SBM HOLDINGS LTD

SBM

ANNUAL REPORT

2018

FOR A SMARTER TOMORROW

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.

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

ABOUT SBM GROUP

WHO WE ARE

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 deep and enduring relationships with our customers by offering distinctive products and exceptional service;
2. To be the employer of choice for top talent 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

We aim to prudently grow our balance sheet, 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 offering non-banking financial services.

CORE VALUES

Being prudent in taking risks with shareholder and depositor funds

Putting our customers first in everything we do

Adhering to the highest ethical standards

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

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

WHO WE ARE (CONT'D)

SBM Group is a one-stop-shop provider of banking and non-banking financial solutions to retail, SME, corporates and high net worth clients. It has a top tier position in Mauritius, with a market share of above 20%, and is also present in India, Madagascar and Kenya.

Besides its domestic operations in its various geographies of operations, the Group aims to facilitate the cross-border financing opportunities for trade and investment along the Asia-Africa corridor.

SBMH – the holding company of the Group – is listed on the Stock Exchange of Mauritius, with a market capitalisation of MUR 18 billion as at December 2018.

The Group's strategy is underpinned by its vision to become a leading financial services provider in the region. In line with this, we are constantly working towards enhancing our stakeholders' journey with us.


India
Kenya
Seychelles
Madagascar
Mauritius
Current Presence
Future Presence

SBM AT A GLANCE

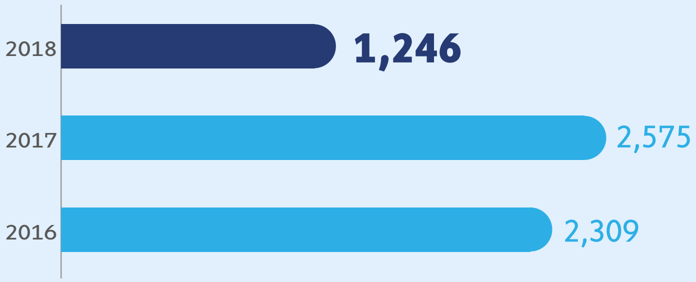
877,320
Number of customers

104
Mauritius - **43**
(including counters)
Madagascar - **5**
Kenya - **52**
India - **4**
Number of branches

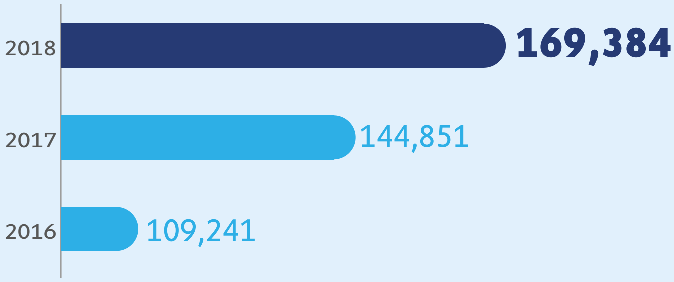
2,541
Number of employees

18,093
Total number of shareholders

Profit for the Year (MUR Mn)



Customer Deposits (MUR Mn)



160,199
No. of SMS Banking customers

163
Number of ATMs

145,608
No. of Mobile Banking customers

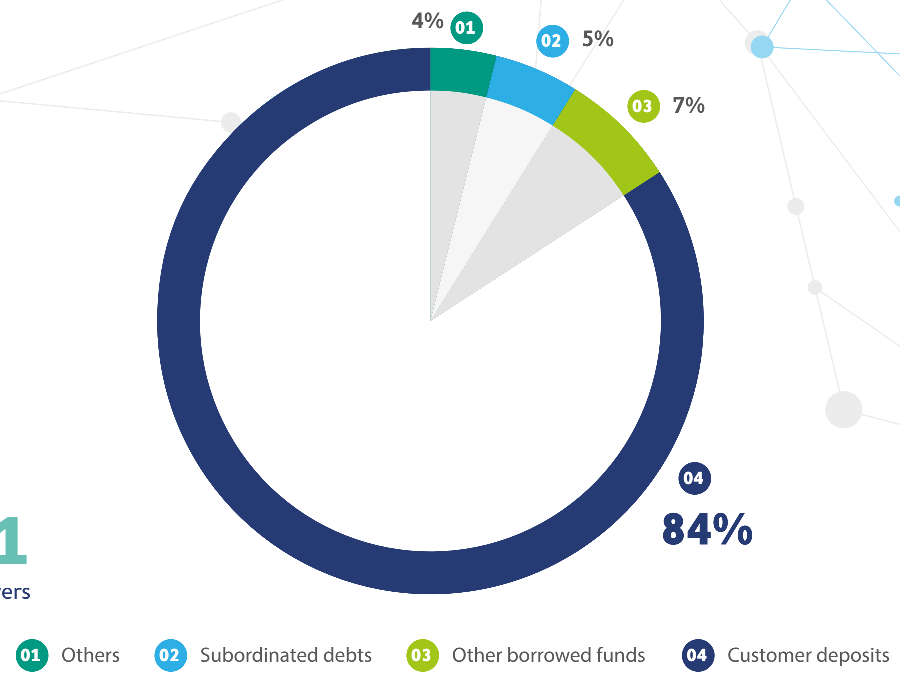
6,190
Number of POS

110,493
No. of Internet Banking customers

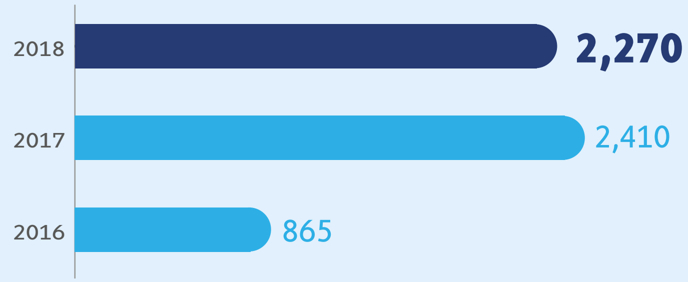
179,301
No. of Facebook followers

266,513
No. of e-Commerce users

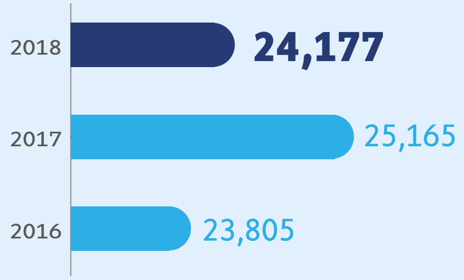
Sources of Funds



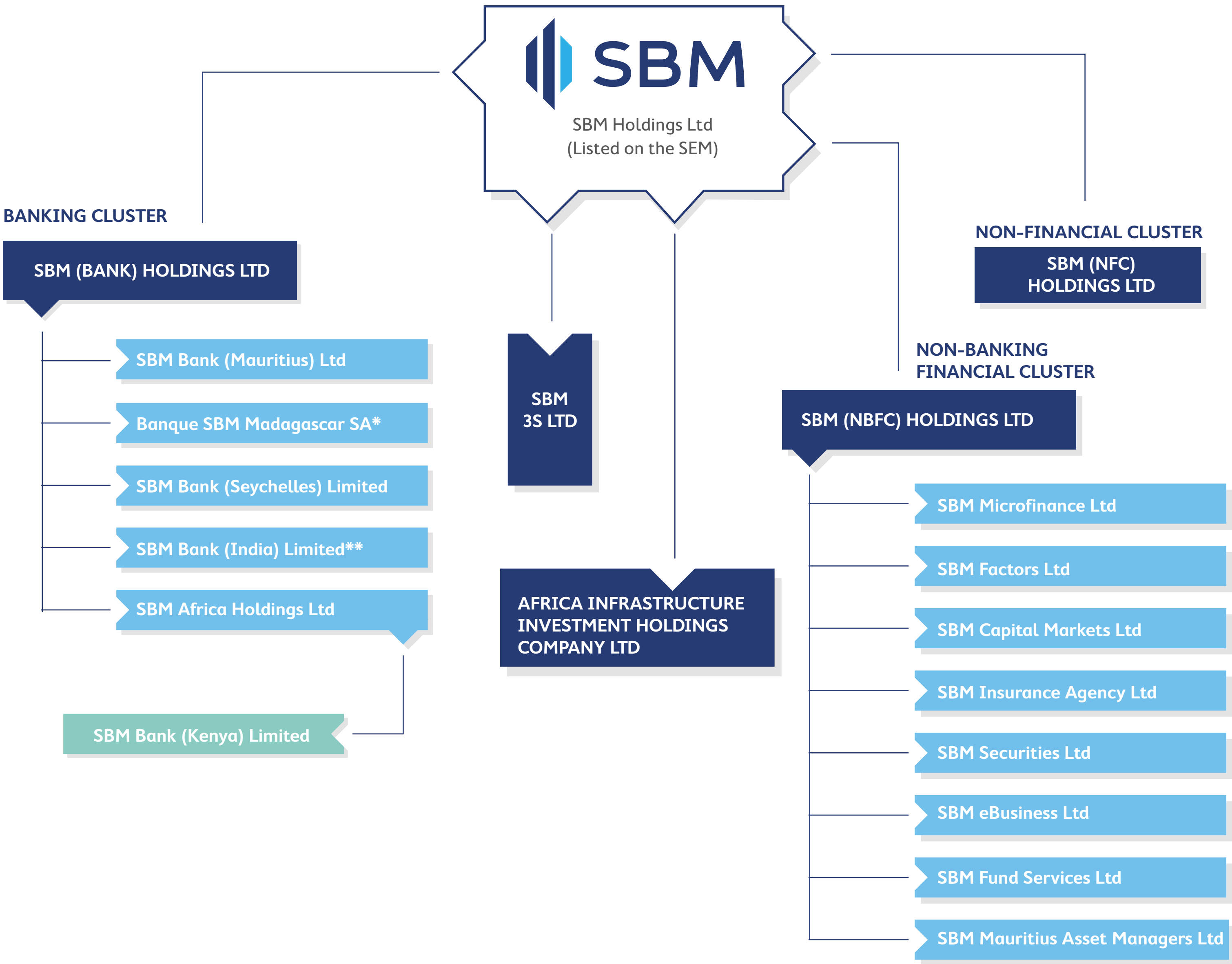
Retained Earnings (MUR Mn)



Shareholders' Equity (MUR Mn)



GROUP STRUCTURE



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

* **Other shareholders of Banque SBM Madagascar SA are:**
- SBM Securities Ltd, SBM Fund Services Ltd and SBM Mauritius Asset Managers Ltd hold 1 share each (Total of 0.01%) in Banque SBM Madagascar SA

In process of winding up:
- SBM Madagascar Ltd (Banking Cluster)
- SBM Capital Management Ltd (Non-Banking Financial Cluster)

Representative office and in process of closing:
- SBM Bank Representative Office, Yangon Myanmar

** **Other shareholders of SBM Bank (India) Limited are:**
- 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 hold 1 share each (Total of 0.01%) in SBM Bank (India) Limited

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 a strong capital base and excellent liquidity

> We are delivering on our strategic objectives. We expect our non-banking activities and regional expansion to support future growth through positive contribution to financial performance

> We have reviewed and strengthened our risk management framework

> We regularly engage with our shareholders and investors through annual meeting of shareholders, quarterly analyst meetings and calls, participation in investor and other conferences and roadshows, 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

KEY ACHIEVEMENTS

SBM Group part of SEMSI and MSCI Frontier Markets Index

SBM Group has affirmed its commitment to sustainable practices through its entry in SEM Sustainability Index (SEMSI) on 16 January 2019. Look out for more information in our Sustainability Report in this Integrated Annual Report.

The Group is also part of the MSCI Frontier Markets Index since 28 February 2019. This index constitutes a total of 116 large and mid-cap stocks across 29 Frontier Markets countries as at March 2019.

During the year 2018, SBM won multiple awards and recognition, both national and international. These include:

- SBM wins 2018 Bank of the Year Award
- Best Retail Bank Mauritius & Best e-Commerce Bank Mauritius 2018
- Best Investment Bank & Best Innovation in Retail Banking Mauritius 2018
- Regional Bank of the Year Southern Africa
- Best Stock Broker 2018

ABOUT THIS REPORT

Our Approach to Integrated Reporting

For the past few years, our Group has, in its Integrated Annual Reports, put a lot of effort in presenting a balanced assessment of how we create value for our stakeholders in the short, medium and long terms. This is reflected in our commitment to adopt the principles of Integrated Reporting (IR).

By so doing, we have focused on making our report more relevant and engaging by providing an overview of both our financial and non-financial activities, with the objective of facilitating our stakeholders' assessment of the performance and sustainability of SBM Group across various areas relevant to them, while meeting different regulatory requirements. Using the IR approach also allows us to be more transparent and accountable to all our stakeholders.

Reporting Scope and Boundary

Our Integrated Annual Report, which is our primary report for communicating with our various stakeholders, covers the period 01 January to 31 December 2018. It presents developments relating to the performance of SBM Holdings Ltd (SBMH) and its subsidiaries (collectively referred to as "SBM Group"), and also provides an update of recent events that are important between December 2018 and the reporting date. The report contains insights into the Group's business model and an account of the Group's financial, operational, economic, social and environmental performance as well as forward looking statements.

Our report is mainly presented in Mauritian Rupee (MUR), which is SBM Group's presentation currency. In many instances, calculations are presented using rounded off figures to ease understanding.

Reporting Principles and Assurance

Being a public listed institution, our reporting process is guided by all applicable standards, principles, guidelines, laws and regulations including the Companies Act 2001, Banking Act 2004, the Financial Services Act 2007, Financial Reporting Act 2004, Bank of Mauritius Guidelines, the Stock Exchange of Mauritius Listing Rules, International Financial Reporting Standards (IFRS), the National Code of Corporate Governance for Mauritius (2016) and the International Integrated Reporting Framework.

The Group's external auditor, Ernst & Young (EY), has provided independent assurance on: i) our annual financial statements and ii) the financial information extracted from the annual financial statements and that have been published in this report. They have expressed an unqualified audit opinion.

The content of our Integrated Report has been reviewed by the Management and the Board of Directors.

Our Stakeholders

By nature of its business and involvement within the various communities it operates in, the Group has several key stakeholders who significantly influence or are influenced by the economic, environmental and social performance of the Group. The Group's stakeholders are identified based on the risks and opportunities relating to business performance, strategy execution and strategic objectives within the geographies where we operate. These stakeholders can have a direct or indirect impact on the Group's business.

This Integrated Annual Report aims to demonstrate how SBM Group delivers value for its stakeholders, who are:

- **Customers**
- **Suppliers and Strategic Partners**
- **Communities**
- **Employees, Management and Directors**
- **Shareholders, Debt Holders and Investment Analysts**
- **Government and Regulators**

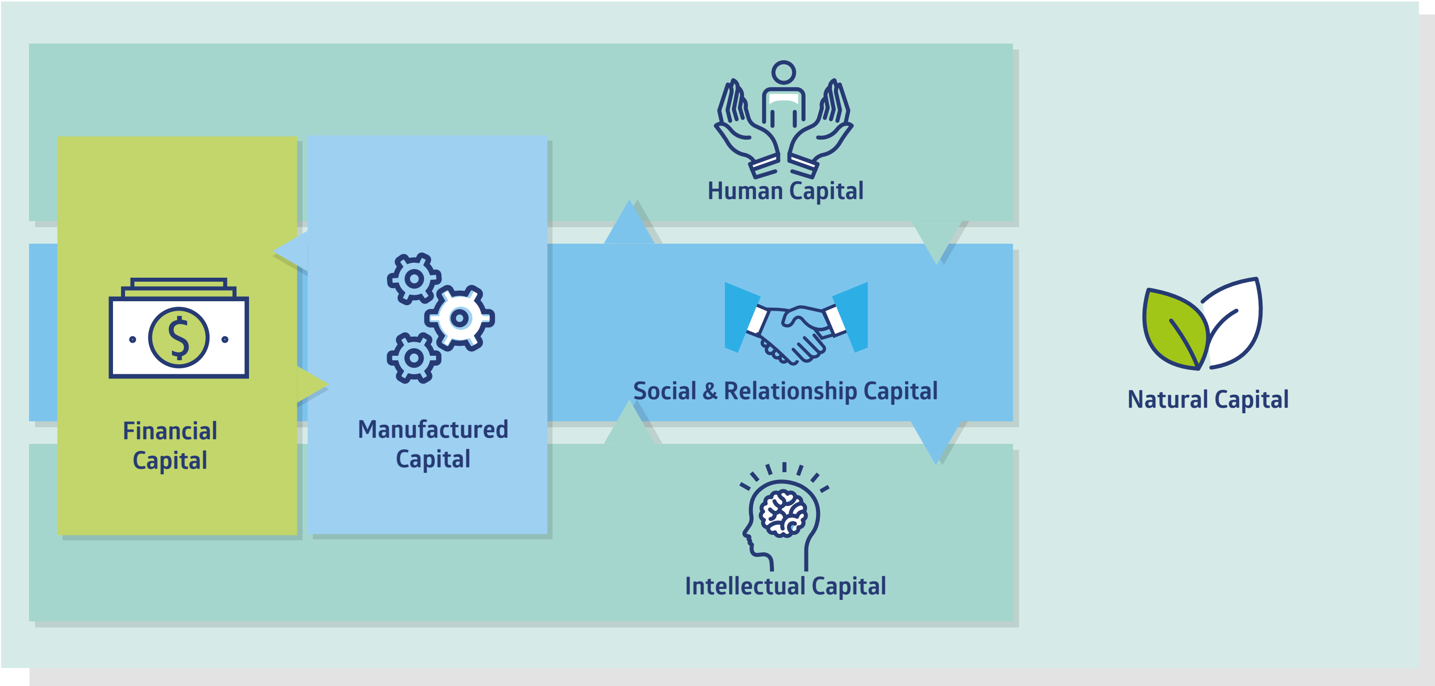
Integrated Content

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

Principles of Integrated Reporting by IIRC	Section in which the Integrated Reporting Principle is covered in our Report
Organisational Overview and External Environment *This principle refers to what an organisation does and the circumstances under which it operates*	✓ About SBM Group ✓ Chairman and GCEO Letters ✓ Strategy Report ✓ Corporate Governance Report
Governance *This principle refers to how an organisation's governance structure supports its ability to create value in the short, medium and long term*	✓ Corporate Governance Report ✓ Risk Management Report
Business Model *This principle refers to an organisation's business model*	✓ Strategy Report
Risks and Opportunities *This principle refers to the specific risks and opportunities that affect an organisation's ability to create value over the short, medium and long term and how the organisation is dealing with them*	✓ Risk Management Report ✓ Strategy Report ✓ Financial Review
Strategy and Resource Allocation *This principle refers to where an organisation wants to go and how it intends to get there*	✓ Chairman and Group CEO Letters ✓ Strategy Report ✓ Financial Review
Performance *This principle refers to the extent to which an organisation has achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals*	✓ Chairman and Group CEO Letters ✓ Strategy Report ✓ Financial Review ✓ Risk Management Report
Outlook *This principle refers to the challenges and uncertainties an organisation is likely to encounter in pursuing its strategy and the potential implications for its business model and future performance*	✓ Chairman and Group CEO Letters ✓ Strategy Report ✓ Financial Review

Capitals of Value Creation

Our Group's ability to create value for its stakeholders depends on several forms of capitals, the most significant ones being:



Throughout this Integrated Annual Report, we explain our dependence on, and the impact of, these forms of capital, which are fundamental to our ability to create value over the long term.

While we have chosen not to structure our Integrated Annual Report according to these capitals, we have embedded their icons, along with those of stakeholders, at the start of each section for you to understand their interrelationship.

Our six capitals are essential for the successful execution of the Group's strategy and operations. We explain them on the next page and further detail the various forms of capitals, how they are used and their output in our Model of Sustainable Value Creation, under the Strategy Report, on pages 42 and 43.

FINANCIAL CAPITAL

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

The way we spend our financial resources is also indicative of our commitment to a sustainable future.

INTELLECTUAL CAPITAL

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

We aim to put our best foot forward and be thought leaders and encourage innovation and conceptual thinking across all capitals.

SOCIAL AND RELATIONSHIP CAPITAL

Social and Relationship Capital is key for the sustainability of our business. It refers to the cooperative relationships we have with our customers, capital providers, regulators and other stakeholders.

It is also about SBM's core values on putting our customers first in everything we do, treating our employees with integrity and respect, adhering to the highest ethical standards and being a socially responsible organisation that promotes sustainability practices.

HUMAN CAPITAL

Our people are our most valuable asset. They are crucial to achieve our strategic objectives and to create value for our stakeholders. Human Capital hence refers to our workforce and how we select, manage and develop them.

Our objective is also to promote a healthy, safe, equal and sustainable environment for our people.

NATURAL CAPITAL

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

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

MANUFACTURED CAPITAL

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

We aim to make efficient and sustainable use of our equipment and buildings as well as IT infrastructure so as to serve our clients and stakeholders with zero compromise on security and ease of doing business.

ABOUT THIS REPORT (CONT'D)

Determining Materiality

This Integrated Annual Report aims to provide a fair, accurate, reliable, transparent and balanced overview of the Group's financial and non-financial performance, its strategy, governance as well as outlook. It narrates both qualitative and quantitative matters that are material to the Group's ability to successfully deliver on its strategy and create and sustain value for its stakeholders.

Management's judgement has been used when determining materiality for this report, along with the instrumental involvement of SBM Group's Integrated Reporting Team, which is composed of resource persons across functions. Material matters are determined by considering the financial and non-financial risks, opportunities and other factors that affect SBM Group's performance, strategy, governance, prospects and stakeholders. An item is hence considered as material if it can influence the decisions of the Group and its stakeholders.

Responsibility for the Integrated Annual Report

The Board of Directors of SBM Group acknowledges its responsibility for ensuring the reliability of this Integrated Annual Report. The Board confirms that the report, to the best of its belief, addresses all material matters and presents the integrated performance of the Group, as well as its impacts, in a fair and transparent manner. The Board has therefore approved the Integrated Annual Report 2018 for publication.

On behalf of the Board

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

Group Chairman

Andrew BAINBRIDGE

Group Chief Executive Officer

Navigating our Report through Icons

We use different icons throughout this Integrated Annual Report to show connectivity between the subject matter and the sections. The reference icons are:

Shareholders, Debt Holders and Investment Analysts

Suppliers and Strategic Partners

Employees, Management and Directors

Customers

Communities

Government and Regulators

Types of Capitals

Financial Capital

Social and Relationship Capital

Manufactured Capital

Natural Capital

Human Capital

Intellectual Capital

More information in section indicated

View online on www.sbmgroup.mu

Talk to Us

We welcome feedback on our Integrated Annual Report from our readers. Please email us on investor.relations@sbmgroup.mu

CHAIRMAN'S LETTER

Dear stakeholders,

I am pleased to present to you our Integrated Annual Report for the year 2018.

The Group achieved significant improvement in its top-line numbers in the year 2018, growing its gross operating revenue to MUR 9,778 million (2017: MUR 7,572 million) and its pre-impairment profit to MUR 5,081 million (2017: MUR 4,184 million) by a hefty 21.4%. However, Group profit after tax declined from MUR 2,575 million in 2017 to MUR 1,246 million in 2018 – caused mainly by a significant increase in impairments due to the cross-border operations (Segment B) of SBM Bank (Mauritius) Ltd. This result is unfortunate but, at the same time, we have many reasons to be optimistic about the future. We have indeed made considerable progress in addressing underlying weaknesses that have led to these credit losses whilst setting the foundations for a stronger, more diversified and more resilient business.

Our Strategy Taking Shape

In 2015, we engaged with leading global strategy consultants, McKinsey and Co, to redefine our roadmap for 2016-2020. The aim of the exercise was to transform SBM's business model from a domestic Mauritian bank mainly focused on plain vanilla products to a modern, technology-driven diversified regional financial services group. We are pleased to report good progress in respect of our strategy, including some important landmarks, particularly in respect of our regional expansion initiatives.

In particular, in Kenya, we completed the acquisition of carved out assets and matching liabilities of Chase Bank (Kenya) Limited (In Receivership). This transaction is a first of its kind in Kenya and made us the largest Mauritian investor in Kenya. It also allowed us to achieve scale in Kenya and position us strongly in the retail and SME segments. We also completed the consolidation of our four branches in India into a wholly-owned subsidiary structure, which gave us the licence to operate a universal bank in India and expand our network in selected cities, offering a greater reach to our clients. We are also in expansion phase in Madagascar and are due to set up operations in the Seychelles in 2019.

The regional expansion strategy is complemented by the diversification of our offerings. After raising and listing USD 165 million in Depositary Receipts for Afreximbank in 2017, among others, our Capital Markets operations successfully raised Tier 2 capital for SBM Holdings Ltd to the tune of USD 76 million and MUR 3 billion, representing an oversubscription of some 50% for both currencies. Assets under management of our private banking and wealth management arm have also grown healthily. Our factoring business has also picked up steam and its profitability levels are in positive territory. We are gearing up to offer investment banking, asset management and advisory solutions to our clients.

Despite legacy issues in our IT systems, we continue to innovate on the technology front.

Tackling Challenges

In the process of transforming the Group's business model, we encountered some challenges and roadblocks. Primarily, the rapid expansion of cross-border (Segment B) operations of SBM Bank (Mauritius) Ltd without the appropriate risk management has led to a significant increase in impairments. Since the first signs of weakness, in mid-2018, a comprehensive remediation plan was put in place and is now substantially complete. We are now ready to resume growth in this segment, albeit in a more targeted and prudent manner.

Another key challenge remains the cost overhang and complexity of the IT system that was initiated in 2012, which render innovation arduous and costly, in addition to being a significant drag on the financial performance. We are addressing this issue in a pragmatic manner, by introducing regular low-cost improvements in our digital offerings with potentially high impact for our customers.

Cybersecurity is also becoming an increasing concern for banks globally. In October 2018, our India Operations were hit by a cyberattack, entailing an operational loss of MUR 93 million. This issue did not concern our operations in other countries and no client accounts were impacted. We have now completed the changeover of the systems in India – an initiative which was already planned at the time of the attacks – and have commissioned two independent studies to confirm the robustness of the systems.

On a different note, regulatory requirements are becoming more stringent, and impose increasing compliance costs for businesses. Nonetheless, we view developments on the regulatory front as positive on balance as they help financial institutions build resilience and maintain stability in the financial systems. We have been able to meet the additional compliance requirements arisen in the last few years and are confident that we will continue to do so in the coming years, particularly given our strong capital and liquidity positions.

Promoting Stakeholder Engagement

As you will read in the Integrated Annual Report, we are laying emphasis on our engagement with our different stakeholders.

Customers are the lifeblood of the organisation and we strive to deliver adapted solutions to them at competitive prices, whilst constantly aiming to enhance service levels. In recent years, we have broadened our service range – for instance, in the areas of wealth management, payments and corporate finance advisory – to meet the evolving needs of our clients and to target new ones. We have also focused efforts on serving clients across different geographies of operation. These initiatives are supported by the introduction of new products and channels to make banking more convenient. For instance, last year SBM Bank (Mauritius) Ltd made a strategic partnership with Alipay, the world's largest online and mobile payment wallet platform operated by Ant Financial Services Group, a sister company of Alibaba. We were the first bank to introduce and represent Alipay through face-to-face (instore) and eCommerce (online) channels in Africa. In 2018, we also entered in partnership with UnionPay International (UPI) for the launch of the SBM UnionPay Travel Mate Asia card in Madagascar, which we expect to offer to our customers soon. It will also be the first time that a bank will issue the UPI Prepaid card in this country. Going forward, we intend to make further inroads in digital banking solutions for the benefit of our clients.

We consider our employees as key to everything we do as a financial institution. We had identified a high level of attrition as a potential issue for the organisation and have come up with several initiatives to attract, develop and retain talent. The Group launched the SBM Academy, aimed at furthering the development of SBM employees throughout their careers with us. In Kenya, we welcomed more than 600 new colleagues in August 2018 as part of the acquisition of selected assets and assumption of certain liabilities of CBLR – I am certain that this has been be a major source of satisfaction for them and their families, the more so that the integration process in Kenya is running smoothly. In Mauritius, for many years, a large part of our employees were on fixed duration contracts. We have now moved them to permanent contracts of employment, enabling them to have a stable livelihood and career path. We have also introduced an employee health insurance scheme. These initiatives have added to cost, but we are convinced that this will lead to greater motivation and engagement, with a positive bearing on performance and a reduction in employee turnover.

> We expect that profitability levels will bounce back in 2019.

True to our modest roots of promoting financial inclusion, we continue to make an impact in the communities where we operate. In Mauritius, we remain the single largest provider of scholarships for tertiary education. We also work with NGOs to empower underprivileged groups through education and learning. Our contribution in sports is highlighted by our platinum sponsorship of the 10th Indian Ocean Island Games.

We understand that the Group's shareholders would be least pleased about the fall in the share price and in dividend payments. We have stepped up efforts to communicate with them, namely through our investor relations team, regular analyst meetings, investor calls and website disclosures, amongst others. We acknowledge the weaknesses in our operations and have highlighted the improvements that we have made. Our fundamentals remain strong, with solid capital and high liquidity levels. We are convinced that SBM is emerging stronger in 2019 on several fronts, and are confident that our return on equity and share price will bounce back. We also intend to come forward during the year with an explicit dividend policy that will provide more clarity to shareholders on our dividend payments.

Reinforcing Governance and Promoting Sustainability

SBM continues to lay emphasis on principles of good governance. Following the gaps identified, and communicated in last year's Integrated Annual Report, we are pleased to announce the appointment of a female director, namely Ms Sharon Ramdenee, on the Board of SBMH. We shall also be appointing a representative of our Board on the Board of SBM Bank (Mauritius) Ltd. We are now fully compliant with the New Code of Corporate Governance for Mauritius. You will also notice that we are continuously striving to enhance our standards for reporting, with transparency in disclosures. We have included in this Integrated Annual Report a Sustainability Report that highlights our key achievements in the areas of environmental protection, support to communities, employee welfare and innovation, amongst others. We are pleased to report that our efforts in these fields have been recognised through our admission in the Stock Exchange of Mauritius Sustainability Index (SEMSI).

Positive Outlook

In 2019, we will continue to progress on our strategic priorities, namely stabilising our operations in Kenya and India, expanding our range of financial solutions, introducing new digital services, improving service quality, promoting employee engagement and further strengthening risk management. With the reforms undertaken at different levels to address underlying weaknesses, we expect that profitability levels will bounce back in 2019, with a projected return on equity of about 12%.

I wish to thank my fellow Board members for their professionalism and support, as well as the Group CEO and the CEOs of the different operating entities for their leadership in driving their respective businesses and fostering synergy across the Group. My acknowledgements also go to all our stakeholders – shareholders, customers, employees and the community at large – for their continued trust and support in SBM.

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

GROUP CEO'S LETTER

Dear stakeholders,

2018 was an eventful year for SBM Group.

Although we faced some adverse events, with negative impact on our profitability, we were also able to consolidate our strategy, build synergy and alignment, reinforce risk management and strengthen the leadership team. We also achieved significant milestones in our strategic roadmap.

Navigating a Challenging but Positive Operating Environment

After a peak in 2017, global growth slowed down last year, particularly in the second half, against the background of rising trade tensions between the US and China, higher interest rates in some major economies, and a reduction in business confidence reflecting heightened uncertainty, for instance linked to Brexit and other geopolitical issues. Despite expectations of a marked slowdown in the pace of interest rate hikes in the US, the growth momentum in major advanced economies is expected to moderate amidst lingering challenges, thus dragging down global expansion. In its April 2019 World Economic Outlook issue, the IMF projects that global growth, which already weakened from 4.0% in 2017 to 3.6% in 2018, will further decelerate to 3.3% in 2019.

Whilst developments on the world scene will have ripple effects on regional economies, we take comfort from the fact that our presence countries continue to deliver appreciable economic performances. Indeed, India remains the fastest growing large economy, with the expansion rate projected to accelerate to 7.3% in 2019. Kenya, and the East Africa region at large, are also consistently strong performers with growth rates above 5% in the past few years, and similarly robust projections in the periods ahead. Madagascar has experienced reinforced stability post the recent elections, and prospects have improved. These countries are expected to register considerable inflows of investment and Mauritius, as a stable and resilient economy with a buoyant international financial centre, is well placed to help channel these flows. Recent studies suggest that the Asia-Africa region is likely to experience rapid growth in international trade in the years to come.

As a key player in the Mauritian financial services landscape, with a strategic presence in India, East Africa and the Indian Ocean region, and an improved business solutions coverage, SBM is well positioned to take advantage of these developments.

GROUP CEO'S LETTER (CONT'D)

Delivering on our Strategy

Mauritius

Our Mauritius operations can be viewed as two separate businesses, namely: (i) a domestic business, mainly constituted of the retail, SME and corporate segments; and (ii) an emerging growth business comprising the private banking, non-banking financial services and cross-border segments.

The domestic business is well-established, strong and very stable, but is at a relatively mature stage, implying that the growth prospects are moderate. Hence, our focus for this business is on improving the client share of wallet through cross-selling, and on enhancing service quality and operating efficiency, predominantly through migration of customers to digital channels. This ties in nicely with the Board's digitalisation agenda. During 2018, we have improved our Internet Banking and Mobile Banking offers, introduced ShopNCash – the first cashback solution at supermarkets in Mauritius, and implemented intelligent ATMs with real time deposit features. We continue to progress in terms of migrating customers to digital channels, although we recognise that there is still much room for improvement in this area, in view of the high pace of innovation in the market.

The emerging business is a good complement to the domestic business as it provides a basis for stronger growth whilst enlarging the revenue base. At the same time, this business requires focus on building capabilities and managing risks given that it is at an early stage of development. The results in the Mauritius Bank's cross-border (Segment B) operations appropriately highlight this point. The cross-border advances book had grown significantly over the 2 years to June 2018 when the Bank was hit with a fraud case in respect of a Dubai-based exposure, requiring a provision of MUR 932 million. This prompted us to embark on an extensive review and remediation plan of the cross-border operations of SBM Bank (Mauritius) Ltd. The implementation of this plan is now substantially complete, and the additional large impairment charges taken at year end are expected to be the last of such magnitude.We now have a better managed cross-border business with a risk appetite aligned with our business strategy and with a series of controls and reports appropriate to such a business.

> << We now have a better managed cross-border business with a risk appetite aligned with our business strategy and with a series of controls and reports appropriate to such a business. >>

On a brighter note, the private banking segment and the non-banking financial cluster recorded improved performances. Assets under management increased by 9.6% to reach nearly MUR 10 billion, while the capital markets arm successfully raised some MUR 3 billion and USD 76 million for SBM Holdings Ltd, representing an oversubscription of about 50%.

Total assets of Mauritius banking operations increased by 6.7% year on year to stand at MUR 184 billion as at 31 December 2018. Gross advances went up by 2.2% to reach MUR 100 billion while deposits from non-bank customers grew by 9.8% to MUR 148 billion. Operating income improved by 14.6% to reach MUR 7,877 million in 2018 while profit before impairment rose by 27.9% to MUR 5,148 million. However, profit after tax dropped from MUR 3,303 million to MUR 1,461 million because of the significant increase in impairments. By contrast, the non-banking financial cluster posted significantly improved results with operating income and profit after tax rising by 42.9% to MUR 263 million and by 46.7% to MUR 110 million respectively.

In 2019, the Mauritius operations will continue to pursue its digitalisation initiatives. With the remediation plan now substantially complete, we expect to see a resumption of growth in cross-border exposures, albeit in a more targeted manner. The Segment B business will also continue to build linkages with other core businesses and step up cross-selling efforts. For its part, the non-bank financial cluster will further develop the investment banking proposition and work with other entities of the Group to enhance the customer value proposition.

Kenya

On 18 August 2018, SBM Bank (Kenya) Limited made history in the financial services sector in

Kenya, with the acquisition of selected assets and assumption of certain liabilities of Chase Bank (Kenya) Limited (In Receivership) (CBLR).

For more than 200,000 depositors, this development provided renewed access to their funds within defined structures, whilst for some 600 employees it meant greater clarity about their employment position and pride to join the SBM family. For SBM Bank (Kenya) Limited, it implied scaling up operations and strengthening its positioning in the market.

Given that many depositors had restricted access to their funds for a long period of time, we expected net withdrawals to be high in the immediate aftermath of the changeover. Our balance sheet was thus appropriately structured with high liquidity levels in the weeks following the go-live of the combined operations. In the event, net withdrawals were much lower than anticipated, testifying to the strength of the SBM brand.

The leadership team was reinforced in 2018 with the recruitment of a Chief Executive Officer having considerable experience in the Kenyan market, and a Chief Financial Officer, amongst others. In the last quarter of the year, we focused on integration and stabilisation of the Kenya business, and on re-engaging with customers. Some positive early results are already emerging in terms of recoveries and regularisation of client accounts.

Results for SBM Bank (Kenya) Limited for 2018 are not strictly comparable with the prior year as the 2017 numbers only cover the post-acquisition period of slightly less than 7 months, while the 2018 numbers included a few non-recurring items, including the takeover of carved out assets and liabilities of CBLR as from 18 August 2018. Total assets went up from MUR 3 billion to MUR 24 billion, while profit after tax improved from a loss of MUR 65 million to a profit of MUR 757 million.

The focus in 2019 will be to further pursue the integration and stabilisation programme, particularly in terms of customer reactivation, employee engagement and recruitment of key resources. This will provide the basis for further building on the already strong existing retail and SME franchise to generate a robust funding base. SBM Kenya will also tap into the strength of and explore linkages with, other entities of the Group in order to selectively grow the corporate business and cross-sell.

India

2018 was a landmark year for SBM India. Our India Operations, which were previously branches of SBM Bank (Mauritius) Ltd, are – since 01 December 2018 – a wholly owned subsidiary of SBM Holdings Ltd through its appropriate bank holding vehicles. This implies that the India business will have more flexibility in expanding presence, and thus building scale, whilst developing a value proposition for our target market segments. In this respect, Internet Banking was launched in December 2018 whilst the roll-out of the Mobile Banking platform is awaiting regulatory approval.

The total assets of the India operations declined from MUR 10 billion in 2017 to MUR 7 billion in 2018. However, overall loss for the year was reduced from MUR 691 million in 2017 to MUR 222 million in 2018 despite an operational loss of MUR 93 million arising from a cyberattack. With a revamped business model, the India operations are expected to gradually become sustainably profitable.

A new Chief Executive Officer was appointed in October 2018 to lead the India operations. Under his leadership, we will selectively and prudently expand presence to key locations in India in the coming periods and build our value proposition for target segments. We will build a much more liability-led franchise, recognising the need for a strong balance sheet. SBM India will also explore linkages with other entities of the Group, namely in terms of trade, investment and NRI banking, and will step up cross-selling efforts.

Madagascar

Total assets of Banque SBM Madagascar SA increased by 5.3% to reach MUR 1.5 billion as at 31 December 2018. Gross advances dropped from MUR 989 million to MUR 827 million while deposits grew from MUR 1,262 million to MUR 1,419 million. After taking impairments to clean up the book, the Madagascar operations recorded a loss for the year of MUR 32 million in 2018 as compared to a profit after tax of MUR 7 million in 2017.

Our objectives for 2019 will be to expand customer numbers, build a strong liability base and reduce funding and credit concentrations, with a low risk focus. SBM Madagascar will also pursue cross-selling with other entities of the Group.

Seychelles

SBM has obtained a licence to operate in the Seychelles and we expect to go-live this year.

GROUP CEO'S LETTER (CONT'D)

Building Group Synergy

In addition to establishing strong multi-domestic franchises within targeted segments, the wider geographic footprint puts us in a good position to accompany the business and lifestyle needs of our clients operating across the India-Africa corridor, with Mauritius as the anchor point – building on the strength of a buoyant financial services centre. We are already getting traction on our cross-selling initiatives across different geographies and expect the benefits to increase over time.

On the back of a strong capital position, SBM Holdings Ltd is in a good position to support the Group's operating entities in their expansion plans, which are now based on clear target markets, revamped and strengthened risk management and clear operating plans.

We have implemented harmonised policies across the Group, with due attention to required regional variations. The appointment of a Chief Risk Officer in April 2019 will enable us to have a Group-wide view of policies and risk and help us to further enhance risk management and controls.

Group Results and Prospects

Total assets of the Group rose from MUR 194 billion in 2017 to MUR 226 billion in 2018, mostly reflecting the expansion in the Kenya books following the takeover of carved out assets and liabilities of CBLR. Asset growth was mainly driven by a rise in investment securities as advances growth in the cross-border business of the Mauritius operations was curtailed, as we wanted to progress the remediation plan before further growing this business. Deposits grew at a healthy pace from MUR 145 billion to MUR 169 billion whilst subordinated debts rose from MUR 4 billion to MUR 9 billion following the successful raising of Tier 2 bonds by the Group.

Net interest income went up by 22.6% to reach MUR 5,845 million as margins improved while non interest income increased by 40.3% to MUR 3,933 million in 2018 including a non-recurring gain in SBM Kenya. Operating costs rose by 38.7% to reach MUR 4,698 million, reflecting the enlarged Kenya operations, improvement in staff conditions, recruitments and some non-recurring costs.

Pre-impairment profit increased by 21.4% to reach MUR 5,081 million, but profit after tax declined from MUR 2,575 million to MUR 1,246 million as a result of the higher impairment charges, mainly at the level of the cross-border operations of SBM Bank (Mauritius) Ltd, as highlighted above.

As a result, earnings per share dropped from 99.7 cents in 2017 to 48.3 cents in 2018 while the return on equity decreased from 10.5% to 5.0%. Notwithstanding this decline, our capital ratios remained very healthy, with Tier 1 capital to risk weighted assets improving from 15.9% to 16.2%, and the capital adequacy ratio rising from 20.0% to 24.6%.

With a strong reduction projected in impairment charges in 2019, and an improved performance anticipated in all the operating entities, as discussed above, we expect the Group to rebound strongly this year and the return on equity is targeted to improve to 12%.

2018 was a year of multiple achievements and landmarks. We are proud of these and believe that we have built strong foundations for our future growth. It was a year where we had to go through some painful but much needed reforms to improve our business model and our future resilience. We have emerged stronger in 2019 as a consequence and are on course towards our targets. I wish to thank the Group Chairman, the Board of Directors, the Management Team, SBM employees and our various stakeholders for their continued support and trust in the institution. SBM Group is now well set for future growth.

Andrew Bainbridge
Group Chief Executive Officer

BOARD OF DIRECTORS

1. **Vidianand LUTCHMEEPARSAD**
   Non-Executive Director

2. **Kee Chong Li KWONG WING, *G.O.S.K***
   Chairman of the Board

3. **Ramprakash MAUNTHROOA**
   Independent Non-Executive Director

4. **Subhas THECKA**
   Independent Non-Executive Director

5. **Maxime HARDY**
   Independent Non-Executive Director

6. **Medha GUNPUTH**
   Non-Executive Director

7. **Sharon RAMDENEE**
   Independent Non-Executive Director

8. **Azim Fakhruddin CURRIMJEE**
   Independent Non-Executive Director

9. **Roodesh MUTTYLALL**
   Independent Non-Executive Director

10. **Andrew BAINBRIDGE**
    Executive Director/Group CEO

PROFILE OF THE BOARD OF DIRECTORS OF SBM HOLDINGS LTD

Kee Chong Li KWONG WING, *G.O.S.K*
Chairman of the Board

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.

In this capacity, in 2017, he pioneered the partnership between SBM and Alipay, the leader of digital financial services and lifestyle platform of the giant e-Commerce Group Alibaba – the first time a Banking Group offered Alipay Services in Africa. He also initiated a partnership with UnionPay International, the largest global payment network provider, to launch the first UPI Debit Card in Mauritius, the first UPI prepaid Travel Mate card in the African Region in 2014, and also the first UnionPay card in Madagascar and Kenya soon.

In May 2018, he was granted the 'Lifetime Achievement' Award by the Banker Africa for his outstanding contribution to the financial sector in Mauritius and in Africa.

In September 2018, in the context of the Forum on China-Africa Cooperation (FOCAC) Summit in Beijing, the Inter-Bank Association between China and African Countries, a consortium of major African banks and China Development Bank, was launched and Mr KC Li was a Founder Council Member.

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, Africa Infrastructure Investment Holdings Company Ltd, SBM Infrastructure General Partner Limited, SBM Bank (Kenya) Limited, SBM Bank (Seychelles) Limited, Banque SBM Madagascar SA and SBM Africa Holdings Ltd.

Board Committee Membership

IT Committee (Member), Regional Expansion Steering Committee (Chairman), Risk Management Committee (Member) and Strategy Committee (Chairman).

Azim Fakhruddin CURRIMJEE
Independent Non-Executive Director

Mr. Azim Fakhruddin Currimjee is the Managing Director of both Quality Beverages Ltd and the Food & Beverages Cluster of the Currimjee Group of Companies. He also sits as Director on the other Boards of the different subsidiaries of Currimjee Group and is the Manufacturing Director of Bonair Group of Companies. Mr. Currimjee has a broad experience in the industry sector. He is the Vice-President of the Economic Development Board of Mauritius. He was the Vice President of the COMESA Business Council and previously, Mr. Currimjee was the President of the Mauritius Chamber of Commerce and Industry (MCCI). He holds an MBA from the Trinity College in Dublin, Ireland and a BA (Mathematics) from Williams College, USA. Mr. Currimjee is an Independent Non-Executive Director on the Board of SBM Holdings Ltd and also serves on the Board of the following entities across the SBM Group namely SBM Bank (India) Limited, SBM Bank (Kenya) Limited and SBM (Bank) Holdings Ltd.

Board Committee Membership

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

Medha GUNPUTH
Non-Executive Director

Mr. Medha Gunputh currently holds the position of Permanent Secretary at the Ministry of Defence and Rodrigues. He has held many leadership positions spanning several key ministries in Government including the Private Office of the Prime Minister's Office, Secretary to the President, Office of the President. Mr Gunputh is designated to represent the interest of the Government on the Board of Airport of Rodrigues Ltd and the Mauritius Post Ltd. In the past he has held the position of Chairman at the Sugar Planters Mechanical Pool Corporation; the Tobacco Board; Farmer's Service Centre; SSR Botanical Garden; and Town and Country Planning Board. He has also served as member of the Tourism Authority, Mahatma Gandhi Institute Board and the Audit Committee, Mauritius Examination Syndicate. He holds a BSc (General), first division from the University of Punjab, India and a Diploma in Public Administration & Management from the University of Mauritius. Mr Medha Gunputh is a Non-Executive Director of SBM Holdings Ltd and is also a Director of SBM Bank (Kenya) Limited and SBM (NFC) Holdings Ltd.

Board Committee Membership

Corporate Governance & Conduct Review Committee (Member), IT Committee (Member), Nomination & Remuneration Committee (Chairman), Regional Expansion Steering Committee (Member) and Risk Management Committee (Member).

Maxime HARDY
Independent Non-Executive Director

Vidianand LUTCHMEEPARSAD
Non-Executive Director

Mr. Maxime Hardy is General Manager at BROLL Property & Facilities Management Ltd. He started his career at De Chazal Du Mée & Co and worked in both the Accounting and Audit departments. He has a broad experience in the Accounting and Finance fields and has spent several years in the sugar, beverage, textile and car dealer industries. He spent the majority of his career, prior to his actual responsibilities, in the finance and real estate developments of one of the largest local group. Mr. Hardy is a Fellow Member of the Association of Accounting Technicians, UK. He is an Independent Non-Executive Director of SBM Holdings Ltd and a Director on the Board of SBM Bank (Seychelles) Limited

Board Committee Membership

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

Mr. Vidianand Lutchmeeparsad is presently the Senior Chief Executive of the Ministry of Housing and Lands. He is also the Supervising Officer of the National Development Unit of the Prime Minister's Office. He has a long experience in Government Administration since 1988 till date and has occupied important positions amongst which Acting Senior Chief Executive and Permanent Secretary at the Ministry of Finance and Economic Development, Permanent Secretary at the Ministry of Public Infrastructure and Land Transport, Principal Assistant Secretary at the Ministry of Public Infrastructure, Land Transport & Shipping, working both in the Public Infrastructure and the Land Transport & Shipping Divisions; Administrative Officer at the Prime Minister's Office (Establishment Division); Administrative Officer at the Ministry of Health (Health Infrastructure Planning Section); Assistant Secretary at the Ministry of Agriculture, Fisheries and Cooperatives. Prior to joining the Public Service, Mr. Lutchmeeparsad was a teacher for 10 years. He holds an MBA with specialisation in Marketing from the University of Mauritius; a Post Graduate Diploma in Quality Management; a Post Graduate Diploma in Administrative Leadership; a Diploma in Public Administration and Management; a Post Graduate Certificate in Education from the Mauritius Institute of Education; a Bachelor of Commerce from the University of Delhi, India. He was engaged in the implementation of ISO 9000 and Quality Management Systems in the Public Sector in Mauritius. He is a Non-Executive Director of SBM Holdings Ltd and also a Director of SBM Bank (India) Limited.

Board Committee Membership

Corporate Governance & Conduct Review Committee (Member), IT Committee (Chairman), Nomination & Remuneration Committee (Member), Risk Management Committee (Member) and Strategy Committee (Member)

Ramprakash MAUNTHROOA
Independent Non-Executive Director

Mr Ramprakash Maunthrooa is a Senior Advisor at the Prime's Minister's Office. He has spent more than 2 decades in the Port sector and has held leadership positions namely those of Director General of the Mauritius Ports Authority ("MPA") until October 1998 and Chairman of the MPA from October 2000 to November 2003. He has been actively involved in the development, operations and restructuring of the Mauritian Port sector, and the development of the New Container Terminal in Port Louis. He has also served as Managing Director of the Board of Investment (now Economic Development Board) during 2010/2011. Mr Maunthrooa is a Fellow of the Institute of Chartered Secretaries & Administrators (FCIS), UK, and a Fellow Member of the Chartered Institute of Transport (FCIT), UK. He is an Independent Non-Executive Director on the Board of SBM Holdings Ltd and is also a Director of SBM (Bank) Holdings Ltd, SBM (NBFC) Holdings Ltd and SBM (NFC) Holdings Ltd.

Board Committee Membership

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

Roodesh MUTTYLALL
Independent Non-Executive Director

Mr Roodesh Muttylall currently heads the Corporate Finance of an organisation. He was formerly the Chief Finance Executive of a Group operating in the hospitality sector. He held the position of Financial Controller in a Global Business Company (Category 1) and also had several years of experience in similar positions in the hotel sector. He worked for SBM Group between 2000 and 2001.

Mr Muttylall holds the Chartered Financial Analyst (CFA) designation, USA. He holds an MSc (Finance) from the University of Mauritius and is a Fellow Member of the Association of Chartered Certified Accountants (ACCA), UK; an Associate Member of the Institute of Chartered Secretaries and Administrators (ICSA), UK; a Member of the Mauritius Institute of Professional Accountants (MIPA), Mauritius and a Member of the Mauritius Institute of Directors (MIOD). Mr Muttylall is also a member on the Board of Governors of the University of Technology, Mauritius

Mr Muttylall is an Independent Non-Executive Director of SBM Holdings Ltd.

Board Committee Membership

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

PROFILE OF THE BOARD OF DIRECTORS OF SBM HOLDINGS LTD (CONT'D)

Sharon RAMDENEE
Independent Non-Executive Director

Ms. Sharon Ramdenee is currently C.E.O. of Agiliss Ltd, one of the leading FMCG companies operating in Mauritius, and also in the region. Before becoming C.E.O, she served as Deputy C.E.O at Agiliss Ltd.

In Mauritius Ms. Ramdenee previously held the role of Finance Director of St Aubin Group, having also held a Commercial & Business Development role in the organisation. In the UK she worked for Ernst & Young, LLP with a portfolio of high-profile clients.

Ms Ramdenee has a Bachelor's degree in Law & Business from Warwick Business School, and qualified as a Chartered Accountant with Ernst & Young London. She has also completed an MBA specialising in Strategy and Marketing with Warwick Business School, graduating with distinction, and is currently reading for a PhD in Business and Management.

Ms. Ramdenee is a Fellow of The Institute of Chartered Accountants in England & Wales (ICAEW). Ms. Ramdenee is an Independent Non-Executive Director of SBM Holdings Ltd.

Board Committee Membership

Audit Committee (Member – effective April 2019)

Subhas THECKA
Independent Non-Executive Director

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 graduated in Marketing from the Chartered Institute of Marketing (UK). He is the holder of an MBA from Glasgow Caledonian University in Scotland and is currently a Senior Lecturer at Curtin Mauritius. He is actually in the final year studying for a PhD in the area of "Developing Sustainable Businesses".

He has worked for 20 years at Management level in different sectors of the economy and 15 years as Lecturer at Tertiary level.

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 experience gained from industry and as academic. His balance of knowledge in both the financial and marketing fields is very much appreciated at the Board.

Board Committee Membership

Audit Committee (Chairman), Risk Management Committee (Member) and Strategy Committee (Member)

Andrew BAINBRIDGE
Executive Director/Group CEO

Mr. Andrew Bainbridge is the Group Chief Executive Officer of SBM Holdings Ltd. He previously worked for the Standard Chartered Bank where he was variously the Group Head – US Supervisory Remediation Programme; Global Head – Commercial Clients; Chief Risk Officer West, Standard Chartered & Senior Regional Credit Officer West, Wholesale Banking. Prior to Standard Chartered, Mr. Andrew Bainbridge was the Chief Executive Officer of Bank Muscat International. He has also held several positions at Barclays, including Chief Operating Officer, Emerging Markets; Managing Director, Africa & Indian Ocean; Chief Operating Officer & Risk Director, Africa & Middle East; Segment and Change Management Director, Larger Business UK and Europe;

Mr Bainbridge holds an LLB from Nottingham University, UK and is an Associate of the Chartered Institute of Bankers (ACIB); a Fellow of the Institute of Financial Services, UK; a Fellow of the Institute of Directors, Southern Africa and a Member of the Global Association of Risk Professionals (GARP). Mr. Andrew Bainbridge is the Chairman of the Private Infrastructure Development Group and of the Infrastructure Crisis Facility Debt Pool LLP and was previously the Chairman of GuarantCo Limited. Mr. Bainbridge is an Executive Director of SBM Holdings Ltd and sits on a number of SBM subsidiary Boards

Board Committee Membership

Corporate Governance & Conduct Review (Member), IT Committee (Member), Regional Expansion Steering Committee, (Member), Risk Management Committee (Member) and Strategy Committee (Member)

OUR SENIOR MANAGEMENT TEAM

1. **Sivakrisna (Kovi) Goinden**
   Team Leader Finance
2. **Andrew Bainbridge**
   Group CEO
3. **Kabirsingh (Kavi) Baboolall**
   Head of Project Implementation and Capital Management
4. **Shailendrasingh (Shailen) Sreekeessoon**
   Head of Strategy and Research

> Our experienced leadership team continues to collaborate with the different entities of the Group to support the delivery of our strategic objectives.

Mr Sivakrisna (Kovi) Goinden

Team Leader Finance

Kovi is a finance professional with more than 16 years of experience in the accounting field out of which nearly 12 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. Kovi also oversees the finance function of all the overseas subsidiaries namely India, Kenya and Madagascar. He was actively involved in the recent Kenya transactions as well as the wholly-owned subsidiary implementation in India during 2018.

Mr Andrew Bainbridge

Group CEO

Mr. Andrew Bainbridge is the Group Chief Executive Officer of SBM Holdings Ltd. He previously worked for Standard Chartered Bank where he was variously Group Head – US Supervisory Remediation Programme; Global Head – Commercial Clients; Chief Risk Officer West, Standard Chartered & Senior Regional Credit Officer West, Wholesale Banking. Prior to Standard Chartered, Mr. Bainbridge was the Chief Executive Officer of Bank Muscat International. He has also held several positions at Barclays, including Chief Operating Officer, Emerging Markets; Managing Director, Africa & Indian Ocean; Chief Operating Officer & Risk Director, Africa & Middle East; Segment and Change Management Director, Larger Business UK and Europe.

Mr Bainbridge holds an LLB from Nottingham University, UK and is an Associate of the Chartered Institute of Bankers (ACIB); a Fellow of the Institute of Financial Services, UK; a Fellow of the Institute of Directors, Southern Africa and a Member of the Global Association of Risk Professionals (GARP). Mr. Bainbridge is the Chairman of the Private Infrastructure Development Group and of the Infrastructure Crisis Facility Debt Pool LLP and was previously the Chairman of GuarantCo Limited. Mr. Bainbridge is an Executive Director of SBM Holdings Ltd sits on a number of SBM subsidiary Boards.

Mr Kabirsingh (Kavi) Baboolall

Head of Project Implementation and Capital Management

Kavi is a finance professional with a career spanning almost 16 years. He is a fellow member (FCA) of the Institute of Chartered Accountants in England and Wales (ICAEW) and holds a BSc in Accounting and Finance from the University of Warwick, UK. He is currently the Head of Project Implementation and Capital Management for SBM Holdings Ltd. He 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 several entities across SBM Group.

Mr Shailendrasingh (Shailen) Sreekeessoon

Head of Strategy and Research

Shailen is a banking strategy professional with a track record of fostering positive change and driving performance against strategy, underpinned by his academic background 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). He is a Director of several entities across SBM Group.

“Despite a year marked by several challenges, the Group continued to deliver on its strategy, with course correction where required taking into account the lessons learned along the way.”

STRATEGY REPORT

Our business model is inspired by our vision to become a leading and most trusted financial services provider in the region. Our strategy, derived from our business model, is centred on 5 key focus areas: the consolidation of our Mauritian banking business, regional expansion, diversification of our solutions offering, modernisation and capacity building.

Strategy

Consolidation of our Mauritian Banking Business

Our Mauritian banking business is the mainstay of the Group, contributing to the bulk of revenue and profit. Amidst an increasingly competitive market, we strive to strengthen our positioning and market share by improving service quality and efficiency, including through the migration of customers to digital channels.

Regional Expansion

In line with our vision to become a leading financial services provider in the region, we are gradually deploying our regional expansion strategy which revolves around (i) selective growth of the Group's cross-border business, (ii) the positioning of the Group along the Africa-Asia corridor, leveraging our presence in Kenya and India, and (iii) the positioning of the Group in the Indian Ocean region, capitalising on our strength in Mauritius, presence in Madagascar and planned entry into Seychelles during the year.

Diversification of our Solutions Offering

At the same time, we are broadening the range of solutions that we offer to our clients in line with the growing sophistication of their businesses and lifestyles. We are now providing an extensive range of wealth management solutions to our high net worth clients, selected investment products to retail customers, risk management and capital markets solutions to corporates, and other ancillary and advisory services in addition to our traditional banking business. These solutions are also available to our cross-border clients.

Modernisation

With the objective of improving customer experience, we are modernising our IT platform, product offering and channels of service delivery. We expect to see increased digitalisation of our operations and services going forward.

Capacity Building

In order to support and sustain the growth agenda of the Group, we are progressively building capacity in the areas of organisation and governance, human capital, risk management and technology.

Achieving Growth Through

Leading Financial Services Provider in the Region

- Consolidation of Domestic Position
- Regional Expansion
- Diversification of our Solutions Offering
- Modernisation
- Capacity Building

Enablers

Customer Advocacy

- ✓ Customer Value Proposition
- ✓ Brand
- ✓ Global Network

Resource Optimisation

- ✓ Employees
- ✓ Organisation
- ✓ Technology

Process Efficiency

- ✓ Efficient Operations
- ✓ Robust Risk Management
- ✓ Stakeholder Management
- ✓ Innovation and Productivity

Model of Sustainable Value Creation

Our Capital

Financial Capital
- Share capital
- Reserves
- Reinvested cash flows
- Debt funding

Manufactured Capital
- Equipment and buildings
- IT infrastructure

Human Capital
- Appropriate skills and talents
- Training and development
- Integrity-driven leadership
- Values

Social and Relationship Capital
- Privileged client relationships
- Engagement with and support of the community
- Partnerships with local and foreign stakeholders
- Equality and diversity programme

Intellectual Capital
- Knowledge
- Intellectual property including software, patents and copyrights
- Policies and processes
- Brand and reputation

Natural Capital
- Judicious use of land, water and energy

Our Value Proposition

Customers
- Business value through a variety of banking and non-banking products across different channels

Deposits | Credit | Cards | Trade Finance | Guarantees | Structured Products | Wealth Management | Automated Payments | Insurance | Mutual Funds | FX | Custody | Stockbroking | Advisory | Trading of Financial Instruments

Investors
- Investment grade entity
- Strong and sustainable performance

Employees
- Career opportunities
- Attractive benefits package
- Learning and development

Suppliers and Partners
- Ease of doing business
- Lasting relationships

Regulatory Bodies
- Good governance
- Compliance

Combined with Efficient Processes

Stakeholder Management
- Customers
- Employees
- Shareholders
- Regulators
- Creditors
- Community

Operations Management
- Processes
- Systems
- Employees

Risk Management
- Credit Risk
- Market Risk
- Operational Risk
- Liquidity Risk
- Strategy Risk
- Reputational Risk

What our Capital Generates

Financial Capital
- Strong balance sheet
- Shareholder returns

Manufactured Capital
- Customer accessibility
- Productive environment for employees
- Efficient and effective operations

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

Social and Relationship Capital
- Trusted organisation
- Responsible corporate citizen
- Sustained business growth
- Stakeholder engagement
- Inclusive business

Intellectual Capital
- Trusted brand
- Innovation-driven organisation
- Superior and sustainable growth

Natural Capital
- Protection of natural resources
- Reduced carbon footprint
- Cleaner environment
- Energy-efficient building

Delivering Financial Results for the Group

Deposits:	Advances	Shareholders' Equity
MUR 169,384 Mn	**MUR 102,108 Mn**	**MUR 24,177 Mn**

GENERATES OPERATING INCOME

Net Interest Income:	Non-Interest Income:
5,845 Mn	**3,933 Mn**

LESS EXPENSES AND LOSSES

Non-Interest Expenses:	Impairment Charges	TAX
MUR 4,698 Mn	**MUR 3,559 Mn**	**MUR 376 Mn**

RESULTS IN

PAT:	ROE:	ROA:
MUR 1,246 Mn	**5.0%**	**0.6%**

COMMUNITY
REINVESTMENT
EMPLOYEES
REGULATORS
INVESTORS

Our Value Creation

MUR 4.5BN

Community
By providing banking and non-banking services, we accompany and support our customers in their endeavours. We contribute toward their progress and help them achieve their objectives. Additionally, we give part of our earnings back to the community through an array of CSR activities.

Environment
The protection of the environment is central to our strategy. We are gradually taking steps to reduce our energy usage and carbon footprint. Moreover, through our product offering and CSR activities, we strive to promote sustainable development and help our clients and other stakeholders to integrate sustainability in their activities.

Economy
Money, being the lubricant of the economy, our activities contribute to the economic performance of a locality, an industry or even a country. By providing banking services to our customers, we give people who have ideas, plans and projects access to credit, allowing them to achieve their goals; creating jobs and contributing to the growth of the economy.

Strategy Process and Governance

The Group, through a well-defined framework and series of processes, formulates, executes and periodically reviews its strategy with the aim of spotting new opportunities, proactively identifying emerging risks and constantly working toward mitigating potential threats to the Group.

The Board of Directors, in consultation with the Strategy Committee, defines the strategic orientations of the Group. Information flows from management of the different operating entities of the Group to the Board through the Strategy Committee where the operating environment is assessed and business strategies are discussed. Initiatives and action plans defining the business strategies are approved and monitored by the Board of each entity and by the Board of SBM Holdings Ltd on a quarterly basis. The strategy process is illustrated as follows:

	Action		Responsibility
Strategic Analysis	**Analysis of:** > External Environment • Economic • Political • Social • Legal • Environmental **Benchmarking with:** > Local competitors > International competitors > Best practices	**Analysis of:** > Internal Environment • Strategy • Structure • Processes • Systems • People & culture **Performance Review:** > Financial > Non-financial	**Management:** > Conduct analysis > Summarise insights **Board:** > Take note of insights > Direct further analysis
Strategic Choice	**Target-Setting:** > Risk appetite > Capital allocation > Financial and non-financial targets **Reward Mechanism:** > Financial Rewards > Non-financial rewards > Promotion of staff	**Growth Strategy:** > Organic > Inorganic **Business Choices:** > Markets > Business lines > Products/services	**Management:** > Propose strategic plan and initiatives **Board:** > Approve strategic plan and initiatives > Validate financial targets > Approve budgets
Strategic Implementation	**Formulation of Key Strategic Initiatives** **Cascading down of Strategic Plans:** > Ownership of strategic initiatives by sponsors > Onboarding of project management team **Performance Management and Reward**		**Management:** > Monitor and report on key strategic initiatives > Monitor and report on entity/business lines performance > Ensure end-to-end communication of strategy and performance management across the Group **Board:** > Direct analysis to areas warranting attention > Approve performance, reward mechanisms and quantum

Operating Environment

The analysis of the operating environment is an integral part of the Group's strategy management process. The environment in which we operate is carefully assessed to identify opportunities and ensure preparedness against key risks and foreseeable threats.

External Environment

THE MARKETS

- ✓ Macroeconomic conditions
- ✓ Exchange rates
- ✓ Demand for credit
- ✓ Liquidity conditions
- ✓ Interest rates
- ✓ Price of financial instruments
- ✓ Quality of credit

STRATEGIC ISSUES

- ✓ Competition from established players and disruptors
- ✓ Changing regulations

Known Risks and Opportunities

New/Changing Risks and Opportunities

OPERATIONAL POLICIES, PROCESSES AND CONTROLS

- ✓ Cost management initiatives
- ✓ Harmonisation of policies
- ✓ Stronger risk management framework

STRATEGIC/CHANGE IN EXECUTION

- ✓ Enhanced performance management framework
- ✓ Talent and staff engagement initiatives
- ✓ Subsidiary status in India
- ✓ Rebranding
- ✓ Group synergy and revised Target Operating Model
- ✓ Expansion in Kenya

Internal Environment

2018 in Review and Outlook for 2019

Despite a year marked by several challenges, the Group continued to deliver on its strategy, with course correction where required, taking into account the lessons learned along the way. Progress over the past year and strategic orientations being pursued during 2019 can be summarised along the 5 strategic pillars as follows:

Consolidation of our Mauritian Banking Business

Within a mature domestic banking market, the consolidation of our domestic position depends on how efficiently we conduct business. To improve efficiency and sustain profitability derived from our local operations, we are reviewing our operating model to work in a more synergistic manner, improve the quality of services offered and strengthen our market share. As such, turn-around-time for key services has been reduced and sales processes have been reviewed to allow maximum client-facing time to our sales force. Furthermore, with the upgrades brought to our Internet and Mobile Banking platforms in early 2018, we are increasing the number of clients being migrated to our digital channels.

We are also working on optimising capital usage by, *inter alia*, making greater use of credit ratings, credit guarantees, credit insurance, and prioritising risk participations over bilateral lending.

Regional Expansion

After having established a presence in Kenya in May 2017, the Group significantly expanded scale in the country with the acquisition of selected assets and liabilities of the Chase Bank (Kenya) Limited (In Receivership) in August 2018. The transaction marked a significant step for the Group, both in its regional expansion strategy and its stabilisation and integration in the Kenyan market. SBM Bank (Kenya) Limited now has a country-wide network of more than 50 branches and nearly 800 employees and offers a full range of banking products and services to cater for the financial needs of retail, SME and corporate clients.

Our expansion agenda was further strengthened when we received the final go-ahead from the Reserve Bank of India to convert our existing four branches into a wholly owned subsidiary. Effective 01 December 2018, SBM operates as SBM Bank (India) Limited, a fully-fledged universal bank in India. The strategy in India will be to grow our distribution network, augment our product offering and develop a more profitable business model.

In 2019, our regional expansion journey will continue with the planned entry of SBM in Seychelles.

Diversification of our Solutions Offering

To better cater to the evolving needs of our customers, we strive to develop new products and services and bring them to the market. In 2018, we launched UPI foreign currency prepaid cards in Madagascar for customers who travel to China for business, a first in the market. Moreover, with the acquisition of Chase Bank (Kenya) Limited (In Receivership), our Kenyan offering was enriched with a wider distribution network and a full suite of banking products. In India, we launched our Internet Banking services in 2018 and we are working toward offering Mobile Banking services in 2019.

As it builds and strengthens its regional presence, the Group prepares to offer its clients multi-jurisdictional banking as well as Non-Banking Financial relationships spanning India, Madagascar, Mauritius, Kenya, and Seychelles in the near future.

In 2018, the Group also issued Tier 2 dual-currency bonds which were raised by the non-banking arm of the Group. More than MUR 3 billion and about USD 75 million were raised, equivalent to an over-subscription of 50% for both currency denominations. The successful capital raise highlights the important strides made by the Group in the investment banking area.

Modernisation

Service quality is a key tenet of our customer value proposition and we are constantly working toward improving customer experience by modernising our offering. In 2018, we revamped our ATM network with the installation of 'intelligent' ATMs with a real-time deposit feature in 17 locations in Mauritius. We also launched a service branded 'ShopNCash' which allows our customers to withdraw cash at the tills of selected shops and supermarkets, providing convenience and flexibility to SBM customers. Our Private Wealth Team launched the digital Private Wealth platform, Moneyware, which enables the Bank to enhance its product offering on the local and international markets through client relationship management. SBM's Custody Team also launched the SBM Custody Client Portal which provides online web access to our clients allowing them to have a clear and interactive interface of their custody accounts, available through laptops, mobile phones or tablets with secure log-in and greater transparency through real-time access. Our Internet Banking and Mobile Banking offering were also upgraded for a better customer experience.

As we gradually modernise our services, in line with our Go Green policy, we have undertaken several campaigns to encourage our clients to use e-statements.

In 2019, we shall strive to improve service quality through different initiatives forming part of a broader rebranding exercise in Mauritius.

Capacity Building

To implement our growth strategy which is underpinned by regional expansion, diversification and modernisation:

- our risk appetite, risk policies and procedures have been reviewed to guard against a repeat of issues faced in the recent past in our cross-border business;
- key personnel have been recruited across different functions within our different subsidiaries. In Kenya, following the acquisition of Chase Bank (Kenya) Limited (In Receivership), a seasoned CEO was appointed. Similarly, in line with our expansion plans in India, both a CEO and Chief Risk Officer were appointed to gradually grow our Indian assets and liabilities in a prudent manner. At the Group level, the onboarding of a Group CEO in January 2018 has brought more focus and discipline in strategy execution as well as enhanced synergy within SBM Group. Additionally, a Chief Information Officer was appointed to drive the IT-related initiatives of the Group; and
- the SBM Academy was launched during the year in order to build human capital by providing needed skills to our employees.

Moreover, we are aiming at gradually integrating more elements of sustainable development in our operations. While we are already implementing several initiatives to protect the environment, we have the objective of extending sustainable practices to other aspects of our business. Our commitment to a more sustainable organisation was recognised in 2018 when the Group was admitted to the Stock Exchange of Mauritius Sustainability Index (SEMSI). We also aim at improving the reporting we do to our shareholders and to this end, we are progressively adopting the principles of integrated reporting.

Our commitment to a more sustainable organisation was recognised in 2018 when the Group was admitted to the Stock Exchange of Mauritius Sustainability Index (SEMSI).

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

CORPORATE GOVERNANCE REPORT

MR ROODESH MUTTYLALL
CHAIRMAN OF CORPORATE GOVERNANCE & CONDUCT REVIEW COMMITTEE

<< The Board continues to be committed to high standards of corporate governance. >>

Dear Shareholders and Valued Partners,

On behalf of the Board of SBM Holdings Ltd , I am pleased to present our Corporate Governance Report for the financial year 2018.

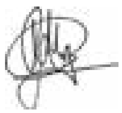
The Directors of SBMH and its subsidiaries are skilled, knowledgeable and experienced professionals carefully selected to be effective in the governance of our organisation. We assume full responsibility for leading and controlling the organisation and for meeting, to the best of our knowledge, all requirements laid down by law both in the Republic of Mauritius and in geographies where we are present.

The Board continues to be committed to promote high standards of corporate governance. Following the publication of the National Code of Corporate Governance in Mauritius (2016) (the Code), the work has already begun on implementing the new provisions. Being a public listed entity, our Board strives to be as transparent as possible in its disclosures and in its reporting and aims to fully apply the standards contained in the Code during FY 2019. More details are provided in the Corporate Governance Report.

In January 2018, we were delighted to welcome Mr Andrew Bainbridge, who joined SBMH as the Group CEO and was appointed as Executive Director of the Board at the last Annual Meeting.

I wish to thank the Members of the Board, fellow Directors of the subsidiaries, the Company Secretariat function and all staff for their work and commitment 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

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

Governance Framework

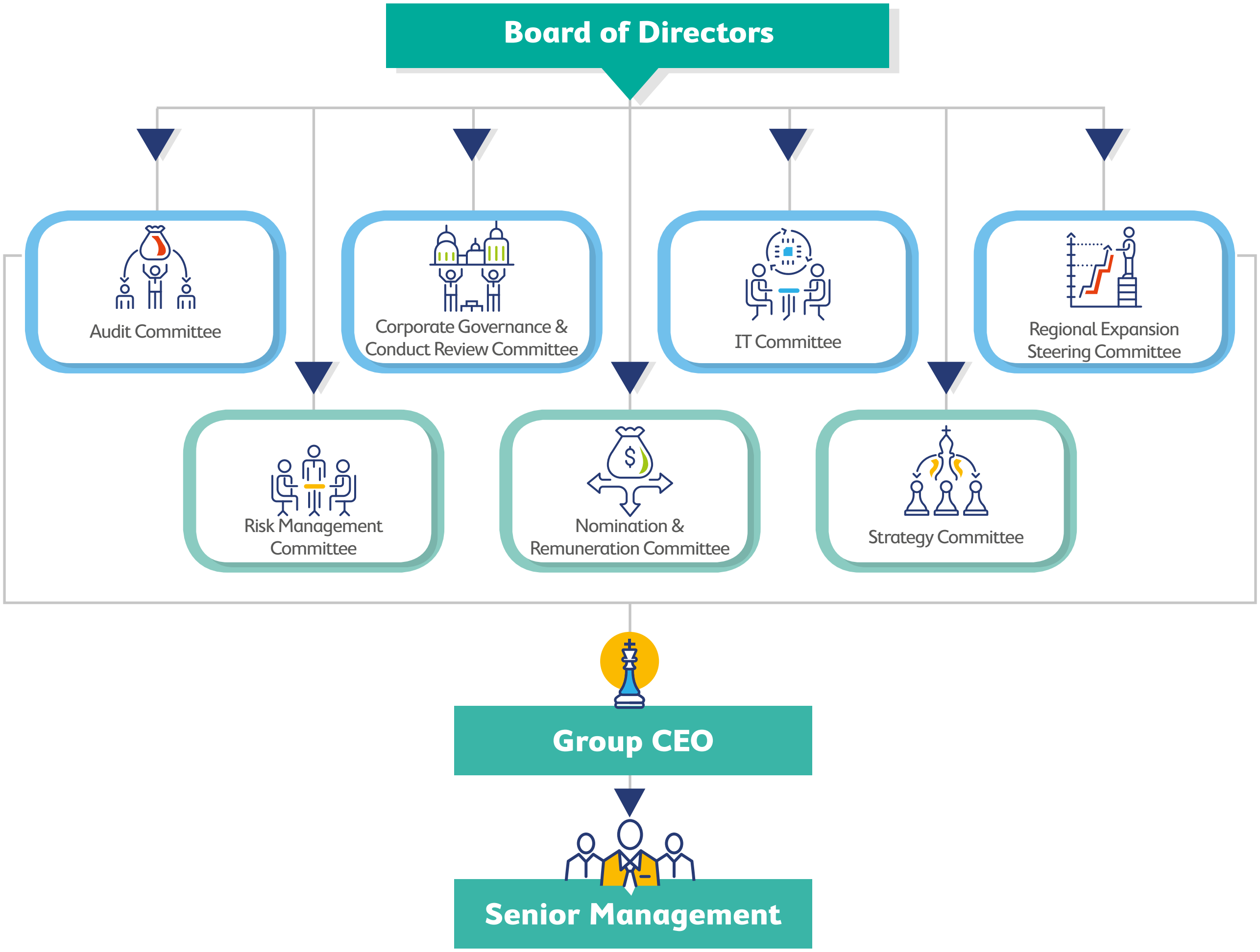
Governance refers to the framework of rules, relationships, systems and processes by which an enterprise is directed, controlled and held to account and whereby authority within an organisation is exercised and maintained. It encompasses authority, accountability, stewardship, leadership, direction and control in any organisation.

Our Corporate Governance Philosophy

Our Group's corporate governance approach promotes strategic decision making that combines long-term and shorter-term outcomes to reconcile the interests of the Group, its stakeholders and the public at large to create sustainable value. The Group sees corporate governance as an enabler that creates competitive advantage through enhanced accountability, effective risk management, clear performance management, greater transparency and effective leadership.

The Group operates within a clearly defined governance framework. The Board-approved framework outlines mechanisms for the Group to implement robust governance practices, while providing clear direction to the Group Chief Executive Officer (Group CEO) for decision-making across the day-to-day management of the organisation, and maintaining the Board's overall responsibility.

Our Corporate Governance Structure



SBMH is a public company listed on the Stock Exchange of Mauritius since 03 October 2014 and is a public interest entity as defined by law.

The Board of Directors (Board) of SBMH assumes the responsibility for leading and controlling the organisation and for meeting all legal and regulatory requirements. The Board is committed to maintaining high standards of corporate governance and acknowledges its responsibility for applying and implementing the principles contained in the Code. The Board confirms that it has applied all the requirements and provisions for the year ended 31 December 2018.

Disclosures relating to the application of the eight principles of the Code have been made in different sections of the Annual Report, as outlined below.

Principle of the Code		Relevant sections of the Annual Report
Principle One	Governance Structure	Corporate Governance Report
Principle Two	The Structure of the Board and its Committees	Corporate Governance Report and Appendices
Principle Three	Director Appointment Procedures	Corporate Governance Report
Principle Four	Director Duties, Remuneration and Performance	Corporate Governance Report
Principle Five	Risk Governance and Internal Control	Corporate Governance Report and Risk Report
Principle Six	Reporting with Integrity	Corporate Governance Report and Finance Report
Principle Seven	Audit	Corporate Governance Report
Principle Eight	Relations with Shareholders and Other Key Stakeholders	Corporate Governance Report and Sustainability Report

The Board has approved the following key guiding documents which are available on the company's website:

- Code of Ethics
- Board Charter

The key guiding documents are reviewed at least once annually to keep abreast of the developments in law, regulations and governance best practice. Any changes proposed are approved by the Board.

Organisational Chart and Statement of Accountabilities

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 found on pages 10 and 11.

Key Governance Positions

The Board has agreed a clear division of responsibilities between the running of the Board and running the business of the Group. The role of the Chairman is separate from that of the Group CEO and there is a clear division of responsibility so that no individual has unfettered decision-making power.

The key governance positions, which are set out below, are critical to the Board's performance against its strategy and achievement of a high level of good governance. Same are reviewed as and when required. The key governance roles are defined below:

The Chairman

The Chairman is responsible for the effective leadership, operation and governance of the Board and its Committees. He chairs all meetings of the Board and ensures that all directors contribute effectively to the development and implementation of the Group's strategy whilst ensuring that the nature and extent of the significant risks the Group is willing to embrace in the implementation of its strategy are determined and challenged. The Chairman is also responsible for the induction of new directors and their continuing development, board evaluations and succession planning. The Chairman holds regular meetings with the Non-Executive Directors and Independent Non-Executive Directors without the presence of Executive Director and has regular contact with all Board Members.

Mr Kee Chong Li Kwong Wing, G.O.S.K is the Chairman of the Board.

The Group Chief Executive Officer

The Group CEO is responsible for all day-to-day management of the Group's business and leads the development and execution of the Group's long term strategy with a view to creating shareholder value.

He acts as a liaison between the Board and the Management. He assesses the principal risks of the Group to ensure that they are being monitored and managed and also ensures that the Group has a sound internal control system. He currently chairs the Executive Committees and ensures that they achieve the delegated objectives as approved by the Board. The roles and responsibilities of the Executive Committees are set out on page 75.

Mr Andrew Bainbridge is the Group CEO.

Directors

Directors contribute to the development of the Group's strategy. They analyse and monitor the performance of Management against the set objectives and ensure that the Group has adequate and proper internal controls as well as a robust system of risk management. They participate actively in Board/Committees' decision-making and constructively challenge, if necessary, the proposals presented by Management. They also bring valuable knowledge and experience to the Board and remain permanently bound by fiduciary duties and duties of care and skill.

The Board of SBMH comprises ten Directors.

Chairman of the Corporate Governance & Conduct Review Committee

The Chairman of the Corporate Governance & Conduct Review Committee (CG & CR Committee) provides expertise in the areas of corporate governance and ensures that the Board is up to standard with global and national good governance standards. He ensures that the Board receives regular and ongoing training and development. He also ensures that the policies on conduct and ethical standards are regularly upheld and transparency is adhered to by the Board and Senior Management.

Mr Roodesh Muttylall is the Chairman of the CG & CR Committee.

Chairman of the Risk Management Committee

The Chairman of the Risk Management Committee provides risk expertise to the Committee and ensures compliance with the regulatory framework. He guides and advises the Board in the approval of an appropriate risk management framework. He also ensures that appropriate risk management training is provided to Directors and Senior Management, and that the training is effective.

Mr Azim Fakhruddin Currimjee is the Chairman of the Risk Management Committee.

Group Chief Financial Officer

The Group Chief Financial Officer (Group CFO) will be responsible for the financial reporting and management of the Group. In addition to the finance and tax related matters, the Group CFO will drive the annual planning and budgeting process and the monthly reporting and performance evaluation.

The Group is in process of recruiting a Group CFO.

Company Secretary

The Company Secretary provides the Board with guidance in respect of its duties, responsibilities, powers as well as all applicable laws & regulations. She also ensures 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 and that all statutory registers are properly maintained. She certifies in the annual financial statements of the company that all returns as required under the Act have been filed with the Registrar. In addition, she ensures 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.

Mrs D Ramjug Chumun is the Company Secretary of SBMH.

More information on the key roles is available on the Website

Our Senior Management Team

Our experienced leadership team continues to collaborate with the different entities of the Group to support the delivery of our strategic objectives.

The Senior Management Team of SBMH is led by the Group CEO.

The profiles of the Senior Management Team are found on page 37.

Principle TWO - The Structure of the Board and its Committees

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

Board Structure

Governance of the Group and the responsibility for driving good corporate citizenship is vested in a unitary Board, supported by several Board committees.

The Group has a Unitary Board Structure with:

- 1 Executive Director
- 2 Non-Executive Directors
- 7 Independent Non-Executive Directors

The Board is responsible for the stewardship of SBMH, overseeing its strategy, conduct and affairs to create sustainable value growth for its stakeholders. SBMH has a unitary Board of ten Directors, consisting of seven (including the Chairman) Independent Non-Executive Directors, two Non-Executive Directors and one Executive Director. A sufficient number of Directors do not have any relationship with the organisation. The Board is led by Mr Kee Chong Li Kwong Wing, *G.O.S.K*. The Board has delegated authority to Mr Andrew Bainbridge to oversee the day to day management of the Group in close collaboration with the Chief Executives of each cluster/operating entity. Mr Andrew Bainbridge was elected as Executive Director of SBMH at the last Annual Meeting of SBMH held in June 2018. SBMH is in process of identifying and appointing a second Executive Director. All Directors are resident in Mauritius.

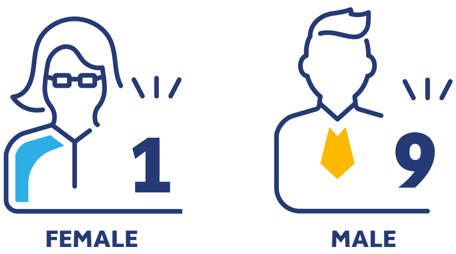
Board Diversity

The goal of SBMH is to ensure that the Board is well balanced and appropriate for the needs of the business, comprising of Directors who are sufficiently experienced and independent of character and judgement. When recommending new directors to the Board, the Nomination & Remuneration Committee has regard to the balance of skills, knowledge and experience required for the Board and its Committees to operate effectively.

The Board consists of an appropriate mix of diverse skills and experience in the fields of financial services, public administration, accounting, economics, tourism, manufacturing, services as well as textile. The Board acknowledges the requirement for gender representation in its membership. In this regard, Ms Sharon Ramdenee joined the Board of SBMH as an additional Independent Non-Executive Director on 14 December 2018.

Board Composition as at 31 December 2018

Gender Balance as at 31 December 2018



Board Tenure as at 31 December 2018

Type of Mandate: Unitary Board of Ten Directors

Constitution: Not less than seven (7) nor more than eleven (11) Directors

Powers of the Board

The Board serves as the focal point and custodian of the Group's corporate governance. It is responsible for providing ethical and effective leadership to the Group. It agrees on the strategic direction and approves the policy frameworks used to measure organisational performance. This is achieved through transparent reporting on the part of Management as well as active board oversight. The Group CEO and the Executive Team are expected to deliver against agreed performance targets aligned to strategy in the best interests of the Group and its stakeholders.

The key roles and responsibilities of the Board of Directors are set out in SBMH's Board Charter. The Board is aware of its fiduciary duties and ensures that the Group adheres to all relevant legislation such as the Banking Act 2004, the Financial Services Act 2007, the Financial Reporting Act 2004, the Companies Act 2001 as well as the Stock Exchange of Mauritius Listing Rules and Securities Act 2005. Similarly, the Board has adopted the principles of good corporate governance as recommended in the Code.

Board Meetings

The Board held 20 meetings during the Financial Year ended 31 December 2018. Only Board members attend the Board meetings, with other officers of SBMH and its Subsidiaries, advisors and other subject matter experts attending on invitation for specific matters.

An annual board calendar is communicated to the Board at the beginning of each Financial Year by the Chairman of the Board with the assistance of the Company Secretary. The Chairman sets the Board agenda assisted by the Group CEO and the Company Secretary. Board notes are circulated to the Directors well ahead of the meeting to facilitate meaningful, informed and focused decisions at the meetings. Where personal attendance is not possible, meetings are conducted by means of audio and/or video conferences.

In line with good governance practices, separate meetings of (a) the Independent Non-Executive Directors without the Non-Executive and Executive Directors and (b) Independent and Non-Executive Directors without the Executive Director, are led in closed sessions by the Chairman, effective August 2018. The primary objective of these sessions is to provide the Independent and Non-Executive Directors with an opportunity to discuss among peers and to raise any matters which they may not wish to discuss in the presence of the Executive Director. A clear division of responsibilities at the Board level ensures that none of the Directors has unfettered decision-making powers.

The brief profiles of the Board members are found at pages 30 to 35 of this Annual Report.

Board Attendance

The following table shows the attendance at Board meetings of all the Directors during 2018:

Members	Board member since	Board status	Meeting attendance
Mr Kee Chong Li Kwong Wing, *G.O.S.K (Chairman)*	April 2015	Independent Non-Executive Director	17/20
Mr Azim Fakhruddin Currimjee	June 2016	Independent Non-Executive Director	19/20
Mr Medha Gunputh	February 2015	Non-Executive Director	20/20
Mr Maxime Hardy	June 2015	Independent Non-Executive Director	20/20
Mr Vidianand Lutchmeeparsad	June 2015	Non-Executive Director	17/20
Mr Ramprakash Maunthrooa	June 2015	Independent Non-Executive Director	16/20
Mr Subhas Thecka	June 2017	Independent Non-Executive Director	18/20
Mr Roodesh Muttylall	June 2015	Independent Non-Executive Director	17/20
Mr Andrew Bainbridge	June 2018	Executive Director/Group CEO	11/20
Ms Sharon Ramdenee	December 2018	Independent Non-Executive Director	-
In attendance			
Mr Andrew Bainbridge		Group CEO	9/20

During the year, the Board deliberated on the following topics:

Board of Directors Focus Areas 2018

Strategy and Performance

- Reviewed the strategic orientations and budget plans of all the banking and non-banking entities of the Group
- Monitored the expansion initiatives in the following countries:
  - Kenya
  - Madagascar
  - Seychelles
  - India
- Monitored the implementation of initiatives including those proposed by McKinsey, an international consultancy firm, hired to devise a strategic roadmap for the Group

Financial

- Reviewed and approved the Group's financial statements on a quarterly basis
- Assessed and monitored the Group's financial performance against budget
- Approved the declaration of dividend
- Reviewed the valuation of equity investments held by the Group
- Reviewed the reports from the Audit Committee, Internal Audit and Anti-Fraud Team
- Reviewed the capital requirements of the Group and its subsidiaries
- Monitored the implementation of IFRS 9 which became effective as from 01 January 2018
- Approved the issue and listing of (a) Class A2 series Bond of MUR 2 billion fixed interest rate (5.75% p.a.) subordinated Tier II bonds due 2028 with a Green Shoe option of 75% for a maximum amount of MUR 3.5 billion and (b) Class B2 series bond of USD 50 million fixed interest rate (4.75% p.a.) subordinated Tier II bonds due 2025 with a Green Shoe option of 100% for a maximum amount of USD 100 million respectively

Governance & Risk

- Reviewed the Charter and the Terms of Reference of the Board and its Committees respectively
- Discussed the New National Code of Corporate Governance for Mauritius and its implementation across the Group
- Reviewed and approved the policies of the Group
- Reviewed the findings of the evaluation of the Board and its Committees
- Reviewed related party transactions on a quarterly basis
- Reviewed the structure, size and composition of the Board and its Committees
- Ensured that the Group has a solid risk management system in place in terms of people, systems, policies, controls and reporting
- Monitored the implementation of a governance review remediation plan on a quarterly basis

Technology

- Monitored the implementation of the IT projects undertaken by the Group
- Brought focus on the need for digitalisation within the Group

Others

- Approved the minutes of proceedings
- Reviewed reports from Chairpersons of Committees
- Took note of the developments in the operating environment

Board Committees

As the focal point of the corporate governance system, the Board is ultimately responsible and accountable for the performance and affairs of the Group. The following Committees have been established to assist the Board and its directors in discharging their duties through a more comprehensive evaluation of specific issues, followed by well-considered recommendations to the Board namely:

- 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 Seychelles*
- Strategy Committee

**the Committee was discontinued during the reporting year*

***the Committee was renamed from "IT Steering Committee" to "IT Committee" at start of FY 2019*

Board Committee meetings are held at least once quarterly and all Committees operate under the Board-approved Terms of Reference, which are updated at least annually to stay abreast of developments in the law, regulations and governance best practice. 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.

MR SUBHAS THECKA
CHAIRMAN OF AUDIT COMMITTEE

<< The Committee plays an essential role in safeguarding the interests of shareholders through continuous review, challenge and debate. >>

Audit Committee

Dear Shareholder,

I am pleased to present this Report for the year ending December 2018. The following sections give an insight into how the Committee discharged its responsibilities during the year.

The primary functions of the Audit Committee (the Committee) are to assist the Board in fulfilling its responsibility with respect to (i) safeguarding of assets, (ii) operation of adequate systems and 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.

In addition to its core duties, the Committee has also been involved in handling regular meetings with the Anti-Fraud Department during the reporting year. Even though policies and procedures are well in place, it can take time to detect the act of personal opportunism in a system where the communication flow is complex due to regulatory requirements. Various inquiries among Heads and staff members are still in progress to initiate appropriate actions.

The Committee also provides the assurance that SBMH's annual report and accounts are fair and balanced.

On behalf of the Committee,

Mr Subhas Thecka
Chairman of Audit Committee

The Committee, which comprises four independent Non-Executive Directors, met four times during the reporting period as detailed below:

Members	Committee member since	Board status	Meeting attendance
Mr Subhas Thecka (Chairman)	August 2017	Independent Non-Executive Director	4/4
Mr Azim Fakhruddin Currimjee	June 2016	Independent Non-Executive Director	3/4
Mr Maxime Hardy	July 2015	Independent Non-Executive Director	4/4
Mr Roodesh Muttylall	July 2015	Independent Non-Executive Director	4/4
In attendance			
Mr Andrew Bainbridge		Group CEO	4/4

Members of Senior Management are generally invited to attend these meetings as and when their specific technical knowledge is required. The Committee also meets without Management before each full meeting and even separately with the Head of Internal Audit and the External Auditors.

Focus Areas in FY 2018

The Committee undertook the following core activities during the year:

Key topics discussed

Financial Reporting

> Considered, analysed, reviewed and debated information, key judgements and significant matters raised by Management, internal audit and the external auditors to ensure that the results of the Group and the financial statements at the end of the year are appropriate

> Monitored the integrity of the annual and interim financial statements during the year, with a focus on key accounting policies, financial reporting issues and judgements together with the findings set out in the reports from the external auditors

> The Committee considered the clarity and completeness of the disclosures within the financial reports

External Audit

> Maintained the integrity of the relationship with the external auditors

> Monitored the independence and effectiveness of the external auditors in terms of their audit quality and expertise

> Significant audit matters were considered regarding the audit opinion

Internal Audit

> Monitored and reviewed the effectiveness of the Internal Audit function in terms of its scope, execution of its plan, coverage, independence, skills, staffing, overall performance and position within the organisation

> Reviewed quarterly reports from the Internal Audit Team which covered progress with audit plan delivery and reviewed and approved proposed amendments to the plan to ensure its alignment to the changing nature of the Group's risk profile

Key topics discussed

Internal Audit

> Ensured that the work completed by Internal Audit Team during the year was directed towards key areas including information and data security and cross-business risks mitigation such as management of third parties
> Ensured that timely actions were taken by Management to address the adverse finding from the Internal Audit Team
> Where it was appropriate, Management was invited to attend meetings to present an update on the status of measures implemented to address audit findings and recommendations
> Ensured that effective communication was in place between the External Auditors and the Internal Audit Team to check for reliability of evidence.

Internal Control Systems

> Reviewed the Internal Controls and Processes of the Group on a quarterly basis. The regular monitoring of the internal control framework allowed the identification of issues and formal tracking of remediation plans
> Ensured significant controls were in place with regards to cybersecurity
> Ensured integrity and accountability from everyone working for the Group

During the reporting year, the Committee played a significant role in ensuring proper information flow not only from Internal Audit Team and External Auditors but also from the Anti-Fraud Department. Once weaknesses were identified, corrective measures were taken to ensure adequate monitoring of the control system. Integrity and accountability will continue to be the guiding principles for the proper operation of the Group.

Plan for FY 2019

For 2019, the Committee plans to:

> Conduct an independent assessment of the External Auditors. As the actual audit firm has reached its term in office, a recommendation will be made to the Board to appoint another audit firm for FY 2020 which will then make recommendation to the shareholders for approval at the forthcoming Annual Meeting.
> Continue to ensure that the Group's financial systems, processes and controls are operating effectively, are consistent with the Group's complexity and are responsive to changes in the environment and industry.
> Continue to monitor the activities of the external audit, internal audit, compliance and financial crime control as they pertain to the regulatory and internal control environment of the Group.
> Review reports from Management.

Corporate Governance & Conduct Review Committee

Message from the Chairman is found on page 50

The Board of SBMH has established the Corporate Governance & Conduct Review Committee to ensure that the Group's Policies on corporate governance are in accordance with applicable laws, regulations and best practice and that sound governance principles are adopted across the Group. The CG & CR Committee comprises six Members and met six times during the reporting year as follows:

Members	Committee member since	Board status	Meeting attendance
Mr Roodesh Muttylall *(Chairman)*	July 2015	Independent Non-Executive Director	6/6
Mr Medha Gunputh	July 2015	Non-Executive Director	6/6
Mr Maxime Hardy	July 2015	Independent Non-Executive Director	5/6
Mr Vidianand Lutchmeeparsad	July 2015	Non-Executive Director	4/6
Mr Ramprakash Maunthrooa	July 2015	Independent Non-Executive Director	5/6
Mr Andrew Bainbridge	August 2018	Group CEO/ Executive Director	2/6

In attendance			
Mr Andrew Bainbridge		Group CEO	2/6

Focus Areas in FY 2018

Key topics discussed

- Reviewed the Corporate Governance Report
- Reviewed the Governance Review Report and monitored progress relating to actions initiated
- Reviewed Board/Committees and individual Directors evaluations
- Reviewed the Board and Board Committees composition
- Reviewed the Related Party Transaction for reporting quarters
- Reviewed the Terms of Reference of Board Committees/ Management Committees
- Considered other Governance matters

Plan for FY 2019

For 2019, the Committee plans to:

- Update the major policies of the Group
- Ensure that specialised training be provided to Directors on a continuous basis

MR VIDIANAND LUTCHMEEPARSAD
CHAIRMAN OF IT COMMITTEE

<< The aim is to become a digital bank to service the Bank's customers and other stakeholders effectively and efficiently. >>

IT Committee

Dear Shareholder

On behalf of the IT Committee, I am pleased to present you this Report for the financial year 2018.

The Board of SBMH has established the IT Committee to approve (within the approval threshold as set out by the Board) or recommend to the Board of SBMH for approval, all budgeted Group IT projects, as well as monitoring their implementation and progress. The IT Committee constitutes of representatives from both SBMH and SBMBM.

I took over the chair from Mr Kee Chong Li Kwong Wing, *G.O.S.K* in August 2018 and I am delighted with the overall progress made in terms of IT across the jurisdictions where SBM Group is present. The Committee however took cognizance of the recent cyberattack at SBM Bank (India) Limited (SBMBI) and is closely tracking the remedial measures with respect to cybersecurity.

On behalf of the Committee,

Mr Vidianand Lutchmeeparsad
Chairman of IT Committee

The Committee comprises the following members and met eight times during FY 2018 as follows:

Members	Committee member since	Board status	Meeting attendance
Representatives of the Board of SBM Holdings Ltd			
Mr Vidianand Lutchmeeparsad (Chairman)*	August 2018	Non-Executive Director	3/8
Mr Azim Fakhruddin Currimjee	January 2017	Independent Non-Executive Director	2/8
Mr Medha Gunputh	January 2016	Non-Executive Director	8/8
Mr Kee Chong Li Kwong Wing, *G.O.S.K***	July 2015	Independent Non-Executive Director	8/8
Mr Subhas Thecka***	August 2017	Independent Non-Executive Director	5/8
Mr Andrew Bainbridge	August 2018	Group CEO/ Executive Director	3/8
Representatives of the SBM Bank (Mauritius) Ltd			
Mr Mahmadally Burkutoola****	July 2015	Non-Executive Director	8/8
Mr Ishwar Anoopum Gaya	June 2016	Non-Executive Director	6/8
In attendance			
Mr Andrew Bainbridge		Group CEO	5/8

** Appointed as Member and Chairman of the Committee in August 2018*

*** Ceased to be Chairman of the Committee in August 2018*

**** Ceased to be a Member of the Committee in August 2018*

***** Ceased to be a Member of the Committee in February 2019*

Focus Areas in FY 2018

In discharging its responsibilities as set out in the Terms of Reference, the Committee focused on the following key areas, among others, during the year under review:

Key topics discussed

- Monitored the implementation of the IT platform in India, Kenya and Seychelles
- Addressed the challenges experienced with the implementation of the IT platform for Mauritius
- Reviewed and updated the Committee's mandate considering relevant legislation, regulation and governance principles. Accordingly, the name of the Committee was changed from IT Steering Committee to IT Committee
- Considered regular updates on new projects being initiated across the Group
- Reviewed the IT resource requirements
- Monitored the project pertaining to the relocation of the Data Centre and Disaster Recovery to Mauritius to comply with regulatory requirements
- Monitored the cybersecurity aspects across the Group
- Tracked the financial spend towards the IT projects on a regular basis

Focus Areas in FY 2019

The Committee will continue to:

- Focus on digital innovation and leveraging new technologies
- Maintain its proactive participation and leadership in the consideration of new ways of working and the adoption of new technologies
- Monitor the key projects being undertaken across the Group
- Provide support to the IT Team to minimise dependencies on suppliers/vendors.
- Ensure that the ICT infrastructure of the Group meets and exceeds all the Information Security requirements and standards imposed by the Bank of Mauritius and international bodies

- Ensure and monitor the regular conduct of stringent and independent IT security audits in view to ensure that the ICT Infrastructure of the Group remains safe and secure at all time
- Ensure monitoring and conduct of drills and simulations as per International best practices to test the effectiveness of disaster recovery (contingency) plans developed by the Group
- Explore opportunities for Mobile Banking applications in, amongst others, the mass market segment and benchmark on best practices available in countries
- Ensure the conduct of business process improvement exercise in the different areas of Banking activities and which could be leveraged by the adoption of innovative technologies
- Ensure that the Total Cost of Ownership (TCO) of ICT assets including ICT licensing model remain at acceptable levels
- Explore best practices and technologies in the areas of Fintech including blockchain and artificial Intelligence
- Promote the adoption of Internet Banking with a view to reducing cost and improving convenience of customers
- Place the customers at the centre of services provided by SBMBM through the adoption of innovative technologies
- Ensure transfer of technologies and expertise to local staff
- Ensure that SBMBM complies with the new data protection legislation which is in line with General Data Protection Regulation (GDPR) of the European Union.

MR MEDHA GUNPUTH
CHAIRMAN OF NOMINATION & REMUNERATION COMMITTEE

<< Remuneration in SBM Group is aligned to business performance and is benchmarked against industry standards. >>

Nomination & Remuneration Committee

Dear Shareholder,

On behalf of the Nomination & Remuneration Committee of SBMH, I am pleased to present to you this Report for the financial year ended 31 December 2018.

The Nomination & Remuneration Committee (the 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. This is necessary to ensure that the Group delivers sustained shareholder value.

The Committee is also responsible for remuneration, succession planning and other board concerns including their on-going training and access to technical support and information.

On behalf of the Committee,

Mr Medha Gunputh
Chairman of Nomination & Remuneration Committee

The Committee comprises six members and met nine times during the reporting year as follows:

Members	Committee member since	Board status	Meeting attendance
Mr Medha Gunputh *(Chairman)*	July 2015	Non-Executive Director	9/9
Mr Azim Fakhruddin Currimjee	August 2017	Independent Non-Executive Director	8/9
Mr Maxime Hardy	July 2015	Independent Non-Executive Director	7/9
Mr Vidianand Lutchmeeparsad	June 2016	Non-Executive Director	7/9
Mr Ramprakash Maunthrooa	July 2015	Independent Non-Executive Director	7/9
Mr Roodesh Muttylall	August 2017	Independent Non-Executive Director	7/9
In attendance			
Mr Andrew Bainbridge		Group CEO	7/9

Focus Areas in FY 2018

In discharging its responsibilities as defined in its Terms of Reference, the Nomination & Remuneration Committee focused on the following during the year under review:

Key topics discussed

> Identified and evaluated candidates for senior management positions at the holding entity level
> Monitored the recruitment of senior personnel across all subsidiaries
> Ensured transparent and fair recruitment
> Reviewed the remuneration and HR related policies
> Took note of the productivity bonus and salary review of SBMH staff

Key topics discussed

> Assisted in the conversion of staff employed on a contract of determinate duration to contract of indeterminate duration
> Recommended the appointment of a lady Director to the Board to ensure gender equality in line with Principle Two of the Code
> Considered and noted the Non-Executive Directors' fees paid by SBMH

During the year, the Committee held some unscheduled meetings in order to provide support for senior appointments at SBMH and across its subsidiaries.

Board Diversity

The Committee pays particular attention to Board diversity and ensures that candidates with the right profile, skills, expertise, perspective and of different important personal attributes are appointed on the Board of SBMH, thus making a positive contribution to the business. More details are provided at page 55 of the Report.

Directors' Time Commitment

All Directors are aware of the need to allocate sufficient time to the Company in order to discharge their responsibilities effectively. In line with its mandate, the Nomination & Remuneration Committee monitors the attendance, committee composition, length of service amongst others on an ongoing basis. The letters of appointment for Non-Executive Directors set out the time commitment expected for them to perform their duties effectively.

Action Plan for FY 2019

For 2019, the Committee plans to:

> Continue to review succession plans for the Board and the key roles on a fair and transparent manner across the Group
> Continue to review future talent pipeline and ensure the gaps are plugged in a timely manner
> Review development initiatives for Directors in conjunction with the CG & CR Committee
> Ensure staff are remunerated fairly and based on merit.

MR KEE CHONG LI KWONG WING,
G.O.S.K
CHAIRMAN OF REGIONAL EXPANSION STEERING COMMITTEE

<<

SBM Group aims to expand its footprint in line with its regional expansion strategy.

>>

Regional Expansion Steering Committee

Dear Shareholder,

I am delighted to brief you on the regional expansion initiatives undertaken by the Group for the financial year 2018.

The Board of SBMH set up the Regional Expansion Steering Committee (the Committee), which is not a mandatory Committee, to review the regional expansion initiatives of the Group. In order to diversify the concentration of risk and maximise returns, the Committee shall consider expansion opportunities in geographies other than Mauritius in line with the strategy agreed by the Board.

Following the take-over of the ex-Fidelity Commercial Bank in May 2017, in line with our regional expansion strategy in East Africa, SBMH successfully completed the acquisition of the carved out assets and assumption of specific liabilities of CBLR during the reporting year through its subsidiary SBMBK.

In 2018, SBM became the first foreign bank to obtain a Wholly Owned Subsidiary (WOS) Licence by the Reserve Bank of India. SBM successfully completed the amalgamation of all its branches in India into a fully-fledged WOS in December 2018. We are now operating there as SBMBI to better serve our Indian customers.

In the same vein, the Group aims to expand its footprint into the Seychelles during FY 2019.

On behalf of the Committee,

Mr Kee Chong Li Kwong Wing, *G.O.S.K*
Chairman of Regional Expansion Steering Committee

The Committee has the following Members and met four times during FY 2018:

Members	Committee member since	Board status	Meeting attendance
Mr Kee Chong Li Kwong Wing, *G.O.S.K (Chairman)*	July 2015	Independent Non-Executive Director	4/4
Mr Azim Fakhruddin Currimjee	June 2016	Independent Non-Executive Director	3/4
Mr Medha Gunputh	June 2016	Non-Executive Director	4/4
Mr Vidianand Lutchmeeparsad*	July 2015	Non-Executive Director	2/4
Mr Ramprakash Maunthrooa	July 2015	Independent Non-Executive Director	3/4
Mr Roodesh Muttylall	August 2017	Independent Non-Executive Director	2/4
Mr Maxime Hardy**	August 2018	Independent Non-Executive Director	1/4
Mr Andrew Bainbridge	August 2018	Executive Director/ Group CEO	1/4
In attendance			
Mr Maxime Hardy**		Independent Non-Executive Director	2/4
Mr Andrew Bainbridge		Group CEO	3/4

** ceased to be Member of the Committee in August 2018*

*** appointed as Member of the Committee in August 2018*

Focus Areas in FY 2018

Key topics discussed

- Acquisition of the carved out assets and assumption of certain liabilities of CBLR in Kenya
- Monitored progress in respect of the implementation of the (a) Seychelles subsidiary and (b) WOS initiative in India
- Monitored the performance of SBMBK

Focus Areas in FY 2019

During the FY 2019, the Committee undertakes to:

- Continue to monitor the performance of SBMBK and SBMBI
- Establish the operations in Seychelles
- Explore regional expansion initiatives in line with the Group's strategy

MR AZIM FAKHRUDDIN CURRIMJEE
CHAIRMAN OF RISK MANAGEMENT COMMITTEE

<< 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. >>

Risk Management Committee

Dear Shareholder,

I am pleased to present to you this Report for financial year 2018.

The Risk Management Committee was set up to supervise the Group's overall current and future risk appetite, oversee Senior Management's implementation of the risk appetite framework and reporting on the state of risks. It assists the Board in fulfilling its responsibility with respect to (i) oversight of the Group's risk management framework, including policies and practices in managing credit, market, operational, legal, compliance and other risks, and (ii) oversight of SBM 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 way we manage the risks, together with how we protect and enhance our capital, is critical to the Group's sustainability. More details are provided in the Risk Management Report on pages 145 to 185.

On behalf of the Committee,

Mr Azim Fakhruddin Currimjee
Chairman of Risk Management Committee

The Committee comprises the following Members and met four times during FY 2018:

Members	Committee member since	Board status	Meeting attendance
Mr Azim Fakhruddin Currimjee *(Chairman)*	June 2016	Independent Non-Executive Director	4/4
Mr Medha Gunputh	March 2015	Non-Executive Director	4/4
Mr Kee Chong Li Kwong Wing, *G.O.S.K*	July 2015	Independent Non-Executive Director	3/4
Mr Vidianand Lutchmeeparsad	July 2015	Non-Executive Director	2/4
Mr Ramprakash Maunthrooa	August 2017	Independent Non-Executive Director	3/4
Mr Subhas Thecka	August 2017	Independent Non-Executive Director	4/4
Mr Andrew Bainbridge	August 2018	Group CEO/ Executive Director	1/4
In attendance			
Mr Andrew Bainbridge		Group CEO	3/4

Focus Areas in FY 2018

Key topics discussed

> Ensured that the Group has a robust risk management system in terms of people, systems, policies, controls and reporting
> Reviewed the risk appetite of the Group as approved by the Board
> Monitored the Group's risk profile on a quarterly basis
> Reviewed its mandate to ensure compliance with the statutory laws and obligations
> Evaluated the stress testing scenarios
> Reviewed the risk heat map on a quarterly basis
> Reviewed the Group's policies for management of risks particularly in the areas of credit, market, interest rate, liquidity, operational and technological risks and made recommendations thereon to the Board for approval
> Reviewed new products/initiatives undertaken at SBMBM level on a quarterly basis
> Reviewed the Group's investment book
> Reviewed material litigation against the Group and its subsidiaries on a quarterly basis

Focus Areas in FY 2019

During the FY 2019, the Committee undertakes the following:

> Continue to ensure that the Group has a robust risk management system
> Review the risk appetite of the Group
> Review the Group's investment book
> Review the credit, market and operational risks of the Group
> Review new products/initiatives undertaken by SBMBM

MR KEE CHONG LI KWONG WING, ***G.O.S.K***
CHAIRMAN OF STRATEGY COMMITTEE

<< The Group embarked on a five year growth strategy in 2016 to prudently grow our balance sheet, 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 offering non-banking financial services. >>

Strategy Committee

Dear Shareholder

I am pleased to share a brief of the Strategy Report of SBMH for financial year 2018.

The Board of SBMH has established the Strategy Committee, which is not a mandatory committee, to 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 that they align with the Group's mission, vision and objectives.

In line with the five year growth strategy, ten priority growth initiatives and eight critical enablers across the five pillars, namely consolidation, diversification, regionalisation, modernisation and capacity building, have been identified and are being tracked closely by Senior Management. Further details are available in the Strategy Report on pages 39 to 47.

Mr Kee Chong Li Kwong Wing, *G.O.S.K*
Chairman of Strategy Committee

The Committee comprises the following members and met four times during the reporting year:

Members	Committee member since	Board status	Meeting attendance
Mr Kee Chong Li Kwong Wing, *G.O.S.K (Chairman)*	July 2015	Independent Non-Executive Director	4/4
Mr Azim Fakhruddin Currimjee	June 2016	Independent Non-Executive Director	3/4
Mr Maxime Hardy	August 2017	Independent Non-Executive Director	4/4
Mr Vidianand Lutchmeeparsad	July 2015	Non-Executive Director	1/4
Mr Ramprakash Maunthrooa	July 2015	Independent Non-Executive Director	2/4
Mr Subhas Thecka	August 2017	Independent Non-Executive Director	4/4
Mr Andrew Bainbridge	August 2018	Executive Director/ Group CEO	1/4
In attendance			
Mr Andrew Bainbridge		Group CEO	3/4

Focus Areas in FY 2018

Key topics discussed

- Reviewed the Group's strategy
- Ensured the strategic investments or divestments made are in line with the Group's strategy
- Reviewed the implementation of the initiatives proposed by McKinsey in line with the 5 year strategy roadmap for the Group
- Reviewed the economic outlook and competition
- Monitored the evolution of the share price on a quarterly basis

Focus Areas in FY 2019

The Committee will ensure the following:

- Monitor the progress of the growth initiatives and critical enablers
- Continue to monitor the evolution of the share price of SBMH
- Continue to ensure all future strategy investments decision are taken as approved by the Board

The full Terms of Reference of the Committees are available on the Company's website.

Management Committees

(i) Group Executive Forum

The Board of SBMH has set up a Group Executive Forum (Group EF) to consider group strategic themes. The main objectives of the Group EF are as follows:

> Prioritise key strategic initiatives of the Group, and oversee their implementation
> Monitor the performance of operating entities of the Group
> Foster synergy across different entities of the Group, namely by addressing cross-functional issues

The Group EF is led by the Group CEO and comprises the Chief Executives of the operating entities, the Group Head of Strategy and Research, the Group Head of Finance, Group Chief Information Officer and the key Executives of SBMBM as Members double-hatting as Group Functional Heads, namely:

> Head of Finance
> Head of Human Resources
> Head of Legal & Corporate Affairs
> Head of Risk
> Head of Operations
> Head of Financial Markets

The Committee meets twice monthly. The Minutes of Proceedings of the Group EF are tabled at the Board meetings of SBMH.

(ii) Disclosure Forum

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

> Mr Deenesh Ghurburrun*
> Mr Dipesh Jhowry
> Mr Sivakrisna Goinden
> Mr Shailendrasingh Sreekeessoon

The Committee meets twice annually. The Minutes of Proceedings of this Forum are tabled at the CG & CR Committee meeting.

**ceased to be an employee of SBM effective 22 February 2019*

(iii) Capital Allocation & Planning Committee

The Capital Allocation & Planning Committee (CAPCo) is an executive level committee set up by the Group CEO to ensure:

> A clear, group-wide view exists on certain, probable and potential capital requirements
> Identified potential capital raising opportunities are prioritised and executed in line with our wider corporate strategy
> The Group has the ability to meet its regulatory and contractual obligations regarding payment or injection of capital or repayment of capital
> Capital raising and repayment are conducted in a way that maximises Group synergies and enhances the Group's overall brand with its investor base and the financial sector.

The CAPCo is led by the Group CEO and comprises the following senior members of the Group:

> CE Banking, Mauritius
> CE Non-Banking, Mauritius
> Group CFO
> Head of Capital Management
> Head of Strategy and Research
> Head of Risk
> Head of Financial Markets
> Head of Financial Institutions

The Committee meets on a quarterly basis, or more frequently if required. The Minutes of Proceedings of this Forum are tabled at the Board meeting of SBMH.

The Company Secretary

The Company Secretary plays a leading role in the good governance of the Company by supporting the Chairman and helping the Board and its Committees to function efficiently. Together with the Chairman, the Company Secretary keeps under review the governance processes adopted by the Group to ensure that they remain fit for purpose and considers any improvements that could strengthen the governance of the Group. All Directors have access to the services of the Company Secretary and may take independent professional advice in discharging their duties.

The Company Secretary acts as Secretary to the Board and each of its Committees. The appointment or removal of the Company Secretary is a matter for the Board as a whole. Mrs Dayawantee (Poonam) Ramjug Chumun is the Company Secretary of SBMH. She 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 function in 2007. Formerly Company Secretary of the SBM NBFC cluster and SBM Bank (Mauritius) Ltd, she was appointed as the Company Secretary of SBMH in March 2015. She has extensive experience in Company Secretarial and Corporate Governance matters and has been instrumental in the implementation of a number of recent Group corporate governance initiatives.

The roles and responsibilities of the Company Secretary are found at page 54.

Principle THREE - Director Appointment Procedures

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

Appointment

Sections 14.1 and 14.3 of the Constitution of SBMH require the following:

"The number of Directors shall not be less than Seven (7) nor more than Eleven (11). The Chief Executive of the Company shall be an ex officio member of the Board"

"Each non-executive Director shall be elected by a separate resolution at the Annual Meeting of Shareholders and shall hold office until the next Annual Meeting and subject to any BOM restrictions, shall be eligible for re-election.".

As set out in the Board Charter, the Board carefully considers the needs of the organisation when appointing Directors to the Board. Potential directors are identified as per their field of expertise, the contribution that they could make to SBMH and the Group as a whole, the time they can commit to SBMH, their existing directorships (to minimise any potential conflicts of interest) as well as their overall standing within professional circles.

With the assistance of the Legal and Corporate Affairs function, the Nomination & Remuneration Committee will carry out a due diligence process to determine the eligibility and fit and proper status of the prospective director prior to recommending to the Board of SBMH for consideration. The Board will either approve, if the appointment is made out of the normal annual appointment cycle, or put forward to the shareholders at the Annual Meeting for approval.

Following shareholders/Board approval, the appointee will then be required to sign a letter of appointment as Director of the Board covering the key requirements of the directorship.

The Board affirms that all new Directors participate in an induction and orientation process to ensure he/she is familiarised with the structure of the Group, its activities, its staff and the laws and documentation necessary for the effective performance of his/her duties. The Board also continuously reviews the professional development and ongoing education of Directors. Further details are provided in Principle Four of the Report.

Succession planning

In line with good governance, the Board regularly assesses the executive director succession plans, including that of the Group CEO, and is kept abreast of group management succession plans. The Board of SBMH believes that good succession planning contributes further to the delivery of the Group's strategy by ensuring the desired mix of skills and experience of current and future Board members. The Nomination & Remuneration Committee, in collaboration with the CG & CR Committee, shall proactively review the succession requirements for the Board.

The Board is also committed to recognising and nurturing talent within Executive and Management levels across the Group to ensure that the Group creates opportunities to develop current and future leaders. Succession planning for Senior Management is based on the input received from existing Senior Management and the Group CEO. The Committee shall, with the assistance of the Group CEO and the Human Resources function, periodically review any vacancy or probable vacancy amongst Senior Management which may typically arise on account of retirement or resignation. Whilst vacancies may also be opened to external candidates, the Board shall strive to fill any such vacancy internally if the internal candidate possesses the skills and qualifications required for the role. The Board shall, in consultation with the Group CEO and the Chairman of the Nomination & Remuneration Committee, evaluate the suitability of candidates based on factors such as experience, and leadership skills, and accordingly recommend to the Board.

The Board is considering defining a succession planning policy which will be applicable for the succession planning of the Senior Management Team and Independent & other Non-Executive Directors on the Board of SBMH.

Principle FOUR - Director Duties, Remuneration and Performance

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

Legal Duties

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

Code of Ethics

The main objective of SBM is to achieve long term growth and sustainability through exceptional service delivery and high ethical standards. A Group Code of Ethics was drafted in consultation with the staff and Management of the various entities and was approved by the Board of SBMH. A copy of the Group Code of Ethics is available on the website.

Directors and staff are made aware of this Code and the consequences for non-compliance. The Board regularly monitors and evaluates compliance with the Group Code of Ethics.

Induction

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

In line with good governance, the Board of SBMH ensures that all new Directors receive a comprehensive induction programme which is tailored to his/her previous experience and covering specific listed company responsibilities. The programme is designed to facilitate the understanding of SBM Group, its overall strategy, corporate governance and practices as well as providing them with appropriate training and guidance as to their duties, responsibilities and liabilities as a Director of a publicly listed entity. One-to-one meetings and site visits are also scheduled with the Chairman of the Board and Management to introduce the new Directors to the Group and its operations.

The Company Secretary along with the SBM Training Academy and the Group CEO assist in the induction of new Directors and their on-going training and development needs as required.

On completion of the induction programme, the newly inducted Director will have the required knowledge and understanding of the nature of the business, and the opportunities and challenges facing SBMH, to enable him/her to effectively contribute to strategic discussions and oversight of the Group.

Continuous Development Programme

Directors must adopt the principle of continuous education

We recognise the importance of and are committed to high standards of corporate governance. The new Board Member pack has been designed to ensure that Board Members are provided with the support and information required to assist them in discharging their governance responsibilities.

Whilst the induction process is designed to assist new Board Members, a comprehensive training plan has also been devised in partnership with renowned international institutes and the SBM Training Academy to ensure that the Board Members are able to fulfil their key role. The plan has been devised with focus on strategy, risk and governance.

In the process of continuous learning and professional development, the Corporate Affairs function attended regular training which added value to its role in providing guidance to Board Directors on governance, compliance and fiduciary responsibilities.

During financial year 2018, Directors attended training workshops to enhance their knowledge and capabilities. The following topics were covered during the workshops:

- Effective Board Committees
- The changing standards and benchmarks
- Challenges of the following committees (Audit Committee, Risk Management Committee, Nomination & Remuneration Committee and CG & CR Committee)
- Compliance, Fraud and Whistleblowing
- Liability, delegations and general powers of committees and their members
- The relationship with other committees across the organisation
- Evaluation and succession techniques and issues
- Records and reporting by Committees
- Derivatives and risk associated with derivatives
- Project Risk: Operational and Financial Risks
- Primary Risks as well as mechanisms for structuring risks including hedging mechanisms and hedging instruments
- Sensitivity Analysis and Scenario Analysis
- Cross-border issues in project financing
- Collateral/guarantee and enforceability
- Implications of Basel Accord
- Insight into the latest tools and techniques to measure, manage and monitor credit risk
- Classification, measurement and disclosure of financial instruments in terms of IFRS 9 and IFRS 7

Performance Evaluation

Good governance encourages the Board to undertake a formal, regular and rigorous evaluation of its own performance and that of its Committees and individual Directors, and produce a development plan on an annual basis. This provides an opportunity to consider ways of identifying greater efficiencies, maximising strengths and highlighting areas for further development as well as checking that each Director continues to demonstrate commitment to his or her role and each has sufficient time to meet his or her commitments to the Group.

Following an external review by Reverend Kim Andersen, an independent Evaluator with expertise in Corporate Governance and the local business landscape at the start of 2018, an internally facilitated performance evaluation of the Board, the Committees and individual Directors of SBMH was undertaken during the reporting year in accordance with the requirements of the Code. The performance evaluation for 2018 encompasses the following steps:

Stage 1
Completion of a detailed questionnaire to assess the effectiveness of the Board, its Committees and individual Directors

Stage 2
Preparation of a composite report

Stage 3
Results presented and discussed at Board and Committee meetings.

Stage 4
Action plan and key areas of focus approved by the Board.

The results of the evaluation, carried out on a yearly basis, are presented to the Board and their respective Committees in March of each year.

Last year, having assessed the findings of the evaluation, the Directors felt that the Board is effective and engaged, with open dialogue. Each director makes an effective and valuable contribution to the Board and demonstrates commitment to the role (including making sufficient time available for Board and Committee meetings and other duties as required).

Conflicts of Interests

A conflict of interest occurs when a present transaction or relationship might conflict with a Board Member's obligations owed to SBMH 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.

SBMH has put in place a Related Party Transactions and Conflict of Interest policy, which is updated at least annually, to assist the Board in identifying and disclosing actual and potential conflicts, and help ensure the avoidance of conflicts of interest where necessary.

Directors and officers have a continuing duty to timeously inform the Board of conflicts, or potential conflicts of interest that they may have in relation to particular items of business or other directorships. Comprehensive registers are maintained of individual directors' interest and are updated on a regular basis. The interest register is also available to the shareholders of the Company upon request to the Company Secretary.

Directors' Interests and Dealings in SBM shares

The Directors of SBMH confirm that they have adhered to 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 as at 31 December 2018:

Directors	Direct Shareholdings	Indirect Shareholdings
Mr Kee Chong Li Kwong Wing, *G.O.S.K*	-	26,310
Mr Andrew Bainbridge	150,000	-

No other Director of SBMH has an equity stake in SBMH or its subsidiaries either directly or indirectly as at 31 December 2018 apart from the above mentioned Directors.

In accordance with good governance and best practice, it was deemed appropriate to maintain a register, effective this year, detailing the dealing in securities of SBMH by the following persons in addition to the SBMH Directors namely:

> The Directors, Senior Management and any of his/her associates of the following entities (a) SBMBH, (b) SBM NBFC, (c) SBM NFC and (d) the operating entities of the Group.
> Staff of selected Departments and any of their associates.

The Company Secretary maintains a Register of dealing in SBMH shares, which is updated on a regular basis and ensures that the Group complies with the provisions of the Companies Act and Listing Rules in this regard.

Remuneration

Each year, the remuneration of the Board/Committees is reviewed by the Nomination & Remuneration Committee which makes its recommendations to the Board. No Director at SBMH or its subsidiaries has received shares in lieu of remuneration.

Board of Directors

The remuneration of the Board of Directors is determined on the basis of market standards and reflects the demand, 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 2017 and 2018 in their capacity as Board members of SBMH and its Subsidiaries are listed below:

	SBM Holdings Ltd	Other Subsidiaries	SBM Holdings Ltd	Other Subsidiaries
	2018	2018	2017	2017
	MUR '000	MUR '000	MUR '000	MUR '000
Directors of SBM Holdings Ltd				
Mr Kee Chong Li Kwong Wing, *G.O.S.K*	**2,220**	**3,376**	2, 680	3, 264
Mr Azim Fakhruddin Currimjee	**1,410**	**307**	1, 540	200
Mr Medha Gunputh	**1,340**	**661**	1, 600	424
Mr Maxime Hardy	**900**	**-**	860	-
Mr Vidianand Lutchmeeparsad	**1,020**	**-**	965	-
Mr Ramprakash Maunthrooa	**1,070**	**720**	1, 015	600
Mr Roodesh Muttylall	**1,010**	**-**	880	-
Ms Sharon Ramdenee[1]	**20**	**-**	-	-
Mr Subhas Thecka	**980**	**-**	540	-
Mr Andrew Bainbridge (Group CEO)[2]	**24,122**	**-**	-	-
Directors of SBM Bank (Mauritius) Ltd				
Mr Nayen Koomar Ballah[3]	**-**	**2,536**	105	2, 894
Mr Philip Ah Chuen[3]	**-**	**1,180**	15	900
Mr Mahmadally Burkutoola[4]	**180**	**1,430**	180	1, 170
Mr Rajakrishna Chellapermal[3]	**-**	**1,520**	15	1, 080
Mr Ishwar Anoopum Gaya[5]	**180**	**1,415**	180	630
Mr Raj Dussoye (Chief Executive)[6]	**-**	**11,953**	-	15,357

[1] *Appointed on 14 December 2018*

[2] *Appointed as Group CEO on 27 January 2018 (Figures represent the total remuneration package, including health covers, pensions amongst others)*

[3] *Director of SBMBM and former Member of Board Committees of SBMH*

[4] *Former Member of the IT Committee of SBMH and former Director of SBMBM*

[5] *Director of SBMBM and Member of the IT Committee of SBMH*

[6] *Resigned as Chief Executive/Director of SBMBM effective 16 August 2018 (Figures represent total remuneration package)*

Executive Management

The Group's remuneration practices are designed to adequately motivate employees, reward performance and meet stakeholders' expectations while maintaining market competitiveness.

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

Information Technology and IT Security

Last year was a challenging one for the IT function. The Group acquired the selected assets and liabilities of CBLR in Kenya and its IT systems had to be secured and rationalised with those of the existing ones of SBMBK. Despite being a first exercise of its kind for the IT function, the outcome was a success. The IT function has built up considerable knowledge and experience following the acquisition which will add value to any future expansion plans.

Significant challenge was also there on the compliance side for data protection (Data Protection Act 2017, EU-GDPR). We have implemented 80% of the action plan and working towards completion in 2019.

We have also embarked on several new technology fronts whilst enhancing IT security and control, for instance, through the use of secure Cloud and Robotics.

We invite you to read more on our digital approach in our Sustainability Report on pages 120 and 121.

Principle FIVE - Risk Governance and Internal Control

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

Risk Governance and Internal Control

The Board has the ultimate responsibility of the risks taken by the Group. To ensure sustainable value creation, the Group has a risk and governance framework designed to maximise returns while remaining within the Board-approved risk appetite and risk tolerance levels.

Supported by an active and engaged Board of Directors and a risk management function, the risk governance structure ensures that regulatory and internal prudential requirements are fully embedded in business processes and governance frameworks across all risk functions. It facilitates identification, monitoring and escalation of major risks such as credit risk, operational risk, market risk and liquidity risk whilst providing assurance to the Board. While performing their oversight function, the Board should not be involved in day-to-day activities of risk management and ensure that risk management is not an impediment to the conduct of business nor a mere supplement to the Group's overall compliance, but is, instead, an integral component of the Group's strategy, culture and value generation process.

Similarly, the Compliance function proactively supports Senior Management and business functions through an effective compliance programme to ensure the business remains within regulatory parameters thereby mitigating the risk of regulatory sanctions and reputational risk.

Internal Audit has also an important role to play by providing 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. SBMBM, SBMBI, SBMBK, BSBMM and SBM NBFC 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.

Internal Control

The Risk Management Committee, which recommends the Group's policies to the Board for approval, ensures that risks are maintained within approved limits and any deviation is reported in a timely manner and is duly addressed. 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's philosophy is that responsibility for risk management resides at all levels within the Group and therefore uses the three lines of defence model which promotes transparency, accountability and consistency through clear identification and segregation of risks. The three lines of defence are explained in the Risk Management Report on pages 147, 152 and 153.

2018 has been a challenging and eventful year for the Group, marked by an unexpected impairment of a specific international client and an unfortunate cyber-attack in our Indian operations. Limitations in cross-border lending policies and procedures as well as in IT infrastructure which led to the cyber-attack have since been addressed.

Risk and Compliance Report

The complete Risk Management Report can be found at pages 145 to 185.

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 is available on the Group website.

Staff may report allegations or concerns through the hotline, email and PO or to a member of Senior Management.

The Board has taken note of the need for strong policies and procedures against any form of dishonesty, bribery and corruption and will make this one of its focus areas for 2019.

Principle SIX - Reporting with Integrity

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

The Annual Report is distributed to each shareholder and is also published on the Group's website.

Directors' responsibilities

The Directors are responsible for the 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 are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to oversight or error.

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

The Financial Review is set out at pages 123 to 143 of the Annual Report.

The Risk Management Report is set out at pages 145 to 185 of the Annual Report.

Organisation's financial, environmental, social and governance position

Human Resources Report

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

Human Capital remains at the heart of the organisation's success or failure. A robust HR strategy starting with a robust HR function is a critical success factor when it comes to building the Human Capital required to deliver SBM Group's objectives.

Our aim is to be an Employer of Choice and to support the creation of an organisation culture that promotes work ethics, equity, commitment, responsibility, personal growth and passion for excellence and high performance across the different entities of the Group.

Our people strategy is aimed at developing an agile workforce as we continue to attract, retain, develop and motivate the right people for our current and future business needs. SBM continues its efforts to encourage diversity and create a positive environment for our people.

Further details are provided in the Sustainability Report on pages 108 to 109.

Training and Development

A brief on Capacity Building is provided on pages 110 to 112 of the Sustainability Report.

Environmental Report

In the pursuit of global environmental sustainability, the Group is committed to giving its support to promote environmental protection by constantly identifying and implementing new sustainable and environmentally friendly initiatives.

Further details are provided in the Sustainability Report on pages 113 to 115.

Corporate Social Responsibility Report

We also continue to give back to the community through our various Corporate Social Responsibility (CSR) activities. The Group is proud to say that it has up to now allocated nearly 2,500 scholarships to bright and needy students through its SBM Scholarship Scheme. SBM employees are also very committed to society and have once again engaged in various social initiatives. More details of SBM's CSR activities can be found on pages 116 to 119.

Donations

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

Principle SEVEN – Audit

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.

External Audit

Appointment Process

Ernst & Young was re-appointed as the statutory auditors of SBMH for the financial year ended 31 December 2018 at the shareholders' meeting held in June of last year. They have acted as auditors for the past four consecutive years for the audit of the financial statements of the Group.

Appointment of Auditors for FY 2020

In line with the laws & regulations, the Board of Directors of SBMH has issued a Request for Proposal to reputable auditing firms registered with the Financial Reporting Council during the FY 2019 and will then make recommendation to its Shareholders for approval.

Meeting with the Audit Committee

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

Refer to pages 30 to 35 for the financial literacy or expertise of the Members of the Audit Committee.

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 re-appointment 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.

Audit Fees and Fees for Other Services

The table below sets out the fees paid to the External Auditors for Financial Year 2018

	2018 Audit MUR'000	2017 Audit MUR'000
Ernst & Young		
SBM Holdings Ltd		
Statutory Audit	518	468
Other Services	1,908	518
SBM (Bank) Mauritius Ltd		
Statutory Audits and quarterly reviews	6,400	7,133
Other auditors	5,750	
SBM Bank (Mauritius) Ltd-Indian Operations		
S.R Batliboi	3,527	1,533
Other Services	1,772	
Banque SBM Madagascar SA		
Delta Audit Deloitte Associates	372	363
Ernst & Young (Madagascar)	372	363
SBM Bank (Kenya) Limited		
Statutory Audit	3,200	5,053
Other Services	1,179	
SBM (Bank) Holdings Ltd		
Statutory Audit	100	
Other Services	8	
SBM (NBFC) Holdings Ltd		
Statutory Audit	791	
TOTAL	**25,897**	**15,431**

The work is performed by a Team that holds the necessary expertise and is independent of the Audit Team. The non-audit services provided by the EY Team are special regulatory assignments and their objectivity and independence are safeguarded as the non-audit services are carried out by different partners with different teams.

Internal Audit

The role of Internal Audit within the Group 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 processes.

The Group Internal Audit is governed by a Group Internal Audit charter/policy approved by the Audit Committee of SBMH. Currently the Group Internal Audit function is being handled by the Internal Audit team of SBMBM. Of note, the structure, organisation and qualifications of the key members of the Internal Audit function are listed on the Group's website. Within the Group, SBMBM, SBMBI, SBMBK and SBM NBFC each have their own permanent Internal Audit function, reporting directly and functionally to their respective Audit Committees. The Internal Audit of each entity has a dotted reporting line to the Group Internal Audit, currently sitting within SBMBM. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee of SBMH, and also reports administratively to the Group CEO. 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 reinforcing Internal Audit's independence. Also in order to maintain objectivity, Internal Audit Team is not involved or responsible for any area of operations within the Group. The Internal Audit Team has unrestricted access to key personnel, documents, records and explanations required from the Group for the performance of its duties.

The Audit Committee of SBMH reviews and approves the 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, and 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 and audits are conducted in line with the Institute of Internal Auditor's "International Standards for the Professional Practice of Internal Auditing (Standards)".

All areas of activity across the Group fall within the scope of Internal Audit. The very basic principle in all audit plans is that high risk areas (for example Credit, NPAs, Treasury, Payments, Finance, and Investments) 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 the Group Audit Committee, on a quarterly basis. The findings as well as the methodologies are reviewed and discussed 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 qualifications. In addition, the IT Audit Team has certified information systems auditors to audit the information technology used across the Group.

One of the key initiatives in 2019 for Internal Audit Team will be the implementation of a data analytic tool, which will allow analysis of large volumes of data in order to detect anomalies up to the transaction level in near real time. Implementation has already started at SBMBM and may subsequently be deployed across the other subsidiaries. Another important initiative will be to strengthen the IT Audit Team with qualified and experienced resources.

Going forward, with the Group's targeted growth and expansion initiatives, the Internal Audit Team will be called to be an even more important function in providing valuable assurance services.

SBM Holdings Ltd

During the year 2018, the audit plan for SBMH was achieved to a large extent. Quarterly reviews on key risk areas, which were introduced in 2017 at both at Group and subsidiary levels, have been fine-tuned with the objective of highlighting potential areas of concern and prompting timely corrective actions. From a Group perspective, an audit of SBMBI was conducted in October 2018, with audits of BSBMM and SBMBK taking place in January and February 2019 respectively.

SBM Bank (Mauritius) Ltd

The Internal Audit team is structured into four clusters: Credit, Operations, IT and Others. Since February 2018, the first 3 clusters are each under the supervision of an Audit Lead. The Audit

Leads, who report to the Head of Internal Audit, are responsible for supervising, reviewing and directing the audit field work of their respective clusters. Regarding IT Audit, the Bank has initiated the process to recruit an IT Audit Lead.

During the year under review, Internal Audit completed 37 out of the 42 core audits planned, representing 88% completion. 100% completion could not be achieved due to the redeployment of certain resources to other assignments. Key risk areas such as Credit, Treasury, Finance, AML and Operations were fully covered. All the branches have been covered at least once as well as the critical systems. A higher completion rate could not be achieved due to staffing matters. The IT Audit team was strengthened during the year with one resource having networking and IT infrastructure experience.

Internal Audit has also extended its capabilities and specialisation to non-audit services such as conducting analytics, validation of interest computation on specific accounts and investigations amongst other special assignments. In 2018, 15 investigations were completed by the team.

SBM Bank (India) Limited

In India, an experienced Internal Auditor joined the Internal Audit Team in January 2018. Key risk areas were covered as per the SBMBI's plan.

As SBMBI now operates as a WOS, the Internal Auditor reports to its own Audit Committee.

IT Audit will be covered in 2019 by a specialised and reputed firm, as it is a highly technical activity.

Banque SBM Madagascar SA

Just over 90% of the 2018 Audit Plan for Madagascar was achieved. All the core audit areas which were categorised as high and medium risks have been covered at least twice and those with low risk at least once, thus providing reasonable assurance for these business areas. Quarterly reviews were performed on high risk areas and all five branches were covered.

Moreover, with the recruitment of an additional audit officer, the team has been able to achieve the set objectives in the audit plan. For 2019, focus will continue to be on the key risk areas, including IT.

SBM Bank (Kenya) Limited

Following the acquisition of selected assets and the assumption of certain deposits of CBLR in August 2018, SBMBK is now operating with more than 50 branches and over 750 employees across the country.

Accordingly, the Internal Audit Team has been reinforced with a new Head of Internal Audit and four additional staff who joined the Team in 2018.

The initial 2018 audit plan (prior to the CBLR transaction) was superseded by a new plan as from August 2018. Following the takeover of CBLR's selected assets and liabilities, there was a need to focus on data migration and systems integration. Overall, 60% of the initial 2018 audit plan was covered while the new plan completion rate stood at over 80%.

In 2019, SBMBK's Internal Audit team will continue to align its plan to the risk based approach of the Group. A Head of IT Audit has joined the function in February 2019 and will look into setting up a team of IT auditors.

SBM (NBFC) Holdings Ltd

SBM NBFC has its own dedicated audit team, with a functional reporting line to the SBM NBFC Audit Committee and administratively to its Chief Executive. All audit findings and recommendations are reported to Management and to the Audit Committee. A summary of the findings are also reported to the Audit Committee of SBMH. The implementation of all corrective measures is closely monitored. For 2017 and 2018, the risk based audit plans were fully achieved.

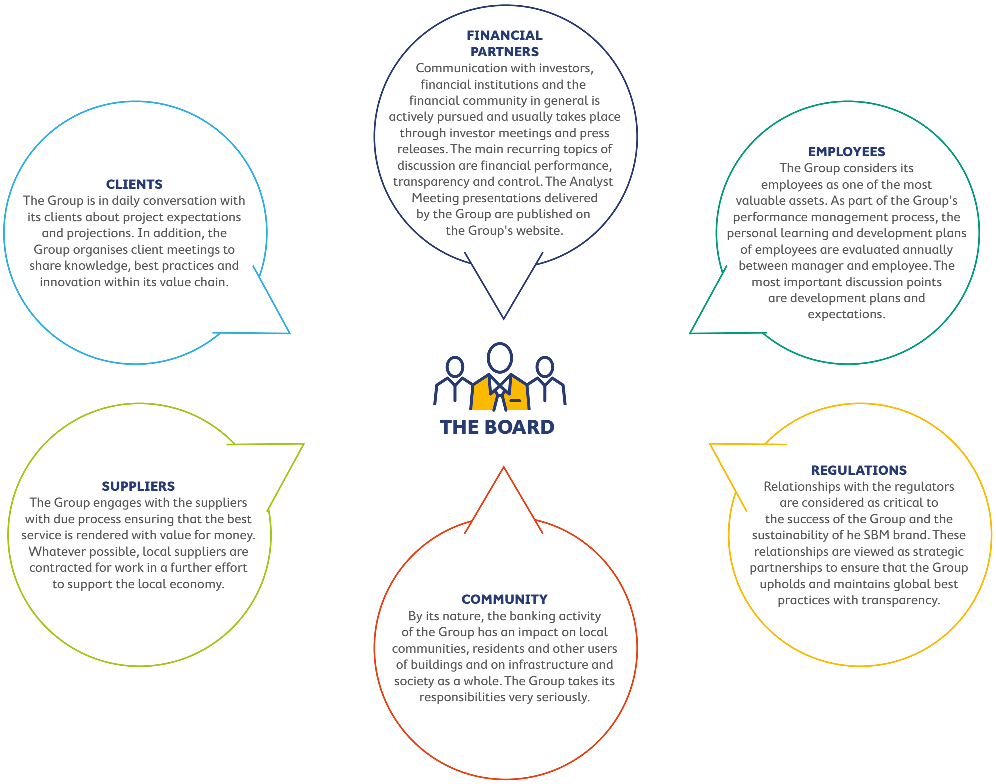
Principle EIGHT - Relations with Shareholders and Other Key Stakeholders

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

Relations with our Stakeholders

The Board recognises its responsibility to take into consideration the needs and concerns of its stakeholders as part of its discussions and decision-making processes. The Board understands that maintaining strong stakeholder relationships is the key to building a sustainable business.

The following provides an insight into the ways in which the Board is engaged with its stakeholders:



More details on the Stakeholders' Analysis are found in the Sustainability Report.

Share Capital Structure

SBMH's stated share capital is MUR 32,500,203,861 consisting of 3,037,402,230 fully paid ordinary shares of no par value which includes 455,610,330 shares held in treasury as at 31 December 2018.

Shareholders Information

All shareholders have the same voting rights.

The tables below show the ten major shareholders, shareholders' spread and the split between the local and foreign shareholders of SBMH as at 31 December 2018.

Major shareholders of SBMH

	SHAREHOLDERS	SHAREHOLDINGS
1	National Pension Funds	572,300,708
2	SBM Holdings Ltd – Treasury Shares	455,610,330
3	State Insurance Company of Mauritius Ltd (Pension Fund)	281,889,390
4	Government of Mauritius	149,526,150
5	State Insurance Company of Mauritius Ltd (Private Pension Fund)	105,301,349
6	National Savings Fund	80,217,413
7	Development Bank of Mauritius Ltd	57,795,000
8	State Insurance Company of Mauritius Ltd (Life Fund)	52,482,870
9	State Investment Corporation Ltd	42,032,380
10	The Bank of New York Mellon	33,178,932
		1,830,334,522

Shareholders Spread

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1-50,000	15,895	87.85	151,916,310	5.00
50,001-100,000	879	4.86	64,058,175	2.11
100,001-500,000	970	5.36	210,878,464	6.94
500,001-1,000,000	154	0.85	109,123,547	3.59
1,000,001-5,000,000	148	0.82	310,303,364	10.22
5,000,001-10,000,000	19	0.10	130,540,188	4.30
10,000,001-25,000,000	12	0.07	183,543,462	6.04
25,000,001-50,000,000	9	0.05	290,864,715	9.58
50,000,001-100,000,000	2	0.01	110,184,670	3.63
>100,000,000	5	0.03	1,475,989,335	48.59
Total	18,093	100.00	3,037,402,230	100.00

Local and Foreign Shareholders

	No. of Shareholders	% of shareholders	No. of Shares	% of shares
Foreign	442	2.44	200,497,161	6.60
Local	17,651	97.56	2,836,905,069	93.40
Total	18,093	100.00	3,037,402,230	100.00

Shareholders' relations and communication

Shareholders of SBMH are strongly encouraged to visit the website of the Company to remain updated on the Group's initiatives/projects and goals. The Board confirms that the relevant stakeholders have been involved in the organisational position, performance and outlook in an endeavour to meet their expectations and interests.

Shareholders' Diary

Financial year 2018

Financial year-end	31 December 2018
Declaration of interim Dividend payment	Quarterly
Annual Meeting of Shareholders	June 2019

Financial year 2019

Financial year-end	31 December 2019
Unaudited quarterly earnings report	Within 45 days from the quarter ending March, June and September
Audited Financial Statement for the year ending 31 December 2019	Within three months from end of December 2019
Declaration for payment of interim Dividend (if applicable)	Quarterly
Annual Meeting of Shareholders	June 2020

Annual Meeting of Shareholders

The Board ensures that the Notice of Meeting along with the proxy forms is sent to shareholders at least 14 days before the meeting in accordance with the Companies Act. The Notice of Meeting clearly defines the procedures on proxy voting and includes the deadline for receiving proxies.

The last Annual Meeting was held on Thursday 28 June 2018 at Landscope Mauritius – Conference Hall, 1st Floor, Cyber Tower 1, Cybercity, Ebène. A detailed presentation of the Group performance for the reporting year under review and Group strategy was made to the shareholders. All the shareholders present were given the opportunity to question the Board on the affairs of the Group. All the Directors attended the Annual Meeting.

The next Annual Meeting of SBMH is scheduled on 27 June 2019 at 09h30 at Landscope Mauritius – Conference Hall, 1st Floor, Cyber Tower, 1 Cybercity, Ebène.

The notice of meeting is enclosed with the Annual Report 2018 and is also available on our website.

Other Statutory Disclosures

Significant Contracts

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 some subsidiary entities.

Directors and Officers Liability Insurance

The Group has subscribed to a Directors and 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

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

Name of Public Interest Entity: SBM Holdings Ltd

Reporting Period: 1 January 2018 to 31 December 2018

We, the Directors of SBM Holdings Ltd, confirm that, to the best of our knowledge, SBM Holdings Ltd has applied the principles of the National Code of Corporate Governance of Mauritius (2016).

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

Mr Roodesh Muttylall
Chairman – Corporate Governance & Conduct Review Committee

Date: 01 April 2019

Company Secretary's Certificate

For the financial year ended 31 December 2018

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: 01 April 2019

SBM (Bank) Holdings Ltd

SBM (Bank) Holdings Ltd (SBMBH or the Company) is a wholly owned subsidiary of SBMH, a public company listed on the Stock Exchange of Mauritius. The Company is a Non-Operating Investment Holding entity holding investments in its bank operating entities.

SBMBH qualifies as a public interest entity as defined in the Financial Reporting Act by virtue of the total consolidated revenue and assets of its subsidiaries. The governance structures and policies for the effective oversight of the Company are embedded at the level of SBMH.

Board Composition as at 31st December 2018

	Name	Date of appointment	Category
1	Mr Nayen Koomar BALLAH, *G.O.S.K*	27.07.2015	Chairman and Non-Executive Director
2	Mr Andrew BAINBRIDGE	16.04.2018	Non-Executive Director
3	Mr Azim Fakhruddin CURRIMJEE	19.09.2018	Non-Executive Director
4	Mr Ramprakash MAUNTHROOA	27.07.2015	Non-Executive Director

Board Attendance for Year 2018

	Name	Number of meetings entitled to attend	Number of Meeting attended
1	Mr Nayen Koomar BALLAH, G.O.S.K	6	6
2	Mr Andrew BAINBRIDGE*	5	4
3	Mr Azim Fakhruddin CURRIMJEE**	1	1
4	Mr Raj DUSSOYE***	3	3
5	Mr Ramprakash MAUNTHROOA	6	6

** Mr Andrew BAINBRIDGE was appointed as Director on 16th April 2018*

*** Mr Azim Fakhruddin CURRIMJEE was appointed as Director on 19th September 2018*

**** Mr Raj DUSSOYE ceased to be a Director on 16th August 2018*

Board Focus Areas 2018

The Board of Directors of SBMBH met quarterly and on an ad hoc basis during the Financial Year ended 31 December 2018 and deliberated on the following topics:

> Reviewed and approved the Audited Financial Statements and the financial analysis on a quarterly basis;
> Reviewed the financial analysis of the Company and its subsidiaries on a quarterly basis;
> Reviewed the development and approved the investment in overseas expansion projects;
> Approved quarterly dividends to its shareholder;
> Reviewed proposals for the operationalization of the structure.

Non-Financial Cluster (NFC)

SBM (NFC) Holdings Ltd

The Non-Financial Cluster (NFC) has been in operation since 2011 and acts as a vehicle through which its holding company, SBMH, routes funds into non-financial services investments.

Its objects include the following:

> Invest in any trade, sector, industry or business whether directly or through the creation of a company or body corporate.
> Invest in, acquire, hold, sell, dispose of or deal in shares, stocks, bonds, debentures, debenture stock, securities, negotiable instruments or other interest in any company or body corporate whether in Mauritius or elsewhere, except in a company or body corporate engaged in Banking Business and/or financial services.
> Do all such things as are incidental or conducive to the attainment of the aforesaid objects including the holding of immoveable property and the raising of funds and borrowing of money.

During the year under review, the cluster made a profit after tax of MUR 11 million compared to a profit of MUR 96 million in the previous year.

Attendance at Board Meetings for 2018

No. of Meetings held	4
Directors	
Mr. Soondrassen Murday	4
Mr. Gooroodeo Sookun	4
Mr. Medha Gunputh	4
Mr. Ramprakash Maunthrooa	3
Mr. Andrew Bainbridge*	2
Mr. Raj Dussoye**	2

** Appointed on 26 June 2018*

*** Resigned on 26 June 2018*

Outlook for 2019

The Board will review the existing strategy of the company in 2019 and will be focusing on diversified higher yielding assets.

Non-Banking Financial Cluster (NBFC)

SBM (NBFC) Holdings Ltd (SBM NBFC)

The SBM Non-Banking Financial Cluster (SBM NBFC) has been in operations for more than 15 years and provides services in Asset Management, Securities Brokerage, Private Equity, Factoring, Investment Advisory, Registry, Fund Management and Insurance Agency. SBM NBFC also holds an Investment Banking Licence, which allows it to offer solutions like Transaction Advisory and Capital Raising services to clients.

SBM NBFC's services complement the range of financial products available within other clusters of the SBM Group.

Over the years, SBM NBFC has strengthened the Group's position as a reputable financial services firm through the continuous provision of value-added services to its clients.

Total assets of the cluster increased from MUR 1,649.24 million as at 31 December 2017 to MUR 1,677.82 million as at 31 December 2018.

During the year under review, the cluster made a profit after tax of MUR 110 million compared to a MUR 75 million in the previous year. The increase is mainly attributable to higher dividend received from its investment in Afrexim shares, higher fees and commission income of MUR 20.90 million, which however was off-set by higher administrative expenses of MUR 34.47 million.

SBM NBFC's main achievements are as follows:

1. Lead Advisor and Arranger for listing of Depository Receipts of AfreximBank on Stock Exchange of Mauritius (leading to fund raising of USD 166 million)
2. Advisor for the setting up of SBM Mauritius Infrastructure Development Company Ltd – structured financing for Government and Infrastructure fund – USD 500 million LOC from Exim Bank
3. Arranger and Transaction Advisor for MUR 2 billion Fixed Interest Rate Subordinated Tier-2 Bond and the USD 50 million Fixed Interest Rate Subordinated Tier 2 Bond issued by SBM Holdings Ltd
4. MUR 1.5 billion raised through the SIT Secured Notes Programme
5. Setting up of the Africa Infrastructure and Industrialisation Fund, LP to invest in Infrastructure projects in African countries

Attendance at Board Meetings of SBM (NBFC) Holdings Ltd for 2018

No. of Meetings held during the year	4
Directors	
Mr. Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)	4
Mr. Pierre D'Unienville	3
Mr. Thierry Hugnin	2
Mr. Ramprakash Maunthrooa	1
Mr. Lakshmana Lutchmenarraidoo	4
Mr. Andrew Bainbridge	4
Mr. Roshan Ramoly	4

The activities of the cluster are currently being run through the following subsidiaries:

- SBM Capital Markets Ltd
- SBM Securities Ltd
- SBM Fund Services Ltd
- SBM Factors Ltd
- SBM Insurance Agency Ltd
- SBM Mauritius Asset Managers Ltd
- SBM eBusiness Ltd

SBM Capital Markets Ltd

SBM Capital Markets Ltd is licensed by the Financial Services Commission (FSC) to conduct Investment Banking activities. The Company provides transaction advisory services for merger and acquisitions and capital-raising services to clients. It has been granted an Investment Banking licence by the FSC under Section 79A of the Financial Services Act and the Financial Services (Consolidated Licensing and Fees) Rules 2008. The Company started operations in July 2018.

The Company made a profit after tax of MUR 3.13 million for the year ended 31 December 2018 compared to a loss of MUR 0.43 million for the period ended 31 December 2017. The increase is mainly due to arranger fees received for the capital raising of the SBM Bonds.

SBM Securities Ltd

SBM Securities Ltd, licensed by the FSC as an Investment Dealer – Full-Service Dealer (including underwriting), is the stockbroking unit of the SBM Group.

The Company has a remarkable track record in the industry with the following major accomplishments:

- Best Stock Broker-Mauritius 2018 by the International Finance Magazine
- Acting as Lead Broker for Lottotech IPO
- Arranging and sponsoring broker for the listing of SBM MUR & USD Bonds
- Acting as lead broker for SBMH for its reverse share split exercise

The Company enables investors, be it the common man or institutions, to participate both on the local stock exchange and on global stock exchanges.

The Company made a profit after tax of MUR 17.66 million for the year ended 31 December 2018 compared to MUR 44.62 million for the previous year. The Company's revenue for the year amounted to MUR 40.97 million compared to MUR 71.30 million in the previous year, mainly as a result of a non-recurring of MUR 31 million received in 2017. Total income net of direct costs decreased by MUR 29.63 million (40%). Expenses increased from MUR 21.56 million for the year ended 31 December 2017 to MUR 22.50 million for the year ended 31 December 2018.

SBM Fund Services Ltd

SBM Fund Services Ltd, licensed and regulated by the FSC, manages fund administration and conducts Registry & Transfer agent services and CIS administrator services.

The Company acts as Registry & Transfer agent for SBMH, supporting over 20,000 investors and processing over 75,000 dividend payments per annum, and provides registry services to the SBM Group for its USD and MUR bonds. It also acts as registrar for local and foreign investment funds.

The Company made a profit after tax of MUR 3.72 million for the year ended 31 December 2018 compared to a profit of MUR 4.45 million a year earlier. The Company's income for this financial year amounted to MUR 15.97 million compared to MUR 13.71 million in the previous year. The increase of MUR 2.26 million is mainly driven by increase in registry and administrative fees received from clients. Expenses increased from MUR 8.49 million for the year ended 31 December 2017 to MUR 11.49 million for the year ended 31 December 2018 on account of higher staff costs.

SBM Factors Ltd

SBM Factors Ltd, established in August 2016 and launched in 2017, is licensed and regulated by the FSC as a factoring service provider. The Company provides factoring services to SBM customers, contributing to the development of the Holding Company as a financial institution in providing comprehensive financial services.

The Company made a loss of MUR 7.91 million for the year ended 31 December 2018 (its first full year of operations) compared to a loss of MUR 4.53 million in 2017. The Company's total income amounted to MUR 3.88 million this year as compared to only MUR 0.02 million last year. The income comprises factoring fees, net interest income and other fees receivable. The loss is mainly attributable to high IT implementation costs and the real growth in the business is expected as from the second half of FY2018.

SBM Insurance Agency Ltd

SBM Insurance Agency Ltd, incorporated in October 2017, was set up in order to conduct the activities of insurance agent business. The Company acts as intermediary between the Insurance companies and the clients.

The Company made a profit after tax of MUR 23.33 million for the period ended 31 December 2018. Total income was MUR 43.36 million while expenses amounted to MUR 15.93 million.

SBM Mauritius Asset Managers Ltd

SBM Mauritius Asset Managers Ltd (SBMMAM) is the asset management arm of the SBM Group. SBMMAM is a leading provider of investment services in Mauritius, specializing in fund management, investment advisory services and distribution of financial products. SBMMAM, licensed and regulated by the FSC of Mauritius, acts as CIS Manager, Investment Advisor (Unrestricted) and Distributor of Financial Products.

SBMMAM offers investment and advisory services across a number of asset classes including equities, fixed income, private and alternative investments. It provides tailor-made investment solutions and services to institutional investors, pension funds, mutual funds and high net worth individuals.

SBMMAM made a profit after tax of MUR 48.15 million for the year ended 31 December 2018 as compared to MUR 48.10 million reported last year. Management and retrocession fees grew from MUR 37.53 million in FY2017 to MUR 50.23 million in FY2018 (34%). Commission income decreased from MUR 13.30 million in the preceding year to MUR 12.36 million in this year. Net advisory fees decreased from MUR 43.03 million in FY2017 to MUR 24.54 million in the current year. Expenses for the year ended 31 December 2018 amounted to MUR 29.55 million as compared to MUR 37.82 million for the preceding year, a decrease of 22%. This is mainly due to lower staff costs and professional fees.

Total Assets under Management increased from MUR 8,495 million at 31 December 2017 to MUR 9,043 million at 31 December 2018, an increase of 6.5%.

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

Performance of in-house funds v/s benchmarks

Fund Name	Fund Size	2018 (%)	2017 (%)	2016 (%)
SBM Perpetual Fund	MUR 2,531.50 M	**3.91**	4.97	3.64
Benchmark		**2.73**	3.03	3.45
SBM Universal Fund	MUR 411.19 M	**(3.04)**	10.5	2.94
Benchmark		**(1.68)**	12.2	3.15
SBM Yield Fund	MUR 142.61 M	**4.01**	7.39	3.31
Benchmark		**3.67**	4.11	4.49
SBM India Fund	USD 6.73 M	**(34.52)**	39.75	2.2
Benchmark		**(11.19)**	44.5	1.29
SBM Growth Fund	MUR 108.97 M	**(6.31)**	13.5	2.75
Benchmark		**(1.66)**	20.3	6.46
SBM Maharaja Fund	USD 12.26 M	**(4.80)**	7.49	1.78
Benchmark		**(4.00)**	4	3.5
SBM International Fund	USD 1.38 M	**(16.67)**	22.3	1.13
Benchmark		**(16.06)**	18.1	2.33

SBM eBusiness Ltd

SBM eBusiness Ltd's principal activity is to provide payment intermediary services and it holds a licence for this activity with the FSC. The company is still exploring business opportunities on the African continent and has not yet started operations.

Summary of Board Discussions

Restructuring of the Non-Banking Financial cluster

A re-organisation of the cluster is currently underway in order to streamline the existing activities and achieve better operational efficiency.

It is also proposed to regroup all MUR CIS Funds under one umbrella, and to have all the CIS Funds under the control of one Board, that of SBMMAM.

This restructure exercise is expected to be completed by the end of June 2019.

Implementation of the Miles system upgrade

Upgrade of Miles MoneyWare Integra and new modules MILES FundWare upgrade was successfully implemented and the new systems are operational since mid-February 2019.

Group Health Insurance Plan

A new Group Health Insurance Plan, through SBM Insurance Agency Ltd, came into force on the 01 July 2018.

Group HR Policy

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

Complaints Handling Policy

A Complaints Handling Policy was implemented for SBM NBFC in order to ensure that complaints raised by clients are dealt with on time and with courtesy. SBM NBFC has now a two-tier approach for managing complaints, namely at SBM NBFC Complaints officer level and the Chief Executive Level.

SBM Insurance Agency Ltd- Ipen software

The Ipen Bancassurance system was purchased from Pensoft Systems Limited, at a total estimated cost of USD 225,000, in order to better manage client's database and mitigate risks. This new system will support all lines of Bancassurance business, eliminate errors, improve turnaround time, provide audit trail and enforce best practices, amongst others.

Outlook for 2019

In line with the Group's diversification agenda, SBM NBFC, the non-banking financial arm of the Group, made further progress during the year, growing Assets under Management to more than MUR 9 billion and increasing its contribution to Group revenue and PAT.

The operating environment has not been without challenges, including, unfavourable market conditions for stock trading activities and fierce competition. Against this backdrop, SBM NBFC has remained focused in pursuit of its broader objective of growing the business by continuously building capacity and enhancing its product offering. Today, SBM NBFC offers a range of products and services covering Corporate Finance, Factoring, and Insurance Agency in addition to the traditional Fund Management, Stock Broking and Registry services.

Indeed, after the successful capital raise for AfreximBank in 2017, SBM NBFC raised capital worth MUR 3 billion and USD 75 million for SBMH in the form of Tier 2 dual-currency bonds – a bond issue that was oversubscribed by approximately 50%.

SBM NBFC's strategic orientations for FY 2019 and the years ahead are being shaped around (a) growing and diversifying the customer base, (b) simplifying the legal and the operating structure for higher levels of efficiency, and (c) synergising with other entities of the Group with the overall goal of firming up an investment banking function.

“Our Sustainability Report reflects our commitment to adopt a more integrated and sustainable journey.”

SUSTAINABILITY REPORT

FOR A BETTER FUTURE

Our Approach to Sustainability

Since SBM was first established, there has always been a close and enduring relationship between the institution, its employees, the community and its various stakeholders. The Group is committed to making efficient use of the resources available so as to perform and deliver value in a safe and environment-friendly manner.

We are dedicated to achieving sustainability by balancing our aspiration to be the leading and most trusted financial services provider with our commitment to minimising our environmental footprint, adopting good corporate governance practices and endorsing corporate social responsibility initiatives that we believe are at the heart of community development.

In line with this philosophy, we are pleased to share with you a new and special section in our Integrated Annual Report, the Sustainability Report, which reflects our commitment to adopting a more integrated and sustainable journey. Our sustainability approach addresses sustainability in a more holistic manner and covers several key areas, which we believe are crucial for us to operate as a sound and responsible organisation.

Our Sustainability Building Blocks

Our Group's 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. To endorse this philosophy, it has implemented an Environmental and Social Risk Policy that outlines the underlying principles that support this commitment.

Through this initiative, the Group aims not to knowingly engage with companies violating applicable environmental and social laws. It also undertakes to assess environmental and social risks in its transaction decision-making process while ensuring that it will not unduly hinder the Group's ability to support clients who compete in global markets.

SBM Group enters SEMSI

The Group's commitment to adopt and align to local and international standards in terms of sustainability business practices and its endeavour to be a responsible institution have been recognised by the Stock Exchange of Mauritius (SEM).

Indeed, SBM Group has achieved a major milestone through its entry on the SEM Sustainability Index (SEMSI) on 16 January 2019. SEMSI is an indicator of a company's commitment to sustainability practices. It measures the robustness of listed companies against a set of internationally and locally relevant economic, environmental, social and governance (ESG) criteria.

Building Sustainable Relationships with our Stakeholders

Our stakeholders play a key role in our ability to create and grow value. We believe that stakeholder engagement is essential for lasting partnerships that would help us deliver against our sustainable goals.

The way we engage with our stakeholders involves communicating our performance, strategic aspirations, decisions and activities that impact or are of significant interest to them. We also put a lot of emphasis on understanding their needs and concerns, which are an important input into our approach to sustainable development and the way we do business. Our principles of engagement are based on fair access to information, transparency, consistency, accountability, inclusiveness and professionalism.

In this part of the Sustainability Report, we detail who our stakeholders are, how we engage with them and their contribution to our value creation. Our engagement actions are geared towards establishing and maintaining mutually beneficial relationships that not only provide us opportunities to enhance our performance but also help manage potential risks to our business.

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.

Our stakeholders	How we engage with them	Their contribution to our sustained value creation
Shareholders, Debt Holders and Investment Analysts	✓ Publish interim results on a quarterly basis ✓ Stock Exchange announcements ✓ Annual General Meeting ✓ Regular analyst briefings, calls and investor presentations ✓ Regular roadshows ✓ Electronic communications ✓ External newsletters ✓ The Group's website ✓ SBM Group's Investor Relations Team ✓ Reviews by rating agencies	✓ Investors, shareholders and debt holders are a key source of financial capital to support the business operations and sustain growth
Customers	✓ Promotional and marketing campaigns ✓ Relationship managers, customer meetings and site visits ✓ Events ✓ Customer service ✓ Communication including electronic, phone calls amongst others ✓ Delivery channels ✓ Roadshows ✓ Media (including social media and website) ✓ Give aways	✓ Customers avail of our products and services to achieve their financial goals and provide the basis for our continued growth
Employees, Management and Directors	✓ Induction course ✓ On-going training and team building ✓ Conferences, team engagement sessions and performance management discussions ✓ Regular internal meetings and workshops ✓ CEO and other Executive Members roadshows (e.g. town-hall events) ✓ Team members survey and feedback ✓ Internal newsletters and electronic communications ✓ Welfare activities such as SBM Park ✓ Staff Children Education Fund ✓ Cultural events	✓ Employees and management supply the necessary skills and expertise to deliver on our promises to stakeholders

What our stakeholders expect from us and key issues raised	Our response to stakeholders' concern
✓ Sustainable and attractive return on investment realised over time through dividends, interest and share price growth ✓ Strong leadership which provides strategic direction and execution ✓ Focus on exemplary corporate governance and ethics ✓ Managing risk, capital and liquidity within an appropriate risk appetite	✓ 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 underbanked high-growth geographies, well contained cost to income ratio, growth in advances and deposits amongst others ✓ The Board and its various subcommittees 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 ✓ No major shareholder's influence on operations
✓ Reliable client service, experience and quick turnaround time ✓ Enhanced customer-staff interactions ✓ Proper handling of complaints ✓ Access to financial services that are cost-effective, easy to use and convenient ✓ Offering innovative and tailor-made products that meet their financial needs ✓ Trading fairness ✓ Protection against fraud and safety of personal data (customer privacy and data security) ✓ Timely direct communications on changes ✓ Physical infrastructure	✓ We aim to provide a unique customer service experience via investment in technology ✓ We have articulated expected employee behaviours and are rolling out related training programmes in that respect ✓ We are investing into new product and service offerings based on customer feedback and market insights, and we ensure that they are easily accessible ✓ We have a dedicated contact centre and complaints desk ✓ We continually increase customers' awareness of cyber threats and how to prevent them. On the other hand, we invest significantly in secured IT systems
✓ A safe, stimulating and rewarding work environment with open communication ✓ Fair remuneration and benefits ✓ Opportunities for career and personal development ✓ Effective performance management and recognition	✓ We provide competitive remuneration and benefits packages to be the employer of choice ✓ We provide ongoing training and education ✓ Open communication between employees and management ✓ Employee wellness programmes aligned to local and international best practice ✓ Integration of performance management into key development programmes for skills and personal development ✓ We use the findings of our employee surveys to create tailored action plans to address areas needing improvements ✓ Collective bargaining agreement is in place

Our stakeholders	How we engage with them	Their contribution to our sustained value creation
Government and Regulators	✓ Onsite visits and compliance inspections ✓ Written communications ✓ Filing of returns and reports with all regulators ✓ Participation in forums, conferences and workshops ✓ Regular meetings with regulators	✓ Government and regulators provide us with our license and regulatory framework in which to operate
Suppliers and Strategic Partners	✓ Expression of interests ✓ Vendor assessments ✓ Tender process ✓ Contract management and renewal ✓ Ongoing supplier relationship management, supplier visits and one-to-one meetings ✓ Fairs and exhibitions ✓ Incident handling and escalation	✓ Suppliers are critical for our business by supporting us in delivering high quality and innovative products and services to sustain growth ✓ Critical to support our systems and fixing issues
Communities	✓ CSR programmes ✓ Donations ✓ Sponsorships ✓ Staff engagement ✓ Media coverage and other social networks	✓ Being actively engaged in the community is an effective way to hear from the people we serve and this enables us to grow further and achieve our goals ✓ Communities act as a brand ambassador for us

	What our stakeholders expect from us and key issues raised	Our response to stakeholders' concern
	✓ Compliance with relevant legislation and operating in a transparent manner	✓ Engage constructively on new policies and regulations affecting Group operations ✓ Compliance with existing rules and regulations ✓ Transparency in disclosures of any relevant information ✓ Ensure on-time filing of reports and returns and payment of relevant fees and taxes ✓ Proper composition and well defined duties of the Board and Board Committees in place ✓ Fair business practices
	✓ Fair and reasonable contract terms ✓ Timely payment and renewal of contract ✓ Trade fairness ✓ Participation in events ✓ Timely decisions ✓ Work in a spirit of partnership ✓ Understanding of business roadmap ✓ Good supplier relationship	✓ Fair payment practices
	✓ Helping to provide a sound environment through job creation and undertaking community development programmes in areas of need ✓ Helping the communities at large ✓ Empowerment ✓ Job creation ✓ Supporting the development of the country	✓ Provision of tools and opportunities to vulnerable groups ✓ Investment in CSR projects ✓ Sponsorships

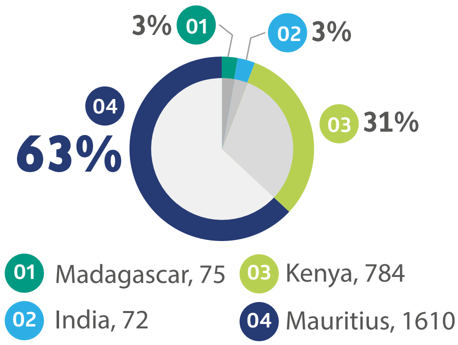
At SBM, we strive to create a work environment that is collaborative, supportive and where our people feel that they are safe and valued. We place a lot of emphasis on equality, diversity and inclusion. We contribute towards responsible social and economic development through job creation and aim to sustain our professional workforce by empowering and investing in our people.

We seek to build our human resources capability by engaging HR professionals, leveraging synergies across our different entities, developing our existing teams and providing both strategic and functional support as a trusted business partner. Our ultimate goal is to be an Employer of Choice and to support the creation of an organisation culture that promotes work ethics, equity, commitment, responsibility, personal growth and passion for excellence and high performance across our different entities.

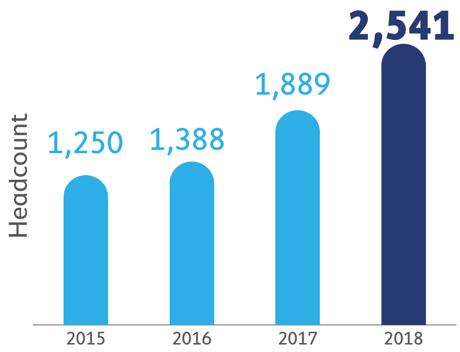
Growing our Workforce

With the acquisition of Chase Bank (Kenya) Limited (In Receivership) and its comprehensive branch network across Kenya during the year 2018, our total workforce increased to 2,541. SBM Kenya represented 31% of our staff population as at 31 December 2018.

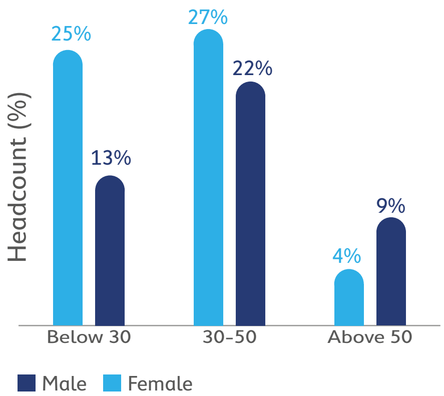
SBM Group's Headcount



A Growing Talent Base over the Years



Age and Gender Demographics



Staff Engagement

Staff engagement is a key success factor for any organisation to realise its vision and/or its mission. In 2018, we carried out a survey to gauge the engagement level of our workforce. The aim of this exercise was to initiate culture transformation towards a common set of values and a winning mindset across the Group.

The survey participation was commendable, with a response rate of 86% across the Group. The outcome of the survey has allowed the Management Team of each entity to know where they stand in terms of the engagement level and, most importantly, to address areas needing improvement. Action plans have been developed for the current year to address concerns in an effort to improve the overall engagement level across the Group and build a sustainable work culture.

What We Aim For

This year, one of the main HR initiatives that the Group aims to implement is an enhanced Performance Management Framework. Managing the productivity of employees in a consistent and effective way is a top priority as we want to ensure that they have a common understanding of the Group's strategy and how it links to departmental strategy and individual goals.

We also aim to align the Group's Job Evaluation and Grading Structure across all entities. We firmly believe that a standardised structure aligned to an appropriate remuneration grid will go a long way in ensuring equity in remuneration management, clarity in career planning and development, a clear promotion policy, effective management of staff movements across different entities of the Group and retention of talent.

Moreover, a healthy lifestyle and well-being are essential to build a sustainable organisation and society. We hence work towards maintaining a healthy and productive environment for our employees.

CAPACITY BUILDING

At the heart of our Group's brand is our employees' devotion and hard work to deliver on the Group's vision and strategy. The Group prioritises human capital development in a sustained way by providing learning opportunities that promote our employees' growth. For us, sustainability is also about quality, which is why we believe that we should have the right people at the right place and at the right time to be able to deliver on our objectives.

With the rapid pace of innovation and increasing technological sophistication, it is a prerequisite to remain abreast of leading-edge technologies and upgrade to ensure a seamless service level as well as remain competitive on the market. As the Group progresses with its consolidation, modernisation, diversification and regionalisation strategies, our talent management approach is geared towards development and retention of our human capital. Hence the need to create an environment that is conducive and encourages learning and development across all our entities.

As part of its endeavour to instil a learning culture, the SBM Academy, the training arm of the Group, was launched in 2018 to provide top-notch and customised training programs to employees.

SBM Academy's focus is to:

- Design training programs aligned with the strategic initiatives of the business units
- Ensure that the teams are upskilled to embrace the digital future
- Create a culture of accountability and trust
- Create a customer centric organisation
- Maintain an agile learning organisation through structured training programs
- Align leaders' thoughts and actions with the Group's strategy

Emphasis was put on the following areas in 2018:

- Induction
- Board trainings
- Leadership development
- Service excellence
- Team workshops
- General trainings

What has been Achieved in 2018

- Group Training Needs Analysis, in collaboration with Heads of departments.
- Specific and tailored Onboarding Programs for different levels across the organisation
- Increase in the number of compliance trainings, classroom and our internal e-learning platform, so as to promote a strong compliance and risk culture
- Supervisory training for Middle Management staff
- Awareness workshops organised by internal trainers

Tracking Training Effectiveness

The SBM Academy also ensures that all tailored training programs are aligned to both the strategic initiatives of the business units and the Group's objectives. The Academy also carries out evaluation surveys and closely monitors post training assessments. Moreover, employees are encouraged to share their training knowledge with their respective teams.

Professional Membership Assistance

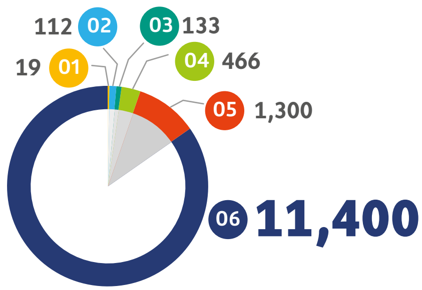
To support staff with a professional registration requirement to meet their continuing professional development needs, SBM Group provides financial assistance for relevant professional memberships. Employees also have the option of availing of paid leaves to study approved courses.

Key Statistics

MUR13.4Mn
Training Expenditure

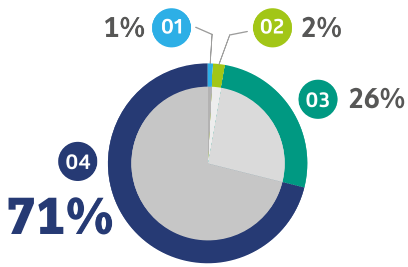
23,303
Training Hours

Training Expenditure per Entity (MUR' 000)



01 SBM Bank (Kenya) Limited
02 Banque SBM Madagascar SA
03 SBM Bank (India)Limited
04 SBM Holdings Ltd
05 SBM (NBFC) Holdings Ltd
06 SBM Bank (Mauritius) Ltd

Type of Training - No of Hours



01 Online
02 Overseas
03 Internal (Inhouse Trainers)
04 External (Local Trainers)

We provide below an update of our training initiatives both for SBMH and its entities.

SBM Holdings Ltd

In line with its strategic initiative to build and develop capabilities to meet current and future needs, training programs are being developed and implemented in partnership with Line Managers. Training is delivered through a variety of channels: from face to face workshops, on-job trainings and interactive e-learning. This blended approach ensures a closer alignment with the business strategy. During 2018, there was a strong focus on leader-led development programs and professional certification training, while also offering a broader and high-quality range of training programs that are innovative and flexible. Several employees have also been enrolled on a six-month online training program with the Chartered Banker Institute.

SBM Bank (Mauritius) Ltd

Enhanced Onboarding Experience

Onboarding workshops ensure that new employees are trained and equipped with the necessary know-how, both functional and behavioural. We have enhanced our onboarding program to offer new recruits the opportunity to learn directly from Management and experienced colleagues. Specific and tailored programs have also been designed for different levels across the local entity.

2018 Focus Areas

Below are the training areas to which particular attention was given last year:

- Anti-Money Laundering
- Chartered Institute of Securities and Investment, Digital Masterclass and ACI Dealing Certificate.
- Credit Risk Management and Compliance
- Workshops on Agile Leadership, Internet of Things, Big Data Analytics, Artificial Intelligence, Blockchain, Fintech, Robotics, Cryptocurrencies and Digital Banking
- Treasury and Financial Market related training programs, conducted both locally and overseas
- Performance Management
- Small and Medium Enterprises
- Leadership Development Program
- Outdoor training and team bonding designed by expert facilitators, in partnership with Line Managers, to take employees out of their comfort zone and enhance team spirit.

SBM (NBFC) Holdings Ltd

The key focus for the NBFC Team last year was on Certification Level Trainings. Employees enrolled in the Chartered Institute of Securities and Investment Level 3, which covers the essential of financial planning, asset management, fund management and investment analysis from a global perspective. Those who completed the level 3 enrolled in CISI Level 4, which places strong emphasis on customers.

SBM Bank (Kenya) Limited

Following the recent acquisition of the carved out assets and assumption of specific liabilities of Chase Bank (Kenya) Limited (In Receivership), training investment was mostly geared towards soft skills development. The main aim of the soft skills training program was to ensure sustainability in terms of performance, change management and staff engagement. The program was segmented in 3 categories: leadership development, management development and personal development.

SBM Bank (India) Limited

With the conversion of SBM branches into a Wholly Owned Subsidiary in India, the Group's objective is not only to build a robust presence in the Indian banking and financial sector but also to grow the Africa-Asia financial corridor. In this context, training investment in India was mostly focused on technical skills and attending renowned conferences and seminars to provide international exposure to the team. Among the conferences attended are the 19th FIMMDA-PDAI Annual Conference, India Banking Reforms Conclave and Almus 5th Annual Conference.

Expert knowledge sharing across the different entities is also key to capacity building. In this context, new recruits from SBM India are attending on-boarding programs in Mauritius.

Banque SBM Madagascar SA

In 2018, Banque SBM Madagascar focused mainly on Anti-Money Laundering training for employees to identify and report suspicious activities. Soft skills trainings were also provided to employees.

Focus Areas for 2019

Our focus in 2019 will be on service excellence, leadership training, and promoting a culture of continuous people development.

ENVIRONMENTAL STEWARDSHIP

Contributing to a Sustainable Environment

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

Our Ecological Approach in 2018

Energy Efficiency and Sustainable Refurbishment

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

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

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

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

Similarly, in Kenya, we have installed LED powered lights and motion sensors to control lighting in offices with the objective of conserving energy.

Recycling and Paperless Approach

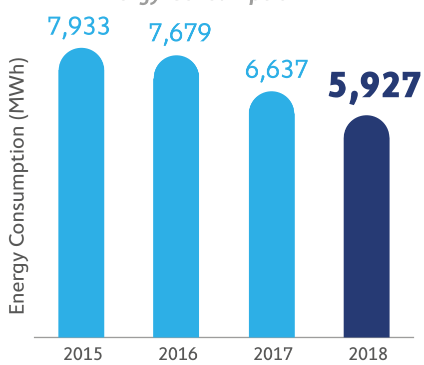
At SBM, we encourage the re-use and recycling of paper to avoid wastage and minimise discharge into the environment.

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

Similarly, our Madagascar team has also adopted a paperless approach whereby they use less printed materials, for example with the introduction of electronic customer vouchers.

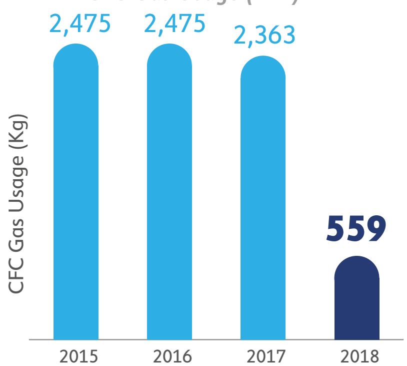
Key Highlights of How We Created a Lighter Footprint in 2018 in Mauritius

Energy Consumption



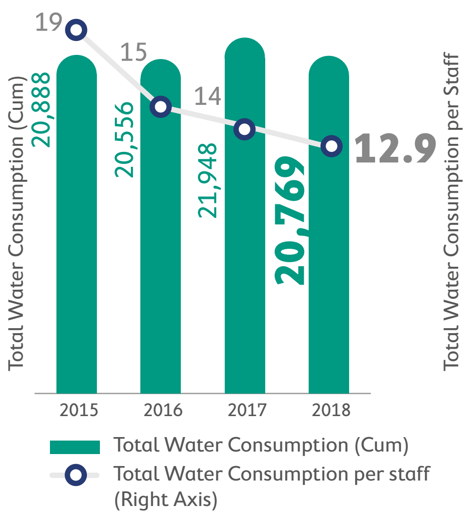
A decrease by 10.7 % in 2018 compared to 2017

CFC Gas Usage (R22)



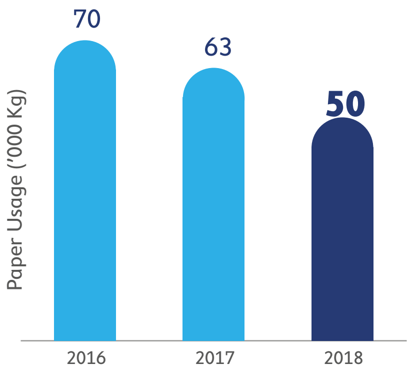
A decrease by 76 % in 2018 compared to 2017

Water Consumption



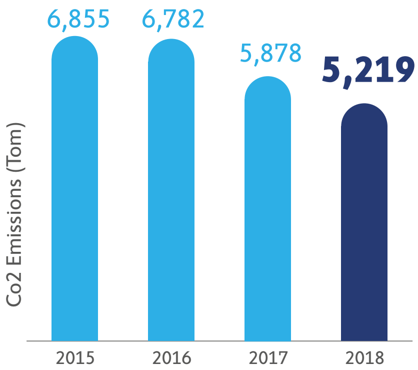
A decrease by 5.3 % in 2018 compared to 2017 and also further decrease of water per staff

Paper Usage



A decrease by 20 % in 2018 compared to 2017

CO_2 Emissions



A decrease by 11 % in 2018 compared to 2017

OUR GREEN FINANCE OFFERING

SBM aims to proactively promote responsible financing. As part of our commitment to support environment-friendly projects, SBM Bank (Mauritius) Ltd has entered into a facility agreement with Agence Française de Développement (AFD) under the SUNREF (Sustainable Use of Natural Resources and Energy Finance) programme since 2009.

Through this partnership, we have financed numerous green projects - both for corporates and individuals - in the manufacturing, tourism, trade and education sectors. Many individuals have also benefited from this credit line, namely under the Central Electricity Board's Small-Scale Distributed Generation (SSDG) scheme and our own Ecoloan product.

Our green loan has been so successful that we have availed of two credit lines with AFD/SUNREF and disbursed more than EUR 20 million. We have recently signed a third line of credit of EUR 20 million, which though not yet operational is already generating interest on the market. This third line of credit will focus on three new pillars:

- **Renewable Energy and Energy Efficient Projects**
- **Climate Adaptation Projects**
- **Gender Equality Projects**

Through its new offering, AFD wants to promote a sustainable portfolio. Over and above continuing to support environmental projects, the new line of credit will also support gender equality. Customers benefitting from investment grants to execute these projects will hence also be contributing to the sustainable development of Mauritius.

> Our green loan has been so successful that we have availed of three credit lines with AFD/SUNREF.

OUR COMMUNITY ENGAGEMENT

Our Group has a well-defined Corporate Social Responsibility (CSR) strategy that revolves around supporting high impact sustainable projects, targeted at needy and vulnerable persons. These projects have a special focus on education and empowerment, on providing tools, promoting employability and combatting social ills with a view to alleviating poverty. In Mauritius, the community benefits every year from 1% of the Group's chargeable income through the SBM Foundation, which is its philanthropic arm.

Today, some 10,000 persons are living in better conditions through our various initiatives. Persuaded by the fact that education is and will remain an important means of empowerment for our citizens to become active participants in the transformation of the society, the Group channels a major part of its CSR funding to the unique SBM Scholarship Scheme, over and above funding other projects from social partners.

Our Scholarship Scheme

The SBM Scholarship Scheme for bright and needy students was set up in 2010 through the SBM Education Fund and is being run under the SBM Foundation since 2016. Its aim is to provide bright students, from low income households, with the opportunity to pursue further studies and be in a position to aspire for a brighter future. Through this scheme we also want to help the students' family move up the social and economic ladder.

Our Scholarship Scheme is the flagship CSR initiative of the Group. To date, we are the single largest provider of scholarships in the Republic of Mauritius. We have allocated nearly 2,500 scholarships (including some 50 students from Rodrigues Island) since 2010, with some 1,350 scholarships for the tertiary sector and some 1,150 for the vocational and technical sector. The Scheme has been covering 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.

Funding of Projects from NGO Partners

While our core focus remains education for empowerment through our scholarship scheme, much effort and time are also spent on supporting the projects of non-profit organisations. We partner with them for initiatives in the following areas:

Environment

Education for out-of-school Youth

Woman Empowerment

SBM CSR

(PARTNERSHIP WITH NGO'S)

Sports/Music/Culture

Child Care

Education for Disabled Persons

We have identified gaps in the provision of services and are now supporting NGOs in the same field along the same theme; enabling us to benchmark, share learning and experiences for an enhanced delivery of services to those in need.

For instance, we are supporting 115 infants in 3 kindergarten projects with 3 different NGOs. Mothers from poor households bring their infants aged between 3 months and 3 years so that they are able to undertake paid employment to support their families. Social workers work closely with these families to address other social ills affecting them and the children are followed until they complete their primary education.

We also support 19 different NGOs all working towards providing education to some 1,200 out of school youth. We ensure a consistent approach in the pedagogy through their umbrella organisation.

We also believe in the concept of learning through play and have sponsored 7 projects to facilitate learning through non-conventional ways for 1,160 children – be it music, culture, or sports.

In addition, we are supporting enhanced services to facilitate the education and rehabilitation of disabled children through NGOs by providing for the services of professionals like speech and language therapists, physiotherapists and occupational therapists.

SBM Staff Involvement Initiatives

Our involvement goes beyond financial support, with our employees being active and engaged citizens who are making a difference by volunteering their time, talent and energy to positively impact people's lives and create a more sustainable community. To that effect, a series of initiatives were carried out last year, some of which are mentioned below.

A group of colleagues celebrated Christmas with some 75 elderly persons at Mere Teresa Home in Port Louis. Refreshments and snacks were served to the persons, in addition to the distribution of non-perishable items.

~2,500 students
Scholarship beneficiaries

~10,000 persons
CSR project beneficiaries

Following the flood that severely hit the village of Cottage in December 2018, around 50 volunteers comprising SBM staff from various departments and entities met and worked in collaboration with the "Forces Vives de Cottage" to provide relief to the families who were affected by the flood. They also distributed groceries to some 220 families.

Some 25 toddlers at Crèche Immaculé Coeur de Marie, situated at Quatre Bornes, were also pampered by our colleagues last year. The latter spent quality time with them and also donated food items and nappies. The Crèche provides both care and protection to the orphans aged between 0-5 years.

In June last year, some of our colleagues have renovated the playground of the "Association of Disability Service Providers" (ADSP) School, situated at Long Mountain, making it lively with pedagogical concepts.

In the spirit of sharing, at the end of the year, additional non-perishable items were also distributed to various charitable associations to support the daily necessities of their beneficiaries.

Recognition

Our CSR efforts and contribution to uplifting vulnerable groups were recognised at international level by Capital Finance International.co awarding us the 2018 winner of the Best CSR Banking Sector Mauritius award, and Business Vision.World conferring us the 2018 award for Most Visionary CSR Programme.

Their Judges comments reproduced below are self-explanatory:

Judges report: SBM Holdings Ltd: CFI.co Best CSR Banking Sector Mauritius 2018

"The SBM Holdings Ltd acts as an agent of change, developing and implementing high-impact and sustainable projects at the national level to help alleviate poverty and move the country towards its goal of becoming a higher-income economy.

SBM's Corporate Social Responsibility (CSR) initiatives, which focus on the education and empowerment of the nation's most vulnerable groups, have become a reference model for the nation, setting an example for other firms to follow. As one of the most profitable companies of the Republic, SBM Holdings Ltd believes it has a duty to uplift the communities in which it operates and runs a variety of outreach initiatives through its social arm, the SBM Foundation.

The Foundation's efforts focus primarily on education as a tool for social empowerment. Since its launch, the SBM Scholarship Scheme has funded thousands of scholarships enabling deserving students to pursue university studies or vocational training, thus boosting their family household income as much as three-fold upon completion of their studies — making SBM the single largest provider of scholarships in Mauritius. In the spirit of synergy and sharing, SBM supports educational projects from 19 different NGOs, in addition to several inclusive projects for disabled people, ranging from prosthesis procurement to self-reliance systems. For its holistic approach to the strategic empowerment of the nation, the CFI.co judging panel names SBM Holdings Ltd as the 2018 winner of the Best CSR Banking Sector Mauritius award."

Judges report: BV Award announcement- SBM Holdings Ltd – Most Visionary CSR Programme Indian Ocean 2018

"Education is key to social mobility and economic freedom - and Mauritius-based SBM Holdings Ltd knows it. The small island state has a population of 1.3 million people, making human capital one of the country's main assets. The Group's Corporate and Social Responsibility (CSR) initiatives have been designed to empower the population, combat poverty, and contribute to drive the country towards a higher-income economy. SBM Holdings Ltd, through its social arm - the SBM Foundation, uses education as its weapon in the fight against poverty, funding over 1,000 student scholarships and supporting 19 educational NGOs.

The BV judging panel commends the financial group's far-sighted and uplifting educational strategies, and presents SBM Holdings Ltd with the 2018 award for Most Visionary CSR Programme."

For more information on our CSR activities, please visit our website.

Sustainable investment for the welfare of needy people: high-impact projects to alleviate poverty through education and empowerment.

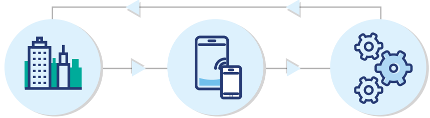
OUR DIGITAL APPROACH

At SBM, we also believe that sustainable growth can be achieved through the use of technology. By having access to and prudently choosing in which technology and innovation to invest in, we are able to improve the way we do business and deliver a more seamless customer experience.

Our Group has always been at the forefront of technology and automation, which are key to offer innovative products, deliver fast and efficient service at affordable prices, and venture into new markets.

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

Our Digital Transformation



Over the years we have been digitally transforming the way we do business. Indeed, major investment was made to avail of new systems and technology with the objective of enhancing our efficiency, providing more convenience to our clients and broadening our customer base. A series of initiatives were also undertaken last year. Amongst others, we:

- Invested in a software robot to perform repetitive tasks at a lower operational cost while ensuring necessary controls are in place.
- Successfully launched SBM ShopNCash, another first for us in Mauritius, allowing our customers to withdraw cash at POS terminals while using their debit cards.
- Deployed 13 Intelligent ATMs to provide a very smart, quick and easy way for customers to credit their account in real time when they deposit cash, without flouting anti-money laundering principles.
- Participated in the pilot phase of the National Payment Switch on its ATMs and POS terminals for acquiring another local bank's debit card.
- Participated as a pilot member in the Bank of Mauritius Instant Payment System project, which will allow near real-time local inter-bank transfer of funds by customers.
- Invested in a powerful data visualisation tool used for data analytics, and which provides interactive and user-friendly dashboards to our Management Team.
- Revamped our Internet and Mobile Banking platforms to improve customer experience. Major improvements have been made with regards to the systems' response time and the user interface was relooked at to allow for transactions with fewer clicks and quick links. Further enhancements have also been made for payments, transfers and salary file upload to ease the banking experience of our customers. At the same time, the security aspect of our Internet Banking platform was also improved through the introduction of the Multi-factor authentication. Customers now also have the option to make use of biometrics

(fingerprint recognition) to access our Mobile Banking application.

- Launched an online web access for our Custody clients, which provides a user-friendly interface to their accounts and which meets the requirements of today's investors. The portal has been specifically designed to be optimised for mobile and touch-based devices like tablets.
- Recently implemented the Digital Private Wealth Platform, Miles MoneyWare, for our Wealth Management customers. This system should improve our operational efficiency and increase the quality and consistency of services provided to our clients. It is also in line with our innovation and digitalisation strategy.
- Started an Information Systems transformation journey for SBM India and successfully implemented several new systems including: core banking, treasury system, anti-money laundering, payment, reporting, derivatives trading and cheque truncation systems. We have also launched Internet Banking services in India.
- Invested in a new core banking system and IT infrastructure for the forthcoming Seychelles operations.

Emphasizing Security

The Group is always on the lookout for the latest cost effective security technology to match modern day risks. To ensure that the appropriate governance and risk management measures are in place for the Group, we regularly review and align our IT Security policies in line with applicable international standards such as COBIT, NIST, ISO 27001 and PCI DSS. We also focused on improving access control across all our entities to ensure staff and vendors have the minimum required access to information, commensurate with their job roles and data sensitivity classification. Access to information is governed by the Data Classification Policy and several IT standards and guidelines such as Logical Access Standard, Acceptable Usage Guidelines, Media Handling Standard and Remote Access & Dial-In Standard. These policies, standards and guidelines are enforced through processes and procedures. Assurance, on whether the IT processes are as per norms and are being followed consistently, is provided by the Internal IT Audit Function.

In Mauritius, processes have also been reviewed in our branches to allow customers to have access to and modify their personal data as well as to provide or remove their consent for the use of their contact details for marketing purposes, as required by the Data Protection Act 2017 (DPA) and the General Data Protection Regulation (GDPR). Our Group's website has also been enhanced to comply with these regulations.

Furthermore, the SWIFT system in Mauritius has been upgraded to reinforce security both locally and in Madagascar. This enhanced SWIFT system will also be deployed in Seychelles. Additionally, a reputed audit firm has been on-boarded to carry an independent IT security audit for the Seychelles project.

In line with the Group's expansion strategy, our IT Teams last year also put significant focus on fraud risk mitigation and overall IT security enhancement for SBM Kenya.

Moreover, our IT Security Team ensures that there is independent testing of SBM's IT systems to prevent hacking that can result in operational and reputational losses. Regular communications are also sent to employees across the Group to promote security awareness to guard against phishing, password sharing and social engineering. Centralised management of security patches is now also facilitated through the replacement of conventional desktop PCs with Virtual Desktop Interface (VDI) terminals. The initiative is being implemented in Mauritius and should be rolled out in other entities in the near future.

Key professionals were also recruited in our Internal IT Audit Team to ensure better assurance on IT controls, especially in the field of infrastructure and network security.

Looking Forward

While much has been achieved in terms of sustainable practices over the past year, we remain determined to continuously: improve the way we contribute to the society; increase our staff engagement level and enable employees' growth through training; safeguard the environment; promote responsible business activities and products & services; support the community through our CSR initiatives; and leverage our technology platform for more digital interactions with our customers.

"Improvement of operating income on a strong platform."

FINANCIAL REVIEW

Group Highlights

MUR 1,246 million
Profit After Tax
2017: MUR 2,575 million

1.0 %
Return on Average Risk-Weighted Assets
2017: 2.0 %

MUR 1,622 million
Profit Before Tax
2017: MUR 3,160 million

5.0 %
Return on Average Shareholders' Equity
2017: 10.5 %

48.3 cents
Earnings per Share
2017: MUR 99.7 cents

6.4 %
Net Impaired Advances to Net Advances
2017: 2.0 %

MUR 24,177 million
Shareholders' Equity
2017: MUR 25,165 million

936.4 cents
Net Asset Value per Share
2017: MUR 974.7 cents

48.0 %
Cost to Income Ratio
2017: 44.7 %

MUR 24 million
Corporate Social Investment Spend
2017: MUR 39 million

24.6 %
Capital adequacy ratio
2017: 20.0 %

MUR 4,475 million
Wealth Distributed
2017: MUR 5,449 million

Summary of Group Results

GROUP FINANCIAL RESULTS AND RATIOS	**2018**	*2017*	*2016*
Net interest income (MUR million)	**5,845**	4,768	4,383
Net fee and commission income (MUR million)	**1,276**	1,240	1,053
Non-interest income (MUR million)	**3,933**	2,804	2,063
Operating income (MUR million)	**9,778**	7,572	6,446
Non-interest expense (MUR million)	**4,698**	3,388	2,742
Profit before credit loss on financial assets (MUR million)	**5,081**	4,184	3,705
Credit loss expense on financial assets (MUR million)	**3,559**	1,115	717
Operating profit (MUR million)	**1,522**	3,068	2,988
Profit before tax (MUR million)	**1,622**	3,160	2,989
Profit for the year (MUR million)	**1,246**	2,575	2,309
Net interest margin (%)	**2.8**	2.8	3.1
Earnings per share (Cents)	**48.3**	99.73	89.43
Dividend per share (Cents)	**30.0**	40.0	40.0
Net assets value per share (Cents)	**936.4**	974.7	922.0
Market price (Cents)	**596.0**	750.0	664.0
Tier 1 to risk weighted assets ratio (%)	**16.2**	15.9	19.9
Capital adequacy ratio (%)	**24.6**	20.0	25.7

The profit before credit loss expense on financial assets for the year ended 31 December 2018 has increased by MUR 897 million or 21.5% as compared to the year 2017 while operating income has grown by MUR 2,206 million or 29.1% driven by higher net interest income and non-interest income during the year. However, the Group's profit for the year has dropped by MUR 1,329 million to MUR 1,246 million for the reporting period due to a significant rise of MUR 2,444 million in credit loss expense on financial assets. This is mostly on account of some Segment B customers of SBM Bank (Mauritius) Ltd for which a provision of MUR 2,397 million has been made along with additional impairment charge of MUR 547 million from all our overseas operations and impact of IFRS9.

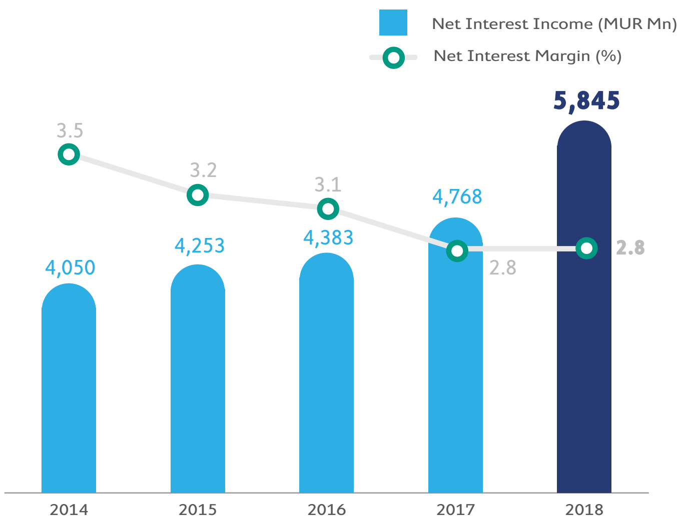
In addition, unexpected operational loss of MUR 93 million had to be booked for the subsidiary, SBM Bank (India) Ltd, following the cyber-attack in October 2018. Nevertheless, these events also helped the Group to strengthen its control around its international business and look forward as how to better penetrate the international market.

During the year, the Group has completed the acquisition of selected assets and liabilities of Chase Bank Limited in Receivership (CBLR) on 18 August 2019. This has resulted into a bargain purchase of MUR 958 million, net of deferred tax. The statements of profit or loss for the year take into account the carved out operations of the former CBLR from 18 August 2018 to 31 December 2018. Moreover, with effect from the 1st December 2018, the branches in India were converted into a Wholly Owned Subsidiary (WOS) of the SBM Group, now known as SBM Bank (India) Limited.

SBM Group has remained profitable in spite of all the challenges and unforeseen events encountered during the financial year 2018.

The earnings per share decreased from 99.7 cents for 2017 to 48.3 cents for 2018.

Income Growth



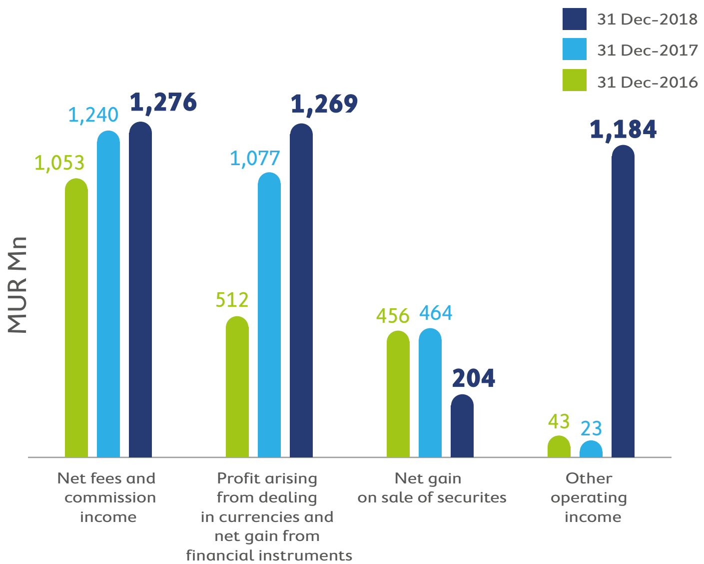
Net interest income increased by 22.6% from MUR 4,768 million in 2017 to MUR 5,845 million in 2018 with an increase of MUR 1,810 million in interest income while interest expenses went up by MUR 732 million driven by growth in business volumes.

SBM Group has been able to grow its total assets by 16.7% from MUR 194,021 million as at December 2017 to MUR 226,374 million as at 31 December 2018, primarily through a significant growth of 79.0% or MUR 31,594 million in investment securities mainly arising from SBM Bank (Mauritius) Ltd and SBM Bank (Kenya) Ltd.

The main sources of interest income in 2018 were interest on loans and advances to non-bank customers which amounted to MUR 6,456 million and interest on investment securities amounting to MUR 2,059 million. Growth of 19.9% in interest income on loans and advances to non-bank customers was driven mostly by a year on year increase of 20% in average gross loans and advances with higher loan disbursement in the second half of 2017 for SBM Bank (Mauritius) Ltd coupled with higher contribution from SBM Bank (Kenya) Ltd with newly acquired carved out assets and liabilities of CBLR.

Interest expenses for the reporting year amounted to MUR 2,972 million as a result of an increase in deposits from non-bank customers emanating both from domestic banking operation and Kenyan Operation and also additional costs with the Bond raising carried out by SBM Holdings Ltd in 2018.

Breakdown of Non-Interest Income

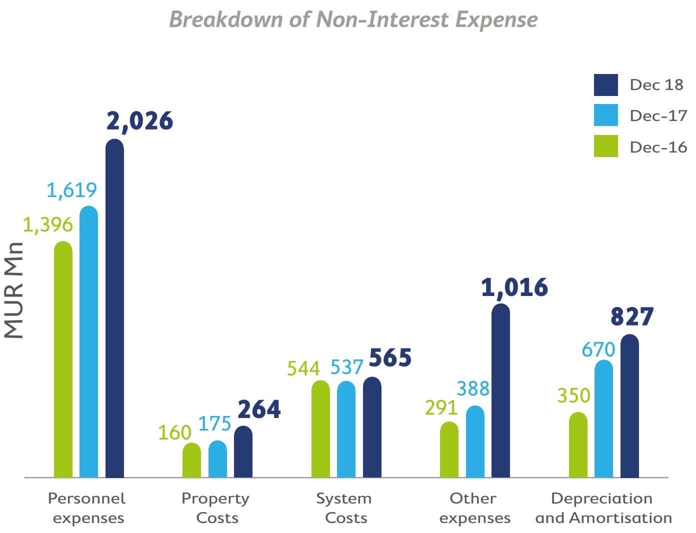


Non-interest income increased by 40.3% from MUR 2,804 million for the year ended 31 December 2017 to MUR 3,933 million for the year ended 31 December 2018. This substantial growth for the year was driven by the following:

> Net fee and commission income increased by 3.0% on account of domestic corporate banking customer fees and credit activities. On the other hand, the Group has restrained disbursements of loans in Segment B as the Bank had been focusing on the strengthening of its control in this Segment.

> Other operating income has also increased by MUR 1,161 million which includes higher dividend of MUR 88.5 million booked during the year and also a gain of MUR 958 million on the fair value of assets and liabilities taken over from CBLR in August 2018.

Non-Interest Expenses



Non-interest expenses have increased by MUR 1,309 million or 38.6% from 2017 to 2018 mostly as a result of:

> The newly acquired operations of CBLR, with a total of non-interest expense of MUR 595 million incurred from the date of acquisition to the reporting date.

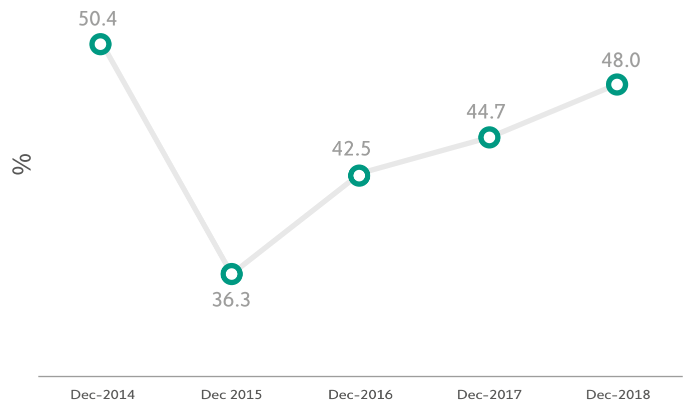
> An exceptional booking of operational loss of MUR 93 million by the Indian Operations, following a cyber-attack in October 2018.

> Write-off of goodwill of MUR 418 million relating to the acquisition of Fidelity Commercial Bank Limited in Kenya at the Bank Holdings and SBM Holdings consolidation.

> Increasing staff costs with strengthening of the Group's human capital and also with the conversion of staff from Contract of Determinate Duration (CDD) to Contract of Indeterminate Duration (CID).

> A growth of 24% in amortisation cost and 0.5% in system costs during the year under review mainly due to the impact of the additional IT and property costs related to systems upgrades in Mauritius as well as the acquisition of selected assets and liabilities of CBLR and migration to new IT systems in India.

Cost to Income



In line with the above higher operating costs, the cost to income ratio increased from 44.7% for the year ended 31 December 2017 to 48.0% for the year ended 31 December 2018.

Credit Loss Expense on Financial Assets

Credit loss expense on advances and other financial assets for the year ended 31 December 2018 amounted to MUR 3,559 million as compared to MUR 1,115 million for the year ended December 2017.

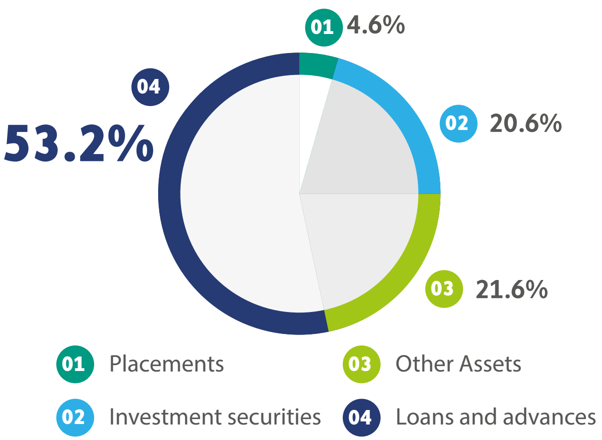
The Group’s results were adversely impacted by booking of MUR 3.5 billion as impairment charge under stage 3 due to a substantial increase in impairments in the cross-border segment of the Mauritian Operations, during the year under review.

First time implementation of IFRS 9 which was effective as from 01 January 2018 has an impact on all the banks. The transition impact of ECL for the Group is MUR 516 million.

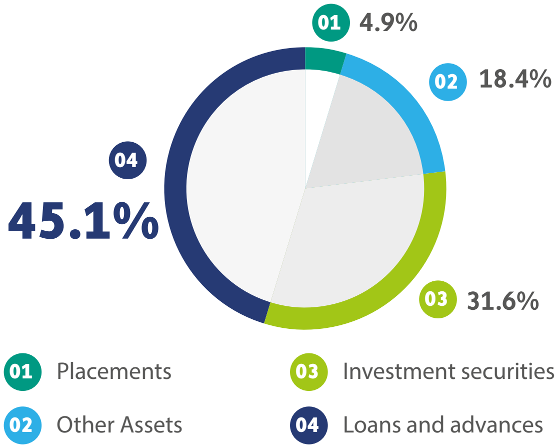
Above was partly mitigated by recoveries of amount written off amounting to MUR 205 million made during the year.

Assets Growth

Asset Mix Dec 17



Asset Mix Dec 18



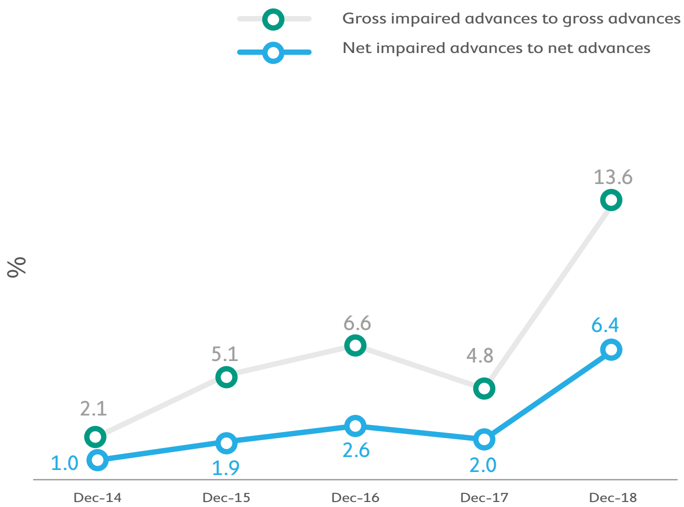
Total assets of SBM Group grew by MUR 32,353 million or 16.7% from MUR 194,021 million as at 31 December 2017 to MUR 226,374 million as at 31 December 2018, mainly driven by the acquisition of CBLR.

Loans and Advances

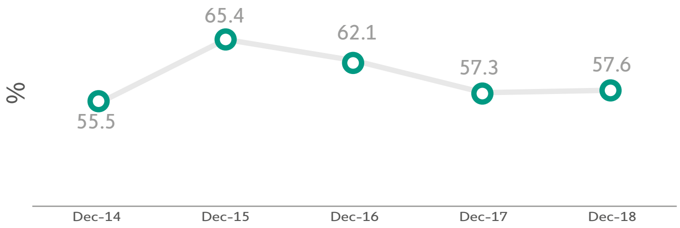
SBM Group's gross loans and advances increased by 4.9% to reach MUR 112,426 million as at 31 December 2018 (2017: MUR 107,198 million). In the financial year 2018, the Group focused more on tightening its control in Segment B and restrained from increasing its loan book even though the market in this segment has a high demand for credit facilities.

Impaired Advances and Allowance for Credit Impairment

Gross Impaired to Gross Advances



Provision Coverage Ratio



Gross impaired advances increased from MUR 4,787 million as at December 2017 to MUR 14,810 million net of cash collateral as at December 2018 (gross impairment stood at MUR 18,233 million as at 31 December 2018) mostly relating to the newly acquired assets in Kenya and also for Segment B of the Domestic Bank.

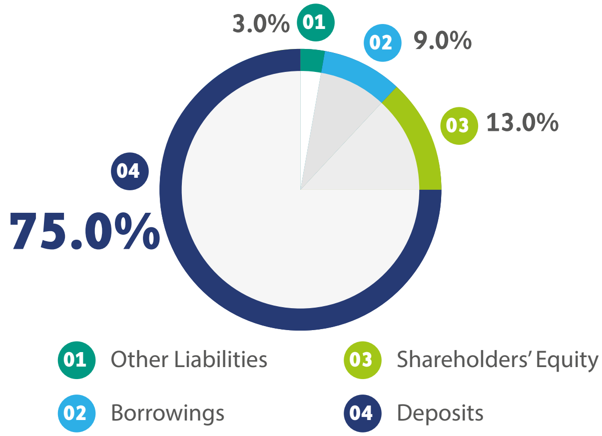
The Group ensured adequate provisions were maintained as per the guidelines of the respective central banks and International Financial Reporting Standards. Specific allowance for credit impairment stood at MUR 8,536 million, representing a provision coverage ratio of 57.6% (2017: 57.3%). The uncovered portion is adequately secured by collateral, suitably discounted to reflect prevailing market conditions and expected time of recovery. The Group's gross impaired advances to gross advances ratio (net of cash collateral) increased from 4.5% in December 2017 to 13.6% in December 2018, mainly due to the acquisition of CBLR together with the impaired loans in our Mauritius Segment B operations. The net impaired advances to net advances ratio (net of cash collateral) increased from 2.0% to 6.4% because of the significant increase in impaired loans as mentioned above. Also, the Group has made additional ECL provision as per IFRS 9.

Investment Securities and Equity Investments

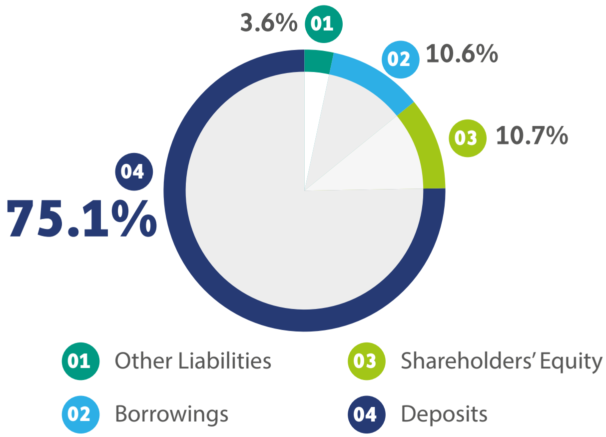
Investment securities grew by 79.0% from MUR 40,000 million as at December 2017 to MUR 71,594 million as at December 2018, with growth contributed by Kenya with an uplift of MUR 15 billion and SBM Bank (Mauritius) Ltd. Given the excess market liquidity and lower credit take off in the Mauritian domestic market, excess deposits of the domestic bank were invested in fixed income gilt-edged securities, foreign bank bonds and corporate bonds.

Liabilities and Equity

Liabilities and Equity Mix Dec 17



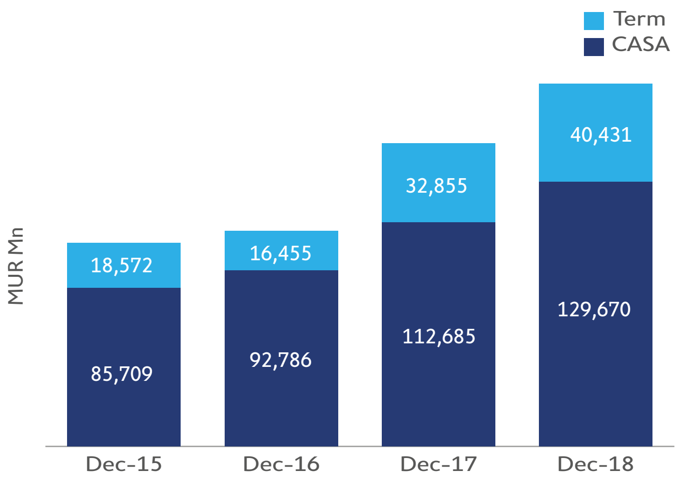
Liabilities and Equity Mix Dec 18



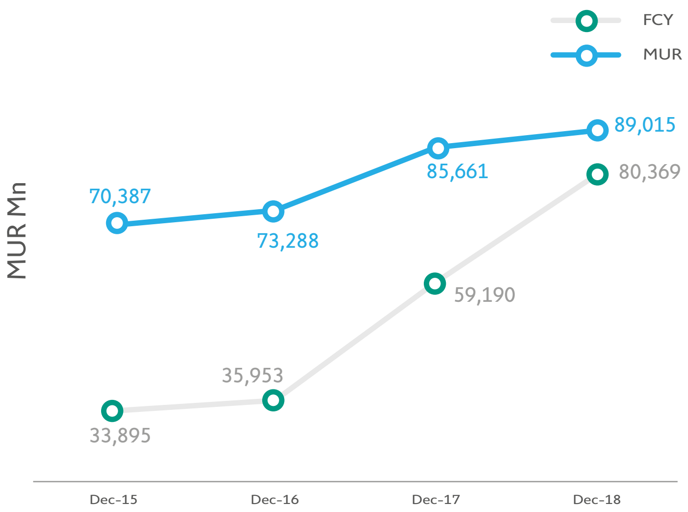
Deposits

SBM Group's deposit base increased by 16.9% to reach MUR 170,101 million as at December 2018 (2017: MUR 145,540 million). The growth was driven by the CLBR acquisition with an add-on of MUR 17 billion and the Mauritian CASA deposit portfolio increasing by MUR 13.37 billion. CASA deposits accounted for 76.2% of total deposits as at 31 December 2018 (2017: 77.4%).

CASA to Term Deposits



MUR to FCY Deposits



Borrowings

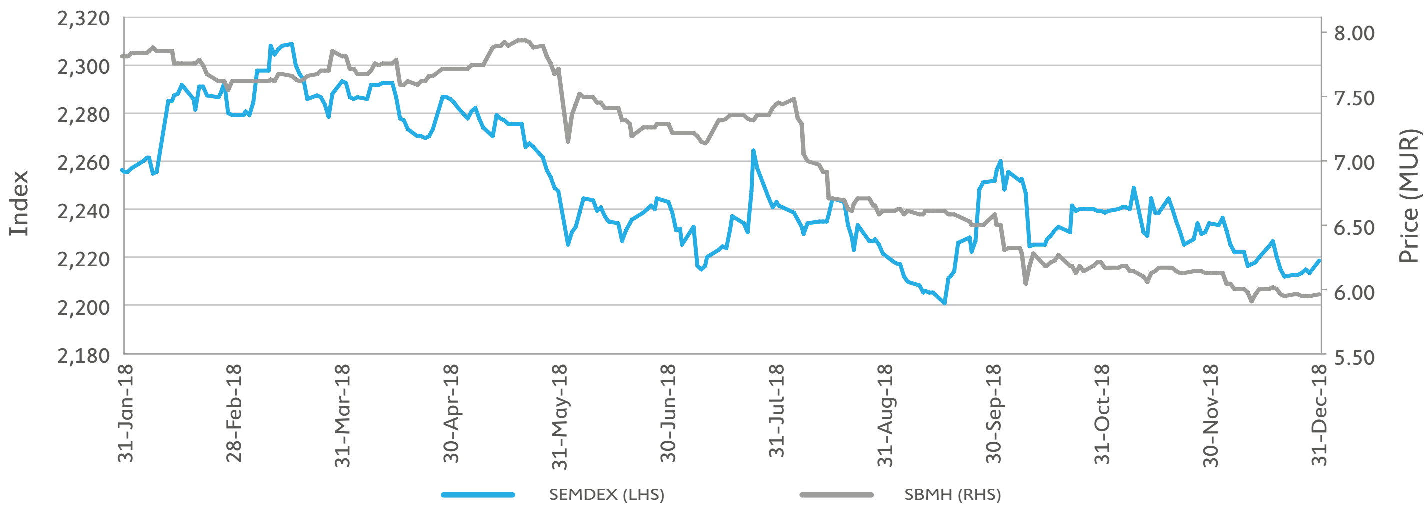
SBM Group's borrowings stood at MUR 14,522 million as at December 2018 (2017: MUR 13,686 million), the bulk of which relate to borrowings for SBM Bank (Mauritius) Ltd raised in USD and Euro from financial/ development institutions and being used to refinance activity for certain specific purposes.

Shareholders' Equity

SBM Group shareholders' equity stood at MUR 24,177 million as at 31 December 2018 (2017: MUR 25,165 million) with the retention of the current year profit of MUR 1,246 million, partly offset by dividend payments of MUR 904 million during the year and the impact of IFRS 9.

Return on average shareholders' equity stood at 5.0% for the year under review as compared to 10.5% for the year 2017.

SEMDEX - Evolution of SBMH Share Price

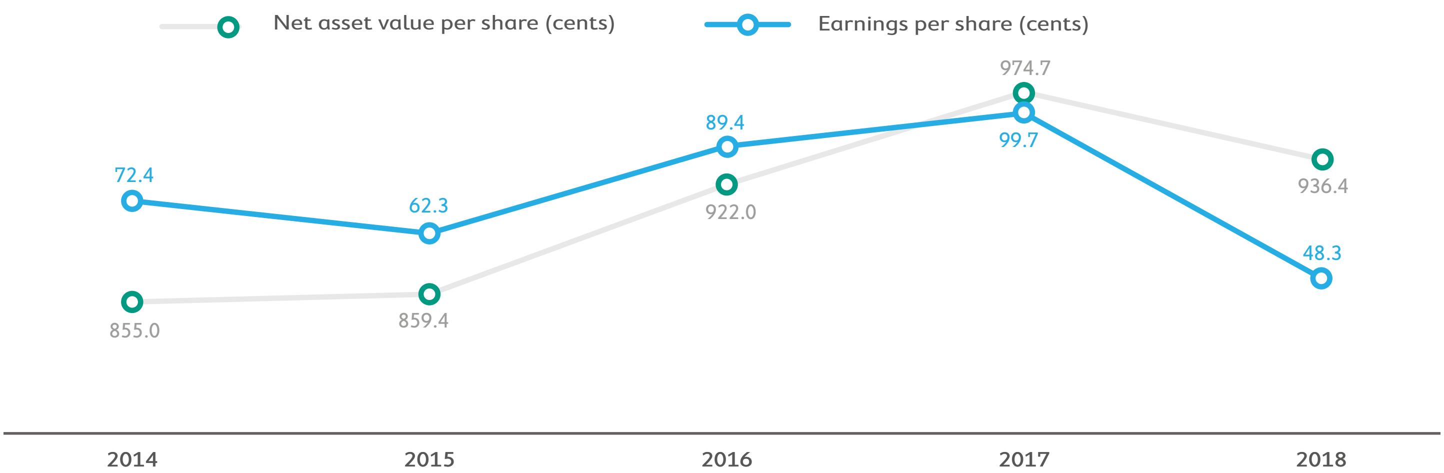


On the local scene, the stock market experienced a slowdown in trading activities during the calendar year 2018. Total Value traded on both SEM and DEM markets stood at MUR 16.4 billion, a drop of 11.3% compared to the corresponding period in 2017. Market Capitalisation (SEM-ASI) on 31 December 2018 was around MUR 354 billion. The drop in traded value was also due to foreign disinvestment amounting to MUR 1.5 billion. Most of our foreigners' interaction led to belief that foreign fund managers are moving away from frontier markets. The debacle suffered by emerging economies during the year also contributed to this trend. The domestic indices ended the year mostly in red: SEM-ASI, SEMTRI-ASI and SEMBI, lost 8.8%, 5.5% and 1.6% respectively. The SEMDEX (all share index designed to capture price evolution of all ordinary shares listed on the Official Markets) rallied in Q1 2018 before witnessing a drop towards the end of year in line with global markets trend. Annualised volatility for the Index was around 4.2%.

Sector-wise, the financial sector was almost flat. CIM Financial services led the upside while MCBG and SBMH were among the laggards. However, the Commerce sector ended the year in green with ENL Commercial Ltd emerging as the biggest winner amid much activity in the wake of the amalgamation of La Sablonniere, ENL Limited, ENL Land, ENL Commercial and ENL Finance. It is noteworthy that 2018 was the year of consolidation for some corporates namely; CIM Group carved out the Property cluster (eventual listing of Lavastone) and the emergence of Lux Collective Ltd ("TLC") Holdings Company. The exchange also witnessed some corporate bond listings: MCB Group Limited successfully listed its 5 Years Floating Rate Senior Unsecured Notes Due 2023 while SBMH raised for its Class A2 Series MUR Bond an amount of MUR 3,060,520,000, and USD 75,664,000 for its Class B2 Series Bond representing an over-subscription of more than 50%.

Shareholders' Equity (cont'd)

In terms of initiatives, the Stock Exchange of Mauritius effectively extended real-time access to the trading on 12 June 2018 the trading hours by one hour. The main point was to enhance liquidity and enable foreign investors in different time zones to have access to the trading platform and improve trading opportunities. This extension constitutes an important step towards creating a conducive environment for full day trading in the near future, in line with the practice in developed markets.



The Net Asset Value per share decreased by 3.9% from 974.7 cents as at December 2017 to 936.4 cents as at December 2018.

Earnings per share decreased from 99.7 cents as at December 2017 to 48.3 cents as at December 2018.

Performance 2018 Against Objectives

Indicator	Target for 2018	Performance 2018	Objectives for 2019
SBM Holdings Ltd			
Return on Average Assets (ROA)	A marginal improvement in ROA for FY 2018 of around 1.6%.	Growth of 23.3% in average assets for the Group was as per set target, partly driven by the takeover of selected assets and liabilities of CBLR. But Profit for the year has been adversely impacted by some unexpected events, with high credit losses being booked in SBM Bank (Mauritius) Ltd. In addition, SBM Bank (India) Ltd incurred an operational loss following the cyber-attack in October 2018. As such, the Group ended up with a lower than expected Profit and Return on Average Assets stood at 0.6% for FY 2018.	Return on Average Assets is expected to pick up to around 1.4% for FY 2019.
Return on Average Equity (ROE)	Return on Average Equity to pick up in the coming years, with a minimum of 12% in FY 2018.	The Group achieved a ROE of 5.0% for FY 2018, lower than FY 2017 for reasons stated above.	The Group aims to attain a minimum Return on Average Equity of 12%.
Operating Income *(excluding Dividend)*	To grow by at least 25% in FY 2018 driven by increased business volumes which will help to strengthen Net Interest Income, 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 income increased by 29.1% (MUR 2,206 million) driven by an increase of 22.6% (MUR 1,078 million) in Net interest income and a rise of 40.3% in Non Interest Income (MUR 1,129 million) inclusive of a net gain of MUR 958 million on the fair value of all the assets and liabilities taken over of CBLR. Fee based income also increased slightly in line with growth in business volumes and increased contribution from Non-Banking Operations.	Operating income is forecast to grow by at least 12% in FY 2019 in line with projected growth in business volumes.
Operating Expenses	Operating expenses are likely to grow further in FY 2018 in line with the Group's expansion plan and also as it continues to invest in capacity building.	Operating expenses went up by 38.6% due to two unplanned events, a write off of goodwill of MUR 418 million relating to the Fidelity acquisition in FY 2017 and booking of operational loss for Indian Operations as mentioned above. Moreover, as expected, operating costs picked up in FY 2018 with the expansion plan in Kenya and with further investment in capacity building.	Operating expenses are expected to grow with the Group's continued investment in capacity building.
Cost to Income (CI) Ratio	The CI ratio to increase in FY 2018 but should be contained below 46%.	Cost to income ratio stood at 48.0% for FY 2018 as opposed to 44.7% in FY 2017 due to higher growth in Operating expenses.	With overseas expansion, the cost to income ratio is expected to pick up in the initial stage and then gradually decrease as the Group reaps the benefit of these investments.
Asset Quality	Gross and Net Impairment ratios expected to remain below 3.1% and 1.8% respectively.	Gross and Net Impairment ratio stood at 13.6% and 6.4% (net of cash collateral) for FY 2018 with higher credit losses booked by SBM Bank (Mauritius) Ltd and SBM Bank (Kenya) Limited.	Gross and Net Impairment ratios are expected to improve in FY 2019.
Capital Management	The Group shall comply with the BOM minimum requirement.	The Group's CAR ratio and Tier 1 ratio stood at 24.6% and 16.2% respectively, which are well above the prescribed minimum requirement.	The Group shall continue to maintain a strong capital adequacy ratio as required under the Basel III provisions.

Performance 2018 Against Objectives (Cont'd)

Indicator	Target for 2018	Performance 2018	Objectives for 2019
SBM (Bank) Holdings Ltd			
Return on Average Assets (ROA)	ROA is expected to improve marginally over 2017.	Growth of 25% in average assets for the Banking Cluster was as expected, partly driven by the takeover of selected assets and liabilities of CBLR. But Profit for the year has been adversely impacted by some unexpected events, with booking of high credit losses in SBM Bank (Mauritius) Ltd. In addition, SBM Bank (India) Ltd incurred an operational loss following the cyber-attack in October 2018. As such the Banking Cluster ended up with a lower than expected Profit and Return on Average Assets stood at 0.8% for 2018.	Return on Average Assets is expected to pick up to around 1.6%.
Return on Average Equity (ROE)	Return on Average equity to pick up in the coming years, with a minimum of 15% in FY 2018.	The Banking Cluster achieved a Return on Equity of 7.3% for FY18, lower than budget for reasons stated above.	The target is to attain a minimum return on average equity of 15% for 2019.
Operating Income *(excluding Dividend)*	To grow by at least 30% in FY 2018 driven by increased business volumes which will help to strengthen Net Interest Income as well as fee based income, coupled with further increase in income from Treasury Products.	Operating income has gone up by 33 % (MUR 2.4 Billion) driven mainly by an uplift of 27 % in Net interest income and Non-Interest Income has gone up by 46%, inclusive of a gain of MUR 958 million on the fair value of all assets and liabilities taken over of CBLR.	Operating income is projected to grow by at least 15% in FY 2019 in line with growth in business volumes.
Operating Expenses	Operating expenses likely to grow further in 2018 in line with the Group's expansion plan and also as it continues to invest in capacity building.	Operating expenses has increased by 34% with two unplanned events, a write off of goodwill of MUR 418 million relating to the Fidelity acquisition in 2017 and booking of operational loss for Indian Operations as mentioned above. Moreover, as expected, Operating Costs have picked up in 2018 with the expansion plan in Kenya and with further investment in capacity building.	Operating expenses are expected to grow with the continued investment in capacity building.
Cost to Income (CI) ratio	With continuing investment in human capital and technology, the cost to Income ratio is expected to increase slightly.	Cost to income ratio stood at 44.3% for FY2018 as opposed to 44% in 2017 driven by higher growth in Operating expenses	With overseas expansion, the cost to income ratio is expected to pick up in the initial stage and then gradually decrease as the Group reaps the benefit of these investments
Assets Quality	Gross and Net Impairment ratio expected to remain below 3.1% and 1.8%	Gross and Net Impairment ratio stood at 13.6% and 6.3% (net of cash collateral) for FY2018 with higher credit losses booked by SBM Bank (Mauritius) Ltd and SBM Bank Kenya.	Gross and Net Impairment ratio is expected to improve in FY2019.
Capital Management	The Group shall comply with the BOM minimum requirement.	The Banking Cluster's CAR Ratio and Tier 1 ratio stood at 18.0% and 16.4% respectively, which are well above the prescribed minimum requirement.	The Banking Group shall continue to maintain a strong capital adequacy ratio as required under the Basel III provisions.

Five Year Financial Summary

SBM HOLDINGS LTD - THE GROUP	Year December 2018	Year December 2017	Year December 2016	Year December 2015	Year December 2014
Key financial highlights (MUR Mn)					
Profit before credit loss expense on financial assets	**5,081**	4,184	3,705	3,985	3,108
Profit before income tax	**1,622**	3,160	2,989	2,048	2,541
Profit for the Year	**1,246**	2,575	2,309	1,608	1,868
Total assets	**226,374**	194,021	146,896	136,162	125,602
Shareholders' equity	**24,177**	25,165	23,805	22,188	22,074
Tier 1 capital	**19,717**	20,010	18,598	18,254	20,376
Risk-weighted assets (including market and operational risks)	**122,052**	125,684	93,480	83,935	79,366
Average assets[a]	**210,198**	170,459	141,529	130,882	118,731
Average shareholders' equity[a]	**24,671**	24,485	22,997	22,131	20,708
Average working funds[a]	**219,482**	177,353	147,833	135,841	120,378
Average Tier 1 capital[a]	**19,864**	19,304	18,426	19,315	16,505
Key financial ratios (%)					
Capital adequacy ratio	**24.6**	20.0	25.7	28.3	31.4
Tier 1 Capital adequacy ratio	**16.2**	15.9	19.9	21.7	25.7
Profit before income tax/ average risk-weighted assets	**1.7**	2.9	3.4	2.5	3.3
Profit before income tax/ average assets[a]	**0.8**	1.9	2.1	1.6	2.1
Profit before income tax/ average Shareholders' equity[a]	**6.6**	12.9	13.0	9.3	12.3
Profit before income tax/ average Tier 1 capital[a]	**8.2**	16.4	16.2	10.6	15.4
Return on risk-weighted assets	**1.0**	2.0	2.6	2.0	2.4
Return on average assets[a]	**0.6**	1.5	1.6	1.2	1.6
Return on average shareholders' equity[a]	**5.0**	10.5	10.0	7.3	9.0
Return on average Tier 1 capital[a]	**6.3**	13.3	12.5	8.3	11.3
Cost to income	**48.0**	44.7	42.5	36.3	50.4
Share information (based on nominal of 10 cent each)[c]					
Earnings per share (cents)	**48.3**	99.7	89.4	62.3	72.4
Dividend per share (cents)[b,c,d]	**30.0**	40.0	40.0	40.0	45.0
Net asset value per share (cents)	**936.4**	974.7	922.0	859.4	855.0
Share price to book value (times)	**0.6**	0.8	0.7	0.8	1.1

SBM HOLDINGS LTD - THE GROUP	Year December 2018	Year December 2017	Year December 2016	Year December 2015	Year December 2014
Dividend yield (%)[c]	**5.0**	5.3	6.0	5.6	4.4
Earnings yield (%)	**8.1**	13.3	13.5	8.8	7.1
Total yield (cents)[c]	**(124.0)**	126.0	(6.0)	(270.0)	25.0
Cumulative yield (cents)	**1,025.5**	1,149.5	1,023.5	1,029.5	1,299.5
Price earnings ratio (times)	**12.4**	7.5	7.4	11.4	14.1
Dividend cover (times)	**1.6**	2.5	2.2	1.6	1.6
Market capitalisation (MUR Mn)	**18,103**	22,781	20,168	21,566	30,982
Market price per share (cents)	**596.0**	750.0	664.0	710.0	1,020.0
Highest	**798.0**	800.0	664.0	1,000.0	1,069.3
Lowest	**590.0**	650.0	630.0	693.1	980.2
Average	**708.1**	744.0	673.1	878.9	1,026.0
Value of shares trades (MUR Mn)	**987.5**	2,850.9	1,167.3	3,157.6	2,288.6
Value of shares traded as a percentage of Market (%)	**7.4**	7.7	9.3	17.6	13.8
Other key data					
Number of employees	**2,541**	1,889	1,527	1,223	1,179
Number of employees (Mauritius)	**1,610**	1,593	1,409	1,117	1,074
Number of employees (Overseas)	**931**	297	118	106	105
Number of service units	**104**	62	51	47	50
Exchange rate (USD : MUR)	**34.3**	33.4	35.9	35.9	31.8
Exchange rate (INR : MUR)	**0.5**	0.5	0.5	0.5	0.5
Exchange rate (100 MGA : MUR)	**1.0**	1.0	1.1	1.1	1.2
Exchange rate (KES : MUR)	**0.3**	0.3	0.4	-	-

[a] *Averages are calculated using year-end balances.*

[b] *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.*

[c] *Including dividend declared after the reporting date but before the financial statements are authorised for issue.*

[d] *Dividend per share for 2018 includes a final dividend of 5 cents per share payable in 2019.*

SEGMENT RESULTS

SBM (BANK) HOLDINGS LTD - THREE YEAR SUMMARY

	Year December 2018	Year December 2017	Year December 2016
Consolidated statement of profit or loss (MUR Mn)			
Net interest income	**6,061**	4,773	4,305
Non interest income	**3,658**	2,513	1,937
Non interest expense	**4,301**	3,204	2,641
Depreciation and amortisation	**823**	668	348
Profit before credit loss expense	**5,418**	4,083	3,601
Profit before income tax	**1,861**	3,115	2,883
Profit for the year	**1,527**	2,547	2,225
Consolidated statement of financial position (MUR Mn)			
Total assets	**215,677**	184,583	135,137
Gross loans and advances to non-bank customers	**112,545**	107,198	75,776
Investment securities	**68,099**	38,189	34,775
Deposits from non-bank customers	**169,538**	145,029	109,333
Shareholders' equity	**22,766**	19,307	15,905
Tier 1 capital	**18,325**	14,160	10,701
Risk-weighted assets (including market and operational risks)	**111,470**	115,517	82,280
Consolidated statement of financial position (average[a] MUR Mn)			
Average assets	**200,130**	159,860	129,576
Average loans and advances to non-bank customers	**109,872**	91,487	74,036
Average investment securities	**53,144**	36,482	33,127
Average deposits from non-bank customers	**157,283**	127,181	106,910
Average shareholders' equity	**21,037**	17,606	14,821
Average Tier 1 capital	**16,242**	12,430	10,253
Average interest earning assets	**179,185**	143,697	117,417
Average interest bearing liabilities	**171,703**	137,594	111,479
Efficiciency ratios (%)			
Cost to income	**44.3**	44.0	42.3
Earnings per share (cents)	**20,354.5**	33,961.0	29,662.6
Net asset value per share (MUR'000)	**280.5**	234.7	197.6

SBM (BANK) HOLDINGS LTD	Year December 2018	Year December 2017	Year December 2016
Performance ratios (%)			
Capital adequacy ratio	**18.0**	13.9	14.9
Tier 1 capital adequacy ratio	**16.4**	12.3	13.0
Profit before income tax/ average[a] risk-weighted assets	**1.6**	3.1	3.6
Profit before income tax/ average[a] assets	**0.9**	1.9	2.2
Profit before income tax/ average[a] shareholders equity	**8.8**	17.7	19.5
Profit before income tax/ average[a] Tier 1 capital	**11.5**	25.1	28.1
Return on average[a] risk-weighted assets	**1.3**	2.6	2.8
Return on average[a] assets	**0.8**	1.6	1.7
Return on average[a] shareholders' equity	**7.3**	14.5	15.0
Return on average[a] Tier 1 capital	**9.4**	20.5	21.7
Asset quality ratios (%)			
Gross impaired advances to gross advances	**13.6**	4.5	6.6
Net impaired advances to net advances	**6.3**	2.0	2.6

[a] *Averages are calculated using year-end balances.*

Year ended 31 December	SBM BANK (MAURITIUS) LTD		SBM BANK (INDIA) LIMITED		BANQUE SBM MADAGASCAR SA		SBM BANK (KENYA) LIMITED	
	2018	*2017*	**2018**	*2017*	**2018**	*2017*	**2018**	*2017**
	MUR Mn	*MUR Mn*	**MUR Mn**	*MUR Mn*	**MUR Mn**	*MUR Mn*	**MUR Mn**	*MUR Mn*
Net interest income / (expense)	**5,491**	4,506	**186**	214	**80**	75	**304**	(23)
Net fee and commission income	**1,039**	983	**2**	16	**15**	13	**66**	38
Other non interest income	**1,347**	1,382	**16**	42	**33**	39	**1,140**	7
Operating income	**7,877**	6,871	**204**	272	**128**	127	**1,510**	22
Non interest expense	**(2,729)**	(2,846)	**(269)**	(138)	**(100)**	(82)	**(776)**	(138)
Profit/(loss) before credit loss expense on financial assets	**5,148**	4,025	**(65)**	134	**28**	45	**734**	(116)
Credit loss expense on financial assets	**(3,010)**	(228)	**(160)**	(759)	**(59)**	(31)	**(329)**	51
Profit/(loss) before tax	**2,138**	3,797	**(225)**	(625)	**(31)**	14	**405**	(65)
(Tax expense) / income	**(677)**	(494)	**3**	(66)	**(2)**	(7)	**352**	-
Profit/(loss) for the year/period	**1,461**	3,303	**(222)**	(691)	**(33)**	7	**757**	(65)
Total assets	**183,986**	172,379	**7,460**	10,271	**1,518**	1,442	**23,685**	3,321
Gross loans and advances to non-bank customers	**99,798**	97,638	**3,795**	6,622	**827**	989	**8,124**	2,079
Deposits from non-bank customers	**147,531**	134,385	**3,642**	7,310	**1,419**	1,262	**16,954**	2,081
Total equity attributable to equity holders of the parent	**17,465**	19,270	**2,518**	2,023	**32**	140	**2,510**	399

**Period from 11 May 2017 to 31 Dec 2017*

SBM BANK (MAURITIUS) LTD

SBM Bank (Mauritius) Ltd is the main driver of SBM Group's profit for the year ended 31 December 2018.

Total assets grew by MUR 11,607 million or 6.7%, from MUR 172,379 million as at 31 December 2017 to reach MUR 183,986 million as at 31 December 2018, mainly on account of an increase in investment securities of MUR 13,540 million mitigated by a fall in cash and cash equivalents by MUR 3,264 million. Deposits from non-bank customers have increased by MUR 13,145 million or 9.8% during the year under review. Shareholders' equity stood at MUR 17,464 million (2017: MUR 19,270 million).

Profit after tax decreased by MUR 1,842 million or 55.8%, from MUR 3,303 million for the year ended 31 December 2017 as compared to MUR 1,461 million in 2018. Operating income increased by MUR 321 million or 4.7%. This is mainly attributable to a growth in net interest income of MUR 985 million or 21.9% from MUR 4,506 million for FY 2017 to MUR 5,491 million for FY 2018. Non-interest expense decreased by MUR 117 million or 4.1%. Credit loss expense increased by MUR 2,782 million due to some Segment B accounts of SBM Bank (Mauritius) Ltd going impaired by MUR 2,397 million and additional impairment following IFRS 9 implementation.

SBM BANK (INDIA) LIMITED

SBM Bank (India) Limited was converted into a Wholly Owned Subsidiary (WOS) of the SBM Group with effect from 01 December 2018. This banking licence authorises SBM Group to pursue its operations as a WOS and to amalgamate its existing branches of SBM Bank (Mauritius) Ltd into a subsidiary, now known as SBM Bank (India) Limited.

SBM Bank (India) Limited is still operating at a loss. The subsidiary has a loss before credit loss expense on financial assets of MUR 65 million (2017: profit of MUR 134 million). SBM Bank (India) Ltd has been victim of a cyber-attack through fraudulent SWIFT payments in October 2018 and a provision of MUR 93 million has been booked accordingly. All the revenue verticals witnessed a fall. Non-interest expense has increased by 95% which is explained by an increase in depreciation and amortisation by the go live of system for the Indian Ops. The credit loss expense of the IOPS have decreased by 79%.

During the year, total assets fell by 27% from MUR 10,271 million as at 31 December 2017 to MUR 7,460 million as at 31 December 2018, mainly driven by a fall in loans and advances. Shareholders' equity stood at MUR 2,518 million (2017: MUR 2,023 million) which was attributable to the capital injection made of MUR 880 million and losses made during the year under review.

BANQUE SBM MADAGASCAR SA

The economic activity of Madagascar faced challenges in 2018 with the plague epidemic and the presidential elections. Due to the difficult economic conditions, the financial performance of the Banque SBM Madagascar SA has deteriorated in 2018 compared to 2017, with a decrease in the profit after tax by MUR 40 million.

Total assets of the Madagascar operations increased by MUR 76 million or 5% from MUR 1,442 million as at 31 December 2017 to MUR 1,518 million as at 31 December 2018. The increase arose mainly from cash and cash equivalents which have increased by 130%, loans to and placements with banks increased by 63% and investment securities increased by 54%. The increase in total assets is mitigated by a fall in the loans and advances to non-bank customers by 29% and other assets by 21%. The slowdown in Madagascar's economic activity has resulted in the fall in the loans and advances to non-bank customers. The deposits from non-bank customers have increased by 12%.

SBM BANK (KENYA) LIMITED

SBM Holdings Ltd completed the acquisition of the carved out assets and specific liabilities of Chase Bank (Kenya) Ltd (in Receivership) (CBLR) through its subsidiary SBM Bank (Kenya) Limited (SBM Kenya) (SBMBK) on 18 August 2018. The acquisition of the assets of CBLR resulted in an increase in the total assets of SBMBK by MUR 24 billion at 18 August 2018.

As at 31 December 2018, total assets of SBMBK stood at MUR 23,685 million (2017: MUR 3,321 million) with a gross loans and advances book of MUR 8,124 million (2017: MUR 1,949 million) and investment securities of MUR 14,588 million (2017: MUR 775 million). Deposits from non-bank customers stood at MUR 16,954 million (2017: MUR 2,081 million) with shareholders' equity of MUR 2,510 million (2017: MUR 399 million).

SBM Bank (Kenya) Ltd recorded a profit of MUR 757 million which was a significant turnaround from the last year loss of MUR 64 million. The increase in profit during the year under review was mainly attributed to a bargain purchase of MUR 958 million. The improved performance during the year is largely attributable to the stabilisation of the Subsidiary, following the purchase of certain assets and liabilities of CBLR on 18 August 2018. For the period from 18 August 2018 to 31 December 2018, the newly acquired assets of CBLR contributed a net interest income of MUR 428 million and profit before tax of MUR 112 million to the Group's results.

SBM (NBFC) HOLDINGS LTD

Year ended 31 December	2018	2017
	MUR Mn	MUR Mn
Net interest income	3	-
Net fee and commission income	201	180
Other non interest income	59	4
Operating income	263	184
Non interest expense	(128)	(92)
Profit before credit loss expense on financial assets	135	92
Credit loss expense on financial assets	-	-
Profit before tax	135	92
Tax expense	(25)	(17)
Profit after tax	110	75
Total assets	1,560	1,649
Total equity attributable to equity holders of the parent	1,387	1,602

The SBM Non-Banking Financial Cluster (NBFC) has been in operations for more than 15 years and provides services in Asset Management, Securities Brokerage, Private Equity, Factoring, Investment Advisory, Registry, Fund Management and Insurance Agency. NBFC also holds an Investment Banking Licence, which allows it to offer solutions like Transaction Advisory, Mergers and Acquisition and Capital Raising to clients.

NBFC's services complement the range of financial products available within other clusters of the SBM Group.

Over the years, the Non-Banking Financial Cluster has strengthened the Group's position as a reputable financial services firm through the continuous provision of value-added services to its clients.

During the year under review, the cluster made a profit after tax of MUR 110 million compared to a profit of MUR 75 million in the previous year. The increase is mainly attributable to higher dividend received from our equity investment, higher fees and commission income of MUR 20.9 million partly mitigated by higher administrative expenses of MUR 34.5 million.

Total assets of the NBFC cluster decrease from MUR 1,649 million as at 31 December 2017 to MUR 1,560 million as at 31 December 2018.

SBM CAPITAL MARKETS LTD

SBM Capital Markets Ltd is licensed by the Financial Services Commission to conduct Investment Banking activities. The Company provides transaction advisory services, mergers and acquisitions and capital raising to clients.

The Company made a profit after tax of MUR 3.1 million for the year ended 31 December 2018 compared to a loss of MUR 0.4 million for the period ended 31 December 2017. The increase is mainly due to arranger fees received for the capital raising of the SBM Bonds.

SBM SECURITIES LTD

SBM Securities Ltd, licensed by the Financial Services Commission (FSC) as an Investment Dealer – Full-Service Dealer (including underwriting), is the stockbroking unit of the SBM Group.

The Company registered a profit after tax of MUR 17.7 million for the year ended 31 December 2018 compared to MUR 44.6 million for the previous year. Revenue for the current year amounted to MUR 45.0 million compared to MUR 76.8 million in 2017 with an exceptional income of MUR 31 million in 2017 and which did not recur this year. Operating Costs increased slightly by 4.4% from MUR 21.6 million for the year ended 31 December 2017 to MUR 22.5 million for the year ended 31 December 2018.

SBM FUND SERVICES LTD

SBM Fund Services Ltd, licensed and regulated by the Financial Services Commission, manages fund administration and conducts Registry & Transfer agent services and CIS administrator services.

The Company made a profit after tax of MUR 3.7 million for the year ended 31 December 2018 compared to a profit of MUR 4.5 million a year earlier. The Company's income for this financial year amounted to MUR 16.0 million compared to MUR 13.7 million in the previous year. The increase of MUR 2.3 million is mainly driven by increase in registry and administrative fees received from clients. Expenses increased from MUR 8.5 million for the year ended 31 December 2017 to MUR 11.4 million for the year ended 31 December 2018 on account of higher staff costs.

SBM FACTORS LTD

SBM Factors Ltd, established in August 2016 and launched in 2017, is licensed and regulated by the Financial Services Commission as a factoring service provider.

The Company made a loss of MUR 7.9 million for the year ended 31 December 2018 compared to a loss of MUR 4.6 million in 2017. The Company's total income amounted to MUR 4.4 million this year as compared to only MUR 0.02 million last year. The income comprises factoring fees, net interest income and other fees receivable. The loss is mainly attributable to the fact that the business started to pick up as from the second half of FY2018 while there were higher administrative expenses in terms of IT costs.

SBM INSURANCE AGENCY LTD

SBM Insurance Agency Ltd, incorporated in October 2017, was set up in order to conduct the activities of insurance agent business. The Company acts as intermediary between the Insurance companies and the clients.

The Company made a profit after tax of MUR 23.3 million for the period ended 31 December 2018. Total income was MUR 43.8 million while expenses amounted to MUR 16.4 million.

SBM MAURITIUS ASSET MANAGERS LTD

SBM Mauritius Asset Managers Ltd ("SBM MAM") is the asset management arm of the SBM Group. SBM MAM is a leading provider of investment services in Mauritius, specializing in fund management, advisory services and distribution of financial products.

The Company made a profit after tax of MUR 48.2 million for the year ended 31 December 2018 as compared to MUR 48.1 million reported last year. Management and retrocession fees grew from MUR 37.5 million in FY2017 to MUR 50.2 million in FY2018 (34%). Commission income decreased from MUR 13.3 million in the preceding year to MUR 12.4 million in this year. Net advisory fees decreased from MUR 43.0 million in FY2017 to MUR 24.5 million in the current year. Expenses for the year ended 31 December 2018 amounted to MUR 41.8 million as compared to MUR 49.2 million for the preceding year, a decrease of 15%. This is mainly due to lower staff costs and professional fees.

Total assets under management increased from MUR 8,495 million at 31 December 2017 to MUR 9,043 million at 31 December 2018, an increase of 6.5%.

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

Fund Name	Fund Size	2018 (%)	2017 (%)	2016 (%)
SBM Perpetual Fund	MUR 2,531.5 Mn	**3.9**	5.0	3.6
Benchmark		**2.7**	3.0	3.5
SBM Universal Fund	MUR 411.2 Mn	**(3.0)**	10.5	2.9
Benchmark		**(1.7)**	12.2	3.2
SBM Yield Fund	MUR 142.6 Mn	**4.0**	7.4	3.3
Benchmark		**3.7**	4.1	4.5
SBM India Fund	USD 6.7 Mn	**(34.5)**	39.8	2.2
Benchmark		**(11.2)**	44.5	1.3
SBM Growth Fund	MUR 109.0 Mn	**(6.3)**	13.5	2.8
Benchmark		**(1.7)**	20.3	6.5
SBM Maharaja Fund	USD 12.3 Mn	**(4.8)**	7.5	1.8
Benchmark		**(4.0)**	4.0	3.5
SBM International Fund	USD 1.4 Mn	**(16.7)**	22.3	1.1
Benchmark		**(16.1)**	18.1	2.3

SBM (NFC) HOLDINGS LTD

Year ended 31 December	2018 MUR Mn	2017 MUR Mn
Net interest income	**13**	13
Net fee and commission income	**4**	219
Other non interest income	**1**	18
Operating income	**19**	250
Non interest expense	**(3)**	(3)
Profit before credit loss expense on financial assets	**16**	247
Credit loss expense on financial assets	**-**	(148)
Profit before tax	**16**	99
Tax expense	**(5)**	(3)
Profit after tax	**11**	96
Total assets	**704**	737
Total equity attributable to equity holders of the parent	**702**	735

SBM (NFC) Holdings Ltd (NFC) is an investment holding company having passive equity investments. During the year under review, they registered a total Operating Income of MUR 19 million as opposed to MUR 250 million in 2017, where they realised an exceptional gain on disposal of an equity investment in 2017.

Total assets decreased by MUR 33 million from MUR 737 million to MUR 704 million mostly on account of a fall of 14% in the fair value of the investment portfolio.

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

RISK MANAGEMENT REPORT

Risk Management – A Strategic Imperative

UNDERSTANDING AND MANAGING RISKS TO CREATE AND HARNESS OPPORTUNITIES

As a diversified financial services provider offering a wide range of wholesale and retail banking services, as well as wealth management, capital markets, insurance and factoring services, SBM Group embraces risk management as a core competency to support business in delivering sustainable growth and help to reinforce its resilience, amidst an environment shaped by uncertainty.

Supported by a consistent risk-focused culture, risk management is overseen and managed on an enterprise-wide basis. The Group maintains a comprehensive risk appetite framework including a suite of policies, processes, controls and systems for assessing the appropriate level of risk appetite required to constrain its overall enterprise risk profile. The framework is subject to constant evaluation to ensure it meets the challenges and requirements of global markets in which the Group operates including regulatory standards and industry best practices. The Group policies and appetite are cascaded down across the different entities. All entities and their executive management are responsible for executing and translating the board approved risk appetite and policies into operational aspects which are monitored and reported back periodically to the Board/Board Committees. This approach ultimately ensures the protection of the Group's reputation and is consistent with its objective of increasing shareholder value.

In 2018, the Group strengthened its approach to international and cross-border lending, including a tighter country risk framework and a new credit policy on international banking, with a clear-cut list of countries where the Group will be restricting its business and an approved list of targeted countries to reinforce synergy and cross-selling.

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

GOVERNANCE AND STRUCTURE

MANAGEMENT LAYER

Board of Directors

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

Board Sub-Committees

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

STRATEGIC LAYER

Management Forums

Responsible for translating the high-level overall guidance from the Board into operational aspects and then monitoring and reporting them back periodically to the Board/Board Committees

Risk Management Team

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

THREE LINES OF DEFENCE

Business Units

Risk Management and Compliance

Internal Audit

The Group has a well-established **Risk Governance Structure**, underpinned by three **lines of defence**, which facilitates identification and escalation whilst providing assurance to the Board.

The governance structure is supported by an active and engaged Board of Directors and a risk management function that is independent of the business units. The Head of Risk Management has direct access to the Board Chairman and the Risk Management Committee without impediment.

RISK APPETITE FRAMEWORK

Risk Appetite

Risk Control Mechanism

Stress Testing

Risk Identification

Risk Strategy

The 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.

RISK CULTURE

Risk Oversight – Highlights 2018

2018 was a challenging and eventful year for the Group, marked by unexpected hits and hurdles. Despite a downturn in performance owing to impairments in the cross-border business of SBM Bank (Mauritius) Ltd and an unfortunate cyber-attack at our Indian operations, the Group has continued to pursue its objectives and strengthen its risk management.

Supported by enhancements in our risk management processes and risk appetite framework, SBM Holdings Ltd has strengthened its regionalisation drive with the acquisition of selected assets and assumption of certain liabilities of Chase Bank (Kenya) Limited (in Receivership) and SBM Bank Kenya is now well-positioned in the Kenyan market as a top tier 2 bank. Also, with the conversion of our India operations into a Wholly Owned Subsidiary structure, and with upcoming operations in Seychelles, along with a new branch in Madagascar, the Group has been able to expand its regional footprint. Through this, we aim to maximise sustainable value for our stakeholders while remaining in compliance with the Risk Appetite Statement.

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

Balance Sheet Management

Loan to Deposit Ratio (Mauritius Operations)

63.9%

(Dec 17: 71.1%)

Net Stable Funding Ratio (Mauritius Operations)

118.6%

(Dec 17: 111.7%)

HIGHLIGHTS 2018

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

OUTLOOK FOR 2019

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

Capital and Liquidity Management

Tier 1

16.2%

(Dec 17:15.9%)

Capital Adequacy Ratio

24.6%

(Dec 17: 20.0%)

Liquidity Coverage Ratio

154.1%

(Dec 17: 130.1%)

HIGHLIGHTS 2018

- ✓ Capital remained adequate, taking into account risk appetite as well as growth and strategic targets with the key capital ratios above the minimum regulatory requirements, as highlighted below:
- ✓ Common Equity Tier 1 (CET1) stood at 16.2%, above the minimum regulatory requirement of 8.875% (including buffers)
- ✓ Total Capital Adequacy Ratio (CAR) reached 24.6%, well above the minimum regulatory requirement of FY18: 12.375%, FY19: 13.375%.
- ✓ The Group has a healthy liquidity position with the Liquidity Coverage Ratio (LCR) significantly above 100%. The Group proactively managed the ratio by ongoing monitoring of the stock of High Quality Liquid Assets (HQLA).

OUTLOOK FOR 2019

- ✓ Enhance capital efficiency while maintaining a strong risk oversight and further improve the quality of our funding base
- ✓ Optimising geographic portfolios by selectively reshaping sub-scale unprofitable markets and prioritising more profitable markets
- ✓ The Stock of HQLA shall be monitored closely to be maintained at a comfortable level in order to meet liquidity and regulatory needs.

Prudent Provisioning Coverage

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

6.4%

(Dec 17: 2.0%)

Specific Coverage Ratio

57.6%

(Dec 17: 57.3%)

HIGHLIGHTS 2018

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

OUTLOOK FOR 2019

- ✓ Continued prudence in provisioning

Non-Financial Risk

HIGHLIGHTS 2018

- ✓ Operational loss incurred following recent cyber-attack pertaining to the Bank's Indian branch thus requiring investment in and reinforcement of the Bank's cybersecurity to ensure effective resilience of its systems to such attacks.
- ✓ Continuous monitoring of operational risks to ensure that operational losses (financial or reputational) do not cause material damage to the Group
- ✓ Roll-out of new risk assessment process and controls throughout the organisation.

OUTLOOK FOR 2019

- ✓ Enhance controls, systems and processes to adapt to the evolving financial crime landscape and new challenges associated with digitalisation
- ✓ Adopting an integrated compliance approach to address the demands of the changing regulatory environment
- ✓ Enhance the environmental and social risk appraisal system and broadening the remit of the environmental and social risk business unit to strengthen our capacity to identify, mitigate and manage associated impacts

Key Developments in 2018

(1) Remediation Plan for Cross-Border Activities

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

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

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

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

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

Objectives of Covenant Monitoring

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

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

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

End result of Covenant Monitoring

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

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

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

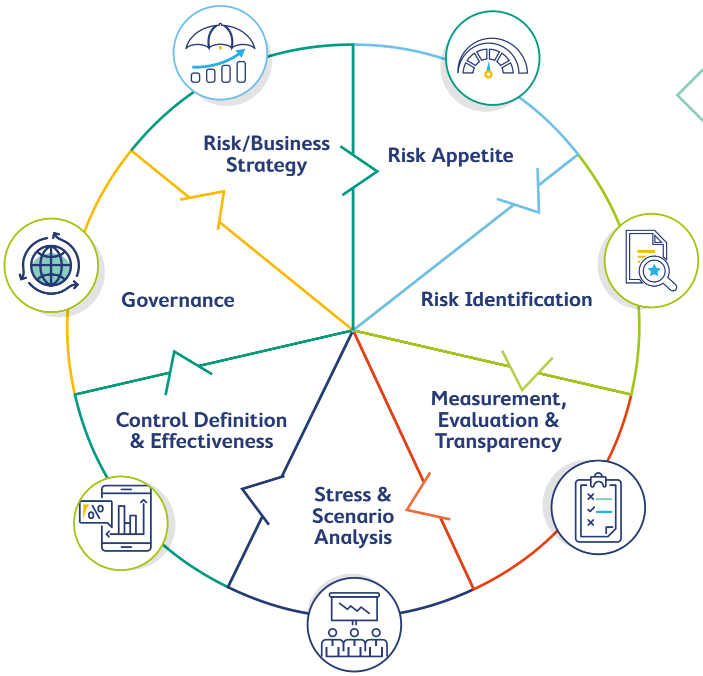
Enterprise Risk Management

Risk-Aware Culture

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

Tone from Top

Directors and employees are required to consistently demonstrate professional and ethical conduct in accordance with the principles of integrity, accountability and transparency, thus promoting and maintaining trust throughout the organisation.



Focus on Principal and Emerging Risks

The Group ensures that the key risks are properly identified, assessed and monitored. Mitigating strategies are put in place to manage such risks and make front liners more accountable. This facilitates more dynamic risk identification and enables the Group to establish a clear linkage between decision making and risk management as well as identify and manage correlations across risk types.

Risk Governance Structure

Underpinned by three lines of defence, the Group's Risk Governance Structure facilitates identification and escalation whilst providing assurance to the Board. The governance structure is supported by an active and engaged Board of Directors and a risk management function that is independent of the business units.

The chart below illustrates the inter-relationship between the Board, Board Committees and Management Committees that have the majority of risk oversight responsibilities for the Group and their corresponding roles.

STRATEGIC LAYER

Board of Directors

Executive and Independent Directors

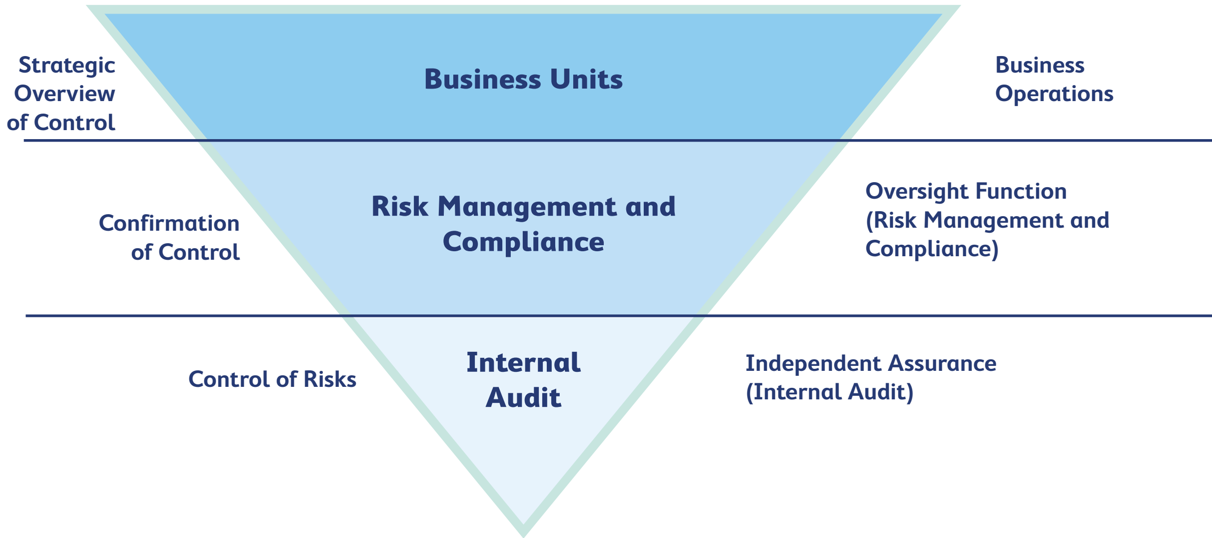
The Board remains ultimately responsible for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The Board discharges its duty either directly or through its committees to ensure decision making is aligned with the board's approved policies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

Board Sub-Committees

Mixture of independent, experts and executive directors whenever allowed

The Board sub-committees which include primarily Audit, Risk Management, Strategy, Corporate Governance and Conduct Review are responsible to advise Board on the effectiveness of the risk profile, risk culture, risk appetite, risk strategy and risk management framework.

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



MANAGEMENT LAYER

Management Forums

Key members of senior management including the Chief Executive

The Senior Management manages the business through some management forums to promote an awareness of risk and good governance in every area of the business and instils a culture of compliance. In short, they are responsible for translating the high-level overall guidance from the Board into operational aspects and then monitoring and reporting them back periodically to the Board/Board Committees.

Risk Management Team

Porfolio and Credit Risk Team, Market Risk Team, Operational Risk Team

The Risk Management Team provides the day-to-day oversight on management of risk and promotes the risk culture across the organisation. It is responsible to create and maintain the risk practices across the Group and to ensure that controls are in place for all risk categories.

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

The **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 organisation places strong reliance on the risk governance framework and the three lines of defence model, which are fundamental to the Group's goal of managing risk effectively.

A Comprehensive Risk Appetite Framework

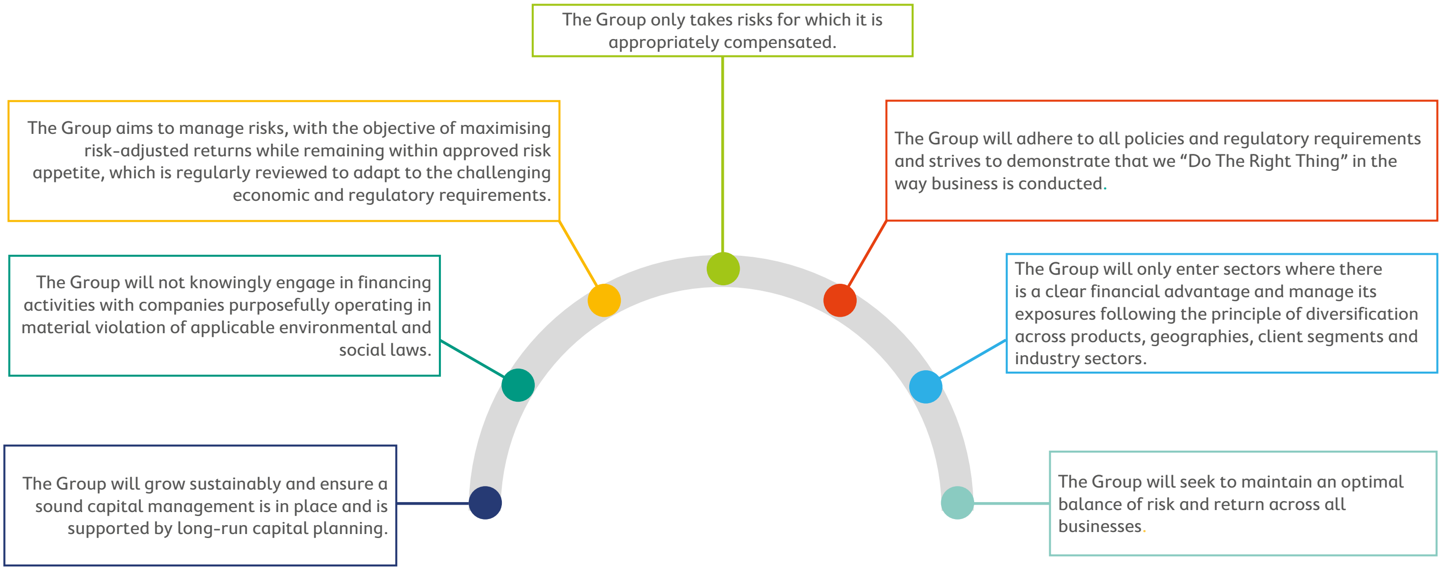
The Group maintains a comprehensive risk appetite framework, providing a structured approach to the identification, measurement, and control of risk. It encompasses a suite of policies, processes, controls and systems for assessing the appropriate level of risk appetite required to constrain its overall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

The 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 reviewed in conjunction with the overall strategy and capital planning process on an annual basis, based on Board-driven strategic risk objectives and risk appetite. Scenario stress-testing of financial and capital plans is an essential element in the risk appetite calibration process.

Risk appetite is communicated across the Group through risk appetite statements that provide clarity on the scale and type of activities that can be undertaken in a manner that is easily conveyed to all stakeholders. Some of the approved risk appetite statements are as follows:



The following chart provides an overview of the key components of the risk appetite framework comprising of the risk universe:

RISK APPETITE FRAMEWORK

RISK UNIVERSE

Category	Financial Risk			Non-Financial Risk			
Primary Risk Drivers	Credit Risk	Market Risk	Liquidity Risk	Operational Risk	Reputational Risk	Business & Strategic Risk	Other Risks
Secondary Risk Drivers	✓ Borrower ✓ Counterparty credit ✓ Industry ✓ Country ✓ Sovereign	✓ Trading Book ✓ Banking Book	✓ Currency ✓ Legal Entity	✓ Process ✓ People ✓ IT ✓ Compliance	✓ Macroeconomic environment ✓ Competitive environment ✓ Regulatory environment		✓ Legal ✓ Model ✓ Environmental and Social

RISK CONTROL MECHANISM

It encompasses frameworks, guidelines including best practices and guiding principles, policies including contingency plans and limits based on the following components:

Credit Risk Management Framework	Market Risk Management Framework	Liquidity Risk Management Framework	Operational Risk Management Framework	Reputational Risk Management Framework	Other risk framework covering legal, model risks

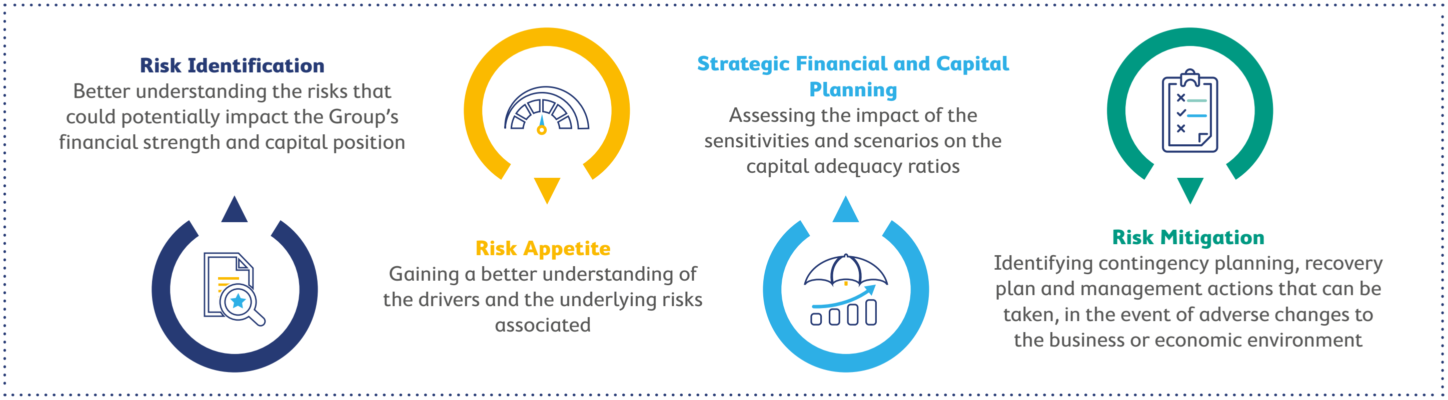
Risk Capital Strategy components	
Risk-Bearing Capacity	Risk bearing capacity represents the ability to bear risk in terms of available capital, and ability to raise additional capital. It also covers strength of operational processes and operating culture in the organisation.
Risk Appetite Statement	Risk appetite is an articulation and allocation of the risk capacity or quantum of risk the Group is willing to accept in pursuit of its strategy, duly set and monitored by the Board, and integrated into the Group's strategy, business, risk and capital plans.
Risk Tolerance	Risk tolerance refers to the limits in operational terms such as concentration limits, stop loss limits, etc. to ensure that the risk is within the defined risk appetite. Any breach thereof would lead to a control and/or mitigation action.
Risk Target	Risk Target is the optimal level of risk that the Group wants to take in pursuit of a specific goal. Setting the risk target should be based on the desired return, on the risks implicit in trying to achieve those returns and on SBM's capability of managing those risks.
Risk Limits	Risk limit determines thresholds to monitor that actual risk exposure does not deviate too much from the desired optimum. Breaching risk limits will typically act as a trigger for corrective action at the process level.

Risk Bearing Capacity and Stress Testing

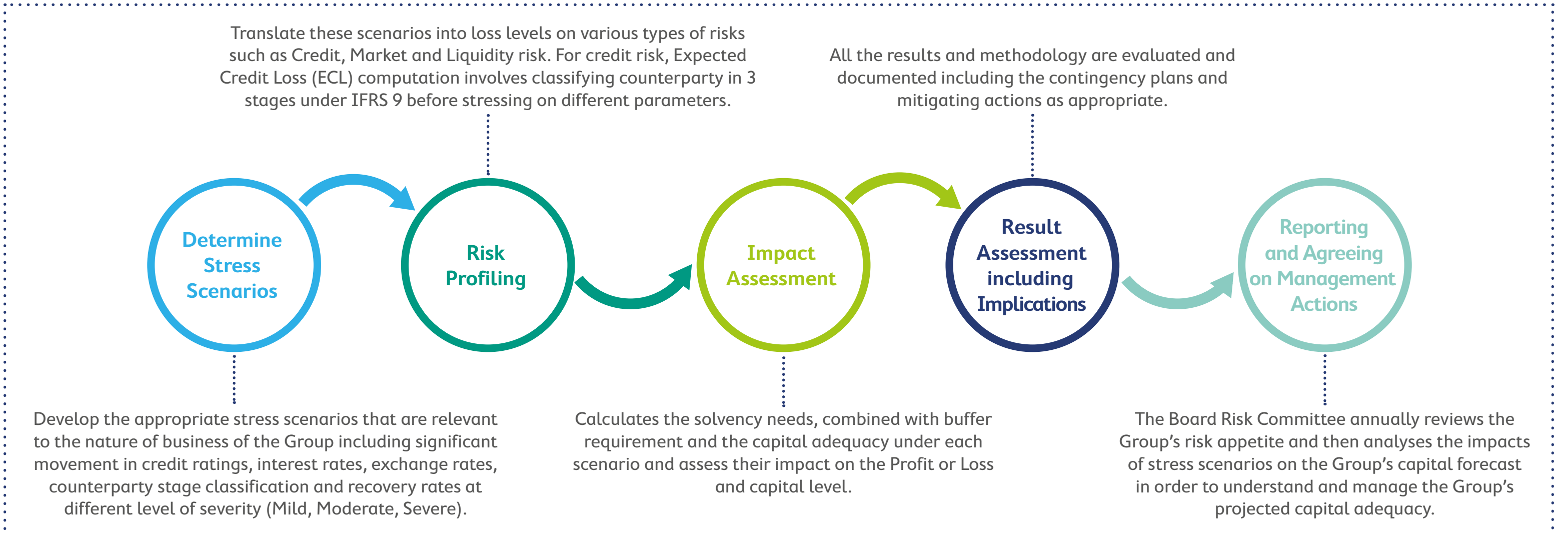
As part of a strong risk management framework, the Group emphasises the importance of paying attention to changes in economic or other circumstances that can lead to deterioration in the standing of a counterparty that would undermine the capital position of the Group.

The Group, through a proper stress testing approach, estimates the impact of potential shocks to evaluate whether it can withstand a crisis without breaching regulatory thresholds. Stress testing output facilitates business planning and budgeting and provides comfort on the overall health of the organisation reported in the Internal Capital Adequacy Assessment Process (ICAAP).

Key Areas of Stress Testing Usage



An overview of the stress testing process is illustrated below.



Scenario Analysis and Stress Testing

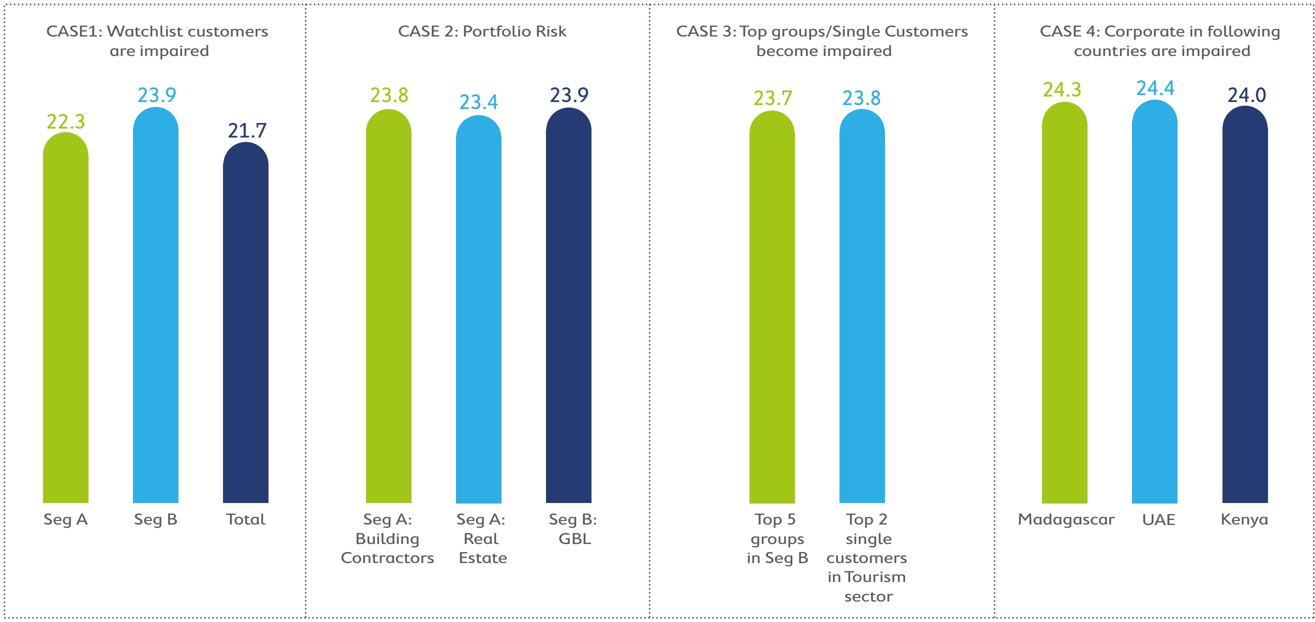
The Group has conducted stress testing under various historical and stress test scenarios to assess the impact of unfavourable scenarios on its capital position. Sample stress tests conducted are provided in the following table. The scenarios are regularly reviewed and fine-tuned to ensure that they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

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

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

Each entity is responsible to apply a range of approved stress testing scenarios to their capital planning and budgeting, together with necessary contingency plans including the recovery plans to ensure they are operating under sufficient capital requirements. The Group stress tests shown below reflect the predominance of the Mauritius exposures.

Results of the Stress Testing on Capital Adequacy of the Group



Key Risks Explained

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

	Description	Measurement, Monitoring and Management of Risk	Capital Impacted	Stakeholders Impacted
Credit Risk	Credit risk is the risk that the Group will suffer economic loss due to a Single/Group borrower or counterparty failing to fulfil its financial or other contractual obligations	✓ ***Measured*** as risk weighted exposures for performing and non-performing exposures. ✓ ***Monitored*** within regulatory and prudential limits by borrowers, portfolios, country and bank, approved by the Board within a framework of delegated authorities. ✓ ***Managed*** through a robust risk control framework which outlines clear and consistent policies, principles and guidance.		
Market Risk	Market risk losses arise from variations in the market value of trading and non-trading positions resulting from changes in interest rate risk, foreign exchange risk and price risk, and in their implied volatilities.	✓ ***Measured*** in terms of value at risk, which is used to estimate potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence, augmented with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables. ✓ ***Monitored*** using measures including the sensitivity of net interest income and the sensitivity of structural foreign exchange that are applied to the market risk positions within each risk type. ✓ ***Managed*** using risk limits approved by the Board.		
Liquidity & Funding Risk	Liquidity and Funding Risk is the inability to meet contractual and contingent financial obligations, on and off balance sheet as and when they come due. Our primary liquidity objective is to provide adequate funding for our business throughout market cycles, including periods of financial stress.	✓ ***Measured*** using internal metrics including cash flow projections, Liquidity Coverage Ratios and Net Stable Funding Ratio. ✓ ***Monitored*** against liquidity and funding risk framework and overseen by the Asset and Liability Management Committee ('ALCO') of each business entity and the Board Risk Management Committee. ✓ ***Managed*** independently of the source of the risk		

	Description	Measurement, Monitoring and Management of Risk	Capital Impacted	Stakeholders Impacted
Operational Risk	Operational loss is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk arises from human error, inappropriate conduct, failures in systems, processes and controls or natural and man-made disasters.	✓ ***Measured*** using the risk and control assessment process which allows identification and evaluation of risks and effectiveness of controls. ✓ ***Monitored*** through regular risk assessment procedures, key risk indicators and internal loss database. ✓ ***Managed*** through a conducive control environment with robust operational risk policies, processes, systems as well as appropriate risk culture within the organisation.		
Reputational Risk	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 on the Group's reputation.	✓ ***Measured*** by reference to our reputation as indicated by our dealings with all relevant stakeholders, including media, regulators, customers and employees. ✓ ***Monitored*** through analysis of root cause for justified complaints and reporting to appropriate forums/committees. ✓ ***Managed*** through a framework where all employees are responsible for identifying and managing reputational risk that may occur within their respective areas of business.		
Business and Strategic Risk	Business risk is the risk of loss resulting from incorrect assumptions about external or internal factors, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic or competitive environments. Strategic risks are risks that affect or are created by an organisation's business strategy and strategic objectives, which are critical to the growth and performance of the Group.	✓ ***Measured*** by using several key internal indicators and metrics as a yardstick which enable us to measure the progress against fulfilling the objective; and ✓ ***Monitored*** against our risk appetite set out by the Board whilst taking into consideration our internal capabilities and growth prospects; and ✓ ***Managed*** by the Board who sets the objectives for the Group in terms of growth orientation in consultation with our strategy team.		

Credit and Counterparty Risk Management

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 credit approval process and procedures is given below:

1 Origination
Sales Team
- Initiate and manage sales of products
- Follow client on-boarding standards
- Receive and check applications
- Assist customers with information
- Execute account - monitoring tasks
- Input Risk Rating tools
- Analyse the risks and prepare the sales note for approval.

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

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

4 Documentation & Disbursement
Credit Service Unit:
- Credit Administration
- Credit Documentation
- Credit Disbursement

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

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

Credit Risk Profile as at 31 December 2018

SBM's loan book is well-diversified by industry and geographic region with an average weighted risk rating of 4.4 (equivalent to an external rating of Baa1 – Baa3).

Total credit risk weighted exposures were USD 3.5 billion as at 31 December 2018 (2017: USD 3.2 billion), comprised of both funded and non-funded exposures.

6.2 times to

Group Tier 1

(Dec 17: 5.3)

Aggregation of Credit Risk Weighted Exposures

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

Country Risk

Country risk is a component of credit risk in all cross-border credit operations for circumstances different to the usual commercial risk. Its main elements are sovereign risk, the risk of transfer and other risks that could affect the ability of the counterparties to fulfil their obligations, resulting in a financial loss for the Group.

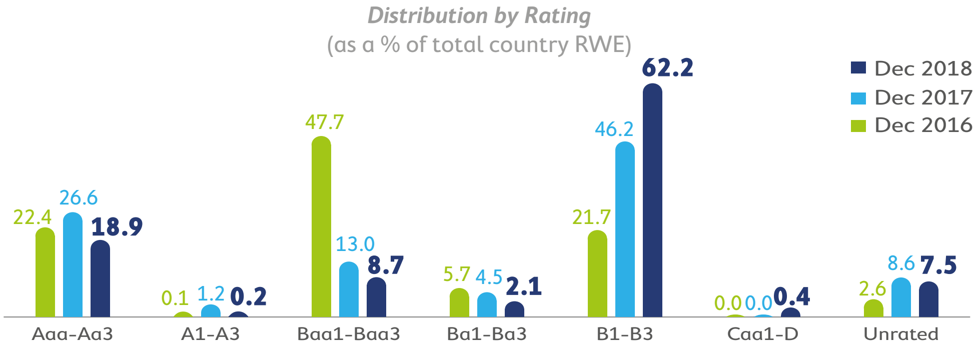
As at 31 December 2018, the total risk weighted exposures to cross border lending accounted for 114% of Group Tier 1 capital (2017: 152%)

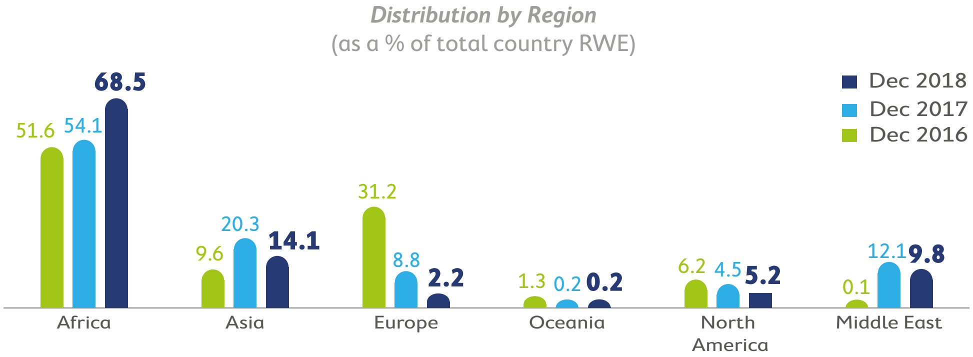
RWE as a % Group Tier 1

114%

(Dec 17: 152%)

Breakdown of cross-border Risk Weighted Exposures





Sovereign Risk

Sovereign risk is contracted in transactions with a central bank and other government bodies. Sovereign risk arises in case a government defaults on its debts or other financial obligations.

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

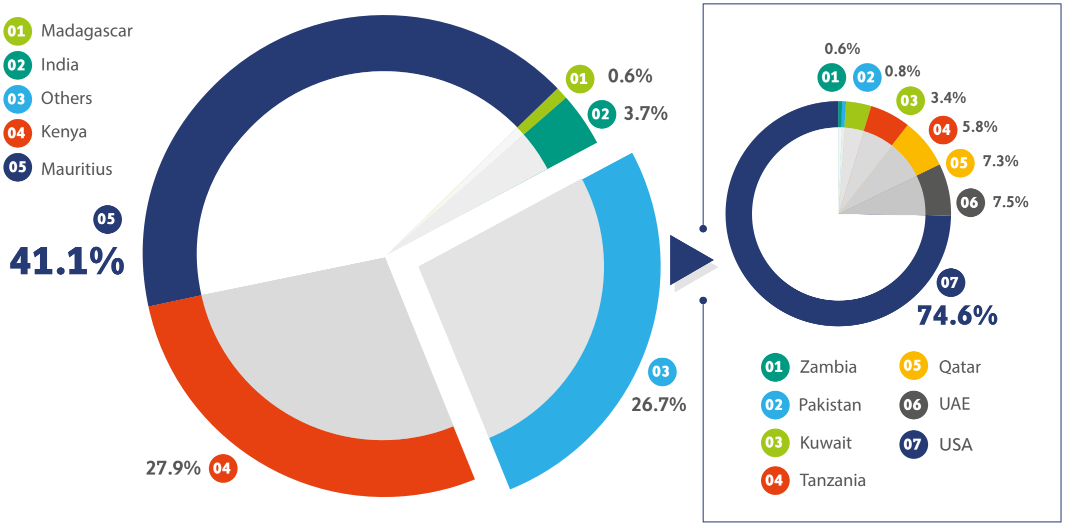
The following chart depicts the distribution of sovereign exposures to the Group.

RWE as a % Group Tier 1

99%

(Dec 17: 26%)

Distribution of Sovereign Exposures



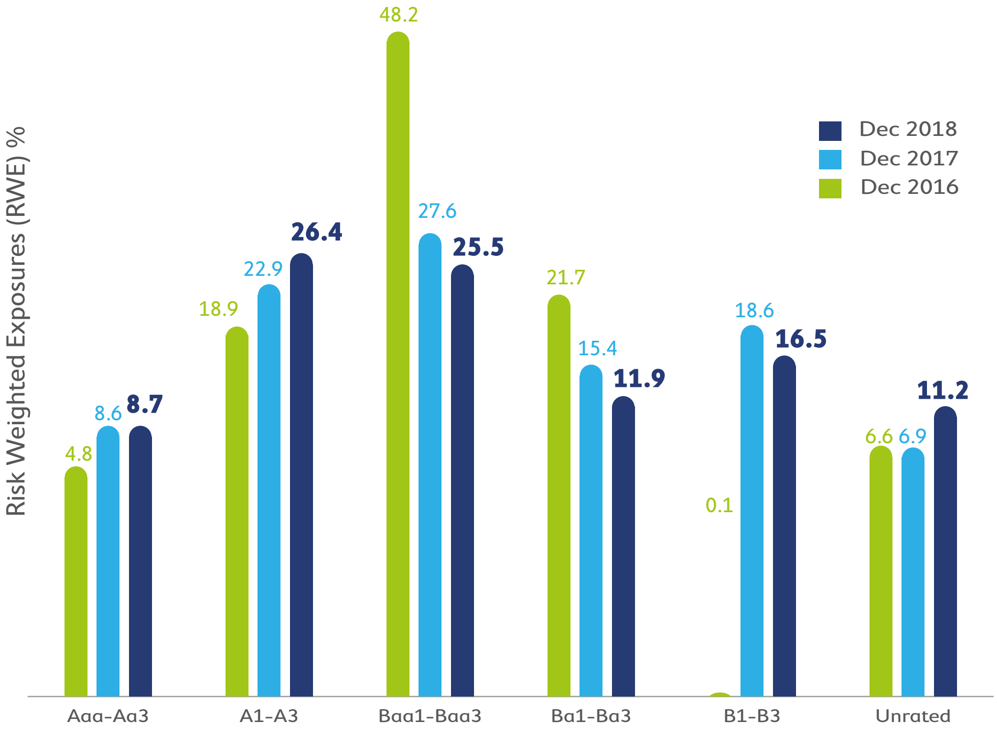
The Group has exposures to governments mainly in countries where the SBM Group has physical presence.

As at 31 December 2018, total sovereign exposures stood at MUR 43.7 billion, representing 221.8% of the Group Tier 1 capital (2017: MUR 24.4 billion, 121.7%) with the highest exposure pertaining to the Government of Mauritius amounting to MUR 23.3 billion. Of note, there has been an increase in investment in Government of Kenyan bonds of MUR 15.8 billion. On a risk-weighted basis, the sovereign risk-weighted exposures were MUR 19.6 billion, representing 98.9% of the Group's Tier 1 capital (2017: MUR 5.2 billion, 26.0%).

Bank Counterparty Risk

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

Group RWE by Rating as at 31 December 2018



RWE as a % Group Tier 1

33%

(Dec 17: 52%)

As at 31 December 2018, total risk-weighted exposures to bank counterparties stood at USD 198.1 million, representing 0.32 times the Group's Tier 1 Capital (2017: USD 309.2 million, 0.52 times).

Private Risk

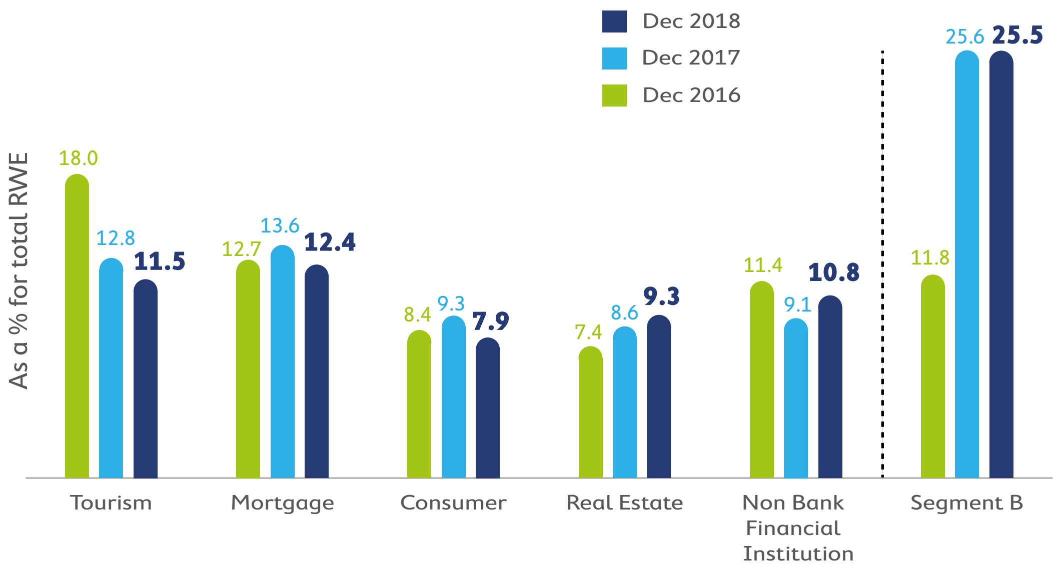
Portfolio Concentration

SBM Holdings Ltd maintains a well-diversified portfolio through internal portfolio limits set for each operation to ensure that the Group is not impacted drastically due to significant concentration in a particular portfolio.

Top 5 Portfolios by Risk-Weighted Exposure (%) and Segment B

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

Mauritius Operations



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

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

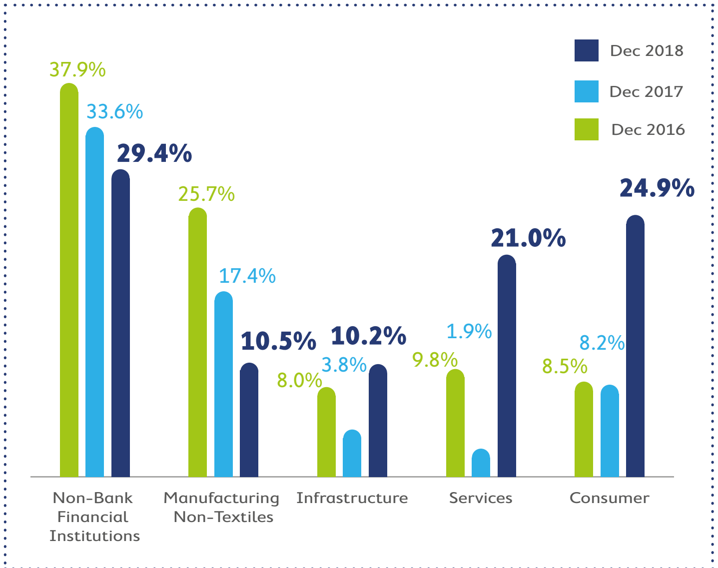
RWE of top 5 portfolios as a % of Group Tier 1

194%

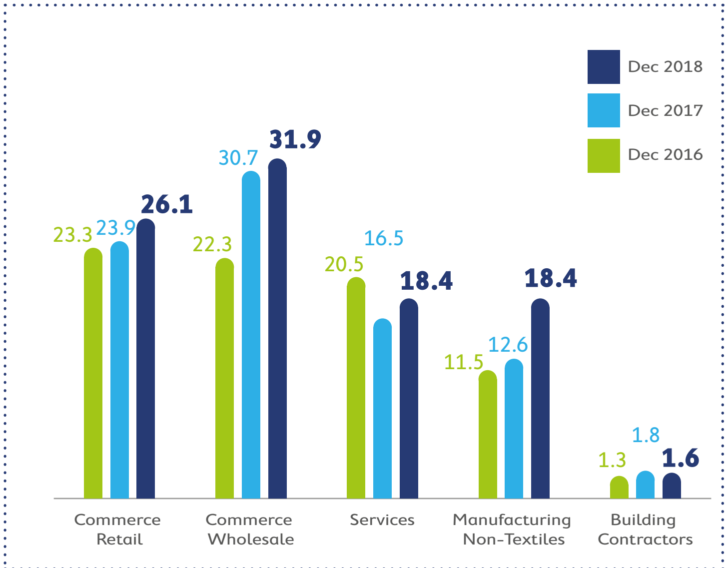
(Dec 17: 210%)

Top 5 Portfolios by Risk-Weighted Exposures (%)

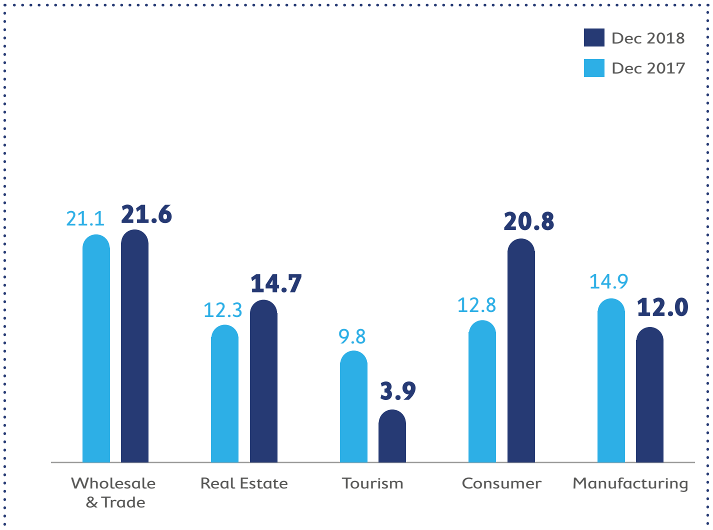
India Operations



Madagascar Operations



Kenya Operations



In May 2017, SBM Bank (Kenya) Limited was launched following the acquisition of Fidelity Commercial Bank Ltd in Kenya. This operation was stabilised throughout 2017 and in 2018, SBM Holdings Ltd strengthened its regionalisation strategy with the acquisition of the carved out assets and assumption of specific liabilities of Chase Bank (Kenya) Limited (in Receivership).

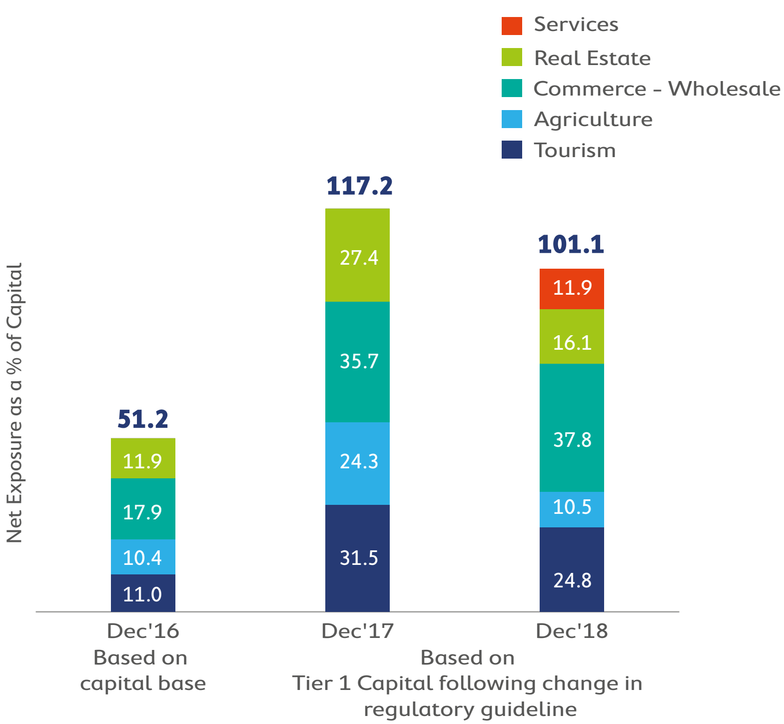
Private Risk

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 were revised by the Bank of Mauritius in December 2017 where the concentration is henceforth based on Tier 1 Capital instead of Capital Base which is more prudent. This partly explains the increase in aggregate large exposure as compared to pre-2017 periods, as illustrated in the chart below.   Nonetheless, with the measures put in place to reduce credit concentration, there was a significant drop in the ratio of net exposures to Tier 1 capital as at 31 December 2018. Indeed, all large exposures were well within the regulatory limits, as shown in the table below.

Top Exposures by Sector



Regulatory Credit Concentration Limit	As at 31 Dec 2018
Credit exposure to any single consumer shall not exceed 25% of the Group's Tier 1 Capital	Highest single customer: **10.6%**
Credit exposure to any group of closely-related customers shall not exceed 40% of the Group's Tier 1 Capital	Highest Group of closely-related customer: **19.6%**
Aggregate large credit exposures to all customers and group of closely related customers above 10% of Group's Tier 1 Capital shall not exceed 800% of Group's Tier 1 Capital	**101.1%**

Private Risk

Related Party Transactions

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

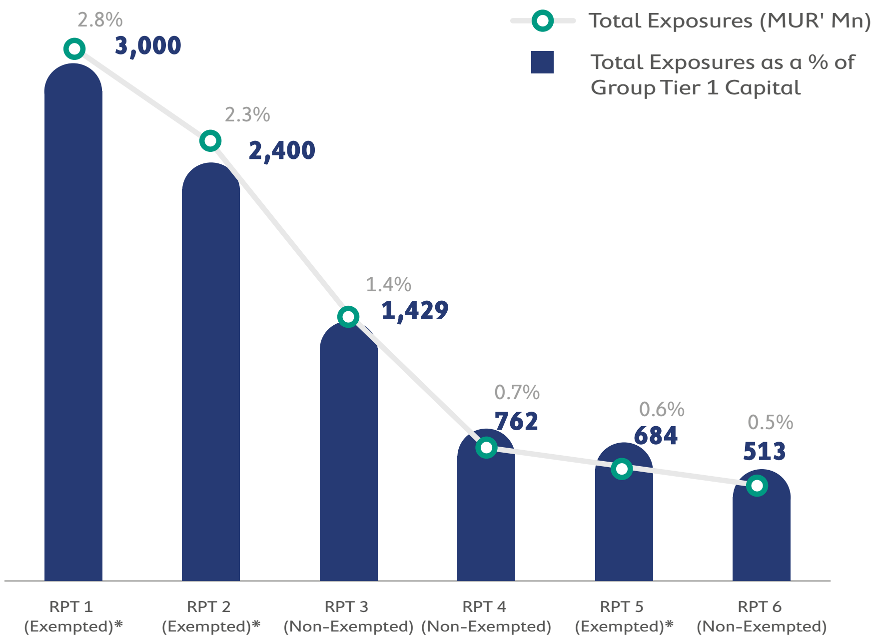
As at 31 December 2018, the aggregate of non-exempted exposures to related parties represented 13.7% of the Group's Tier 1 capital, which is well within the regulatory limit of 60% for category 1 and within the regulatory limit of 150% for categories 1 and 2 (2017:7.1%).

Non-exempted exposures as a % of Group Tier 1

13.7%

(Dec 17: 7.1%)

Exposures to Related Parties



Credit Quality

Implementation of IFRS 9

Following the transition from IAS 39 to IFRS 9, entities of the Group are, as from 01 January 2018, required to maintain specific provision at the inception of a new financial asset, compared to the previous requirement to keep specific provisioning only on impaired accounts.

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

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

Impairment

The Group adopts a 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.

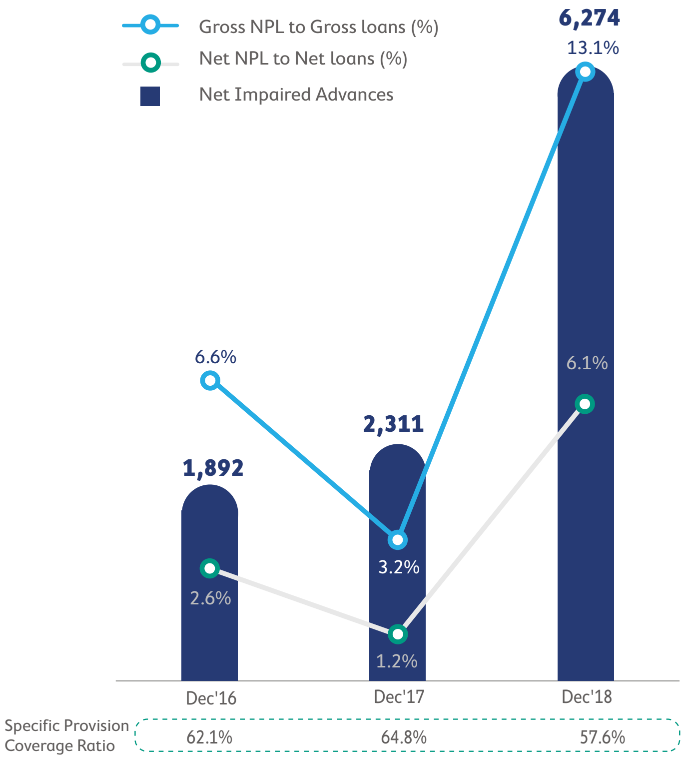
Net Impairment (net of cash collateral) as a % Net Advances

6.4%

(Dec 17: 2.0%)

Impairment Trend

Net non-performing advances (net of cash collateral) as a percentage of net advances has increased from 2.0% in December 2017 to 6.4% in December 2018, largely due to impairments in the cross-border segment of the Mauritian operations, during the year under review.



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

As at 31 December 2018, total rescheduled loans stood at 7.6% of the total credit portfolio, compared to 3.7% in December 2017.

Total rescheduled loans as a % of total credit portfolio

7.6%

(Dec 17: 3.7%)

Market Risk Management

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

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

Market Risk Governance and Oversight

The Board approves the market risk appetite which is defined in terms of the splits between domestic and international markets, foreign currency and interest rate exposures, percentage exposure allocation for position-taking and percentage target splits in terms of maturities of exposure. It also approves new products after having gone through an independent assessment by the Risk Management Team to ensure that the products are within the policy and risk appetite, and that the processes are defined, systems are ready and the resources are adequately trained.

The 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 for changes in portfolios, in order to detect possible incidents for their immediate correction. Within Risk Management function, there is a Treasury Middle Office function, which acts as a safeguard for market risk.

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

Market Risk Profile

Interest Rate Risk

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

The Group interest rate risk management is aimed at maximising the risk-adjusted net interest income within the tolerable level of interest rate risk and risk appetite.

The Net Interest Income (NII) is expected to rise in an increasing rate scenario and fall in a decreasing rate scenario for Mauritius Operations.

Impact of 200 bps parallel Rate change on Net interest income (NII) Mauritius Operations

7.1%

	Impact of 200 bps parallel Rate change on NII
Mauritius Operations	**7.1%**
India Operations	**6.5%**
Madagascar Operations	**2.1%**
Kenya Operations	**4.8%**

The interest rate risk in the Banking book is managed by controlling interest rate sensitivities, which measure the immediate effects of interest rate changes on the assets, liabilities and off-balance sheet items. With the composition of the balance sheet as at 31 December 2018, the Mauritius Operations expected the NII to rise in an increasing rate scenario and fall in a decreasing rate scenario. An increase of 200 bps in interest rate would result in an improvement of 7.1% in NII whereas a decrease of 200 bps in rate would result in a contraction of the same percentage in NII. However, some liabilities would not be fully impacted by the downward shock of 2% given that interest rates thereon are not expected to fall below zero percent.

(Interest Rate Gap figures are provided in Note 41 (d) to the Financial Statements at pages 298 to 302)

Foreign Exchange Risk

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

Mauritius Operations FX Value at Risk

MUR1.3Mn

Not material relative to the Tier 1 Capital of Mauritius Operations

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.

For the financial year under review, Mauritius Operations maintained an average Aggregate FX Open Position of MUR 316 million and operated well within the regulatory limit of 15% of Tier 1 Capital.

(Exposures in foreign currency are given in Note 41 (d) to the Financial Statements on page 303 to 305)

Value at Risk (VaR)

VaR is a statistical measure that the Group uses to quantify the foreign exchange risk based upon a common confidence interval and time horizon. The methodology used to calculate VaR is the 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 summarised for the Banking Group as follows:

MUR' 000	Minimum	Maximum	Year End
Mauritius	388.5	14,398.2	1,321.0
India	279.7	3,498.3	3,164.6
Madagascar	45.8	3,824.1	1,344.5
Kenya	381.2	588.2	355.7

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

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 foreign currency derivatives.

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

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

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

Liquidity and Funding Risk

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

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 clients.

Banking Group Consolidated LCR

154.1%

Above the Bank of Mauritius minimum requirement of 100%

Mauritius Operations NSFR

118.6%

Above the Basel III minimum requirement of 100%

Liquidity Profile

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

(Liquidity Gap figures are provided in Note 41 (c) to the Financial Statements at pages 294 to 297)

Basel III Liquidity Ratios

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

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

The LCR and LDR are shown in the following table:

	LCR	LDR
Mauritius	**140.2%**	**63.9%**
India	**121.7%**	**88.1%**
Madagascar	**127.9%**	**43.2%**
Kenya	**302.3%**	**24.3%**

The LCR consolidated for the Banking Group stood at 154.1% as at 31 December 2018 (2017: 130.1%).

The average LCR for Mauritius and the Banking Group were at 136.3% and 145.7% respectively. Both are significantly above the Basel requirement of 100%. The average stock of HQLA amounts to MUR 35.8 billion for the Mauritius Operations and MUR 44.2 billion for the Banking Group. The Group's portfolio of HQLA is mostly comprised of highly A-rated sovereign and Multilateral Development Banks (MDBs) bonds.

Funding

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

Scenario Analysis and Stress Testing

An array of liquidity scenarios, covering a series of explicit events, are developed, analysed, and reported to the ALCO and the Board Risk Management Committee. In the case of a potential or actual crisis, the Group has a formal contingency plan in place that clearly sets out the processes, responsibilities and strategies for addressing liquidity shortfalls in unexpected situations.

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

Operational Risk Management

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

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

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

1 Data protection in compliance with internal policies and laws

2 Segregation of the roles and responsibilities of the three lines of defence

3 Definition of the risk appetite statement

4 Reporting of key risk metrics to Senior Management and the Board

5 Formulation and approval of policies by the Board

6 Monitoring of the business environment and geo-political configuration

7 Performance of scenario analysis forecasting worst case scenarios

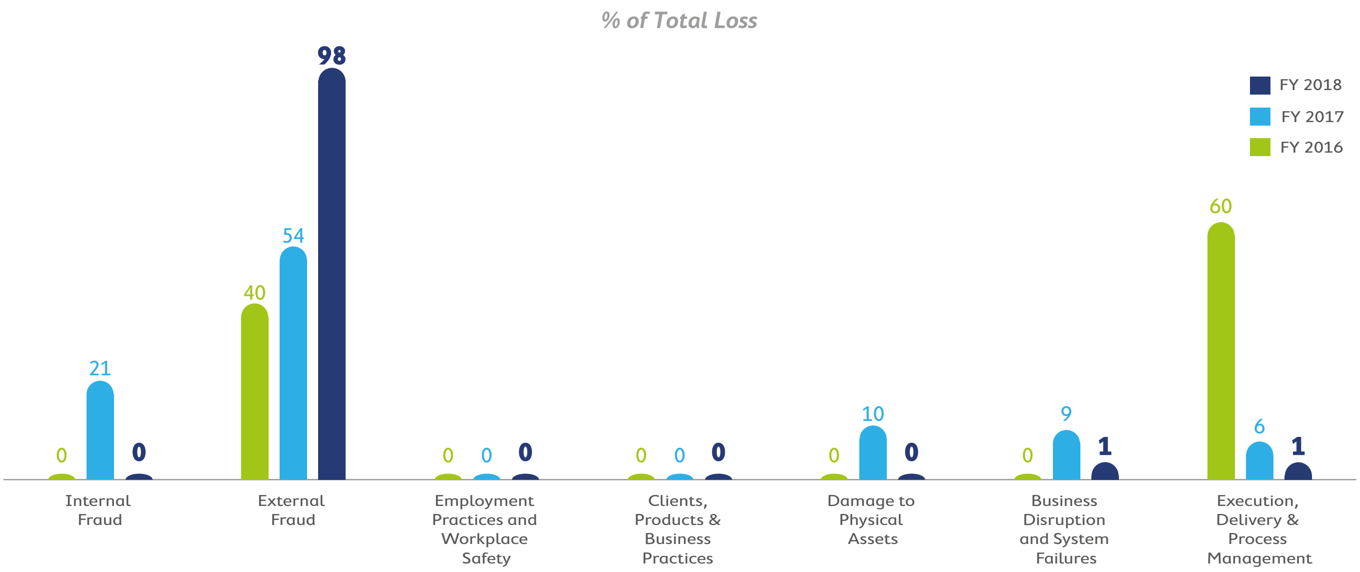
8 Strong risk culture driven by the Board and Senior Management

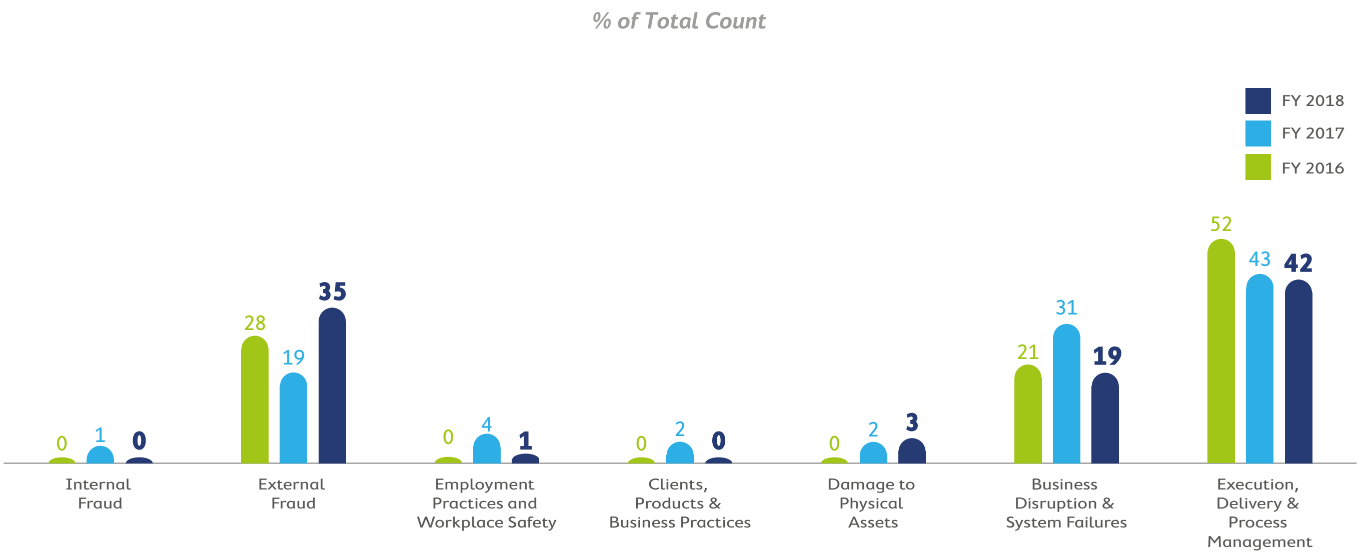
In order to apply the principles, the following tools help in the identification and monitoring of operational risk:

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

Operational Loss

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





IT Risk

The Group's operations are technology intensive. Our technology platforms are currently hosted and managed by our IT strategic partner offshore. We are conscious of the risks associated with this kind of outsourcing arrangements with regards to data protection, system performance, service delivery and time to market for new products.

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

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

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

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

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

Business Continuity Management

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

In this context, the Banking Group pursues its efforts in upgrading and enforcing standards to protect employees, customers and other assets, by ensuring constant monitoring, review, and improvement of its Continuity Framework.

The main building blocks of the business continuity functions are:

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

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

Compliance Risk

The Group continuously monitors development in the legal and regulatory environment and accommodates relevant changes in its governance and way of doing business. 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 (AML) and Combatting the Financing of Terrorism (CFT). 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 review was revisited gradually in 2017. A risk-based approach was adopted whereby compliance check was being carried out prior to the on-boarding of customers, especially for local corporate, Global Businesses, SMEs and foreign customers – both individuals and companies. During 2018, an on-boarding team comprised of Senior Officers was set up to review, assess and approve the onboarding of specific clients. This system mitigates the regulatory and reputational risks the 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 authorities in our countries 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. The AML Compliance function is also equipped with specialised transaction monitoring and screening software in order to identify suspicious transactions and protect the Group against potential money laundering or terrorist financing risks.

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

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

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

Fraud Risk

All employees and directors within the 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:

- Zero tolerance towards fraud
- Stringent control procedures
- Timely disclosure of fraudulent activities
- Training and awareness programme
- Whistleblowing and
- Human resource policy including code of ethics and business conduct, and conflict of interest.

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

Reputational Risk

Reputational risk is the risk that the Group's reputation is damaged by one or more reputation events, as reflected, among others, in negative publicity about business practices, conducts or financial conditions of its various entities. Such negative publicity, whether true or not, may impair public and investor confidence in the 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 sincerity, confidentiality and fairness. Furthermore, each banking entity has a Complaints Committee – comprised of Senior Executives – that meets on a regularly basis to ensure appropriate actions are taken to address the complaints. A report on the complaints is submitted on a quarterly basis to the Corporate Governance and Conduct Review Committee.

Capital Management

1. Capital Management and Planning

SBM Group has a comprehensive policy and process in place for evaluating its overall capital adequacy, commensurate with its risk profile. The overall objective of the Group's capital management strategy is to:

- Maintain a strong capital base and comply with the capital requirements set by the regulators in the respective jurisdictions where the entities within the Group operate
- Uphold creditor, investor and market confidence; and
- Sustain the future development of the business

Moreover, the Group closely monitors the impact of the level of capital on shareholders' return and recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and security provided by a strong capital position.

SBM Group therefore, maintains capitalization ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholders' interests. It further aims to facilitate the allocation and use of capital with the objective of generating a return that appropriately compensates shareholders for the risks incurred.

Capital adequacy is actively managed and forms an integral part of SBM Group's strategy and budgeting process. All major initiatives to deploy capital are subject to rigorous analysis, validation for business case and evaluation of expected benefits. There is a close monitoring of capital and leverage ratios to ensure that the Group and all subsidiaries meet current and future regulatory requirements.

SBM Group uses the ICAAP framework as per the Guideline on Supervisory Review Process issued by the Bank of Mauritius in April 2010 to work out comprehensive stress testing analysis to gauge whether the Group and all entities have sufficient levels of capital under various adverse scenarios.

The Board of SBM Holdings Ltd, on a quarterly basis, assesses the capital requirements of Group entities covering pipe-line investments and capital deployment in respect of organic and/or inorganic growth, and considers suitable capital raising options available, where required. The Board also reviews and monitors the productivity and efficiency of the investment portfolios of the Group across clusters and/or operating companies.

2. Regulatory Capital Requirement

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

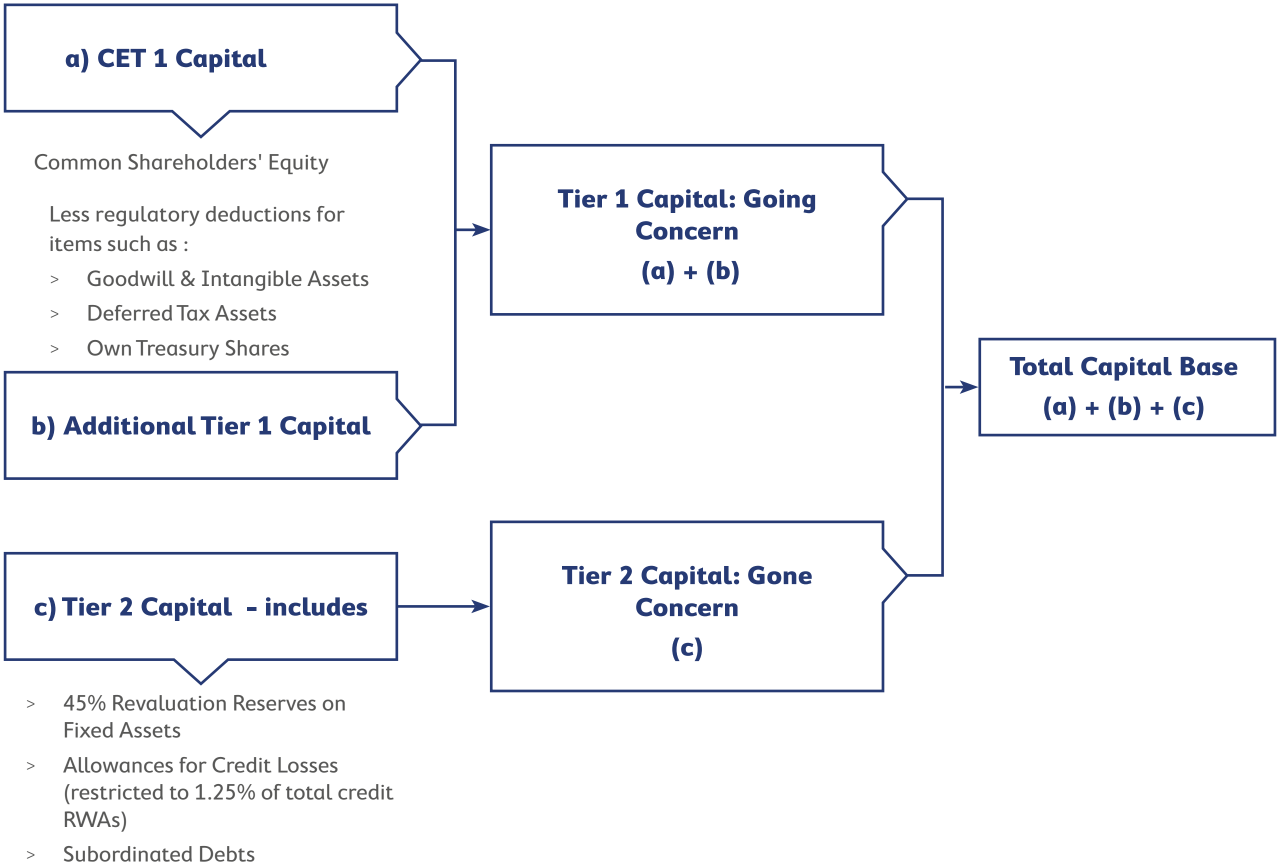
To determine the capital requirement, SBM adheres to the BOM Guideline on Scope of Application of Basel III and Eligible Capital, which came into effect as from July 2014. To manage its credit and market risk exposures, it uses the Basel II Standardised Approach while the Alternative Standardised Approach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

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

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

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

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



For the year under review, the Group's Tier 1 capital was primarily generated through earnings, net of dividend payments while the increase in Tier 2 capital was primarily from the issue of undermentioned subordinated Tier 2 bonds in June 2018, which were oversubscribed by around 50%:

> Class A2 series bond maturing in 2028 and
> Class B2 series bond maturing in 2025

More details are provided in Note 39 to the Financial Statements.

These Bonds are listed on the Official Market of SEM and are subject to the Criteria for Inclusion in Tier 2 capital as per the BOM guideline on Scope of Application of Basel III and Eligible Capital. These instruments represent, prior to any conversion to Common Equity Tier 1 Capital, the most subordinated claim after Common Equity Tier 1 capital instruments and Additional Tier 1 capital instruments. They will be amortized on a straight-line basis as from 2023 for MUR Bonds and 2020 for USD Bonds, with the cap reducing by 20% per annum until the Bonds are redeemed.

The Bonds issue was designed to meet one of the key objectives of the Group, that is to strengthen its capital base to cater for local and overseas expansion as follows:

- Capital injection in SBM Bank (Kenya) Ltd to cater for regulatory requirements with respect to increased business volumes and acquisition of carved out assets and liabilities of Chase Bank Limited (In Receivership).
- Capital injection in SBM Bank (India) Ltd to meet the minimum capital requirements under a wholly owned subsidiary licence.
- Capital injection in SBM Bank (Mauritius) Ltd to cater for projected growth in advances.
- Potential initiatives to promote growth, organic or inorganic, in our non-bank financial cluster.

For the reporting period, SBM Group has, on a consolidated basis, fully adhered to the prescribed minimum requirements with very sound ratios. The Group's Tier 1 Ratio and Capital Adequacy Ratio (CAR) as at 31 December 2018 stood at 16.2% and 24.6% respectively, which were well above the minimum prescribed regulatory limit and also an uplift of 23 bps and 465 bps respectively compared to the respective ratios as at 31 December 2017.

Total Tier 1 capital was MUR 19.7 billion as at 31 December 2018 (2017: MUR 20.0 billion) while total capital base stood at MUR 30.1 billion, representing an increase of 19.7% from 2017, primarily driven by the Bond issue in June 2018.

The table below details the composition of the regulatory capital of SBM Group at consolidated level along with a summary of risk weighted assets and capital ratios

Year ended 31 December	2018	2017	2016
Figures in MUR' Mn			
CAPITAL BASE			
Common Equity Tier 1 Capital (CET 1)			
Share Capital	32,500	32,500	32,500
Retained Earnings	7,147	7,286	5,740
Other Reserves	(11,739)	(10,930)	(10,781)
CET 1: Regulatory Adjustments			
Treasury (own) shares	(4,875)	(4,875)	(4,875)
Goodwill and Intangible assets	(3,226)	(3,876)	(3,770)
Deferred Tax	(89)	(95)	(215)
Common Equity Tier 1 Capital (CET 1)	**19,717**	**20,010**	**18,598**
Additional Tier 1 (AT 1)	-	-	-
Tier 1 capital (T1 = CET1 + AT1)	**19,717**	**20,010**	**18,598**
Subordinated Debts	8,434	3,238	3,835
Other Reserves (45% of surplus arising from Revaluation of land & Buildings)	515	533	549
Portfolio Provision or ECL	1,392	1,328	1,045
Tier 2 Capital	**10,341**	**5,099**	**5,429**
TOTAL CAPITAL BASE	**30,059**	**25,109**	**24,027**
RISK WEIGHTED ASSETS (RWAs)			
Credit risk	**111,390**	**116,830**	**86,320**
On-balance sheet assets	103,305	107,705	82,830
Off-balance sheet exposures	8,084	9,125	3,490
Market risk	**979**	**783**	**222**
Operational risk	**9,684**	**8,072**	**6,938**
TOTAL RWAs	**122,052**	**125,684**	**93,480**
CAPITAL ADEQUACY RATIO (%)	24.63	19.98	25.70
of which Tier 1 Ratio	16.15	15.92	19.90

3. Risk Weighted Assets (RWAs)

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

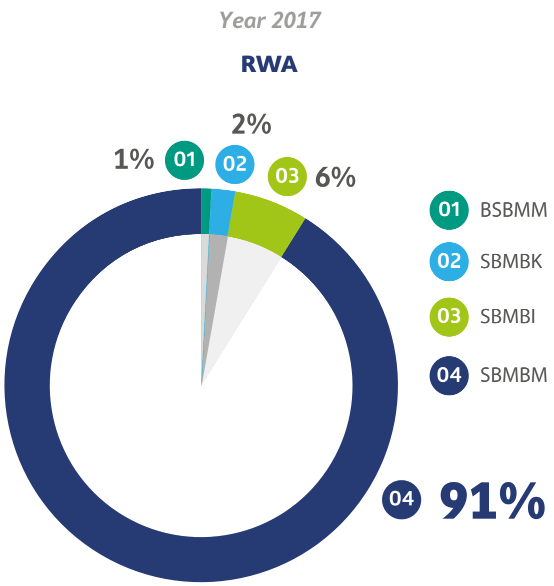
Total RWAs for the Group stood at MUR 122.1 billion as at 31 December 2018, a drop of 2.9% or MUR3.6 billion compared to the prior year primarily from SBMBM and SBMBI.

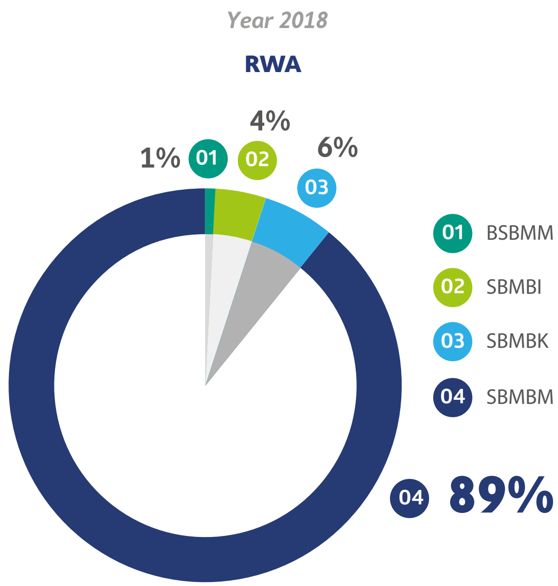
SBMBM registered a reduction of MUR 5.4 billion in RWAs despite growth in total asset base, as they invested relatively more in highly rated securities issued by governments and supra-national banks, representing low level of risk while SBMBI booked a drop of MUR 2.8 billion in their RWAs on account of maturity of short-term advances, drop in certificate of deposits and commercial papers and low disbursement during the year. As for SBMBK, following the acquisition of Chase Bank, their total RWAs went up by MUR 4.6 billion.

However, with growth in business volumes, Operational Risk weighted assets increased by MUR 1.6 billion for the reporting period.

The major contribution emanated from the banking entities of the Group. Out of MUR 122.1 billion of RWAs of the Group, 91.3% was accounted by the Banking cluster.

Total Banking Cluster Risk-Weighted Assets by Entity





a) Credit Risk

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

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

The following tables provide Risk weighted assets for the Banking Cluster after credit risk mitigation (CRM) for both on-balance sheet and off-balance sheet assets:

Risk-Weighted On-Balance Sheet Assets

Year ended 31 December	2018			*2017*	*2016*
Figures in MUR' Mn	**Amount**	**Weight %**	**Weighted Assets**	*Weighted Assets*	*Weighted Assets*
Cash Items	3,508	0-20	1	0.2	1
Claims on Sovereigns	58,785	20-100	2,520	3,055	1,030
Claims on Central banks	27,644	0-50	482	772	365
Claims on Banks	21,475	0-150	8,796	12,570	9,457
Claims on Non-Central Government Public Sector Entities	235	50-100	182	196	408
Claims on Corporates	45,264	20-100	44,821	52,643	36,998
Claims included in the Regulatory Retail Portfolio	9,889	75	7,417	5,750	6,382
Claims secured by Residential Property	22,035	35-125	8,688	8,309	5,925
Claims secured by Commercial Real Estate	4,572	100-125	4,641	2,988	3,456
Past due claims	6,129	50-150	7,169	2,329	2,091
Other Assets	8,313	100	8,313	9,243	6,103
Total On Balance Sheet RWAs	207,852		93,030	97,855	72,216

Risk Weighted Non Market related Off-Balance Sheet Assets

Year ended 31 December	2018					*2017*	*2016*
Figures in MUR' Mn	**Nominal Amount**	**Credit Conversion Factor (%)**	**Credit Equivalent Amount**	**Weighted Assets %**	**Weighted Assets**	*Weighted Assets*	*Weighted Assets*
Direct Credit Substitutes	4,575	100	4,575	0-100	4,505	3,234	1,108
Transaction-Related Contingent items	3,822	50	1,911	0-100	1,738	2,012	1,524
Trade-Related Contingent items	859	20-100	360	0-100	355	488	230
Other Commitments	9,339	0-50	587	0-100	506	1,412	411
Total Off Balance Sheet RWAs					7,103	7,146	3,273

b) Market Related Risk

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

SBM adheres to the Standardised Approach as outlined by BOM in its Guideline on Measurement and Management of Market Risk for computation of capital on market risk. As per this methodology, which is closely aligned with Basel II Standardised Measurement Method, a banking institution is required to hold additional capital whenever its overall position in trading book activities exceeds 5% or more of its total assets. A banking institution is encouraged to hold a capital buffer that adequately covers the interest rate risk exposures arising from non-trading activities. During the year under review, SBM substantially grew its derivatives book on behalf of its customers and positions were partly hedged within internal Board approved limits.

Market related Off-Balance Sheet Assets

Year ended 31 December	2018							2017	2016
Figures in MUR' Mn	Nominal Amount	Credit Conversion Factor (%)	Potential Future Exposure	Current Exposure	Credit Equivalent Amount	Weight %	Weighted Assets	Weighted Assets	Weighted Assets
Interest rate contracts	14,152	0.5-1.5	97	19	116	20-100	56	22	47
Foreign exchange Contracts	34,446	1.0-5.0	600	132	731	20-100	473	1,863	170
Equity contracts	49	8.0	4	-	4	20	2.0		
Other commodity contracts	3,781	10.0-12.0	433	56	489	20-100	311		
Credit derivative contracts	1,177	10.0-20.0	235		235	0-100	144	100	
Total	53,605		1,370	207	1,576		987	1,985	217

Market related RWAs for the Banking Cluster decreased by MUR 1.0 billion to MUR 987 million primarily due to lower foreign exposures.

c) Operational Risk

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

The following table sets out, for the period indicated, the operational risk capital charge for the Banking Cluster:

MUR' Mn	2018	2017	2016
Capital charge for Operational Risk	937	775	635

Increases in Operational RWAs were primarily due to higher gross income in line of business Trading and Sales along with a rise in business volumes in Commercial banking.

As at 31 December 2018, the Banking Group's Capital Adequacy ratio stood at 18.0%, an uplift of 418 basis points compared to the prior year, mostly driven by additional capital injected by SBM Holdings Ltd in the Banking entities during 2018.

Banking Cluster
Year ended 31 December

	2018	2017	2016
Figures in MUR' Mn			
Tier 1 capital	18,325	14,160	10,701
Tier 2 Capital	1,778	1,844	1,577
Total Capital Base	20,103	16,003	12,278
Total Risk Weighted Assets	111,470	115,517	82,280
Capital Adequacy (%)	18.0%	13.9%	14.9%
of which Tier 1	16.4%	12.3%	13.0%

As at 31 December 2018, 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:

	SBMBM	SBMBI	BSBMM	SBMBK
Minimum Regulatory Requirement (%)	12.375	10.875	8.00	14.5
Actual CAR (%)	15.11	41.22	23.67	24.90

Leverage Ratio

The leverage ratio represents a non-risk-adjusted capital requirement to function as a further "back¬stop" measure for risk-based capital. The non-risk-based leverage measure is designed to complement the Basel III risk-based capital framework.

As at 31 December 2018, the leverage ratio for the Group and the Banking cluster stood at 8.8% and 8.0%, that is, largely above the Basel Committee on Banking Supervision recommended minimum of 3%. As at date, there is no regulatory requirement to compute the leverage ratio.

Outlook

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

"The Group reports with integrity and transparency. The auditors provide independent assurance on the financial statements."

FINANCIAL STATEMENTS

Statement of Directors' Responsibility

FOR THE YEAR ENDED 31 DECEMBER 2018

Company law requires the directors to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Group. In preparing those Financial Statements, the directors are required to: ensure that adequate accounting records and an effective system of internal controls and risk management have been maintained; select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business. The directors confirm that they have complied with these requirements in preparing the Financial Statements.

The external auditors are responsible for reporting on whether the Financial Statements are fairly presented. The Group's external auditors, Ernst & Young, have full and free access to the Board of Directors and its committees to discuss the audit matters arising therefrom, such as their observations on the fairness of financial reporting and the adequacy of internal controls. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group while ensuring that: the Financial Statements fairly present the state of affairs of the Group, as at the financial year end, and the results of its operations and cash flow for that period; and they have been prepared in accordance with and comply with International Financial Reporting Standards and the Companies Act 2001, as well as the requirements of the Banking Act 2004 and the guidelines issued thereunder.

Directors are also responsible for safeguarding the assets of the Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities. Other main responsibilities of the directors include the assessment of the Management's performance relative to corporate objectives; overseeing the implementation and uploading of the Code of Corporate Governance and ensuring timely and comprehensive communication to all stakeholders on events significant to the Group.

The Board of SBM Holdings Ltd, recognising that the Group, as a financial organisation, encounters risk in every aspect of its business, has put in place the necessary committees to manage such risks, as required by Basel III. The Board, whilst approving risk strategy, appetite and policies, has delegated the formulation thereof and the monitoring of their implementation to the Risk Management Committee.

The structures, processes and methods through which the Board gains assurance that risk is effectively managed, are fully described in the Risk Management Report.

On behalf of the Board.

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

Subhas THECKA
Chairman, Audit Committee

01 April 2019

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 195 to 312 which comprise the statements of financial position as at 31 December 2018, 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 2018, 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.

Report on the Audit of the Financial Statements (Cont'd)

Key Audit Matter	How the matter was addressed in the audit
Expected credit losses (ECL) -impaired facilities The Group has net loans and advances portfolio of MUR 102.1 billion at 31 December 2018. As explained in the accounting policies, these loans and advances are carried at amortised cost, less allowance for credit impairment MUR 8.4 billion for impaired facilities and MUR 1.8 billion for non-impaired facilities respectively. A financial asset is considered to be credit impaired in accordance with IFRS 9 when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Identification of credit impaired facilities and determination of the expected credit losses thereon involves significant judgement, estimates and assumptions regarding (i) the determination of whether a facility is credit impaired and (ii) in estimating the forecasted cash flows that the Group expects to receive from the obligors. This includes an estimate of what the Group can realise from the collaterals it holds as security on the impaired facilities.	We reviewed and assessed the design of the controls over the identification of facilities that are credit impaired and the related calculations of expected credit losses, including the quality of underlying data and systems. For impairment of loans in stage 3, judgement is required to determine when a loan is considered to be credit impaired and the determination of the impairment loss suffered. Where cash flows for large credits include the realisable value of collateral securing the credit, the value of such collateral is based on the opinion of independent and qualified appraisers. We thus assessed the independence and the qualification of the appraisers. Areas of focus included the corporate and international banking lending portfolios which represent high value exposures. We ensured that all credit impaired loans have been properly identified by management by: 1. Reviewing the minutes of the Impaired Asset Review Forum, Management Credit Forum, Board Credit Committee; 2. Obtaining and testing loan arrears reports and ensuring that all arrears exceeding 90 days are included in the stage 3 impairment list of the ECL model; 3. Identifying loan facilities meeting certain criteria such as financial difficulties of the borrower, restructured loans, insufficient collaterals and exposures to sectors in decline and ensuring these are included in the list of credit impaired facilities.
During the year, the Group experienced events of default on a group of related borrowers with exposure totalling MUR 8.4 billion of which MUR 3.3 billion are secured by cash collaterals. The impairment loss recorded on these exposures amounted to MUR 1.4 billion. Refer to Note 9 for accounting policy on loans and advances and allowance for credit impairment (stage 3). Given the size of the loans and advances of the Group (45 % of total assets), we identified the determination of the allowance for expected credit losses on loans and advances as a key audit matter.	For loans that are credit impaired, we independently assessed the appropriateness of provisioning methodologies and policies and formed an independent view on the levels of provisions booked based on the detailed loan and counterparty information in the credit files. We re-performed calculations within a sample of discounted cash flow models and assessed the reasonableness of assumptions used to support the timing and extent of the cash flows. Where the borrowers' cash flow forecasts are used to determine recoverable amounts, we ensured that these are supported by objective and unbiased evidence. With respect to the specific group of related borrowers for which the Group recorded an impairment loss of MUR 1.4 billion, we performed the following audit procedures: 1. We examined the pattern of cash flows from the obligors, the status of the days past due and the events of default on the facilities to determine whether these facilities should be considered to be credit impaired. 2. We examined the loan contracts and supporting documents including the collaterals given to secure the facilities. 3. We reviewed and assessed Management's expected cash flows from the realisation of collaterals and other assets (owned by the directors / owners of the borrowing entities) through other legal routes considered by the Group. We evaluated the viability of such other actions to recover additional cash flows. 4. We evaluated Management's estimates and judgement around the likelihood and extent of recovery based on factual and supportable evidences provided by Management. 5. We considered the events after the year end and assessed the impact on the financial statements at year end. 6. We recalculated the allowance for expected credit losses based on the outcome of the above procedures.

Report on the Audit of the Financial Statements (Cont'd)

Key Audit Matter	How the matter was addressed in the audit
Expected credit losses (ECL) – facilities which are not credit impaired The determination of ECL on loans and advances which are not credit impaired involves the highest level of management judgement, thus requiring greater audit attention. Specific areas of judgement and estimation uncertainty include: 1. Identification of significant increase in credit risk (SICR), and in particular the selection of criteria to identify a SICR. These criteria are highly judgemental and can materially impact the ECL recognised for certain portfolios where the life of the facilities is greater than 12 months; 2. Complexity of the ECL model involving a number of critical assumptions in the determination of probabilities of default (PD), loss given default (LGD) and Exposure at default (EAD). 3. Use of forward looking information to determine the likelihood of future losses being incurred. 4. Qualitative adjustments made to model driven ECL results raised to address model limitations, emerging risks and trends in underlying portfolios which are inherently judgemental. 5. Accuracy and adequacy of the financial statement disclosures	IFRS 9 was implemented by the Group on 01 January 2018. This new standard requires the Group to recognise expected credit losses (ECL) on financial instruments which involves significant judgement and estimates to be made by the Group. The carrying value of financial instruments within the scope of IFRS 9 may be materially misstated if judgements or estimates made by the Group are inappropriate. For stage 1 and stage 2 loans, we assessed the appropriateness of the model used including the inputs and assumptions by performing the following procedures: 1. Reviewing the methodology adopted by the Bank for calculation of ECL and in particular the segmentation of loans in appropriate portfolios reflecting different risk factors. Our review also includes an assessment of the design of the models used for determination of PD, LGD and EAD for different types of loans including inter-alia terms loans, overdraft facilities, credit cards, guarantees and other off-balance sheet exposures; 2. Checking the adequacy and quality of the data used for the calculation of PD, LGD and EAD; 3. Assessing the key assumptions used in PD, LGD and EAD models and ensure such assumptions reflect the actual behaviours of the credit facilities; 4. Reviewing the criteria for staging of credit exposures and ensure these are in line with the requirements of IFRS 9 including any backstops used in the methodology; 5. Reviewing the minutes of Watchlist Review Committee and ensure proper classification to Stage 2 is made for all clients on watchlist; 6. Checking the accuracy of critical data elements input into the system used for credit grading and the approval of credit facilities; 7. Review of the PD and LGD calculations including the incorporation of forecast macro-economic information by our data modelling specialists; 8. Tested the accuracy and completeness of the ECL model by reperformance and focussing on exception reports. 9. We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards including disclosure of transition from IAS 39.

Independent Auditors' Report

TO THE MEMBERS OF SBM HOLDINGS LTD

Report on the Audit of the Financial Statements (Cont'd)

Key Audit Matter	How the matter was addressed in the audit
Acquisition of assets and assumption of liabilities of Chase Bank (Kenya) Limited (In Receivership) On 18 August 2018, the Group acquired certain assets and liabilities of Chase Bank (Kenya) Limited (In Receivership) through its subsidiary the SBM Bank (Kenya) Limited by having an asset purchase agreement between the SBM Bank (Kenya) Limited, Chase Bank (Kenya) Limited (In Receivership) and the Central Bank of Kenya. This acquisition and assumption of assets and liabilities represented a business combination in terms of IFRS 3 - Business Combination. The purchase price allocation exercise was performed, whereby assets and liabilities acquired were fair valued and allocated to acquisition price to arrive at the bargain purchase gain of MUR 1.3 billion. The detail disclosures of this transaction are in note 43 to the financial statements. The identification of assets acquired and liabilities assumed is critical and their respective 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.	We performed the following audit procedures in response to this matter: 1. We have reviewed the purchase agreement and the contingent consideration arrangement 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. 2. We assessed Management's consideration of other identifiable assets and liabilities which are not recorded on the acquisition balance sheet. 3. We obtained management's workings of the fair values of the acquired assets and assumed liabilities and assessed whether the calculation, methodologies and the underlying assumptions applied in the determination of the fair value were justifiable in the context and nature of the assets and liabilities. 4. We also evaluated the measurement of the contingent consideration at the transaction and reporting date. 5. We checked the calculation of the resulting bargain purchase gain. 6. We evaluated the appropriateness and completeness of the disclosures under IFRS 3 - Business Combination.

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 identified above (other than the Corporate Governance Report) and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Corporate Governance report

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

Report on the Audit of the Financial Statements (Cont'd)

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the Group and or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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.

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 (Continued)

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.

Use of our report

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.

ERNST & YOUNG
Ebène, Mauritius

01 April 2019

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

Statements of Financial Position

AS AT 31 DECEMBER 2018

	Notes	THE GROUP			THE COMPANY		
		31 December 2018	31 December 2017	31 December 2016	**31 December 2018**	31 December 2017	31 December 2016
		MUR' 000	MUR' 000	MUR' 000	**MUR' 000**	MUR' 000	MUR' 000
ASSETS							
Cash and cash equivalents	6	**15,653,515**	16,331,538	9,490,208	**32,890**	73,223	15,321
Mandatory balances with central banks		**9,977,260**	8,966,717	7,097,994	**-**	-	-
Loans to and placements with banks	7	**11,090,361**	8,897,399	4,645,911	**-**	-	-
Derivative financial instruments	8	**764,077**	1,356,774	165,998	**-**	-	-
Loans and advances to non-bank customers	9	**102,108,174**	103,128,838	71,624,874	**-**	-	-
Investment securities	10 (i)	**71,594,287**	40,000,421	39,430,829	**3,105,326**	1,461,801	4,305,882
Equity investments	10 (ii)	**5,752,870**	6,137,779	5,732,722	**4,227,683**	4,292,925	4,261,347
Investment in subsidiaries	10 (iii)	**-**	-	-	**28,485,152**	24,665,178	21,854,773
Investment in associate	10 (iv)	**1,308,157**	1,336,902	1,275,880	**1,272,977**	1,272,977	1,272,977
Property and equipment	11	**3,153,914**	2,854,218	2,809,777	**5,780**	3,106	4,309
Goodwill and other intangible assets	12	**3,226,412**	3,875,613	3,770,271	**44**	-	-
Deferred tax assets	18 b	**89,440**	95,461	215,260	**-**	-	-
Other assets	13	**1,655,659**	1,039,721	635,984	**153,309**	70,448	1,501
Total assets		**226,374,126**	194,021,381	146,895,708	**37,283,161**	31,839,658	31,716,110
LIABILITIES							
Deposits from banks	15	**716,702**	689,265	2,611,669	**-**	-	-
Deposits from non-bank customers	16	**169,384,480**	144,850,676	109,241,194	**-**	-	-
Other borrowed funds	17	**14,522,085**	13,686,203	4,486,008	**-**	-	-
Derivative financial instruments	8	**799,441**	1,334,641	182,413	**-**	-	-
Current tax liabilities		**495,964**	124,195	364,670	**503**	1,005	1,354
Deferred tax liabilities	18 b	**159,477**	170,905	-	**-**	-	64
Other liabilities	19	**6,706,294**	4,299,258	2,339,683	**91,777**	5,501	5,997
Subordinated debts	20	**9,412,677**	3,701,466	3,865,371	**9,412,677**	3,701,466	3,865,371
Total liabilities		**202,197,120**	168,856,609	123,091,008	**9,504,957**	3,707,972	3,872,786
SHAREHOLDERS' EQUITY							
Stated capital	21	**32,500,204**	32,500,204	32,500,204	**32,500,204**	32,500,204	32,500,204
Retained earnings		**2,270,280**	2,410,007	865,100	**965,704**	1,242,101	1,020,810
Other reserves		**(5,718,447)**	(4,870,408)	(4,685,573)	**(812,673)**	(735,588)	(802,659)
		29,052,037	30,039,803	28,679,731	**32,653,235**	33,006,717	32,718,355
Treasury shares	21	**(4,875,031)**	(4,875,031)	(4,875,031)	**(4,875,031)**	(4,875,031)	(4,875,031)
Total equity attributable to equity holders of the parent		**24,177,006**	25,164,772	23,804,700	**27,778,204**	28,131,686	27,843,324
Total equity and liabilities		**226,374,126**	194,021,381	146,895,708	**37,283,161**	31,839,658	31,716,110

Approved by the Board of Directors and authorised for issue on 01 April 2019.

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

Subhas THECKA
Chairman, Audit Committee

The notes on pages 201 to 312 form an integral part of these financial statements

Statements of Profit or Loss

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	THE GROUP			THE COMPANY		
		31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Interest income		**8,816,856**	7,007,347	6,249,765	**77,913**	131,045	227,814
Interest expense		**(2,971,513)**	(2,239,586)	(1,866,491)	**(309,019)**	(149,011)	(149,307)
Net interest income/(expense)	27	**5,845,343**	4,767,761	4,383,274	**(231,106)**	(17,966)	78,507
Fee and commission income		**1,307,329**	1,268,893	1,081,945	**-**	-	-
Fee and commission expense		**(30,919)**	(29,385)	(29,346)	**(199)**	(339)	-
Net fee and commission income/(expense)	28	**1,276,410**	1,239,508	1,052,599	**(199)**	(339)	-
Profit / (loss) arising from dealing in foreign currencies		**758,677**	560,843	536,831	**(29,695)**	67,735	116,785
Net gain on sale of securities	31	**204,458**	464,433	455,500	**27,614**	12,765	13,036
Dividend income	29	**110,051**	21,501	38,864	**1,233,068**	1,270,535	27,563
Net gain/(loss) from dealing from financial instruments	30	**509,849**	516,538	(25,108)	**-**	-	-
Other operating income	32	**1,073,651**	1,221	4,265	**-**	-	-
Non-interest income		**3,933,096**	2,804,044	2,062,951	**1,230,788**	1,350,696	40,716
Operating income		**9,778,439**	7,571,805	6,446,225	**999,682**	1,332,730	119,223
Personnel expenses	33	**(2,026,085)**	(1,618,992)	(1,395,895)	**(104,253)**	(18,843)	(3,830)
Depreciation of property and equipment	11	**(205,246)**	(166,796)	(158,036)	**(1,946)**	(1,203)	(1,203)
Amortisation of intangible assets	12	**(621,951)**	(503,170)	(191,968)	**(6)**	-	-
Other expenses	34	**(1,844,271)**	(1,099,274)	(995,723)	**(253,729)**	(61,566)	(48,005)
Non-interest expense		**(4,697,553)**	(3,388,232)	(2,741,622)	**(359,934)**	(81,612)	(53,038)
Profit before credit loss expense on financial assets		**5,080,886**	4,183,573	3,704,603	**639,748**	1,251,118	66,185
Credit loss expense on financial assets	35	**(3,559,350)**	(1,115,280)	(716,899)	**(1,646)**	-	-
Operating profit		**1,521,536**	3,068,293	2,987,704	**638,102**	1,251,118	66,185
Share of profit of associate	10 (iv)	**100,240**	92,005	1,627	**-**	-	-
Profit before income tax		**1,621,776**	3,160,298	2,989,331	**638,102**	1,251,118	66,185
Tax (expense)/income	18 a	**(375,982)**	(585,375)	(680,429)	**(10,867)**	2,895	(16,979)
Profit for the year		**1,245,794**	2,574,923	2,308,902	**627,235**	1,254,013	49,206
Earnings per share (Cents)	36	**48.25**	99.73	89.43			

The notes on pages 201 to 312 form an integral part of these financial statements

Statements of Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	THE GROUP			THE COMPANY		
		31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	**31 December 2018 MUR' 000**	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Profit for the year		**1,245,794**	2,574,923	2,308,902	**627,235**	1,254,013	49,206
Other comprehensive income :							
Items that will not be reclassified subsequently to profit or loss net of deferred tax:							
Movement in net property revaluation reserve		**-**	-	1,530	**-**	-	-
Reversal in net property revaluation reserve		**(17,689)**	-	-	**-**	-	-
Underprovision of deferred tax assets on revaluation of property in prior years		**-**	-	(24,817)	**-**	-	-
Share of other comprehensive income of associate	10(iv)	**(96,235)**	290	1,276	**-**	-	-
Remeasurement of defined benefit pension plan	14&18(b)	**(27,802)**	(32,876)	1,599	**-**	-	-
Net loss on equity instruments designated at FVTOCI		**(77,085)**	-	-	**(77,085)**	-	-
		(218,811)	(32,586)	(20,412)	**(77,085)**	-	-
Items that may be reclassified subsequently to profit or loss:							
Exchange differences on translation of foreign operations	40	**(176,373)**	(65,347)	(80,866)	**-**	-	-
Available-for-sale investments							
Movement in fair value of available-for-sale investments	40	**-**	144,422	650,541	**-**	52,013	3,826
Fair value reserve re-cycled on disposal of available-for-sale investments	40	**-**	(228,618)	(180,697)	**-**	15,058	(6,740)
Fair value realised on reclassification of available for sale investments to investment in associate		**-**	-	(2,591)	**-**	-	(2,591)
Investment securities measured at FVTOCI							
Movement in fair value during the year		**(505,354)**	-	-	**-**	-	-
Fair value re-cycled on disposal		**1,491**	-	-	**-**	-	-
Loss allowance relating to debt instruments held at FVTOCI		**24,686**	-	-	**-**	-	-
		(655,550)	(149,543)	386,387	**-**	67,071	(5,505)
Total other comprehensive (loss)/income		**(874,361)**	(182,129)	365,975	**(77,085)**	67,071	(5,505)
Total comprehensive income for the year		**371,433**	2,392,794	2,674,877	**550,150**	1,321,084	43,701

The notes on pages 201 to 312 form an integral part of these financial statements

Statements of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

	Stated capital	Treasury shares	Statutory reserve	(Accumulated losses) / Retained earnings	Net property revaluation reserve	Other reserves (Note 40)	Total equity
The Group	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**	**MUR' 000**
At 01 January 2016	32,500,204	(4,875,031)	592,187	(430,006)	224,209	(5,823,200)	22,188,363
Profit for the year	-	-	-	2,308,902	-	-	2,308,902
Other comprehensive income/(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 22)	-	-	-	(1,058,540)	-	-	(1,058,540)
At 31 December 2016	32,500,204	(4,875,031)	592,187	865,100	157,777	(5,435,537)	23,804,700
At 01 January 2017	32,500,204	(4,875,031)	592,187	865,100	157,777	(5,435,537)	23,804,700
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 22)	-	-	-	(1,032,722)	-	-	(1,032,722)
At 31 December 2017	32,500,204	(4,875,031)	593,966	2,410,007	120,416	(5,584,790)	25,164,772
At 01 January 2018	**32,500,204**	**(4,875,031)**	**593,966**	**2,410,007**	**120,416**	**(5,584,790)**	**25,164,772**
Impact of adopting IFRS 9	**-**	**-**	**-**	**(490,560)**	**-**	**34,993**	**(455,567)**
Restated opening balance under IFRS 9	**32,500,204**	**(4,875,031)**	**593,966**	**1,919,447**	**120,416**	**(5,549,797)**	**24,709,205**
Profit for the year	**-**	**-**	**-**	**1,245,794**	**-**	**-**	**1,245,794**
Loss allowance relating to debts instruments held at FVTOCI	**-**	**-**	**-**	**-**	**-**	**24,686**	**24,686**
Other comprehensive loss for the year	**-**	**-**	**-**	**(27,802)**	**(17,689)**	**(853,556)**	**(899,047)**
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**1,217,992**	**(17,689)**	**(828,870)**	**371,433**
Transfer to statutory reserve	**-**	**-**	**3,108**	**(3,108)**	**-**	**-**	**-**
Transfer to retained earnings	**-**	**-**	**-**	**39,581**	**(39,581)**	**-**	**-**
Dividend (Note 22)	**-**	**-**	**-**	**(903,632)**	**-**	**-**	**(903,632)**
At 31 December 2018	**32,500,204**	**(4,875,031)**	**597,074**	**2,270,280**	**63,146**	**(6,378,667)**	**24,177,006**

Other reserves in the Statements of Financial Position comprise of statutory reserve, net property revaluation reserve and other reserves

The notes on pages 201 to 312 form an integral part of these financial statements

Statements of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

The Company	Stated capital MUR' 000	Treasury shares MUR' 000	Retained earnings MUR' 000	Net unrealised investment fair value reserve MUR' 000	Total equity MUR' 000
At 01 January 2016	32,500,204	(4,875,031)	2,030,144	(797,154)	28,858,163
Profit for the year	-	-	49,206	-	49,206
Other comprehensive loss for the year	-	-	-	(5,505)	(5,505)
Total comprehensive income/(loss) for the year	-	-	49,206	(5,505)	43,701
Dividend (Note 22)	-	-	(1,058,540)	-	(1,058,540)
At 31 December 2016	32,500,204	(4,875,031)	1,020,810	(802,659)	27,843,324
At 01 January 2017	32,500,204	(4,875,031)	1,020,810	(802,659)	27,843,324
Profit for the year	-	-	1,254,013	-	1,254,013
Other comprehensive income for the year	-	-	-	67,071	67,071
Total comprehensive income for the year	-	-	1,254,013	67,071	1,321,085
Dividend (Note 22)	-	-	(1,032,722)	-	(1,032,722)
At 31 December 2017	32,500,204	(4,875,031)	1,242,101	(735,588)	28,131,686
At 01 January 2018	**32,500,204**	**(4,875,031)**	**1,242,101**	**(735,588)**	**28,131,686**
Profit for the year	**-**	**-**	**627,235**	**-**	**627,235**
Other comprehensive income for the year	**-**	**-**	**-**	**(77,085)**	**(77,085)**
Total comprehensive income for the year	**-**	**-**	**627,235**	**(77,085)**	**550,150**
Dividend (Note 22)	**-**	**-**	**(903,632)**	**-**	**(903,632)**
At 31 December 2018	**32,500,204**	**(4,875,031)**	**965,704**	**(812,673)**	**27,778,204**

The notes on pages 201 to 312 form an integral part of these financial statements

Statements of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	THE GROUP 31 December 2018 MUR' 000	THE GROUP 31 December 2017 MUR' 000	THE GROUP 31 December 2016 MUR' 000	THE COMPANY 31 December 2018 MUR' 000	THE COMPANY 31 December 2017 MUR' 000	THE COMPANY 31 December 2016 MUR' 000
Net cash (used in) / from operating activities	37.	**(3,844,388)**	1,234,721	1,950,483	**(984,142)**	3,801,568	2,115,295
Cash flows from / (used in) financing activities							
Increase / (decrease) in other borrowed funds		**(1,225,645)**	7,770,802	2,353,511	**-**	-	-
Proceeds from subordinated liabilities debts raised		**5,672,085**	2,025	3,233	**5,672,085**	2,025	(3,753)
Dividend paid on ordinary shares		**(903,632)**	(1,032,722)	(1,058,540)	**(903,632)**	(1,032,722)	(1,058,540)
Net cash from / (used in) financing activities		**3,542,808**	6,740,105	1,298,204	**4,768,453**	(1,030,697)	(1,062,293)
Cash flows from investing activities							
Investment in non-voting redeemable participating shares		**-**	(120,754)	(359,585)	**-**	(120,754)	(360,151)
Acquisition of property and equipment		**(235,022)**	(87,653)	(144,419)	**(4,620)**	-	-
Acquisition of intangible assets		**(286,759)**	(173,992)	(1,596,979)	**(50)**	-	-
Disposal of property and equipment		**145,868**	7,489	824	**-**	-	-
Investment in preference shares		**-**	-	(350,000)	**-**	-	-
Acquisition of business	42c.	**162,157**	12,398	-	**-**	-	-
Investment in subsidiaries		**-**	-	-	**(3,819,974)**	(2,592,215)	(855,590)
Acquisition of other equity investments		**32,750**	(459,211)	(512,364)	**-**	-	-
Disposal of other equity investments		**-**	-	118	**-**	-	-
Net cash used in investing activities		**(181,006)**	(821,723)	(2,962,405)	**(3,824,644)**	(2,712,969)	(1,215,741)
Net change in cash and cash equivalents		**(482,586)**	7,153,103	286,282	**(40,333)**	57,902	(162,739)
Net foreign exchange differences		**(195,437)**	(311,773)	29,791	**-**	-	-
Cash and cash equivalents at start of year		**16,331,538**	9,490,208	9,174,135	**73,223**	15,321	178,060
Cash and cash equivalents at end of year	6	**15,653,515**	16,331,538	9,490,208	**32,890**	73,223	15,321

The notes on pages 201 to 312 form an integral part of these financial statements

1. GENERAL INFORMATION

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

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

2. APPLICATION OF NEW AND REVISED STANDARD AND INTERPRETATIONS

New and amended standards and interpretations

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

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

	Effective for accounting period beginning on or after
IFRS 9 Financial Instruments	01 January 2018
IFRS 15 Revenue from Contracts with Customers	01 January 2018
IFRS 7 Financial Instruments Disclosures (Revised)	01 January 2018
IFRIC 22 Foreign Currency transactions and advance consideration	01 January 2018

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

IFRS 9 Financial Instruments

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

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

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

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

New and amended standards and interpretations (Cont'd)

IFRS 9 Financial Instruments (Cont'd)

Changes to classification and measurement

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

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

> Debt instruments at amortised cost;

> Debt instruments at fair value through other comprehensive income (FVTOCI), with gains or losses recycled to profit or loss on derecognition;

> Equity instruments at FVTOCI, with no recycling of gains or losses to profit or loss on derecognition; and

> Financial assets at FVTPL.

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

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

Changes to the impairment calculation

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

Details of revenue from contracts with customers are disclosed in note 28.a

IFRS 7 Financial Instruments (Revised)

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated, and the Group has adopted it, together with IFRS 9, for the year beginning 01 January 2018. Changes include transition disclosures as shown in Note 4, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 10 and Note 33.

Reconciliations from opening to closing ECL allowances are presented in Notes 7, 9, 10 and 23. IFRS 7R also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

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

New and amended standards and interpretations (Cont'd)

IFRIC 22 Foreign currency transactions and advance consideration

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

Standards issued but not yet effective applicable to the Group

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

IFRS 16 Leases

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

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

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

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

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

Transition to IFRS 16

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

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

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

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

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

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

New and amended standards and interpretations (Cont'd)

IFRS 16 Leases (Cont'd)

Impact on the Statements of Financial Position as at 01 January 2019:

	MUR '000
Assets	
Property, plant and equipment (right-of-use)	518,840
Liabilities	
Lease liabilities	518,840

Net impact on equity

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are:
- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

Amendments to References to the Conceptual Framework in IFRS Standards

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

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

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

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

3.1 Expected credit losses on financial assets

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

- The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:
- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a long term ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs; Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

The estimations and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

(i) Assessment of useful lives - Note 11

(ii) Pension benefits - Note 14

(iii) Fair value of equity investments - Note 10

(iv) Fair value of other financial assets and liabilities - Note 41 (a)

4. TRANSITION DISCLOSURES

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

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

Particulars	Note	IAS 39 measurement category	New measurement category under IFRS 9	As on 01 January 2018 Original carrying amount under IAS 39 (MUR' 000)	As on 01 January 2018 New carrying amount under IFRS 9 (MUR' 000)	Movement booked in Retained earnings (MUR' 000)	Movement booked in Other reserves (MUR' 000)
Cash and cash equivalents		Loans and receivables	Amortised cost	16,331,538	16,315,340	16,198	-
Mandatory balances with central banks		Loans and receivables	Amortised cost	8,966,717	8,966,717	-	-
Loans to and placements with banks		Loans and receivables	Amortised cost	8,897,399	8,881,308	16,091	-
Derivative financial instruments		Fair value through P&L	Fair value through P&L	1,356,774	1,356,774	-	-
Loans and advances to non-bank customers		Loans and receivables	Amortised cost	103,128,838	102,876,591	252,247	-
Investments - AFS (Equity and/or Debt Instruments)	(a)	Available for sale	Fair value through OCI	13,079,833	13,079,833	34,993	(34,993)
Investments - HFT		Fair value through P&L	Fair value through P&L	7,512,462	7,512,462	-	-
Investments - HTM		Held to maturity	Amortised cost	19,408,126	19,384,977	23,149	-
Deposits from banks		Amortised cost	Amortised cost	689,265	689,265	-	-
Deposits from non-bank customers		Amortised cost	Amortised cost	144,850,676	144,850,676	-	-
Derivative financial instruments		Fair value through P&L	Fair value through P&L	1,334,641	1,334,641	-	-
Other liabilities		Amortised cost	Amortised cost	4,299,258	4,299,258	-	-
Other borrowed funds		Amortised cost	Amortised cost	13,686,203	13,686,203	-	-
Off balance sheet items		Off balance sheet	Off balance sheet	12,617,998	12,502,037	115,961	-
Other credit commitments		Off balance sheet	Off balance sheet	14,238,833	14,181,930	56,902	-
Total adjustments made to retained earnings						**515,541**	**(34,993)**

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

Reconciliation of carrying amount of financial instruments in the Statements of Financial Position from IAS 39 to IFRS 9 as on 01 January 2018 is shown under note 4.

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

4. TRANSITION DISCLOSURES (CONT'D)

Measurement category	Loan loss allowance under IAS 39 (MUR' 000)	Reclassification (MUR' 000)	Remeasurement (MUR' 000)	Loan loss allowance under IFRS 9 (MUR' 000)
Loans and receivables (IAS39) / Financial assets at amortised cost (IFRS 9)				
(i) Cash and cash equivalents	-	-	16,198	16,198
(ii) Loans to and placement with banks	-	-	16,091	16,091
(iii) Loans and advances to non-bank customers	4,069,003	-	252,247	4,321,250
(iv) Investment securities	-	-	58,142	58,142
(v) Memorandum items	-		172,863	172,863
Total	**4,069,003**	**-**	**515,541**	**4,584,544**

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

	Retained earnings (MUR' 000)
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	2,410,007
Reclassification adjustments in relation to adopting IFRS 9:	
Recognition of IFRS 9 ECLs including those measured at FVTOCI	(510,281)
EIR adjustments made in foreign operations	(5,260)
Deferred tax in relation to the above	24,981
Opening balance under IFRS 9 (01 January 2018)	1,919,447
Total change in equity due to adopting IFRS 9	490,560

	Other reserves (MUR' 000)
Other reserves	
Closing balance under IAS 39 (31 December 2017)	(5,584,790)
Reclassification adjustments in relation to adopting IFRS 9:	
Recognition of IFRS 9 ECLs including those measured at FVTOCI	34,993
Deferred tax in relation to the above	-
Opening balance under IFRS 9 (01 January 2018)	(5,549,797)
Total change in equity due to adopting IFRS 9	(34,993)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

4. TRANSITION DISCLOSURES (CONT'D)

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9. Further details are disclosed in Notes 23.

	Loan loss provision under IAS 39/37 at 31 December 2017	Re-measurement	ECLs under IFRS 9 at 01 January 2018
	MUR' 000	MUR' 000	MUR' 000
Impairment allowance for:			
Loans and receivables per IAS 39 / financial assets at amortised cost under IFRS 9	4,069,003	252,247	4,321,250
	4,069,003	252,247	4,321,250
Financial guarantees	-	48,898	48,898
Letter of credit for customers	-	8,575	8,575
Bills	-	58,487	58,487
Other commitments*	-	56,903	56,903
	-	172,863	172,863
	4,069,003	425,110	4,494,113

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

MUR' 000	IAS 39 Measurement		Re- Classification	Remeasurement		IFRS 9	
Financial Assets	**Category**	**Amount**	**Amount**	**ECL**	**Other**	**Amount**	**Category**
Cash and balances with central banks	Loans and receivables	25,298,255	-	(16,198)	-	25,282,057	Amortised cost
Loans and advances to banks	Loans and receivables	8,897,399	-	(16,091)	-	8,881,308	Amortised cost
Loans and advances to customers	Loans and receivables	103,128,838	-	(252,247)	-	102,876,591	Amortised cost
Financial investments-HTM	HTM	19,408,126	-	(23,149)		19,384,977	Amortised cost
		156,732,618	-	(307,685)	-	156,424,933	
Financial investments- AFS	AFS	13,079,833	-	-		13,079,833	FVTOCI
		13,079,833	-	-	-	13,079,833	
Financial investments-HFT	HFT	7,512,462	-	-	-	7,512,462	FVTPL
		7,512,462	-	-	-	7,512,462	
Derivative financial instrument	FVTPL	1,356,774	-	-	-	1,356,774	FVTPL
		1,356,774	-	-	-	1,356,774	
Deferred tax assets		95,461	-	24,981	-	120,442	
Total assets		**178,777,148**	**-**	**(282,704)**	**-**	**178,494,444**	

* Other commitments relate to undrawn credit facilities provided to customers

FOR THE YEAR ENDED 31 DECEMBER 2018

4. TRANSITION DISCLOSURES (CONT'D)

MUR' 000	IAS 39 Measurement		Re-Classification	Remeasurement		IFRS 9	
Financial Liabilities	**Category**	**Amount**	**Amount**	**ECL**	**Other**	**Amount**	**Category**
Deposits from banks	Amortised cost	689,265	-	-	-	689,265	Amortised cost
Deposits from customers	Amortised cost	144,850,676	-	-	-	144,850,676	Amortised cost
Other borrowed funds	Amortised cost	13,686,203	-	-	-	13,686,203	Amortised cost
Other liabilities	Amortised cost	4,299,258	-	-	-	4,299,258	Amortised cost
	Amortised cost	163,525,402	-	-	-	163,525,402	Amortised cost
Derivative financial instruments	FVTPL	1,334,641	-	-	-	1,334,641	FVTPL
	FVTPL	1,334,641	-	-	-	1,334,641	FVTPL
Total liabilities		**164,860,043**	-	-	-	**164,860,043**	

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group and the Company are as follows:

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for certain property, plant and equipment and financial instruments that are measured at revalued amounts or fair value as explained in the accounting policies below. The financial statements are presented in Mauritian Rupee, which is the Group's and the Company's functional and presentation currency. All value is 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.

Fair value is the price that would be received to sell an asset or paid for to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using valuation technique. In estimating the fair value of an asset or liability the Group and the Company takes into account the characteristics of the asset or liability if market participants would take into account those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

(b) Statement of compliance

The financial statements have been prepared on the basis of preparation as explained in 4(a) above and in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB) 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 2018 and with comparatives of 2017 and 2016.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Basis of consolidation (Cont'd)

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.

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 prevailing 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Foreign currency translation (Cont'd)

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 2018	31 December 2017	31 December 2016
USD / MUR	**34.27**	33.41	35.90
INR / MUR	**0.491**	0.523	0.529
100 MGA / MUR	**0.988**	1.036	1.082
KES/MUR	**0.337**	0.324	-

The average rates for the following years are:

	31 December 2018	31 December 2017	31 December 2016
USD / MUR	**33.98**	35.54	35.54
INR / MUR	**0.497**	0.529	0.529
100 MGA / MUR	**1.0181**	1.116	1.116
KES/MUR	**0.3393**	0.328	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 instruments - initial recognition

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

Initial measurement of financial instruments

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Financial instruments (Cont'd)

Day 1 profit or loss

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

Measurement categories of financial assets and liabilities

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

- Amortised cost, as explained in Note 10;
- FVTOCI, as explained in Note 10; and
- FVTPL.

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

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

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 10.

Business model assessment

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Financial instruments (Cont'd)

The solely payments of principal and interest (SPPI) test

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

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

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

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

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.

(g) 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.

(h) 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.

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.

(iv) 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) 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.

(j) Leasing

(i) The Group as lessor

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

(k) Borrowing costs

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

(l) 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 determine 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.

(m) 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.

(n) 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.

(o) 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 Group'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.

6. CASH AND CASH EQUIVALENTS

Accounting policy

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

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash 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. Accounting policy for calculating allowance for impaired losses is outlined under note 9 (c).

	THE GROUP			THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	**31 December 2018 MUR' 000**	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Cash in hand	**3,211,813**	1,842,521	1,706,637	**-**	-	-
Foreign currency notes and coins	**293,161**	327,026	320,434	**-**	-	-
Unrestricted balances with central banks [1]	**1,830,100**	1,494,175	12,216	**-**	-	-
Loans to and placements with banks[2]	**3,563,925**	5,819,471	3,487,058	**-**	-	-
Balances with banks	**6,797,814**	6,848,345	3,963,863	**32,890**	73,223	15,321
	15,696,813	16,331,538	9,490,208	**32,890**	73,223	15,321
Less: allowance for impairment losses[3]	**(43,298)**	-	-	**-**	-	-
	15,653,515	16,331,538	9,490,208	**32,890**	73,223	15,321

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

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

[3] Allowance for impairment losses relates only to stage 1.

7. LOANS TO AND PLACEMENTS WITH BANKS

Accounting policy

Prior to 01 January 2018

Loans to and placements with banks are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest method, less any impairment.

From 01 January 2018

From 01 January 2018, the Group only measures due from banks, loans and advances to non-bank customers and other financial investments at amortised cost if both of the following conditions are met:

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

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

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

	THE GROUP		
	31 December 2018 MUR' 000	**31 December 2017 MUR' 000**	**31 December 2016 MUR' 000**
Loans to and placements with banks			
- In Mauritius	**5,588,012**	1,104,288	451,829
- Outside Mauritius	**5,539,316**	7,793,111	4,194,082
	11,127,328	8,897,399	4,645,911
Less: allowance for impairment losses	**(36,967)**	-	-
	11,090,361	8,897,399	4,645,911
Remaining term to maturity			
Up to 3 months	**3,136,476**	1,438,472	179,715
Over 3 months and up to 6 months	**3,333,618**	405,513	1,903,777
Over 6 months and up to 12 months	**1,834,098**	1,910,982	71,457
Over 1 year and up to 2 years	**1,914,018**	3,150,402	1,078,904
Over 2 years and up to 5 years	**872,151**	1,992,030	1,052,470
Over 5 years	**-**	-	359,588
	11,090,361	8,897,399	4,645,911

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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

Impairment allowance for due from banks

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Group's internal grading system are explained in Note 41 and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 9.

	31 December 2018				31 December 2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Internal rating grade	**Individual**	**Individual**			
Performing	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**
High grade	797,769	-	-	797,769	685,427
Standard grade	8,618,008	-	-	8,618,008	6,190,800
Sub-standard grade	1,711,551	-	-	1,711,551	2,021,172
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	11,127,328	-	-	11,127,328	8,897,399

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

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	Individual	**Individual**		
Gross carrying amount	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**
As at 01 January 2018	8,897,399	-	-	8,897,399
New assets originated or purchased	5,350,478	-	-	5,350,478
Assets derecognised or repaid (excluding write offs)	(3,119,041)	-	-	(3,119,041)
Foreign exchange adjustments	(1,508)	-	-	(1,508)
As at 31 December 2018	11,127,328	-	-	11,127,328

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	Individual	**Individual**		
ECL allowance	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**
As at 01 January 2018	16,091	-	-	16,091
New assets originated or purchased	54,984	-	-	54,984
Assets derecognised or repaid (excluding write offs)	(34,108)	-	-	(34,108)
As at 31 December 2018	36,967	-	-	36,967

8. DERIVATIVE FINANCIAL INTRUMENTS

Accounting policy

Derivative financial instruments

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

• Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract.

• It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.

• It is settled at a future date.

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

Before 01 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

8. DERIVATIVE FINANCIAL INTRUMENTS (CONT'D)

Accounting policy (Cont'd)

Fair value hedges

In accordance with its wider risk management, as set out in Note 41(d)(i), it is the Group's strategy to apply fair value hedge accounting to keep interest rate sensitivities within its established limits. Applying fair value hedge accounting enables the Group to reduce fair value fluctuations of fixed rate financial assets and liabilities as if they were floating rate instruments linked to the attributable benchmark rates. From a hedge accounting point of view, the Group designates the hedged risk as the exposure to changes in the fair value of a recognised financial asset or liability or an unrecognised firm commitment, or an identified portion of such financial assets, liabilities or firm commitments that is attributable to a particular risk and could affect profit or loss. The Group only hedges changes due to interest rates such as benchmark rates (e.g. LIBOR), which are typically the most significant component of the overall fair value change. The Group assesses hedge effectiveness by comparing fair value movements of the hedging instruments and the hedged items attributable to changes in these benchmark rates using the hypothetical derivative method as set out above.

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

Hedge ineffectiveness can arise from:

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

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

Micro fair value hedges

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

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

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

8. DERIVATIVE FINANCIAL INTRUMENTS (CONT'D)

	THE GROUP		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Trading Assets			
Derivative assets	764,077	1,356,774	165,998
Trading Liabilities			
Derivative liabilities	799,441	1,334,641	182,413

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

The Group	Notional Principal Amount	Fair Values		
		Assets	Liabilities	Net
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2018				
Foreign exchange contracts*	32,522,758	258,171	(167,762)	90,409
Interest rate swap contracts	16,623,585	14,245	(148,876)	(134,631)
Cross currency swaps	1,159,362	378,697	(371,679)	7,018
Other derivative contracts	23,896,447	112,964	(111,124)	1,840
	74,202,152	764,077	(799,441)	(35,364)
31 December 2017				
Foreign exchange contracts*	35,771,192	268,858	(249,755)	19,103
Interest rate swap contracts	8,348,656	5,566	(5,426)	140
Cross currency swaps	-	1,220	(1,220)	-
Other derivative contracts	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*	15,591,473	98,282	(85,395)	12,887
Interest rate swap contracts	2,184,507	7,460	(27,742)	(20,282)
Cross currency swaps	729,218	33,163	(44,218)	(11,055)
Other derivative contracts	1,906,937	27,093	(25,058)	2,035
	20,412,135	165,998	(182,413)	(16,415)

* Foreign exchange contracts include forward and spot contracts and swaps

9. LOANS AND ADVANCES TO NON-BANK CUSTOMERS

Accounting policy

Prior to 01 January 2018

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

Loans and advances to non-bank customers are classified under 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 8 (Derivative financial instruments) for further details on hedge accounting. Allowance for credit impairment consists of specific and portfolio allowances.

From 01 January 2018

From 01 January 2018, the Group only measures due from banks, loans and advances to non-bank customers and other financial investments at amortised cost if both of the following conditions are met:

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

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

The details of these conditions are outlined in note 5.

		THE GROUP		
		31 December 2018	31 December 2017	31 December 2016
		MUR' 000	MUR' 000	MUR' 000
1.	Governments	**9,315**	2,458,655	-
2.	Retail customers	**32,121,254**	31,990,963	28,099,055
2.1	Credit cards	**606,448**	559,351	539,910
2.2	Mortgages	**22,478,894**	19,834,763	17,315,922
2.3	Other retail loans	**9,035,912**	11,596,849	10,243,223
3.	Corporate customers	**44,638,968**	38,364,068	37,012,499
4.	Entities outside Mauritius (including offshore / Global Business Licence Holders)	**35,656,506**	34,384,155	10,664,000
		112,426,043	107,197,841	75,775,554
	Less allowance for credit impairment (Note 9 (c))	**(10,317,869)**	(4,069,003)	(4,150,680)
		102,108,174	103,128,838	71,624,874
a.	**Remaining term to maturity**			
	Up to 3 months	**15,712,905**	15,438,380	12,173,170
	Over 3 months and up to 6 months	**3,662,406**	5,618,540	3,643,474
	Over 6 months and up to 12 months	**10,214,335**	11,727,057	5,095,722
	Over 1 year and up to 2 years	**9,471,038**	6,571,306	5,090,900
	Over 2 years and up to 5 years	**20,731,023**	22,833,824	13,927,875
	Over 5 years	**52,634,336**	45,008,734	35,844,413
		112,426,043	107,197,841	75,775,554

Out of the MUR 112.43 billion, there is an amount of MUR 4.67 billion (2017: MUR 2.28 billion, 2016: MUR 137 million) relating to loans that have been fair value hedged. Refer to note 41(a)(iii) for more details.

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

b. Net investment in finance leases

Accounting policy

Amounts due from lessees under finance leases are recorded as loans and advances at the amount of the 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:-

	The Group			
	Up to 1 year	After 1 year and up to 5 years	After 5 years	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2018				
Gross investment in finance leases	432,719	948,760	100,295	1,481,774
Less: Unearned finance income	(72,313)	(114,792)	(4,769)	(191,874)
Present value of minimum lease payments	360,406	833,968	95,526	1,289,900
Credit loss expense				(45,055)
Net investment in finance lease				1,244,845
31 December 2017				
Gross investment in finance leases	419,939	822,981	78,637	1,321,557
Less: Unearned finance income	(63,613)	(91,106)	(4,083)	(158,802)
Present value of minimum lease payments	356,326	731,875	74,554	1,162,755
Credit loss expense				(38,373)
Net investment in finance lease				1,124,382
31 December 2016				
Gross investment in finance leases	451,572	684,966	31,023	1,167,561
Less: Unearned finance income	(62,419)	(72,437)	(1,503)	(136,359)
Present value of minimum lease payments	389,153	612,529	29,520	1,031,202
Credit loss expense				(70,490)
Net investment in finance lease				960,712

Finance lease contracts give the lessees the option to purchase the assets for a residual value at the termination of the lease arrangements. The term of lease contracts generally ranges from five to seven years. Finance leases are secured mainly by charges on the leased assets and / or corporate/personal guarantees.

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

c. Impairment losses on loans and advances to non-bank customers

Accounting policy

Prior to 01 January 2018

Specific allowances are made on impaired advances and are calculated as the shortfall between the carrying amounts of the advances and their recoverable amounts. The recoverable amount is the present value of expected future cash flows discounted at the original effective interest rate of the advance.

From 01 January 2018

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in note 41. The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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

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

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

The calculation of ECLs

The Group calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

• PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in note 41.

• EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in note 41.

• LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in note 41.

When estimating the ECLs, the Group considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs, as set out in note 41. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

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

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value. Provisions for ECLs for undrawn loan commitments are assessed as set out in note 23. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained in note 23.

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

c. Impairment losses on loans and advances to non-bank customers (Cont'd)

Accounting policy (Cont'd)

The mechanics of the ECL method are summarised below:

Stage 1:	The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
Stage 3:	For loans considered credit-impaired , the Group recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
POCI:	POCI assets are financial assets that are credit impaired on initial recognition. The Group only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.
Loan commitments and letters of credit:	When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within provisions.
Financial guarantee contracts:	The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

Debt instruments measured at fair value through OCI

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

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

c. Impairment losses on loans and advances to non-bank customers (Cont'd)

Accounting policy (Cont'd)

Credit cards and other revolving facilities

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

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

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

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

Forward looking information

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

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

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

Collateral valuation

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

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

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

c. Impairment losses on loans and advances to non-bank customers (Cont'd)

Accounting policy (cont'd)

Collateral repossessed

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

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

Write-offs

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

Forborne and modified loans

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

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

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

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

If modifications are substantial, the loan is derecognised.

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

c Impairment losses on loans and advances to non-bank customers (Cont'd)

Accounting policy (cont'd)

Statutory portfolio allowance

A portfolio allowance for credit losses is maintained in accordance with the guidelines of the Bank of Mauritius. These guidelines require that the Group maintains a provision for credit impairment on all unimpaired loans and advances of not less than 1%. In addition, the Bank of Mauritius also imposes additional macro-prudential provisioning up to 1% on exposures to certain sectors of the economy.

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 consolidated statements of financial position. Changes in the carrying amount of the allowance accounts are recognised in the consolidated statement of profit or loss. When an advance is uncollectible, it is written off against the specific allowance. Recoveries of amounts previously written off are credited to "Net impairment loss on financial assets" .

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 effective interest rate.

Significant accounting estimates and judgements

Prior to 01 January 2018

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.

From 01 January 2018

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

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

• The Group's internal credit grading model, which assigns PDs to the individual grades;

• The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;

• The segmentation of financial assets when their ECL is assessed on a collective basis;

• Development of ECL models, including the various formulas and the choice of inputs;

Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs

• Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

c. Impairment losses on loans and advances to non-bank customers (Cont'd)

	The Group		
	Specific allowance for credit impairment	Portfolio allowance for credit impairment	Total
	MUR' 000	MUR' 000	MUR' 000
At 01 January 2016	2,427,061	1,084,828	3,511,889
Exchange differences	(4,671)	(3,459)	(8,130)
Loans written off	(4,606)	-	(4,606)
Allowance for credit impairment for the year (Note 35)	688,168	(36,641)	651,527
At 31 December 2016	3,105,952	1,044,728	4,150,680
At 01 January 2017	3,105,952	1,044,728	4,150,680
Acquisition of Business	605,704	-	605,704
Exchange differences	(37,033)	(2,400)	(39,433)
Loans written off	(1,749,383)	-	(1,749,383)
Allowance for credit impairment for the year (Note 35)	815,902	285,533	1,101,435
At 31 December 2017	2,741,142	1,327,861	4,069,003

From 01 January 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Group's internal grading system are set out in note 42 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in note 9:

	31 December 2018				31 December 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade	Individual	Individual			
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Performing					
High grade	28,414,581	6,131,756	-	34,546,337	24,584,870
Standard grade	19,787,126	10,723,893	-	30,511,019	27,058,198
Sub-standard grade	13,065,150	13,377,335	247,519	26,690,004	36,009,481
Past due but not impaired	-	2,693,127	184,005	2,877,132	15,788,609
Non-performing					
Individually impaired	-	-	17,801,551	17,801,551	3,756,683
Total	61,266,857	32,926,111	18,233,075	112,426,043	107,197,841

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

c. Impairment losses on loans and advances to non-bank customers (Cont'd)

Accounting policy

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception. To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements and other independent sources.

Significant accounting estimates and judgements

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

During the year, a group of connected debtors with an outstanding gross exposure of MUR 8.4 billion (MUR 4.4 billion net of cash and liquid assets held as collaterals) became credit impaired. In estimating the resulting expected credit losses on these facilities, Management estimated future cash flows expected to be realised by the Group by considering the collaterals it held as well as other assets it could reasonably expect to obtain from the borrowers through a number of legal actions, including the exercising of personal guarantees provided by the shareholders /directors of the borrowing companies. Among such assets are shares in a sugar company owned by the shareholders together with loans extended by the shareholders to that company. The expected credit losses were hence determined as the difference between the carrying value of the exposures and the present value of cash flows expected from the realisation of the Group's collaterals and the other assets it would obtain from the shareholders. The recoverable amounts of properties held as collaterals were estimated based on independent valuers' reports discounted to reflect valuation risks and time value of money. The recoverable value of the assets related to the sugar company was determined based on book values of the entity discounted to reflect valuation risks and time value of money.

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

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

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount	MUR'000	MUR'000	MUR'000	MUR'000
As at 01 January 2018	75,445,032	26,480,391	5,272,417	107,197,840
New assets originated or purchased	10,905,285	25,170,193	5,522,575	41,598,053
Assets derecognised or repaid (excluding write offs)	(16,425,767)	(15,837,822)	(1,442,658)	(33,706,247)
Transfers to Stage 1	12,724,891	(10,999,679)	(1,725,212)	-
Transfers to Stage 2	(8,476,034)	8,726,829	(250,795)	-
Transfers to Stage 3	(11,626,953)	(157,262)	11,784,215	-
Foreign exchange adjustments	(1,279,597)	(456,539)	(927,466)	(2,663,603)
As at 31 December 2018	61,266,857	32,926,111	18,233,075	112,426,043

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

c. Impairment losses on loans and advances to non-bank customers (Cont'd)

An analysis of changes in ECL allowances by staging as follows:

	Stage 1	Stage 2	Stage 3	Total
	Individual	Individual		
ECL allowance	MUR'000	MUR'000	MUR'000	MUR'000
As at 01 January 2018	25,083	1,302,777	2,741,142	4,069,002
New assets originated or purchased	53,432	236,793	6,387,154	6,677,379
Assets derecognised or repaid (excluding write offs)	18,018	31,801	(724,703)	(674,883)
Transfers to Stage 1	6,558	(3,007)	(3,551)	-
Transfers to Stage 2	(1,000)	6,603	(5,603)	-
Transfers to Stage 3	(67,398)	(4,135)	71,533	-
Changes to contractual cash flows due to modifications not resulting in derecognition	19,574	63,386	88,656	171,616
Changes to models and inputs used for ECL calculations	93,346	-	(18,591)	74,755
As at 31 December 2018	147,613	1,634,218	8,536,038	10,317,869

d. Impairment losses on loans and advances to non-bank customers by industry sectors

	31 December 2018					31 December 2017	31 December 2016
Group	Gross amount of loans	Impaired loans	Specific allowance for credit impairment	Portfolio allowance for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Agriculture and fishing	5,792,922	81,609	62,882	150,950	213,832	49,165	100,630
Manufacturing	5,908,387	2,101,842	1,471,937	73,119	1,545,056	1,207,803	391,843
of which EPZ	*1,185,948*	*38,136*	*3,628*	*13,490*	*17,118*	*43,543*	*38,542*
Tourism	10,984,654	170,840	116,670	175,579	292,249	215,422	202,253
Transport	4,480,491	1,118,322	833,787	305,520	1,139,307	63,274	497,697
Construction	8,042,894	1,042,224	337,668	280,246	617,914	266,512	235,993
Financial and business services	12,714,623	703,558	286,092	120,322	406,414	160,343	536,235
Traders	17,183,936	10,733,457	3,355,567	126,919	3,482,486	588,747	320,983
Personal	34,785,152	2,050,395	1,492,315	275,848	1,768,163	1,211,856	1,174,411
of which credit cards	*616,509*	*70,674*	*90,079*	*3,405*	*93,484*	*94,278*	*93,622*
Professional	229,479	108,849	98,896	5,159	104,055	106,792	2,086
Global Business Licence holders	4,115,179	15,593	15,593	89,975	105,568	15,918	5,354
Others	8,188,326	106,387	464,631	178,194	642,827	183,171	683,195
	112,426,043	18,233,076	8,536,038	1,781,831	10,317,869	4,069,003	4,150,680

Total impaired loans for 2017 for the Group were MUR 4,786 million (2016: MUR 4,998 million).

10. INVESTMENTS SECURITIES

Accounting policy

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

Prior to 01 January 2018

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets 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.

(i) Financial assets at FVTPL

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

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

Loans and receivables

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

(iii) Held to maturity (HTM) investments

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

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

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.

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

10. INVESTMENTS SECURITIES (CONT'D)

Accounting policy (cont'd)

From 01 January 2018

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

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

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

- Debt securities measured at FVTOCI and

- Equity investments designated as FVTOCI.

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

- Interest revenue using the effective interest method;

- ECL and reversals and

- Foreign exchange gains and lossses.

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

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.

10. INVESTMENTS SECURITIES (CONT'D)

Accounting policy (cont'd)

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.

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 part of 'Share of profit of 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 the statement of profit or loss.

Significant accounting estimates and judgements

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

10. INVESTMENTS SECURITIES (CONT'D)

Remaining term to maturity

(i) **Investment securities**

The Group	Up to 3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years	No specific maturity	Total	31 December 2017	31 December 2016
	31 December 2018										
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
(a) Investment securities measured at amortised cost											
Government bonds and treasury notes	91,368	1,192,282	46,793	1,080,229	1,719,642	8,606,107	7,374,741	-	20,111,162	8,664,906	16,434,695
Treasury bills	2,739,476	393,688	6,458,137	-	-	-	-	-	9,591,301	4,633,957	3,616,677
Bank of Mauritius bills	-	149,032	118,992	-	762,191	201,683	-	-	1,231,898	3,544,186	5,523,885
Corporate bonds	-	-	-	-	-	695,818	-	-	695,818	2,565,077	1,394,551
	2,830,844	1,735,002	6,623,922	1,080,229	2,481,833	9,503,608	7,374,741	-	31,630,179	19,408,126	26,969,808
(b) Investment securities mandatorily measured at FVTPL											
Government bonds and treasury notes	-	-	-	1,358	-	223,934	539,826	-	765,118	1,744,466	-
Treasury bills	597,828	2,288,062	1,902,344	354,022	-	-	-	-	5,142,256	1,005,925	-
Bank of Mauritius bills / notes	1,253,365	1,110,374	1,129	742,318	-	-	-	-	3,107,186	1,947,439	-
Bank bonds	-	-	-	-	-	-	-	-	-	1,650,227	-
Corporate bonds	-	-	33,889	-	663,334	-	-	-	697,223	1,164,405	-
Redeemable participating shares	-	-	-	-	351,187	-	-	-	351,187	-	-
	1,851,193	3,398,436	1,937,362	1,097,698	1,014,521	223,934	539,826	-	10,062,970	7,512,462	-
(c) Investment securities measured at FVTOCI (both equity and debt instruments)											
Government bonds	46,567	19,904	49,095	582,814	920,825	3,456,359	2,454,333	-	7,529,897	4,424,901	970,160
Treasury bills / notes	7,901,452	1,923,173	-	931,647	-	-	-	-	10,756,272	1,590,498	178,414
Bank of Mauritius bills	322,627	-	-	-	1,241,916	576,906	-	-	2,141,449	1,025,410	-
Securities issued by government bodies	-	-	-	-	-	-	-	-	-	-	-
Other investment	-	-	-	-	-	-	174,753		174,753	-	-
Bank bonds	-	-	-	-	3,218,567	2,262,234	294,797	-	5,775,598	533,427	8,346,766
Corporate paper and preference shares	-	-	73,915	-	81,774	1,414,952	1,344,743	-	2,915,384	451,161	2,071,193
Corporate bonds	-	-	-	-	-	109,589	-	-	109,589	4,228,511	544,488
Ordinary participating shares	-	350,000	-	-	-	-	-	148,196	498,196	825,925	350,000
	8,270,646	2,293,077	123,010	1,514,461	5,463,082	7,820,040	4,268,626	148,196	29,901,138	13,079,833	12,461,021
Total investment securities	12,952,683	7,426,515	8,684,294	3,692,388	8,959,436	17,547,582	12,183,193	148,196	71,594,287	40,000,421	39,430,829

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FOR THE YEAR ENDED 31 DECEMBER 2018

10. INVESTMENTS SECURITIES (CONT'D)

Remaining term to maturity (cont'd)

(i) Investment securities (cont'd)	31 December 2018										
	Up to 3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years	No specific maturity	Total	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
The Company											
(a) Investment securities measured at amortised cost											
Government bonds and treasury notes	-	-	-	302,581	14,965	1,222,863	455,437	-	1,995,846	985,872	2,216,214
Bank of Mauritius bills / notes	-	38,412	390,430	-	-	-	-	-	428,842	-	181,840
Treasury bills	-	-	-	-	-	-	-	-	-	-	9,944
	-	38,412	390,430	302,581	14,965	1,222,863	455,437	-	2,424,688	985,872	2,407,998
(b) Investment securities mandatorily measured at FVTPL											
Redeemable participating shares	-	-	-	-	351,187	-	-	-	351,187	-	-
(c) Investment securities measured at FVTOCI (both equity and debt instruments)											
Government bonds and treasury notes	181,255	-	-	-	-	-	-	-	181,255	-	-
Bank bonds	-	-	-	-	-	-	-	-	-	-	1,538,299
Redeemable participating shares	-	-	-	-	-	-	-	148,196	148,196	475,929	359,585
	181,255	-	-	-	-	-	-	148,196	329,451	475,929	1,897,884
Total investment securities	181,255	38,412	390,430	302,581	366,152	1,222,863	455,437	148,196	3,105,326	1,461,801	4,305,882

10.INVESTMENTS SECURITIES (CONT'D)

(ii) Equity investments

The Group	31 December 2018 Up to 3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years	No specific maturity	Total	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Investment Securities measured at FVTOCI											
Equity shares of companies:											
- Other equity investments	-	-	-	-	-	-	-	5,752,870	5,752,870	6,137,779	5,732,722
	-	-	-	-	-	-	-	5,752,870	5,752,870	6,137,779	5,732,722
The Company											
Investment Securities measured at FVTOCI											
Equity shares of companies - Other equity investments	-	-	-	-	-	-	-	4,227,683	4,227,683	4,292,925	4,261,347
	-	-	-	-	-	-	-	4,227,683	4,227,683	4,292,925	4,261,347
(iii) Investment in subsidiaries											
The Company											
- SBM (Bank) Holdings Ltd*	-	-	-	-	-	-	-	26,252,459	26,252,459	22,432,485	20,522,112
- SBM (NBFC) Holdings Ltd	-	-	-	-	-	-	-	1,470,895	1,470,895	1,470,895	62,406
- SBM (NFC) Holdings Ltd	-	-	-	-	-	-	-	761,798	761,798	761,798	1,270,255
	-	-	-	-	-	-	-	28,485,152	28,485,152	24,665,178	21,854,773
Total investments	181,255	38,412	390,430	302,581	366,152	1,222,863	455,437	32,861,032	35,818,162	30,419,904	30,422,002

* The indirect investments held by the Company through SBM (Bank) Holdings Ltd (SPV - Bank Investment Holdings Segment) are as follows:

	31 December 2018	31 December 2017	31 December 2016
Operating companies	MUR' 000	MUR' 000	MUR' 000
- SBM Mauritius Ltd - SBM Bank (Mauritius) Ltd	26,115,234	22,295,260	20,384,912
- SBM Madagascar Ltd - Banque SBM Madagascar SA	136,090	136,090	136,090
- SBM Africa Holdings Ltd - SBM Bank (Kenya) Limited	25	25	-
	26,251,349	22,431,375	20,521,002
Special Purpose Vehicles			
- SBM India Ltd **	500	500	500
- SBM Myanmar Ltd**	610	610	610
	1,110	1,110	1,110

** The subsidiaries has been wound up at 31 December 2018

Notes to the Financial Statements

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10. INVESTMENT SECURITIES (CONT'D)

(iii) Investment in subsidiaries (cont'd)

The table below shows gross balances under IFRS 9:

	31 December 2018				31 December 2017
Debt investment securities at amortised cost	Stage 1 12-month ECL MUR' 000	Stage 2 Lifetime ECL MUR' 000	Stage 3 Lifetime ECL MUR' 000	Total MUR' 000	Total MUR '000
High Grade	15,744,479	-	-	15,744,479	1,494,314
Standard Grade	15,583,910	-	-	15,583,910	3,724,530
Sub Standard Grade	321,674	-	-	321,674	14,189,282
Total gross carrying amount	31,650,063	-	-	31,650,063	19,408,126
Credit loss expense	(19,884)	-	-	(19,884)	-
Carrying amount	31,630,179	-	-	31,630,179	19,408,126

ECL allowance	Stage 1 Individual MUR' 000	Stage 2 Individual MUR' 000	Stage 3 MUR' 000	Total MUR' 000	Total MUR '000
As at 01 January 2018	23,149	-	-	23,149	-
New assets originated or purchased	8,674	-	-	8,674	-
Assets derecognised or repaid (excluding write offs)	(11,939)	-	-	(11,939)	-
As at 31 December 2018	19,884	-	-	19,884	-

	31 December 2018				31 December 2017
Debt investment securities at FVTOCI	Stage 1 12-month ECL MUR' 000	Stage 2 Lifetime ECL MUR' 000	Stage 3 Lifetime ECL MUR' 000	Total MUR' 000	Total MUR '000
High Grade	13,645,594	-	-	13,645,594	4,917,417
Standard Grade	14,649,964	-	-	14,649,964	2,795,888
Sub Standard Grade	1,605,580	-	-	1,605,580	5,366,528
Total gross carrying amount	29,901,138	-	-	29,901,138	13,079,833

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

10. INVESTMENTS SECURITIES (CONT'D)

(iii) Investment in subsidiaries (Cont'd)

Details of subsidiaries and associate are as follows:

(a) SUBSIDIARIES

	Country of Incorporation and Operation	Business Activity	Issued Share Capital	Effective % holding 31 December 2018	31 December 2017	31 December 2016
1.0 Banking Segmental Subsidiaries						
1.1 Special Purpose Vehicle for Bank Investments Holding Company						
1.1.1 SBM (Bank) Holdings Ltd	Mauritius	Bank Investment Holding Company	MUR 75,000	**100**	100	100
1.1.2 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 Special Purpose Vehicles for single Bank Investment Holding Subsidiaries						
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**	100	-
1.3 Bank Operating Subsidiaries						
1.3.1 SBM Bank (Mauritius) Ltd	Mauritius	Commercial Banking	MUR 310 million	**100**	100	100
1.3.2 Banque SBM Madagascar SA	Madagascar	Commercial Banking	MGA 7.4 billion	**100**	100	100
1.3.3 SBM Bank (Kenya) Limited	Kenya	Commercial Banking	USD 1	**100**	100	-
1.3.4 SBM Bank (India) Ltd	India	Commercial Banking	INR 6.6 billion	**100**	100	-
1.3.5 SBM Bank (Seychelles) Limited	Seychelles	Commercial Banking	SCR 100 million	**100**	-	-
2.0 Non-Bank Financial Segment Subsidiaries						
2.1 Special Purpose Vehicle for Non-Bank Investments Holding Company						
2.1.1 SBM (NBFC) Holdings Ltd	Mauritius	Non-Banking Financial Investments Holding Company	MUR 25,000	**100**	100	100

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

10. INVESTMENTS SECURITIES (CONT'D)

(iii) Investment in subsidiaries (Cont'd)

(a) SUBSIDIARIES

		Country of Incorporation and Operation	Business Activity	Issued Share Capital	Effective % holding 31 December 2018	31 December 2017	31 December 2016
2.2	***Non-Bank Operating Subsidiaries***						
2.2.1	SBM Fund Services Ltd	Mauritius	Fiduciary services / Back Office processing	MUR 0.5 million	**100**	100	100
2.2.2	SBM Mauritius Asset Managers Ltd	Mauritius	Asset Management	MUR 2.2 million	**100**	100	100
2.2.3	SBM Securities Ltd	Mauritius	Stockbroking	MUR 1 million	**100**	100	100
2.2.4	SBM Capital Management Limited	Mauritius	Investments	USD 125,000	**100**	100	100
2.2.5	SBM E-Business Ltd	Mauritius	Card Acquiring & Processing	MUR 625,000	**100**	100	100
2.2.6	SBM Custody Services Ltd	Mauritius	Custody Services	MUR 25,000	**100**	100	100
2.2.7	SBM Factors Ltd	Mauritius	Factoring	MUR 20 million	**100**	100	-
2.2.8	SBM Insurance Agency Limited	Mauritius	Insurance	MUR 1 million	**100**	-	-
2.2.9	SBM Capital Markets Limited	Mauritius	Investments	MUR 50 million	**100**	-	-
3.0	*Non-Financial Segment*						
3.1	SBM (NFC) Holdings Ltd	Mauritius	Non-Financial Holding Company	MUR 25,000	**100**	100	100
4.0	*Other Subsidiary*						
4.1	SBM 3S Ltd	Mauritius	Shared Support Services	MUR 25,000	**100**	100	100

SBM Holdings Ltd is the ultimate holding company of all the subsidiaries.

10. INVESTMENTS SECURITIES (CONT'D)

(iv) Investment in Associate

(a) ASSOCIATE

	Country of Incorporation and Operation	Business Activity	% Holding
State Insurance Company of Mauritius Ltd	Mauritius	Long term insurance business and pensions	20

	THE GROUP			THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
As at 01 January	1,336,902	1,275,880	-	1,272,977	1,272,977	-
Reclassified from available for sale investment to investment in associate	-	-	1,272,977	-	-	1,272,977
Share of profit	100,240	92,005	1,627	-	-	-
Share of other comprehensive income	(96,235)	290	1,276	-	-	-
Dividend income from associate (Note 29)	(32,750)	(31,273)	-	-	-	-
Carrying amount as at 31 December	1,308,157	1,336,902	1,275,880	1,272,977	1,272,977	1,272,977

	THE GROUP		
Summarised financial information in respect of the Group's associate is set out below:	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Total assets	18,575,605	16,331,403	14,623,277
Total liabilities	13,055,152	13,951,389	13,199,320
Total revenue	1,033,239	963,960	11,447
Total profit for the year	501,200	460,027	8,137
Share of profit	100,240	92,005	1,627
Share of other comprehensive income	(96,235)	290	1,276
Share of net assets	1,104,091	1,102,159	1,038,554
Carrying amount at 31 December 2018	1,308,157	1,336,902	1,275,880

Total capital commitment of the investee company stood at **MUR 14.3 million as at 30 June 2018** (2017: MUR 35.9 million). As at 30 June 2018, the investee did not report any contingent liability (2017: nil).

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11. 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.

11. PROPERTY AND EQUIPMENT (CONT'D)

The Group

Cost or valuation	Freehold land and buildings MUR' 000	Buildings on leasehold land MUR' 000	Other tangible fixed assets MUR' 000	Motor vehicles MUR' 000	Total MUR' 000
At 01 January 2016	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)
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	105,821
Disposals	-	-	(55,774)	(3,601)	(59,375)
Write off	(37,874)	-	-	-	(37,874)
Acquisition of new business	95,189	53,334	131,998	-	280,521
Translation adjustment	(8,777)	(2,062)	(7,189)	(465)	(18,493)
At 31 December 2017	**1,033,626**	**1,665,206**	**1,879,791**	**28,545**	**4,607,168**
Additions	**56,948**	**870**	**167,230**	**9,973**	**235,021**
Disposals	**-**	**-**	**(59,861)**	**-**	**(59,861)**
Write off	**(108,078)**	**-**	**(557)**	**(1,297)**	**(109,932)**
Revaluation Adjustment	**(17,689)**	**-**	**-**	**-**	**(17,689)**
Acquisition of new business (Note 43)	**-**	**-**	**894,842**	**35,590**	**930,432**
Translation adjustment	**(6,388)**	**4,263**	**(8,107)**	**(390)**	**(10,622)**
Transfers	**94,532**	**(96,586)**	**2,054**	**-**	**-**
At 31 December 2018	**1,052,951**	**1,573,753**	**2,875,392**	**72,421**	**5,574,517**

11. PROPERTY AND EQUIPMENT (CONT'D)

The Group	Freehold land and buildings	Buildings on leasehold land	Other tangible fixed assets	Motor vehicles	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Accumulated depreciation					
At 01 January 2016	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	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**
Charge for the year	**14,736**	**51,998**	**131,340**	**7,171**	**205,245**
Acquisition of new business (Note 43)	**-**	**-**	**559,491**	**14,737**	**574,228**
Disposals	**-**	**-**	**(30,841)**	**-**	**(30,841)**
Translation adjustment	**(1,965)**	**398**	**(2,442)**	**(228)**	**(4,237)**
Transfer	**2,565**	**(2,565)**	**-**	**-**	**-**
At 31 December 2018	**86,497**	**223,083**	**2,182,472**	**39,105**	**2,531,157**
Carrying amounts					
At 31 December 2018	**966,454**	**1,350,670**	**692,920**	**33,316**	**3,043,360**
Progress payments on tangible fixed assets					**33,650**
Acquisition of new business (Note 43)					**76,904**
					3,153,914
At 31 December 2017	962,465	1,491,954	354,867	11,120	2,820,406
Progress payments on tangible fixed assets					33,812
					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

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

11. PROPERTY AND EQUIPMENT (CONT'D)

The Company

	Other tangible fixed assets	Motor vehicles	Total
Cost or valuation	MUR' 000	MUR' 000	MUR' 000
At 01 January 2016	-	6,013	6,013
Additions	-	-	-
At 31 December 2016	-	6,013	6,013
At 31 December 2017	-	6,013	6,013
Additions	80	4,540	4,620
At 31 December 2018	80	10,553	10,633
Accumulated depreciation			
At 01 January 2016	-	501	501
Charge for the year	-	1,203	1,203
At 31 December 2016	-	1,704	1,704
Charge for the year	-	1,203	1,203
At 31 December 2017	-	2,907	2,907
Charge for the year	9	1,937	1,946
At 31 December 2018	9	4,844	4,853
Carrying amounts			
At 31 December 2018	71	5,709	5,780
At 31 December 2017	-	3,106	3,106
At 31 December 2016	-	4,309	4,309

11. PROPERTY AND EQUIPMENT (CONT'D)

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

	THE GROUP		
Level 2 fair value	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Freehold land and buildings	**1,052,951**	1,033,626	985,088
Buildings on leasehold land	**1,573,753**	1,665,206	1,572,882
	2,626,704	2,698,832	2,557,970

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

	THE GROUP		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Freehold land and buildings	**499,869**	508,905	515,142
Buildings on leasehold land	**360,873**	374,232	387,557
	860,742	883,137	902,699

The freehold land and buildings are periodically valued based on market value by independent valuation surveyor. Buildings on leasehold land in Mauritius were revalued in September 2014 by an independent Chartered Valuation Surveyor, on an open market value basis. The freehold land and building in India were revalued in March 2014 by independent Chartered Valuation Surveyors on an open market value basis.

12. 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.

12. GOODWILL AND OTHER INTANGIBLE ASSETS (CONT'D)

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 aligh both its strategies and processes with the Technology Transformation Initiative namely Flamingo Project and also high performance banks. The costs incurred in respect of these initiatives were capitalised as intellectual property rights are now being amortised after the project went live in September 2016.

(c) *WIP Software*

The Group is developing some softwares. These costs will be transferred under "Software" as soon as they will be in use in the Group.

The Group	Software	WIP Software	Intellectual Property	Assets under construction	Goodwill (Note 44)	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cost						
At 01 January 2016	888,885	5,098	525,725	1,820,229	-	3,239,937
Translation adjustment	(478)	-	(5,200)	(36)	-	(5,714)
Additions	16,609	2,450	62,609	1,518,570	-	1,600,238
Disposals	(129,829)	-	-	-	-	(129,829)
Transfer	3,341,410	257,712	(260,359)	(3,338,763)	-	-
At 31 December 2016	4,116,597	265,260	322,775	-	-	4,704,632
Translation adjustment	(5,776)	(2,954)	-	-	(16,159)	(24,889)
Additions	52,414	135,269	-	-	-	187,683
Acquisition of new business	61,023	-	-	-	417,715	478,738
Transfer	312,963	(312,963)	-	-	-	-
At 31 December 2017	**4,537,221**	**84,612**	**322,775**	**-**	**401,556**	**5,346,164**
Translation adjustment	**(897)**	**(1,795)**	**-**	**-**	**16,158**	**13,466**
Additions	**215,787**	**70,971**	**-**	**-**	**-**	**286,758**
Write off	**(41,334)**	**(2,653)**	**(37,860)**	**-**	**(417,714)**	**(499,561)**
Acquisition of new business (Note 43)	**528,498**	**-**	**-**	**-**	**-**	**528,498**
Disposal	**(611,464)**	**-**	**-**	**-**	**-**	**(611,464)**
Scrapping of assets	**(1,741)**	**-**	**-**	**-**	**-**	**(1,741)**
Transfer	**51,660**	**(51,660)**	**-**	**-**	**-**	**-**
At 31 December 2018	**4,677,730**	**99,475**	**284,915**	**-**	**-**	**5,062,120**

12. GOODWILL AND OTHER INTANGIBLE ASSETS (CONT'D)

The Group	Software	WIP Software	Intellectual Property	Assets under construction	Goodwill (Note 44)	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Accumulated amortisation						
At 01 January 2016	869,308	-	-	-	-	869,308
Translation adjustment	(344)	-	-	-	-	(344)
Charge for the year	134,985	-	56,983	-	-	191,968
Write off	(129,830)	-	-	-	-	(129,830)
Transfer	3,259	-	-	-	-	3,259
At 31 December 2016	877,378	-	56,983	-	-	934,361
Translation adjustment	(14,312)	-	-	-	-	(14,312)
Charge for the year	446,187	-	56,983	-	-	503,170
Acquisition of new business	47,332	-	-	-	-	47,332
At 31 December 2017	1,356,585	-	113,966	-	-	1,470,551
Translation adjustment	**11,993**	**-**	**-**	**-**	**-**	**11,993**
Charge for the year	**564,968**	**-**	**56,983**	**-**	**-**	**621,951**
Reversal of accumulated depreciation	**(1,741)**	**-**	**-**	**-**	**-**	**(1,741)**
Acquisition of new business (Note 43)	**344,320**	**-**	**-**	**-**	**-**	**344,320**
Disposal adjustment	**(611,366)**	**-**	**-**	**-**	**-**	**(611,366)**
At 31 December 2018	**1,664,759**	**-**	**170,949**	**-**	**-**	**1,835,708**
Carrying amounts						
At 31 December 2018	**3,012,971**	**99,475**	**113,966**	**-**	**-**	**3,226,412**
At 31 December 2017	3,180,636	84,612	208,809	-	401,556	3,875,613
At 31 December 2016	3,239,219	265,260	265,792	-	-	3,770,271

12. GOODWILL AND OTHER INTANGIBLE ASSETS (CONT'D)

The Company

	Software	Total
	MUR' 000	MUR' 000
Cost or valuation		
At 01 January 2016	-	-
Additions	-	-
At 31 December 2016	-	-
At 31 December 2017	-	-
Additions	50	50
At 31 December 2018	50	50
Accumulated depreciation		
At 01 January 2016	-	-
Charge for the year	-	-
At 31 December 2016	-	-
Charge for the year	-	-
At 31 December 2017	-	-
Charge for the year	6	6
At 31 December 2018	6	6
Carrying amounts		
At 31 December 2018	44	44
At 31 December 2017	-	-
At 31 December 2016	-	-

13. OTHER ASSETS

Accounting policy

Prior to 01 January 2018

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

From 01 January 2018

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

13. OTHER ASSETS (CONT'D)

	THE GROUP			THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Accounts receivable[1]	1,233,008	677,651	347,848	153,108	70,448	-
Balances due in clearing	96,629	59,131	32,679	-	-	-
Tax paid in advance[2]	103,048	106,916	122,269	-	-	-
Dividend receivable	-	-	-	-	-	1,000
Others	222,974	196,023	133,188	201	-	501
	1,655,659	1,039,721	635,984	153,309	70,448	1,501

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

[2] The tax paid in advance is incurred by the Indian Operations and Kenyan Operations . The amount is shown net of current tax payable.

14. PENSION LIABILITY

Accounting policy

(i) Pension benefits for eligible participating employees

Eligible participating employees are entitled to retirement pensions under the SBM Group Pension Fund, a defined benefit scheme. The average retirement age is 65. The assets of the scheme are managed presently by the SBM Mauritius Asset Managers Ltd.

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

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the 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.

(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.

14. PENSION LIABILITY (CONT'D)

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:

	THE GROUP		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Reconciliation of net defined benefit liability			
Present value of funded defined benefit obligation	**1,044,716**	1,037,762	914,202
Fair value of planned assets	**(935,095)**	(946,010)	(846,495)
Net liability arising from defined benefit obligation (Note 19)	**109,621**	91,752	67,707
Reconciliation of net defined benefit liability			
Balance at start of the year	**91,752**	67,707	89,091
Amount recognised in statement of profit or loss (Note 33)	**30,274**	26,471	30,098
Amount recognised in other comprehensive income	**33,496**	39,703	(2,040)
Less employer contributions	**(45,901)**	(42,129)	(49,442)
Balance at end of the year (Note 19)	**109,621**	91,752	67,707
Reconciliation of fair value of planned assets			
Balance at start of the year	**946,010**	846,495	784,442
Interest income	**52,493**	55,063	55,698
Employer contributions	**45,901**	42,129	49,442
Benefits paid	**(28,872)**	(40,871)	(26,554)
Return on planned assets excluding interest income	**(80,437)**	43,194	(16,533)
Balance at end of the year	**935,095**	946,010	846,495
Reconciliation of present value of defined benefit obligation			
Balance at start of the year	**1,037,762**	914,202	873,533
Current service cost	**26,473**	23,418	25,563
Interest expense	**56,294**	58,116	60,233
Other benefits paid	**(28,872)**	(40,871)	(26,554)
Liability experience loss	**-**	-	84,960
Liability gain due to change in demographic assumptions	**-**	-	(103,596)
Liability (gain) / loss due to change in financial assumptions	**(46,941)**	82,897	63
Balance at end of the year	**1,044,716**	1,037,762	914,202

14. PENSION LIABILITY (CONT'D)

	THE GROUP		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Components of amount recognised in statement of profit or loss			
Service cost	**26,473**	23,418	25,563
Net interest on net employee defined benefit liability	**3,801**	3,053	4,535
Total expense (Note 33)	**30,274**	26,471	30,098
Components of amount recognised in other comprehensive income			
Return on planned assets (above)/ below and interest income	**80,437**	(43,194)	16,533
Liability experience loss	**-**	-	84,960
Liability experience gain due to change in demographic assumptions	**-**	-	(103,596)
Liability experience (gain)/loss due to change in financial assumptions	**(46,941)**	82,897	63
Total	**33,496**	39,703	(2,040)
Allocation of planned assets at end of year (%)			
Equity - Overseas quoted	**18**	30	30
Equity - Overseas unquoted	**10**	-	-
Equity - Local quoted	**28**	30	32
Equity - Local unquoted	**7**	7	-
Debt - Overseas quoted	**1**	-	3
Debt - Overseas unquoted	**6**	6	-
Debt - Local quoted	**4**	2	-
Debt - Local unquoted	**23**	21	23
Property - Local	**-**	-	1
Cash and other	**3**	4	11
Total	**100**	100	100
Allocation of planned assets at end of year			
Reporting entity's own transferable financial instruments	**4%**	6%	6%
Principal assumptions used at end of year			
Discount rate	**6.1%**	5.5%	6.5%
Rate of salary increases	**4.0%**	4.0%	4.5%
Rate of pension increases	**1.6%**	1.0%	1.5%
Average retirement age (ARA)	**65**	65	65
Average life expentancy for:			
- Male at ARA	**15.9 years**	15.9 years	15.9 years
- Female at ARA	**20.0 years**	20.0 years	20.0 years
Sensitivity Analysis on defined benefit obligation at end of year (MUR' 000)			
Increase due to 1% decrease in discount rate	**184,915**	187,452	158,457
Decrease due to 1% increase in discount rate	**148,350**	(150,169)	(127,506)

14. PENSION LIABILITY (CONT'D)

The above sensitivity analysis has been carried out by recalculating the present value of obligation at end of period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation.

Future cashflows

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

The Group expects to make a contribution of around **MUR 98.5 million** to the SBM Group Pension Fund for the next financial year and the weighted average duration of the defined benefit obligation is 16 years.

Pension amounts and disclosures have been based on the report dated 27 February 2018 submitted by an independent firm of Actuaries and Consultants.

The 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 109.6 million** as at 31 December 2018 for the plan (2017: MUR 91.8 million; 2016: MUR 67.7 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.

15. DEPOSITS FROM BANKS

Accounting policy

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

	THE GROUP		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Demand deposits	716,702	689,265	2,611,669

16. DEPOSITS FROM NON-BANK CUSTOMERS

Accounting policy

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

		THE GROUP		
		31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
(i)	Retail customers			
	Current accounts	15,873,186	16,530,624	10,488,127
	Savings accounts	52,327,187	51,100,607	43,166,430
	Time deposits with remaining term to maturity:			
	- Up to 3 months	3,805,778	2,503,486	1,339,913
	- Over 3 months and up to 6 months	2,799,551	2,370,258	770,196
	- Over 6 months and up to 12 months	6,666,258	6,093,287	2,452,511
	- Over 1 year and up to 5 years	2,379,746	1,886,990	3,367,041
	- Over 5 years	81,228	1,339,754	1,054,397
	Total time deposits	15,732,561	14,193,775	8,984,058
	Total deposits from retail customers	83,932,934	81,825,006	62,638,615
(ii)	Corporate customers			
	Current accounts	46,012,337	33,787,373	28,219,696
	Savings accounts	4,655,279	4,428,696	6,645,085
	Time deposits with remaining term to maturity:			
	- Up to 3 months	10,966,221	12,447,635	2,410,070
	- Over 3 months and up to 6 months	2,138,845	2,126,411	2,041,533
	- Over 6 months and up to 12 months	7,952,025	1,698,055	1,935,567
	- Over 1 year and up to 5 years	474,641	667,511	1,081,791
	- Over 5 years	942	273,364	359
	Total time deposits	21,532,674	17,212,976	7,469,320
	Total deposits from corporate customers	72,200,290	55,429,045	42,334,101
(iii)	Government			
	Current accounts	6,167,370	3,067,666	1,930,362
	Savings accounts	4,090,841	3,135,643	2,336,691
	Time deposits with remaining term to maturity:			
	- Up to 3 months	1,622,363	22,397	-
	- Over 3 months and up to 6 months	619,611	1,357,224	400
	- Over 6 months and up to 12 months	745,285	12,961	925
	- Over 1 year and up to 5 years	5,786	734	100
	Total time deposits	2,993,045	1,393,316	1,425
	Total deposits from the government	13,251,256	7,596,625	4,268,478
	Total deposits from non-bank customers	169,384,480	144,850,676	109,241,194

17. OTHER BORROWED FUNDS

	THE GROUP		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Borrowings from central banks			
- For refinancing	**2,868,023**	673,799	147,921
Other financial institutions			
- For refinancing	**3,869,634**	4,546,841	687,074
Borrowings from banks			
- In Mauritius	**2,132,609**	4,198,169	1,537,781
- Abroad	**5,651,819**	4,267,394	2,113,232
	14,522,085	13,686,203	4,486,008
Remaining term to maturity			
Up to 3 months	**4,454,541**	802,383	2,273,183
Over 3 months and up to 6 months	**4,432,455**	3,195,843	-
Over 6 months and up to 12 months	**1,454,929**	4,055,012	211,169
Over 1 year and up to 5 years	**3,451,364**	3,726,968	530,565
Over 5 years	**728,796**	1,905,997	1,471,091
	14,522,085	13,686,203	4,486,008

18. TAXATION

Accounting policy

Income tax

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

Corporate social responsibility (CSR)

Corporate social responsibility (CSR) was legislated by the government of Mauritius in July 2009. In terms of the legislation, the 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 Group 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 financial statements.

The applicable income tax rate in Mauritius is 15% (2017 and 2016: 15%). An additional charge is applicable in respect of Corporate Social Responsibility and Special Levy on Banks. The applicable tax rate for India is 43.26% (2017: 43.26% and 2016: 43.26%); for Madagascar is 20% (2017: 20% and 2016: 20%) and for Kenya is 30% (2017: 30% and 2016: 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%.

18. TAXATION (CONT'D)

18 a. TAX EXPENSE

	THE GROUP			THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Profit before tax	**1,621,776**	3,160,298	2,989,331	**638,102**	1,251,118	66,185
Tax on accounting profit at 15%	**243,266**	474,045	448,400	**95,715**	187,668	9,928
Effect of tax rates in foreign jurisdiction	**43,077**	-	-	**-**	-	-
Non allowable expenses	**1,202,980**	594,287	2,492	**87,501**	3,092	2,540
Exempt income	**(776,421)**	(413,623)	(37,525)	**(189,110)**	(195,902)	-
Deferred tax assets not recognised	**(2,772)**	4,792	-	**5,894**	5,078	-
Deferred tax on bargain purchase (note 43)	**(355,833)**	-	-	**-**	-	-
Under / (Over) provision in previous periods	**14,686**	(70,008)	(2,595)	**10,188**	(3,835)	2,052
Special levy on banks	**184,345**	142,325	235,544	**-**	-	-
Corporate Social Responsibility contribution	**24,362**	40,412	79,692	**679**	1,004	2,459
Withholding tax	**11,665**	3,292	4,877	**-**	-	-
	589,355	775,522	730,885	**10,867**	(2,895)	16,979
Tax refund	**69,233**	11,608	-	**-**	-	-
Foreign tax credit	**(282,606)**	(201,755)	(50,456)	**-**	-	-
Total tax expense / (income)	**375,982**	585,375	680,429	**10,867**	(2,895)	16,979
The total tax expense can also be analysed as being incurred as follows:						
Income tax expense	**186,133**	245,100	564,490	**10,251**	(3,835)	14,475
Deferred income tax (Note 18b)	**153,822**	296,571	31,370	**(64)**	(64)	45
Corporate Social Responsibility contribution	**24,362**	40,412	79,692	**680**	1,004	2,459
Withholding tax	**11,665**	3,292	4,877	**-**	-	-
Total tax expense / (income)	**375,982**	585,375	680,429	**10,867**	(2,895)	16,979
The total tax expense can also be analysed as being incurred as follows:						
In Mauritius	**728,094**	511,366	654,096	**10,867**	(2,895)	16,979
Overseas	**(352,112)**	74,009	26,333	**-**	-	-
Total tax expense / (income)	**375,982**	585,375	680,429	**10,867**	(2,895)	16,979

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

18. TAXATION (CONT'D)

Accounting policy

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred tax relating to items recognised outside profit or loss are recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

18 b. DEFERRED TAX (ASSETS) / LIABILITIES

	THE GROUP	THE COMPANY
	MUR' 000	MUR' 000
At 01 January 2016	(276,756)	19
Exchange difference	(4,869)	-
Deferred income tax (Note 18a)	31,370	45
Deferred tax on retirement benefit obligations	441	-
Underprovision of deferred tax liability in prior years	24,816	-
At 31 December 2016	(215,260)	64
At 01 January 2017	(215,260)	64
Exchange difference	961	-
Deferred income tax (Note 18a)	296,571	(64)
Deferred tax on retirement benefit obligations	(6,828)	-
At 31 December 2018	75,444	-
At 01 January 2017	**75,444**	-
Exchange difference	**7,711**	-
Deferred income tax (Note 18a)	**153,822**	-
Deferred tax on retirement benefit obligations	**(5,694)**	-
Underprovision of deferred tax liability in prior years	**(161,246)**	-
At 31 December 2018	**70,037**	-

18. TAXATION (CONT'D)

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

	THE GROUP			THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Deferred tax assets	**(89,440)**	(95,461)	(215,260)	**-**	-	-
Deferred tax liabilities	**159,477**	170,905	-	**-**	-	64
	70,037	75,444	(215,260)	**-**	-	64
Analysed as resulting from:						
Accelerated capital allowances	**543,746**	420,080	134,500	**-**	-	64
Allowances for credit impairment	**(669,169)**	(438,390)	(433,455)	**-**	-	-
Carried forward losses	**(218,218)**	(137,810)	(139,391)	**-**	-	-
Revaluation of property	**248,315**	253,118	241,813	**-**	-	-
Other provisions	**165,363**	(21,554)	(18,727)	**-**	-	-
	70,037	75,444	(215,260)	**-**	-	64

19. OTHER LIABILITIES

Accounting policy

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation, which has arisen as a result of past events and for which a reliable estimate can be made. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

	THE GROUP			THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Bills payable	**237,305**	183,037	136,655	**-**	-	-
Accruals for expenses	**726,976**	408,555	352,758	**12,307**	601	650
Accounts payable	**4,059,709**	3,047,964	1,229,784	**79,470**	4,900	5,347
Deferred income	**41,505**	43,377	270,130	**-**	-	-
Balance due in clearing	**318,669**	(2,755)	(3,720)	**-**	-	-
Balances in transit	**772,878**	413,459	66	**-**	-	-
Pension liability (Note 14)	**109,621**	91,752	67,707	**-**	-	-
ECL on memorandum Items (Note 22)	**179,700**	-	-	**-**	-	-
Others	**259,931**	113,869	286,303	**-**	-	-
	6,706,294	4,299,258	2,339,683	**91,777**	5,501	5,997

20. SUBORDINATED DEBTS

Loans and borrowings are recognised initially at fair value, net of directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

	THE GROUP AND THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Subordinated Bonds:			
Class A 1 series bond of MUR floating interest rate senior unsecured bonds maturing in 2024	1,522,229	1,522,656	1,524,503
Class B 1 series bond of USD floating interest rate senior unsecured bonds maturing in 2021	2,237,195	2,178,810	2,340,868
Class A 2 series bond of MUR fixed interest rate senior unsecured bonds maturing in 2028	3,060,520	-	-
Class B 2 series bond of USD fixed interest rate senior unsecured bonds maturing in 2025	2,592,733	-	-
	9,412,677	3,701,466	3,865,371

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 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 million repectively were transferred to the Company (SBM Holdings Ltd) with corresponding matching assets (investments).

The public offer for the issue of subordinated senior unsecured multicurrency fixed interest rate bonds for Class A2 and B2 Series Bonds of MUR 2 billion and USD 50 million respectively opened on 29 May 2018. Class A2 Series Bonds were oversubscribed and a maximum amount of MUR 3.1 billion, of MUR 10,000 bonds with half yearly fixed coupon payment of 5.75% per annum maturing in 2028, was retained including the optional amount. Similarly an amount of USD 75.7 million, of USD 1,000 bonds with half yearly payment of fixed coupon rate of 4.75% per annum maturing in 2025, were retained including the optional amount. The public offer was issued by the SBM Holdings Ltd (SBMH) and the bonds are eligible as Tier II Capital.

These bonds are quoted on the Official Market of the Stock Exchange of Mauritius (SEM) pre and post restructure.

21. STATED CAPITAL

Accounting policy

(i) ***Share issue costs***

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

(ii) ***Treasury shares***

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

	THE GROUP		THE COMPANY	
Issued and paid up share capital	Number	MUR' 000	Number	MUR' 000
At 31 December 2018	**3,037,402,230**	**32,500,204**	**3,037,402,230**	**32,500,204**
At 31 December 2017	3,037,402,230	32,500,204	3,037,402,230	32,500,204
At 31 December 2016	30,374,022,300	32,500,204	30,374,022,300	32,500,204
Treasury shares held				
At 31 December 2018	**455,610,330**	**4,875,031**	**455,610,330**	**4,875,031**
At 31 December 2017	455,610,330	4,875,031	455,610,330	4,875,031
At 31 December 2016	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 2018, 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).

22. DIVIDEND

Accounting policy

Dividends on ordinary shares are recognised in equity in the period in which they are authorised by the directors. Dividends that are declared after the reporting date are dealt with in the Notes to the Financial Statements.

	THE GROUP			THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Dividend declared after the reporting date:						
2018: 5 cents ; 2017: 10 cents (2016: 10 cents) per share of nominal 10 cents	**129,090**	258,179	258,179	**129,090**	258,179	258,179
Dividend declared in preceeding year and paid in current year:						
2017: 10 cents 10 cents; 2016: 10 cents 10 cents; 2015: 11 cents per share of nominal 10 cents;	**258,179**	258,179	283,997	**258,179**	258,179	283,997
Dividend declared paid in current year:						
2018:25 cents ; 2017:30 cents ; 2016: 30 cents per share of nominal 10 cent	**645,453**	774,543	774,543	**645,453**	774,543	774,543
	903,632	1,032,722	1,058,540	**903,632**	1,032,722	1,058,540
Less dividend declared and paid during the year	**(903,632)**	(1,032,722)	(1,058,540)	**(903,632)**	(1,032,722)	(1,058,540)
Dividend payable	**-**	-	-	**-**	-	-

Dividend declared after the reporting date is not recognised as a liability in the financial statements as at 31 December .

23. MEMORANDUM ITEMS

Accounting policy

Acceptances

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

Contingent liabilities

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

Financial guarantee contracts

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

a. Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers

	THE GROUP		
	31 December 2018	**31 December 2017**	**31 December 2016**
	MUR' 000	**MUR' 000**	**MUR' 000**
Acceptances on account of customers	**435,096**	804,367	138,697
Guarantees on account of customers	**8,285,833**	7,565,487	4,631,643
Letters of credit and other obligations on account of customers	**861,137**	2,129,501	1,198,163
	9,582,066	10,499,355	5,968,503
b. Commitments			
Undrawn credit facilities	**9,071,296**	14,238,833	6,787,125
c. Other			
Inward bills held for collection	**303,789**	188,954	175,996
Outward bills sent for collection	**1,497,623**	1,929,689	2,083,674
	1,801,412	2,118,643	2,259,670
Total	**20,454,774**	26,856,831	15,015,298

23. MEMORANDUM ITEMS (CONT'D)

The Group is subject to various legal claims from former employees and customers with claims totaling **MUR 1,381.8 million** (2017: MUR 544.1 million; 2016: MUR 415.1 million). The Group has not made any provision for those claims on the basis that it is not probable that these actions will succeed.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification.

	31 December 2018				31 December 2017
Internal rating grade	Stage 1 Individual MUR' 000	Stage 2 Individual MUR' 000	Stage 3 MUR' 000	Total MUR' 000	Total MUR' 000
Performing					
High grade	4,738,147	70,095	-	4,808,242	9,187,890
Standard grade	6,775,947	5,413,008	-	12,188,955	4,255,665
Sub-standard grade	3,419,089	34,990	-	3,454,079	13,025,352
Past due but not impaired	-	-	-	-	-
Non-performing					
Individually impaired	-	-	3,498	3,498	387,924
Total	14,933,183	5,518,093	3,498	20,454,774	26,856,831

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

Gross carrying amount	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
As at 1 January 2018	26,847,705	9,126	-	26,856,831
New assets originated or purchased	11,759,160	637,436	3,498	12,400,094
Assets derecognised or repaid (excluding write offs)	(23,673,682)	4,871,531	-	(18,802,151)
As at 31 December 2018	14,933,183	5,518,093	3,498	20,454,774

ECL allowance	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
As at 1 January 2018	172,837	26	-	172,863
New assets originated or purchased	35,015	23,544	4,590	63,149
Assets derecognised or repaid (excluding write offs)	(46,406)	(9,906)	-	(56,312)
As at 31 December 2018	161,446	13,664	4,590	179,700

24. ASSETS PLEDGED

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

	THE GROUP		
	31 December 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Treasury bills / Government bonds	7,512,485	2,077,648	549,811
Other	-	52,909	-
	7,512,485	2,130,557	549,811
Analysed as:			
- In Mauritius	3,542,550	1,694,900	400,000
- Overseas	3,969,935	435,657	149,811
	7,512,485	2,130,557	549,811

25. CAPITAL COMMITMENTS

	THE GROUP		
	31 December 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Approved and contracted for	116,213	58,934	39,752
Approved and not contracted for	72,333	64,757	138

26. OPERATING LEASE

Accounting policy

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

	THE GROUP		
	31 December 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Leasing arrangements - The Group as lessee			
Operating lease expense	155,277	102,407	78,573

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

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

	THE GROUP		
	31 December 2018	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000
Up to 1 year	96,724	92,523	131,102
After 1 year and before 5 years	219,441	142,263	243,563
After 5 years and up to 25 years	121,239	65,916	54,216
	437,404	300,702	428,881

27. 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 calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3', the Group calculates interest income by applying the effective interest rate to the outstanding amount of the financial asset. For all credit impaired assets, the interest income is reversed and charged against the outstanding amount of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

	THE GROUP			THE COMPANY		
	31 December 2018	31 December 2017	31 December 2016	**31 December 2018**	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000	**MUR' 000**	MUR' 000	MUR' 000
Interest income on financial instruments at amortised cost						
Cash and cash equivalents	**272,443**	136,010	53,666	**-**	-	-
Loans to and placements with banks	**206,188**	54,162	53,496	**-**	-	-
Loans and advances to non-bank customers	**6,457,991**	5,387,346	4,645,051	**-**	-	-
Investment securities	**1,114,845**	778,076	1,137,665	**77,913**	131,045	227,814
	8,051,467	6,355,594	5,889,878	**77,913**	131,045	227,814
Interest income on financial instruments at fair value						
Investment securities	**943,885**	677,616	405,057	**-**	-	-
Derivative financial instruments	**(181,641)**	(31,903)	(46,590)	**-**	-	-
Other	**3,145**	6,040	1,420	**-**	-	-
	765,389	651,753	359,887	**-**	-	-
Total interest income	**8,816,856**	7,007,347	6,249,765	**77,913**	131,045	227,814
Interest expense						
Deposits from non-bank customers	**(2,179,998)**	(1,926,008)	(1,684,227)	**-**	-	-
Other borrowed funds	**(482,496)**	(164,567)	(31,570)	**-**	-	-
Subordinated debts	**(309,019)**	(149,011)	(150,694)	**(309,019)**	(149,011)	(149,307)
Total interest expense	**(2,971,513)**	(2,239,586)	(1,866,491)	**(309,019)**	(149,011)	(149,307)
Net interest income / (expense)	**5,845,343**	4,767,761	4,383,274	**(231,106)**	(17,966)	78,507

28. NET FEE AND COMMISSION INCOME/(EXPENSE)

Accounting policy

Fees and commission income and expense are recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiation of transactions with third parties, or participating in the negotiation of a transaction for a third party is recognized on completion of the underlying transaction. Fees and commission that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed.

Other fees and commission expense relate mainly to transaction and services fee, which are expensed as the services are received.

	THE GROUP			THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Fee and commission income						
Retail banking customer fees	267,980	341,847	311,954	-	-	-
Corporate banking customer fees	484,534	417,851	272,360	-	-	-
Brokerage income (Note 28.a 1)	42,920	71,297	35,281	-	-	-
Asset management fees (Note 28.a 1)	64,772	93,869	31,432	-	-	-
Card income	353,533	313,941	429,541	-	-	-
Other (Note 28.a 1)*	93,590	30,088	1,377	-	-	-
Total fee and commission income	1,307,329	1,268,893	1,081,945	-	-	-
Fee and commission expense						
Interbank transaction fees	(17,002)	(14,099)	(17,790)	-	-	-
Brokerage	(1,139)	(2,250)	(3,915)	-	-	-
Other	(12,778)	(13,036)	(7,641)	(199)	(339)	-
Total fee and commission expense	(30,919)	(29,385)	(29,346)	(199)	(339)	-
Net fee and commission income/(expense)	1,276,410	1,239,508	1,052,599	(199)	(339)	-

* Out of the other fee and commission income **(2018: MUR'000 93,590)** and (2017: MUR'000 30,088) an amount of MUR'000 60,688 and MUR'000 12,719 pertain to revenue from contract with customers disclosed in note 28.a 1.

28.a REVENUE FROM CONTRACTS WITH CUSTOMERS

Accounting policy

Prior to 01 January 2018

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, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

The specific recognition criteria described below must also be met before revenue is recognised.

Dividend income from equity investments is accounted for in the statement of profit or loss and other comprehensive income when the right to receive payment is established.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

As from 01 January 2018

Significant accounting estimates and judgements

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Identify the performance obligations

<u>SBM Mauritius Asset Managers Ltd</u>

The Company provides asset management services. Revenue from contracts with customers is recognised when the services are rendered to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company determined that management fees, retrocession fees, arranger fees, entry and exit fees and commission from structured products are capable of being distinct since they are different services being provided and the contracts are separate.

<u>SBM Securities Ltd</u>

The Company provides stock broking services. The Company acts as a broker between potential investors and investees. Revenue from contracts with customers is recognised when control of the services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company determined that commission from local equity, commission from local bonds, commission from international equity and commission from international bonds are capable of being distinct since they are different services being provided and the contracts are separate.

<u>SBM Fund Services Ltd</u>

The Company 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. Revenue from contracts with customers is recognised when control of the services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company determined that registry fees, administrative fees, trustee fees and debenture holder representative fees are capable of being distinct since they are different services being provided and the contracts are separate.

28.a REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D)

Significant accounting estimates and judgements (cont'd)

Identify the performance obligations (cont'd)

SBM Capital Markets Ltd

The Company provides corporate finance advisory services. Revenue from contracts with customers is recognised when control of the services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

SBM Factors Ltd

The Company provides factoring services. Revenue from contracts with customers is recognised when control of the services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

SBM Insurance Agency Ltd

The Company acts as an agent between various insurance companies and customers who want to take up an insurance policy. The Company operates three agency business lines which are General Insurance, Life Insurance and Decreasing Term Assurance. Revenue from contracts with customers is recognised when control of the services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company determined that commission from general insurance, commission from life insurance and commission from Decreasing Term Assurance (DTA) are capable of being distinct since they are different services being provided and the contracts are separate.

Determine the transaction price

SBM Mauritius Asset Managers Ltd

Management fees are generated through investment management agreements and are generally based on an agreed percentage of the valuation of the assets under management (AUM). Management fees are recognised as the service is provided and it is probable that the fee will be received.

Retrocession fees are based on an agreed percentage of the management fees charged to the third party funds. The fees are recognised when they are probable to be received

Entry and exit fees represent variable consideration based on the amount invested / disinvested by the customer.

Arranger fees are based on an agreed percentage of the amount raised on behalf of the client.The fees are recognised when they are probable to be received

Commission from structured products on the other hand represents a fixed consideration on the amount invested by third parties.

SBM Securities Ltd

The commission fees represent a fixed rate which is charged to the investor. However, this may vary depending on whether the investor benefits from a discount fee or a minimum fee.

SBM Fund Services Ltd

Registry fees from Funds and administrative fees represent variable consideration which is based on each period's NAV. Registry fees from Funds and administrative fees are recognised as the service is provided and it is probable that the fee will be received.

Registry fees from other clients, trustee fees and debenture holder representative fees are generated through agreements between the entity and the clients and are charged a fixed contract amount. Invoicing is done on a quarterly / half yearly and yearly basis and the fees are recognised when they are probable to be received.

28.a REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D)

Significant accounting estimates and judgements (cont'd)

SBM Capital Markets Ltd

Corporate finance advisory fees are generated through agreements between the entity and the clients and are charged a fixed contract amount. Invoicing is done on a quarterly / half yearly and yearly basis and the fees are recognised when they are probable to be received.

Arranger fees are based on an agreed percentage of the amount raised on behalf of the client. The fees are recognised when they are probable to be received.

SBM Factors Ltd

The Company finances its clients a fixed percentage of the invoices and a factoring fee is charged on the invoices being financed as per the agreement in place.

Signing fee is charged upon onboarding of a new client.

SBM Insurance Agency Ltd

Commission from life insurance represents a fixed consideration which is based on a percentage of the total premium amount and in some cases, on the sum assured. The percentage varies in the case of an initial policy and in the case of a renewal. The commission is recognised as the service is provided and it is probable that the commission will be received.

Commission from general insurance represents a fixed consideration which is based on a percentage of the gross premium amount. For each insurer and for every type of insurance, a specific commission rate is applied. The amount of commission received is calculated based on the commission rate multiplied by the gross premium amount. The commission is recognised as the service is provided and it is probable that the commission will be received.

For DTA commission, the policy is subscribed per client. A percentage is retained as commission prior to payment to insurer. DTA commission are recognised as the service is provided and it is probable that the commission will be received.

Allocate the transaction price to the performance obligations

SBM Mauritius Asset Managers Ltd

The transaction price which comprises the variable consideration related to the management fee is allocated to each individual month as management fee relates specifically to the entity's efforts to provide management services during the month.

Retrocession fees are allocated to each third party Fund on a monthly basis as per the respective agreement.

The entry and exit fees are allocated to each client investing or disinvesting from the Funds managed by the Company.

Arranger fees are allocated as per the agreement in place between the Company and the client.

Commission received from structured products is allocated to each product as and when it is due as per the agreement.

SBM Securities Ltd

Commission received from trading services provided is allocated to each trading activity (equity and bond trading) as and when it is due as per the agreement.

SBM Fund Services Ltd

The transaction price which comprises the variable consideration related to the registry and administrative fee is allocated to each individual month as the registry and administrative fee relates specifically to the entity's efforts to provide registry/administrative services during the month.

Trustee fees and debenture holder representative fees are allocated to each client on a monthly basis based on the agreement in place.

SBM Capital Markets Ltd

The corporate finance advisory fees are allocated to each client once the assignment has been completed.

Arranger fees are allocated as per the agreement in place between the Company and the client.

28.a REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D)

Significant accounting estimates and judgements (cont'd)

SBM Factors Ltd

Factoring fees are allocated to each batch of invoices being financed.

Signing fee is fixed amount charged to the client.

SBM Insurance Agency Ltd

Commission from life and general insurance is allocated to each client on a monthly basis based on the premium collected by the Insurance Company.

DTA commission is allocated once the service is completed based on the agreement in place.

Satisfaction of performance obligations

SBM Mauritius Asset Managers Ltd

The Company concluded that the management and retrocession fees are recognised over time as the customer simultaneously receives and consumes the benefits provided by the Company when the latter discharges the service or the Company's performance enhances the assets that the fund controls.

On the other hand, entry and exit fees are recognised at a point in time as the benefits are obtained only upon new investment or disinvestment by a customer. Arranger fees and commission from structured products are also recognised at a point in time as they are a one-off fee received upon the completion of the capital raising and at the start of the life of each product respectively.

SBM Securities Ltd

The Company concluded that the commission income is recognised at a point in time. The Company recognises the revenue as the service is provided.

SBM Fund Services Ltd

The Company concluded that all the fees are recognised over time as the customer simultaneously receives and consumes the benefits provided by the Company when the latter discharges the service or the Company's performance enhances the assets that the fund controls.

SBM Capital Markets Ltd

The Company concluded that the corporate finance advisory fees and arranger fees are recognised at a point in time upon completion of assignment.

SBM Factors Ltd

The Company concluded that the factoring fees are recognised at a point in time upon financing of each batch of invoice. Signing fee is also recognised at a point in time upon onboarding of new client.

SBM Insurance Agency Ltd

The Company concluded that all the commissions are recognised at a point in time upon collection of premium by the Insurance Companies.

Principal versus agent considerations

SBM Mauritius Asset Managers Ltd

The Company determined that it is a principal in the contracts as it is primarily responsible for fulfilling the promise to provide the specified service.

SBM Securities Ltd

The Company determined that it is a principal in the contracts as it is primarily responsible for fulfilling the promise to provide the specified service.

SBM Fund Services Ltd

The Company determined that it is a principal in the contracts as it is primarily responsible for fulfilling the promise to provide the specified service.

SBM Capital Markets Ltd

The Company determined that it is a principal in the contracts as it is primarily responsible for fulfilling the promise to provide the specified service.

SBM Factors Ltd

The Company determined that it is a principal in the contracts since it is primarily responsible for fulfilling the promise to provide the specified service.

28.a REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D)

Significant accounting estimates and judgements (cont'd)

SBM Insurance Agency Ltd

The Company determined that it is an agent in the contracts as it is not primarily responsible for fulfilling the promise to provide the specified service. The Company has no discretion in establishing the premium for the policies. The Company's consideration in these contracts is only based on a percentage of the premium being received by the Insurance Companies.

28.a 1 Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	THE GROUP	
	Year ended 31 December 2018 MUR'000	Year ended 31 December 2017 MUR'000
SBM Mauritius Asset Managers Ltd		
Management fees	47,432	34,333
Retrocession fees	4,978	3,200
Entry and exit fees	6,575	3,712
Arranger fees	-	43,034
Commission from structured products	5,787	9,590
Asset management fees (Note 28)	64,772	93,869
SBM Securities Ltd		
Commission income - Local equity	11,997	35,818
Commission income - Foreign equity	4,542	5,288
Commission income - Local bonds	3,179	9,481
Commission income - Foreign bonds	23,202	20,711
Brokerage income (Note 28)	42,920	71,297
SBM Fund Services Ltd		
Registry fees from Funds	3,267	3,147
Registry fees from other clients	3,854	2,116
Trustee fees	859	1,372
Debenture holder representative fees	255	302
Administrative fees	6,251	5,764
SBM Capital Markets Ltd		
Advisory fees	322	-
Arranger fees	-	-
SBM Factors Ltd		
Factoring fees	2,327	9
Signing fees	190	10
SBM Insurance Agency Ltd		
Life commission	19,223	-
General commission	2,713	-
DTA commission	21,427	-
Others	60,688	12,720
Total revenue from contracts with customers	168,380	177,886
Geographical markets		
Mauritius	137,607	148,687
Europe	14,480	12,657
US	10,064	10,364
Asia Pacific	2,646	2,653
Africa	3,583	3,525
Total revenue from contracts with customers	168,380	177,886
Timing of revenue recognition		
Services transferred at a point in time	134,070	127,652
Services transferred over time	34,310	50,234
Total revenue from contracts with customers	168,380	177,886

29. 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 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Financial assets measured at FVOCI	53,782	20,855	38,268	49,818	-	27,563
Investment in subsidiaries	-	-	-	1,150,500	1,239,262	-
Investment in associate	-	-	-	32,750	31,273	-
Trading securities	56,269	646	596	-	-	-
	110,051	21,501	38,864	1,233,068	1,270,535	27,563

30. NET GAIN/(LOSS) FROM DEALING 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 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Net gain/(loss) from trading instruments	337,734	519,417	(25,120)	-	-	-
Investment securities at fair value through profit or loss	54,921	(2,506)	(5)	-	-	-
Other	117,194	(373)	17	-	-	-
	509,849	516,538	(25,108)	-	-	-

31. NET GAIN FROM SALE OF SECURITIES

	THE GROUP			THE COMPANY		
	31 December 2018	31 December 2017	31 December 2016	31 December 2018	31 December 2017	31 December 2016
Assets measured at amortised cost	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Net gain on derecognition of financial assets measured at fair value through other comprehensive income	4,321	164,864	415,416	(794)	(10,529)	9,331
Net gain on derecognition of financial assets measured at amortised cost	33,179	284,573	35,762	28,408	22,907	-
Net gain on derecognition of financial assets at fair value through profit or loss	166,958	14,996	4,322	-	387	3,705
	204,458	464,433	455,500	27,614	12,765	13,036

32. OTHER OPERATING INCOME

	THE GROUP			THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Bargain purchase gain arising on acquisition	957,941	-	-	-	-	-
Gain on disposal of plant and equipment	115,710	1,221	4,265	-	-	-
	1,073,651	1,221	4,265	-	-	-

33. 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 14 for accounting policy on defined benefit plans.

	THE GROUP			THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Wages and salaries	1,558,686	1,242,870	1,043,922	75,782	6,938	-
Other social security obligations	1,950	18,601	16,672	799	99	-
Contributions to defined contribution plans	172,108	101,808	79,768	6,176	603	-
Amount recognised in respect of defined benefit plans (Notes 14 and 37)	30,274	26,471	30,098	-	-	-
Staff welfare cost	23,774	18,335	14,625	42	-	-
Management and professional charges	-	8,828	18,226	-	-	-
Security and cleaning services	66,352	74,041	71,867	-	-	-
Others	172,941	128,038	120,717	21,454	11,203	3,830
	2,026,085	1,618,992	1,395,895	104,253	18,843	3,830

34. OTHER EXPENSES

	THE GROUP			THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	**31 December 2018 MUR' 000**	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Software licensing and other information technology cost	**511,849**	493,556	505,332	**75,151**	19	50
Auditors' remuneration (audit and other services):						
- Principal auditors	**13,025**	9,715	9,913	**518**	468	733
- Other auditors	**743**	5,779	354	**-**	-	-
Utilities	**55,111**	58,256	54,968	**-**	-	-
Professional charges	**147,126**	104,043	84,841	**50,869**	40,932	33,764
Marketing costs	**77,260**	83,970	58,541	**7,669**	1,517	1,134
Rent, repairs and maintenance	**169,972**	116,350	165,863	**-**	-	-
Licence and other registration fees	**38,130**	37,479	26,399	**12,951**	15,414	11,538
Impairment of goodwill	**417,715**	-	-	**-**	-	-
Impairment of subsidiary at cost	**-**	-	-	**45,277**	-	-
Other*	**413,340**	190,126	89,512	**61,294**	3,216	786
	1,844,271	1,099,274	995,723	**253,729**	61,566	48,005

** Includes mainly printing,stationary,subscription and other operational cost.*

35. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS

Accounting policy

Prior to 01 January 2018

Financial assets, other than those at fair value through profit or loss (FVTPL), are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For available-for-sale (AFS) equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered to be impaired, its carrying amount is reduced by the impairment loss for loans and advances to customers where the carrying amount is reduced through the use of an allowance account.

For AFS financial assets the cumulative gains or losses previously recognised in Other comprehensive income are reclassified to the Statement of profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity investments, any increase in fair value subsequent to an impairment loss is recognised in Other comprehensive income and accumulated under the Net unrealised investment fair value reserve.

35. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (CONT'D)

Accounting policy (cont'd)

From 01 January 2018

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Loans and advances to banks;
- Loans and advances to customers;
- Debt investment securities;
- Loan commitments issued;
- Financial guarantee contracts, bills and letters of credit.

With the exception of POCI assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, that is, lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as stage 1); or
- full lifetime ECL, that is, lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as stage 2 and stage 3).

A loss allowance for fulltime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since intial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood of 'investment grade'.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

The Group measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for the financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

A loan that has been renegotiatied due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

35. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (CONT'D)

Accounting policy (cont'd)

Credit-impaired financial asset (cont'd)

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairement. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

Definition of default and cure

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or

- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different type of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators such as breach of covenants, overdue status, non-payment on another obligation of the same counterparty. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources, for example, BOM guidelines on impairment.

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as stage 2 or stage 1 once cured depends on the updated credit grade, at the time of the cure and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

The table below shows the impairment charges recorded in the income statement under IFRS 9 during 2018:

The Group	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Loans and advances to non-bank customers	(164,345)	358,377	3,517,715	3,711,747
Loans and placements with banks*	47,975	-	-	47,975
Debt instruments measured at amortised cost**	28,445	-	17,565	46,010
Loan commitments	(19,832)	-	-	(19,832)
Off balance sheet items (Guarantees, Letters of credit, Acceptances)	(26,733)	-	4,590	(22,143)
Total credit loss expense under IFRS 9	(134,490)	358,377	3,539,870	3,763,757
Bad debts recovered	-	-	-	(204,407)
	(134,490)	358,377	3,539,870	3,559,350

The Company	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Debt instruments measured at amortised cost	1,646	-	-	1,646
Total credit loss expense under IFRS 9	1,646	-	-	1,646

* ECL movement for cash and cash equivalents are included under loans and placement with banks

** ECL movement for debt instrument at FVTOCI are included under debt instruments measured at amortised cost.

35. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (CONT'D)

	THE GROUP	
	Restated 31 December 2017 MUR' 000	Restated 31 December 2016 MUR' 000
Portfolio and specific provisions:		
- On-balance sheet advances (Note 8c)	1,101,435	651,527
Bad debts written off for which no provisions were made	8,720	70,029
Recoveries of advances written off	(142,873)	(3,725)
Other	147,998	(932)
	1,115,280	716,899
Of which:		
Credit exposure	967,282	717,831
Other financial assets	147,998	(932)
	1,115,280	716,899

36. EARNINGS PER SHARE

Earnings per share is calculated by dividing profit attributable to equity holders of the parent by the number of shares outstanding during the year, excluding treasury shares.

	THE GROUP		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Profit attributable to equity holders of the parent	**1,245,794**	2,574,923	2,308,902
Number of shares entitled to dividend (thousands)	**2,581,792**	2,581,792	2,581,792
Earnings per share (cents)	**48.25**	99.73	89.43

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37. NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES

	THE GROUP			THE COMPANY		
	31 December 2018	31 December 2017	31 December 2016	31 December 2018	31 December 2017	31 December 2016
Cash flows from operating activities	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Profit for the year	1,245,794	2,574,923	2,308,902	627,235	1,254,013	49,206
Adjustments to determine net cash flows:						
Depreciation of property and equipment	205,246	166,796	158,036	1,946	1,203	1,203
Amortisation of intangible assets	621,951	503,170	191,968	6	-	-
Write off of property plant and equipment	109,932	37,874	-	-	-	-
Pension expense (Note 31)	30,274	26,471	30,098	-	-	-
Net impairment loss on financial assets (Note 33)	3,559,350	1,115,280	716,899	-	-	-
Write off of Intangible assets	81,847	-	-	-	-	-
Bargain Gain	(957,939)	-	-	-	-	-
Impairement of Goodwill	417,714	-	-	-	-	-
Exchange difference	61,149	27,852	(122,420)	52,803	(163,914)	(814)
Net (gain) / loss on sale of financial assets at FVOCI investments	(200,761)	83	(2,708)	-	67,071	2,591
Net (gain) / loss from dealings in trading securities	(4,321)	(30,726)	21,781	-	-	-
Net loss on disposal of property and equipment	(115,710)	(1,222)	(508)	-	-	-
Net gain on financial assets at amortised cost	(16,197)	-	-	(27,614)	-	-
Fair Value Movement in FVOCI Investment	-	-	-	-	-	-
Net (gain) / loss on loans and advances at fair value through profit or loss	(509,849)	1,608	(995)	-	-	-
Interest income	-	-	-	(77,913)	(131,045)	(227,814)
Interest expense	-	-	-	309,019	149,011	149,307
Tax expense	379,633	585,375	680,429	10,867	(2,895)	16,979
Share of profit of associate	(100,240)	(92,296)	(1,627)	-	-	-
Dividend income (Note 28)	(110,051)	(21,501)	(38,864)	(1,233,068)	(1,270,535)	(27,563)
Operating profit / (loss) before working capital changes	4,697,822	4,893,687	3,940,991	(336,719)	(97,091)	(36,905)
Change in operating assets and liabilities						
Decrease / (increase) in trading assets	597,017	(1,160,049)	(43,637)	-	-	-
Decrease / (increase) in loans to and placements with banks	2,505,522	(4,251,489)	(3,436,965)	-	-	-
Decrease / (increase) in loans and advances to non bank customers	255	(31,101,876)	(3,549,386)	-	-	-
Decrease / (increase) in gilt-edged investment securities	(28,303,861)	(3,837,429)	(4,082,685)	(1,466,430)	1,422,126	1,254,257
Decrease / (increase) in other investment securities	352,159	4,234,496	2,778,203	(178,348)	1,439,879	646,076
Decrease / (increase) in mandatory balances with central banks	10,708,544	(1,798,338)	(178,086)	-	-	-
(Increase) / decrease in other assets	(241,746)	(399,544)	216,729	(82,862)	(68,947)	(1)
(Decrease) / increase in trading liabilities	(535,200)	1,152,228	61,632	-	-	-
(Decrease) / increase in deposits from banks	27,437	(1,922,404)	1,859,950	-	-	-
Increase in deposits from non-bank customers	4,926,494	34,335,239	4,960,091	-	-	-
Increase / (decrease) in other liabilities	1,574,513	1,587,959	(72,468)	86,275	(495)	2,504
Interest received	-	-	-	77,804	202,313	274,053
Interest paid	-	-	-	(306,567)	(151,036)	(145,554)
Other dividend received	142,801	52,774	164,200	1,233,068	1,052,273	152,834
Income tax paid	(296,145)	(550,533)	(668,086)	(10,363)	2,546	(31,969)
Net cash (used in) / generated from operating activities	(3,844,388)	1,234,721	1,950,483	(984,142)	3,801,568	2,115,295

38. 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 2018 MUR' 000	31 Dec 2017 MUR' 000	31 Dec 2016 MUR' 000	**31 Dec 2018 MUR' 000**	31 Dec 2017 MUR' 000	31 Dec 2016 MUR' 000	**31 Dec 2018 MUR' 000**	31 Dec 2017 MUR' 000	31 Dec 2016 MUR' 000	**31 Dec 2018 MUR' 000**	31 Dec 2017 MUR' 000	31 Dec 2016 MUR' 000
(a)	Credit facilities												
(i)	*Loans*												
	Balance at beginning of year	**170,942**	100,296	30,901	**2,868,421**	-	-	**3,205**	-	-	**5,450,405**	1,320,812	194,906
	Loans to directors / entities who ceased to be related parties during the year	**(23,513)**	(3,799)	(7,961)	**(391,377)**	-	-	**-**	-	-	**(3,365,943)**	-	(194,906)
	Existing loans of new related parties	**23,208**	-	9,256	**-**	2,868,421	-	**65**	3,205	-	**-**	4,101,901	63,701
	Other net movements	**39,074**	74,445	68,101	**112,147**	-	-	**3,432**	-	-	**(396,696)**	27,692	1,257,111
	Balance at end of year	**209,711**	170,942	100,297	**2,589,191**	2,868,421	-	**6,702**	3,205	-	**1,687,766**	5,450,405	1,320,812
(ii)	*Off-balance sheet obligations*												
	Balance at end of year	**50**	100	100	**678,424**	768,315	-	**12,000**	12,000	-	**34,535**	50,600	23,414
(b)	Deposits at end of year	**237,401**	154,318	99,057	**1,566,800**	2,142,657	546,792	**171,484**	284,721	250,952	**2,765,967**	3,948,271	59,247
(c)	Interest income	**9,317**	8,054	3,493	**84,922**	54,306	-	**18,781**	83,239	404	**70,609**	260,205	49,020
(d)	Interest expense	**1,791**	1,251	644	**19,934**	27,239	498	**-**	2,126	2,976	**5,461**	11,345	-
(e)	Other income	**32**	36	225	**13,908**	13,828	1,803	**2**	1	2,011	**32,153**	44,384	6,430
(f)	Dividend income	**-**	-	-	**-**	-	-	**-**		11,000	**-**	-	-
(g)	Purchase of goods and services	**8,943**	9,264	6,143	**-**	-	-	**-**	-	-	**-**	-	-
(h)	Emoluments	**91,380**	56,685	47,131	**-**	-	-	**-**	-	-	**-**	-	-

38. RELATED PARTY DISCLOSURES (CONT'D)

Related party transactions in relation to Post Employment Benefit Plans are as follows:	THE GROUP 31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Deposits at end of year	**97,051**	63,809	148,576
Interest expense	**-**	-	250
Other income	**-**	-	213
Contributions paid	**170,970**	104,823	90,151

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.

39. CAPITAL MANAGEMENT

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

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

Pursuant to the Group restructuring approved by the Bank of Mauritius under Section 32A of the Banking Act, which became effective on 02 October 2014, SBM Holdings Ltd is now the ultimate holding company of the SBM Group. Surplus capital held by SBM Bank (Mauritius) Ltd (formerly known as State Bank of Mauritius Ltd) have been streamed up to SBM Holdings Ltd which in turn invested in SBM (Bank) Holdings Ltd, the holding company for the Banking segment. As per the constitution of SBM Holdings Ltd, not less than 90% of its capital, reserves and borrowings shall be invested in banking activities/operations. SBM Holdings Ltd and also SBM (Bank) Holdings Ltd are supervised by the Bank of Mauritius (BOM) as per the conditions of BOM approval of the SBM Group Restructuring and BOM approval is required whenever capital will be injected in the operating companies in accordance with the order of priority specified under Section 36 of the Banking Act to ensure planned growth and regulatory compliance.

Banks in Mauritius are required to maintain a ratio of eligible capital to risk weighted assets of at least 10%, whereas for India,Kenya and Madagascar, the minimum ratio is set at 9%, 12% and 8% respectively.

	THE GROUP 31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Tier 1 Capital	**19,717,395**	20,010,395	18,598,479
Eligible capital	**30,058,634**	25,109,218	24,027,477
Risk weighted assets	**122,052,041**	125,684,007	93,479,869
Capital adequacy ratio (%)	**24.63**	19.98	25.70

40. OTHER RESERVES

The Group	Net unrealised investment fair value reserve	Net translation reserve	Net other reserve	Earnings reserve	Restructure reserve	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
At 01 January 2016	(698,920)	256,060	-	2,935,807	(8,316,147)	(5,823,200)
Other comprehensive income for the year	467,253	(80,866)	1,276	-	-	387,663
At 31 December 2016	(231,667)	175,194	1,276	2,935,807	(8,316,147)	(5,435,537)
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)
At 31 December 2017	(315,863)	109,847	1,566	2,935,807	(8,316,147)	(5,584,790)
At 01 January 2018	**(315,863)**	**109,847**	**1,566**	**2,935,807**	**(8,316,147)**	**(5,584,790)**
Impact of adopting IFRS 9	**34,993**	**-**	**-**	**-**	**-**	**34,993**
Restated opening balance under IFRS 9	**(280,870)**	**109,847**	**1,566**	**2,935,807**	**(8,316,147)**	**(5,549,797)**
Other comprehensive income for the year	**(556,262)**	**(176,373)**	**(96,235)**	**-**	**-**	**(828,870)**
At 31 December 2018	**(837,132)**	**(66,526)**	**(94,669)**	**2,935,807**	**(8,316,147)**	**(6,378,667)**

Net unrealised investment fair value reserve

This reserve comprise of fair value movements recognised on fair value through other comprehensive income.

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. Out of the MUR 96 million, MUR 46 million relates to revaluation adjustment, MUR 18 million to translation reserve and retirement benefit obligation of MUR 33 million.

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.

41. RISK MANAGEMENT

The Board of Directors oversees the risk management framework and ensures decision making is aligned with the Board-driven strategic risk objectives and risk appetite. Board approve the risk policies and a set of prudential limits and risk tolerance limits, besides regulatory limits, within which the Group operates. The Senior Management monitors risks totally on an ongoing basis at regular intervals as necessary and is accountable to ensure its operations are within approved policies, prudential limits besides regulatory limits and risk appetite approved framework. Any deviation and non-compliance are reported to Board Risk Committee. The principal risks arising from financial instruments to which the Group is exposed include credit risk, liquidity risk, market risk, operational risk, strategic risk and reputational risk.

a (i) Classification of financial assets and financial liabilities

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities:

Financial assets	Original Classification under IAS 39	New classifcation under IFRS 9	Original Carrying amount under IAS 39 as at 31 December 2017	New Carrying amount under IFRS 9 as at 01 January 2018	Carrying amount under IFRS 9 as at 31 December 2018
			MUR' 000	MUR' 000	MUR' 000
Cash and cash equivalents	Loans and receivables	Amortised Cost	16,331,538	16,315,340	**15,653,515**
Mandatory balances with central banks	Loans and receivables	Amortised Cost	8,966,717	8,966,717	**9,977,260**
Loans to and placements with banks	Loans and receivables	Amortised Cost	8,897,399	8,881,308	**11,090,361**
Derivative financial instruments	Fair value through P&L	Fair value through P&L	1,356,774	1,356,774	**764,077**
Loans and advances to non-bank customers	Loans and receivables	Amortised cost	103,128,838	102,876,591	**102,108,174**
Investments - AFS (Equity and/or Debt Instruments)	Available-for-sale	Fair value through OCI	13,079,833	13,079,833	**29,901,138**
Investments - HFT	Fair value through P&L	Fair value through P&L	7,512,462	7,512,462	**10,062,970**
Investments - HTM	Held-to-maturity	Amortised cost	19,408,126	19,384,977	**31,630,179**
Other assets	Loans and receivables	Amortised Cost	765,324	765,324	**1,432,707**
Total financial assets			179,447,011	179,139,326	**212,620,381**
Financial liabilities					
Deposits from banks	Amortised Cost	Amortised Cost	689,265	689,265	**716,702**
Deposits from non-bank customers	Amortised Cost	Amortised Cost	144,850,676	144,850,676	**169,384,480**
Derivative financial instruments	Fair value through P&L	Fair value through P&L	1,334,641	1,334,641	**799,441**
Other borrowed funds	Amortised Cost	Amortised Cost	13,686,203	13,686,203	**14,522,085**
Other liabilities	Amortised Cost	Amortised Cost	2,076,706	2,076,706	**3,397,898**
Total financial liabilities			162,637,491	162,637,491	**188,820,606**

41. RISK MANAGEMENT (CONT'D)

a (ii) Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments held at the reporting date.

	31 December 2018		31 December 2017		31 December 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
GROUP	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Financial assets						
Cash and cash equivalents	15,653,515	15,653,515	16,331,538	16,331,538	9,490,208	9,490,208
Mandatory balances with central banks	9,977,260	9,977,260	8,966,717	8,966,717	7,097,994	7,097,994
Loans to and placements with banks	11,090,361	11,090,361	8,897,399	8,897,399	4,645,911	4,645,911
Derivative financial instruments	764,077	764,077	1,356,774	1,356,774	165,998	165,998
Loans and advances to non-bank customers	102,108,174	102,636,234	103,128,838	103,057,726	71,624,874	72,072,262
Investment securities	71,594,287	75,496,262	40,000,421	42,525,808	39,430,829	39,344,593
Equity investments	5,752,870	5,752,870	6,137,779	6,137,779	5,732,722	5,732,722
Other assets	1,432,707	1,432,707	765,324	765,324	403,538	403,538
	218,373,251	222,803,286	185,584,790	188,039,065	138,592,074	138,953,226
Financial liabilities						
Deposits from banks	716,702	716,702	689,265	689,265	2,611,669	2,611,669
Deposits from non-bank customers	169,384,480	169,505,655	144,850,676	144,855,080	109,241,194	109,246,841
Other borrowed funds	14,522,085	14,522,085	13,686,203	13,686,203	4,486,008	4,486,008
Derivative financial instruments	799,441	799,441	1,334,641	1,334,641	182,413	182,413
Other liabilities	3,397,898	3,397,898	2,076,706	2,076,706	2,233,164	2,233,164
Subordinated debts	9,412,677	9,412,677	3,701,466	3,701,466	3,865,371	3,865,371
	198,233,283	198,354,458	166,338,957	166,343,361	122,619,819	122,625,466
COMPANY						
Financial assets						
Cash and cash equivalents	32,890	32,890	73,223	73,223	15,321	15,321
Investment securities	3,105,326	3,327,032	1,461,801	1,508,806	4,305,882	4,365,967
Equity investments	4,227,683	4,227,683	4,292,925	4,292,925	4,261,347	4,261,347
Other assets	153,309	153,309	70,448	70,448	1,501	1,501
	7,519,208	7,740,914	5,898,397	5,945,402	8,584,051	8,644,136
Financial liabilities						
Other liabilities	91,777	91,777	5,423	5,423	5,997	5,997
Subordinated debts	9,412,677	9,412,677	3,701,466	3,701,466	3,865,371	3,865,371
	9,504,454	9,504,454	3,706,889	3,706,889	3,871,368	3,871,368

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 41 (a)(iii), the fair values of the other financial assets and financial liabilities are categorised in level 3.

41. RISK MANAGEMENT (CONT'D)

a (iii) Fair value measurement hierarchy

Significant accounting estimates and judgements

The fair value of equity investments that are quoted on active markets are based on the quoted prices for these instruments. Valuation techniques used to estimate the fair value of unquoted equity investments include the dividend growth, discounted cash flows and net assets. Management has made certain assumptions for inputs in the models, such as risk free rate, risk premium, dividend growth rate, future cash flows, weighted average cost of capital, and earnings before interest, depreciation and tax, which may be different from actual. Inputs are based on information available at the reporting date.

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

Fair value measurements of financial instruments can be grouped into level 1 to 3 based on the degree to which the fair value is observable, namely:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

	THE GROUP				THE COMPANY			
	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs		Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2018								
Derivative financial assets	-	764,077	-	764,077	-	-	-	-
Investment securities mandatorily measured at FVTPL								
Debt securities	8,946,665	1,116,305	-	10,062,970	-	-	-	-
Investments at FVTOCI (debt and equity instruments)								
Debt securities	21,763,457	7,678,094	459,589	29,901,140	-	680,639	-	680,638
Equity securities	111,702	631,655	5,009,513	5,752,870	-	-	4,227,683	4,227,683
Loans and advances at FVTPL*	-	-	4,670,782	4,670,782	-	-	-	-
Total assets	30,821,824	10,190,131	10,139,884	51,151,839	-	680,639	4,227,683	4,908,322
Derivative financial liabilities	-	799,441	-	799,441	-	-	-	-
Total liabilities	-	799,441	-	799,441	-	-	-	-

* Relate to those loans where fair value hedge accounting is applied. Their carrying amount is adjusted for changed in fair value. The discounted cash flow method is used to value these loans.

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41. RISK MANAGEMENT (CONT'D)

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

	THE GROUP				THE COMPANY			
	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs		Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2017								
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	-	-	2,278,438	2,278,438	-	-	-	-
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	6,137,959	-	-	4,292,925	4,292,925
	13,942,602	8,310,280	8,112,583	30,365,465	-	475,929	4,292,925	4,768,854
Derivative financial liabilities	-	1,334,641	-	1,334,641	-	-	-	-
31 December 2016								
Derivative financial assets	-	165,998	-	165,998	-	-	-	-
Loans and advances at fair value	-	-	137,026	137,026	-	-	-	-
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
	11,156,442	1,136,158	6,204,168	18,496,768	1,538,299	359,585	4,261,347	6,159,231
Derivative financial liabilities	-	182,413	-	182,413	-	-	-	-

Loans and advances at fair value relate to the fair value of hedged assets (Note 41(d)(ii)).

Fair value through other comprehensive income

Valuation technique	Significant unobservable input	Range of input
Discounted projected cash flow	Weighted Average Cost of Capital (WACC)	9.28%

	Favourable changes	Unfavourable changes
0.25% change in WACC (MUR'000)	3,839,565	3,839,565

41. RISK MANAGEMENT (CONT'D)

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

Reconciliation for level 3 fair value measurements:

	THE GROUP			THE COMPANY		
	31 December 2017 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	**31 December 2018 MUR' 000**	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Balance at start of year	**5,873,346**	6,067,998	6,071,614	**4,292,925**	4,261,347	5,534,324
Additions	**4,557,189**	614,249	1,221,929	**-**	-	-
Impairment	**-**	(3,688)	-	**-**	-	-
Disposals	**(683,731)**	-	(232,589)	**-**	-	-
Transfer to associate	**-**	-	(1,273,430)	**-**	-	(1,273,430)
Transfer to Level 2	**-**	(784,139)	(147,189)	**-**	-	-
Exchange difference	**341,939**	(14)	(10)	**-**	-	-
Movement in fair value	**51,141**	(21,060)	427,673	**(65,242)**	31,578	453
Balance at end of year	**10,139,884**	5,873,346	6,067,998	**4,227,683**	4,292,925	4,261,347

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

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.

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FOR THE YEAR ENDED 31 DECEMBER 2018

41. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(i) Maximum credit exposure

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

	THE GROUP			THE COMPANY		
	31 December 2018	31 December 2017	31 December 2016	**31 December 2018**	31 December 2017	31 December 2016
	MUR' 000	MUR' 000	MUR' 000	**MUR' 000**	MUR' 000	MUR' 000
Fund-based exposures:						
Cash and cash equivalents	**12,191,837**	14,161,991	7,463,137	**32,890**	73,223	15,321
Mandatory balances with Central Banks	**9,977,260**	8,966,717	7,097,994	**-**	-	-
Loans to and placements with banks	**11,127,328**	8,897,399	4,645,911	**-**	-	-
Derivative financial instruments	**764,077**	1,356,774	165,998	**-**	-	-
Loans and advances to non-bank customers	**112,426,043**	107,197,841	75,775,554	**-**	-	-
Investment securities (excluding equity investments)	**71,614,171**	40,000,421	39,430,829	**7,333,009**	1,461,801	4,305,882
Other assets	**1,432,707**	765,324	403,538	**153,309**	70,448	1,501
	219,533,423	181,346,467	134,982,961	**7,519,208**	1,605,471	4,322,704
Non-fund based exposures:						
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	**11,383,478**	12,617,998	8,228,172	**-**	-	-
Credit commitments	**9,071,296**	14,238,833	6,787,125	**-**	-	-
	20,454,774	26,856,831	15,015,297	**-**	-	-

An analysis of the Group's maximum exposure to credit risk per class of financial asset, internal rating and 'stage', at the reporting date, without taking account of any collateral held and other credit enhancements have been disclosed in Notes 7 and 10.

41. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(i) Maximum credit exposure (cont'd)

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

	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Grades:			
1 to 3 - High Grade	**43,961,314**	53,825,569	30,857,635
4 to 6 - Standard	**35,196,815**	36,694,096	32,741,310
7 to 10 (including unrated) - Sub standard	**34,593,279**	33,776,743	17,888,994
	113,751,408	124,296,408	81,487,939

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 7,842.5 million (2017: MUR 4,082.8 million and 2016: MUR 2,952.1 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.

Internal credit risk ratings

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises different categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the Group's exposures:

- Payment record and ageing analysis;
- Extent of utilisation of granted limit;
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies; and
- For retail exposures internally generated data of customer behaviour or other metrics.

41. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(i) Maximum credit exposure (cont'd)

Internal credit risk ratings (cont'd)

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposure analysed by type of products and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades to external ratings.

Group's credit risk grades	MOODY'S RATING	DESCRIPTION
1	Aaa	High Grade
2	Aa1	High Grade
3	Aa2 to Aa3	High Grade
4	A1 to A3	Standard
5	Baa1 to Ba1	Standard
6	Ba1	Standard
7	Ba2 to Ba3	Sub-standard
8	B1	Sub-standard
9	B2 to B3	Sub-standard
10	Caa1 to NR	Sub-standard

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time and uses probability-weighted forecasts to adjust estimates of PDs.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since intial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrate otherwise.

The Group has monitoring procedures in place to ensure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit-risk that led to default were accurately reflected in the rating in a timely manner.

1. Inputs, assumptions and techniques used in estimating impairment : Refer to Note 9 (c) Credit Impairment

2. Significant increase in credit risk

The Group monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL. In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Goup compares the risk of a default occuring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of deafult that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting date. Different economic scenario will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

41. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(i) Maximum credit exposure (cont'd)

Internal credit risk ratings (cont'd)

2. Significant increase in credit risk (cont'd)

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail lending, forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly to certain industries, as well as internally generated information of customer payment behaviour. The Group allocated its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with

- the remaining lifetime PD For the point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate a significant increase in credit risk are reflected in PD models on a timely basis. However the Group still considers separately some qualitative factors to assess if credit risk has increased significantly, such as, creditworthiness of counterparty which has deteriorated as unemployment, bankruptcy or death.

As a back-stop when an asset becomes 30 days past due (rebuttable presumption), the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

3. Modified financial asset

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

When the terms of a financial asset are modified and the modifcation does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under this policy, renegotiation is performed on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to renegotiation policy. For financial assets modified, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal based on the Group's previous experience on similar renegotiation.

Generally modification of financial assets is a qualitative indicator of a significant increase in credit risk and may constitute evidence that the exposure is credit-impaired/ in default. A customer needs to demonstrate consistently good payment behaviour over a period of time, as prescribed by BOM guidelines on Credit Impaired Measurement (see below) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

41. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(i) Maximum credit exposure (cont'd)

Internal credit risk ratings (cont'd)

3. Modified financial asset (cont'd)

Where the restructuring occurs prior to the classification of a loan as impaired, the restructured loan is classified as impaired when, in the aggregate, the period of time the loan is in arrears before and after restructuring is 90 days or more.

Where the restructuring occurs after a loan has been classified as impaired, the restructured loan is continued to be classified as impaired until repayments have been received by the Group, in amount and in such stipulated time, for a continuous period of six months, strictly in accordance with the terms and conditions of the restructured loan.

Where the loan has been restructured more than once, the restructured loan shall continue to be classified as impaired until repayments have been received by the financial institutions in amount and in such stipulated time, for a continuous period of nine months, at a minimum, strictly in accordance with the terms and conditions of the restructured loan.

4. Incorporation of forward-looking information

The Group incorporates forward looking information that is available without undue cost and effort into both its assessment of whether the credit risk of an instrument has increased significantly since its intial recognition and its measurement of ECL. Based on analysis from the Group's Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses. The following key indicators were considered for year ended 31 December 2018: GDP, interest rates.

Measurement of ECL : The key inputs into the measurement of ECL are the following:

(i) probability of default (PD);

(ii) loss given default (LGD);

(iii) exposure at default (EAD).

These parameters are derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

41. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(i) Maximum credit exposure (cont'd)

Internal credit risk ratings (cont'd)

5. Measurement of ECL

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property. LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques. As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

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FOR THE YEAR ENDED 31 DECEMBER 2018

41. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(ii) 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.

The Group holds collateral and other credit enhancement against certain of its credit exposure. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	Note	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	Principal Type of collateral held
Fund-based exposures:					
Cash and cash equivalents	(i)	**12,191,837**	14,161,991	7,463,137	*Unsecured*
Mandatory balances with Central Banks	(ii)	**9,977,260**	8,966,717	7,097,994	*Unsecured*
Loans to and placements with banks	(iii)	**11,127,328**	8,897,399	4,645,911	*Unsecured*
Derivative financial instruments	(iv)	**764,077**	1,356,774	165,998	*Unsecured*
Loans and advances to non-bank customers	(v)	**112,426,043**	107,197,841	75,775,554	*Residential property*
Investment securities	(vi)	**71,614,171**	40,000,421	39,430,829	*Unsecured*
Other assets	(vii)	**1,432,707**	765,324	403,538	*Unsecured*
Non-fund based exposures:					
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	(viii)	**11,383,478**	12,617,998	8,228,172	*Residential property*
Credit commitments	(ix)	**9,071,296**	14,238,833	6,787,125	*Unsecured*

In addition to the collateral included in the table above, the Group holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

41. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(ii) Collateral and other credit enhancements (cont'd)

The Group did not hold any financial instrument for which no loss allowance is recognised because of collateral at 31 December 2018. There was no change in the Group's collateral policy during the year.

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

	THE GROUP		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Up to 1 month	393,924	458,267	115,589
Over 1 month and up to 3 months	600,625	102,881	121,561
	994,549	561,148	237,150

Under the Group's monitoring procedures, a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due The table below provides an analysis of the gross carrying amount of receivables by past due status:

	31 December 2018	
	Gross Carrying Amount MUR' 000	Loss Allowance MUR' 000
0-30 days (Stage 1)	61,266,857	147,613
31-89 days (Stage 2)	32,926,111	1,634,218
Total	94,192,968	1,781,831

(iv) Impaired financial assets

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

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

	THE GROUP		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Loans and advances (Note 9d)	18,233,076	4,786,528	4,998,437
Specific allowance held in respect of impaired advances (Note 9d)	8,536,038	2,741,141	3,105,952
Fair value of collaterals of impaired advances	11,018,417	3,137,676	1,721,767

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FOR THE YEAR ENDED 31 DECEMBER 2018

41. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(v) Credit concentration of risk by industry sectors

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

	THE GROUP		
	31 December 2018 MUR' 000	**31 December 2017 MUR' 000**	**31 December 2016 MUR' 000**
Portfolio			
Agriculture	**5,603,930**	2,478,382	2,509,798
Building Contractors	**-**	-	-
Traders*	**15,920,016**	9,190,737	4,292,431
Real estate	**3,168,948**	5,396,668	2,850,895
Services	**2,357,501**	-	-
Tourism	**2,850,973**	6,212,128	4,839,141
	29,901,368	23,277,915	14,492,265

* Included in the loan portfolio for trading companies is one specific group of related borrowers with total exposure of MUR 3.4 billion net of cash collaterals. This group of borrowers was considered as credit impaired at year end with an allowance for expected credit losses of MUR 1.5 billion being recorded at 31 December 2018. Following the credit losses incurred for the segment B portfolio of clients, the bank has reviewed its risk appetite and amended its credit policies to reinforce its control on Segment B lending as well as reduce its credit concentration on single counterparties or group of connected counterparties.

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.

41. RISK MANAGEMENT (CONT'D)

c Liquidity risk (cont'd)

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

Group	Up to 1 month MUR' 000	1-3 months MUR' 000	3-6 months MUR' 000	6-12 months MUR' 000	1-3 years MUR' 000	Over 3 years MUR' 000	Non-Maturity Bucket MUR' 000	Total MUR' 000
31 December 2018								
Financial assets								
Cash and cash equivalents	14,536,882	1,159,932	-	-	-	-	(43,299)	15,653,515
Mandatory balances with central banks	3,323,940	349,823	187,544	454,851	430,880	5,230,222	-	9,977,260
Loans to and placements with banks	430,879	156,693	5,890,689	1,839,650	2,805,190	-	(32,740)	11,090,361
Derivative financial instruments	-	-	-	-	-	-	764,077	764,077
Loans and advances to non-bank customers	5,668,063	8,194,649	4,400,516	9,768,676	23,517,096	46,027,502	4,531,672	102,108,174
Investment securities	24,062,494	3,281,361	2,625,241	11,085,242	11,727,931	17,838,008	974,010	71,594,287
Equity investments	-	-	-	-	-	-	5,752,870	5,752,870
Other assets	-	-	-	-	-	-	1,432,707	1,432,707
Total financial assets	48,022,258	13,142,458	13,103,990	23,148,419	38,481,097	69,095,732	13,379,297	218,373,251
Financial liabilities								
Deposits from banks	697,414	19,288	-	-	-	-	-	716,702
Deposits from non-bank customers	26,726,407	9,681,266	5,900,702	10,819,633	8,005,193	108,251,280	-	169,384,481
Other borrowed funds	3,809,441	1,423,797	4,589,089	1,601,463	2,766,610	331,684	-	14,522,084
Derivative financial instruments	-	-	-	-	-	-	799,441	799,441
Subordinated debts	-	-	-	-	2,236,443	7,176,234	-	9,412,677
Other liabilities	-	-	-	-	-	-	3,397,898	3,397,898
Total financial liabilities	31,233,262	11,124,351	10,489,791	12,421,096	13,008,246	115,759,198	4,197,339	198,233,283
Liquidity Gap	16,788,996	2,018,107	2,614,199	10,727,323	25,472,851	(46,663,466)	9,181,958	20,139,968
31 December 2017								
Financial assets	34,664,907	17,791,556	13,634,096	13,869,520	35,360,022	62,684,296	7,580,393	185,584,790
Financial liabilities	16,799,540	14,712,492	8,913,010	8,456,008	7,708,039	108,415,227	1,334,641	166,338,957
Liquidity Gap	17,865,367	3,079,064	4,721,086	5,413,512	27,651,983	(45,730,931)	6,245,752	19,245,833

41. RISK MANAGEMENT (CONT'D)

c Liquidity risk (cont'd)

	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-Maturity Bucket	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2016								
Financial assets	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

	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-Maturity	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Company								
31 December 2018								
Financial assets								
Cash and cash equivalents	32,890	-	-	-	-	-	-	32,890
Investment securities	181,334	-	52,754	698,500	1,080,000	1,092,738	-	3,105,326
Equity investments	-	-	-	-	-	-	4,227,683	4,227,683
Other assets	-	-	-	-	-	-	153,309	153,309
Total financial assets	214,224	-	52,754	698,500	1,080,000	1,092,738	4,380,992	7,519,208
Financial liabilities								
Subordinated debts					2,236,443	7,176,234	-	9,412,677
Other liabilities	-	-	-	-	-	-	91,777	91,777
Total financial liabilities	-	-	-	-	2,236,443	7,176,234	91,777	9,504,454
Liquidity Gap	214,224	-	52,754	698,500	(1,156,443)	(6,083,496)	4,289,215	(1,985,246)
31 December 2017								
Financial assets	143,671	-	8,872	-	-	977,000	4,768,854	5,898,397
Financial liabilities	5,423	28,388	-	-	-	3,673,078	-	3,706,889
Liquidity Gap	138,248	(28,388)	8,872	-	-	(2,696,078)	4,768,854	2,191,508
31 December 2016								
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	4,712,683

41. RISK MANAGEMENT (CONT'D)

c Liquidity risk (cont'd)

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

Group	On Demand	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Financial liabilities							
Deposits	130,325,973	16,566,948	5,244,485	9,460,009	8,287,697	216,070	170,101,182
Derivative financial instruments	799,441	-	-	-	-	-	799,441
Other borrowed funds	-	5,233,238	4,589,089	1,601,463	2,582,886	515,409	14,522,085
Other liabilities	3,397,898	-	-	-	-	-	3,397,898
31 December 2018	134,523,312	21,800,186	9,833,574	11,061,472	10,870,583	731,479	188,820,606
31 December 2017	112,720,129	23,817,220	8,824,536	8,534,226	5,550,216	6,203,364	165,649,692
31 December 2016	92,003,698	9,447,757	2,963,975	4,750,741	4,770,435	2,935,581	116,872,187
Company							
Financial liabilities							
Subordinated debts	-	-	-	-	2,236,443	7,176,234	9,412,677
Other liabilities	-	-	-	-	-	91,777	91,777
31 December 2018	-	-	-	-	2,236,443	7,268,011	9,504,454
31 December 2017	-	5,423	28,388	-	-	3,673,078	3,706,889
31 December 2016	-	5,997	-	-	-	-	5,997

d Market risk

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

41. RISK MANAGEMENT (CONT'D)

d Market risk

(i) Interest rate risk

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

The table below analyses the Group's interest rate risk exposure 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.

Group 31 December 2018	Up to 3 months MUR' 000	3-6 months MUR' 000	6-12 months MUR' 000	1-2 years MUR' 000	2-5 years MUR' 000	Over 5 years MUR' 000	Non-interest sensitive MUR' 000	Total MUR' 000
Assets								
Cash and cash equivalents	3,561,137	-	-	-	-	-	12,092,378	15,653,515
Mandatory balances with central banks	-	40,000	-	-	-	-	9,937,260	9,977,260
Loans to and placements with banks	5,865,955	3,634,285	1,496,667	-	-	-	93,454	11,090,361
Derivative financial instruments	-	-	-	-	-	-	764,077	764,077
Loans and advances to non-bank customers	82,880,313	4,535,007	2,228,944	5,135,766	5,292,272	7,020,775	(4,984,903)	102,108,174
Investment securities	14,798,692	7,398,165	14,099,461	6,701,127	16,006,898	11,575,502	1,014,442	71,594,287
Equity investments	-	-	-	-	-	-	5,752,870	5,752,870
Other assets	-	-	-	-	-	-	1,432,707	1,432,707
Total assets	107,106,097	15,607,457	17,825,072	11,836,893	21,299,170	18,596,277	26,102,285	218,373,251
Liabilities								
Deposits from banks	62,791	-	-	-	-	-	653,911	716,702
Deposits from non-bank customers	83,108,627	4,913,600	8,626,656	6,335,444	166,850	1,613	66,231,691	169,384,480
Other borrowed funds	4,937,134	5,270,586	1,437,556	2,817,025	-	-	59,784	14,522,085
Derivative financial instruments	-	-	-	-	-	-	799,441	799,441
Subordinated debts	1,522,229	2,236,443	-	-	-	5,623,165	30,840	9,412,677
Other liabilities	-	-	-	-	-	-	3,397,897	3,397,897
Total liabilities	89,630,781	12,420,629	10,064,212	9,152,469	166,850	5,624,778	71,173,564	198,233,283
On balance sheet interest rate sensitivity gap	17,475,316	3,186,828	7,760,860	2,684,424	21,132,320	12,971,499	(45,071,279)	20,139,968
Off balance sheet interest rate sensitivity gap	(11,887,461)	(7,650,544)	(1,122,192)	(7,684,782)	(5,176,968)	(2,900,292)	-	(36,422,239)
	5,587,855	(4,463,716)	6,638,668	(5,000,358)	15,955,352	10,071,209	(45,071,277)	(16,282,271)

41. RISK MANAGEMENT (CONT'D)

d Market risk

(i) Interest rate risk (cont'd)

	Up to 3 months MUR' 000	3-6 months MUR' 000	6-12 months MUR' 000	1-2 years MUR' 000	2-5 years MUR' 000	Over 5 years MUR' 000	Non-interest sensitive MUR' 000	Total MUR' 000
31 December 2017								
Total assets	85,273,811	20,002,497	10,923,884	7,484,367	17,890,744	15,399,298	28,610,189	185,584,790
Total liabilities	86,374,078	8,578,700	4,865,057	3,657,460	3,074,444	1,506,971	58,282,247	166,338,957
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)
	(13,770,688)	9,579,327	5,630,904	2,829,110	11,942,786	13,780,049	(29,672,058)	319,430
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
	(8,760,456)	8,217,910	4,469,490	10,481,610	14,974,426	4,177,984	(16,869,134)	16,691,830

41. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(i) Interest rate risk (cont'd)

The Company 31 December 2018	Up to 3 months MUR' 000	3-6 months MUR' 000	6-12 months MUR' 000	1-2 years MUR' 000	2-5 years MUR' 000	Over 5 years MUR' 000	Non-interest sensitive MUR' 000	Total MUR' 000
Assets								
Cash and cash equivalents	-	-	-	-	-	-	32,890	32,890
Investment securities	181,611	38,500	698,500	15,000	1,215,000	445,000	511,715	3,105,326
Equity investments	-	-	-	-	-	-	4,227,683	4,227,683
Other assets	-	-	-	-	-	-	153,309	153,309
Total assets	181,611	38,500	698,500	15,000	1,215,000	445,000	4,925,597	7,519,208
Liabilities								
Subordinated debts	1,522,229	2,236,443	-	-	-	5,623,165	30,840	9,412,677
Other liabilities	-	-	-	-	-	-	91,777	91,777
Total liabilities	1,522,229	2,236,443	-	-	-	5,623,165	122,617	9,504,454
On balance sheet interest rate sensitivity gap	(1,340,618)	(2,197,943)	698,500	15,000	1,215,000	(5,178,165)	4,802,980	(1,985,246)
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-	-
	(1,340,618)	(2,197,943)	698,500	15,000	1,215,000	(5,178,165)	4,802,980	(1,985,246)

41. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(i) Interest rate risk (cont'd)

	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
31 December 2017								
Total assets	-	-	-	-	-	977,000	4,921,397	5,898,397
Total liabilities	-	-	-	-	2,173,078	1,500,000	28,388	3,701,466
On balance sheet interest rate sensitivity gap	-	-	-	-	(2,173,078)	(523,000)	4,893,009	2,196,931
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-	-
	-	-	-	-	(2,173,078)	(523,000)	4,893,009	2,196,931
31 December 2016								
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

41. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(i) Interest rate risk (cont'd)

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

	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Increase/(decrease) in profit	589,558	200,235	(29,195)

(ii) Fair value hedges

	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
	MUR'000	MUR'000	MUR'000	MUR'000
Fixed rate corporate loans	4,410,230	-	115,028	-

The corresponding statement of financial position line items, where the hedged item and the cummulative fair value changes are recorded, is under loans and advances to non-bank customers. Information about the hedging instruments included in the derivative financial instruments line items of the Group's statement of financial position is outlined on Note 8. The ineffectiveness recognised in the statement of profit or loss under Net gain/loss from financial instruments amounting to MUR 44.5 millions.

	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
	MUR'000	MUR'000	MUR'000	MUR'000
Fixed rate corporate loans	4,410,230	-	115,028	-

The corresponding statement of financial position line items, where the hedged item and the cummulative fair value changes are recorded, is under loans and advances to non-bank customers. Information about the hedging instruments included in the derivative financial instruments line items of the Bank's statement of financial position is outlined on Note 8. The ineffectiveness recognised in the statement of profit or loss under Net gain/loss from financial instruments amounting to MUR 44.5 millions.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Fixed rate corporate loans						
Interest rate swap (Notional amount)	-	-	-	-	2,650,748	2,650,748

41. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(iii) Currency risk

Foreign exchange risk arises from open and imperfectly offset or hedged positions. Imperfect correlations across currencies and international interest rate markets pose particular challenges to the effectiveness of foreign currency hedging strategies. The Group exercises strict control over its foreign currency exposures. The Group reports on foreign currency positions to the Central Bank and has set up conservative internal limits in order to mitigate foreign exchange risk. To manage their foreign currency exposures, dealers operate within prudential limits approved by the Board including intraday/overnight open exposures, stop loss and authorised currencies. These trading limits 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:

Group	MUR	USD	GBP	EURO	INR	OTHER	TOTAL
31 December 2018	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Assets							
Cash and cash equivalents	4,095,007	6,416,239	479,846	805,454	820,147	3,036,822	15,653,515
Mandatory balances with Central Banks	7,803,233	823,330	92,565	47,674	180,242	1,030,216	9,977,260
Loans to and placements with banks	5,348,276	2,326,062	-	3,331,613	-	84,410	11,090,361
Derivative financial instruments	218,601	506,668	4,630	-	7,805	26,373	764,077
Loans and advances to non-bank customers	59,261,154	24,050,589	828,678	9,975,722	3,207,614	4,784,417	102,108,174
Investment securities	49,204,105	17,569,518	-	394,775	2,599,960	1,825,929	71,594,287
Equity investments	5,249,308	499,384	-	3,411	-	767	5,752,870
Other assets	932,946	63,155	469	37,048	173,517	225,572	1,432,707
Total monetary financial assets	132,112,630	52,254,945	1,406,188	14,595,697	6,989,285	11,014,506	218,373,251
Liabilities							
Deposits from banks	700,289	-	-	-	14,574	1,839	716,702
Deposits from non-bank customers	89,027,387	46,587,864	2,842,161	8,911,815	3,244,643	18,770,610	169,384,480
Other borrowed funds	160,885	8,555,684	284,044	1,637,762	249,571	3,634,139	14,522,085
Derivative financial instruments	263,087	19,487	8	-	505,387	11,472	799,441
Subordinated debts	4,582,749	4,829,928	-	-	-	-	9,412,677
Other liabilities	480,563	403,513	56,483	714,820	513,911	1,228,608	3,397,898
Total monetary financial liabilities	95,214,960	60,396,476	3,182,696	11,264,397	4,528,086	23,646,668	198,233,283
On balance sheet position	36,897,670	(8,141,531)	(1,776,508)	3,331,300	2,461,199	(12,632,162)	20,139,968
Off balance sheet position	(2,542,005)	2,868,951	122,001	150,181	(56,201)	(542,927)	-
Net currency position	34,355,665	(5,272,580)	(1,654,507)	3,481,481	2,404,998	(13,175,089)	20,139,968

41. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(iii) Currency risk

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

	MUR	USD	GBP	EURO	INR	OTHER	TOTAL
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2017							
Total monetary financial assets	98,848,058	52,198,821	1,785,306	18,238,362	11,716,247	2,797,996	185,584,790
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 position	10,085,186	(197,639)	(13,042)	3,294,387	5,243,057	833,887	19,245,836
Off balance sheet 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 position	14,564,643	(21,433)	99,283	895,700	365,678	68,384	15,972,255
Off balance sheet position	685,112	3,247	134,314	(334,535)	(404,234)	(83,905)	-
Net currency position	15,249,755	(18,186)	233,596	561,165	(38,556)	(15,519)	15,972,255

The Company is exposed to currency risk only in USD in relation to investment securities (financial assets) amounting to MUR 181.26 million (2017: MUR NIL and 2016: MUR 2,438 million) and subordinated debts (financial liabilities) amounting to MUR 4,829.93 million (2017: MUR 2,213 million and 2016: MUR 2,373 million).

41. 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:

	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Minimum for the year	1,095	651	170
Maximum for the year	22,309	7,579	5,170
Year end	6,186	1,282	756

(iv) Equity price sentivity analysis

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

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

	THE GROUP			THE COMPANY		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Statement of comprehensive income	287,643	306,889	286,636	211,384	214,646	213,067
Statement of profit or loss	-	-	-	-	-	-
	287,643	306,889	286,636	211,384	214,646	213,067

e Accounting policies

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

42. SEGMENT INFORMATION - THE GROUP

Accounting policy

Segmental reporting is based on the internal reports regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess their performance. The operating segments are the banking, the non-bank financial institution, the non-financial institutions and the other institutions segments. Only the banking segment is a reportable segment.

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The Group has only one reportable operating segment based on its business activities, which is the Banking segment. Its revenues mainly arise from advances to customers and banks, investment in gilt-edged securities and equity instruments, bank placements, services provided on deposit products, provision of card and other electronic channel services, trade finance facilities, trading activities and foreign currency operations.

The accounting policies of the operating segment are the same as those described in the notes to these financial statements.

(a) Information about the reportable segment profit, assets and liabilities

Information about the reportable segment and the reconciliation of the reportable segment information to Group total is shown below:

	Banking	Non-bank financial institutions	Non financial institutions	Other institutions	Intersegment adjustments	Group Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2018						
Interest income from external customers	8,722,459	3,359	13,125	77,913	-	8,816,856
Non-interest income from external customers	3,749,612	208,430	5,788	185	-	3,964,015
Revenue from external customers	12,472,071	211,789	18,913	78,098	-	12,780,871
Interest income from internal customers	-	-	-	-	-	-
Non interest income from internal customers	3,580,010	163,855	225	1,230,973	(4,975,063)	-
Revenue from other segments of the entity	3,580,010	163,855	225	1,230,973	(4,975,063)	-
Total gross revenue	16,052,081	375,644	19,138	1,309,071	(4,975,063)	12,780,871
Interest and fee and commission expense to external customers	(2,692,220)	(1,008)	-	(309,204)	-	(3,002,432)
Interest expense to internal customers	(10,436)	-	-	-	10,436	-
	(2,702,656)	(1,008)	-	(309,204)	10,436	(3,002,432)
Operating income	13,349,425	374,636	19,138	999,867	(4,964,627)	9,778,439
Depreciation and amortisation	(823,311)	(1,326)	(540)	(2,020)	-	(827,198)
Other non-interest expenses	(3,052,132)	(138,700)	(2,125)	(358,276)	(319,122)	(3,870,355)
Net impairment loss on financial assets	(3,557,624)	(80)	-	(1,646)	-	(3,559,350)
Operating profit	5,916,358	234,530	16,473	637,924	(5,283,749)	1,521,536
Share of profit of associate	-	-	-	100,240	-	100,240
Profit before income tax	5,916,358	234,530	16,473	738,164	(5,283,749)	1,621,776
Tax expense	(334,115)	(25,841)	(5,159)	(10,867)	-	(375,982)
Profit for the year	5,582,243	208,689	11,314	727,297	(5,283,749)	1,245,794
Segment assets	244,608,362	1,638,394	704,063	37,283,453	(57,860,146)	226,374,126
Segment liabilities	194,136,466	173,949	1,389	9,505,393	(1,620,077)	202,197,120
Additions to tangible and intangible assets	419,767	2,939	-	-	-	422,706

42. SEGMENT INFORMATION - THE GROUP (CONT'D)

	Banking	Non-bank financial institutions	Non financial institutions	Other institutions	Intersegment adjustments	Group Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2017						
Interest income from external customers	6,863,369	24	12,909	131,045	-	7,007,347
Non-interest income from external customers	2,540,088	194,959	17,582	80,800	-	2,833,429
Revenue from external customers	9,403,457	194,983	30,491	211,845	-	9,840,776
Interest income from internal customers	-	-	-	-	-	-
Non interest income from internal customers	961,168	3,150	219,161	1,270,535	(2,454,014)	-
Revenue from other segments of the entity	961,168	3,150	219,161	1,270,535	(2,454,014)	-
Total gross revenue	10,364,625	198,133	249,652	1,482,380	(2,454,014)	9,840,776
Interest and fee and commission expense to external customers	(2,117,352)	(2,269)	-	(149,350)	-	(2,268,971)
Interest expense to internal customers	-	-	-	-	-	-
	(2,117,352)	(2,269)	-	(149,350)	-	(2,268,971)
Operating income	8,247,273	195,865	249,652	1,333,030	(2,454,014)	7,571,805
Depreciation and amortisation	(667,696)	(455)	(604)	(1,211)	-	(669,966)
Other non-interest expenses	(2,536,129)	(105,408)	(2,427)	(80,734)	6,432	(2,718,266)
Net impairment loss on financial assets	(967,287)	(3,210)	(147,998)	-	3,215	(1,115,280)
Operating profit	4,076,161	86,791	98,623	1,251,085	(2,444,367)	3,068,293
Share of profit of associate	-	-	-	92,005	-	92,005
Profit before income tax	4,076,161	86,792	98,623	1,343,090	(2,444,367)	3,160,298
Tax expense	(568,144)	(17,436)	(2,690)	2,895	-	(585,375)
Profit for the year	3,508,017	69,355	95,933	1,345,985	(2,444,367)	2,574,923
Segment assets	187,165,686	1,654,359	737,420	31,839,977	(27,376,061)	194,021,381
Segment liabilities	165,328,710	53,339	353,050	3,708,298	(586,788)	168,856,609
Additions to tangible and intangible assets	290,567	2,939	-	-	-	293,506
31 December 2016						
Interest income from external customers	6,021,927	25	-	227,813	-	6,249,765
Non interest income from external customers	1,962,597	79,184	9,344	41,172	-	2,092,297
Revenue from external customers	7,984,524	79,209	9,344	268,985	-	8,342,062
Interest income from internal customers	285	(313)	-	-	28	-
Non interest income from internal customers	79	(16,287)	(900)	1	17,107	-
Revenue from other segments of the entity	364	(16,600)	(900)	1	17,135	-
Total gross revenue	7,984,888	62,609	8,444	268,986	17,135	8,342,062
Interest and fee and commission expense to external customers	(1,742,606)	(3,924)	-	(149,307)	-	(1,895,837)
Interest expense to internal customers	(313)	-	-	-	313	-
	(1,742,919)	(3,924)	-	(149,307)	313	(1,895,837)
Operating income	6,241,969	58,685	8,444	119,679	17,448	6,446,225
Depreciation and amortisation	(348,077)	(230)	(496)	(1,201)	-	(350,004)
Other non interest expenses	(2,292,698)	(53,648)	-	(51,835)	6,563	(2,391,618)
Net impairment loss on financial assets	(717,896)	997	-	-	-	(716,899)
	(3,358,671)	(52,881)	(496)	(53,036)	6,562	(3,458,521)
Operating profit	2,883,298	5,804	7,948	66,643	24,010	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	24,010	2,989,332
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 2018

42. SEGMENT INFORMATION - THE GROUP (CONT'D)

(b) Information about the reportable segment revenue from products and services

	Banking		
	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2016 MUR' 000
Revenue from external customers arising from the following products and services:			
Loans and advances to non-bank customers	**278,949**	5,798,567	4,887,031
Loans to and placements with banks	**478,630**	190,172	107,161
Exchange income	**758,677**	560,843	361,723
Card income	**332,573**	381,191	416,821
Trade finance services	**1,001,780**	427,305	206,356
Deposit and other products /services	**177,238**	176,006	123,741
	3,027,847	7,534,084	6,102,833

(c) Information about revenue of the reportable segment by geographical areas

	Banking		
	Mauritius MUR' 000	Other countries MUR' 000	Total MUR' 000
31 December 2018			
Revenue from external customers	**5,087,515**	**3,634,944**	**8,722,459**
Tangible and intangible assets	**5,421,828**	**898,815**	**6,320,643**
31 December 2017			
Revenue from external customers	4,805,309	2,058,059	6,863,369
Tangible and intangible assets	5,916,197	367,492	6,283,689
31 December 2016			
Revenue from external customers	6,731,322	1,253,203	7,984,525
Tangible and intangible assets	6,116,697	423,412	6,540,109

43. 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.

Significant accounting estimates and judgement

Management has made an assessment in accordance with the criteria set out in IFRS 3 –Business Combinations of whether the acquisition of the carved out assets and assumption of specific liabilities of Chase Bank (Kenya) Limited (In Receivership) (CBLR). 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 id inherently judgemental and require 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 an estimation of the 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 does not expect that the growth rate to exceed the long term average growth rate in which the CGU operates. During the year, management has assessed the goodwill arising from the acquisition of SBM Bank (Kenya) Limited (Ex-Fidelity Commercial Bank Limited) in Kenya to be fully impaired.

During the year the Group acquired carved out assets and liabilities of Chase Bank (Kenya) Limited in liquidation. The Group identified and estimated the fair value of all assets acquired and liabilities assured and allocated the purchase price to their respective fair values. The estimation of fair values make use of observable and non observable inputs and involves a high level of estimation and uncertainty. This excercise of purchase price allocation resulted in a bargain purchase of MUR 1,314 million.

43. BUSINESS COMBINATIONS (CONT'D)

On 18 August 2018, SBM Bank (Holdings) Ltd, through its subsidiary SBM Bank (Kenya) Limited (SBMK) completed the acquisition of the carved out assets and assumption of specific liabilities of Chase Bank (Kenya) Limited (In Receivership) (CBLR).

Taking over the carved out assets and liabilities of CBLR has enabled the Group to consolidate its banking business in the Kenyan market and be a strong top Tier 2 bank in Kenya with increased market share.

This acquisition which qualified as a business combination, has resulted in a bargain purchase gain of MUR 1,314 million. The gain on bargain purchase is subject to deferred tax of MUR 356 million on the basis of preparation of consolidated financial statements in accordance with International Financial Reporting Standards. The net balance of the bargain purchase of MUR 958 million has been included in "Other operating income"

For the period from 18 August 2018 to 31 December 2018, the newly acquired assets of CBLR contributed a net interest income of MUR 428 million and profit before tax of MUR 112 million to the Group's results. Given that we have taken only certain assets and liabilities of CBLR, the performance of the book from 01 January 2018 to 31 December 2018, is not available for these assets and liabilities.

The following tables summarise the consideration paid, the fair value of the assets acquired, liabilities assumed at the acquisition date.

(a) Subsidiary acquired during the year

Name of Entity	Principal activity	Date of acquisition	Proportion of voting equity interest acquired (%)	Consideration transferred
				MUR
Chase Bank (Kenya) Limited (CBLR)	Banking	18-Aug-18	100.00%	-

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

The fair values of the identifiable assets and liabilities of CBLR as at the date of acquisition were:

	Fair value recognised on acquisition
	MUR'000
Assets:	
Cash and cash equivalents	162,158
Balances due with central bank	11,719,087
Loans to and placements with banks	4,741,781
Loans and advances to non-bank customers	3,099,446
Investment securities	3,183,833
Property,plant and equipment (Note 11)	433,108
Intangible assets (Note 12)	184,178
Other assets	417,223
	23,940,814
Liabilities:	
Deposits from non-bank customers	19,607,311
Other borrowed funds (including loan capital)	2,063,978
Other liabilities	637,863
	22,309,152
Fair value of identifiable net assets	**1,631,662**
	1,631,662
Fair value of consideration transferred	
Fair value of contingent consideration-Islamic loan	**(317,890)**
Less Net fair value of the identifiable net assets acquired	**1,631,662**
Bargain purchase gain arising on acquisition	**1,313,772**

43. BUSINESS COMBINATIONS (CONT'D)

Acquisition related costs

The Group incurred acquisition-related costs of MUR 38.9 million on travel, professional fees and due diligence costs. These costs have been included in 'other expenses'.

	Bargain purchase arising gain arising on acquisition	1,313,772
	Deferred tax	(355,833)
	Net balance of bargain purchase gain	957,939
(ii)	**Contingent consideration related to Islamic Loan Portfolio measured at fair value**	
	(Financial liabilities at fair value through profit or loss)	
	As at 01 January 2018	-
	Liability arising on business combination	317,890
	Remittances of collections	-
	Unrealised fair value changes recognised in profit or loss	-
		317,890
(iii)	**Net cash flow on acquisition of CBLR**	
	Consideration paid in cash	-
	Less cash and cash equivalent balances acquired	162,158
	Net cash outflow on acquisition of CBLR	162,158

The contingent considerations relate to:

(c) Fully written off loans which was largely unsecured or characterised by inadequate credit/security documentation

There was a fully impaired loan portfolio with a carrying amount of MUR 7.4 billion (KShs 21.4 billion) as at acquisition date, which the Group acquired as part of the business combination. As required by IFRS 3 Business combination, this portfolio was therefore, recognised at nil fair value at the acquisition.

This contingent consideration which relates to all amounts that the Group manages to collect from the portfolio is fair value at nil, which is the same as the fair value of the related loans.

(d) Properties to be transferred to the Group

As at the acquisition date, there were certain properties with a market value of MUR 2.5 billion (KShs 7.3 billion) in which CBLR had an interest, but could not be transferred to the Group by the acquisition date. As a result the properties were recognised at fair value of nil in the carved out balance sheet.

This contingent consideration which relates to all amounts that the Group will eventually realise on that portfolio is fair value at nil, which is the same as the fair value of the properties.

43. BUSINESS COMBINATIONS (CONT'D)

The contingent considerations relate to (cont'd):

(e) Islamic Loan Portfolio

The Islamic portfolio with the carrying value of MUR 1.1 billion (KShs 3.2 billion) was transferred to the Group. The Group is in the process of disposing of this portfolio. Therefore the loans will be reclassified and measured at fair value through profit and loss .

The contingent consideration which relates to all amounts that the Group eventually realised on sale of the portfolio is fair valued at MUR 318 million which is the same as the fair value of the portfolio.

Financial assets at fair value through profit or loss

	MUR'000
As at 01 January 2018	-
Financial assets arising on business combination	317,890
Remittances of collections	-
Unrealised fair value changes recognised in profit or loss	-
As at 31 December 2018	317,890

44 GOODWILL IMPAIRMENT

(b) Impairment testing of goodwill

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

	MUR'000
Carrying value as at 31 December 2018	-
Carrying value as at 31 December 2017	401,556

In May 2017, the goodwill which arose on the acquisition of SBM Bank (Kenya) Limited (Ex-Fidelity Commercial Bank Limited) was MUR 418 million. The Subsidiary is operating at a loss since acquisition. Management determined that there are indicators that the recoverable amount of the cash generating unit (CGU) to which goodwill is assigned might have been less than its carrying amount. Accordingly, management undertook an assessment of goodwill, which was based on a discounted cash flow analysis. Based on the results of the impairment assessment, management determined that the estimated fair value of the CGU is nil at the reporting date. Goodwill of MUR 418 million been written off for the 12 months ended 31 December 2018.

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 cash generating unit (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 Bank's and industry's growth rate.

ADDITIONAL INFORMATION

COMPOSITION OF THE BOARD COMMITTEES OF SBM HOLDINGS LTD

AUDIT COMMITTEE

Mr Subhas Thecka (Chairman)
Mr Azim Fakhruddin Currimjee
Mr Maxime Hardy
Mr Roodesh Muttylall
Ms Sharon Ramdenee[a]

CORPORATE GOVERNANCE & CONDUCT REVIEW COMMITTEE

Mr Roodesh Muttylall (Chairman)
Mr Medha Gunputh
Mr Maxime Hardy
Mr Vidianand Lutchmeeparsad
Mr Ramprakash Maunthrooa
Mr Andrew Bainbridge (Group CEO)

IT COMMITTEE

Mr Vidianand Lutchmeeparsad (Chairman)
Mr Azim Fakhruddin Currimjee
Mr Ishwar Anoopum Gaya[b]
Mr Medha Gunputh
Mr Rishikesh Hurdoyal[c]
Mr Kee Chong Li Kwong Wing, *G.O.S.K*
Mr Andrew Bainbridge (Group CEO)

NOMINATION & REMUNERATION COMMITTEE

Mr Medha Gunputh (Chairman)
Mr Azim Fakhruddin Currimjee
Mr Maxime Hardy
Mr Vidianand Lutchmeeparsad
Mr Ramprakash Maunthrooa
Mr Roodesh Muttylall

REGIONAL EXPANSION STEERING COMMITTEE

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Azim Fakhruddin Currimjee
Mr Medha Gunputh
Mr Maxime Hardy
Mr Ramprakash Maunthrooa
Mr Roodesh Muttylall
Mr Andrew Bainbridge (Group CEO)

RISK MANAGEMENT COMMITTEE

Mr Azim Fakhruddin Currimjee (Chairman)
Mr Medha Gunputh
Mr Kee Chong Li Kwong Wing, *G.O.S.K*
Mr Vidianand Lutchmeeparsad
Mr Ramprakash Maunthrooa
Mr Subhas Thecka
Mr Andrew Bainbridge (Group CEO)

STRATEGY COMMITTEE

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Azim Fakhruddin Currimjee
Mr Maxime Hardy
Mr Vidianand Lutchmeeparsad
Mr Ramprakash Maunthrooa
Mr Subhas Thecka
Mr Andrew Bainbridge (Group CEO)

[a]Member of the Audit Committee effective 01 April 2019

[b]Director of SBM Bank (Mauritius) Ltd and Member of IT Committee

[c]Director of SBM Bank (Mauritius) Ltd and appointed as Member of the IT Committee effective 18 March 2019 in replacement of Mr Mahmadally Burkutoola who ceased to be a Member effective 28 February 2019

DIRECTORS OF SUBSIDIARIES OF SBM HOLDINGS LTD

SBM Holdings Ltd

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Azim Fakhruddin Currimjee
Mr Medha Gunputh
Mr Maxime Hardy
Mr Vidianand Lutchmeeparsad
Mr Ramprakash Maunthrooa
Mr Roodesh Muttylall
Ms Sharon Ramdenee
Mr Subhas Thecka
Mr Andrew Bainbridge (Group CEO)

SBM (Bank) Holdings Ltd

Mr Nayen Koomar Ballah, *G.O.S.K* (Chairman)
Mr Andrew Bainbridge
Mr Azim Fakhruddin Currimjee
Mr Ramprakash Maunthrooa

SBM Bank (Mauritius) Ltd

Mr Nayen Koomar Ballah, *G.O.S.K* (Chairman)
Mr Philip Ah-Chuen
Mr Rajakrishna Chellapermal
Mr Ishwar Anoopum Gaya
Mr Rishikesh Hurdoyal
Mrs Veronique Lim Hoye Yee
Mr Michel Arnaud Moothoosamy
Mr Abdool Karrim Namdarkhan
Mr Venkateswara Rao Parvataneni
Mr Visvanaden Soondram

Banque SBM Madagascar SA

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Andrew Bainbridge
Mr Andriamanohisoa Damase
Mr Leckram Dawonauth
Mr Maurice Jean Marc Ulcoq

SBM Bank (Kenya) Limited

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Andrew Bainbridge
Mr Nayen Koomar Ballah, *G.O.S.K*
Mr Azim Fakhruddin Currimjee
Mr Medha Gunputh
Mr James McFie
Mr Moezz Mir
Mrs Flora Mutahi
Mr Jotham Mutoka
Mr Sharad Rao

SBM Bank (India) Limited

Mr Azim Fakhruddin Currimjee (Chairman)
Mr Andrew Bainbridge
Mr Shyam Sundar Barik
Mr Sanjay Bhattacharyya
Mr Vidianand Lutchmeeparsad
Mr Ameet Patel
Mrs Sudha Ravi
Mr Sidharth Rath

SBM Overseas One Ltd

Mr Kabirsingh Baboolall
Mr Shailendrasingh Sreekeessoon

SBM Overseas Two Ltd

Mr Kabirsingh Baboolall
Mr Shailendrasingh Sreekeessoon

SBM Overseas Three Ltd

Mr Kabirsingh Baboolall
Mr Andrew Bainbridge
Mr Shailendrasingh Sreekeessoon

DIRECTORS OF SUBSIDIARIES OF SBM HOLDINGS LTD (CONT'D)

SBM Overseas Four Ltd

Mr Kabirsingh Baboolall
Mr Ragnish Gujjalu
Mr Shailendrasingh Sreekeessoon

SBM Overseas Five Ltd

Mr Kabirsingh Baboolall
Mr Shailendrasingh Sreekeessoon

SBM Overseas Six Ltd

Mr Kabirsingh Baboolall
Mr Shailendrasingh Sreekeessoon

SBM Africa Holdings Ltd

Mr Kee Chong Li Kwong Wing, *G.O.S.K*
Mr Andrew Bainbridge
Mr Nayen Koomar Ballah, *G.O.S.K*

SBM Bank (Seychelles) Limited**

Mr Kee Chong Li Kwong Wing, *G.O.S.K*
Mr Joseph Albert
Mr Andrew Bainbridge
Mr Maxime Hardy

SBM 3S Ltd

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Andrew Bainbridge
Mr Amrit Gayan
Mr Ragnish Gujjalu
Mr Lakshmana Lutchmenarraidoo

SBM (NFC) Holdings Ltd

Mr Soondrassen Murday (Chairman)
Mr Andrew Bainbridge
Mr Medha Gunputh
Mr Ramprakash Maunthrooa
Mr Gooroodeo Sookun

SBM (NBFC) Holdings Ltd

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Andrew Bainbridge
Mr Pierre D'Unienville
Mr Thierry Hugnin
Mr Lakshmana Lutchmenarraidoo
Mr Ramprakash Maunthrooa
Mr Roshan Ramoly

SBM Microfinance Ltd

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Lakshmana Lutchmenarraidoo
Mr Shailendrasingh Sreekeessoon

SBM Factors Ltd

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Ragnish Gujjalu*
Mr Lakshmana Lutchmenarraidoo
Mr Norman Fon Sing
Mr Shailendrasingh Sreekeessoon

SBM Capital Markets Ltd

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Andrew Bainbridge
Mr Pierre D'Unienville
Mr Lakshmana Lutchmenarraidoo
Mr Roshan Ramoly
Mr Shailendrasingh Sreekeessoon
Mr Eric Venpin

SBM Insurance Agency Ltd

Mr Roshan Ramoly (Chairman)
Mr Ragnish Gujjalu
Mr Lakshmana Lutchmenarraidoo
Mr Shailendrasingh Sreekeessoon

SBM Securities Ltd

Mr Roshan Ramoly (Chairman)
Mr Amal Autar
Mr Michael Lim
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SBM eBusiness Ltd

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Lakshmana Lutchmenarraidoo
Mr Veeren Manikion
Mr Shailendrasingh Sreekeessoon

SBM Fund Services Ltd

Mrs Reedhee Bhuttoo
Mrs Ragini Gowrisunkur
Mr Lakshmana Lutchmenarraidoo
Mr Shailendrasingh Sreekeessoon

SBM Mauritius Asset Managers Ltd

Mr Pierre D'Unienville (Chairman)
Mrs Reedhee Bhuttoo
Mr Lakshmana Lutchmenarraidoo
Mr John Wallace Mc Ilraith
Mr Roshan Ramoly
Mr Shailendrasingh Sreekeessoon
Mr Eric Venpin

SBM India Fund Ltd

Mr Assad Abdullatiff (Chairman)
Mr Amal Autar*
Mr Shaan Kundomal
Mr Lakshmana Lutchmenarraidoo

SBM Maharaja Fund

Mr Assad Abdullatiff
Mr Amal Autar
Mr Shaan Kundomal
Mr Lakshmana Lutchmenarraidoo

SBM Alternative Investments Ltd

Mr Shailendrasingh Sreekeessoon (Chairman)
Mrs Reedhee Bhuttoo
Mr Lakshmana Lutchmenarraidoo

SBM Infrastructure General Partner Limited

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Radhakrishna Chellapermal
Mr Lakshmana Lutchmenarraidoo
Mr Namasivayen Poonoosamy
Mr Shailendrasingh Sreekeessoon

SBM (Mauritius) Infrastructure Development Company Ltd

Mr Jairaj Sonoo (Chairman)
Mr Lakshmana Lutchmenarraidoo
Mr Shailendrasingh Sreekeessoon

SBM Africa Equity Fund Ltd

Mr Kee Chong Li Kwong Wing, *G.O.S.K* (Chairman)
Mr Lakshmana Lutchmenarraidoo
Mr Shailendrasingh Sreekeessoon*

SBM Perpetual Fund Ltd

Mr Vaughan Edward Heberden (Chairman)
Mr Kwet Chee Li Chun Fong
Mr Lakshmana Lutchmenarraidoo

Africa Infrastructure Investment Holdings Company Ltd

Mr Kee Chong Li Kwong Wing (Chairman)
Mr Radhakrishna Chellapermal
Mr Lakshmana Lutchmenarraidoo
Mr Namasivayen Poonoosamy
Mr Shailendrasingh Sreekeessoon

SBM International Funds Ltd

Mr Shailendrasingh Sreekeessoon (Chairman)
Mr Lakshmana Lutchmenarraidoo

*Subject to FSC's approval
**Not yet operational

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ABBREVIATIONS

12mECL - 12 months' Expected Credit Loss
AFS - Available For Sale
ALCO - Asset and Liability Management Committee
AML - Anti-Money Laundering
ARA - Average Retirement Age
ATM - Automatic Teller Machine
AUM - Assets Under Management
BCBS - Basel Committee on Banking Supervision
BOM - Bank of Mauritius
BP - Basis Points
BSBMM - Banque SBM Madagascar
CAPCo - Capital Allocation & Planning Committee
CAR - Capital Adequacy Ratio
CASA - Current Account Savings Account
CBLR - Chase Bank (Kenya) Limited (In Receivership)
CCB - Capital Conservation Buffer
CDD - Contract of Determinate Duration
CET1 - Common Equity Tier 1
CFT - Combatting the Financing of Terrorism
CG & CR - Corporate Governance & Conduct Review Committee
CGU - Cash Generating Unit
CI - Cost to Income
CID - Contract of Indeterminate Duration
COBIT - Control Objectives for Information and Related Technology
CRM - Credit Risk Mitigation
CSR - Corporate Social Responsibility
D-SIB - Domestic Systemically Important Bank
DEM - Development & Enterprise Market
DPA - Data Protection Act
DTA - Decreasing Term Assurance
EAD - Exposure At Default
EBITDA - Earnings Before Interest, Tax, Depreciation and Amortisation
ECAIs - External Credit Assessment Institutions
ECL - Expected Credit Loss
EIR - Effective Interest Rate
EPZ - Export Processing Zone
FSC - Financial Services Commission
FVTOCI - Fair Value Through Other Comprehensive Income
FVTPL - Fair Value Through Profit or Loss
FY - Financial Year
GDP - Gross Domestic Product
GDPR - General Data Protection Regulation
GROUP CEO - Group Chief Executive Officer
GROUP CFO - Group Chief Financial Officer
GROUP EF - Group Executive Forum
HFT - Held For Trading
HQLA - High Quality Liquid Assets
HR - Human Resources
HTM - Held To Maturity
IAS - International Accounting Standards
IASB - International Accounting Standards Board
IFRIC - International Financial Reporting Interpretations Committee
IFRS - International Financial Reporting Standards
INR - Indian Rupee
IOPS - Indian Operations
IR - Integrated Reporting

ISO 27001 - International Organisation for Standardisation 27 001

IT - Information Technology

KES - Kenyan Shilling

KRI - Key Risk Indicators

LCR - Liquidity Coverage Ratio

LDR - Loan to Deposit Ratio

LGD - Loss Given Default

LTECL - Lifetime Expected Credit Loss

LIBOR - London Interbank Offered Rate

MCBG - MCB Group

MGA - Malagasy Ariary

MUR - Mauritian Rupee

MUR Mn - Mauritian Rupee in Millions

MUR Bn - Mauritian Rupee in Billions

NAV - Net Asset Value

NBFC - Non-Banking Financial Cluster

NFC - Non-Financial Cluster

NGO - Non Governmental Organisation

NPAs - Non Performing Assets

NII - Net Interest Income

NIST - National Institute of Standards and Technology

NSFR - Net Stable Funding Ratio

OCI - Other Comprehensive Income

PCI DSS - Payment Cards Industry Data Security Standard

PD - Probability of Default

POCI - Purchased or Originated Credit-Impaired

POS - Point of Sale

ROA - Return on Average Assets

ROE - Return on Average Equity

RWA - Risk Weighted Assets

RWE - Risk Weighted Exposure

SBMH/THE GROUP/SBM GROUP - SBM Holdings Ltd

SBMBI - SBM Bank (India) Limited

SBMBK - SBM Bank (Kenya) Limited

SBMBH - SBM (Bank) Holdings Ltd

SBMBM - SBM Bank (Mauritius) Ltd

SBM MAM - SBM Mauritius Asset Managers Ltd

SBM NBFC - SBM (NBFC) Holdings Ltd

SBM NFC - SBM (NFC) Holdings Ltd

SEM - Stock Exchange of Mauritius

SEM-ASI - Stock Exchange of Mauritius - All Share Index

SEMBI - Stock Exchange of Mauritius Bond Index

SEMDEX - Stock Exchange of Mauritius Index

SEMSI - Stock Exchange of Mauritius Sustainability Index

SEMTRI-ASI - Stock Exchange of Mauritius Total Return Index - All Share Index

SIC - Standard Interpretations Committee

SPPI - Solely Payments of Principal and Interest

SWIFT - Society for Worldwide Interbank Financial Telecommunication

TCO - Total Cost of Ownership

THE BOARD - The Board of Directors of SBM Holdings Ltd

THE CODE - National Code of Corporate Governance for Mauritius (2016)

USD - United States Dollar

VaR - Value at Risk

VDI - Virtual Device Interface

VIU - Value In Use

WACC - Weighted Average Cost of Capital

WIP - Work In Progress

WOS - Wholly Owned Subsidiary

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