
<b>81,825,006</b>	62,638,615	66,157,033
<b>33,787,373</b>	28,219,696	24,120,500
<b>4,428,696</b>	6,645,085	3,350,325
<b>12,447,635</b>	2,410,070	4,734,198
<b>2,126,411</b>	2,041,533	322,129
<b>1,698,055</b>	1,935,567	1,330,657
<b>667,511</b>	1,081,791	395,752
<b>273,364</b>	359	-
<b>17,212,976</b>	7,469,320	6,782,736
<b>55,429,045</b>	42,334,101	34,253,561
<b>3,067,666</b>	1,930,362	1,775,756
<b>3,135,643</b>	2,336,691	2,091,927
<b>22,397</b>	-	112
<b>1,357,224</b>	400	406
<b>12,961</b>	925	2,242
<b>734</b>	100	66
<b>1,393,316</b>	1,425	2,826
<b>7,596,625</b>	4,268,478	3,870,509
<b>144,850,676</b>	109,241,194	104,281,103

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 16. OTHER BORROWED FUNDS

Borrowings from central banks

- For refinancing

Other financial institutions

- For refinancing

Borrowings from banks

- In Mauritius

- Abroad

### Remaining term to maturity

Up to 3 months

Over 3 months and up to 6 months

Over 6 months and up to 12 months

Over 1 year and up to 5 years

Over 5 years

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
673,799	147,921	203,758
4,546,841	687,074	1,885,189
4,198,169	1,537,781	43,550
4,267,394	2,113,232	-
13,686,203	4,486,008	2,132,497
802,383	2,273,183	-
3,195,843	-	-
4,055,012	211,169	43,550
3,726,968	530,565	759,518
1,905,997	1,471,091	1,329,429
13,686,203	4,486,008	2,132,497



# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 17. TAXATION

### Accounting policy

#### Income tax

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

#### Corporate social responsibility (CSR)

Corporate social responsibility (CSR) was legislated by the government of Mauritius in July 2009. In terms of the legislation, the Group is required for all its companies domiciled in Mauritius to allocate 2% of its Segment A chargeable income of the preceding financial year to government approved CSR NGOs. As from July 2017, following amendments to the Finance Act 2017, the Group will now be required as from 01 January 2017 to 31 December 2018 to remit to the Director General at least 50% of the CSR contribution. After 01 January 2019, the Bank will be required to remit to the Director General at least 75% of the CSR contribution. This is recorded as part of income tax expense.

#### Bank levy

SBM Bank (Mauritius) Ltd is liable to pay a special levy of 10% on its chargeable income of Segment A operations and 3.4% on book profit plus 1% on operating income of Segment B operations. The special levy is included in the income tax expense and current tax liabilities in the consolidated financial statements.

The applicable income tax rate in Mauritius is 15% (2016 and 2015: 15%). An additional charge is applicable in respect of Corporate Social Responsibility and Special Levy on Banks. The applicable tax rate for India is 43.26% (2016: 43.26% and 2015: 43.26%); for Madagascar is 20% (2016: 20% and 2015: 20%) and for Kenya is 30% (2016: 30% and 2015: 30%). Foreign tax credit of 80 % is applicable for Segment B chargeable income thereby reducing the income tax rate for this particular segment to 3%.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 17a. TAX EXPENSE

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Accounting profit	3,160,298	2,989,331	2,048,002	1,251,118	66,185	2,694,286
Tax on accounting profit at 15%	474,045	448,400	307,200	187,668	9,928	404,143
Exchange difference	-	-	35	-	-	-
Non allowable expenses	594,287	2,492	8,001	3,092	2,540	19
Exempt income	(413,623)	(37,525)	(36,633)	(195,902)	-	(387,754)
Deferred tax assets not recognised	4,792	-	-	5,078	-	-
(Over) / Under provision in previous periods	(70,008)	(2,595)	(55,057)	(3,835)	2,052	-
Special levy on banks	142,325	235,544	219,589	-	-	-
Corporate Social Responsibility contribution	40,412	79,692	50,088	1,004	2,459	-
Withholding tax	3,292	4,877	8,843	-	-	-
Tax refund	775,522	730,885	502,066	(2,895)	16,979	16,408
Foreign tax credit	11,608	-	(10,837)	-	-	-
	(201,755)	(50,456)	(50,781)	-	-	-
Total tax (expense)/ income	585,375	680,429	440,448	(2,895)	16,979	16,408

The total tax expense can also be analysed as being incurred as follows:

Income tax expense	245,100	564,490	473,007	(3,835)	14,475	16,389
Deferred income tax (Note 17b)	296,571	31,370	(91,490)	(64)	45	19
Corporate Social Responsibility contribution	40,412	79,692	50,088	1,004	2,459	-
Withholding tax	3,292	4,877	8,843	-	-	-
<b>Total tax expense</b>	<b>585,375</b>	<b>680,429</b>	<b>440,448</b>	<b>(2,895)</b>	<b>16,979</b>	<b>16,408</b>

The total tax expense can also be analysed as being incurred as follows:

In Mauritius	559,042	654,096	445,197	(2,895)	16,979	16,408
Overseas	26,333	26,333	(4,749)	-	-	-
Total tax expense	585,375	680,429	440,448	(2,895)	16,979	16,408

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 17. TAXATION (CONT'D)

### Accounting policy

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred tax relating to items recognised outside profit or loss are recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 17b. DEFERRED TAX (ASSETS) / LIABILITIES

At 01 January 2015  
 Exchange difference  
 Deferred income tax (Note 17a)  
 Deferred tax on retirement benefit obligations  
 Deferred tax on revaluation of property  
**At 31 December 2015**

At 01 January 2016  
 Exchange difference  
 Deferred income tax (Note 17a)  
 Deferred tax on retirement benefit obligations  
 Underprovision of deferred tax liability in prior years  
**At 31 December 2016**

At 01 January 2017  
 Exchange difference  
 Deferred income tax (Note 17a)  
 Deferred tax on retirement benefit obligations  
**At 31 December 2017**

THE GROUP	THE COMPANY
MUR' 000	MUR' 000
(171,431)	-
(11,915)	-
(91,490)	19
(1,921)	-
-	-
(276,756)	19
(276,756)	19
4,869	-
31,370	45
441	-
24,816	-
(215,260)	64
(215,260)	64
961	-
296,571	(64)
(6,827)	-
75,445	-

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 17b. DEFERRED TAX (ASSETS) / LIABILITIES (CONT'D)

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Deferred tax assets	(95,461)	(215,260)	(276,756)	-	-	-
Deferred tax liabilities	170,905	-	-	-	64	19
	75,444	(215,260)	(276,756)	-	64	19
Analysed as resulting from:						
Accelerated capital allowances	420,080	134,500	51,021	-	64	19
Allowances for credit impairment	(438,390)	(433,455)	(373,147)	-	-	-
Carried forward losses	(137,810)	(139,391)	(137,126)	-	-	-
Revaluation of property	253,118	241,813	229,448	-	-	-
Other provisions	(21,554)	(18,727)	(46,952)	-	-	-
	75,444	(215,260)	(276,756)	-	64	19

## 18. OTHER LIABILITIES

### Accounting policy

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation, which has arisen as a result of past events and for which a reliable estimate can be made. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Bills payable	183,037	136,655	111,959	-	-	-
Accruals for expenses	408,555	352,758	332,703	601	650	600
Accounts payable	3,047,964	1,229,784	1,389,098	4,900	5,347	2,893
Deferred income	43,377	270,130	202,925	-	-	-
Balance due in clearing	(2,755)	(3,720)	157,344	-	-	-
Balances in transit	413,459	66	106,336	-	-	-
Pension liability (Note 13)	91,752	67,707	89,092	-	-	-
Others	113,869	286,303	44,079	-	-	-
	4,299,258	2,339,683	2,433,536	5,501	5,997	3,493

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 19. SUBORDINATED DEBTS

Loans and borrowings are recognised initially at fair value, net of directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in the *Statement of profit or loss* when the liabilities are derecognised as well as through the EIR amortisation process.

Subordinated Bonds:

*Class A 1 series bond of MUR floating interest rate senior unsecured bonds maturing in 2024 (level 1)*

*Class B 1 series bond of USD floating interest rate senior unsecured bonds maturing in 2021(level 1)*

THE GROUP AND THE COMPANY		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
1,522,656	1,524,503	1,521,979
2,178,810	2,340,868	2,340,159
3,701,466	3,865,371	3,862,138

The public offer for the issue of subordinated senior unsecured multicurrency floating interest rate bonds for Class A 1 series Bond of MUR 1,000 million opened on 20 December 2013. It was oversubscribed and a maximum amount of MUR 1.5 billion, of MUR 10,000 notes with half yearly floating coupon payment of Repo rate + 1.35% per annum maturing in 2024, was retained including the optional amount. Similarly an amount of USD 65.0 million, of USD 1,000 notes with half yearly payment of floating coupon 6-months LIBOR + 175bps per annum maturing in 2021, was retained for the issue of Class B 1 series bond of USD 50 million on 15 February 2014 including the optional amount. The public offer was issued by the State Bank of Mauritius Ltd (renamed as SBM Bank (Mauritius) Ltd) and the bonds are eligible as Tier II Capital.

As at 02 October 2014, on the appointed day of the Group restructure, all the bondholders of Class A 1 series and Class B 1 series Bonds of MUR 1.5 billion and USD 65.0 million respectively were transferred to the Company (SBM Holdings Ltd) with corresponding matching assets (investments).

These bonds are quoted on the Official Market of the Stock Exchange of Mauritius (SEM) pre and post restructure.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 20. STATED CAPITAL

### Accounting policy

#### (i) *Share issue costs*

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

#### (ii) *Treasury shares*

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

#### Issued and paid up share capital

##### At 31 December 2017

At 31 December 2016

At 31 December 2015

#### Treasury shares held

##### At 31 December 2017

At 31 December 2016

At 31 December 2015

THE GROUP		THE COMPANY	
Number	MUR' 000	Number	MUR' 000
<b>3,037,402,230</b>	<b>32,500,204</b>	<b>3,037,402,230</b>	<b>32,500,204</b>
3,037,402,230	32,500,204	3,037,402,230	32,500,204
30,374,022,300	32,500,204	30,374,022,300	32,500,204
<b>455,610,330</b>	<b>4,875,031</b>	<b>455,610,330</b>	<b>4,875,031</b>
455,610,330	4,875,031	455,610,330	4,875,031
4,556,103,300	4,875,031	4,556,103,300	4,875,031

Fully paid ordinary shares carry one vote per share and the right to dividend, except for treasury shares which have no such rights.

As at 31 December 2017, the nominal value of the treasury shares amounted to MUR'000 4,875,031 ( 2016: MUR'000 4,875,031; 2015: MUR'000 4,875,031).

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 21. DIVIDEND

### Accounting policy

Dividends on ordinary shares are recognised in equity in the period in which they are authorised by the directors. Dividends that are declared after the reporting date are dealt with in the Notes to the financial statements.

	THE GROUP			THE COMPANY		
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Dividend declared after the reporting date: 2017: 10 cents (2016: 10 cents) (2015: 11 cents) per share of nominal 10 cents	<b>258,179</b>	258,179	283,997	<b>258,179</b>	258,179	283,997
<i>Dividend declared in preceeding year and paid in current year:</i> 2016: 10 cents per share of nominal 10 cents; 2015: 11 cents per share of nominal 10 cents; 2014: 8 cents per share of nominal 10	<b>258,179</b>	283,997	206,543	<b>258,179</b>	283,997	206,543
<i>Dividend declared paid in current year:</i> 2017:30 cents ; 2016: 30 cents per share of nominal 10 cent; 2015: 29 cents per share of nominal 10 cent	<b>774,543</b>	774,543	748,720	<b>774,543</b>	774,543	748,720
	<b>1,032,722</b>	1,058,540	955,263	<b>1,032,722</b>	1,058,540	955,263
Less dividend declared and paid during the year	<b>(1,032,722)</b>	(1,058,540)	(955,263)	<b>(1,032,722)</b>	(1,058,540)	(955,263)
Dividend payable	-	-	-	-	-	-

Dividend declared after the reporting date is not recognised as a liability in the financial statements as at 31 December .



# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 22. MEMORANDUM ITEMS

### Accounting policy

#### Acceptances

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

#### Contingent liabilities

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

#### Financial guarantee contracts

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

### a. Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers

Acceptances on account of customers  
Guarantees on account of customers  
Letters of credit and other obligations on account of customers  
Other contingent items

### b. Commitments

Undrawn credit facilities

### c. Other

Inward bills held for collection  
Outward bills sent for collection

### Total

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
804,367	138,697	207,620
7,565,487	4,631,643	4,538,566
2,129,501	1,198,163	799,062
	-	945
10,499,355	5,968,503	5,546,193
14,238,833	6,787,125	7,472,081
188,954	175,996	253,181
1,929,689	2,083,674	1,535,424
2,118,643	2,259,670	1,788,605
26,856,831	15,015,298	14,806,879

The Group is subject to various legal claims from former employees and customers with claims totalling MUR 220.70 million (2016: MUR 53.2 million; 2015: MUR 38.2 million). The Group has not made any provision for those claims on the basis that it is not probable that these actions will succeed.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 23. ASSETS PLEDGED

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

Treasury bills / Government bonds  
Other

*Analysed as:*

- In Mauritius
- Overseas

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
2,077,648	549,811	2,000,000
52,909	-	-
<b>2,130,557</b>	<b>549,811</b>	<b>2,000,000</b>
<b>1,694,900</b>	400,000	2,000,000
<b>435,657</b>	149,811	-
<b>2,130,557</b>	<b>549,811</b>	<b>2,000,000</b>

## 24. CAPITAL COMMITMENTS

Approved and contracted for  
Approved and not contracted for

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
58,934	39,752	2,155,594
<b>64,757</b>	<b>138</b>	<b>7,078</b>

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 25. OPERATING LEASE

### Accounting policy

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

#### *Leasing arrangements - The Group as lessee*

Operating lease expense

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
102,407	78,573	56,205

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

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

Up to 1 year  
After 1 year and before 5 years  
After 5 years and up to 25 years

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
92,523	131,102	109,192
142,263	243,563	167,292
65,916	54,216	31,316
300,702	428,881	307,800

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 26. NET INTEREST INCOME / (EXPENSES)

### Accounting policy

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

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

However, for a reclassified financial asset for which the Group and the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>Interest income</b>						
Cash and cash equivalents	135,336	53,666	42,683	-	-	-
Loans to and placements with banks	54,836	53,496	25,393	-	-	-
Loans and advances to non-bank customers	5,387,346	4,645,051	4,982,799	-	-	-
Investment securities	1,455,691	1,542,723	1,409,453	131,045	227,814	249,758
Trading assets	(31,902)	(46,590)	(38,498)	-	-	-
Other	6,040	1,419	2,485	-	-	-
Total interest income	7,007,347	6,249,765	6,424,315	131,045	227,814	249,758
<b>Interest expense</b>						
Deposits from non-bank customers	(1,926,008)	(1,684,227)	(1,951,739)	-	-	-
Other borrowed funds	(164,567)	(31,570)	(86,620)	-	-	-
Subordinated debts	(149,011)	(150,694)	(133,221)	(149,011)	(149,307)	(133,221)
Other	-	-	-	-	-	-
Total interest expense	(2,239,586)	(1,866,491)	(2,171,580)	(149,011)	(149,307)	(133,221)
<b>Net interest income / (expense)</b>	<b>4,767,761</b>	<b>4,383,274</b>	<b>4,252,735</b>	<b>(17,966)</b>	<b>78,507</b>	<b>116,537</b>

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 27. NET FEE AND COMMISSION INCOME/(EXPENSE)

### Accounting policy

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan processing fees are recognised as part of the effective interest rate of the loans.

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>Fee and commission income</b>						
Retail banking customer fees	341,847	311,954	345,084	-	-	-
Corporate banking customer fees	417,851	272,360	243,173	-	-	-
Brokerage income	76,354	35,281	36,598	-	-	-
Asset management fees	107,461	31,432	33,629	-	-	-
Card income	313,941	429,541	397,665	-	-	-
Other	11,439	1,377	1,977	-	-	-
Total fee and commission income	1,268,893	1,081,945	1,058,126	-	-	-
<b>Fee and commission expense</b>						
Interbank transaction fees	(14,099)	(17,790)	(17,628)	-	-	-
Brokerage	(2,250)	(3,915)	-	-	-	-
Other	(13,036)	(7,641)	(11,712)	(339)	-	-
Total fee and commission expense	(29,385)	(29,346)	(29,340)	(339)	-	-
<b>Net fee and commission income/(expense)</b>	<b>1,239,508</b>	<b>1,052,599</b>	<b>1,028,786</b>	<b>(339)</b>	<b>-</b>	<b>-</b>

## 28. DIVIDEND INCOME

### Accounting policy

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

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Available-for-sale securities	20,855	38,268	156,756	-	27,563	151,014
Investment in subsidiaries	-	-	-	1,239,262	-	2,446,710
Investment in associate	-	-	-	31,273	-	-
Trading securities	646	596	517	-	-	-
	21,501	38,864	157,273	1,270,535	27,563	2,597,724

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 29. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS

### Accounting policy

Results arising from trading activities and includes all gains and losses from changes in fair value for financial assets and financial liabilities held-for-trading.

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Net gain/(loss) from trading instruments	519,417	(25,120)	(1,951)	-	-	-
Investment securities at fair value through profit or loss	(2,506)	(5)	(125)	67,735	117	3,697
Other	(373)	17	19	-	-	-
	516,538	(25,108)	(2,057)	67,735	117	3,697

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 30. OTHER OPERATING INCOME

Gain on disposal of plant and equipment:

THE GROUP			THE COMPANY		
31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
1,221	4,265	2,782	-	-	-

## 31. PERSONNEL EXPENSES

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

- (a) wages, salaries and social security contributions;
- (b) paid annual leave and paid sick leave;
- (c) bonuses; and
- (d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

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

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

The Group operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under personnel expenses. Unpaid contributions are recorded as a liability. Refer to note 13 for accounting policy on defined benefit plans.

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Wages and salaries	1,242,870	1,043,922	883,872	6,938	-	-
Other social security obligations	18,601	16,672	13,853	99	-	-
Contributions to defined contribution plans	101,808	79,768	70,178	603	-	-
Amount recognised in respect of defined benefit plans (Notes 13 and 35)	26,471	30,098	33,414	-	-	-
Staff welfare cost	18,335	14,625	15,862	-	-	-
Management and professional charges	8,828	18,226	36,843	-	-	-
Security and cleaning services	74,041	71,867	75,872	-	-	-
Other*	128,038	120,717	107,110	11,203	3,830	1,355
	1,618,992	1,395,895	1,237,004	18,843	3,830	1,355

\* Includes mainly travelling expenses, training and mileage cost.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 32. OTHER EXPENSES

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Software licensing and other information technology cost	493,556	505,332	368,616	19	50	26
Auditors' remuneration (audit and other services):						
- Principal auditors	9,715	9,913	7,099	468	733	350
- Other auditors	5,779	354	795	-	-	-
Utilities	58,256	54,968	1,423	-	-	-
Professional charges	104,043	84,841	163,877	40,932	33,764	32,587
Marketing costs	83,970	58,541	47,707	1,517	1,134	1,513
Rent, repairs and maintenance	116,350	165,863	100,890	-	-	-
Licence and other registration fees	37,479	26,399	24,047	15,414	11,538	901
Other*	190,126	89,512	157,458	3,216	786	2,663
	1,099,274	995,723	871,912	61,566	48,005	38,040

\* Includes mainly printing, stationary, subscription and other operational cost.

## 33. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

### Accounting policy

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

When an AFS financial asset is considered to be impaired, its carrying amount is reduced by the impairment loss for loans and advances to customers where the carrying amount is reduced through the use of an allowance account.

For AFS financial assets the cumulative gains or losses previously recognised in *Other comprehensive income* are reclassified to the *Statement of profit or loss*.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investments at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity investments, any increase in fair value subsequent to an impairment loss is recognised in *Other comprehensive income* and accumulated under the *Net unrealised investment fair value reserve*.



# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

Portfolio and specific provisions:

- On-balance sheet advances (Note 8c)

Bad debts written off for which no provisions were made

Recoveries of advances written off

Other

*Of which:*

*Credit exposure*

*Other financial assets*

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
1,101,435	651,527	1,945,447
8,720	70,029	1,347
(142,873)	(3,725)	(7,231)
147,998	(932)	(2,723)
1,115,280	716,899	1,936,840
967,282	717,831	1,939,563
147,998	(932)	(2,723)
1,115,280	716,899	1,936,840

## 34. EARNINGS PER SHARE

Earnings per share is calculated by dividing profit attributable to equity holders of the parent by the number of shares outstanding during the year, excluding treasury shares.

Profit attributable to equity holders of the parent

Number of shares entitled to dividend (thousands)

Earnings per share (cents)

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
2,574,923	2,308,902	1,607,554
2,581,792	2,581,792	2,581,792
99.73	89.43	62.27

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 35. NET CASH FROM OPERATING ACTIVITIES

### Cash flows from operating activities

Profit for the year

### Adjustments to determine net cash flows:

Depreciation of property and equipment

Amortisation of intangible assets

Write off of property plant and equipment

Pension expense (Note 31)

Net impairment loss on financial assets (Note 33)

Exchange difference

Net loss/ (gain) on sale of available-for-sale equity investments

Net (gain) / loss from dealings in trading securities

Net (gain) / loss on disposal of property and equipment

Net loss / (gain) on loans and advances at fair value through profit or loss

Interest income

Interest expense

Tax expense

Share of profit of associate

Dividend income (Note 28)

### Operating profit / (loss) before working capital changes

### Change in operating assets and liabilities

(Decrease) / increase in trading assets

(Increase) / decrease in loans to and placements with banks

(Increase) / decrease in loans and advances to non bank customers

(Increase) / decrease in gilt-edged investment securities

Decrease / (increase) in other investment securities

Increase in mandatory balances with central banks

(Increase) / decrease in other assets

(Decrease) / increase in deposits from banks

Increase in deposits from non-bank customers

Increase / (decrease) in trading liabilities

Increase / (decrease) in other liabilities

Interest received

Interest paid

Other dividend received

Income tax paid

### Net cash from operating activities

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Profit for the year	2,574,923	2,308,902	1,607,554	1,254,013	49,206	2,677,878
Adjustments to determine net cash flows:						
Depreciation of property and equipment	166,796	158,036	153,038	1,203	1,203	501
Amortisation of intangible assets	503,170	191,968	8,497	-	-	-
Write off of property plant and equipment	37,874	-	-	-	-	-
Pension expense (Note 31)	26,471	30,098	33,414	-	-	-
Net impairment loss on financial assets (Note 33)	1,115,280	716,899	1,936,840	-	-	-
Exchange difference	27,852	(122,420)	420,722	(163,914)	(814)	237,272
Net loss/ (gain) on sale of available-for-sale equity investments	83	(2,708)	221	67,071	2,591	-
Net (gain) / loss from dealings in trading securities	(30,726)	21,781	1,330	-	-	-
Net (gain) / loss on disposal of property and equipment	(1,222)	(508)	(2,451)	-	-	-
Net loss / (gain) on loans and advances at fair value through profit or loss	1,608	(995)	1,583	-	-	-
Interest income	-	-	-	(131,045)	(227,814)	(249,758)
Interest expense	-	-	-	149,011	149,307	133,221
Tax expense	585,375	680,429	440,448	(2,895)	16,979	16,408
Share of profit of associate	(92,296)	(1,627)	-	-	-	-
Dividend income (Note 28)	(21,501)	(38,864)	(157,273)	(1,270,535)	(27,563)	(2,597,724)
Operating profit / (loss) before working capital changes	4,893,687	3,940,991	4,443,923	(97,091)	(36,905)	217,798
Change in operating assets and liabilities						
(Decrease) / increase in trading assets	(1,160,049)	(43,637)	59,751	-	-	-
(Increase) / decrease in loans to and placements with banks	(4,251,489)	(3,436,965)	(506,812)	-	-	-
(Increase) / decrease in loans and advances to non bank customers	(31,101,876)	(3,549,386)	(3,299,432)	-	-	-
(Increase) / decrease in gilt-edged investment securities	(3,837,429)	(4,082,685)	(2,056,264)	1,422,126	1,254,257	483,328
Decrease / (increase) in other investment securities	4,234,496	2,778,203	(5,015,268)	1,439,879	646,076	-
Increase in mandatory balances with central banks	(1,798,338)	(178,086)	(371,159)	-	-	-
(Increase) / decrease in other assets	(399,544)	216,729	188,855	(68,947)	(1)	-
(Decrease) / increase in deposits from banks	(1,922,404)	1,859,950	157,820	-	-	-
Increase in deposits from non-bank customers	34,335,239	4,960,091	12,496,113	-	-	-
Increase / (decrease) in trading liabilities	1,152,228	61,632	(25,853)	-	-	-
Increase / (decrease) in other liabilities	1,587,959	(72,468)	216,108	(495)	2,504	5,426
Interest received	-	-	-	202,313	274,053	237,951
Interest paid	-	-	-	(151,036)	(145,554)	(92,895)
Other dividend received	52,774	164,200	180,670	1,052,273	152,834	257,366
Income tax paid	(550,533)	(668,086)	(237,944)	2,546	(31,969)	-
Net cash from operating activities	1,234,721	1,950,483	6,230,508	3,801,568	2,115,295	1,108,974

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 36. RELATED PARTY DISCLOSURES

### Accounting policy

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

### THE GROUP

	Key management personnel including directors			Associates and other entities in which the Group has significant influence			Entities (including their subsidiaries) in which the Group has significant influence			Entities in which directors, key management personnel and their close family members have significant influence		
	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2017	31 Dec 2016	31 Dec 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
(a) <u>Credit facilities</u>												
(i) <u>Loans</u>												
Balance at beginning of year	100,296	30,901	20,279	-	-	-	-	-	-	1,320,812	194,906	224,882
Loans to directors / entities who ceased to be related parties during the year	(3,799)	(7,961)	(7,492)	-	-	-	-	-	-	-	(194,906)	(98,305)
Existing loans of new related parties	-	9,256	448	2,868,421	-	-	3,205	-	-	4,101,901	63,701	-
Other net movements	74,445	68,101	17,666	-	-	-	-	-	-	27,692	1,257,111	68,329
Balance at end of year	170,942	100,297	30,901	2,868,421	-	-	3,205	-	-	5,450,405	1,320,812	194,906
(ii) <u>Off-balance sheet obligations</u>												
Balance at end of year	100	100	-	768,315	-	-	12,000	-	-	50,600	23,414	-
(b) Deposits at end of year	154,318	99,057	109,041	2,142,657	546,792	323,732	284,721	250,952	352,740	3,948,271	59,247	36,250
(c) Interest income	8,054	3,493	1,616	54,306	-	-	83,239	404	15	260,205	49,020	13,862
(d) Interest expense	1,251	644	1,336	27,239	498	3,405	2,126	2,976	3,831	11,345	-	89
(e) Other income	36	225	127	13,828	1,803	9,018	1	2,011	2,752	44,384	6,430	1,943
(f) Dividend income	-	-	-	-	-	-	-	11,000	2,446,710	-	-	-
(g) Purchase of goods and services	9,264	6,143	433	-	-	-	-	-	-	-	-	-
(h) Emoluments	31,749	34,566	108,632	-	-	-	-	-	-	-	-	-

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

Deposits at end of year

Interest expense

Other income

Contributions paid

THE GROUP		
31 Dec 2017	31 Dec 2016	31 Dec 2015
MUR' 000	MUR' 000	MUR' 000
<b>63,809</b>	148,576	136,606
-	250	782
-	213	463
<b>104,823</b>	90,151	86,470

Credit facilities to key management personnel and executive directors are as per their contract of employment. Credit facilities are secured except for credit card advances and some personal loans which are granted under an unsecured loan scheme in the normal course of business.

## 37. CAPITAL MANAGEMENT

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

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

Pursuant to the Group restructuring approved by the Bank of Mauritius under Section 32A of the Banking Act, which became effective on 02 October 2014, SBM Holdings Ltd is now the ultimate holding company of the SBM Group. Surplus capital held by SBM Bank (Mauritius) Ltd (formerly known as State Bank of Mauritius Ltd) have been streamed up to SBM Holdings Ltd which in turn invested in SBM (Bank) Holdings Ltd, the holding company for the Banking cluster. As per the constitution of SBM Holdings Ltd, not less than 90% of its capital, reserves and borrowings shall be invested in banking activities/operations. SBM Holdings Ltd and also SBM (Bank) Holdings Ltd are supervised by the Bank of Mauritius (BOM) as per the conditions of BOM approval of the SBM Group Restructuring and BOM approval is required whenever capital will be injected in the operating companies in accordance with the order of priority specified under Section 36 of the Banking Act to ensure planned growth and regulatory compliance.

Banks in Mauritius are required to maintain a ratio of eligible capital to risk weighted assets of at least 10%, whereas for India and Madagascar, the minimum ratio is set at 9% and 8% respectively.

Tier 1 Capital

Eligible capital

Risk weighted assets

Capital adequacy ratio (%)

THE GROUP		
31 Dec 2017	31 Dec 2016	31 Dec 2015
MUR' 000	MUR' 000	MUR' 000
<b>20,010,395</b>	18,598,479	18,253,567
<b>25,109,218</b>	24,027,477	23,717,553
<b>125,684,007</b>	93,479,869	83,935,326
<b>19.98</b>	25.70	28.26

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 38. OTHER RESERVES

	Net unrealised investment fair value reserve	Net translation reserve	Net other reserve	Earnings reserve	Restructure reserve	Total
THE GROUP	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
At 01 January 2015	27,947	53,227	-	2,935,807	(8,316,147)	(5,299,166)
Other comprehensive income for the year	(726,867)	202,833	-	-	-	(524,034)
<b>At 31 December 2015</b>	<b>(698,920)</b>	<b>256,060</b>	<b>-</b>	<b>2,935,807</b>	<b>(8,316,147)</b>	<b>(5,823,200)</b>
At 01 January 2016	(698,920)	256,060	-	2,935,807	(8,316,147)	(5,823,200)
Other comprehensive income for the year	467,253	(80,866)	1,276	-	-	387,663
<b>At 31 December 2016</b>	<b>(231,667)</b>	<b>175,194</b>	<b>1,276</b>	<b>2,935,807</b>	<b>(8,316,147)</b>	<b>(5,435,537)</b>
At 01 January 2017	(231,667)	175,194	1,276	2,935,807	(8,316,147)	(5,435,537)
Other comprehensive income for the year	(84,196)	(65,347)	290	-	-	(149,253)
<b>At 31 December 2017</b>	<b>(315,863)</b>	<b>109,847</b>	<b>1,566</b>	<b>2,935,807</b>	<b>(8,316,147)</b>	<b>(5,584,790)</b>

### Net unrealised investment fair value reserve

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

### Net translation reserve

The net translation reserve is used to record exchange differences arising from the translation of financial statements of foreign subsidiaries and associates.

### Statutory reserve

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

### Net other reserve

Net other reserve is used to record the share of other comprehensive income of the associate.

### Earnings reserve

The earnings reserve represents retained earnings earmarked towards capital contribution upon transfer of the Indian Operations of SBM Bank (Mauritius) Ltd to SBM Holdings Ltd. We have received approval from the Reserve Bank of India (RBI) for the conversion of SBM Bank(Mauritius) Ltd's indian branch into a wholly owned subsidiary. This reserve will be converted into capital upon successful completion of the conversion.

### Restructuring reserve

Restructuring reserve includes net unrealized investment fair value reserve of MUR 5,401 million, net translation reserve of MUR 646 million and net property revaluation reserve of MUR 1,063 million and shall be reclassified to the statement of profit or loss upon disposal of the related asset.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT

The Board of Directors oversees the risk management framework and ensures decision making is aligned with the Board-driven strategic risk objectives and risk appetite. The Board approves the risk policies and a set of prudential limits and risk tolerance limits, besides regulatory limits, within which the Group operates. The Senior Management monitors risks totally on an ongoing basis at regular intervals as necessary and is accountable to ensure its operations are within approved policies, prudential limits besides regulatory limits and risk appetite approved framework. Any deviation and non-compliance are reported to the Board Risk Committee. The principal risks arising from financial instruments to which the Group is exposed include credit risk, liquidity risk, market risk, operational risk, strategic risk and reputational risk.

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

#### Financial assets

Loans and receivables

Held-for-trading

Available-for-sale financial assets

Fair value through profit or loss (Note 7)

#### Financial liabilities

Measured at amortised cost

Fair value through profit or loss (Note 7)

THE GROUP			THE COMPANY		
31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>157,497,942</b>	120,232,334	108,375,988	<b>143,670</b>	2,424,820	3,966,582
<b>7,512,462</b>	-	-	<b>-</b>	-	-
<b>19,217,612</b>	18,193,742	21,688,980	<b>5,754,726</b>	6,159,231	7,768,419
<b>1,356,774</b>	165,998	144,142	<b>-</b>	-	-
<b>185,584,790</b>	138,592,074	130,209,110	<b>5,898,396</b>	8,584,051	11,735,001
<b>165,004,316</b>	122,437,406	113,342,048	<b>3,706,889</b>	3,871,368	3,865,631
<b>1,334,641</b>	182,413	120,781	<b>-</b>	-	-
<b>166,338,957</b>	122,619,819	113,462,829	<b>3,706,889</b>	3,871,368	3,865,631

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### a (ii) Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments held at the reporting date.

	31 December 2017		31 December 2016		31 December 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>THE GROUP</b>						
<b>Financial assets</b>						
Cash and cash equivalents	16,331,538	16,331,538	9,490,208	9,490,208	9,174,135	9,174,135
Mandatory balances with Central banks	8,966,717	8,966,717	7,097,994	7,097,994	6,919,908	6,919,908
Loans to and placements with banks	8,897,399	8,897,399	4,645,911	4,645,911	1,208,945	1,208,945
Derivative financial instruments	1,356,774	1,356,774	165,998	165,998	144,142	144,142
Loans and advances to non-bank customers	103,128,838	103,057,726	71,624,874	72,072,262	68,784,195	68,712,121
Investment securities	40,000,421	42,525,808	39,430,829	39,344,593	37,375,824	37,018,354
Equity investments	6,137,779	6,137,779	5,732,722	5,732,722	6,066,176	6,066,176
Other assets	765,324	765,324	403,538	403,538	535,785	535,785
	<b>185,584,790</b>	<b>188,039,065</b>	<b>138,592,074</b>	<b>138,953,226</b>	<b>130,209,110</b>	<b>129,779,566</b>
<b>Financial liabilities</b>						
Deposits from banks	689,265	689,265	2,611,669	2,611,669	751,719	751,719
Deposits from non-bank customers	144,850,676	144,855,080	109,241,194	109,246,841	104,281,103	104,336,288
Other borrowed funds	13,686,203	13,686,203	4,486,008	4,486,008	2,132,497	2,132,497
Trading liabilities	1,334,641	1,334,641	182,413	182,413	120,781	120,781
Other liabilities	2,076,706	2,076,706	2,233,164	2,233,164	2,314,591	2,314,591
Subordinated debts	3,701,466	3,701,466	3,865,371	3,865,371	3,862,138	3,862,138
	<b>166,338,957</b>	<b>166,343,361</b>	<b>122,619,819</b>	<b>122,625,466</b>	<b>113,462,829</b>	<b>113,518,014</b>

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### THE COMPANY

#### Financial assets

Cash and cash equivalents  
Investment securities  
Equity investments  
Other assets

#### Financial liabilities

Other liabilities  
Subordinated debts

31 December 2017		31 December 2016		31 December 2015	
Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
73,223	73,223	15,321	15,321	178,060	178,060
1,461,801	1,508,806	4,305,882	4,365,967	5,896,350	5,816,554
4,292,925	4,292,925	4,261,347	4,261,347	5,534,324	5,534,324
70,448	70,448	1,501	1,501	126,267	126,267
5,898,397	5,945,402	8,584,051	8,644,136	11,735,001	11,655,205
5,423	5,423	5,997	5,997	3,493	3,493
3,701,466	3,701,466	3,865,371	3,865,371	3,862,138	3,862,138
3,706,889	3,706,889	3,871,368	3,871,368	3,865,631	3,865,631

For loans and advances to non-bank customers, all the fixed loans and advances maturing after one year has been fair valued based on the current prevailing lending rate.

For investment securities, all the government bonds and BOM bonds have been fair valued based on the latest weighted yield rate.

For deposits from non-bank customers, all the term deposits maturing after one year has been fair valued based on the current prevailing savings rate.

Except for the levels in which the financial assets and financial liabilities are shown in table 39(a)(iii), the fair values of the other financial assets and financial liabilities are categorized in level 3.

### Significant accounting estimates and judgements

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



# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39 RISK MANAGEMENT (CONT'D)

### a (iii) Fair value measurement hierarchy

Fair value measurements of financial instruments can be grouped into level 1 to 3 based on the degree to which the fair value is observable, namely:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

	THE GROUP				THE COMPANY			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>31 December 2017</b>								
Derivative financial instruments	-	1,356,774	-	1,356,774	-	-	-	-
Held-for-trading financial assets	5,767,996	1,744,466	-	7,512,462	-	-	-	-
Loans and advances at fair value	-	-	39,201	39,201	-	-	-	-
Investment securities - available-for-sale	8,024,317	4,424,901	630,615	13,079,833	-	475,929	-	475,929
Equity investments - available-for-sale	150,289	784,139	5,203,530	6,137,958	-	-	4,292,925	4,292,925
	<b>13,942,602</b>	<b>8,310,280</b>	<b>5,873,346</b>	<b>28,126,228</b>	<b>-</b>	<b>475,929</b>	<b>4,292,925</b>	<b>4,768,854</b>
Derivative financial instruments	-	1,334,641	-	1,334,641	-	-	-	-
<b>31 December 2016</b>								
Derivative financial instruments	-	165,998	-	165,998	-	-	-	-
Loans and advances at fair value	-	-	856	856	-	-	-	-
Investment securities - available-for-sale	11,156,442	970,160	334,420	12,461,022	1,538,299	359,585	-	1,897,884
Equity investments - available-for-sale	-	-	5,732,722	5,732,722	-	-	4,261,347	4,261,347
	<b>11,156,442</b>	<b>1,136,158</b>	<b>6,067,998</b>	<b>18,360,598</b>	<b>1,538,299</b>	<b>359,585</b>	<b>4,261,347</b>	<b>6,159,231</b>
Derivative financial instruments	-	182,413	-	182,413	-	-	-	-
<b>31 December 2015</b>								
Derivative financial instruments	-	144,142	-	144,142	-	-	-	-
Loans and advances at fair value	-	-	5,438	5,438	-	-	-	-
Investment securities - available-for-sale	14,327,481	1,295,323	-	15,622,804	2,234,095	-	-	2,234,095
Equity investments - available-for-sale	-	-	6,066,176	6,066,176	-	-	5,534,324	5,534,324
	<b>14,327,481</b>	<b>1,439,465</b>	<b>6,071,614</b>	<b>21,838,560</b>	<b>2,234,095</b>	<b>-</b>	<b>5,534,324</b>	<b>7,768,419</b>
Derivative financial instruments	-	120,781	-	120,781	-	-	-	-

Loans and advances at fair value relate to the fair value of hedged assets (Note 39(d)(iii)).

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39 RISK MANAGEMENT (CONT'D)

The table below summarises the valuation techniques together with the significant unobservable inputs used to calculate the fair value of the Group's Level 3 available-for-sale equity investments.

Equity available-for-sale investments

Valuation technique	Significant unobservable inputs	Range of input
Discounted projected cash flow	Weighted Average Cost of Capital (WACC)	11.70%
	Favourable changes	Unfavourable changes
0.25% change in WACC (MUR'000)	39,286	39,795

Reconciliation for Level 3 fair value measurements:

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Balance at start of year	6,067,998	6,071,614	6,735,928	4,261,347	5,534,324	6,319,881
Additions	614,249	1,221,929	-	-	-	-
Impairment	(3,688)	-	-	-	-	-
Disposals	-	(232,589)	-	-	-	-
Transfer to associate	-	(1,273,430)	-	-	(1,273,430)	-
Transfer to Level 2	(784,139)	147,189	-	-	-	-
Exchange difference	(14)	(10)	(25)	-	-	-
Movement in fair value	(21,060)	427,673	(664,289)	31,578	453	(785,557)
Balance at end of year	5,873,346	6,067,998	6,071,614	4,292,925	4,261,347	5,534,324

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### b Credit risk

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

#### (i) Maximum credit exposure

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

	THE GROUP			THE COMPANY		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<u>Fund-based exposures:</u>						
Cash and cash equivalents	14,161,991	7,463,137	6,987,190	73,223	15,321	178,060
Mandatory balances with Central Banks	8,966,717	7,097,994	6,919,908	-	-	-
Loans to and placements with banks	8,897,399	4,645,911	1,208,945	-	-	-
Derivative financial instruments	1,356,774	165,998	-	-	-	-
Loans and advances to non-bank customers	107,197,841	75,775,554	72,296,084	-	-	-
Investment securities	40,000,421	39,430,829	37,375,824	1,461,801	4,305,882	5,896,350
Other assets	765,324	403,538	535,785	70,448	1,501	126,267
	<b>181,346,467</b>	<b>134,982,961</b>	<b>125,323,736</b>	<b>1,605,472</b>	<b>4,322,704</b>	<b>6,200,677</b>
<u>Non-fund based exposures:</u>						
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	12,617,998	8,228,173	12,880,991	-	-	-
Credit commitments	14,238,833	6,787,125	7,472,081	-	-	-
	<b>26,856,831</b>	<b>15,015,298</b>	<b>20,353,072</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### (ii) Credit quality

Corporate borrowers are assigned a Customer Risk Rating using Moody’s Risk Advisor which is based on the borrower’s financial condition and outlook, industry and economic conditions, access to capital and management strength. For the small and medium enterprises, the rating is derived from the Small Business Underwriting Matrix which is primarily based on the customer’s financial position / debt repayment capacity and quality of collateral. Individuals are rated using LOS origination system based on a set of personal attributes including income and repayment capacity. The Group is in the process of enhancing its rating model as part of the business-aligned technology transformation, which would better reflect the economic environment.

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

Grades:  
 1 to 3 - Strong  
 4 to 6 - Satisfactory  
 7 to 10 (including unrated) - weak

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
53,825,569	30,857,635	39,845,329
36,694,096	32,741,310	24,991,499
33,776,743	17,888,994	14,865,732
124,296,408	81,487,939	79,702,560

Grade 1 includes customers with low credit risk factors, strong financial conditions and excellent repayment capacities whereas grade 10 includes unrated customers which have been defaulted to 10 on a prudent basis.

The carrying amounts of loans and advances whose terms have been renegotiated during the year amounted to MUR 4,082.77 million (2016: MUR 2,952.1 million and 2015: MUR 5,558.9 million) for the Group.

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### b Credit risk (Cont'd)

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

The use of credit risk mitigants is an integral part of the credit risk management process and is documented in the Group Credit Risk policy. The amount and type of collateral required depend on the counterparty's credit quality and repayment capacity. The principal collateral types taken include:

- Fixed / floating charge on assets of borrowers;
- Pledge of deposits / securities / life insurance policy / shares;
- Government guarantee / bank guarantee / corporate guarantee / personal guarantee;
- Lien on vehicle; and
- Letter of comfort.

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

Up to 1 month  
Over 1 month and up to 3 months

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
458,267	115,589	150,012
102,881	121,561	136,115
561,148	237,150	286,127

#### (v) Impaired financial assets

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### b Credit risk (Cont'd)

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

Loans and advances (Note 8d)

Specific allowance held in respect of impaired advances (Note 8d)

Fair value of collaterals of impaired advances

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
4,786,527	4,998,437	3,712,740
2,741,142	3,105,952	2,427,061
3,137,676	1,721,767	1,233,883

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

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

#### Portfolio

Agriculture

Commerce

Real estate

Manufacturing Non- Textiles

Tourism

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
2,478,382	2,509,798	2,695,992
3,732,318	4,292,431	3,287,651
5,396,668	2,850,895	3,066,204
5,458,419	-	-
6,212,128	4,839,141	5,622,342
23,277,915	14,492,265	14,672,189

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### c Liquidity risk

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

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

	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-Maturity Bucket	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>THE GROUP</b>								
<b>31 December 2017</b>								
<u>Financial assets</u>								
Cash and cash equivalents	16,327,897	-	3,641	-	-	-	-	16,331,538
Mandatory balances with Central Banks	976,672	460,562	341,585	382,030	229,542	6,576,326	-	8,966,717
Loans to and placements with banks	1,263,606	170,402	421,797	1,919,980	4,787,486	334,128	-	8,897,399
Derivative financial instruments	-	-	-	-	-	-	1,356,774	1,356,774
Loans and advances to non-bank customers	9,533,621	13,485,332	7,665,432	8,288,008	22,009,711	42,886,823	(740,089)	103,128,838
Investment securities	5,797,787	3,675,260	5,201,641	3,279,502	8,333,283	12,887,019	825,929	40,000,421
Equity investments	-	-	-	-	-	-	6,137,779	6,137,779
Other assets	765,324	-	-	-	-	-	-	765,324
<b>Total financial assets</b>	<b>34,664,907</b>	<b>17,791,556</b>	<b>13,634,096</b>	<b>13,869,520</b>	<b>35,360,022</b>	<b>62,684,296</b>	<b>7,580,393</b>	<b>185,584,790</b>
<u>Financial liabilities</u>								
Deposits from banks	689,265	-	-	-	-	-	-	689,265
Deposits from non-bank customers	13,008,399	9,638,611	6,180,076	7,924,880	4,031,705	104,067,005	-	144,850,676
Other borrowed funds	1,025,170	5,073,881	2,704,546	531,128	3,676,334	675,144	-	13,686,203
Trading liabilities	-	-	-	-	-	-	1,334,641	1,334,641
Subordinated debts	-	-	28,388	-	-	3,673,078	-	3,701,466
Other liabilities	2,076,706	-	-	-	-	-	-	2,076,706
<b>Total financial liabilities</b>	<b>16,799,540</b>	<b>14,712,492</b>	<b>8,913,010</b>	<b>8,456,008</b>	<b>7,708,039</b>	<b>108,415,227</b>	<b>1,334,641</b>	<b>166,338,957</b>
<b>Liquidity Gap</b>	<b>17,865,367</b>	<b>3,079,064</b>	<b>4,721,086</b>	<b>5,413,512</b>	<b>27,651,983</b>	<b>(45,730,931)</b>	<b>6,245,752</b>	<b>19,245,833</b>
<b>31 December 2016</b>								
Financial assets	16,087,022	9,220,286	11,931,110	13,113,864	34,179,128	47,547,494	6,513,170	138,592,074
Financial liabilities	10,726,398	4,310,391	3,642,819	4,907,546	7,227,079	91,623,174	182,412	122,619,819
Liquidity Gap	5,360,624	4,909,895	8,288,291	8,206,318	26,952,049	(44,075,680)	6,330,758	15,972,255
<b>31 December 2015</b>								
Financial assets	16,103,389	6,073,381	8,406,420	13,432,323	28,236,156	43,413,688	14,543,754	130,209,110
Financial liabilities	12,774,024	5,220,284	5,882,749	9,658,177	13,234,283	55,721,499	10,971,813	113,462,829
Liquidity Gap	3,329,365	853,097	2,523,671	3,774,146	15,001,873	(12,307,811)	3,571,941	16,746,281

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### c Liquidity risk (Cont'd)

#### THE COMPANY

##### 31 December 2017

##### Financial Assets

Cash and cash equivalents

Investment securities

Equity investments

Other assets

**Total financial assets**

##### Financial liabilities

Subordinated debts

Other liabilities

**Total financial liabilities**

**Liquidity Gap**

	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-Maturity Bucket	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cash and cash equivalents	73,223	-	-	-	-	-	-	73,223
Investment securities	-	-	8,872	-	-	977,000	475,929	1,461,801
Equity investments	-	-	-	-	-	-	4,292,925	4,292,925
Other assets	70,448	-	-	-	-	-	-	70,448
<b>Total financial assets</b>	<b>143,671</b>	<b>-</b>	<b>8,872</b>	<b>-</b>	<b>-</b>	<b>977,000</b>	<b>4,768,854</b>	<b>5,898,396</b>
Subordinated debts	-	28,388	-	-	-	3,673,078	-	3,701,465
Other liabilities	5,423	-	-	-	-	-	-	5,423
<b>Total financial liabilities</b>	<b>5,423</b>	<b>28,388</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,673,078</b>	<b>-</b>	<b>3,706,889</b>
<b>Liquidity Gap</b>	<b>138,247</b>	<b>(28,387)</b>	<b>8,872</b>	<b>-</b>	<b>-</b>	<b>(2,696,077)</b>	<b>-</b>	<b>2,191,508</b>

##### 31 December 2016

Financial Assets

Financial liabilities

Liquidity Gap

Financial Assets	341,267	-	515,382	718,858	1,556,797	3,068,373	2,383,374	8,584,051
Financial liabilities	3,493	21,979	4,681	-	-	3,835,478	5,737	3,871,368
Liquidity Gap	337,774	(21,979)	510,701	718,858	1,556,797	(767,105)	2,377,637	2,335,047

##### 31 December 2015

Financial assets

Financial liabilities

Liquidity Gap

Financial assets	291,493	179,369	-	164,867	1,667,968	1,903,550	7,527,754	11,735,001
Financial liabilities	8,919	27,750	3,583	-	-	3,566,876	258,503	3,865,631
Liquidity Gap	282,574	151,619	(3,583)	164,867	1,667,968	(1,663,326)	7,269,251	7,869,370

The expected timing of cash flows is based on management's estimates and the behavioural analysis of customer's deposits.



# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### c Liquidity risk (Cont'd)

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

	On Demand	Up to 3 months	3-6 months	6-12 months	1-2 years	Over 2 years	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>THE GROUP</b>							
Financial liabilities							
Deposits	111,385,488	15,641,462	6,113,585	8,003,098	2,112,169	1,594,874	144,850,676
Trading Liabilities	1,334,641	-	-	-	-	-	1,334,641
Other borrowed funds	-	6,099,053	2,682,563	531,128	3,438,047	935,413	13,686,204
Subordinated debts	-	-	28,388	-	-	3,673,078	3,701,466
Other liabilities	-	2,076,706	-	-	-	-	2,076,706
<b>31 December 2017</b>	<b>112,720,129</b>	<b>23,817,220</b>	<b>8,824,536</b>	<b>8,534,226</b>	<b>5,550,216</b>	<b>6,203,364</b>	<b>165,649,692</b>
31 December 2016	92,003,698	9,447,757	2,963,975	4,750,741	4,770,435	2,935,581	116,872,187
31 December 2015	85,159,719	6,486,074	1,993,862	5,274,411	5,141,778	7,722,051	111,777,895
<b>THE COMPANY</b>							
Financial liabilities							
Subordinated debts	-	-	28,388	-	-	3,673,078	3,701,466
Other liabilities	-	5,423	-	-	-	-	5,423
<b>31 December 2017</b>	<b>-</b>	<b>5,423</b>	<b>28,388</b>	<b>-</b>	<b>-</b>	<b>3,673,078</b>	<b>3,706,889</b>
31 December 2016	-	5,997	-	-	-	-	5,997
31 December 2015	-	46,618	28,083	71,208	142,416	4,592,684	4,881,009

### d Market risk

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

#### (i) Interest rate risk

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

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### d Market risk (Cont'd)

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

##### THE GROUP

##### 31 December 2017

##### Assets

	Up to 3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Non-Interest Sensitive	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cash and cash equivalents	5,471,461	334,264	-	-	-	-	10,525,813	16,331,538
Mandatory balances with Central Banks	-	-	-	-	-	-	8,966,717	8,966,717
Loans to and placements with banks	2,536,634	565,881	1,422,930	3,146,852	1,202,121	-	22,981	8,897,399
Derivative financial instruments	-	-	-	-	-	-	1,356,774	1,356,774
Loans and advances to non-bank customers	71,467,929	15,427,092	4,308,185	1,058,013	8,355,340	2,512,279	-	103,128,838
Investment securities	5,797,787	3,675,260	5,192,769	3,279,502	8,333,283	12,887,019	834,801	40,000,421
Equity investments	-	-	-	-	-	-	6,137,779	6,137,779
Other assets	-	-	-	-	-	-	765,324	765,324
<b>Total assets</b>	<b>85,273,811</b>	<b>20,002,497</b>	<b>10,923,884</b>	<b>7,484,367</b>	<b>17,890,744</b>	<b>15,399,298</b>	<b>28,610,189</b>	<b>185,584,790</b>

##### Liabilities

Deposits from banks	24,695	-	-	-	-	-	664,570	689,265
Deposits from non-bank customers	78,693,703	6,638,754	4,504,421	553,757	901,366	6,971	53,551,704	144,850,676
Other borrowed funds	7,655,680	1,939,946	360,636	3,103,703	-	-	626,238	13,686,203
Derivative financial instruments	-	-	-	-	-	-	1,334,641	1,334,641
Other liabilities	-	-	-	-	-	-	2,076,706	2,076,706
Subordinated debts	-	-	-	-	2,173,078	1,500,000	28,388	3,701,466
<b>Total liabilities</b>	<b>86,374,078</b>	<b>8,578,700</b>	<b>4,865,057</b>	<b>3,657,460</b>	<b>3,074,444</b>	<b>1,506,971</b>	<b>58,282,247</b>	<b>166,338,957</b>

On balance sheet interest rate sensitivity gap	(1,100,267)	11,423,797	6,058,827	3,826,907	14,816,300	13,892,327	(29,672,058)	19,245,833
Off balance sheet interest rate sensitivity gap	(12,670,421)	(1,844,470)	(427,923)	(997,797)	(2,873,514)	(112,278)	-	(18,926,403)
	<b>(13,770,688)</b>	<b>9,579,327</b>	<b>5,630,904</b>	<b>2,829,111</b>	<b>11,942,786</b>	<b>13,780,048</b>	<b>(29,672,058)</b>	<b>319,430</b>

##### 31 December 2016

Total assets	63,339,961	14,120,687	7,445,162	11,022,639	17,726,434	4,179,907	20,757,283	138,592,073
Total liabilities	72,792,170	5,922,421	3,023,064	501,817	2,752,008	1,923	37,626,417	122,619,820
On balance sheet interest rate sensitivity gap	(9,452,209)	8,198,266	4,422,098	10,520,822	14,974,426	4,177,984	(16,869,134)	15,972,253
Off balance sheet interest rate sensitivity gap	691,753	19,644	47,392	(39,212)	-	-	-	719,577
	<b>(8,760,456)</b>	<b>8,217,910</b>	<b>4,469,490</b>	<b>10,481,610</b>	<b>14,974,426</b>	<b>4,177,984</b>	<b>(16,869,134)</b>	<b>16,691,830</b>

##### 31 December 2015

Total assets	63,428,295	7,349,481	6,744,071	6,843,427	20,512,063	7,293,121	18,038,652	130,209,110
Total liabilities	61,728,435	4,617,671	2,379,068	2,582,329	106,739	1,461	42,047,126	113,462,829
On balance sheet interest rate sensitivity gap	1,699,860	2,731,810	4,365,003	4,261,098	20,405,324	7,291,660	(24,008,474)	16,746,281
Off balance sheet interest rate sensitivity gap	507,882	-	(296,864)	(157,004)	(54,014)	-	-	-
	<b>2,207,742</b>	<b>2,731,810</b>	<b>4,068,139</b>	<b>4,104,094</b>	<b>20,351,310</b>	<b>7,291,660</b>	<b>(24,008,474)</b>	<b>16,746,281</b>

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### d Market risk (Cont'd)

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

THE COMPANY	Up to 3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Non-Interest Sensitive	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<b>31 December 2017</b>								
<b>Assets</b>								
Cash and cash equivalents	-	-	-	-	-	-	73,223	73,223
Investment securities	-	-	-	-	-	977,000	484,801	1,461,801
Equity investments	-	-	-	-	-	-	4,292,925	4,292,925
Other assets	-	-	-	-	-	-	70,448	70,448
<b>Total assets</b>	-	-	-	-	-	977,000	4,921,397	5,898,397
<b>Liabilities</b>								
Subordinated debts	-	-	-	-	2,173,078	1,500,000	28,388	3,701,466
<b>Total liabilities</b>	-	-	-	-	2,173,078	1,500,000	28,388	3,701,466
On balance sheet interest rate sensitivity gap	-	-	-	-	(2,173,078)	(523,000)	4,893,010	2,196,931
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-	-
	-	-	-	-	(2,173,078)	(523,000)	4,893,010	2,196,931
<b>31 December 2016</b>								
Total assets	9,944	606,514	489,882	855,503	295,419	1,689,035	4,637,755	8,584,052
Total liabilities	1,500,000	2,334,958	-	-	-	-	36,409	3,871,367
On balance sheet interest rate sensitivity gap	(1,490,056)	(1,728,444)	489,882	855,503	295,419	1,689,035	4,601,346	4,712,685
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-	-
	(1,490,056)	(1,728,444)	489,882	855,503	295,419	1,689,035	4,601,346	4,712,685
<b>31 December 2015</b>								
Total assets	36,940	515,382	718,858	1,190,377	1,162,455	2,272,338	5,838,651	11,735,001
Total liabilities	1,500,000	2,335,479	-	-	-	-	30,152	3,865,631
On balance sheet interest rate sensitivity gap	(1,463,060)	(1,820,097)	718,858	1,190,377	1,162,455	2,272,338	5,808,499	7,869,370
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-	-
	(1,463,060)	(1,820,097)	718,858	1,190,377	1,162,455	2,272,338	5,808,499	7,869,370

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### d Market risk (Cont'd)

(i) Interest rate risk (Cont'd)

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

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
200,235	(29,195)	94,504

Increase/ (decrease) in profit

(ii) Fair value hedges

### THE GROUP

The Group establishes fair value hedge accounting relationships for interest rate risk on some of its fixed rate customer loans. At 31 December 2016, the aggregate notional principal of interest rate swaps designated as fair value hedges was **MUR 1,989.13 million** (2016: MUR 161.5 million and 2015: MUR 540.6 million) with a net fair value liability of MUR **1.72 million** (2016: MUR 0.96 million and 2015: MUR 6.5 million). The hedge was more than 85% effective in hedging the fair value exposure to interest rates movements and as a result the carrying amount of the loans being hedged was adjusted by MUR 1.71 million, which was included in the statement of profit or loss at the same time that the fair value of the interest rate swap was included.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### d Market risk (Cont'd)

#### (iii) Currency risk

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

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

#### THE GROUP

31 December 2017

#### ASSETS

	MUR	USD	GBP	EURO	INR	OTHER	TOTAL
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cash and cash equivalents	2,174,977	9,139,415	944,931	1,885,380	1,134,056	1,052,779	16,331,538
Mandatory balances with Central Banks	7,570,026	632,256	46,743	245,411	217,626	254,655	8,966,717
Loans to and placements with banks	1,105,606	3,736,329	-	4,055,464	-	-	8,897,399
Derivative financial instruments	1,213,729	50,905	2,834	-	78,133	11,173	1,356,774
Loans and advances to non-bank customers	52,050,121	31,507,759	787,914	11,600,917	7,127,912	54,215	103,128,838
Investment securities	27,801,913	6,806,762	-	403,624	3,117,171	1,870,951	40,000,421
Equity investments	6,137,779	-	-	-	-	-	6,137,779
Other assets	793,907	325,395	2,884	47,566	41,349	(445,777)	765,324
Total monetary financial assets	98,848,058	52,198,821	1,785,306	18,238,362	11,716,247	2,797,996	185,584,790

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### d Market risk (Cont'd)

#### (iii) Currency risk (Cont'd)

#### THE GROUP

##### 31 December 2017

#### LIABILITIES

	MUR	USD	GBP	EURO	INR	OTHER	TOTAL
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Deposits from banks	241,279	351,152	3,046	37,488	51,756	4,544	689,265
Deposits from customers	86,057,347	39,990,959	2,010,427	8,926,276	5,285,002	2,580,663	144,850,675
Other borrowed funds	1,095,751	10,786,151	-	1,586,411	622,022	(404,132)	13,686,203
Derivative financial instruments	1,158,687	110,882	2,417	-	43,313	19,342	1,334,641
Subordinated debts	1,488,235	2,213,231	-	-	-	-	3,701,466
Other liabilities	(1,278,427)	(1,055,915)	(217,542)	4,393,800	471,097	(236,308)	2,076,706
Total monetary financial liabilities	88,762,872	52,396,460	1,798,348	14,943,975	6,473,190	1,964,109	166,338,954
On balance sheet net position	10,085,186	(197,639)	(13,042)	3,294,387	5,243,057	833,887	19,245,836
Off balance sheet net position	669,316	3,600,673	11,227	(439,675)	(3,746,111)	(95,430)	-
Net currency position	10,754,502	3,403,034	(1,815)	2,854,712	1,496,946	738,457	19,245,836

##### 31 December 2016

Total monetary financial assets	95,295,412	30,241,557	2,254,493	9,774,463	400,185	625,964	138,592,074
Total monetary financial liabilities	80,730,769	30,262,990	2,155,211	8,878,763	34,507	557,579	122,619,819
On balance sheet net position	14,564,643	(21,433)	99,283	895,699	365,678	68,385	15,972,255
Off balance sheet net position	685,112	3,247	134,314	(334,535)	(404,234)	(83,905)	-
Net currency position	15,249,756	(18,186)	233,597	561,165	(38,556)	(15,520)	15,972,255

##### 31 December 2015

Total monetary financial assets	87,014,869	24,976,369	2,026,384	7,893,073	6,560,952	1,737,462	130,209,110
Total monetary financial liabilities	72,851,986	25,645,864	2,702,236	8,324,281	2,377,661	1,560,802	113,462,829
On balance sheet net position	14,162,884	(669,495)	(675,851)	(431,208)	4,183,291	176,661	16,746,281
Off balance sheet net position	(1,423,199)	952,898	620,230	43,305	(67,961)	(125,273)	0.00
Net currency position	12,739,685	283,403	(55,621)	(387,903)	4,115,330	51,388	16,746,281

#### THE COMPANY

The Company is exposed to currency risk only in USD in relation to investment securities (financial assets) amounting to **MUR NIL** (2016: MUR 2,438 million and 2015: MUR 2,233 million) and subordinated debts (financial liabilities) amounting to **MUR 2,213 million** (2016: MUR 2,373 million and 2015: MUR 2,340 million).

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. RISK MANAGEMENT (CONT'D)

### d Market risk (Cont'd)

#### (iii) Currency risk (Cont'd)

##### *Value-at-Risk Analysis*

The Group uses Value-at-Risk (VAR) to estimate the potential foreign exchange loss arising from adverse movements in an ordinary market environment. To calculate VAR, the Group uses the historical method which assumes that historical changes in market values are representative of future changes. The VAR is based on the previous 12 months data. The Group calculates VAR using 10 days holding period and an expected tail-loss methodology, which approximates a 99% confidence level. This would mean that only once in every 100 trading days, the group would expect to incur losses greater than the VAR estimates, or about two to three times a year. The use of 10 days holding period and a one-year historical observation period are in line with the Basel II recommendation.

The Group's VAR amounted to:

Minimum for the year  
Maximum for the year  
Year - end

THE GROUP		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
651	170	207
7,579	5,170	2,771
1,282	756	750

#### (iv) Equity price sensitivity analysis

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

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

Statement of comprehensive income  
Statement of profit or loss

THE GROUP			THE COMPANY		
31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
306,889	286,636	303,309	214,646	213,067	276,716
-	-	-	-	-	-
306,889	286,636	303,309	214,646	213,067	276,716

### e Accounting policies

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 40. SEGMENT INFORMATION - THE GROUP

### Accounting policy

Segmental reporting is based on the internal reports regularly reviewed by the chief operating decision maker in order to allocate resources to the cluster and to assess their performance. The operating clusters are the banking, the non-bank financial institution, the non-financial institutions and the other institutions cluster. Only the banking cluster is a reportable segment.

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The Group has only one reportable operating segment based on its business activities, which is the Banking Cluster. Its revenues mainly arise from advances to customers and banks, investment in gilt-edged securities and equity instruments, bank placements, services provided on deposit products, provision of card and other electronic channel services, trade finance facilities, trading activities and foreign currency operations.

The accounting policies of the operating segment are the same as those described in the notes to these financial statements.

### (a) Information about the reportable segment profit, assets and liabilities

Information about the reportable segment and the reconciliation of the reportable segment information to Group total is shown below:

#### 31 December 2017

Interest income from external customers  
Non-interest income from external customers  
**Revenue from external customers**

Interest income from internal customers  
Non interest income from internal customers  
**Revenue from other segments of the entity**

Total gross revenue

Interest and fee and commission expense to external customers  
Interest expense to internal customers

#### Operating income

Depreciation and amortisation  
Other non-interest expenses  
Net impairment loss on financial assets

Operating profit  
Share of profit of associate

Profit before income tax  
Tax expense  
Profit for the year

Segment assets  
Segment liabilities  
Additions to tangible and intangible assets

Banking	Non-bank financial institutions	Non financial institutions	Other institutions	Intersegment adjustments	Group Total
MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
6,863,369	24	12,909	131,045	-	7,007,347
2,540,088	194,959	17,582	80,800	-	2,833,429
9,403,456	194,983	30,491	211,845	-	9,840,776
-	-	-	-	-	-
961,168	3,150	219,161	1,270,535	(2,454,014)	-
961,168	3,150	219,161	1,270,535	(2,454,014)	-
10,364,624	198,133	249,652	1,482,380	(2,454,014)	9,840,776
(2,117,353)	(2,269)	-	(149,350)	-	(2,268,971)
(2,117,353)	(2,269)	-	(149,350)	-	(2,268,971)
8,247,271	195,865	249,652	1,333,030	(2,454,013)	7,571,805
(667,696)	(455)	(604)	(1,211)	-	(669,967)
(2,536,129)	(105,408)	(2,427)	(80,734)	6,432	(2,718,267)
(967,287)	(3,210)	(147,998)	-	3,215	(1,115,280)
4,076,159	86,792	98,623	1,251,085	(2,444,367)	3,068,291
-	-	-	92,005	-	92,005
4,076,159	86,792	98,623	1,343,089	(2,444,367)	3,160,296
(568,144)	(17,436)	(2,690)	2,895	-	(585,375)
3,508,014	69,356	95,933	1,345,985	(2,444,367)	2,574,921
187,165,686	1,654,359	737,420	31,839,977	(27,376,061)	194,021,381
165,328,706	53,339	353,050	3,708,298	(586,788)	168,856,604
290,567	2,939	-	-	-	293,505



# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 40. SEGMENT INFORMATION - THE GROUP (CONT'D)

### 31 December 2016

	Banking MUR' 000	Non-bank financial institutions MUR' 000	Non financial institutions MUR' 000	Other institutions MUR' 000	Intersegment adjustments MUR' 000	Group Total MUR' 000
Interest income from external customers	6,021,927	25	-	227,813	-	6,249,765
Non interest income from external customers	1,962,597	79,184	9,344	41,172	-	2,092,297
Revenue from external customers	7,984,524	79,209	9,344	268,985	-	8,342,062
Interest income from internal customers	285	(313)	-	-	28	-
Non-interest income from internal customers	79	(16,287)	(900)	1	17,107	-
Revenue from other segments of the entity	364	(16,600)	(900)	1	17,135	-
Total gross revenue	7,984,888	62,609	8,444	268,986	17,135	8,342,062
Interest and fee and commission expense to external customers	(1,742,606)	(3,924)	-	(149,307)	-	(1,895,837)
Interest expense to internal customers	(313)	-	-	-	313	-
	(1,742,919)	(3,924)	-	(149,307)	313	(1,895,837)
Operating income	6,241,969	58,685	8,444	119,679	17,448	6,446,225
Depreciation and amortisation	(348,077)	(230)	(496)	(1,201)	-	(350,004)
Other non interest expenses	(2,292,698)	(53,648)	-	(51,835)	6,563	(2,391,618)
Net impairment loss on financial assets	(717,896)	997	-	-	-	(716,899)
	(3,358,671)	(52,881)	(496)	(53,036)	6,563	(3,458,521)
Operating profit	2,883,298	5,804	7,948	66,643	24,011	2,987,704
Share of profit of associate	-	-	-	1,627	-	1,627
Profit before income tax	2,883,298	5,804	7,948	68,270	24,011	2,989,331
Tax expense	(658,493)	(4,957)	-	(16,979)	-	(680,429)
Profit for the year	2,224,805	847	7,948	51,291	24,011	2,308,902
Segment assets	135,122,768	186,978	1,737,106	9,848,856	-	146,895,708
Segment liabilities	118,782,870	81,980	353,426	3,872,732	-	123,091,008
Additions to tangible and intangible assets	1,753,673	507	-	-	-	1,754,180

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 40. SEGMENT INFORMATION - THE GROUP (CONT'D)

### 31 December 2015

	Banking	Non-bank financial institutions	Non financial institutions	Other institutions	Intersegment adjustments	Group Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Interest income from external customers	6,174,133	(37)	461	249,758	-	6,424,315
Non interest income from external customers	1,753,246	105,268	2,448	170,936	-	2,031,898
Revenue from external customers	7,927,379	105,231	2,909	420,694	-	8,456,213
Interest income from internal customers	-	261	-	-	(261)	-
Non interest income from internal customers	-	-	-	2,446,711	(2,446,711)	-
Revenue from other segments of the entity	-	261	-	2,446,711	(2,446,972)	-
Total gross revenue	7,927,379	105,492	2,909	2,867,405	(2,446,972)	8,456,213
Interest and fee and commission expense to external customers	(2,067,640)	(60)	-	(133,220)	-	(2,200,920)
Interest expense to internal customers	(261)	-	-	-	261	-
	(2,067,901)	(60)	-	(133,220)	261	(2,200,920)
Operating income	5,859,478	105,432	2,909	2,734,185	(2,446,711)	6,255,293
Depreciation and amortisation	(160,763)	(99)	(171)	(502)	-	(161,535)
Other non interest expenses	(2,013,004)	(60,231)	(1,330)	(39,396)	5,045	(2,108,916)
Net impairment loss on financial assets	(1,934,708)	(2,132)	-	-	-	(1,936,840)
	(4,108,476)	(62,463)	(1,501)	(39,898)	5,045	(4,207,292)
Operating profit	1,751,003	42,970	1,408	2,694,287	(2,441,666)	2,048,002
Share of profit of associate	-	-	-	-	-	-
Profit before income tax	1,751,003	42,970	1,408	2,694,287	(2,441,666)	2,048,002
Tax expense	(419,866)	(3,740)	(434)	(16,408)	-	(440,448)
Profit for the year	1,331,137	39,230	974	2,677,879	(2,441,666)	1,607,554
Segment assets	142,759,951	157,976	468,690	48,265,255	(55,489,781)	136,162,091
Segment liabilities	110,333,804	22,223	1,221	3,882,019	(265,539)	113,973,728
Additions to tangible and intangible assets	1,346,809	564	-	-	-	1,347,373

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 40 SEGMENT INFORMATION - THE GROUP (CONT'D)

### (b) Information about the reportable segment revenue from products and services

Revenue from external customers arising from the following products and services:

Loans and advances to non-bank customers  
 Loans to and placements with banks  
 Exchange income  
 Card income  
 Trade finance services  
 Deposit and other products /services

Banking		
31 December 2017	31 December 2016	31 December 2015
MUR' 000	MUR' 000	MUR' 000
5,798,567	4,887,031	5,215,410
190,172	107,161	57,937
560,843	361,723	524,861
381,191	416,821	387,837
427,305	206,356	197,067
176,006	123,741	136,637
<b>7,534,084</b>	<b>6,102,833</b>	<b>6,519,749</b>

### (c) Information about revenue of the reportable segment by geographical areas

#### 31 December 2017

Revenue from external customers  
 Tangible and intangible assets

#### 31 December 2016

Revenue from external customers  
 Tangible and intangible assets

#### 31 December 2015

Revenue from external customers  
 Tangible and intangible assets

Banking		
Mauritius	Other countries	Total
MUR' 000	MUR' 000	MUR' 000
4,805,309	2,058,059	6,863,369
5,916,197	367,492	6,283,689
6,731,322	1,253,203	7,984,525
6,116,697	423,412	6,540,109
6,052,500	1,874,881	7,927,381
4,796,104	363,205	5,159,309

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 41. BUSINESS COMBINATIONS

### Significant accounting policies

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- > fair values of the assets transferred;
- > liabilities incurred to the former owners of the acquired business;
- > equity interests issued by the Group if any;
- > fair value of any asset or liability resulting from a contingent consideration arrangement; and
- > fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- > consideration transferred,
- > amount of any non-controlling interest in the acquired entity, and
- > acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or as financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 41. BUSINESS COMBINATIONS (CONT'D)

### Significant accounting estimates and judgement

Management has made an assessment in accordance with the criteria set out in IFRS3 –Business Combinations-of whether the acquisition of SBM Bank (Kenya) Limited previously known as Fidelity Commercial Bank Limited has to be considered as a business combination or an asset acquisition. The Group concluded that the acquisition meets the definition of a business combination which consists of inputs and processes applied to those inputs that have the ability to create outputs.

Management determined that the inputs relate to equipment and human resources, processes relate to operational processes associated with Banking services delivery and output relates to revenues from Banking services delivery.

The identification of assets and liabilities is critical and their fair value measurement is inherently judgemental and requires the use of assumptions and estimates.

### *Estimated impairment of goodwill*

In determining the carrying amount of goodwill, the Group carries out the test on impairment of goodwill on an annual basis. This exercise requires the estimation of value in use of the cash generating units ("CGU") to which goodwill is allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash generating units and a suitable discount rate in order to calculate present value.

These calculations use cash flow projections based on financial budgets approved by management. Cash flows are extrapolated using the estimated growth rates. Management believes that any reasonably possible change in key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit. Management has reviewed the carrying amount of the goodwill at the end of the reporting period and is of the opinion, they have not been impaired.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 41. BUSINESS COMBINATIONS (CONT'D)

On 10 May 2017, the group acquired through SBM Africa Holdings Ltd, 99.99% of the share capital and preference share capital of Fidelity Commercial Bank Limited for a total consideration of KES 100 (MUR 35).

As a result of the acquisition, SBM (Bank) Holdings Ltd is expected to expand its banking business in the African market.

The following tables summarise the consideration paid, the fair value of the assets acquired, liabilities assumed and the non- controlling interest at the acquisition date.

### Subsidiary acquired during the year

Name of Entity	Principal activity	Date of acquisition	Proportion of voting equity interest acquired (%)	Consideration transferred
				MUR
Fidelity Commercial Bank Limited (now known as "SBM Bank (Kenya) Limited")	Banking	10-May-17	99.99%	<u>35</u>

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	MUR'000
Cash paid	<u>*</u>

\*: Amount being below MUR 1,000.

Fair value of recognised amounts of identifiable assets acquired and liabilities assumed at the date of acquisition

	MUR'000
<b>Assets:</b>	
Cash and cash equivalents	12,398
Mandatory balances with Central Bank	70,385
Loans and advances to customers	1,483,139
Investment securities	835,061
Property, plant and equipment (Note 10)	179,573
Intangible assets (Note 11)	13,691
Income tax receivable	20,625
Other assets	18,620
	<u>2,633,492</u>
<b>Liabilities:</b>	
Deposits from non-bank customers	(1,274,243)
Other borrowed funds (including loan capital)	(1,429,392)
Other liabilities	(347,571)
	<u>(3,051,206)</u>
<b>Fair value of identifiable net assets</b>	(417,715)
Add: goodwill (Note 11)	417,715
Net assets acquired	<u>-</u>

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 41. BUSINESS COMBINATIONS (CONT'D)

- (b) The goodwill of MUR 417.7 million is largely based on estimated future income, synergies and non-recognisable intangible assets generated by the acquisition. The goodwill is entirely allocated to the operations of SBM Bank (Kenya) Limited which represent the lowest level of Cash Generating Unit ("CGU") at which the goodwill is measured.

Acquisition related costs amounting to MUR 28.05 million, have been excluded from the cost of investment and has been recognised as an expense in profit or loss in the current period, within "other expenses".

From the date of acquisition, SBM Bank (Kenya) Limited contributed MUR 16 million of net interest income and accounted for a loss after tax of MUR 64 million to the profit before tax of the Group.

As the initial accounting of the business combination can be determined provisionally by the end of this financial year, the goodwill calculation is based on provisional amounts. Adjustment to provisional amounts, and recognised of the new identified assets and liabilities if any, will be made within one year from the acquisition date.

### (c) Purchase consideration - cash outflow

MUR'000

Outflow of cash to acquire subsidiary, net of cash acquired:  
Cash consideration

\*

Less: Balances acquired  
- Cash and cash equivalents

12,398

### Net inflow of cash - investing activities

12,398

### (d) Impairment assessment of goodwill

As at 31 December 2017, the carrying amount of the goodwill acquired following the business combination mentioned above 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

(16,159)

### Carrying value as at 31 December 2017

401,556

Carrying value as at 31 December 2016 and 2015

-

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

## 41. BUSINESS COMBINATIONS (CONT'D)

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.

Sensitivity to changes in assumptions:

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



# Group addresses

## **SBM Holdings Ltd**

SBM Tower  
1, Queen Elizabeth II Avenue  
Port Louis, Mauritius  
Tel: (230) 202 1111  
Fax: (230) 202 1234  
Swift: STCBMUMU  
Home Page: [www.sbmgroup.mu](http://www.sbmgroup.mu)  
E-Mail: [sbm@sbmgroup.mu](mailto:sbm@sbmgroup.mu)

## **BANK OPERATING ENTITIES**

### **SBM Bank (Mauritius) Ltd, Formerly 'State Bank of Mauritius Ltd'**

SBM Tower  
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Tel: (230) 202 1111  
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Home Page: [www.sbmgroup.mu](http://www.sbmgroup.mu)  
E-Mail: [sbm@sbmgroup.mu](mailto:sbm@sbmgroup.mu)

### **Banque SBM Madagascar SA**

1, Rue Andrianary Ratianarivo  
Antsahavola, 101 Antananarivo  
Madagascar  
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Fax: (261) 20 22 666 08  
Swift: BSBMMGMG  
E-Mail: [HOTLINEMADA@sbmgroup.mu](mailto:HOTLINEMADA@sbmgroup.mu)  
Web- [www.sbmgroup.mu](http://www.sbmgroup.mu)

## **SBM Bank (Kenya) Limited**

7th Floor, IPS Building  
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P.O Box 34886 -00100  
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Fax: +254 (020) 2243389  
Swift: SBMCKENA  
Email: [customerservice@sbmbank.co.ke](mailto:customerservice@sbmbank.co.ke)  
Web: [www.sbmgroup.mu/kenya](http://www.sbmgroup.mu/kenya)

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Fax: (91) (22) 2284 2966  
Swift: STCBINBX  
E-Mail: [admin@sbm-india.com](mailto:admin@sbm-india.com)

## **SBM Bank (Seychelles) Limited**

c/o SBM Holdings Ltd  
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Port Louis, Mauritius  
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Fax: (230) 202 1234  
Home Page: [www.sbmgroup.mu](http://www.sbmgroup.mu)  
E-Mail: [sbm@sbmgroup.mu](mailto:sbm@sbmgroup.mu)

# Group addresses (cont'd)

## NON-BANK OPERATING ENTITIES

### SBM (NBFC) Holdings Ltd

#### *Registered Office Address*

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1, Queen Elizabeth II Avenue  
Port Louis, Mauritius  
Tel: (230) 202 1111

#### *Business Address*

Level 12, Hennessy Tower,  
Pope Hennessy Street, Port Louis, Mauritius  
Email: nbfc.leads@sbmgroup.mu

### SBM Mauritius Asset Managers Ltd

#### *Registered Office Address*

SBM Tower,  
1, Queen Elizabeth II Avenue  
Port Louis, Mauritius  
Tel: (230) 202 1111  
Email: sbm.assetm@sbmgroup.mu

#### *Business Address*

Level 12, Hennessy Tower,  
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Email: sbm.assetm@sbmgroup.mu

### SBM Securities Ltd

#### *Registered Office Address*

SBM Tower,  
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Email: sbmsecurities@sbmgroup.mu

#### *Business Address*

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### SBM Fund Services Ltd

#### *Registered Office Address*

SBM Tower,  
1, Queen Elizabeth II Avenue  
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Tel: (230) 2021445, (230) 202 1505  
Email: sbmfundservices@sbmgroup.mu

#### *Business Address*

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Email: sbmfundservices@sbmgroup.mu

## Group addresses (cont'd)

### SBM Microfinance Ltd

#### *Registered Office Address*

SBM Tower,  
1, Queen Elizabeth II Avenue  
Port Louis, Mauritius  
Tel: (230) 202 1127  
Email: ByeSamah.Ghoola@sbmgroup.mu

#### *Business Address*

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Port Louis, Mauritius  
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### SBM Factors Ltd

#### *Registered Office Address*

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#### *Business Address*

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Email: sbmfactors@sbmgroup.mu

### SBM eBusiness Ltd, Formerly 'SPV-SBM E-Business Ltd'

Apex Fund Services (Mauritius) Ltd,  
4th Floor, 19 Bank Street,  
Cybercity,  
Ebene 72201,  
Mauritius

### SBM Capital Management Limited (under process of winding up)

Apex Fund Services (Mauritius) Ltd,  
4th Floor, 19 Bank Street,  
Cybercity,  
Ebene 72201,  
Mauritius

### SBM Capital Markets Ltd

#### *Registered Office Address*

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1, Queen Elizabeth II Avenue  
Port Louis, Mauritius  
Tel: (230) 202 1111

#### *Business Address*

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Fax: (230) 210 3369  
Email: sbm.corporatefinance@sbmgroup.mu

### SBM Insurance Agency Ltd

#### *Registered Office Address*

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#### *Business Address*

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Email : insurance@sbmgroup.mu

## NON-FINANCIAL ENTITY

### SBM (NFC) Holdings Ltd

#### *Registered Office Address*

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Email: [finance@sbmgroup.mu](mailto:finance@sbmgroup.mu)

### Global Services

SBM 3S Ltd, Formerly 'SBM Global Services Ltd'

and 'SBM Global 3S Ltd'

SBM Tower, 1, Queen Elizabeth II Avenue,

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Email: [finance@sbmgroup.mu](mailto:finance@sbmgroup.mu)

# Abbreviations

ACFE - Association of Certified Fraud Examiners
ACI - Association Cambiste Internationale
ADSP - Association of Disability Service Providers
AFREXIMBANK - African Export-Import Bank
AFS - Available-For-Sale
ALCO - Asset and Liability Management Committee
AML - Anti Money Laundering
ANFEN - Adolescent Non Formal Education Network
APEIM - Association de Parents d'Enfants Inadaptés de l'île Maurice
APRIM - Association des Parents pour La Réhabilitation des Infirmes Moteurs
ARA -Average Retirement Age
ATM - Automatic Teller Machine
AUM - Assets Under Management
BCBS - Basel Committee on Banking Supervision
Board - Board of SBM Holdings Ltd
BOM - Bank of Mauritius
BOT - Build-Operate-Transfer
BPS - Basis Points
BSBMM - Banque SBM Madagascar SA
CAR - Capital Adequacy Ratio
CCB - Capital Conservation Buffer
CCR - Counterparty Credit Risk
CDS - Credit Default Swap
CEO - Chief Executive Officer
CEPEH - Centre pour l'Education et le Progrès des Enfants Handicapés
CET1 - Common Equity Tier 1
CFC - Chlorofluorocarbons
CFI - Capital Finance International
CFO - Chief Financial Officer
CGU - Cash Generating Unit
CI - Cost to Income
CIBIL - Credit Information Bureau India Limited
CIS - Collective Investment Scheme
CO <sub>2</sub> - Carbon dioxide
COE - Centre of Excellence
CPE - Certificate of Primary Education

CRM - Credit Risk Mitigation
CRS - Common Reporting Standards
CSR - Corporate Social Responsibility
CASA - Current Account and Savings Account
DCM - Debt Capital Markets
DEM - Development & Enterprise Market
DEMEX - Development & Enterprise Market All Share Index
DEMTRI - Development & Enterprise Market Total Return Index
DOWA - Deep Ocean Water Applications
DRs - Depositary Receipts
DSIB - Domestic Systemically Important Bank
E&S - Environmental & Social
ECAIs - External Credit Assessment Institutions
ECL - Expected Credit Losses
ECM - Equity Capital Markets
EER - Energy Efficiency Ratio
EIR - Effective Interest Rate
EPZ - Export Processing Zone
EUR - Euro
EY - Ernst & Young
FCA - Fellow Member of the Institute of Chartered Accountants
FCCA - Fellow Member of the Association Chartered Certified Accountants
FCY - Foreign Currency
FISCU - Finance and Investment Sector Coordinating Unit
FSA - Fonds de Solidarité Africain
FVTPL - Fair-value-through-profit-or-loss
FY - Financial Year
GBP - Great British Pound
GCEO - Group Chief Executive Officer
GCFO - Group Chief Financial Officer
GEF - Group Executive Forum
GBS - Gandhian Basic School
GRC - Governance, Risk and Control
GROUP - SBM Holdings Ltd and its subsidiaries
HFC - Hydrofluorocarbons
HQLA - High Quality Liquid Asset

HRD - Human Resource Division
HTM - Held To Maturity
IAS - International Accounting Standards
IASB - International Accounting Standards Board
ICAAP - Internal Capital Adequacy Assessment Process
IESBA - International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants
IFRIC - International Financial Reporting Interpretations Committee
IFRS - International Financial Reporting Standards
INR - Indian Rupee
iOS - Apple Operating System
IRS - Interest Rate Swap
ISO - International Organisation for Standardisation
IT - Information Technology
KES - Kenyan Shilling
KPI - Key Performance Indicator
KRI - Key Risk Indicator
L&R - Loans and Receivables
LCR - Liquidity Coverage Ratio
LED - Light Emitting Diode
LOS - Loan Origination System
MDB - Multilateral Development Banks
MGA - Malagasy Ariary
MGI - Mahatma Gandhi School
MIPA - Mauritius Institute of Professional Accountants
MITD - Mauritius Institute of Training and Development
MUR - Mauritian Rupee
MWF - Mauritian Wildlife Foundation
NBFC - Non Banking Financial cluster
NFC - Non Financial cluster
NGO - Non-Governmental Organisation
NII - Net Interest Income
NSFR - Net Stable Funding Ratio
OCI - Other Comprehensive Income
OHSAS - Occupational Health and Safety Assessment Series
PAT - Profit After Tax
POS - Point of Sale

PPA - Purchase Price Allocation
PPP - Public-Private Partnership
PVBP - Price Value of a Basis Point
PwC - Pricewaterhouse Coopers
R&D - Research and Development
RAROC - Risk Adjusted Return on Capital
RAS - Risk Appetite Statement
RBI - Reserve Bank of India
RCSA - Risk Control Self-Assessment
RFP - Request for Proposal
ROA - Return on Average Assets
RWA - Risk Weighted Assets
RWE - Risk Weighted Exposure
SA8000 - Social Accountability International Standard 8000
SADC - Southern African Development Community
SBM MAM - SBM Mauritius Asset Managers Ltd
SBMBM - SBM Bank (Mauritius) Ltd
SBMH or Company - SBM Holdings Ltd
SEM - Stock Exchange of Mauritius
SEM-ASI - Stock Exchange of Mauritius All Share Index
SEMDEX - Stock Exchange of Mauritius Price Index
SEMTRI - Stock Exchange of Mauritius Total Return Index
SME - Small and Medium Enterprises
SPPI - Sole Payment of Principal and Interest
SPV - Special Purpose Vehicle
TEC - Tertiary Education Commission
UNECA - United Nations Economic Commission for Africa
UNIDO - United Nations Industrial Development Organisation
USD - United States Dollar
VAR - Value-at-Risk
VIU - Value-In-Use
WACC - Weighted Average Cost of Capital
WIP - Work In Progress
WOS - Wholly Owned Subsidiary
XBRL - eXtensible Business Reporting Language
ZEP - Zone d'Education Prioritaire









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