

SBM HOLDINGS LTD
FINANCIAL STATEMENTS AND CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED
31 DECEMBER 2019

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Corporate Governance Report

The Board of SBM Holdings Ltd is committed to maintaining the highest standards of corporate governance. The corporate governance framework has been established to ensure that Directors and employees fulfill their functions responsibly, whilst protecting and enhancing the interests of stakeholders.

Principle One – Governance Structure

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

SBM believes that corporate governance adds to the performance of the Company, creates shareholder value in the short, medium and long terms and engenders the confidence of our various stakeholders.

The Group operates within a clearly defined governance framework that promotes transparency, fairness and accountability. The Board believes that corporate governance principles should be embedded in our corporate culture, which is anchored on: (a) competent leadership, (b) effective internal controls, (c) a strong risk culture, and (d) accountability to shareholders. The internal controls cover financial, operational, compliance and technology, as well as risk management policies and systems.

The diagram below illustrates SBMH's main corporate governance practices.



Organisational and Governance Structure



SBM Holdings Ltd ("SBMH") is a public company listed on the official market of the Stock Exchange of Mauritius since 03 October 2014 following a restructuring exercise of the Group approved by the Bank of Mauritius ("BOM") under section S32A of the Banking Act. Prior to this, the State Bank of Mauritius Ltd (now SBM Bank (Mauritius) Ltd) which was the holding company was listed since 1995. SBMH is a public interest entity as defined by law.

The Board is responsible for the overall governance and operations of the Company, guiding the Company's strategic direction, monitoring risk, overseeing the activities of Senior Management and meeting all legal and regulatory requirements. All substantial issues affecting the Company are considered by the Board, with advice from internal and external advisers as and when required. The Board is committed to maintaining the highest standards of corporate governance and acknowledges its responsibility for applying and implementing the principles contained in the National Code of Corporate Governance for Mauritius (2016) (the "Code"). The Board confirms that it has applied all the requirements and provisions of the Code, except for Principle Two, for the year ended 31 December 2019. Reasons for non-application have been provided at page 5.

Board Charter and Code of Ethics

The Board has approved the following key guiding documents and policies, which are available for consultation on the Company's website:

- Code of Ethics and Business Conduct

The main objective of SBM is to achieve long term growth and sustainability through great service provision and high ethical behaviours. The purpose of the Code of Ethics and Business Conduct (COE) is to guide appropriate behaviour to meet this objective and a number of organisational goals, both internally and externally.

- Board Charter

The aim of the Board is to adopt best practices that are consistent with the principles of good corporate governance and best practice recommendations.

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

Our corporate governance framework supports our strategy

Key Governance Positions

Whilst the Chairman and the Group Chief Executive Officer (“Group CEO”) are collectively responsible for the leadership of the Group and for promoting the highest standards of integrity and probity, there is a clear and effective division of accountability and responsibility between both positions and each plays a distinctive role but at the same time complement each other to ensure that there is a proper balance of power and authority and that no individual has unfettered powers of decision and control.

Mr Abdul Sattar Adam Ali Mamode Hajee Abdoula has been appointed as Chairman of the Board of SBMH effective 13 March 2020 following the resignation of Mr Kee Chong Li Kwong Wing, G.O.S.K. as Chairman effective same day. The Chairman is committed to ensuring that the Board comprises a majority of Independent Non-Executive Directors who objectively challenge the Senior Management and to ensure continuity on the Board.

The Board is in process of recruiting a Group CEO following the retirement of Mr Andrew Bainbridge (former Group CEO) in August 2019. SBMH initially entered into an agreement with Mr Andrew Bainbridge to provide limited scope consultancy services in the field of banking, finance, credit risk and strategy up to the end of December 2019. The consultancy agreement has subsequently been extended until the recruitment of a new Group CEO or by 30 June 2020. Mr Bainbridge was also re-appointed on the SBMH Board as Non-Executive Director on 12 August 2019.

The key governance positions, which are set out below, have been approved by the Board and are critical to ensure the Board’s performance against the Group’s strategy and achievement of a high level of good governance. The below provide a clear definition of the respective roles and responsibilities of the key positions.

Chairman	Group CEO
The Chairman provides leadership and governance to the Board so as to create the conditions for the overall Board’s and individual Directors’ effective performance delivery, and ensures that all key and appropriate issues are discussed by the Board in a timely manner. He chairs all the main Board Meetings and ensures that the Board as a whole plays a full and constructive part in the development and determination of the Group’s strategies and policies, and that Board decisions taken are in the Group’s best interests and fairly reflect Board’s consensus. He ensures that the strategies and policies agreed by the Board are effectively implemented by the Group CEO and the Management. In consultation with the Group CEO and the Company Secretary, he sets the Board meeting schedules and agendas to take	The Group CEO is responsible for promoting and conducting the affairs of the Group with the highest standard of integrity, probity and corporate governance and in accordance with the business plans and within the budgets approved by the Board. He acts as a liaison between the Board and the Management Team. He develops and proposes the Group’s strategies and policies for the Board’s consideration. He also implements, with the support of the Management Team, the strategies and policies as approved by the Board and its Committees in pursuit of the Group’s objectives. He maintains regular dialogue with the Chairman on important and strategic issues facing the Group, and ensures bringing these issues to the Board’s attention. He assesses the principal risks of the Group to ensure that they are being monitored

<p>full account of the important issues facing the Group and the concerns of all Directors, and also ensures that adequate time is available for thorough discussion of critical and strategic matters. He arranges informal meetings of the Directors at least annually, including meetings amongst the Non-Executive Directors during which the Group CEO is not present, and ensures that sufficient time and consideration is given to complex, contentious or sensitive issues. He is also responsible for the induction of new Directors and their continuing development, board evaluations and succession planning.</p>	<p>and managed and also ensures that the Group has a sound internal control system. In addition, he chairs the Executive Committees with a view to ensuring that the Management Team pursues and achieves the objectives of the Group as approved by the Board.</p> <p><i>The Board is in process of recruiting a new Group CEO.</i></p>
<p>Directors</p> <p>The Directors promote the success of the Group. They analyse and monitor the performance of the Management Team against the 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 the Board/Committees decision-making, exercise independent judgement and bring valuable knowledge and experience to the Board. The Directors exercise reasonable care, skills and diligence in discharging their duties.</p> <p><i>The Board of SBMH comprises of nine Directors</i></p>	<p>Chairperson of the Corporate Governance & Conduct Review Committee (CG & CR Committee)</p> <p>The Chairperson of the CG & CR Committee provides expertise in the areas of corporate governance and ensures that the Board is up to standard with local and international good governance standards. She shall ensure that the Board receives regular training and development. She shall also ensure that the policies on conduct and ethical standards are consistently upheld and transparency is adhered to by the Board and the Senior Management Team.</p> <p><i>Ms Shakilla Bibi Jhungeer is the Chairperson of the CG & CR Committee.</i></p>
<p>Chairperson of the Risk Management Committee</p> <p>The Chairperson of the Risk Management Committee provides risk expertise to the Committee and ensures compliance with the regulatory framework. She shall guide and advise the Board in the approval of appropriate risk management frameworks. She shall also ensure that appropriate and effective risk management training is provided to Directors and Senior Management.</p> <p><i>Ms Sharon Ramdenee is the Chairperson of the Risk Management Committee.</i></p>	<p>Group Chief Financial Officer (Group CFO)</p> <p>The Group CFO will provide leadership and direction, with particular focus in the fields of Strategy, Finance and Accounting. The Group CFO will manage the processes for financial forecasting and budgets and oversee the preparation of all financial reporting in addition to tax related matters and will also advise on long-term strategy, business and financial planning.</p> <p><i>The Group is in the process of recruiting a Group CFO. Meanwhile, Mr Sivakrisna Goinden (Team Leader Finance) has been assigned some of the duties of the Group CFO since February 2020.</i></p>
<p>Company Secretary</p> <p>The Company Secretary is responsible for the efficient administration of the Group, particularly with regards to ensuring compliance with statutory and regulatory requirements. She provides guidance to the Board in respect of its duties, responsibilities, and powers as in keeping with all applicable laws and regulations. She arranges meetings of the Directors and the Shareholders and ensures that minutes of all these meetings are properly recorded in accordance with paragraph 6 of the Eighth</p>	

Schedule and paragraph 8 of the Fifth Schedule of the Companies Act 2001 (the “Act”) respectively. She ensures that all statutory registers are properly maintained and certifies in the annual financial statements of the Company that all returns as required under the Act have been filed with the Registrar. She also 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 as per the Act.

Mrs D Ramjug Chumun is the Company Secretary of SBMH.

The Board has also approved a statement of accountabilities.

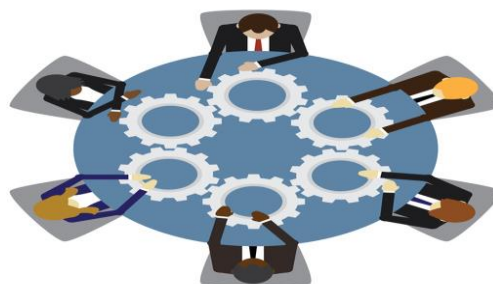
Our Senior Management Team

Our Senior Management Team is responsible for the overall conduct of operations and resulting profitability of the Company. Our experienced leadership team collaborates with the different entities of the Group to support the delivery of our strategic objectives.

SBMH is in the process of recruiting a Group CEO. The Senior Management Team at SBMH level comprises of the Head of Project Implementation and Capital Planning and the Team Leader – Finance. Furthermore, the Chief Executives of each operating entity collaborate effectively to achieve the goals and objectives which contribute towards the success of the Group.

Principle TWO - The Structure of the Board and its Committees

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 Board’s key purpose is to ensure the Company’s prosperity by collectively directing the Company’s affairs to create sustainable value for the benefit of its Shareholders and other stakeholders. In addition to business and financial matters, the Board must deal with challenges and issues relating to corporate governance, corporate social responsibility and corporate ethics.

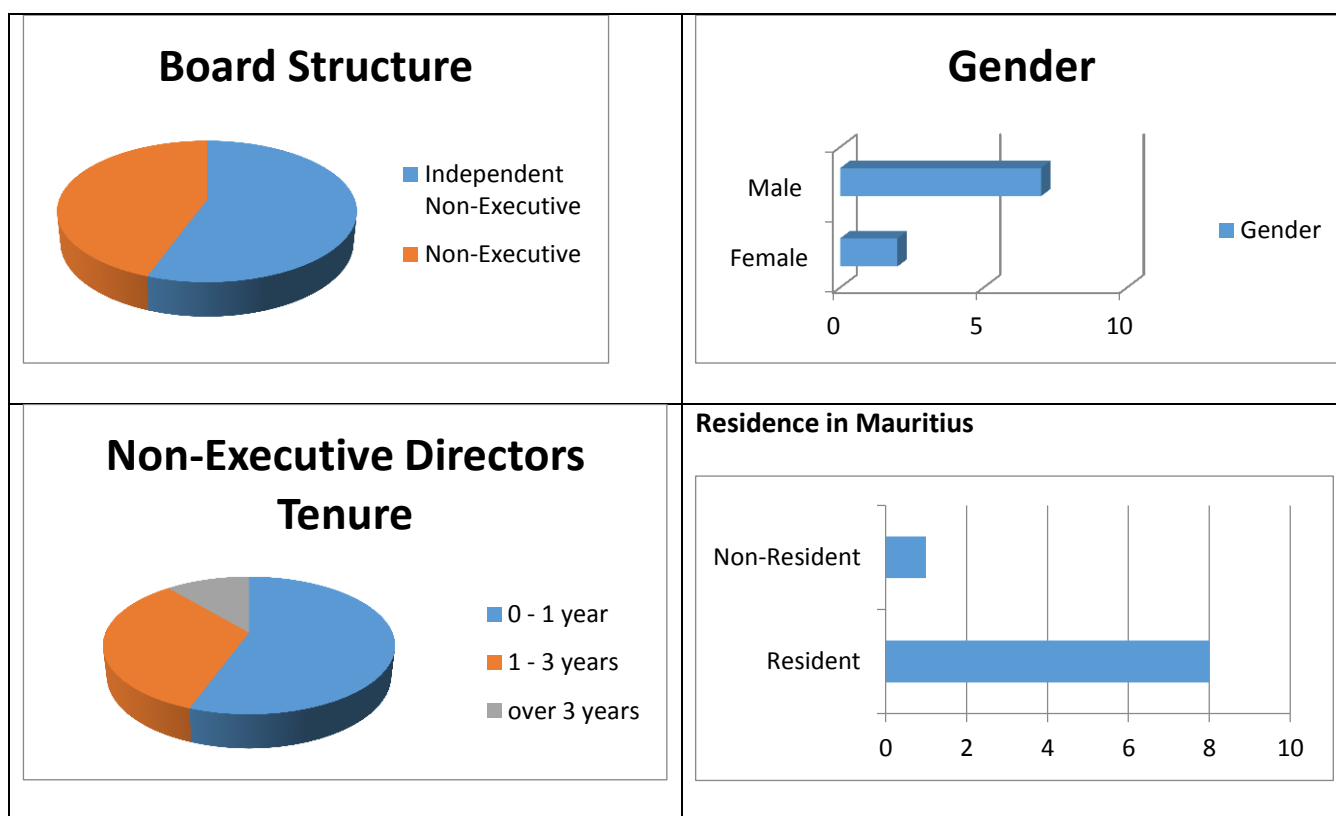
SBMH has a unitary Board of nine Directors, consisting of five (including the Chairman) Independent Directors and four Non-Executive Directors. The Board acknowledges that Principle Two of the Code requires “All Boards should consider having a strong executive management presence with at least two Executives as Members.” The recruitment of Senior Executives of SBMH is in process.

The SBMH Board was reconstituted in March 2020. A sufficient number of Directors do not have any relationship with the organisation and with the majority shareholder.

Board Diversity

The SBMH Board recognises and embraces the benefits of a diverse board. Diversity at the board level is seen as an essential element to maintain competitive advantage. The Board is structured to ensure diversity in terms of age, gender, education/qualifications, professional background, sector expertise and specialised skills. When recommending new directors to the Board, the Nomination & Remuneration Committee ("REMCO") 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 banking, financial services, public administration, accounting, economics, tourism, manufacturing, services, legal and textile. The Board also acknowledges the requirement for gender representation in its membership. The charts below provide an overview of the current structure of the SBMH Board.



Type of Mandate: Unitary Board of Nine Directors

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

Departures and Appointment since 01 January 2019

Executive Director			
Appointment		Resignation	
None		Mr Andrew Bainbridge	09 August 2019
Non-Executive Director			
Appointment		Resignation	
Mr Jean Paul Emmanuel Arouff	11 March 2020	Mr Medha Gunpath	12 March 2020

Mr Andrew Bainbridge	12 August 2019	Mr Vidianand Lutchmeeparsad	10 March 2020
Mr Sarwansingh Purmessur	13 March 2020		
Mr Visvanaden Soondram	11 March 2020		
Independent Non-Executive Director			
Appointment		Resignation	
Mr Abdul Sattar Adam Ali Mamode Hajee Abdoula	11 March 2020	Mr Azim Fakhruddin Currimjee	12 March 2020
Ms Shakilla Bibi Jhungeer	13 March 2020	Mr Maxime Hardy	12 March 2020
		Mr Kee Chong Li Kwong Wing, G.O.S.K	13 March 2020
		Mr Ramprakash Maunthrooa	13 November 2019

Powers of the Board

The Board is responsible for establishing the Company's purpose, values and strategy, promoting its culture and overseeing its conduct and affairs to create sustainable value for the benefit of the Shareholders over the short, medium and long terms. The objectives of the Board are to work in unity with the Senior Management Team so as to achieve not only profitability but also long term sustainability of the Group. The Group CEO and the other Senior Executives are expected to deliver on agreed performance targets aligned to the organisation's strategy and to act in the best interests of the Group and its stakeholders. The role and responsibilities of the Board are set out in the Board Charter.

The Board acknowledges that it should be of sufficient size to meet the requirement of the business and the criteria for determining the sufficiency include among others the following: (a) the size of the Group, (b) each operating entities having a strong Board and Management Team and (c) the activities of each operating entities being subject to their respective regulatory requirements. The Board is aware of its fiduciary duties and ensures that SBMH adheres to all relevant rules and legislations in force in Mauritius.

Key to Directors

● Executive Director ● Non- Executive Director ● Independent Non-Executive Director

Board Meetings

At the beginning of each financial year, the Chairman of the Board and the Company Secretary, in consultation with the Group CEO, work out and communicate to the Directors and Senior Management the annual board calendar. The Chairman of the Board sets, in consultation with the Group CEO and the Company Secretary, the Board Meeting schedule and agenda to take into account and address the challenges and concerns being faced by the Group and its Directors, and ensures that adequate time is allocated for thorough discussion of critical and strategic matters. Board notes are circulated to the Directors well ahead of the Meetings to facilitate meaningful, informed and focused decisions during the Meetings. Where physical attendance is not possible, Meetings are conducted by means of audio and/or video conferences in accordance with the Constitution of the Company. The SBMH Board was reconstituted in March 2020.

The SBMH Board held 18 Meetings during the financial year ended 31 December 2019 and the attendance of the Members is tabulated below.

Members	Board Member since	Number of meetings attended
● Mr Kee Chong Li Kwong Wing, <i>G.O.S.K (Chairman)</i>	April 2015	18
● Mr Andrew Bainbridge*	June 2018	13
● Mr Andrew Bainbridge**	August 2019	4
● Mr Azim Fakhruddin Currimjee	June 2016	17
● Mr Medha Gunpath	February 2015	15
● Mr Maxime Hardy	June 2015	16
● Mr Vidianand Lutchmeeparsad	June 2015	12
● Mr Ramprakash Maunthrooa***	June 2015	12
● Mr Roodesh Muttylall	June 2015	16
● Ms Sharon Ramdenee	December 2018	15
● Mr Subhas Thecka	June 2017	17

*Retired as Group CEO on 09 August 2019 and attended 13 out of the 14 meetings held during period he was the Group CEO

**Was appointed as Non-Executive Director effective 12 August 2019 and attended all the 4 meetings held over the remaining period

***Ceased to be a Board Member effective 13 November 2019

Key Focus Areas for FY 2019

During the year the Board focused on matters outlined in the table below:

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: (a) Kenya, (b) Madagascar, (c) Seychelles and (d) India
- Monitored the evolution of SBMH share price and reviewed the feedback/comments from the investors for an appropriate share price strategy
- Monitored the implementation of selected initiatives proposed by McKinsey, an international consultancy firm, hired to devise a strategy roadmap for the Group

Financial Matters

- Reviewed and approved the Group's financial statements on a quarterly basis
- Assessed and monitored the Group's financial performance and its main businesses through Reports from the Head of Finance
- Approved the declaration and payment of dividend
- Reviewed the valuation of equity investments held by the Group
- Reviewed the reports from the Audit Committee, Internal Audit and Anti-Fraud Teams
- Reviewed the capital requirements of the Group and its subsidiaries
- Monitored the implementation of IFRS 9 which became effective as from 01 January 2018
- Took note of the financial statements of the operating entities of the Group
- Reviewed and recommended the appointment of Deloitte as the new statutory auditor for SBM Group to the Shareholders

Governance, Legal and Risk

- Reviewed and approved the Directors' Training needs for FY 2019
- Reviewed and approved amendments proposed to existing/new policies for the Group
- Approved the appointment of an External Facilitator for the Board and Individual Evaluation for FY 2019 and reviewed the findings for improvement
- Reviewed related party transactions on a quarterly basis
- Considered matters relating to Board succession and approved appointments to the Board 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
- Monitored the share dealings by Directors and Associates as defined by the internal policies
- Reviewed and approved the Terms of Reference of the Board Committees/Executive Forums

Technology

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

Others

- Approved/took note of the minutes of proceedings
- Reviewed Reports from Chairpersons of Committees
- Updated on developments in the operating environment
- Approved the remuneration/productivity bonus for employees
- Approved the appointment of a Consultant in the absence of a Group CEO
- Took note of the Declaration of Assets Act 2018 and the Declaration of Assets (Amendment) Act 2019
- Reviewed and approved the Annual Report 2018

Board Meetings are attended by Board Members. However, for specific matters, officers of the Company and its subsidiaries, advisors and subject matter experts are also invited.

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 Non-Executive Directors with the Non-Executive Directors and without the Executive Director are conducted in closed sessions by the Chairman. The primary objective of these sessions is to provide the Independent Non-Executive and Non-Executive Directors with the opportunity to discuss among peers and to raise 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 no one Director has unfettered decision-making powers.

Board Governance Structure

The Board has established Committees to assist in fulfilling its responsibilities in line with the provisions of its Charter, promote independent judgement and ensure a balance of power. The Board acknowledges that delegating authorities to these Committees does not detract from its responsibility to discharge its fiduciary duties to the Company. Board Committee Meetings are held at least once quarterly and each Board Committee has its formal written Terms of Reference that are reviewed at least annually. The Board monitors these responsibilities to ensure effective coverage of and control over the operations of the Group.

The Board Committees are: (a) Audit Committee, (b) Corporate Governance & Conduct Review Committee, (c) Nomination & Remuneration Committee, (d) Risk Management Committee and (e) Strategy Committee.

The Board Committees of SBMH were reconstituted in March 2020 and each comprises three Members. The IT Committee was discontinued effective 13 March 2020. The detailed Terms of

Reference of the Board Committees are available on www.sbmgroup.mu



Other Committees may be established from time to time with specific responsibilities as delegated by the Board. The current composition of the Board Committees is detailed as per Annexure 1 and

the profiles of the Directors can be found on www.sbmgroup.mu



AUDIT COMMITTEE

The Audit Committee assists 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 latter's qualifications, independence and performance.

Committee Membership

The Committee comprises solely of Independent Directors and is chaired by Mr Subhas Thecka.

Meetings held in 2019

The Committee held 9 Meetings during the year, with Members of the Senior Management invited to attend as and when specialist technical knowledge was required. The Committee met without Senior Management before each meeting and also met separately with the Head of Internal Audit, Head of Anti-Fraud and the External Auditors respectively.

Members	Member since	Number of meetings attended
● Mr Subhas Thecka	August 2017	8
● Mr Azim Fakhruddin Currimjee	June 2016	8
● Mr Maxime Hardy	July 2015	7
● Mr Roodesh Muttylall	July 2015	6
● Ms Sharon Ramdenee*	April 2019	4
In attendance		
● Ms Sharon Ramdenee**	April 2019	1
● Mr Andrew Bainbridge (Group CEO)		7

* Appointed as Member of the Committee in April 2019 and attended 4 of 6 Meetings held during period she was in office as Member

**Attended 1 of 3 Meeting held in March 2019 by invitation

Principal Activities and Significant Issues Considered during 2019

Financial Reporting

- Considered, analysed, reviewed and debated information, key judgements and significant matters raised by Senior Management, Internal Audit and the External Auditors to ensure that the results and the financial statements of the Group at the end of the year provide a fair representation
- 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
- Recommended the appointment of the new External Auditors for FY 2020

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 approved proposed amendments to the plan to ensure its alignment to the changing nature of the Group's risk profile
- Ensured that the work completed by the 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 Senior Management to address the adverse findings from the Internal Audit Team
- Where it was appropriate, Senior 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 cyber security
- Ensured integrity and accountability from everyone working for the Group

Looking ahead

For 2020, the Committee plans to:

- Further develop the relationship with the Audit Committee of all operating entities to ensure that the Group operates effectively and in a streamlined manner

- Review policies and procedures to ensure in line with the rapid changing competitive environment
- Involve in actively promoting ethical and responsible decision making

CORPORATE GOVERNANCE & CONDUCT REVIEW COMMITTEE

The Corporate Governance & Conduct Review Committee (“CG & CR Committee”) ensures that the Group’s Policies on corporate governance are in accordance with the applicable laws, regulation and best practice and that sound governance principles are adopted across the Group.

Committee Membership

The CG & CR Committee is chaired by Ms Shakilla Bibi Jhungeer effective March 2020 and was previously chaired by Mr Roodesh Muttylall.

Meetings held in 2019

The Committee held 6 meetings during the year. Mr Ramprakash Maunthrooa resigned as Member effective November 2019 while following his retirement Mr Andrew Bainbridge ceased to be a Member as from August 2019.

Members	Committee member since	Number of meetings attended
● Mr Roodesh Muttylall	July 2015	6
● Mr Andrew Bainbridge	August 2018	4
● Mr Medha Gunputh	July 2015	6
● Mr Maxime Hardy	July 2015	6
● Mr Vidianand Lutchmeeparsad	July 2015	4
● Mr Ramprakash Maunthrooa	July 2015	1

Principal Activities and Significant Issues Considered during 2019

- Reviewed the Corporate Governance Report for the Group’s Annual Report 2018
- Reviewed the Governance Review Report and monitored progress relating to actions initiated
- Reviewed the Directors’ training needs for FY 2019
- Reviewed the amendments proposed to existing policies/new policies for the Group
- Reviewed the Board and Board Committees composition
- Reviewed the Related Party Transactions for reporting quarters
- Reviewed the Terms of Reference of Board Committees/Management Committees
- Considered other governance matters

Looking ahead

For 2020, the Committee plans to:

- Review and update the major policies and ensure alignment across the Group
- Ensure that specialised training sessions are regularly provided to Directors
- Continue to oversee and monitor the Group Corporate Governance Framework

IT COMMITTEE

The IT Committee which was established to approve (within an approval threshold as set out in its Terms of Reference approved by the Board) or recommend to the Board of SBMH for approval all budgeted IT projects, whether at the Group or individual operating entity level as well as to monitor their implementation as per the approved plan, was discontinued in March 2020. All the IT related matters will be dealt at the respective entity Board/Committees levels and any material issues would be escalated to the SBMH Board.

Meetings held in 2019

The Committee held 9 meetings during the year. Messrs Mahmadally Burkutoola and Andrew Bainbridge ceased to be Members of the Committee effective February 2019 and August 2019 respectively while Mr Rishikesh Hurdoyal joined as Member effective March 2019. The Group Chief Information Officer ("Group CIO") and his team regularly attended the meeting.

Members	Committee member since	Number of meetings attended
<i>Representatives of the Board of SBM Holdings Ltd</i>		
● Mr Vidianand Lutchmeeparsad	August 2018	8
● Mr Andrew Bainbridge	August 2018	6
● Mr Azim Fakhruddin Currimjee	January 2017	5
● Mr Medha Gunpath	January 2016	7
● Mr Kee Chong Li Kwong Wing, G.O.S.K	July 2015	6
<i>Representatives of SBM Bank (Mauritius) Ltd</i>		
● Mr Mahmadally Burkutoola	July 2015	2
● Mr Ishwar Anoopum Gaya	June 2016	8
● Mr Rishikesh Hurdoyal	March 2019	6

*Ceased to be Member of the Committee in February 2019. Attended the 2 meetings held during period he was in office.

Principal Activities and Significant Issues Considered during 2019

- Reviewed and updated the Committee's mandate considering relevant legislations, regulations and governance principles
- 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 cyber-security aspects across the Group
- Tracked the financial spend on the IT projects on a regular basis

NOMINATION & REMUNERATION COMMITTEE

The Board of SBMH has established the Nomination & Remuneration Committee (REMCO) 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. The REMCO also reviews the leadership and succession needs of the organisation and ensures that appropriate procedures are in place for nominating, training and evaluating Directors.

Committee Membership

The REMCO is chaired by Mr Sarwansingh Purmessur effective March 2020 and was previously chaired by Mr Medha Gunpath.

Meetings held in 2019

The Committee held 10 meetings during the year. Mr Ramprakash Maunthrooa resigned as Member of the Committee effective November 2019 while following his retirement as Group CEO, Mr Andrew Bainbridge was appointed as Member effective August 2019. The Human Resources (HR) Lead usually attends the REMCO meetings.

Members	Committee member since	Number of meetings attended
● Mr Medha Gunpath	July 2015	10
● Mr Azim Fakhruddin Currimjee	August 2017	9
● Mr Maxime Hardy	July 2015	9
● Mr Vidianand Lutchmeeparsad	June 2016	8
Mr Ramprakash Maunthrooa	July 2015	5
● Mr Roodesh Muttylall	August 2017	8
● Mr Andrew Bainbridge	August 2019	2
<i>In attendance</i>		
● Mr Andrew Bainbridge (Group CEO)		7

Principal Activities and Significant Issues Considered during 2019

- Considered matters relating to Board succession, including the recruitment and appointment of a Group CEO and appointments of Members to the Board Committees
- Monitored the recruitment of senior personnel across all subsidiaries
- Ensured transparent and fair recruitment
- Reviewed the remuneration and HR related policies
- Recommended the payment of the productivity bonus and salary review of SBMH staff
- Discussed on the proposed HR matrix to be rolled out across the Group

Board Diversity

Over the past years, board diversity has been increasingly considered as a significant mechanism of good corporate governance. The REMCO is committed to promoting diversity at the Board level,

with diversity and inclusion being key considerations in the board selection processes. More details are provided at page 6.

Directors' Time Commitment

All Directors ensure that sufficient time is allocated to the Company in order to discharge their responsibilities effectively. In line with its mandate, the REMCO monitors the attendance, Committee composition and length of service amongst others on an on-going basis. The letters of appointment for Non-Executive Directors set out the time commitment expected from them so as to perform their duties effectively.

Looking ahead

For 2020, the Committee will continue to:

- Consider recruitment and appointment of key Senior Management positions
- Review succession plans for the Board and the key roles in a fair and transparent manner across the Group
- Review future talent pipeline and ensure the gaps are plugged in a timely manner
- Review the training needs of the Directors in conjunction with the CG & CR Committee
- Ensure staff are remunerated fairly and based on merit

RISK MANAGEMENT COMMITTEE

SBM recognises that effective risk management is an essential tool to support the achievement of its strategic and operational objectives.

The Board has established the Risk Management Committee 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 risk. It assists the Board in fulfilling its responsibilities with respect to: (i) oversight of SBM Risk Management Framework, including policies and practices in managing credit, market, operational, legal, compliance and other risks, and (ii) oversight of SBM 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.

Committee Membership

The Risk Management Committee is chaired by Ms Sharon Ramdennee effective March 2020 and was previously chaired by Mr Azim Fakhruddin Currimjee.

Meetings held in 2019

The Committee held 4 meetings during the year 2019. Mr Vidianand Lutchmeeparsad was replaced as Member of the Committee by Ms Sharon Ramdennee in July 2019 while Ramprakash Maunthrooa resigned as Member of the Committee in November 2019. Additionally, following his retirement as Group CEO, Mr Andrew Bainbridge was appointed as Member effective August 2019. The Acting Head of Risk Management of SBMBM currently attends the meeting.

Members	Committee member since	Number of meetings attended
● Mr Azim Fakhruddin Currimjee	June 2016	4
● Mr Andrew Bainbridge	August 2018	3
● Mr Andrew Bainbridge	August 2019	1
● Mr Medha Gunpath	March 2015	3
● Mr Kee Chong Li Kwong Wing, <i>G.O.S.K</i>	July 2015	2
● Mr Vidianand Lutchmeeparsad*	July 2015	2
● Mr Ramprakash Maunthrooa	August 2017	-
● Ms Sharon Ramdenee**	July 2019	-
● Mr Subhas Thecka	August 2017	4
<p>*Attended the 2 meetings held during the period he was in office as Member</p> <p>**Did not attend the 2 meetings held during the period she was in office as Member</p>		

Principal Activities and Significant Issues Considered during 2019

- 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 financial, operational and legal risk profile and the risk heat map on a quarterly basis
- Reviewed its mandate to ensure compliance with the statutory laws and obligations
- Evaluated the stress testing scenarios
- 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 introduced/revamped at SBMBM level on a quarterly basis
- Reviewed material litigation against the Group and its subsidiaries on a quarterly basis
- Reviewed the amendments proposed to existing policies/new policies for the Group

Looking ahead

During the FY 2020, the Committee undertakes to continue the following:

- Oversee the effectiveness of the Group's risk management system, including the identification of the principal risks facing SBM
- Maintain a sound risk management and internal control system
- Review the new products introduced by the SBM Subsidiaries
- Monitor closely the risks associated with the new Accounting Standards on Business

STRATEGY COMMITTEE

The Strategy Committee (a) discusses matters of strategic nature and makes proposals to the Board on the Group's strategy, (b) monitors performance against targets set in line with the strategy and (c) reviews the strategic investments made and the utilisation of capital to ensure that they are in compliance with the Group's mission, vision and objectives.

Committee Membership

The Strategy Committee is chaired by Mr Abdul Sattar Adam Ali Mamode Hajee Abdoula effective March 2020 and was previously chaired by Mr Kee Chong Li Kwong Wing, G.O.S.K.

Meetings held in 2019

The Committee held 4 meetings during the year. Mr Azim Fakhruddin Currimjee was replaced as Member of the Committee by Ms Sharon Ramdenee in July 2019 while Mr Ramprakash Maunthrooa resigned as Member of the Committee effective November 2019. Additionally, following his retirement as Group CEO, Mr Andrew Bainbridge was appointed as Member effective August 2019. Some key Strategy Team members usually attend the Committee meetings.

Members	Committee member since	Number of meetings attended
● Mr Kee Chong Li Kwong Wing, G.O.S.K (Chairman)	July 2015	4
● Mr Andrew Bainbridge	August 2019	1
● Mr Andrew Bainbridge	August 2018	3
● Mr Azim Fakhruddin Currimjee*	July 2016	-
● Mr Maxime Hardy	August 2017	4
● Mr Vidianand Lutchmeeparsad	July 2015	3
● Mr Ramprakash Maunthrooa	July 2015	-
● Ms Sharon Ramdenee**	July 2019	1
● Mr Subhas Thecka	August 2017	3

*Did not attend the 2 meetings held during the period he was in office as Member

**Attended 1 out of the 2 meetings held during the period she was in office as Member

Principal Activities and Significant Issues Considered during 2019

- Reviewed the Group's strategy
- Ensured the strategic investments or divestments made are in line with the Group's strategy
- Monitored the implementation of selected strategic initiatives proposed by McKinsey, an international consultancy firm hired to devise a strategic roadmap for the Group
- Reviewed the performance and outlook of the operating environment including the economy and competing peers
- Monitored the evolution of SBMH share price and reviewed the feedback/comments from the investors for improvement

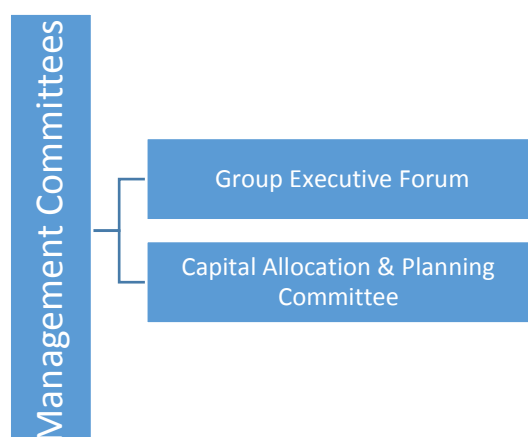
Looking ahead

The Committee will ensure the following:

- Monitor the progress of the selected growth initiatives and critical enabling initiatives
- Continue to monitor the evolution of the share price of SBMH and take appropriate actions based on feedback/comments from investors
- Continue to ensure all future strategic investment decisions are implemented as approved by the Board

MANAGEMENT COMMITTEES

The Board delegates responsibility for the day to day operational management of the Company to the Group CEO, who is supported by the Management Committees as below:



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.

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 SBMBM, 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 Company Secretary works closely with the Chairman to ensure effective functioning of the Board and its Committees. Under the direction of the Chairman, the Company Secretary is responsible for ensuring proper information flow within the Board and its Committees and between Senior Management and Non-Executive Directors, as well as facilitating induction and assisting with professional development of Non-Executive Directors, as required. All Directors receive accurate, timely and clear information on all relevant matters and have access to the advice and services of the Company Secretary.

The Company Secretary attends all Board Meetings and is also responsible for advising the Board on corporate governance matters. The appointment or removal of the Company Secretary is approved by the Board.

The roles and responsibilities of the Company Secretary are found at page 5

Principle THREE - Directors Appointment Procedures

The Board of Directors is in charge of the management of the Company's business. The Directors make the strategic and operational decisions of the Company and are responsible for ensuring that the Company meets its statutory obligations.

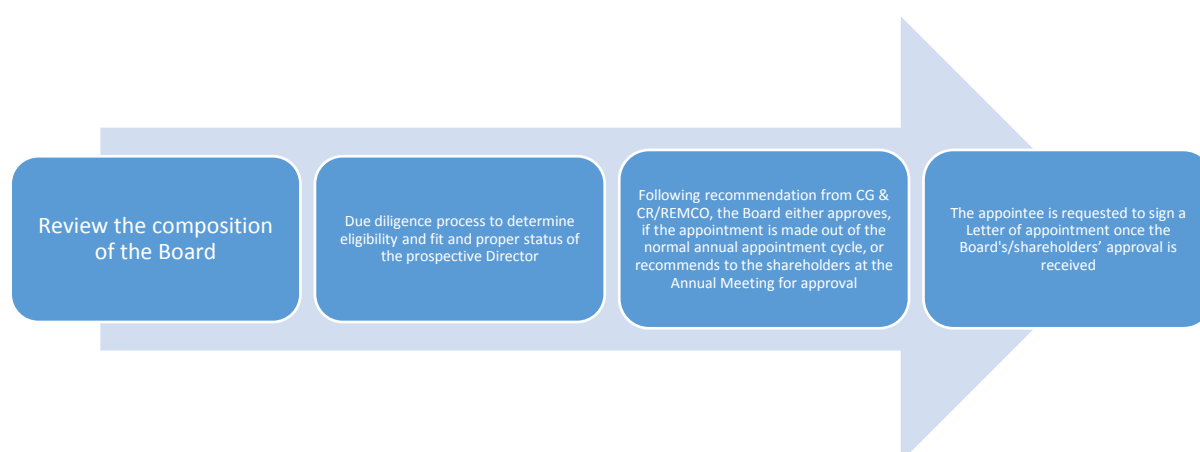
Appointment

Sections 14.1, 14.3 and 14.6 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"*
- *"Notwithstanding Articles 14.1 and 14.2, the Board may at any time appoint any person as Director provided the total number of Directors does not at any time exceed eleven. Any Director so appointed shall hold office only until the next Annual Meeting, and shall be eligible for re-election."*

The Directors are the agents of the Company, appointed by the Shareholders . As set out in the Board Charter, the Board carefully considers the needs of the organisation when appointing Directors.

All appointments to the Board are based on merit and the criteria used to assess the prospective candidates relate amongst others the gender diversity, social and ethnic backgrounds, cognitive and personal strengths, as well as skills, knowledge and experience required for the Board to be effective. In addition, due consideration is given to their existing directorships to minimise any potential conflicts of interest and time management to enable them to discharge their duties and responsibilities diligently. Appointments are made following a formal, rigorous and transparent process as illustrated below:



The Board assumes responsibilities for the induction of new Directors to facilitate their understanding of the business and ensures familiarity with the structure of the Group, its activities, its staff and the laws and documentation necessary for the effective performance of their duties. The Board affirms that all the new Directors participated in an induction and orientation process during the reporting and current period. Each new Director received a tailored-made induction pack

The Board with the assistance of the CG & CR Committee continuously reviews the professional development and ongoing education of Directors.

Succession planning

The Board gives full consideration to succession planning for Directors and the Senior Management Team, and keeps under review the leadership needs of the Company. The Board believes that succession planning contributes to the delivery of the Group's strategy by ensuring continuity and the desired mix of skills and experience of current and future Board Members.

The REMCO, in collaboration with the CG & CR Committee, proactively reviews the succession requirements for the Board and envisages considering for the Senior Management Team once they are onboarded. The Board is considering defining a succession planning policy which will be applicable for the Senior Management Team and Directors.

Principle FOUR - Directors' Duties, Remuneration and Performance

Legal Duties

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

Code of Ethics and Business Conduct

The Board is fully committed to abide by its COE which assists in achieving long term growth and sustainability through exceptional service delivery and high ethical standards. The COE guides employees of the Group as to how to be responsible and respectful in their dealings with all stakeholders. This document was drafted in a structured way with the joint consensus of the Board and Senior Management of various SBM entities. The COE applies to anyone who is employed by or works within the SBM Group (both permanent and temporary) as well as contractors and consultants. SBM Group also encourages its banking partners (such as related corporate bodies, joint venture partners or companies in which SBM Group is a strategic investor) to adopt and maintain similar conduct and ethics to those outlined in this COE. Directors and staff are made aware of the COE and the implications for non-compliance. The Board regularly monitors and evaluates compliance with the COE.

Training and Development for Directors

Over the course of this year, a number of steps were taken to further strengthen capabilities at Board level. The induction process for Directors was reviewed and catered for two categories: (1) newly appointed Directors and (2) newly appointed Member of any Committee. A Training and Personal Development Policy for Directors was implemented to ensure that they have access to a wide range of professional development opportunities.

Induction

The Board ensures that all new Directors receive a comprehensive induction programme that is tailored to their previous experience and covering specific listed company responsibilities. The tailored induction process aims to provide newly appointed Directors or newly appointed Members of any Committees with the necessary information to enable the Directors to perform and discharge their responsibilities and duties as effectively as possible within the shortest practicable time. The induction programme ensures that new Directors are acquainted with the vision, strategic direction, values, COE, corporate governance practices and other key policies of the Group. In addition to

online access to the board portal, face-to-face interactions with other Directors and key Senior Management are also organised.

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

Continuous Development Programme

The Board strongly believes in the development of the Directors and Group employees.

The Board of Directors' Training and Personal Development Policy aims at: (1) setting out Board competencies requirements and (2) outline training and development requirements for Board Directors. In this respect, a comprehensive training calendar is set on a yearly basis, taking into consideration the training needs of the Directors and recent changes in the financial services business environment.

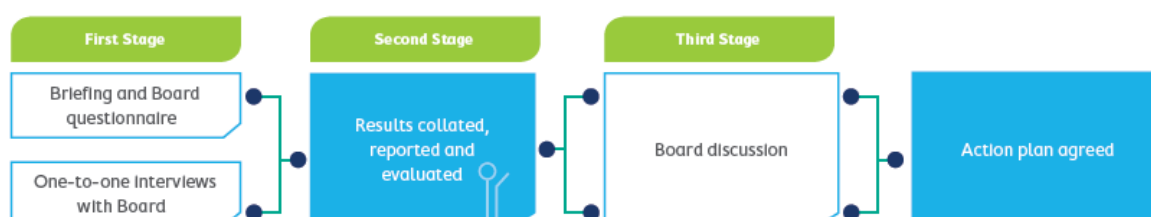
Training courses and personal development initiatives undertaken by Directors are closely monitored by the Chairman and the Company Secretary.

During 2019, Board Directors attended various training sessions to enhance effective governance across geographies and cultures and to be better equipped to address challenges in the modern banking landscape including:

- Governance challenges in a changing banking world
- Value creation in banking from a board perspective
- Effective decision-making in the boardroom
- Best practices in strategy execution and organisational performance
- Enhance governance and board performance to national and organisational contexts
- General issues of information access between management and the Board
- The role and tasks of an effective bank board
- Banking governance compliance for directors
- Evaluating the effectiveness of an effective bank board

Performance Evaluation

In accordance with the requirement of the Code, the Board undertakes a review of the effectiveness of its performance and that of its Committees and Directors annually. During the reporting period, the Board engaged Value Alpha Limited (led by Mr Seamus Gillen), an independent external corporate governance consultancy firm, to conduct a full review of the Board, Board Committees and individual Directors. This has been driven by the Board's belief that an effective Board is key to the delivery of a company's strategy and that an objective and external perspective helps to: i) identify attributes, ii) set priorities for improvement and iii) promote open discussion, all of which lead to a more effective Board. The External Board Evaluation process is set as follows:



The findings were shared with the Board and the Directors got the assurance that the Board is effective and engaged. Directors' individual and collective contributions were noted, as was the collective commitment to the role.

The Board has also agreed on an action plan for the year ahead, focusing on the following key areas:

- Increase the effectiveness of the Board and its Committees, and their ability to deliver the Group's strategic objectives
- An assessment of the composition and diversity of the Board, including Director capabilities and effectiveness, on-going developmental needs and succession planning, with individual feedback for Directors to address
- Deliver a practical business-focused governance work programme for the year ahead.

Conflicts of Interests

A Group Related Party Transactions and Conflict of Interest Policy (the "Policy") was revisited in a well-structured way with the consensus of the Board and Senior Management Team and was adopted during 2019. The objective of this Policy is to ensure proper approval, disclosure and reporting of transactions as applicable between the Group and any of its related parties in the best interests of the Group and its stakeholders. The Policy will be updated at least annually.

The Directors and Senior Management Team (wherever applicable) have a continuing duty to immediately inform the Board of any potential conflicts for consideration and, if authorised, to be included in the Interests Register, which is maintained and updated on a regular basis. The Interests Register is also available to the Shareholders of the Company upon request to the Company Secretary.

The Group recognises that the Non-Executive Directors have other business interests and directorships outside the Company. All the existing directorships are detailed within the Director biographies on the website. The Directors and Senior Management Team (wherever applicable) have a continuing duty to update any changes to these conflicts and to abstain from discussions at Board or Board Committee Meetings in case of conflicts.

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.

During the year, the Board adopted an Insider and Share Dealing Policy to provide guidance to Directors, Senior Management and employees of SBM Group. The objective of the Insider and Share Dealing Policy is to ensure compliance with the laws and regulations relating to insider dealing and trading in SBMH securities as well as setting minimum standards of observance. In accordance with good governance and best practices, the Company Secretary maintains a register detailing the dealing in securities of SBMH by the following persons:

- Directors, Senior Management and any of their associates of the following entities: (a) SBMH, (b) SBMBH, (c) SBM NBFC, (d) SBM NFC and (e) the operating entities of the Group.
- Staff of selected departments and any of their associates.

The register is updated on a regular basis.

The table below outlines the interests of the SBMH Directors in the Company as at 31 December 2019:

Directors	Direct Shareholdings	Indirect Shareholdings
Mr Kee Chong Li Kwong Wing, <i>G.O.S.K</i>	-	26,310
Mr Andrew Bainbridge	205,000	-
Mr Azim Fakhruddin Currimjee	-	86,500
Mr Maxime Hardy	265,000	-

No other Director of SBMH has an equity stake in SBMH or its subsidiaries either directly or indirectly as at 31 December 2019.

Remuneration

• Board of Directors

The remuneration of the Non-Executive Directors is approved by the Shareholders and 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 meetings.

The table below depicts the total fees earned by Directors in 2018 and 2019 in their capacity as Board and Committee Members of SBMH and its Subsidiaries:

Name of Directors	SBM Holdings Ltd	Other Subsidiaries	SBM Holdings Ltd	Other Subsidiaries
	2019		2018	
	MUR'000	MUR'000	MUR'000	MUR'000
Mr Kee Chong Li Kwong Wing, <i>G.O.S.K</i> ¹	1,640	3,472	2,220	3,376
Mr Andrew Bainbridge ²	17,270		24,122	-
Mr Andrew Bainbridge ³	250	412		
Mr Azim Fakhruddin Currimjee ⁴	1,150	1,122	1,410	307
Mr Medha Gunpath ⁴	1,080	662	1,340	661
Mr Maxime Hardy ⁴	840	-	900	-
Mr Vidianand Lutchmeeparsad ⁵	970	126	1,020	-
Mr Ramprakash Maunthrooa ⁶	780	785	1,070	720
Mr Roodesh Muttylall	900	-	1,010	-
Ms Sharon Ramdenee	450	-	20	-
Mr Subhas Thecka	780	-	980	-
Directors of SBM Bank (Mauritius) Ltd				
Mr Mahmadally Burkutoola ⁷	45	240	180	1,430
Mr Ishwar Anoopum Gaya ⁸	180	1,520	180	1,415
Mr Rishikesh Hurdoyal	150	1,310	-	-

¹Ceased to be Director effective 13 March 2020

²As Group CEO of SBMH for period January 2019 to August 2019

³As Non-Executive Director of SBMH and its Subsidiaries for period August 2019 to December 2019

⁴Ceased to be Director effective 12 March 2020

⁵Ceased to be Director effective 10 March 2020

⁶Ceased to be Director effective 13 November 2019

⁷Ceased to be Member of the IT Committee in February 2019

⁸Ceased to be Member of the IT Committee in February 2020

None of the Non-Executive Directors have received remuneration in the form of share options or bonuses associated with the organisational performance.

- **Executive Management**

The overall remuneration philosophy creates an environment in which employees are challenged and rewarded to achieve a required sustainable result. The approach to remuneration is aimed at encouraging and rewarding performance that is aligned to the Group's business model and delivery against the Group's strategy. The remuneration packages of the Senior Management are approved by the Board upon recommendation of the REMCO.

Information Technology and IT Security

SBM Group has embarked on a digital transformation journey, focusing on new technology areas and driving innovation. Several new products and platforms are being rolled out by the group entities to deliver a differentiated customer experience. These initiatives also cover innovative business and partnership models to achieve our strategic business objectives. The IT function has built up considerable knowledge and experience following the previous acquisitions which will add value to any future expansion plans.

Regarding the cyber security posture of the Group, it has been enhanced by implementing various measures including technological upgrades, streamlining of the processes, carrying out awareness sessions, enhancing the compliance to standards and bench markings to strengthen security team across various entities. Also a managed security approach was adopted with homogeneous technology platforms across group entities to enhance group synergy. SBM Group does have a security policy which covers the group entities and in addition, India and Kenya do have their own local security policies as well. Furthermore, the local security teams have been augmented and upgraded to manage the geographical and regulatory challenges supported by centralized team from Mauritius.

The Group does have an Information Technology Risk policy which is already in place. Confidentiality of information and data protection requirements are captured in the corresponding policy documents.

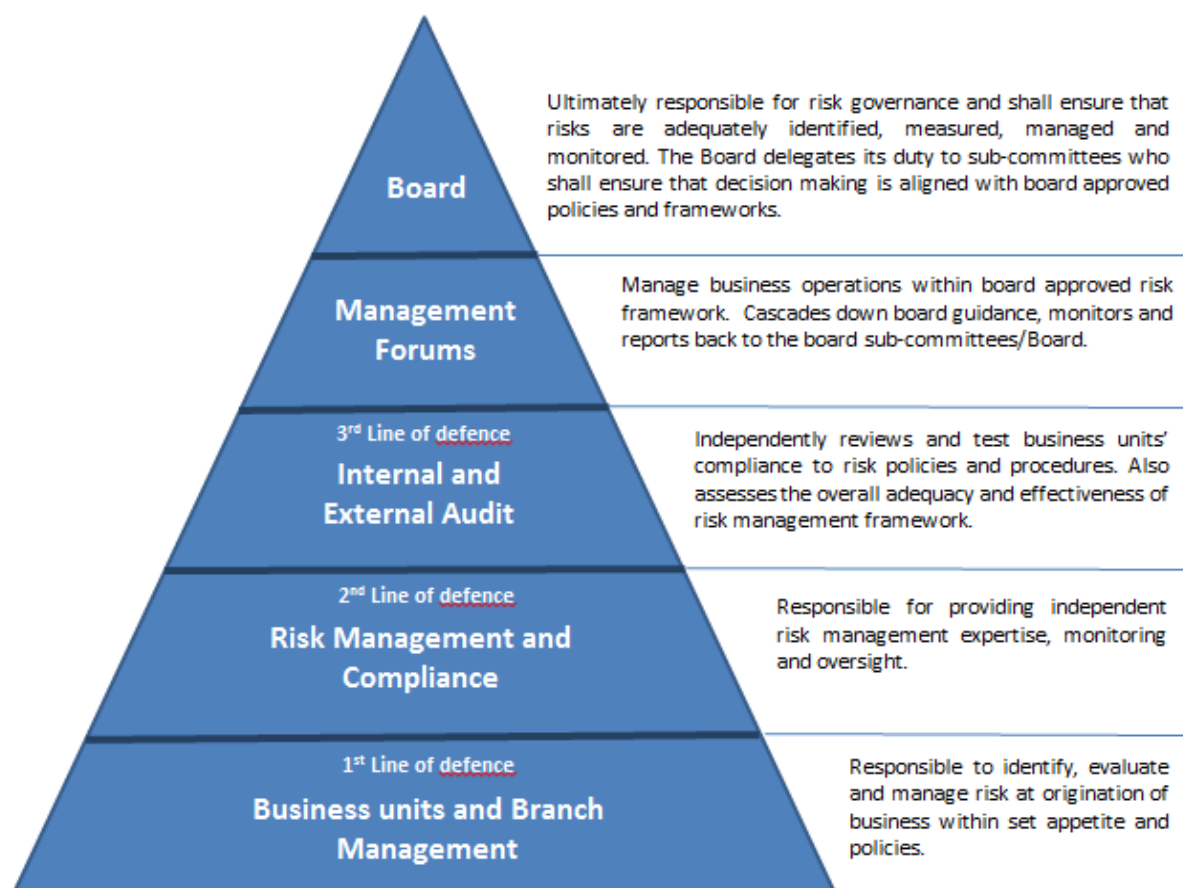
Principle FIVE - Risk Governance and Internal Control

The Board considers it important that there should be a regular and systematic approach to the management of risks in order to provide assurance that strategic and operational goals can be met and the Group's reputation is protected.

Risk Governance and Internal Control

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

The diagram below provides an overview of the governance structure in place.



Risk governance continues to ensure that regulatory and business requirements are fully embedded in our business processes and governance frameworks across all risk functions.

Hence, in addition to ensuring adequacy of credit risk governance, it facilitates identification and escalation of major risk such as operational risk, market risk and liquidity risk whilst providing assurance to the Board. This role falls under the responsibility of the Acting Head of Risk Management who has direct access to the Board Chairman and the Risk Management Committee without impediment.

Whistle Blowing Policy

The employees are invited to promptly report their concerns over malpractices to their direct reports, or the HR department, or through whistleblowing. The Group Whistleblowing and Complaints Handling Policy is reviewed annually and the outcomes of any potential incidents are reported internally or through the confidential whistleblowing hotline are followed up. Following preliminary enquiries, full investigations are launched where such action is deemed appropriate. All investigations are subsequently reported to the Audit Committee. A copy of the Group Whistleblowing and Complaints Handling Policy is available on the Group's website.

Principle SIX - Reporting with Integrity

In line with the requirement of the Companies Act 2001, a copy of the Annual Report (the "Report") is distributed to each shareholder not less than 21 days before the date fixed for holding the Annual Meeting of the shareholders. The Report 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 by the Independent Auditor's Report attached to the financial statements.

Organisation's Financial, Environmental, Social and Governance Position

Human Resources Report

Human Capital remains at the heart of the organisation's success.

Human capital management at SBM includes a rigorous selection process, continuous development opportunities and an enriching employee experience. 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 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.

Environment Report

The Group is committed to protect the environment by constantly identifying and implementing new sustainable and environmentally friendly initiatives.

Corporate Social Responsibility (CSR) Report

Through our SBM Foundation, we also continue to give back to the community by engaging in various CSR initiatives. The Group is proud to say that it has allocated some 2,600 scholarships to bright and needy students through its SBM Scholarship Scheme to date.

SBM employees are also very committed to the society and remain actively engaged in various social initiatives.

Donations

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

Principle SEVEN – Audit

External Audit

- Appointment Process*

At the Annual Meeting of the Shareholders held in June 2019, Ernst & Young (EY) was re-appointed as the statutory auditors of SBMH for the financial year ended 31 December 2019. This was the fifth and final year of audit for EY.

- Appointment of Auditors for FY 2020*

As reported in the Group's Annual Report 2018, the Board launched a competitive audit tender process for the rotation of the audit firm in respect of FY2020. The tender process was overseen by the SBMH Audit Committee and Finance Team. The key objective was to deliver a fair, transparent and successful tender process with minimum disruption to the business. Following this formal tender process, held in June 2019, Deloitte was appointed as the Group's statutory auditor for financial year 2020, at the last Annual Meeting of the Shareholders held in June 2019, to hold office until the next Annual Meeting of Shareholders, scheduled in June 2020. The Board would like to extend their appreciation to the EY team for their years of service to SBM Group and its Shareholders including the 2019 financial year.

Meeting with the Audit Committee

Once quarterly, the External Auditors meet the Members of the Audit Committee without the presence of Senior Management to discuss on the potential threat to independence. Then along with the Senior Management Team, the financial performance of SBMH and its subsidiaries as well as the accounting principles adopted are discussed as well as any audit related issues.

Kindly refer to the SBM website for the financial literacy or expertise of the Members of the Audit Committee.

Evaluation of the Auditors

The Audit Committee evaluates the External Auditors in fulfilling their duty annually, to make an informed recommendation to the Board for the re-appointment of the External Auditors. The evaluation encompasses an assessment of the qualifications and performance of the External Auditors, the quality and candour of the External Auditors' communications with the Audit Committee and the Group, as well as the Auditors' 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 2019:

	2019 Audit MUR'000	2018 Audit MUR'000
SBM Holdings Ltd		
Statutory Audit and quarterly reviews - Ernst & Young	759	518
Other Services - Ernst & Young	14	1,908
SBM (Bank) Mauritius Ltd		
Statutory Audit and quarterly reviews - Ernst & Young	8,712	6,400

Other auditors	1,466	5,750
SBM Bank (India) Limited		
Statutory Audit - S.R Batliboi (member of Ernst & Young)	2,066	3,527
Other Services - Ernst & Young	-	1,772
Banque SBM Madagascar SA		
Statutory audit - Delta Audit Deloitte Associates	182	372
Statutory audit - Ernst & Young	47	372
SBM Bank (Kenya) Limited		
Statutory audit - Ernst & Young	3,311	3,200
Other Services - Ernst & Young	-	1,179
SBM (Bank) Seychelles Limited		
Statutory Audit Ernst & Young	421	0
SBM (Bank) Holdings Ltd		
Statutory Audit and quarterly reviews - Ernst & Young	152	100
Other Services - Ernst & Young	8	8
SBM Africa Holdings Ltd		
Statutory audit - Ernst & Young	84	71
SBM (NBFC) Holdings Ltd		
Statutory audit - Ernst & Young	121	118
Other Services - Ernst & Young	139	
SBM MAM		
Statutory audit - Ernst & Young	144	118
Other Services - Ernst & Young	38	
SBM Fund Services Ltd		
Statutory audit - Ernst & Young	156	118
Other Services - Ernst & Young	22	
SBM Securities Ltd		
Statutory audit - Ernst & Young	227	118
Other Services - Ernst & Young	38	
SBM Factors Ltd		
Statutory audit - Ernst & Young	120	94
Other Services - Ernst & Young	13	
SBM (NFC) Holdings Ltd		
Statutory audit - Ernst & Young	120	109
Other Services - Ernst & Young	8	
SBM Capital Markets		
Statutory audit - Ernst & Young	125	58
Other Services - Ernst & Young	20	
SIAL		
Statutory audit - Ernst & Young	108	58
Other Services - Ernst & Young	15	
	18,634	25,894

The non-audit work is performed by a separate team who holds the necessary expertise and which is independent of the Audit Review 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 different teams under the supervision of different Partners/Managers.

Internal Audit

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

The Group's Internal Audit is governed by a Group Internal Audit Charter/Policy approved by the Audit Committee of SBMH. The Group's Internal Audit function is being handled by the Internal Audit Team of SBMBM. Within the Group, SBMBM, SBMBI, BSBMM, SBMBK and SBM NBFC have their own permanent Internal Audit function, reporting directly and functionally to their respective Audit Committees. The annual audit plan for each entity is approved by their respective Audit Committees. The Internal Audit of each entity has a dotted reporting line to the Group's Internal Audit, currently sitting at SBMBM. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee of SBMH. The Head of Internal Audit has regular meetings with the Chairman of the Audit Committee of SBMH in the absence of Management representatives, thereby further establishing the independence of the Internal Audit Team and reports to the Audit Committee at least once quarterly. Also in order to maintain objectivity, the 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 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 and also takes note of the audit plans of all entities within the Group, as well as monitors progress in the execution of the plans. Furthermore, the Audit Committee ensures that across the Group, a consistent risk-based audit methodology is applied 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 under the scope of the Internal Audit Team. The very basic principle in all audit plans is that high risk areas (such as credit, NPAs, treasury, payments, finance, and investments) are audited on a more frequent basis. All key processes are audited to identify key risks and assess control adequacy and effectiveness. Audit procedures are designed in response to the risks identified. All key risk areas are covered and that the Internal Audit team has unrestricted access to information and key personnel during the course of its audit work. 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 entity's Audit Committees and Group Audit Committee, on a quarterly basis. The findings as well as the methodologies are duly 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. IT Audit Teams at SBMBM and SBMBK are staffed with certified information systems auditors.

One of the key initiatives in 2020 for the Internal Audit Team will be the second phase of 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 will then be potentially deployed across the other subsidiaries. Another important

initiative being carried over from 2019 is the strengthening of the IT Audit Team with additional qualified and experienced resources.

In the years to come, along with the Group's targeted growth and expansion, the Internal Audit will be called upon to be an important player in providing valuable assurance services.

- **SBM Holdings Ltd**

During the year 2019, the audit plan for SBMH was fully completed. Audit findings and recommendations are tabled and discussed at the Audit Committee of SBMH. Follow up on open items are made on a quarterly basis to ensure timely and adequate implementation of remedial actions.

Over and above the audit plan being executed by the entities' local internal audit team, from a Group perspective, the following overseas audits were carried out by the Group Internal Audit:

- i. BSBMM in January and September 2019
- ii. SBMBK in February 2019
- iii. SBMBI in September 2019

- **SBM Bank (Mauritius) Ltd**

The Internal Audit Team is structured into four clusters namely: credit, operations, IT and others. Each cluster is 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. With regards to IT Audit, the Bank is pursuing its efforts to recruit an IT Audit Lead.

During the year under review, Internal Audit has completed 89% of its planned audits. The key risk areas such as credit, treasury, finance, anti-money laundering and operations were fully covered. 40 branch audits were carried out, with all branches covered at least once.

Moreover, due to resource constraints, the IT audit plan could not be achieved to its full extent, especially with the IT Audit Team being engaged in the implementation of the data analytic tool to support audit work. An independent review of the Bank's IT system is planned to be performed during 2020 by one of the top audit firms in Mauritius.

The Internal Audit Team 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 2019, 25 investigations were completed by the team at the request of Management.

- **SBM Bank (India) Limited**

In September 2019, the Internal Audit Team was strengthened with one Internal Audit Manager. The team achieved over 70% of the audit plan. Areas that could not be covered were outsourced to independent audit firms. With regards to IT audit, one of the Big Four audit firms was appointed in 2019 to carry out an independent review of the IT general controls and SWIFT systems.

- **Banque SBM Madagascar SA**

At BSBMM, the 2019 audit plan was 95% achieved. All the core audit areas, which were categorised as high and medium risks, have been covered at least twice and the low risk areas at least once, thus providing reasonable assurance for those activities. Quarterly reviews were performed on high risk areas and all the six branches were covered. There is a permanent team of two Internal Audit Officers carrying out regular audits. For the year 2020, focus will remain on the key risk areas comprising of credit, anti-money laundering and IT.

- **SBM Bank (Kenya) Limited**

During the FY 2019, SBMBK achieved its internal audit plan at 82%. The team has automated the audit process through the use of Team Mate, an audit management system designed to help auditors and audit department leadership to manage all aspects of the audit process.

In addition, the team uses ACL, a data analytic tool, to perform advanced extraction and analysis of system data. An IT Audit Team was set up and a Head of IT Audit was recruited in April 2019. Two Information System Auditors also joined the team. Due to resources limitations, the IT Audit Team completed 50% of its approved plan. However high risk areas were prioritised and addressed.

- **SBM Bank (Seychelles) Limited**

The first onsite audit for SBMBS is planned for 2020. In 2019 no such audits were carried out as Seychelles operations started in August 2019.

- **SBM (NBFC) Holdings Ltd**

SBM NBFC has its own dedicated audit team since April 2017 with a functional reporting line to its Audit Committee. The team reports administratively to its Chief Executive Officer. Internal audit covers the following subsidiaries:

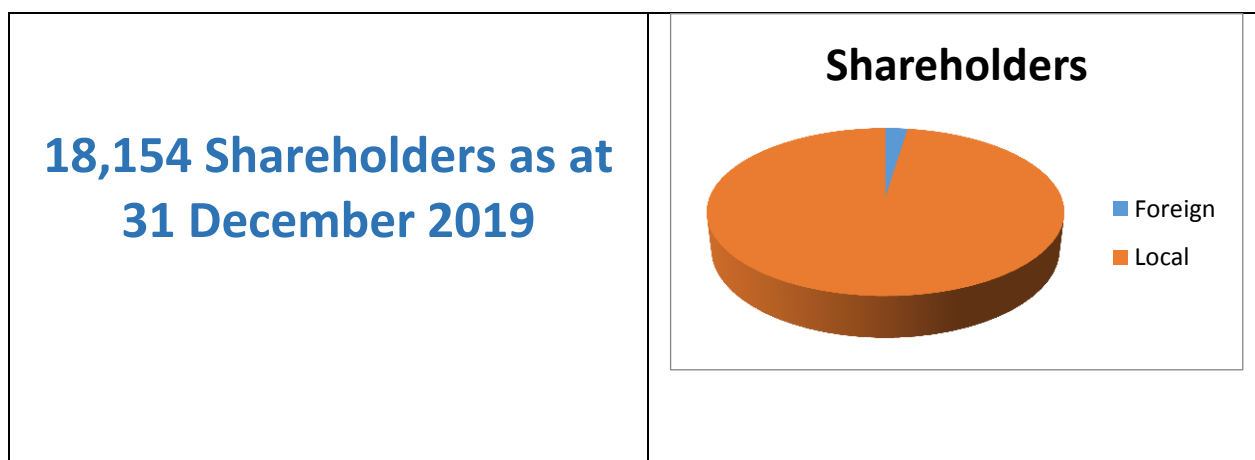
- i. SBM Factors Ltd
- ii. SBM Capital Markets Ltd
- iii. SBM Insurance Agency Ltd
- iv. SBM Fund Services Ltd
- v. SBM Mauritius Asset Managers Ltd

For the FY 2019, the audit plan was fully achieved.

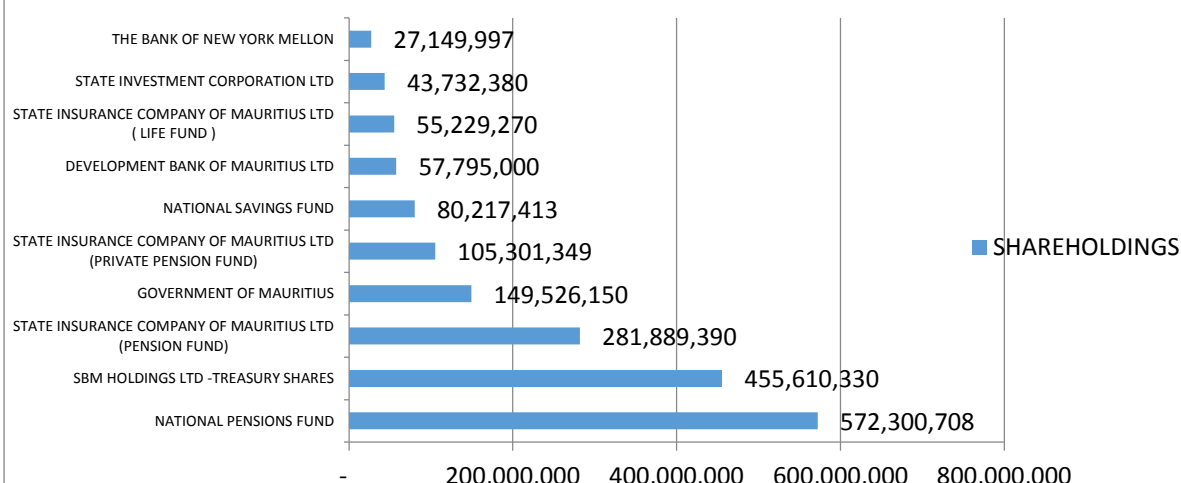
Principle EIGHT - Relations with Shareholders and Other Key Stakeholders

Our rich network of stakeholder relationships supports the values on which SBM was founded. These relationships are even more vital during this period of regional expansion.

Shareholders



TOP 10 SHAREHOLDERS

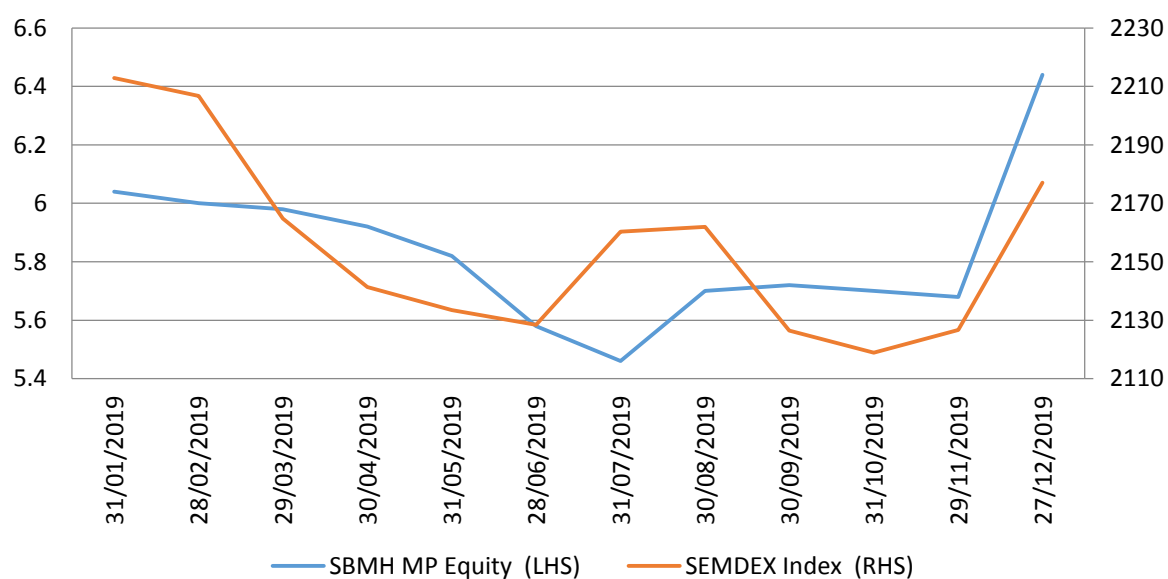


Shareholders Spread

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1-50,000	15857	87.35	151,910,276	5.00
50,001-100,000	900	4.96	66,411,608	2.19
100,001-500,000	1013	5.58	223,906,870	7.37
500,001-1,000,000	179	0.99	126,503,063	4.16
1,000,001-5,000,000	159	0.88	324,751,347	10.69
5,000,001-10,000,000	18	0.10	122,943,500	4.05
10,000,001-25,000,000	14	0.08	201,579,524	6.64
25,000,001-50,000,000	7	0.04	231,072,037	7.61
50,000,001-100,000,000	2	0.01	112,334,670	3.70
>100,000,000	5	0.03	1,475,989,335	48.59
TOTAL	18,154	100.00	3,037,402,230	100.00

SBMH Share Price Evolution

Figure 1: SBMH vs SEMDEX (FY 2019)



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 2019.

Dividend

Dividend declared and paid for the year amounted to 30 cents per share.

Shareholders Information

All shareholders have the same voting rights.

Stakeholder Relations and Communications

The Board of SBMH strongly believes that fair treatment and strong relationships with our key stakeholders is crucial to maintain long-term profit and a sustainable business. The Board hence ensures that the Group maintains constructive relationships and dialogue with its stakeholders. The main stakeholders of SBMH are:

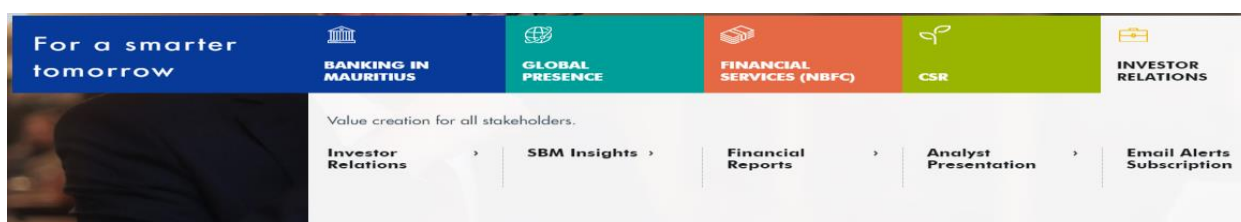
- Shareholders, Debt Holders and Investment Analysis
- Customers
- Employees, Management and Directors
- Government and Regulators
- Suppliers and Strategic Partners
- Communities

Shareholders' relations and communications

Via various communication channels, the Investor Relations cell ensures that shareholders are kept updated on all material matters pertaining to the Group, in compliance with applicable rules and regulations. Our channels are mainly through investor meetings and press communiqués. In addition, Management participates in international roadshows and engages with existing and potential investors from different countries. Key topics discussed during the year 2019 were on financial performance, our remediation plan, risk management and control policies, our regional strategy, implication of national budget measures and changes in tax regimes on the Company, amongst others.

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 of the Company are strongly encouraged to visit the website of the Company to remain updated on the Group's initiatives, projects and goals. We have also made some improvements on the website whereby investors can now register to our Email Alerts Subscription under the Investor Relations section to receive up-to-date information on financial reports, dividend announcements, corporate events and presentation electronically.



Below are the key events that the Investor Relations team undertook for the year 2019:

March

- Roadshow / Conference in Dubai
- Accounts release for financial year 2018
- + Declaration of dividend

May-

- Account release for 1st quarter of 2019 + Declaration of dividend
- One-on-one meeting with key local brokers

August – Accounts release for semester ended June 2019 + Declaration of Dividend

November – Accounts release for 9 months ended September 2019 + Declaration of Dividend Declaration of dividend

Jan/Feb - Roadshow in UK and South Africa

April – Analyst Meeting and investor call for FY2018 results

June

- Publication of Annual Report 2018
- Annual General Meeting of Shareholders

September - Roadshow / Conference in London

Ad-hoc meetings/calls with fund managers, investment analysts and foreign investors as per request

Shareholders' Diary

Financial year 2020

Release of year end results (2019) and declaration for payment of interim dividend (if applicable)	April 2020
Release of quarter 1 2020 results and declaration for payment of interim dividend (if applicable)	May 2020
Annual Meeting of Shareholders	June 2020
Release of quarter 2 2020 results and declaration for payment of interim dividend (if applicable)	August 2020
Release of quarter 3 2020 results and declaration for payment of interim dividend (if applicable)	November 2020
Release of year end results (2020) and declaration for payment of interim dividend (if applicable)	March 2021

Annual Meeting of Shareholders

The Annual Meeting of the Shareholders is an important day in the Group's calendar and is an opportunity for the Board to present the Group's performance and strategy to the shareholders as well as listen and respond to their queries. The Board ensures that the Notice of Meeting along with the proxy forms is sent to shareholders at least 21 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.

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: 01 January 2019 to 31 December 2019

We, the Directors of SBM Holdings Ltd, confirm that, to the best of our knowledge, SBM Holdings Ltd has not applied Principle Two of the National Code of Corporate Governance of Mauritius (2016). Reasons for non-application have been provided on page 5.



Mr Abdul Sattar Adam Ali Mamode Hajee Abdoula
Chairman



Ms Shakilla Bibi Jhungeer
Chairperson – Corporate
Governance & Conduct Review
Committee

Date: 29 April 2020

COMPOSITION OF THE BOARD COMMITTEES OF SBM HOLDINGS LTD	
<u>AUDIT COMMITTEE</u>	<u>CORPORATE GOVERNANCE & CONDUCT REVIEW COMMITTEE</u>
Mr Subhas Thecka (Chairman)	Ms Shakilla Bibi Jhungeer (Chairperson)*
Ms Sharon Ramdenee	Mr Jean Paul Emmanuel Arouff*
Mr Roodesh Muttylall	Ms Sharon Ramdenee*
<u>NOMINATION & REMUNERATION COMMITTEE</u>	<u>RISK MANAGEMENT COMMITTEE</u>
Mr Sarwansingh Purmessur (Chairman) *	Ms Sharon Ramdenee (Chairperson)**
Mr Roodesh Muttylall	Mr Subhas Thecka
Mr Andrew Bainbridge	Mr Andrew Bainbridge
<u>STRATEGY COMMITTEE</u>	
Mr Sattar Hajee Abdoula (Chairman)*	
Mr Andrew Bainbridge	
Mr Visvanaden Soondram*	

Note: The Board Committees of SBMH were re-constituted in March 2020

**Appointed in March 2020*

***Appointed as Chairperson in March 2020*

SBM HOLDINGS LTD
STATEMENT OF DIRECTORS' RESPONSIBILITY
FOR THE YEAR ENDED 31 DECEMBER 2019

1

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.



Abdul Sattar Adam Ali Mamode HAJEE ABDOULA
Chairman



Subhas THECKA
Chairman, Audit Committee

29 April 2020

SBM HOLDINGS LTD
REPORT FROM THE COMPANY'S SECRETARY
FOR THE YEAR ENDED 31 DECEMBER 2019

2

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



D. Ramjug Chumun
Company Secretary

29 April 20

INDEPENDENT AUDITOR'S 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 (altogether, the "Group") set out on pages 11 to 124 which comprise the statements of financial position as at 31 December 2019, 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 the Company as at 31 December 2019, 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 Bank in accordance with the International Ethics Standards Board for Accountants' 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SBM HOLDINGS LTD (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key Audit Matters (Continued)

Key Audit Matter	How the matter was addressed in the audit
<p>Expected credit losses (ECL) - impaired facilities</p> <p>The Group has net loans and advances portfolio of MUR 109.4 billion at 31 December 2019. As explained in the accounting policies, these loans and advances are carried at amortised cost, less allowance for credit impairment MUR 9.67 billion for impaired facilities and MUR 2.67 billion for non-impaired facilities.</p> <p>A financial asset is considered to be credit impaired in accordance with IFRS9 when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.</p> <p>Identification of credit-impaired facilities (i.e. those classified in Stage 3) 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 Bank expects to receive from the obligors. This includes an estimate of what the Bank can realise from the collaterals it holds as security on the impaired facilities.</p>	<p>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.</p> <p>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.</p> <p>We tested the list of all credit impaired loans identified by management by performing the following procedures:</p> <ul style="list-style-type: none"> Reviewed the minutes of the impaired asset review forum, Management Credit forum, Board Credit Committee; Obtained and tested loan arrears reports and for inclusion of all arrears exceeding 90 days in the stage 3 impairment list of the ECL model;

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SBM HOLDINGS LTD (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key Audit Matters (Continued)

Key Audit Matter	How the matter was addressed in the audit
Refer to Note 8 for accounting policy on loans and advances and allowance for credit losses (stage 3). Given the size of the loans and advances of the Group (42% of total assets), we identified the determination of the allowance for expected credit losses on loans and advances as a key audit matter.	<ul style="list-style-type: none"> Identified loan facilities meeting certain criteria such as financial difficulties of the borrower, restructured loans, insufficient collaterals and exposures to sectors in decline and for are inclusion in the list of credit impaired facilities. <p>For loans that are credit impaired, we independently assessed the appropriateness of provisioning methodologies and policies and performed an independent view on the levels of provisions booked based on the detailed loan and counterparty information in the credit files.</p> <p>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.</p> <p>Where the borrowers' cash flow forecasts are used to determine recoverable amounts, we agreed these to objective and unbiased evidence.</p> <p>We evaluated the underlying assumptions used in arriving at the indicative value for the collaterals by corroborating the value obtained to independent sources.</p> <p>Where deemed necessary, we involved our transaction advisory team to review the underlying assumptions.</p>

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SBM HOLDINGS LTD (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key Audit Matters (Continued)

Key Audit Matter	How the matter was addressed in the audit
<p>Expected credit losses (ECL) – facilities which are not credit impaired</p> <p>IFRS 9 requires the Bank to recognise expected credit losses on financial instruments. 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:</p> <ul style="list-style-type: none"> • 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; • 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). • Use of forward-looking information to determine the likelihood of future losses being incurred. • Qualitative adjustments made to model driven ECL results raised to address model limitations, emerging risks and trends in underlying portfolios which are inherently judgemental. • Accuracy and adequacy of the financial statement disclosures <p>The carrying value of financial instruments within the scope of IFRS 9 may be materially misstated if judgements or estimates made by the Bank are inappropriate.</p> <p>Refer to Note 8(c) for disclosure of ECL on loans and advances.</p>	<p>For stage 1 and stage 2 loans, we assessed, with the involvement of our quantitative analysis specialists, the appropriateness of the model used including the inputs and assumptions by performing the following procedures:</p> <ul style="list-style-type: none"> • Reviewed 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 included an assessment of the design of the models used for determination of PD, LGD and EAD for different types of loans including inter-alia term loans, overdraft facilities, credit cards, guarantees and other off-balance sheet exposures; • Assessed the adequacy and quality of the data used for the calculation of PD, LGD and EAD; • Assessed the key assumptions used in PD, LGD and EAD models by comparing such assumptions to the actual behaviours of the credit facilities; • Reviewed 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. Performed data analytic procedures to identify exceptions to the staging rules such as back stops and changes in credit ratings that result in SICR; • Reviewed the minutes of Watchlist Review Committee and ensure proper classification to Stage 2 is made for all clients on watchlist;

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SBM HOLDINGS LTD (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key Audit Matters (Continued)

Key Audit Matter	How the matter was addressed in the audit
	<ul style="list-style-type: none"> Assessed the accuracy of critical data elements input into the system used for credit grading and the approval of credit facilities; Reviewed the PD and LGD calculations including the incorporation of forecast macro-economic information by our data modelling specialists; Tested the accuracy and completeness of the ECL model by reperformance; Assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards.

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 Bank or to cease operations, or have no realistic alternative but to do so.

Other Information

The directors are responsible for the other information. The other information comprises the Statement of Directors' responsibility, Report from the Company Secretary as required by the Companies Act 2001, Statement of Management's responsibility for financial reporting, Management Discussion and Analysis, and Corporate Governance Report but 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SBM HOLDINGS LTD (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Other Information (Continued)

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) when it becomes available 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 ("the Code") 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 Bank has, pursuant to section 75 of the Financial Reporting Act, complied with the requirements of the Code.

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 Bank's internal control.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SBM HOLDINGS LTD (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- 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 Bank'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 Bank 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.

Use of our report

This report is made solely to the Company's member 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 member 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 member, for our audit work, for this report, or for the opinions we have formed.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS SBM HOLDINGS LTD (CONTINUED)

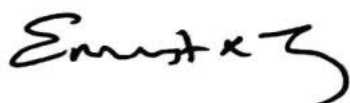
REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Companies Act 2001

We have no relationship with or interests in the Group and Company other than in our capacities 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



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

Date: 29 April 2020

Notes	The Group			The Company		
	31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
ASSETS						
Cash and cash equivalents	5	18,181,126	15,653,515	16,331,538	178,632	32,890
Mandatory balances with central banks		10,680,287	9,977,260	8,966,717	-	-
Loans to and placements with banks	6	9,240,131	11,090,361	8,897,399	-	-
Derivative financial instruments	7	874,269	764,077	1,356,774	-	-
Loans and advances to non-bank customers	8	109,396,640	102,108,174	103,128,838	-	-
Investment securities	9 (i)	94,276,665	71,594,287	40,000,421	1,670,478	3,105,326
Equity investments	9 (ii)	6,014,270	5,752,870	6,137,779	4,227,683	4,292,925
Investment in subsidiaries	9 (iii)	-	-	-	29,899,918	28,485,152
Investment in associate	9 (iv)	1,479,048	1,308,157	1,336,902	1,272,977	1,272,977
Property, equipment and right of use assets	10	4,088,213	3,153,914	2,854,218	3,865	5,780
Goodwill and other intangible assets	11	2,729,474	3,226,412	3,875,613	1,157	44
Deferred tax assets	17 b	355,992	89,440	95,461	-	-
Other assets	12	3,159,878	1,655,659	1,039,721	231,515	153,309
Total assets		260,475,993	226,374,126	194,021,381	37,486,225	31,839,658
LIABILITIES						
Deposits from banks	14	907,521	716,702	689,265	-	-
Deposits from non-bank customers	15	199,397,188	169,384,480	144,850,676	-	-
Other borrowed funds	16	15,670,968	14,522,085	13,686,203	-	-
Derivative financial instruments	7	881,176	799,441	1,334,641	-	-
Current tax liabilities	17 c	536,283	495,964	124,195	-	503
Deferred tax liabilities	17 b	-	159,477	170,905	-	-
Other liabilities	18	8,824,992	6,706,294	4,299,258	117,340	91,777
Subordinated debts	19	9,739,981	9,412,677	3,701,466	9,412,677	3,701,466
Total liabilities		235,958,109	202,197,120	168,856,609	9,504,957	3,707,972
SHAREHOLDERS' EQUITY						
Stated capital	20	32,500,204	32,500,204	32,500,204	32,500,204	32,500,204
Retained earnings		1,107,259	2,270,280	2,410,007	825,549	965,704
Other reserves		(4,214,548)	(5,718,447)	(4,870,408)	(821,818)	(812,673)
		29,392,915	29,052,037	30,039,803	32,653,235	33,006,717
Treasury shares	20	(4,875,031)	(4,875,031)	(4,875,031)	(4,875,031)	(4,875,031)
Total equity attributable to equity holders of the parent		24,517,884	24,177,006	25,164,772	27,778,204	28,131,686
Total equity and liabilities		260,475,993	226,374,126	194,021,381	37,283,161	31,839,658

Approved by the Board of Directors and authorised for issue on 29 April 2020



Abdul Sattar Adam Ali Mamode HAJEE ABDOULA
Chairman



Subhas THECKA
Chairman, Audit Committee

The notes on page 17 to 124 form an integral part of these financial statements

SBM HOLDINGS LTD
STATEMENTS OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

12.

		The Group			The Company		
	Notes	31 December 2019 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2019 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000
Interest income		10,644,090	8,816,856	7,007,347	68,079	77,913	131,045
Interest expense		(4,156,726)	(2,971,513)	(2,239,586)	(476,589)	(309,019)	(149,011)
Net interest income/(expense)	26	6,487,364	5,845,343	4,767,761	(408,510)	(231,106)	(17,966)
Fee and commission income		1,616,807	1,307,329	1,268,893	-	-	-
Fee and commission expense		(43,508)	(30,919)	(29,385)	(150)	(199)	(339)
Net fee and commission income/(expense)	27	1,573,299	1,276,410	1,239,508	(150)	(199)	(339)
Profit / (loss) arising from dealing in foreign currencies		381,611	758,677	560,843	(289,253)	(29,695)	67,735
Net gain on sale of securities	30	665,904	204,458	464,433	6,767	27,614	12,765
Dividend income	28	223,076	110,051	21,501	1,570,456	1,233,068	1,270,535
Net gain from dealing from financial instruments	29	107,592	509,849	516,538	17,879	-	-
Other operating income	31	4,493	1,073,651	1,221	-	-	-
Non-interest income		2,955,975	3,933,096	2,804,044	1,305,699	1,230,788	1,350,696
Operating income		9,443,339	9,778,439	7,571,805	897,189	999,682	1,332,730
Personnel expenses	32	(2,883,912)	(1,951,225)	(1,525,027)	(82,994)	(104,253)	(18,843)
Depreciation of property and equipment and amortisation of right of use assets	10	(476,839)	(205,245)	(166,796)	(2,142)	(1,946)	(1,203)
Amortisation of intangible assets	11	(617,833)	(621,951)	(503,170)	(208)	(6)	-
Other expenses	33	(1,873,960)	(1,919,132)	(1,193,239)	(49,096)	(253,729)	(61,566)
Bank levy		(171,368)	-	-	-	-	-
Non-interest expense		(6,023,912)	(4,697,553)	(3,388,232)	(134,440)	(359,934)	(81,612)
Profit before credit loss expense on financial assets		3,419,427	5,080,886	4,183,573	762,749	639,748	1,251,118
Credit loss (expense)/reversal on financial assets	34	(2,996,142)	(3,559,350)	(1,115,280)	1,085	(1,646)	-
Operating profit		423,285	1,521,536	3,068,293	763,834	638,102	1,251,118
Share of profit of associate	9 (iv)	139,237	100,240	92,005	-	-	-
Profit before income tax		562,522	1,621,776	3,160,298	763,834	638,102	1,251,118
Tax (expense) / income	17 a	(547,487)	(375,982)	(585,375)	(357)	(10,867)	2,895
Profit for the year		15,035	1,245,794	2,574,923	763,477	627,235	1,254,013
Earnings per share:							
Basic (Cents)	35	0.58	48.25	99.73			
Diluted (Cents)	35	0.58	48.25	99.73			

The notes on page 17 to 124 form an integral part of these financial statements.

SBM HOLDINGS LTD
STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

13.

Notes	The Group			The Company		
	31 December	31 December	31 December	31 December	31 December	31 December
	2019	2018	2017	2019	2018	2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Profit for the year	15,035	1,245,794	2,574,923	763,477	627,235	1,254,013
Other comprehensive income :						
<i>Items that will not be reclassified subsequently to profit or loss:</i>						
Increase in revaluation of property	255,148	-	-	-	-	-
Deferred tax on revaluation of property	(9,950)	-	-	-	-	-
Reversal in net property revaluation reserve	-	(17,689)	-	-	-	-
Impact of change in deferred tax rate on revaluation of property	118,392	-	-	-	-	-
Remeasurement of defined benefit pension plan	13 (203,865)	(27,802)	(32,876)	-	-	-
Deferred tax on remeasurement of defined benefit pension plan	17 (b) 14,271	-	-	-	-	-
Impact of change in deferred tax rate on defined benefit pension plan	(7,923)	-	-	-	-	-
Share of associate-remeasurement of defined benefit pension plan	9 (iv) (a) (31,105)	-	-	-	-	-
Share of other comprehensive income of associate	9 (iv) (a) 76,112	(96,235)	290	-	-	-
Net gain/(loss) on equity instruments designated at FVTOCI	45,277	(77,085)	-	-	(77,085)	-
	256,357	(218,811)	(32,586)	-	(77,085)	-
<i>Items that may be reclassified subsequently to profit or loss:</i>						
Exchange differences on translation of foreign operations	39 327,378	(176,373)	(65,347)	-	-	-
Exchange differences resulting from share of associate	9 (iv) (a) 25,496	-	-	-	-	-
Available-for-sale investments						
Movement in fair value of available-for-sale investments	-	-	144,422	-	-	52,013
Fair value reserve re-cycled on disposal of available-for-sale investments	-	-	(228,618)	-	-	15,058
Investment securities measured at FVTOCI						
Movement in fair value during the year	39 395,221	(505,354)	-	-	-	-
Fair value re-cycled on disposal	39 231,379	1,491	-	(9,145)	-	-
Movement in credit loss expense relating to debt instruments held at FVTOCI	39 (6,356)	24,686	-	-	-	-
	973,118	(655,550)	(149,543)	(9,145)	-	67,071
Total other comprehensive income / (loss)	1,229,475	(874,361)	(182,129)	(9,145)	(77,085)	67,071
Total comprehensive income for the year	1,244,510	371,433	2,392,794	754,332	550,150	1,321,084

The notes on page 17 to 124 form an integral part of these financial statements.

SBM HOLDINGS LTD
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

14.

	Stated capital	Treasury shares	Statutory reserve	Retained earnings	Net property revaluation reserve	Other reserves (Note39)	Total equity
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
The Group							
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 21)	-	-	-	(1,032,722)	-	-	(1,032,722)
At 31 December 2017	<u>32,500,204</u>	<u>(4,875,031)</u>	<u>593,966</u>	<u>2,410,007</u>	<u>120,416</u>	<u>(5,584,790)</u>	<u>25,164,772</u>
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)	24,709,206
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 21)	-	-	-	(903,632)	-	-	(903,632)
At 31 December 2018	<u>32,500,204</u>	<u>(4,875,031)</u>	<u>597,074</u>	<u>2,270,280</u>	<u>63,146</u>	<u>(6,378,667)</u>	<u>24,177,006</u>
At 01 January 2019	<u>32,500,204</u>	<u>(4,875,031)</u>	<u>597,074</u>	<u>2,270,280</u>	<u>63,146</u>	<u>(6,378,667)</u>	<u>24,177,006</u>
Profit for the year	-	-	-	15,035	-	-	15,035
Credit loss expense relating to debts instruments held at FVTOCI	-	-	-	-	-	(6,356)	(6,356)
Share of OCI of associate	-	-	-	-	-	101,608	101,608
Other comprehensive (loss)/income for the year	-	-	-	(228,622)	363,590	999,255	1,134,223
Total comprehensive income for the year	-	-	-	(213,587)	363,590	1,094,507	1,244,510
Transfer to statutory reserve	-	-	90,000	(90,000)	-	-	-
Transfer to retained earnings	-	-	-	44,199	(43,121)	(1,078)	-
Dividend (Note 21)	-	-	-	(903,632)	-	-	(903,632)
At 31 December 2019	<u>32,500,204</u>	<u>(4,875,031)</u>	<u>687,074</u>	<u>1,107,260</u>	<u>383,615</u>	<u>(5,285,238)</u>	<u>24,517,884</u>

Other reserves in the Statements of financial position comprise of statutory reserve, net property revaluation reserve and other reserve.

The notes on page 17 to 124 form an integral part of these financial statements.

SBM HOLDINGS LTD
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

15.

	Stated capital	Treasury shares	Retained earnings	Net unrealised investment fair value reserve	Total equity
<u>The Company</u>	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
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	1,321,084
Dividend (Note 21)	-	-	(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 21)	-	-	(903,632)	-	(903,632)
At 31 December 2018	32,500,204	(4,875,031)	965,704	(812,673)	27,778,204
At 01 January 2019	32,500,204	(4,875,031)	965,704	(812,673)	27,778,204
Profit for the year	-	-	763,477	-	763,477
Other comprehensive loss for the year	-	-	-	(9,145)	(9,145)
Total comprehensive income/(loss) for the year	-	-	763,477	(9,145)	754,332
Dividend (Note 21)	-	-	(903,632)	-	(903,632)
At 31 December 2019	32,500,204	(4,875,031)	825,549	(821,818)	27,628,904

The notes on page 17 to 124 form an integral part of these financial statements.

SBM HOLDINGS LTD
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

16.

	Notes	The Group			The Company		
		31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
		MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Net cash from/(used in) operating activities	36	2,560,472	(3,844,388)	1,234,721	2,465,688	(984,142)	3,801,568
Financing activities							
Increase / (decrease) in other borrowed funds		1,148,884	(1,225,645)	7,770,802	-	-	-
Proceeds from subordinated liabilities debts raised		-	5,672,085	2,025	-	5,672,085	2,025
Dividend paid on ordinary shares	21	(903,632)	(903,632)	(1,032,722)	(903,632)	(903,632)	(1,032,722)
Payment of principal portion of lease liabilities	10	(171,568)	-	-	-	-	-
Net cash flow from / (used in) financing activities		73,684	3,542,808	6,740,105	(903,632)	4,768,453	(1,030,697)
Investing activities							
Investment in non-voting redeemable participating shares		-	-	(120,754)	-	-	(120,754)
Acquisition of property and equipment		(369,769)	(235,021)	(87,653)	(227)	(4,620)	-
Acquisition of intangible assets	11	(125,695)	(286,758)	(173,992)	(1,321)	(50)	-
Disposal of property and equipment		6,808	145,866	7,489	-	-	-
Acquisition of business		-	162,157	12,398	-	-	-
Investment in subsidiaries		-	-	-	(1,414,766)	(3,819,974)	(2,592,215)
Acquisition of other equity investments		-	32,750	(459,211)	-	-	-
Net cash used in investing activities		(488,656)	(181,006)	(821,723)	(1,416,314)	(3,824,644)	(2,712,969)
Net change in cash and cash equivalents		2,145,500	(482,586)	7,153,103	145,742	(40,333)	57,902
Net foreign exchange differences		382,111	(195,437)	(311,773)	-	-	-
Cash and cash equivalents at start of year		15,653,515	16,331,538	9,490,208	32,890	73,223	15,321
Cash and cash equivalents at end of year	5	18,181,126	15,653,515	16,331,538	178,632	32,890	73,223

The notes on page 17 to 124 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 STANDARDS AND INTERPRETATIONS

New and amended standards and interpretations

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Group’s financial statements. The new and amended standards and interpretations are effective for annual periods beginning on or after 01 January 2019, unless otherwise stated. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each new standard or amendment are described below:

IFRS 16 - Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 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. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 01 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 01 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has lease contracts for various branches and IT equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to note 11 Property, equipment and right-to-use assets for the accounting policy prior to 01 January 2019.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 10 Property, equipment and right-to-use assets for the accounting policy beginning 01 January 2019. The standard provides specific transition requirements and practical expedients, which have not been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as from 1 January 2019 apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

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

New and amended standards and interpretations (Cont'd)

IFRS 16 - Leases (cont'd)

Based on the above, as at 01 January 2019:

- Right-of-use assets of MUR 765.77 million were recognised and presented in the statement of financial position within "Property, plant and right-of-use assets".
- Additional lease liabilities of MUR 765.77 million (included in "Other liabilities") were recognised.
- The adoption of IFRS 16 had no impact on the Group's retained earnings and no material impact on its CET1 ratio.

The lease liabilities as at 01 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Assets

Operating lease commitments as at 31 December 2018

Weighted average incremental borrowing rate as at 01 January 2019

Discounted operating lease commitments as at 01 January 2019

Less:

Commitments relating to short-term leases

Commitments relating to leases of low-value asset

Add:

Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018

Lease liabilities as at 01 January 2019

MUR'000
437,404
9%
402,356
-
-
363,409
765,765

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.
- The application of this IFRIC does not have any significant impact on the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instruments, the Group assesses the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion. These amendments had no impact on the financial statements of the Group.

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

New and amended standards and interpretations (Cont'd)

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument.

As indicated in the accounting policies, the Group elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. IAS 39 requires that for cash flow hedges, a forecast transaction must be highly probable. IAS 39 also requires that a hedging relationship only qualifies for hedge accounting if the hedging relationship is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The assessment of hedge effectiveness is made prospectively and retrospectively.

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

Standards issued but not yet effective applicable to the Group

	Effective for accounting period beginning on or after
Amendments to References to the Conceptual Framework in IFRS Standards	01 January 20
Definition of Material (Amendments to IAS 1 and IAS 8)	01 January 20

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 JUDGEMENTS

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 Judgement

The measurement of impairment losses under 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 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.

3.2 Estimates

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 10
- (ii) Pension benefits - Note 13
- (iii) Fair value of equity investments - Note 9
- (iv) Fair value of other financial assets and liabilities - Note 40 (a)
- (v) Incremental borrowing rate used to determine the value of rights of use assets.-Note 10

4. 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 IFRS 16, 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 and Banking Act.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of SBM Holdings Ltd and its subsidiaries as at 31 December 2019 and with comparatives of 2018 and 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether 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.

4. 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Foreign currency translation (Cont'd)

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

	31 December 2019	31 December 2018	31 December 2017
INR / MUR	0.513	0.491	0.523
100 MGA / MUR	1.008	0.988	1.036
KES/MUR	0.362	0.337	0.324
SCR/MUR	2.6878	-	-

The average rates for the following years are:

	31 December 2019	31 December 2018	31 December 2017
INR / MUR	0.505	0.497	0.529
100 MGA / MUR	0.983	1.0181	1.116
KES/MUR	0.348	0.3393	0.328
SCR/MUR	2.6391	-	-

The statement of profit or loss is translated into Mauritian Rupees at weighted average rates. Any differences arising on retranslation of the foreign operation are recognised in other comprehensive income and accumulated in equity. On disposal/ derecognition of a foreign entity, such translation differences are recognised in the statement of profit or loss in the period in which the foreign entity is disposed of/ derecognised.

(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 9. Financial instruments are initially measured at their fair value (as defined in Note 9), except in the case of financial assets and financial liabilities recorded at FVTPL (Fair value through profit and loss), 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.

4. 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 9;
- FVTOCI, as explained in Note 9; and
- FVTPL."

The Group classifies and measures its derivative and trading portfolio at FVTPL as explained in Notes 7 and 9. The Group may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 9.

Before 01 January 2019, 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 9.

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 9."

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 Group'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 Group's original expectations, the Group 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.

4. 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 Group 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.

(g) Derecognition of financial assets

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

(h) Sale and repurchase agreements

Gilt-edged securities sold subject to linked repurchase agreements ("repos") are retained in the statement of financial position and the counterparty liability is included in other borrowed funds. Gilt-edged securities purchased under agreements to resell ("reverse repos") are recorded as balances due from other banks. The differences between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective interest method.

(i) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Financial liabilities and equity instruments (cont'd)

(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.

(j) 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.

(k) 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.

(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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

5. CASH AND CASH EQUIVALENTS

Accounting policy

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

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances with banks and central banks excluding mandatory balances with central banks, loans to and placements with banks having an original maturity of up to 3 months. Cash and cash equivalents are measured at amortised cost. Accounting policy for calculating allowance for impaired losses is outlined under note 8 (c).

	The Group			The Company		
	31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cash in hand	2,884,293	3,211,813	1,842,521	-	-	-
Foreign currency notes and coins	33,579	293,161	327,026	-	-	-
Unrestricted balances with central banks ¹	4,480,589	1,830,100	1,494,175	-	-	-
Loans to and placements with banks ²	2,215,105	3,563,925	5,819,471	-	-	-
Balances with banks	8,572,409	6,797,814	6,848,345	178,632	32,890	73,223
	18,185,975	15,696,813	16,331,538	178,632	32,890	73,223
Less: allowance for impairment losses ³	(4,849)	(43,298)	-	-	-	-
	18,181,126	15,653,515	16,331,538	178,632	32,890	73,223

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.

6. 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 4 (f).

Accounting policy for calculating allowance for impaired losses is outlined under note 8 (c).

	The Group		
	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Loans to and placements with banks			
- In Mauritius	3,257,096	5,588,012	1,104,288
- Outside Mauritius	6,008,516	5,539,316	7,793,111
	9,265,612	11,127,328	8,897,399
Less: allowance for impairment losses	(25,481)	(36,967)	-
	9,240,131	11,090,361	8,897,399
Remaining term to maturity			
Up to 3 months	2,158,912	3,140,692	1,438,472
Over 3 months and up to 6 months	2,637,285	3,341,796	405,513
Over 6 months and up to 12 months	1,119,602	1,839,650	1,910,982
Over 1 year and up to 2 years	1,052,427	1,926,723	3,150,402
Over 2 years and up to 5 years	549,111	878,467	1,992,030
Over 5 years	1,748,275	-	-
	9,265,612	11,127,328	8,897,399

6. 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 40 and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 8.

	31 December 2019				31 December 2018	31 December 2017
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	Total Stage 1	Total Stage 1
Internal rating grade	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Performing						
High grade	2,003,522	-	-	2,003,522	797,769	685,427
Standard grade	5,242,219	-	-	5,242,219	8,618,008	6,190,800
Sub-standard grade	2,019,871	-	-	2,019,871	1,711,551	2,021,172
Past due but not impaired	-	-	-	-	-	-
Non-performing						
Individually impaired	-	-	-	-	-	-
Total	9,265,612	-	-	9,265,612	11,127,328	8,897,399

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

	31 December 2019				31 December 2018
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	Total Stage 1
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Gross carrying amount as at 1 January	11,127,328	-	-	11,127,328	8,897,399
New assets originated or purchased	6,833,114	-	-	6,833,114	5,350,478
Assets derecognised or repaid	(8,850,201)	-	-	(8,850,201)	(3,119,041)
Foreign exchange adjustments	155,371	-	-	155,371	(1,508)
At 31 December	9,265,612	-	-	9,265,612	11,127,328
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	Total Stage 1
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
ECL allowance as at 1 January	36,967	-	-	36,967	16,091
New assets originated or purchased	5,801	-	-	5,801	54,984
Assets derecognised or repaid	(17,394)	-	-	(17,394)	(34,108)
Foreign exchange adjustments	107	-	-	107	-
At 31 December	25,481	-	-	25,481	36,967

7. DERIVATIVE FINANCIAL INSTRUMENTS

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 1 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 Bank 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.

7. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

Accounting policy (Cont'd)

Fair value hedges

In accordance with its wider risk management, as set out in Note 40(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 expires 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.

7. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

	The Group		
	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Trading Assets			
Derivative assets	874,269	764,077	1,356,774
Trading Liabilities			
Derivative liabilities	881,176	799,441	1,334,641

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 2019				
Foreign exchange contracts*	45,599,054	631,324	(368,780)	262,544
Interest rate swap contracts	21,015,481	63,763	(325,980)	(262,217)
Cross currency swaps	1,159,579	42,897	(51,152)	(8,255)
Other derivative contracts	17,682,461	136,285	(135,264)	1,021
	85,456,575	874,269	(881,176)	(6,907)
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

* Foreign exchange contracts include forward and spot contracts and swaps

Derivative financial instruments are classified as non current assets/liabilities.

8. LOANS AND ADVANCES TO NON-BANK CUSTOMERS

[Accounting policy](#)

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 4 (f).

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

		The Group	
	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
1. Governments	8,515	9,315	2,458,655
2. Retail customers	39,586,963	32,121,254	31,990,963
2.1 Credit cards	584,532	606,448	559,351
2.2 Mortgages	25,507,821	22,478,894	19,834,763
2.3 Other retail loans	13,494,610	9,035,912	11,596,849
3. Corporate customers	46,543,416	44,638,968	38,364,068
4. Entities outside Mauritius (including offshore / Global Business Licence Holders)	35,594,084	35,656,506	34,384,155
	121,732,978	112,426,043	107,197,841
Less allowance for credit impairment (Note8 (c))	(12,336,338)	(10,317,869)	(4,069,003)
	109,396,640	102,108,174	103,128,838
a. Remaining term to maturity			
Up to 3 months	12,705,070	15,712,905	15,438,380
Over 3 months and up to 6 months	3,984,337	3,662,406	5,618,540
Over 6 months and up to 12 months	7,759,014	10,214,335	11,727,057
Over 1 year and up to 2 years	8,090,422	9,471,038	6,571,306
Over 2 years and up to 5 years	23,850,257	20,731,023	22,833,824
Over 5 years	65,343,878	52,634,336	45,008,734
	121,732,978	112,426,043	107,197,841

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

b. Net investment in finance leases

Accounting policy

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

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

	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 2019				
Gross investment in finance leases	435,140	1,081,017	97,472	1,613,629
Less: Unearned finance income	(78,465)	(124,708)	(4,386)	(207,559)
Present value of minimum lease payments	356,675	956,309	93,086	1,406,070
Credit loss expense				(45,769)
				1,360,301
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)
				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

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.

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

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 40. 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.

8. 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 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 40.
- 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 40.
- 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 40.

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 40. 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 22. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained in note 22.

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:	<p>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.</p> <p>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.</p>

8. 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)

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.

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 as 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.

8. 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.

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.

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.

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. In order for the loan to be reclassified out of the modified category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of 9 months 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 the probation period
- The customer does not have any contract that is more than 30 days past due

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.

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

c Impairment losses on loans and advances to non-bank customers (Cont'd)

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.

8. 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 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 (Note34)	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 40 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in note 8:

	31 December 2019			
Internal rating grade	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Performing				
High grade	38,369,120	858,047	239,536	39,466,703
Standard grade	34,933,187	5,950,770	293,978	41,177,935
Sub-standard grade	8,934,272	9,076,157	-	18,010,429
Past due but not impaired	-	7,064,523	-	7,064,523
Non-performing				
Individually impaired	-	167,848	15,845,540	16,013,388
Total	82,236,579	23,117,345	16,379,054	121,732,978

At 31 December 2018 & 2017:

	THE GROUP				
	31 December 2018				31 December 2017
Internal rating grade	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	Total
	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	34,979,636
Past due but not impaired	-	2,693,127	184,005	2,877,132	15,788,608
Non-performing					
Individually impaired	-	-	17,801,551	17,801,551	4,786,529
Total	61,266,857	32,926,111	18,233,075	112,426,043	107,197,841

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.

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

c. Impairment losses on loans and advances to non-bank customers (Cont'd)

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.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for the year is as follows:

	31 December 2019			
	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
Gross carrying amount as at 1 January 2019	61,266,857	32,926,111	18,233,075	112,426,043
New assets originated or purchased	31,249,039	7,513,169	473,898	39,236,106
Assets derecognised or repaid (excluding write offs)	(16,923,064)	(11,415,773)	(3,118,382)	(31,457,219)
Assets impaired during the year	-	-	757,439	757,439
Transfers to Stage 1	11,357,786	(11,031,690)	(326,096)	-
Transfers to Stage 2	(5,950,563)	6,026,778	(76,215)	-
Transfers to Stage 3	(312,532)	(1,083,518)	1,396,050	-
Changes to contractual cash flows due to modifications not resulting in derecognition	498,461	(342,182)	(36,968)	119,311
Amounts written off	-	-	(1,438,755)	(1,438,755)
Foreign exchange adjustments	1,050,595	524,450	515,008	2,090,053
At 31 December 2019	82,236,579	23,117,345	16,379,054	121,732,978

At 31 December 2018:

	31 December 2018			
	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
Gross carrying amount				
As at 1 January	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)	(15,837,821)	(1,442,658)	(33,706,246)
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	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(1,279,597)	(456,540)	(927,467)	(2,663,604)
As at 31 December	61,266,857	32,926,111	18,233,075	112,426,043

8. 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:

	31 December 2019			
	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
ECL allowance as at 1 January 2019	605,878	1,175,955	8,536,035	10,317,868
New assets originated or purchased	512,205	1,488,206	3,685,092	5,685,503
Assets derecognised or repaid (excluding write offs)	(400,042)	(279,836)	(643,564)	(1,323,442)
Transfers to Stage 1	425,462	(280,018)	(145,444)	-
Transfers to Stage 2	(73,746)	132,305	(58,559)	-
Transfers to Stage 3	(10,509)	(163,935)	174,444	-
Changes to contractual cash flows due to modifications not resulting in derecognition	27,370	(22,152)	231	5,449
Changes to models and inputs used for ECL calculations	(5,736)	(6,115)	(13,093)	(24,944)
Impact of ECL on transfers	(363,926)	(114,964)	116,623	(362,267)
Recoveries	-	-	(840,365)	(840,365)
Amounts written off	-	-	(1,423,620)	(1,423,620)
Foreign exchange adjustments	8,963	14,664	278,529	302,156
At 31 December 2019	725,919	1,944,110	9,666,309	12,336,338

	31 December 2018			
	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
ECL allowance As at 1 January	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)	18,017	31,801	(724,703)	(674,885)
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	-	(18,589)	74,757
At 31 December	147,612	1,634,218	8,536,039	10,317,869

d. Impairment losses on loans and advances to non-bank customers by industry sectors

Group	31 December 2019					31 December 2018	31 December 2017
	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	Restated MUR' 000
Agriculture and fishing	4,166,340	73,571	56,223	117,110	173,333	213,832	49,165
Manufacturing	8,088,393	1,211,337	905,635	154,316	1,059,951	1,545,056	1,207,803
of which EPZ	1,811,884	28,053	4,141	31,192	35,333	17,118	43,543
Tourism	12,064,542	226,433	130,143	144,781	274,924	292,249	215,422
Transport	3,755,615	1,345,010	1,009,414	150,088	1,159,502	1,139,307	63,274
Construction	9,939,747	444,383	325,468	115,677	441,145	617,914	266,512
Financial and business services	9,854,807	749,797	534,231	96,410	630,641	406,414	160,343
Traders	15,350,812	9,249,445	4,576,544	160,349	4,736,893	3,482,486	588,747
Personal	39,864,948	1,543,864	1,107,704	533,968	1,641,672	1,768,163	1,211,856
of which credit cards	584,575	81,055	41,997	6,258	48,255	93,484	94,278
Professional	179,854	73,872	73,873	2,532	76,405	104,055	106,792
Global Business Licence holders	10,108,784	286,541	144,822	501,775	646,597	105,568	15,918
Others	8,359,136	1,174,801	802,252	693,023	1,495,275	642,825	183,171
	121,732,978	16,379,054	9,666,309	2,670,029	12,336,338	10,317,869	4,069,003

Total impaired loans for 2018 for the Group were MUR 18,233 million (2017: MUR 4,786 million).

9. 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.

(ii) Loans and receivables

Refer to note 8 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.

(iv) 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.

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 *statements 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 losses.

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 statements 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.

9. 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. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of profit of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in 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.

9. INVESTMENTS SECURITIES (CONT'D)

(i) Investment securities

Remaining term to maturity

Remaining term to maturity		31 December 2019									
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 2018	31 December 2017
	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	1,219,545	88,316	202,421	387,912	2,837,684	7,703,694	12,254,898	-	24,694,470	20,135,511	8,664,906
Treasury bills	205,839	-	161,894	-	231,281	-	102,286	-	701,300	9,804,650	4,633,957
Bank of Mauritius bills	1,248,969	53,085	-	100,000	50,257	151,779	-	-	1,604,090	1,232,730	3,544,186
Bank bonds	-	-	-	-	361,602	399,239	-	-	760,841	-	-
Corporate bonds	-	-	-	-	-	-	-	-	-	695,990	2,565,077
	2,674,353	141,401	364,315	487,912	3,480,824	8,254,712	12,357,184	-	27,760,701	31,868,881	19,408,126
(b) Investment securities mandatorily measured at FVTPL											
Government bonds and treasury notes	-	-	-	-	212,779	2,014,088	232,849	-	2,459,716	765,118	1,744,466
Treasury bills	1,800,754	1,017,626	874,265	327,225	-	-	-	-	4,019,870	5,142,257	1,005,925
Bank of Mauritius bills / notes	2,482,402	866,386	123,368	780,168	-	-	-	-	4,252,324	3,107,186	1,947,439
Bank bonds	-	-	-	-	-	493,666	-	-	493,666	-	1,650,227
Corporate bonds	-	-	-	-	-	-	-	-	-	697,223	1,164,405
Redeemable participating shares	-	-	-	-	-	-	-	-	-	351,187	-
Other investment securities	-	-	-	-	-	-	220,233	-	220,233	-	-
Bank bonds secured by government	-	-	-	-	-	-	-	549,308	549,308	-	-
	4,283,156	1,884,012	997,633	1,107,393	212,779	2,507,754	453,082	549,308	11,995,117	10,062,971	7,512,462
(c) investment securities measured at FVTOCI (both equity and debt instruments)											
Government bonds	7,083	955	303,925	503,108	680,191	10,742,520	7,296,622	-	19,534,404	7,534,159	4,424,901
Treasury bills / notes	7,501,499	1,827,606	2,544,975	870,067	-	-	-	-	12,744,147	10,575,017	1,590,498
Bank of Mauritius bills	3,431,679	891,955	3,791	832,769	76,055	435,332	-	-	5,671,581	2,141,448	1,025,410
Other investment	-	-	-	-	-	-	-	-	-	174,752	-
Bank bonds	1,511,872	62,265	484,089	-	1,121,357	7,206,266	572,576	-	10,958,425	5,775,598	533,427
Corporate paper and preference shares	375,346	-	-	-	-	-	-	-	375,346	109,589	451,161
Corporate bonds	83,231	55,425	-	26,221	809,925	2,611,632	1,515,168	-	5,101,602	2,916,229	4,228,511
Equity shares	-	-	-	-	-	-	-	301,777	301,777	498,197	825,925
	12,910,710	2,838,206	3,336,780	2,232,165	2,687,528	20,995,750	9,384,366	301,777	54,687,282	29,724,989	13,079,833
Total investment securities	19,868,219	4,863,619	4,698,728	3,827,470	6,381,131	31,758,216	22,194,632	851,085	94,443,100	71,656,841	40,000,421
Less: allowance for credit losses									(166,435)	(62,554)	-
Total investment securities									94,276,665	71,594,287	40,000,421

9. INVESTMENTS SECURITIES (CONT'D)

(i) Investment securities
Remaining term to maturity

Remaining term to maturity		31 December 2019									
The Company	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 2018	31 December 2017
	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	-	15,003	-	-	205,298	172,808	431,649	-	824,758	1,997,193	985,872
Bank of Mauritius bills / notes	239,844	-	-	-	-	-	-	-	239,844	610,387	-
Bank bonds	-	-	-	-	-	7,738	-	-	7,738	-	-
	239,844	15,003	-	-	205,298	180,546	431,649	-	1,072,340	2,607,580	985,872
(b) Investment securities mandatorily measured at FVTPL											
Redeemable participating shares	-	-	-	-	-	-	-	598,699	598,699	351,187	-
(c) Investment securities measured at FVTOCI (both equity and debt instruments)											
Equity shares	-	-	-	-	-	-	-	-	-	148,197	475,929
	-	-	-	-	-	-	-	-	-	148,197	475,929
Total gross investment securities	239,844	15,003	-	-	205,298	180,546	431,649	598,699	1,671,039	3,106,964	1,461,801
Less: allowance for credit losses									(561)	(1,638)	-
Total investment securities									1,670,478	3,105,326	1,461,801

9. INVESTMENT SECURITIES (CONT'D)

(i) Investment securities (Cont'd)

The table below shows gross balances under IFRS 9:

	Year ended 2019				31 December 18	31 December 2017
	Stage 1 12-month ECL MUR' 000	Stage 2 Lifetime ECL MUR' 000	Stage 3 Lifetime ECL MUR' 000	Total MUR' 000	Stage 1 Total MUR' 000	Stage 1 Total MUR' 000
Debt investment securities at amortised cost						
High Grade	7,377,774	-	-	7,377,774	15,780,405	1,494,314
Standard Grade	19,681,628	-	-	19,681,628	15,766,803	3,724,530
Sub Standard Grade	701,299	-	-	701,299	321,673	14,189,282
Total gross carrying amount	27,760,701	-	-	27,760,701	31,868,881	19,408,126
Credit loss allowance at amortised cost	(166,338)	-	-	(166,338)	(62,554)	-
Carrying amount	27,594,363	-	-	27,594,363	31,806,327	19,408,126
ECL allowance as at 1 January 2019	60,916	-	-	60,916	23,149	-
New assets originated or purchased	31,724	-	-	31,724	8,674	-
Assets derecognised or repaid (excluding write offs)	(2,243)	-	-	(2,243)	(11,939)	-
Impact on year end ECL of exposures	5,102	-	-	5,102	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	63,114	-	-	63,114	42,670	-
Foreign exchange adjustments	7,725	-	-	7,725	-	-
At 31 December 2019	166,338	-	-	166,338	62,554	-
	Year ended 2019				Year ended 2018	Year ended 2017
	Stage 1 12-month ECL MUR' 000	Stage 2 Lifetime ECL MUR' 000	Stage 3 Lifetime ECL MUR' 000	Total MUR' 000	Total Stage 1 MUR' 000	Total Stage 1 MUR' 000
Debt investment securities at FVTOCI						
High Grade	30,942,979	-	-	30,942,979	13,463,797	-
Standard Grade	22,685,597	-	-	22,685,597	14,650,729	-
Sub Standard Grade	1,058,706	-	-	1,058,706	1,610,463	-
Doubtful	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Total gross carrying amount	54,687,282	-	-	54,687,282	29,724,989	-
Credit loss expense at FVTOCI	(96)	-	-	(96)	-	-
Carrying amount	54,687,186	-	-	54,687,186	29,724,989	-

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.

9. INVESTMENTS SECURITIES (CONT'D)

(ii) Equity investments

The Group	31 December 2019								31 December 2018	31 December 2017
	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		
	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	-	-	-	-	-	-	-	6,014,270	5,752,870	6,137,779
	-	-	-	-	-	-	-	6,014,270	5,752,870	6,137,779
The Company										
Investment Securities measured at FVTOCI										
Equity shares of companies - Other equity investments	-	-	-	-	-	-	-	4,227,683	4,227,683	4,292,925
	-	-	-	-	-	-	-	4,227,683	4,227,683	4,292,925

(iii) Investment in subsidiaries

The Company										
- SBM (Bank) Holdings Ltd*	-	-	-	-	-	-	-	27,667,175	26,252,434	22,432,460
- SBM (NBFC) Holdings Ltd	-	-	-	-	-	-	-	1,470,895	1,470,895	1,470,895
- SBM (NFC) Holdings Ltd	-	-	-	-	-	-	-	761,823	761,798	761,798
- SBM 3s	-	-	-	-	-	-	-	25	25	25
	-	-	-	-	-	-	-	29,899,918	28,485,152	24,665,178
Total investments	239,844	15,003	-	-	205,298	180,546	431,649	34,726,300	35,818,161	30,419,904

* The indirect investments held by the Company through SBM (Bank) Holdings Ltd (SPV - Bank Investment Holdings Segment) are as follows:

	31 December 2019	31 December 2018	31 December 2017
Operating companies	MUR' 000	MUR' 000	MUR' 000
- SBM Mauritius Ltd - SBM Bank (Mauritius) Ltd	-	26,115,234	22,295,260
- SBM Madagascar Ltd - Banque SBM Madagascar SA	-	136,090	136,090
- SBM Africa Holdings Ltd - SBM Bank (Kenya) Limited	25	25	25
	25	26,251,349	22,431,375
Special Purpose Vehicles			
- SBM India Ltd *	-	500	500
- SBM Myanmar Ltd*	-	610	610
	-	1,110	1,110

* The subsidiaries has been wound up at 31 December 2019

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9. INVESTMENTS SECURITIES (CONT'D)

(iii) Investment in subsidiaries (Cont'd)

Details of subsidiaries and associate are as follows:

(a) SUBSIDIARIES

		Country of Incorporation and Operation	Business Activity	Issued Share Capital	Effective % holding			
					31 December 2019	31 December 2018	31 December 2017	
<i>1.0 <u>Banking Segmental Subsidiaries</u></i>								
<i>1.1 <u>Special Purpose Vehicle for Bank Investments Holding Company</u></i>								
1.1.1	SBM (Bank) Holdings Ltd	Mauritius	Bank Investment Holding Company	MUR 75,000	100	100	100	
1.1.2	SBM Overseas One Ltd	Mauritius	Offshore banking	MUR 25,000	100	100	100	
1.1.3	SBM Overseas Two Ltd	Mauritius	Offshore banking	MUR 25,000	100	100	100	
1.1.4	SBM Overseas Three Ltd	Mauritius	Offshore banking	MUR 25,000	100	100	100	
1.1.5	SBM Overseas Four Ltd	Mauritius	Offshore banking	MUR 25,000	100	100	100	
1.1.6	SBM Overseas Five Ltd	Mauritius	Offshore banking	MUR 25,000	100	100	100	
1.1.7	SBM Overseas Six Ltd	Mauritius	Offshore banking	MUR 25,000	100	100	100	
<i>1.2 <u>Special Purpose Vehicles for single Bank Investment Holding Subsidiaries</u></i>								
1.2.1	SBM Madagascar Ltd	Mauritius	Investment in Banque SBM Madagascar SA	MUR 60,960	100	100	100	
1.2.2	SBM Africa Holdings Ltd	Mauritius	Investment in SBM Bank (Kenya) Limited	MUR 25,000	100	100	100	
<i>1.3 <u>Bank Operating Subsidiaries</u></i>								
1.3.1	SBM Bank (Mauritius) Ltd	Mauritius	Commercial Banking	MUR 310 million	100	100	100	
1.3.2	Banque SBM Madagascar SA	Madagascar	Commercial Banking	MGA 7.4 billion	100	100	100	
1.3.3	SBM Bank (Kenya) Limited	Kenya	Commercial Banking	USD 1	100	100	100	
1.3.4	SBM Bank (India) Ltd	India	Commercial Banking	INR 6.6 billion	100	100	100	
1.3.5	Sbm Bank (Seychelles) Limited	Seychelles	Commercial Banking	SCR 100 Million	100	100	-	
<i>2.0 <u>Non-Bank Financial Segment Subsidiaries</u></i>								
<i>2.1 <u>Special Purpose Vehicle for Non-Bank Investments Holding Company</u></i>								
2.1.1	SBM (NBFC) Holdings Ltd	Mauritius	Non-Banking Financial Investments Holding Company	MUR 25,000	100	100	100	

9. INVESTMENTS SECURITIES (CONT'D)

(iii) Investment in subsidiaries (Cont'd)

(a) SUBSIDIARIES

		Country of Incorporation and Operation	Business Activity	Issued Share Capital	Effective % holding		
					31 December 2019	31 December 2018	31 December 2017
2.2	<i>Non-Bank Operating Subsidiaries</i>						
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	100
2.2.8	SBM Insurance Agency Limited	Mauritius	Insurance	MUR 1 million	100	100	-
2.2.9	SBM Capital Markets Limited	Mauritius	Investments	MUR 50 million	100	100	-
3.0	<i>Non-Financial Segment</i>						
3.1	SBM (NFC) Holdings Ltd	Mauritius	Non-Financial Holding Company	MUR 25,000	100	100	100
4.0	<i>Indirect Subsidiary</i>						
4.1	SBM 3S Ltd	Mauritius	Shared Support Services	MUR 25,000	100	100	100
4.2	SBM Africa Equity Fund	Mauritius	Closed ended fund	USD 100	100	100	100
4.3	SBM Maharajah Bond Fund	Mauritius	Closed ended fund	USD 10	100	100	100

SBM Holdings Ltd is the ultimate holding company of all the subsidiaries .
The investment in subsidiaries is classified as non current assets.

9. 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 31 December 2019	The Group 31 December 2018	The Group 31 December 2017	The Company 31 December 2019	The Company 31 December 2018
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
At 01 January	1,308,157	1,336,902	1,275,880	1,272,977	1,272,977
Share of profit	139,237	100,240	92,005	-	-
Share of associate-remeasurement of defined benefit pension plan	(31,105)	-	-	-	-
Share of other comprehensive income	76,112	(96,235)	290	-	-
Exchange differences resulting from share of associate	25,496	-	-	-	-
Dividend income from associate (Note28)	(38,849)	(32,750)	(31,273)	-	-
Carrying amount at 31 December	1,479,048	1,308,157	1,336,902	1,272,977	1,272,977

	The Group 31 December 2019	The Group 31 December 2018	The Group 31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Summarised financial information in respect of the Group's associate is set out below:			
Total assets	21,880,172	18,575,605	16,331,403
Total liabilities	15,684,648	13,055,152	13,951,389
Total revenue	1,238,366	1,033,239	963,960
Total profit for the period	696,184	501,200	460,027
Share of profit	139,237	100,240	92,005
Share of other comprehensive income	70,503	(96,235)	290
Share of net assets	1,239,105	1,104,091	1,102,159
Carrying amount at 31 December 2019	1,479,048	1,308,157	1,336,902

Total capital commitment of the investee company stood at MUR 24.8 million as at 30 June 2019 (2018:14.3 million);(2017:35.9 million). As at 30 June 2019, the investee did not report any contingent liability. (2018: nil)**

** The financial year end of the Investment in Associate, ends as at 30 June. The information for capital commitment and contingent liability is available only at year end.
The investment in associate is classified as non current assets

10. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS

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*.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term and are subject to impairment in line with the Group's policy as described below. Right-of-use assets are presented together with property and equipment in the statement of financial position and presented under this note.

The weighted-average incremental borrowing rate for lease liabilities initially recognized as of January 1, 2019, for the Group was 3.5% to 11.25 % p.a respectively.

Lease liabilities

Refer to note 18 Other liabilities for accounting policy on lease liabilities.

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.

Significant accounting estimates and judgements

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects the rate the Group 'would be subject to', which requires either estimation when no observable rates are available or adjustments to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs which has been derived from local Government Treasury Bond yield rates for different maturities and the issued SBM Bond yield rates in order to account for entity-specific adjustments namely the risk premium.

Assessment of useful lives for right of use assets

Determining the carrying amount of the right of use assets require an estimation of the useful lives of these assets which carry a degree of uncertainty.

Management has used historical information relating to the group and the industry in which it operates in order to best determine the useful lives of the right of use assets.

10. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS (CONT'D)

The Group	Freehold land and buildings	Buildings on leasehold land	Other tangible fixed assets	Motor vehicles	Right-of-use assets			Total
					Land and buildings	Other tangible fixed assets	Total right-of-use assets	
Cost or valuation	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
At 01 January 2017	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	-	-	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
Effect of adoption of IFRS 16 as at 01 January 2019	-	-	-	-	559,599	206,167	765,766	765,766
Additions	-	507	192,567	3,222	132,079	81,485	213,564	409,860
Disposals	-	-	-	(13,821)	-	-	-	(13,821)
Write off	(9,962)	-	(331)	-	-	-	-	(10,292)
Revaluation Adjustment	78,837	(153,210)	-	-	-	-	-	(74,373)
Discontinuation	-	-	-	-	(8,434)	-	(8,434)	(8,434)
Translation adjustment	13,795	-	37,503	2,100	-	-	-	53,398
At 31 December 2019	1,135,621	1,421,050	3,105,131	63,922	683,244	287,652	970,896	6,696,620

10. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS (CONT'D)

The Group	Freehold land and buildings	Buildings on leasehold land	Other tangible fixed assets	Motor vehicles	Right-of-use assets			Total
					Land and buildings	Other tangible fixed assets	Total right-of-use assets	
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<u>Accumulated depreciation</u>								
At 01 January 2017	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)
Revaluation movement	-	-	-	-	-	-	-	-
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
Transfer	2,565	(2,565)	-	-	-	-	-	-
Acquisition of new business	-	-	559,491	14,737	-	-	-	574,228
Disposals	-	-	(30,841)	-	-	-	-	(30,841)
Translation adjustment	(1,965)	398	(2,442)	(228)	-	-	-	(4,237)
At 31 December 2018	86,497	223,083	2,182,472	39,105	-	-	-	2,531,157
Charge for the year	17,846	52,443	188,807	10,682	158,762	48,299	207,061	476,839
Write off	-	-	(170)	-	-	-	-	(170)
Disposals	-	-	-	(11,506)	-	-	-	(11,506)
Revaluation movement	(56,589)	(272,931)	-	-	-	-	-	(329,520)
Translation adjustment	178	-	15,512	885	3,956	(26)	3,930	20,505
At 31 December 2019	47,932	2,595	2,386,621	39,166	162,718	48,273	210,991	2,687,305
<u>Net book value</u>								
At 31 December 2019	1,087,689	1,418,455	718,510	24,756	520,526	239,379	759,905	4,009,315
Progress payments on tangible fixed assets								78,898
								4,088,213
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								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

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

The Property, Equipment And Right Of Use Assets Is Classified As Non Current Assets.

10. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS (CONT'D)

The Company

Cost or valuation

At 01 January 2017

At 31 December 2017

Additions

At 31 December 2018

Additions

At 31 December 2019

Accumulated depreciation

At 01 January 2017

Charge for the year

At 31 December 2017

Charge for the year

At 31 December 2018

Charge for the year

At 31 December 2019

Net book value

At 31 December 2019

At 31 December 2018

At 31 December 2017

Other tangible fixed assets	Motor vehicles	Total
MUR' 000	MUR' 000	MUR' 000
-	6,013	6,013
-	-	-
-	6,013	6,013
80	4,540	4,620
80	10,553	10,633
227	-	227
307	10,553	10,860
-	1,704	1,704
-	1,203	1,203
-	2,907	2,907
9	1,937	1,946
9	4,844	4,853
32	2,110	2,142
41	6,954	6,995
266	3,599	3,865
71	5,709	5,780
-	3,106	3,106

10. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS (CONT'D)

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

	The Group		
	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
<i>Level 2 fair value</i>			
Freehold land and buildings	1,135,621	1,052,951	1,033,626
Buildings on leasehold land	1,421,050	1,573,753	1,665,206
	2,556,671	2,626,704	2,698,832

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 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Freehold land and buildings	779,955	499,869	508,905
Buildings on leasehold land	347,500	360,873	374,232
	1,127,455	860,742	883,137

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 December 2019 by an independent Chartered Valuation Surveyor, on an open market value basis. The freehold land and building in India were revalued in March 2019 by independent Chartered Valuation Surveyors on an open market value basis. The inputs used to revalue the PPE relate to unit prices of similar market transactions.

Lease Liabilities

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 18) and the movements during the period:

	MUR' 000
As at 01 January 2019 - Effect of adoption of IFRS 16 (Note 2)	765,767
Additions	213,564
Discontinuations	(8,434)
Accretion of interest	57,750
Exchange difference	(3,982)
Payments	(229,319)
As at 31 December 2019	795,346
The following are the amounts recognised in profit or loss:	31 December 2019
Depreciation expense on right-of-use assets	207,061
Interest expense on lease liability	57,750
Expense relating to leases of low-value assets (included in administrative expenses)	6,801
Gain on contract termination of right-of-use asset	(344)
Total amount recognised in profit or loss	271,268

Maturity analysis of lease liability are as follows:

	Up to 1 year	1 to 5 years	5 to 25 years	Total
Lease liability	83,253	308,273	403,819	795,345

The Group had a total cash outflows for leases of MUR 229.32 million. The initial application of IFRS 16 resulted in non-cash additions to right-of-use assets and lease liabilities of MUR 765.77 million at 01 January 2019.

11. GOODWILL AND OTHER INTANGIBLE ASSETS

Accounting policy

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and any previous interest held over the net identifiable assets acquired and liabilities assumed).

After initial recognition, goodwill is measured at cost less any accumulated losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with that disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash generating unit retained.

Intangible assets with identifiable useful lives are tested for impairment annually as at 31 December at CGU level, as appropriate, and when circumstances indicate that the carrying amount may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGU) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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

Significant accounting estimates and judgements

Assessment of useful lives

Determining the carrying amount of intangible assets requires an estimation of the useful lives of these assets which carry a degree of uncertainty. The Directors have used historical information relating to the Group and the industry in which it operates in order to best determine the useful lives of intangible assets.

(a) *Assets under construction*

The Group has embarked on a business aligned technology transformation programme since 2012. All costs incurred in respect of this project; namely the "Flamingo Project" were capitalised under "asset under construction". In September 2016, all the assets under construction were transferred to "Software" as the project went live and are now being amortised over their useful lives.

(b) *Intellectual property rights*

The Group entered into an agreement in respect of Business Process Engineering and Business Transformation Initiatives to align both its strategies and processes with the Technology Transformation Initiative namely Flamingo Project and also high performance banks. The costs incurred in respect of these initiatives were capitalised as intellectual property rights are now being amortised after the project went live in September 2016.

(c) *WIP Software*

The Group is developing some softwares. These costs will be transferred under "Software" as soon as they will be in use in the Group.

11. GOODWILL AND OTHER INTANGIBLE ASSETS (CONT'D)

The Group	Software	WIP Software	Intellectual Property	Goodwill	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Cost					
At 01 January 2017	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)
Disposal	(611,464)	-	-	-	(611,464)
Scrapping of assets	(1,741)	-	-	-	(1,741)
Acquisition of new business	528,498	-	-	-	528,498
Transfer	51,660	(51,660)	-	-	-
At 31 December 2018	4,677,730	99,475	284,915	-	5,062,120
Translation adjustment	45,154	935	-	-	46,089
Additions	49,034	76,661	-	-	125,695
Write off	(4,430)	(9,882)	-	-	(14,312)
Scrapping of assets	-	(928)	-	-	(928)
Transfer	78,175	(78,175)	-	-	-
At 31 December 2019	4,845,663	88,086	284,915	-	5,218,664
Accumulated amortisation					
At 01 January 2017	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	344,320	-	-	-	344,320
Disposal adj	(611,366)	-	-	-	(611,366)
At 31 December 2018	1,664,759	-	170,949	-	1,835,708
Translation adjustment	35,649	-	-	-	35,649
Charge for the year	560,850	-	56,983	-	617,833
At 31 December 2019	2,261,258	-	227,932	-	2,489,190
Net book value					
At 31 December 2019	2,584,405	88,086	56,983	-	2,729,474
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

The goodwill and other intangible assets is classified as non current assets

11. GOODWILL AND OTHER INTANGIBLE ASSETS (CONT'D)

The Company

<u>Cost or valuation</u>	<u>Software</u>	<u>Total</u>
	<u>MUR' 000</u>	<u>MUR' 000</u>
At 01 January 2017	-	-
Additions	-	-
At 31 December 2017	-	-
At 31 December 2018	50	50
Additions	1,321	1,321
At 31 December 2019	1,371	1,371
<u>Accumulated depreciation</u>		
At 01 January 2017	-	-
Charge for the year	-	-
At 31 December 2017	-	-
Charge for the year	6	6
At 31 December 2018	6	6
Charge for the year	208	208
At 31 December 2019	214	214
<u>Net book value</u>		
At 31 December 2019	1,157	1,157
At 31 December 2018	44	44
At 31 December 2017	-	-

12. 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.

	<u>The Group</u>			<u>The Company</u>		
	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
	<u>MUR' 000</u>	<u>MUR' 000</u>	<u>MUR' 000</u>	<u>MUR' 000</u>	<u>MUR' 000</u>	<u>MUR' 000</u>
Accounts receivable ¹	2,644,442	1,233,103	677,651	231,000	153,108	70,448
Balances due in clearing	118,917	96,105	59,131	-	-	-
Tax paid in advance ²	104,060	103,048	106,916	-	-	-
Dividend receivable	62,092	-	-	-	-	-
Others	230,747	223,498	196,023	515	201	-
	3,160,258	1,655,754	1,039,721	231,515	153,309	70,448
Less: allowance for impairment losses ³	(380)	(95)	-	-	-	-
	3,159,878	1,655,659	1,039,721	231,515	153,309	70,448

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.

³ Allowance for impairment losses relates only to stage 1.

⁴ Prepayments have a maturity of less than one year and are treated as current assets while deposits / advance payments are non-current assets

13. PENSION LIABILITY

Accounting policy

(i) Pension benefits for eligible participating employees

Eligible participating employees are entitled to retirement pensions under the SBM Group Pension Fund, a defined benefit scheme. The average retirement age is 65. The assets of the scheme are managed presently by the SBM Mauritius Asset Managers Ltd.

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

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

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

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

Employees who joined after 31 December 2004 are entitled to defined contribution retirement benefit pension arrangements. Employer contributions are expensed in the statement of profit or loss in the period in which they fall due. The defined contribution benefit replaced the defined benefit pension plan as from 01 January 2005. Employees who were initially in the defined benefit pension plan remained in the said plan.

(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.

13. 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.

(a) Defined benefit plans

The pension liability is computed under the provisions of the Employment Rights Act 2008. 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			The Company
	31 December 2019	31 December 2018	31 December 2017	31 December 2019
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Reconciliation of net defined benefit liability				
Present value of funded defined benefit obligation	1,315,862	1,044,716	1,037,762	7,425
Fair value of planned assets	(1,074,234)	(935,095)	(946,010)	(6,062)
Net liability arising from defined benefit obligation (Note18)	241,628	109,621	91,752	1,363
Reconciliation of net defined benefit liability				
Balance at start of the year	109,621	91,752	67,707	-
Amount recognised in statement of profit or loss (Note32)	34,166	30,274	26,471	1,363
Amount recognised in other comprehensive income	204,365	33,496	39,703	-
Less employer contributions	(106,524)	(45,901)	(42,129)	-
Balance at end of the year (Note18)	241,628	109,621	91,752	1,363
Reconciliation of fair value of planned assets				
Balance at start of the year	935,095	946,010	846,495	-
Interest income	59,075	52,493	55,063	-
Employer contributions	106,524	45,901	42,129	-
Transfer from another entity	-	-	-	6,062
Benefits paid	(38,813)	(28,872)	(40,871)	-
Return on planned assets excluding interest income	12,353	(80,437)	43,194	-
Balance at end of the year	1,074,234	935,095	946,010	6,062
Reconciliation of present value of defined benefit obligation				
Balance at start of the year	1,044,716	1,037,762	914,202	-
Current service cost	30,680	26,473	23,418	-
Past service cost	-	-	-	1,363
Interest expense	62,561	56,294	58,116	-
Other benefits paid	(38,813)	(28,872)	(40,871)	-
Transfer from another entity	-	-	-	6,062
Liability experience loss	226,181	-	-	-
Liability gain due to change in demographic assumptions	-	-	-	-
Liability (gain) / loss due to change in financial assumptions	(9,463)	(46,941)	82,897	-
Balance at end of the year	1,315,862	1,044,716	1,037,762	7,425

13. PENSION LIABILITY (CONT'D)

(a) Defined benefit plans (Cont'd)

	The Group			The Company
	31 December 2019	31 December 2018	31 December 2017	31 December 2019
Components of amount recognised in statement of profit or loss	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Service cost	30,680	26,473	23,418	1,363
Net interest on net employee defined benefit liability	3,486	3,801	3,053	-
Total expense (Note 32)	34,166	30,274	26,471	1,363
Components of amount recognised in other comprehensive income				
Return on planned assets (above)/ below and interest income	(12,353)	80,437	(43,194)	-
Liability experience loss	226,181	-	-	-
Liability experience gain due to change in demographic assumptions	-	-	-	-
Liability experience loss/(gain) due to change in financial assumptions	(9,463)	(46,941)	82,897	-
Total	204,365	33,496	39,703	-

	The Group			The Company
	31 December 2019	31 December 2018	31 December 2017	31 December 2019
Allocation of planned assets at end of year	%	%	%	%
Equity - Overseas quoted	23	18	30	23
Equity - Overseas unquoted	8	10	-	8
Equity - Local quoted	26	28	30	26
Equity - Local unquoted	7	7	7	7
Debt - Overseas quoted	1	1	-	1
Debt - Overseas unquoted	-	6	6	-
Debt - Local quoted	6	4	2	6
Debt - Local unquoted	15	23	21	15
Cash and other	14	3	4	14
Total	100	100	100	100

	31 December 2019	31 December 2018	31 December 2017	31 December 2019
Allocation of planned assets at end of year				
Reporting entity's own transferable financial instruments	3%	4%	6%	3%
Principal assumptions used at end of year				
Discount rate based on government bonds	5.3%	6.1%	5.5%	5.3%
Rate of salary increases	3.1%	4.0%	4.0%	3.1%
Rate of pension increases	0.8%	1.6%	1.0%	0.8%
Average retirement age (ARA)	65	65	65	65
Average life expectancy for:				
- Male at ARA	15.9 years	15.9 years	15.9 years	15.9 years
- Female at ARA	20.0 years	20.0 years	20.0 years	20.0 years

	31 December 2019	31 December 2018	31 December 2017	31 December 2019
Sensitivity Analysis on defined benefit obligation at end of year	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Increase due to 1% decrease in discount rate	205,990	184,915	187,452	1,157
Decrease due to 1% increase in discount rate	167,365	148,350	(150,169)	962

13. PENSION LIABILITY (CONT'D)

(a) Defined benefit plans (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.

IAS 19 requires that the discount rate be set based on the yields of high quality corporate bonds with an appropriate term. Since no deep market in such bonds is available, IAS 19 requires that the yield on government bonds of appropriate term can be applied. The discount rate takes account of the nominal yield to redemption of government bonds traded on the secondary market as at 31 December 2019 and the duration of last year's liabilities.

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 48.36 million to the SBM Group Pension Fund for the next financial year and the weighted average duration of the defined benefit obligation is 14 years.

Pension amounts and disclosures have been based on the report dated 06 March 2020 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 241.63 million as at 31 December 2019 for the plan (31 December 2018: MUR 109.62 million; 31 December 2017: MUR 91.75 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.

(b) Residual retirement gratuities

The amount included in the statement of financial position arising from the Group's obligation in respect of its residual retirement gratuities is as follows:

	The Group	The Company
	31 December 2019	31 December 2019
	MUR' 000	MUR' 000
Reconciliation of net defined benefit liability		
Balance at start of the year	63,434	-
Amount recognised in statement of profit or loss	34,313	1,096
Amount recognised in other comprehensive income	(500)	-
Balance at end of the year	97,247	1,096
Reconciliation of present value of defined benefit obligation		
Balance at start of the year	63,434	-
Current service cost	3,700	-
Interest expense	3,869	-
Past service cost	26,744	1,096
Liability experience loss	2,612	-
Liability gain due to change in financial assumptions	(3,112)	-
Balance at end of the year	97,247	1,096

13. PENSION LIABILITY (CONT'D)

(b) Residual retirement gratuities (Cont'd)

	The Group	The Company
	31 December 2019	31 December 2019
	MUR' 000	MUR' 000
Components of amount recognised in statement of profit or loss		
Service cost	3,700	-
Past service cost	26,744	1,096
Net interest on net defined benefit liability/(asset)	3,869	-
Total expense as Above	34,313	1,096
Components of amount recognised in other comprehensive income		
Liability experience loss	2,612	-
Liability gain due to change in financial assumptions	(3,112)	-
Total	(500)	-
	31 December 2019	31 December 2019
Principal assumptions used at end of year	%	
Discount rate	5.3%	5.3%
Rate of salary increases	3.1%	3.1%
Rate of pension increases	0.8%	0.8%
Average retirement age (ARA)	60/65	60/65
Sensitivity Analysis on defined benefit obligation at end of year		
Increase due to 1% decrease in discount rate	13,458	471
Decrease due to 1% increase in discount rate	9,002	271

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. The results are particularly sensitive to a change in discount rate due to the nature of the liabilities being the difference between the pure retirement gratuities under the Workers' Rights Act 2019 and the deductions allowable, being five times the annual pension provided and half the lump sum received by the member at retirement from the SBM Group DC Fund with reference to the Company's share of contributions. The latter amount is MUR 340.57 million as at 31 December 2019.

Future cashflows

The funding policy is to pay benefits from the reporting entity's cashflow as and when due.

The Group expects to make a contribution of around MUR 14.37 million to the SBM Group DC Fund for the next financial year and the weighted average duration of the defined benefit obligation is 14 years.

14. DEPOSITS FROM BANKS

Accounting policy

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

	The Group	
	31 December 2019	31 December 2018
	MUR' 000	MUR' 000
Demand deposits	907,521	716,702

15. DEPOSITS FROM NON-BANK CUSTOMERS

Accounting policy

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

		The Group		
		31 December 2019	31 December 2018	31 December 2017
		MUR' 000	MUR' 000	MUR' 000
(i) Retail customers				
Current accounts		19,411,521	15,873,186	16,530,624
Savings accounts		55,538,113	52,327,187	51,100,607
Time deposits with remaining term to maturity:				
- Up to 3 months		4,687,493	3,805,778	2,503,486
- Over 3 months and up to 6 months		2,146,348	2,799,551	2,370,258
- Over 6 months and up to 12 months		4,464,390	6,666,258	6,093,287
- Over 1 year and up to 5 years		5,033,085	2,379,746	1,886,990
- Over 5 years		2,297,269	81,228	1,339,754
Total time deposits		18,628,585	15,732,561	14,193,775
Total deposits from retail customers		93,578,219	83,932,934	81,825,006
(ii) Corporate customers				
Current accounts		56,596,878	46,012,337	33,787,373
Savings accounts		3,993,407	4,655,279	4,428,696
Time deposits with remaining term to maturity:				
- Up to 3 months		12,901,434	10,966,221	12,447,635
- Over 3 months and up to 6 months		4,306,609	2,138,845	2,126,411
- Over 6 months and up to 12 months		5,780,107	7,952,025	1,698,055
- Over 1 year and up to 5 years		2,607,327	474,641	667,511
- Over 5 years		1,033	942	273,364
Total time deposits		25,596,510	21,532,674	17,212,976
Total deposit from corporate customers		86,186,795	72,200,290	55,429,045
(iii) Government				
Current accounts		8,756,331	6,167,370	3,067,666
Savings accounts		3,441,526	4,090,841	3,135,643
Time deposits with remaining term to maturity:				
- Up to 3 months		6,918,163	1,622,363	22,397
- Over 3 months and up to 6 months		1,600	619,611	1,357,224
- Over 6 months and up to 12 months		260,191	745,285	12,961
- Over 1 year and up to 5 years		254,363	5,786	734
Total time deposits		7,434,317	2,993,045	1,393,316
Total deposit from the Government		19,632,174	13,251,256	7,596,625
Total deposit from non-bank customers		199,397,188	169,384,480	144,850,676

16. OTHER BORROWED FUNDS

		The Group		
		31 December 2019	31 December 2018	31 December 2017
		MUR' 000	MUR' 000	MUR' 000
Borrowings from central banks				
- For refinancing		3,334,663	2,868,023	673,799
Other financial institutions				
- For refinancing		5,016,521	3,869,634	4,546,841
Borrowings from banks				
- In Mauritius		2,448,757	2,132,609	4,198,169
- Abroad		4,871,027	5,651,819	4,267,394
		15,670,968	14,522,085	13,686,203
Remaining term to maturity				
Up to 3 months		7,901,991	4,454,541	802,383
Over 3 months and up to 6 months		1,162,205	4,432,455	3,195,843
Over 6 months and up to 12 months		36,353	1,454,929	4,055,012
Over 1 year and up to 5 years		4,157,326	3,451,364	3,726,968
Over 5 years		2,413,093	728,796	1,905,997
		15,670,968	14,522,085	13,686,203

17. TAXATION

Accounting policy

Income tax

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

Corporate social responsibility (CSR)

Corporate social responsibility (CSR) was legislated by the government of Mauritius in July 2009. In terms of the legislation, the Group is required for all its companies domiciled in Mauritius to allocate 2% of its Segment A chargeable income of the preceding financial year to government approved CSR NGOs. As from July 2017, following amendments to the Finance Act 2017, the Group will now be required as from 01 January 2017 to 31 December 2018 to remit to the Director General at least 50% of the CSR contribution. After 01 January 2019, the Group is required to remit to the Director General of the MRA 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 as a percentage of its leviable income from residents excluding Global Business Licence holders (the special levy was paid as a percentage of its segmental chargeable income for the year 2018 and 2017). As from 2019, this is recorded as an operating expenses as a result of a change in legislation.

The applicable income tax rate in Mauritius is 15% (2018 and 2017: 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% (2018: 43.26% and 2017: 43.26%); for Madagascar is 20% (2018: 20% and 2017: 20%) and for Kenya is 30% (2018: 30% and 2017: 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%.

17 a. TAX EXPENSE

	The Group			The Company		
	31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Profit before tax	562,522	1,621,776	3,160,298	763,836	638,102	1,251,118
Tax on accounting profit at 15%	84,378	243,266	474,045	114,575	95,715	187,668
Effect of tax rates in foreign jurisdiction	16,937	43,077	-	-	-	-
Non allowable expenses	679,277	1,202,980	594,287	122,863	87,501	3,092
Exempt income	(329,043)	(776,421)	(413,623)	(239,174)	(189,110)	(195,902)
Deferred tax assets not recognised	95,676	(2,772)	4,792	1,736	5,894	5,078
Deferred tax on bargain purchase	-	(355,833)	-	-	-	-
Tax loss utilised	(1,787)	-	-	-	-	-
Under / (Over) provision in previous periods	10,396	14,686	(70,008)	(503)	10,188	(3,835)
Special levy on banks	(157)	184,345	142,325	-	-	-
Corporate Social Responsibility contribution	43,597	24,362	40,412	860	679	1,004
Withholding tax	395	11,665	3,292	-	-	-
	599,669	589,355	775,522	357	10,867	(2,895)
Tax refund	-	69,233	11,608	-	-	-
Foreign tax credit	(52,182)	(282,606)	(201,755)	-	-	-
Total tax expense / (income)	547,487	375,982	585,375	357	10,867	(2,895)

The total tax expense can also be analysed as being incurred as follows:

Income tax expense	805,287	186,133	245,100	(503)	10,251	(3,835)
Deferred income tax (Note 17b)	(301,792)	153,822	296,571	-	(64)	(64)
Corporate Social Responsibility contribution	43,597	24,362	40,412	860	680	1,004
Withholding tax	395	11,665	3,292	-	-	-
Total tax expense	547,487	375,982	585,375	357	10,867	(2,895)

The total tax expense can also be analysed as being incurred as follows:

In Mauritius	438,827	728,094	511,366	357	10,867	(2,895)
Overseas	108,660	(352,112)	74,009	-	-	-
Total tax expense	547,487	375,982	585,375	357	10,867	(2,895)

17. TAXATION (CONT'D)

Accounting policy

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred tax relating to items recognised outside profit or loss are recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The deferred tax rate applied for segment A and segment B in SBM (Bank) Mauritius Ltd is 7% and 5% respectively (2018 & 2017: 17% & 3%). The change in the rate resulted in a tax credit of MUR 112.59 million in the statement of profit or loss and MUR 110.47 million in other comprehensive income. Deferred tax (assets) / liabilities are treated as non current (assets) / liabilities as they have a maturity of over more than one year.

17 b. DEFERRED TAX (ASSETS) / LIABILITIES

	The Group	The Company
	MUR' 000	MUR' 000
At 01 January 2017	(215,260)	64
Exchange difference	962	-
Deferred income tax (Note17a)	296,569	(64)
Deferred tax on retirement benefit obligations	(6,827)	-
Underprovision of deferred tax liability in prior years	-	-
At 31 December 2017	75,444	-
At 01 January 2018	75,444	-
Exchange difference	7,711	-
Deferred income tax (Note17a)	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	-
At 01 January 2019	70,037	-
Exchange difference	(9,447)	-
Deferred income tax (Note 17a)	(189,205)	-
Deferred tax on retirement benefit obligations	(14,271)	-
Deferred tax on revaluation of property	9,950	-
Change in tax rate - recognised in		
- Other comprehensive income	(110,469)	-
- Statement of profit or loss (Note 17a)	(112,587)	-
At 31 December 2019	(355,992)	-

17. TAXATION (CONT'D)

17 b. DEFERRED TAX (ASSETS) / LIABILITIES (CONT'D)

	The Group			The Company		
	31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Deferred tax assets	(355,992)	(89,440)	(95,461)	-	-	-
Deferred tax liabilities	-	159,477	170,905	-	-	-
	(355,992)	70,037	75,444	-	-	-
Analysed as resulting from:						
Accelerated capital allowances	131,278	543,746	420,080	-	-	-
Allowances for credit impairment	(448,423)	(669,169)	(438,390)	-	-	-
Carried forward losses	-	(218,218)	(137,810)	-	-	-
Revaluation of property	87,431	248,315	253,118	-	-	-
Other provisions	(126,278)	165,363	(21,554)	-	-	-
	(355,992)	70,037	75,444	-	-	-

17 c CURRENT TAX LIABILITIES

Current tax liabilities can be analysed as follows:

	The Group			The Company		
	31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Statement of financial position						
At 01 January	495,964	124,195	364,789	503	1,005	1,354
Income tax expenses	786,287	596,990	309,001	-	10,867	(2,895)
Corporate Social Responsibility contribution	43,597	24,362	37,381	860	679	(1,004)
Underprovision / (overprovision) in prior years	3,939	40,864	(62,980)	(503)	(10,188)	3,835
Paid during the year	(800,502)	(290,447)	(523,996)	(860)	(1,860)	(285)
Exchange difference	6,998	-	-	-	-	-
At 31 December	536,283	495,964	124,195	-	503	1,005

Current tax liabilities will mature within the next one year and is classified as a current liabilities.

Deferred tax assets/liabilities have maturity of more than one year and are classified as non current assets/liabilities.

18. OTHER LIABILITIES

Accounting policy

Provisions

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.

Leases

At the commencement date of the lease, the group recognise lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

	The Group			The Company		
	31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Bills payable	381,142	237,305	183,037	-	-	-
Accruals for expenses	953,880	663,542	408,555	15,420	12,307	601
Accounts payable	4,917,258	4,059,709	3,047,964	99,461	79,470	4,900
Deferred income	56,795	41,505	43,377	-	-	-
Balance due in clearing	15,762	318,669	(2,755)	-	-	-
Balances in transit	899,888	772,878	413,459	-	-	-
Pension liability-Defined benefit (Note13)	241,628	109,621	91,752	1,363	-	-
Pension liability-Defined contribution (Note13)	97,247	63,434	-	1,096	-	-
ECL on memorandum Items (Note22)	156,426	179,700	-	-	-	-
Lease liability (Note10)	795,345	-	-	-	-	-
Others	309,621	259,931	113,869	-	-	-
	8,824,992	6,706,294	4,299,258	117,340	91,777	5,501

Deferred income and pension liability have a maturity of over more than one year and are treated as non-current liabilities.

19. SUBORDINATED DEBTS

Loans and borrowings are recognised initially at fair value, net of directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in the *statement of profit or loss* when the liabilities are derecognised as well as through the EIR amortisation process.

	The Group and the Company		
	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Subordinated Bonds:			
<i>Class A 1 series bond of MUR floating interest rate senior unsecured bonds maturing in 2024</i>	1,521,542	1,522,229	1,522,656
<i>Class B 1 series bond of USD floating interest rate senior unsecured bonds maturing in 2021</i>	2,388,057	2,237,195	2,178,810
<i>Class A 2 series bond of MUR fixed interest rate senior unsecured bonds maturing in 2028</i>	3,060,520	3,060,520	-
<i>Class B 2 series bond of USD fixed interest rate senior unsecured bonds maturing in 2025</i>	2,769,862	2,592,733	-
	9,739,981	9,412,677	3,701,466

The public offer for the issue of subordinated senior unsecured multicurrency floating interest rate bonds for Class A 1 series Bond of MUR 1,000 million opened on 20 December 2013. It was oversubscribed and a maximum amount of MUR 1.5 billion, of MUR 10,000 notes with half yearly floating coupon payment of Repo rate + 1.35% per annum maturing in 2024, was retained including the optional amount. Similarly an amount of USD 65.0 million, of USD 1,000 notes with half yearly payment of floating coupon 6-months LIBOR + 175bps per annum maturing in 2021, was retained for the issue of Class B 1 series bond of USD 50 million on 15 February 2014 including the optional amount. The public offer was issued by the State Bank of Mauritius Ltd (renamed as SBM Bank (Mauritius) Ltd) and the bonds are eligible as Tier II Capital.

As at 02 October 2014, on the appointed day of the Group restructure, all the bondholders of Class A 1 series and Class B 1 series Bonds of MUR 1.5 billion and USD 65.0 million respectively were transferred to the Company (SBM Holdings Ltd) with corresponding matching assets (investments).

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 3.06 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 75.66 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.

20. STATED CAPITAL

Accounting policy

(i) Share issue costs

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

(ii) Treasury shares

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

	The Group		The Company	
	Number	MUR' 000	Number	MUR' 000
<u>Authorised, issued and paid up share capital</u>				
At 31 December 2019	3,037,402,230	32,500,204	3,037,402,230	32,500,204
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
<u>Treasury shares held</u>				
At 31 December 2019	455,610,330	4,875,031	455,610,330	4,875,031
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

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 2019, the nominal value of the treasury shares amounted to MUR'000 4,875,031 (2018:MUR'000 4,875,031; 2017:MUR'000 4,875,031).

21. DIVIDEND

Accounting policy

Dividends on ordinary shares are recognised in equity in the period in which they are authorised by the directors. Dividends that are declared after the reporting date are dealt with in the notes to the financial statements.

	The Group			The Company		
	31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Dividend declared after the reporting date:						
2019: nil ;2018: 5 cents ; 2017: 10 cents (2016: 10 cents) per share of nominal 10 cents	-	129,090	258,179	-	129,090	258,179
Dividend declared in preceeding year and paid in current year:						
2018: 5 cents; 2017: 10 cents 10 cents; 2016: 10 cents 10 cents;	129,090	258,179	258,179	129,090	258,179	258,179
Dividend declared paid in current year:						
2019:30 cents; 2018:25 cents ; 2017:30 cents ; 2016: 30 cents per share of nominal 10 cent	774,542	645,453	774,543	774,542	645,453	774,543
	903,632	903,632	1,032,722	903,632	903,632	1,032,722
Less dividend declared and paid during the year	(903,632)	(903,632)	(1,032,722)	(903,632)	(903,632)	(1,032,722)
Dividend payable	-	-	-	-	-	-

Dividend declared after the reporting date is not recognised as a liability in the financial statements as at 31 December .

22. MEMORANDUM ITEMS

Accounting policy

Acceptances

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

Contingent liabilities

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

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. Financial guarantee contracts are accounted for as off-balance sheet items and are disclosed under memorandum items.

a. Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers

	The Group		
	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Acceptances on account of customers	792,774	435,096	804,367
Guarantees on account of customers	8,037,776	8,285,833	7,565,487
Letters of credit and other obligations on account of customers	760,345	861,137	2,129,501
Other contingent items	185,584	-	-
	9,776,479	9,582,066	10,499,355
b. Commitments			
Undrawn credit facilities	13,675,505	9,071,296	14,238,833
c. Other			
Inward bills held for collection	195,680	303,789	188,954
Outward bills sent for collection	982,276	1,497,623	1,929,689
	1,177,956	1,801,412	2,118,643
Total Note (40 b(i))	24,629,940	20,454,774	26,856,831

22. MEMORANDUM ITEMS (CONT'D)

The Group is subject to various legal claims from former employees and customers with claims totaling MUR 978.58 million (2018: MUR 1,381.75 million; 2017: MUR 544.1 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.

Internal rating grade	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
	Individual	Individual		
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Performing				
High grade	10,172,295	73,281	-	10,245,576
Standard grade	4,891,646	1,196,573	-	6,088,219
Sub-standard grade	7,306,494	988,646	-	8,295,140
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	1,005	1,005
Total Note(40 b(i))	22,370,435	2,258,500	1,005	24,629,940

At 31 December 2018 & 2017:

Internal rating grade	31 December 2018				31 December 2017
	Stage 1	Stage 2	Stage 3	Total	Total
	Individual	Individual			
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Performing					
High grade	4,738,147	70,095	-	4,808,242	9,093,241
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	26,762,182

22. MEMORANDUM ITEMS (CONT'D)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

31 December 2019				
	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
Outstanding exposures				
As at 1 January	14,945,184	5,518,094	3,498	20,466,776
New exposures originated or purchased	12,657,043	1,167,803	-	13,824,846
Exposures derecognised or matured/lapsed	(7,714,536)	(2,090,913)	(2,533)	(9,807,982)
Transfers to Stage 1	2,424,141	(2,424,141)	-	-
Transfers to Stage 2	(87,122)	87,242	(120)	-
Transfers to Stage 3	(160)	-	160	-
Foreign exchange adjustments	145,885	415	-	146,300
At 31 December Note(40 b(i))	22,370,435	2,258,500	1,005	24,629,940

31 December 2018				
	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
Outstanding exposures				
As at 1 January	26,847,705	9,126	-	26,856,831
New exposures	11,759,160	637,436	3,498	12,400,094
Exposures derecognised or matured/lapsed	(23,673,682)	4,871,531	-	(18,802,151)
As at 31 December	14,933,183	5,518,093	3,498	20,454,774

31 December 2019				
	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
ECL allowance as at 1 January 2018	161,446	13,664	4,590	179,700
New exposures	78,232	10,082	-	88,314
Exposured derecognised or repaid	(139,701)	(22,593)	(994)	(163,288)
Transfers to Stage 1	25,545	(25,545)	-	-
Transfers to Stage 2	(248)	248	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	3,468	39,652	4,761	47,881
Foreign exchange adjustments	7,317	-	98	7,415
At 31 December 2019	136,059	15,508	8,455	160,022

31 December 2018				
	Stage 1 Individual MUR'000	Stage 2 Individual MUR'000	Stage 3 MUR'000	Total MUR'000
ECL allowance				
As at 1 January 2018	172,837	26	-	172,863
New exposures	35,015	23,544	4,590	63,149
Exposures derecognised or matured/lapsed	(46,406)	(9,906)	-	(56,312)
At 31 December 2018	161,446	13,664	4,590	179,700

23. ASSETS PLEDGED

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

	The Group		
	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Treasury bills / Government bonds	3,638,940	7,512,485	2,077,648
Other	-	-	52,909
	3,638,940	7,512,485	2,130,557
Analysed as:			
- In Mauritius	70,000	3,542,550	1,694,900
- Overseas	3,568,940	3,969,935	435,657
	3,638,940	7,512,485	2,130,557

24. CAPITAL COMMITMENTS

	The Group		
	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Approved and contracted for	187,111	116,213	58,934
Approved and not contracted for	402,998	72,333	64,757

25. OPERATING LEASE

Accounting policy

Prior to 01 January 2019

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.

From 01 January 2019

Refer to note 10 Property, equipment and right-to-use assets and note 18 other liabilities.

	The Group	
	31 December 2018	31 December 2017
	MUR' 000	MUR' 000
<i>Leasing arrangements - The Group as lessee</i>		
Operating lease expense	155,277	102,407

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
	MUR' 000	MUR' 000
Up to 1 year	96,724	92,523
After 1 year and before 5 years	219,441	142,263
After 5 years and up to 25 years	121,239	65,916
	437,404	300,702

26. NET INTEREST INCOME / (EXPENSES)

Accounting policy

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

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

However, for a reclassified financial asset for which the Group and the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The Group 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 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Interest income on financial instruments at amortised cost						
Cash and cash equivalents	265,370	344,291	157,796	-	-	-
Loans to and placements with banks	231,923	134,339	32,376	-	-	-
Loans and advances to non-bank customers	6,461,861	6,457,991	5,387,346	-	-	-
Investment securities	2,529,390	1,114,846	778,076	77,863	77,913	131,045
	9,488,544	8,051,467	6,355,594	77,863	77,913	131,045
Interest income on financial instruments at fair value						
Investment securities	1,222,307	943,885	677,615	-	-	-
Derivative financial instruments	(66,761)	(178,496)	(25,862)	(9,784)	-	-
	1,155,546	765,389	651,753	(9,784)	-	-
Total interest income	10,644,090	8,816,856	7,007,347	68,079	77,913	131,045
Interest expense						
Deposits from non-bank customers	(2,971,919)	(2,179,998)	(1,926,008)	-	-	-
Other borrowed funds	(708,218)	(482,496)	(164,567)	-	-	-
Subordinated debts	(476,589)	(309,019)	(149,011)	(476,589)	(309,019)	(149,011)
Other	-	-	-	-	-	-
Total interest expense	(4,156,726)	(2,971,513)	(2,239,586)	(476,589)	(309,019)	(149,011)
Net interest income / (expense)	6,487,364	5,845,343	4,767,761	(408,510)	(231,106)	(17,966)

27. 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 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Fee and commission income						
Retail banking customer fees	406,573	267,980	341,847	-	-	-
Corporate banking customer fees	556,093	484,534	417,851	-	-	-
Brokerage income (Note 27.a.(i))	44,272	42,920	71,297	-	-	-
Asset management fees (Note 27.a.(i))	42,956	64,772	93,869	-	-	-
Card income	411,385	353,533	313,941	-	-	-
Other (Note 27.a.(i))	155,528	93,590	30,088	-	-	-
Total fee and commission income	1,616,807	1,307,329	1,268,893	-	-	-
Fee and commission expense						
Interbank transaction fees	(18,719)	(17,002)	(14,099)	-	-	-
Brokerage	(2,344)	(1,139)	(2,250)	-	-	-
Other	(22,445)	(12,778)	(13,036)	(150)	(199)	(339)
Total fee and commission expense	(43,508)	(30,919)	(29,385)	(150)	(199)	(339)
Net fee and commission income/(expense)	1,573,299	1,276,410	1,239,508	(150)	(199)	(339)

* Out of the other fee and commission income (2019: MUR'000 155,528) and ((2018: MUR'000 93,590) an amount of MUR'000 84,082 and MUR'000 60,688 pertain to revenue from contract with customers disclosed in note 28.a.(i).

27.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

SBM Mauritius Asset Managers Ltd

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.

SBM Capital Markets Ltd

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.

27.a REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D)

Identify the performance obligations (cont'd)

SBM Capital Markets Ltd (cont'd)

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.

SBM Fund Services Ltd

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.

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.

27.a REVENUE FROM CONTRACTS WITH CUSTOMERS

Accounting policy (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 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.

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.

27.a REVENUE FROM CONTRACTS WITH CUSTOMERS

Accounting policy (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 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 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.

27.a REVENUE FROM CONTRACTS WITH CUSTOMERS

Accounting policy (cont'd)

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.

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.

27.a .(i) Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	THE GROUP		
	Year ended 31 December 2019 MUR'000	Year ended 31 December 2018 MUR'000	Year ended 31 December 2017 MUR'000
<u>SBM Mauritius Asset Managers Ltd</u>			
Management fees	36,781	47,432	34,333
Retrocession fees	2,682	4,978	3,200
Entry and exit fees	3,387	6,575	3,712
Arranger fees	-	-	43,034
Commission from structured products	106	5,787	9,590
Asset management fees	42,956	64,772	93,869
<u>SBM Capital Markets Ltd</u>			
Commission income - Local equity	21,597	11,997	35,818
Commission income - Foreign equity	9,421	4,542	5,288
Commission income - Local bonds	793	3,179	9,481
Commission income - Foreign bonds	12,461	23,202	20,711
Brokerage income	44,272	42,920	71,298
<u>SBM Capital Markets Ltd</u>			
Entry and exit fees	612	-	-
Management fees	2,871	-	-
Retrocession fees	1,659	322	-
Advisory fees	8,596	-	-
<u>SBM Fund Services Ltd</u>			
Registry fees from Funds	3,569	3,267	3,147
Registry fees from other clients	4,357	3,854	2,116
Trustee fees	942	859	1,372
Debenture holder representative fees	-	255	302
Administrative fees	5,176	6,251	5,763
<u>SBM Factors Ltd</u>			
Factoring fees	17,862	2,327	9
Signing fees	96	190	10
<u>SBM Insurance Agency Ltd</u>			
Life commission	12,845	19,223	-
General commission	2,394	2,713	-
DTA commission	23,103	21,427	-
Others	84,082	60,688	12,719
Total revenue from contracts with customers	171,310	168,381	177,886
Geographical markets			
Mauritius	145,090	137,607	148,687
Europe	12,399	14,480	12,657
US	8,538	10,064	10,364
Asia Pacific	2,244	2,646	2,653
Africa	3,039	3,583	3,525
Total revenue from contracts with customers	171,310	168,380	177,886
Timing of revenue recognition			
Services transferred at a point in time	111,158	134,070	127,652
Services transferred over time	60,152	34,310	50,234
Total revenue from contracts with customers	171,310	168,380	177,886

28. DIVIDEND INCOME

Accounting policy

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

	The Group			The Company		
	31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Financial assets measured at FVOCI	151,724	53,782	20,855	148,732	49,818	-
Investment in subsidiaries	-	-	-	1,382,875	1,150,500	1,239,262
Investment in associate	-	-	-	38,849	32,750	31,273
Trading securities	71,352	56,269	646	-	-	-
	223,076	110,051	21,501	1,570,456	1,233,068	1,270,535

29. NET GAIN FROM FINANCIAL INSTRUMENTS

Accounting policy

Results arising from trading activities and includes all gains and losses from changes in fair value for financial assets and financial liabilities held-for-trading.

	The Group			The Company		
	31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Net gain from trading instruments	103,454	337,734	519,417	-	-	-
Investment securities at fair value through profit or loss	26,402	54,921	(2,506)	17,879	-	-
Other	(22,264)	117,194	(373)	-	-	-
	107,592	509,849	516,538	17,879	-	-

30. NET GAIN FROM SALE OF SECURITIES

	The Group			The Company		
	31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Assets measured at amortised cost						
Net gain on derecognition of financial assets measured at fair value through other comprehensive income	231,379	4,321	164,864	371	(794)	(10,529)
Net gain on derecognition of financial assets measured at amortised cost	27,110	33,179	284,573	6,396	28,408	22,907
Net gain on derecognition of financial assets at fair value through profit or loss	407,415	166,958	14,996	-	-	387
	665,904	204,458	464,433	6,767	27,614	12,765

31. OTHER OPERATING INCOME

	The Group			The Company		
	31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Bargain purchase gain arising on acquisition	-	957,941	-	-	-	-
Gain on disposal of plant and equipment	4,493	115,710	1,221	-	-	-
	4,493	1,073,651	1,221	-	-	-

32. 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 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Wages and salaries	2,330,177	1,564,000	1,269,259	67,826	77,618	6,940
Other social security obligations	31,215	1,950	18,601	831	799	99
Contributions to defined contribution plans	221,583	172,108	101,808	7,117	6,176	603
Amount recognised in respect of defined benefit plans (Notes 13)	34,166	30,274	26,363	1,363	0	-
Staff welfare cost	116,704	54,759	27,999	215	153	-
Management and professional charges	-	-	-	-	-	-
Security and cleaning services	-	-	-	-	-	-
Others	150,067	128,134	80,997	5,642	19,507	11,203
	2,883,912	1,951,225	1,525,027	82,994	104,253	18,843

33. OTHER EXPENSES

	The Group			The Company		
	31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Software licensing and other information technology cost	696,088	538,223	525,345	73	75,151	19
Utilities	88,368	69,863	69,946	-	-	-
Professional charges	226,592	175,946	118,870	22,420	50,869	40,932
Marketing costs	125,057	77,260	83,970	6,555	7,669	1,517
Rent, repairs and maintenance	168,345	236,324	190,391	-	-	-
Licence and other registration fees	61,087	38,131	37,479	15,249	12,951	15,414
Impairment of goodwill	-	417,715	-	-	-	-
Impairment of subsidiary at cost	-	-	-	-	45,277	-
Other*	508,423	365,670	167,238	4,799	61,812	3,684
	1,873,960	1,919,132	1,193,239	49,096	253,729	61,566

* Includes mainly printing, stationary, subscription and other operational cost.

34. 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*.

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 initial 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;

34. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (CONT'D)

Accounting policy

Credit-impaired financial asset (cont'd)

- (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 renegotiated 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.

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 impairment. 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 unlikelihood 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 2019:

The Group

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Loans and advances to non-bank customers	83,708	775,643	3,115,498	3,974,849
Loans and placements with banks*	(50,129)	-	-	(50,129)
Debt instruments measured at amortised cost**	28,213	-	-	28,213
Other receivables	284	-	-	284
Loan commitments	42,834	-	-	42,834
Off balance sheet items (Guarantees, Letters of credit, Acceptances)	(78,973)	(37,840)	(994)	(117,807)
Total credit loss expense under IFRS 9	25,937	737,803	3,114,504	3,878,244
Write off	-	-	-	-
Bad debts recovered	-	-	-	(882,102)
	25,937	737,803	3,114,504	2,996,142

The Company

	31 December 2019				31 December 2018
	Stage 1	Stage 2	Stage 3	Total	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Debt instruments measured at amortised cost	(1,085)	-	-	(1,085)	1,646
Total credit loss expense under IFRS 9	(1,085)	-	-	(1,085)	1,646

34. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (CONT'D)

* 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.

At 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 Group

31 December
2017

MUR' 000

Portfolio and specific provisions:

- On-balance sheet advances (*Note 8c*)

Bad debts written off for which no provisions were made

Recoveries of advances written off

Other

1,101,435

8,720

(142,873)

147,998

1,115,280

Of which:

Credit exposure

Other financial assets

967,282

147,998

1,115,280

35. 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 2019	31 December 2018
	MUR' 000	MUR' 000
Profit attributable to equity holders of the parent	15,035	1,245,794
Number of shares entitled to dividend (thousands)	2,581,792	2,581,792
Basic and Diluted Earnings per share (cents)	0.58	48.25

36. NET CASH FROM OPERATING ACTIVITIES

		The Group			The Company		
Notes		31 December 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
		MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
	Cash flows from operating activities						
	Profit for the year	15,035	1,245,794	2,574,923	763,477	627,235	1,254,013
	Adjustments to determine net cash flows:						
	Depreciation of property and equipment	10 476,839	205,246	166,796	2,142	1,946	1,203
	Amortisation of intangible assets	11 617,833	621,951	503,170	208	6	-
	Write off of property plant and equipment	10 10,122	109,932	37,874	-	-	-
	Pension expense	32 34,166	30,274	26,471	-	-	-
	Net impairment loss on financial assets	34 2,996,142	3,559,350	1,115,280	(1,085)	-	-
	Write off of Intangible assets	11 15,240	81,847	-	-	-	-
	Bargain Gain	-	(957,939)	-	-	-	-
	Impairment of Goodwill	-	417,714	-	-	-	-
	Exchange difference	895,186	61,149	27,852	335,822	52,803	(163,914)
	Net loss/ (gain) on sale of financial assets at FVOCI investments	-	(200,761)	83	-	-	67,071
	Net (gain) / loss from dealings in trading securities	29 (103,454)	(4,321)	(30,726)	(6,767)	-	-
	Net (gain) / loss on disposal of property and equipment	31 (4,493)	(115,710)	(1,222)	-	-	-
	Net gain on financial assets at amortised cost	-	(16,197)	-	-	(27,614)	-
	Fair Value Movement in FVOCI Investment	-	-	-	(9,145)	-	-
	Investment securities at fair value through profit or loss	29 (4,138)	(509,849)	1,608	(17,879)	-	-
	Interest income	-	-	-	(68,079)	(77,913)	(131,045)
	Interest expense	-	-	-	476,589	309,019	149,011
	Interest on lease liabilities	10 (57,750)	-	-	-	-	-
	Tax expense	17 a 547,487	379,633	585,375	357	10,867	(2,895)
	Share of profit of associate	9 (iv) (a) (139,237)	(100,240)	(92,296)	-	-	-
	Dividend income	28 (223,076)	(110,051)	(21,501)	(1,570,456)	(1,233,068)	(1,270,535)
	Operating profit / (loss) before working capital changes	5,075,902	4,697,822	4,893,687	(94,816)	(336,719)	(97,091)
	Change in operating assets and liabilities						
	(Decrease) / increase in trading assets	(6,737)	597,017	(1,160,049)	-	-	-
	(Increase) / decrease in loans to and placements with banks	1,900,358	2,505,522	(4,251,489)	-	-	-
	(Increase) / decrease in loans and advances to non bank customers	(10,387,570)	255	(31,101,876)	-	-	-
	(Increase) / decrease in gilt-edged investment securities	(22,706,453)	(28,303,861)	(3,837,429)	1,458,121	(1,466,430)	1,422,126
	Decrease / (increase) in other investment securities	(261,400)	352,159	4,234,496	-	(178,348)	1,439,879
	(Decrease) / Increase in mandatory balances with central banks	(703,027)	10,708,544	(1,798,338)	-	-	-
	(Increase) / decrease in other assets	(1,442,412)	(241,747)	(399,544)	(78,206)	(82,862)	(68,947)
	Increase / (decrease) in trading liabilities	81,736	(535,200)	1,152,228	-	-	-
	(Decrease) / increase in deposits from banks	190,819	27,437	(1,922,404)	-	-	-
	Increase in deposits from non-bank customers	30,012,707	4,926,494	34,335,239	-	-	-
	Increase / (decrease) in other liabilities	1,407,218	1,574,513	1,587,959	25,564	86,275	(495)
	Interest received	-	-	-	70,537	77,804	202,313
	Interest paid	-	-	-	(485,108)	(306,567)	(151,036)
	Other dividend received	199,833	142,801	52,774	1,570,456	1,233,068	1,052,273
	Income tax paid	17 c (800,502)	(296,144)	(550,533)	(860)	(10,363)	2,546
	Net cash from operating activities	2,560,472	(3,844,388)	1,234,721	2,465,688	(984,142)	3,801,568

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.

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

[illegible]

37. RELATED PARTY DISCLOSURES (CONT'D)

	The Group		
	31 Dec 2019	31 Dec 2018	31 Dec 2017
	MUR' 000	MUR' 000	MUR' 000
Related party transactions in relation to Post Employment Benefit Plans are as follows:			
Deposits at end of year	211,640	97,051	63,809
Interest expense	216	-	-
Other income	-	-	-
Contributions paid	172,701	170,970	104,823

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.

38. 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%, 10% and 8% respectively.

	The Group		
	31 Dec 2019	31 Dec 2018	31 Dec 2017
	MUR' 000	MUR' 000	MUR' 000
Tier 1 Capital	19,914,644	19,717,395	20,010,395
Eligible capital	30,155,858	30,058,634	25,109,218
Risk weighted assets	136,690,101	122,052,041	125,684,007
Capital adequacy ratio (%)	22.06	24.63	19.98

39. OTHER RESERVES

	Net unrealised investment fair value reserve	Net translation reserve	Net other reserve	Earnings reserve	Restructure reserve	Total
<u>The Group</u>	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
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)
At 01 January 2019	(837,132)	(66,526)	(94,669)	2,935,807	(8,316,147)	(6,378,667)
Credit loss expense relating to debts instruments held at FVTOCI	(6,356)	-	-	-	-	(6,356)
Share of OCI of associate	76,112	25,496	-	-	-	101,608
Other comprehensive income for the year	671,877	327,378	-	-	-	999,255
Reclassification of associate to their respective reserve	(76,785)	(17,884)	94,669	-	-	-
Transfer to retained earnings	-	(1,078)	-	-	-	(1,078)
At 31 December 2019	(172,284)	267,386	-	2,935,807	(8,316,147)	(5,285,238)

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.

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 not be reclassified to the statement of profit or loss upon disposal of the related asset.

40. RISK MANAGEMENT

The Board of Directors oversees the risk management framework and ensures decision making is aligned with the Board-driven strategic risk objectives and risk appetite. 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 classification under IFRS 9	Original Carrying amount under IAS 39 as at 31 December 2017 MUR' 000	New Carrying amount under IFRS 9 as at 01 January 2018 MUR' 000	Carrying amount under IFRS 9 as at 31 December 2018 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

40. RISK MANAGEMENT (CONT'D)

a (ii) Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments held at the reporting date.

GROUP	31 December 2019		31 December 2018		31 December 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Financial assets						
Cash and cash equivalents	18,181,126	18,181,126	15,653,515	15,653,515	16,331,538	16,331,538
Mandatory balances with central banks	10,680,287	10,680,287	9,977,260	9,977,260	8,966,717	8,966,717
Loans to and placements with banks	9,240,131	9,240,131	11,090,361	11,090,361	8,897,399	8,897,399
Derivative financial instruments	874,269	874,269	764,077	764,077	1,356,774	1,356,774
Loans and advances to non-bank customers	109,396,640	109,151,966	102,108,174	102,636,234	103,128,838	103,057,726
Investment securities	94,276,665	94,922,762	71,594,287	75,496,262	40,000,421	42,525,808
Equity investments	6,014,270	6,014,270	5,752,870	5,752,870	6,137,779	6,137,779
Other assets	2,750,495	2,750,495	1,432,707	1,432,707	765,324	765,324
	251,413,883	251,815,306	218,373,251	222,803,286	185,584,790	188,039,065
Financial liabilities						
Deposits from banks	907,521	907,521	716,702	716,702	689,265	689,265
Deposits from non-bank customers	199,397,188	199,396,303	169,384,480	169,505,655	144,850,676	144,855,080
Other borrowed funds	15,670,968	15,670,968	14,522,085	14,522,085	13,686,203	13,686,203
Derivative financial instruments	881,176	881,176	799,441	799,441	1,334,641	1,334,641
Other liabilities	7,350,644	7,350,644	3,397,898	3,397,898	2,076,706	2,076,706
Subordinated debts	9,739,981	9,739,981	9,412,677	9,412,677	3,701,466	3,701,466
	233,947,478	233,946,593	198,233,283	198,354,458	166,338,957	166,343,361
COMPANY						
Financial assets						
Cash and cash equivalents	178,632	178,632	32,890	32,890	73,223	73,223
Investment securities	1,670,478	2,070,619	3,105,326	3,327,032	1,461,801	1,508,806
Equity investments	4,227,683	4,227,683	4,227,683	4,227,683	4,292,925	4,292,925
Other assets	231,000	231,000	153,309	153,309	70,448	70,448
	6,307,793	6,707,934	7,519,208	7,740,914	5,898,397	5,945,402
Financial liabilities						
Other liabilities	114,880	114,880	91,777	91,777	5,423	5,423
Subordinated debts	9,739,981	9,739,981	9,412,677	9,412,677	3,701,466	3,701,466
	9,854,861	9,854,861	9,504,454	9,504,454	3,706,889	3,706,889

For loans and advances to non-bank customers, all the fixed loans and advances maturing after one year has been fair valued based on the current prevailing lending rate.

For investment securities, all the government bonds and BOM bonds have been fair valued based on the latest weighted yield rate.

For deposits from non-bank customers, all the term deposits maturing after one year has been fair valued based on the current prevailing savings rate.

Except for the levels in which the financial assets and financial liabilities are shown in table 40 (a)(iii), the fair values of the other financial assets and financial liabilities are categorised in level 3.

40. 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 Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2019								
Derivative financial assets	-	874,269	-	874,269	-	-	-	-
Investment securities mandatorily measured at FVTPL								
Debt securities	11,445,809	-	549,308	11,995,117	-	-	-	-
Equity securities	-	383,118	-	383,118	-	-	-	-
Investments at FVTOCI (debt and equity instruments)								
Debt securities	54,062,816	-	624,466	54,687,282	-	598,699	-	598,699
Equity securities	83,111	802,826	5,128,333	6,014,270	-	-	4,227,683	4,227,683
Total assets	65,591,736	2,060,213	6,302,107	73,954,056	-	598,699	4,227,683	4,826,382
Derivative financial liabilities	-	881,176	-	881,176	-	-	-	-
Total liabilities	-	881,176	-	881,176	-	-	-	-

40. RISK MANAGEMENT (CONT'D)

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

	The Group				The Company			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs 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	-	680,639
Equity securities	111,702	631,655	5,009,513	5,752,870	-	-	4,227,683	4,227,683
Total assets	30,821,824	10,190,131	5,469,102	46,481,057	-	680,639	4,227,683	4,908,322
Derivative financial liabilities	-	799,441	-	799,441	-	-	-	-
Total liabilities	-	799,441	-	799,441	-	-	-	-
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	-	-	-	-
Investment securities - available-for-sale	8,024,317	4,424,901	630,615	13,079,833	-	475,929	-	475,929
Equity investments - available-for-sale	150,289	784,139	5,203,530	6,137,958	-	-	4,292,925	4,292,925
	13,942,602	8,310,280	5,834,145	28,087,027	-	475,929	4,292,925	4,768,854
Derivative financial liabilities	-	1,334,641	-	1,334,641	-	-	-	-

Fair Value through other comprehensive income

Valuation technique	Significant unobservable inputs	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

40. 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 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Balance at start of year	5,469,102	5,834,145	5,930,972	4,227,683	4,292,925	4,261,347
Additions	714,183	0	614,249	-	-	-
Impairment	-	-	(3,688)	-	-	-
Disposals	0	(683,731)	-	-	-	-
Transfer to Level 2	-	-	(784,139)	-	-	-
Exchange difference	-	341,939	(14)	-	-	-
Movement in fair value	118,822	(23,251)	76,765	-	(65,242)	31,578
Balance at end of year	6,302,107	5,469,102	5,834,145	4,227,683	4,227,683	4,292,925

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.

40. 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 2019	31 December 2018	31 December 2017	31 December 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
<u>Fund-based exposures:</u>						
Cash and cash equivalents	15,268,102	12,191,837	14,161,991	178,632	32,890	73,223
Mandatory balances with Central Banks	10,680,287	9,977,260	8,966,717	-	-	-
Loans to and placements with banks	9,265,612	11,127,328	8,897,399	-	-	-
Derivative financial instruments	874,269	764,077	1,356,774	-	-	-
Loans and advances to non-bank customers	121,732,978	112,426,043	107,197,841	-	-	-
Investment securities (excluding equity investments)	94,443,100	71,614,171	40,000,421	1,671,039	7,333,009	1,461,801
Other assets	2,750,495	1,432,707	765,324	231,000	153,309	70,448
	255,014,843	219,533,423	181,346,467	2,080,671	7,519,208	1,605,472
<u>Non-fund based exposures:</u>						
Acceptances, guarantees, letters of credit, endorsements and other obligations on account	10,954,435	11,383,478	12,617,998	-	-	-
Credit commitments	13,675,505	9,071,296	14,238,833	-	-	-
	24,629,940	20,454,774	26,856,831	-	-	-

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 6 and 8.

40. 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 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Grades:			
1 to 3 - High Grade	43,942,917	43,961,314	53,825,569
4 to 6 - Standard	46,220,106	35,196,815	36,694,096
7 to 10 (including unrated) - Sub standard	31,136,274	34,593,279	33,776,743
	121,299,297	113,751,408	124,296,408

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 12,494.58 million (2018: 7,842.45 million and 2017: MUR 4,082.77 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.

40. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(i) Maximum credit exposure (cont'd)

Internal credit risk ratings

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 initial 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 8 (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 Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of default 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.

40. 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 modification 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.

40. 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

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 initial 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 2019: 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.

40. 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.

40. 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	31 December 2019	31 December 2018	31 December 2017	Principal Type of collateral held
	MUR' 000	MUR' 000	MUR' 000	
Fund-based exposures:				
Cash and cash equivalents	15,268,102	12,191,837	14,161,991	Unsecured

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40. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(ii) Collateral and other credit enhancements

Type of credit exposure	31 December 2019	31 December 2018	31 December 2017	Principal Type of collateral held
	MUR' 000	MUR' 000	MUR' 000	
Mandatory balances with Central Banks	10,680,287	9,977,260	8,966,717	Unsecured
Loans to and placements with banks	9,265,612	11,127,328	8,897,399	Unsecured
Derivative financial instruments	874,269	764,077	1,356,774	Unsecured
Loans and advances to non-bank customers				Property, equity instruments, cash deposits and other
	121,732,978	112,426,043	107,197,841	guarantees
Investment securities	94,443,100	71,614,171	40,000,421	Unsecured
Other assets	2,750,495	1,432,707	765,324	Unsecured
Non-fund based exposures:				
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers	10,954,435	11,383,478	12,617,998	Property, equity instruments, cash deposits and other guarantees
Credit commitments	13,675,505	9,071,296	14,238,833	Unsecured

40. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(ii) Collateral and other credit enhancements

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.

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 2019	31 December 2017
	MUR' 000	MUR' 000
Up to 1 month	183,537	458,267
Over 1 month and up to 3 months	389,921	102,881
	573,458	561,148

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 2019	
	Gross Carrying	Loss Allowance
	MUR' 000	MUR' 000
0-30 days (Stage 1)	82,236,579	725,919
31-89 days (Stage 2)	23,117,345	1,944,110
Total	105,353,924	2,670,029

40. RISK MANAGEMENT (CONT'D)

b Credit risk (cont'd)

(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 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Loans and advances (Note 8d)	16,379,054	18,233,076	4,786,528
Specific allowance held in respect of impaired advances (Note 8d)	9,666,309	8,536,038	2,741,141
Fair value of collaterals of impaired advances	7,461,298	11,018,417	3,137,676

40. 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 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Portfolio			
Agriculture	2,319,392	5,603,930	2,478,382
Traders	9,646,283	15,920,016	9,190,737
Real estate	5,150,442	3,168,948	5,396,668
Financial Institutions	2,201,073	-	-
Services	2,543,437	2,357,501	-
Tourism	4,889,755	2,850,973	6,212,128
	26,750,382	29,901,368	23,277,915

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.

40. 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	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 2019								
<u>Financial assets</u>								
Cash and cash equivalents	18,181,479	4,496	-	-	-	-	(4,849)	18,181,126
Mandatory balances with central banks	3,592,349	300,317	197,619	457,473	329,940	5,537,396	265,193	10,680,287
Loans to and placements with banks	1,832,440	395,111	2,734,082	1,249,520	762,453	2,292,006	(25,481)	9,240,131
Derivative financial instruments	-	-	-	-	-	-	874,269	874,269
Loans and advances to non-bank customers	5,710,068	6,105,555	5,326,436	10,118,903	28,698,900	50,154,607	3,282,171	109,396,640
Investment securities	30,699,175	4,222,832	3,565,739	6,216,733	12,155,524	37,203,340	213,322	94,276,665
Equity investments	-	-	-	-	-	-	6,014,270	6,014,270
Other assets	-	-	-	-	-	-	2,750,495	2,750,495
	60,015,511	11,028,311	11,823,876	18,042,629	41,946,817	95,187,349	13,369,390	251,413,883
<u>Financial liabilities</u>								
Deposits from banks	871,687	23,747	12,087	-	-	-	-	907,521
Deposits from non-bank customers	27,658,415	10,660,621	7,613,939	12,384,050	7,165,911	128,249,279	5,664,973	199,397,188
Other borrowed funds	7,901,991	43,307	1,277,803	146,271	2,398,950	3,902,646	-	15,670,968
Derivative financial instruments	-	-	-	-	-	-	881,176	881,176
Subordinated debts	-	-	28,764	-	2,380,835	7,330,382	-	9,739,981
Other liabilities	-	-	-	-	-	-	7,350,644	7,350,644
Total financial liabilities	36,432,093	10,727,675	8,932,593	12,530,321	11,945,696	139,482,307	13,896,793	233,947,478
Liquidity Gap	23,583,418	300,636	2,891,283	5,512,308	30,001,121	(44,294,958)	(527,403)	17,466,405
31 December 2018								
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	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

40. 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 2017								
Financial assets	34,664,907	17,791,556	13,634,096	13,869,520	35,360,022	62,684,296	7,580,392	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)	6,245,751	19,245,833
	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
Company								
31 December 2019								
<u>Financial assets</u>								
Cash and cash equivalents	178,632	-	-	-	-	-	-	178,632
Investment securities	239,844	-	26,674	-	353,500	452,321	598,139	1,670,478
Equity investments	-	-	-	-	-	-	4,227,683	4,227,683
Other assets	-	-	-	-	-	-	231,000	231,000
	418,476	-	26,674	-	353,500	452,321	5,056,822	6,307,793
<u>Financial liabilities</u>								
Subordinated debts	-	-	28,764	-	2,380,835	7,330,382	-	9,739,981
Other liabilities	-	-	-	-	-	-	114,880	114,880
	-	-	28,764	-	2,380,835	7,330,382	114,880	9,854,861
Liquidity Gap	418,476	-	(2,090)	-	(2,027,335)	(6,878,061)	4,941,942	(3,547,068)
31 December 2018								
Financial assets	214,224	-	52,754	698,500	1,080,000	1,092,738	4,380,992	7,519,208
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)

* Non-maturity bucket includes ECL provisions, investment in shares having no maturity, non-performing loans whose maturity date have been exceeded, derivatives, other assets and liabilities with undetermined maturity dates

40. RISK MANAGEMENT (CONT'D)

c Liquidity risk (cont'd)

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

(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	149,121,515	23,787,816	5,921,274	9,885,889	8,922,818	2,665,397	200,304,709
Derivative financial instruments	881,176	-	-	-	-	-	881,176
Other borrowed funds	-	7,945,298	1,277,718	146,271	2,398,950	3,902,731	15,670,968
Subordinated debts	-	-	28,764	-	2,380,835	7,330,382	9,739,981
Other liabilities	7,350,644	-	-	-	-	-	7,350,644
31 December 2019	157,353,335	31,733,114	7,227,756	10,032,160	13,702,603	13,898,510	233,947,478
31 December 2018	134,523,312	21,800,186	9,833,574	11,061,472	10,870,583	731,478	188,820,605
31 December 2017	112,720,129	23,817,220	8,824,536	8,534,226	5,550,216	6,203,364	165,649,691
Company							
Financial liabilities							
Subordinated debts	-	-	28,764	-	2,380,835	7,330,382	9,739,981
Other liabilities	114,880	-	-	-	-	-	114,880
31 December 2019	114,880	-	28,764	-	2,380,835	7,330,382	9,854,861
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

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.

40. 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	Up to 3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non-interest sensitive	Total
31 December 2019	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Assets								
Cash and cash equivalents	2,158,613	-	-	-	-	-	16,022,513	18,181,126
Mandatory balances with central banks	-	-	-	-	-	-	10,680,287	10,680,287
Loans to and placements with banks	4,575,917	1,651,268	334,335	346,000	549,111	1,742,896	40,604	9,240,131
Derivative financial instruments	-	-	-	-	-	-	874,269	874,269
Loans and advances to non-bank customers	91,066,455	4,414,910	7,969,455	4,609,525	6,068,393	3,347,878	(8,079,976)	109,396,640
Investment securities	20,855,890	5,066,964	8,838,982	5,580,124	31,538,981	21,328,297	1,067,427	94,276,665
Equity investments	-	-	-	-	-	-	6,014,270	6,014,270
Other assets	-	-	-	-	-	-	2,750,495	2,750,495
Total assets	118,656,875	11,133,142	17,142,772	10,535,649	38,156,485	26,419,071	29,369,889	251,413,883
Liabilities								
Deposits from banks	59,317	11,830	-	-	-	-	836,374	907,521
Deposits from non-bank customers	104,842,582	6,199,031	9,734,316	3,799,708	2,571,496	14,906	72,235,149	199,397,188
Other borrowed funds	8,359,654	1,650,689	-	-	1,644,297	1,747,180	2,269,148	15,670,968
Derivative financial instruments	-	-	-	-	-	-	881,176	881,176
Subordinated debts	1,500,000	2,380,835	-	-	-	5,830,382	28,764	9,739,981
Other liabilities	-	-	-	-	-	-	7,350,644	7,350,644
Total liabilities	114,761,553	10,242,385	9,734,316	3,799,708	4,215,793	7,592,468	83,601,255	233,947,478
On balance sheet interest rate sensitivity gap	3,895,322	890,757	7,408,456	6,735,941	33,940,692	18,826,603	(54,231,366)	17,466,405
Off balance sheet interest rate sensitivity gap	11,685,641	1,841,883	3,852,369	(1,187,222)	(3,001,308)	(2,169,370)	-	11,021,993
	15,580,963	2,732,640	11,260,825	5,548,719	30,939,384	16,657,233	(54,231,366)	28,488,398

40. RISK MANAGEMENT (CONT'D)

d Market risk

(i) Interest rate risk

	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 2018								
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
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)
	<u>5,587,855</u>	<u>(4,463,716)</u>	<u>6,638,668</u>	<u>(5,000,358)</u>	<u>15,955,352</u>	<u>10,071,207</u>	<u>(45,071,279)</u>	<u>(16,282,271)</u>
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)
	<u>(13,770,688)</u>	<u>9,579,327</u>	<u>5,630,904</u>	<u>2,829,110</u>	<u>11,942,786</u>	<u>13,780,049</u>	<u>(29,672,058)</u>	<u>319,430</u>

40. RISK MANAGEMENT (CONT'D)

d Market risk (Cont'd)

(i) Interest rate risk (Cont'd)

The Company	Up to 3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Non-interest sensitive	Total
31 December 2019	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Assets								
Cash and cash equivalents	-	-	-	-	-	-	178,632	178,632
Investment securities	240,000	15,000	-	203,500	182,321	420,000	609,657	1,670,478
Equity investments	-	-	-	-	-	-	4,227,683	4,227,683
Other assets	-	-	-	-	-	-	231,000	231,000
Total assets	240,000	15,000	-	203,500	182,321	420,000	5,246,972	6,307,793
Liabilities								
Subordinated debts	1,500,000	2,380,835	-	-	-	5,830,382	28,764	9,739,981
Other liabilities	-	-	-	-	-	-	114,880	114,880
Total liabilities	1,500,000	2,380,835	-	-	-	5,830,382	143,644	9,854,861
On balance sheet interest rate sensitivity gap	(1,260,000)	(2,365,835)	-	203,500	182,321	(5,410,382)	5,103,328	(3,547,068)
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-	-
	(1,260,000)	(2,365,835)	-	203,500	182,321	(5,410,382)	5,103,328	(3,547,068)

40. 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 2018								
Total assets	181,611	38,500	698,500	15,000	1,215,000	445,000	4,925,596	7,519,207
Total liabilities	1,522,229	2,236,442	-	-	-	5,623,165	122,617	9,504,453
On balance sheet interest rate sensitivity gap	(1,340,618)	(2,197,942)	698,500	15,000	1,215,000	(5,178,165)	4,802,979	(1,985,246)
Off balance sheet interest rate sensitivity gap	-	-	-	-	-	-	-	-
	(1,340,618)	(2,197,942)	698,500	15,000	1,215,000	(5,178,165)	4,802,979	(1,985,246)
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

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 2019	31 December 2018	31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Increase/(decrease) in profit	249,404	589,558	200,235

40. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(i) Interest rate risk (cont'd)

Interest rate sensitivity

The following table demonstrates the sensitivity of a 2% change in interest rates in the different countries:

	31 December 2019	31 December 2018
	MUR' 000	MUR' 000
Mauritius	(340,216)	(514,568)
India	(154,673)	(53,750)
Madagascar	(2,414)	(4,646)
Kenya	80,371	(92,596)
Others	59,929	49,030
	<u>(357,003)</u>	<u>(616,530)</u>

(ii) Fair value hedges

At 31 December 2019:

Micro fair value hedges

Fixed rate corporate loans
Fixed rate debt instrument
Fixed rate non-bank deposits

Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items	
Assets MUR' 000	Liabilities MUR' 000	Assets MUR' 000	Liabilities MUR' 000
8,179,583	-	145,936	-
2,220,898	-	51,242	-
-	153,751	-	122

At 31 December 2018:

Micro fair value hedges

Fixed rate corporate loans
Fixed rate debt instrument
Fixed rate non-bank deposits

Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items	
Assets MUR' 000	Liabilities MUR' 000	Assets MUR' 000	Liabilities MUR' 000
4,670,782	-	115,028	-
3,163,303	-	6,271	-
-	143,919	-	2,030

The following table provides information about the hedging instruments included in the derivative financial instruments line items of the Group's statement of financial position:

	31 December 2019			31 December 2018		
	Notional Amount	Carrying Amount		Notional Amount	Carrying Amount	
	MUR' 000	Assets MUR' 000	Liabilities MUR' 000	MUR' 000	Assets MUR' 000	Liabilities MUR' 000
Interest rate swaps	12,577,020	367	280,993	2,650,748	2,377	122,874

The below table sets out the outcome of the Group's hedging strategy, set out in Notes 8 and 9, in particular, to changes in the fair value of the hedged items and hedging instruments in the current year and the

		31 December 2019			31 December 2018		
		Gain / (loss) attributable to the hedged risk			Gain / (loss) attributable to the hedged risk		
Hedged items	Hedging instruments	Hedged items	Hedging instruments	Hedge ineffectiveness	Hedged items	Hedging instruments	Hedge ineffectiveness
Micro fair value hedge relationships hedging assets							
Fixed rate corporate loans	Interest rate swaps	145,936	(263,848)	(117,912)	117,059	(125,251)	(8,193)
Fixed rate debt instrument	Interest rate swaps	51,242	(17,145)	34,098	6,271	-	6,271
Micro fair value hedge relationships hedging liabilities							
Fixed rate non-bank deposits	Interest rate swaps	(122)	367	244	(2,030)	2,377	347
Total micro fair value hedge relationship		197,056	(280,626)	(83,570)	121,300	(122,874)	(1,575)

The maturity profile of the hedging instruments used in micro fair value hedge relationships is as follows:

At 31 December 2019:	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)	-	549,111	-	9,869,879	2,158,030	12,577,020
At 31 December 2018:						
	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

40. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(iii) Currency risk

Foreign exchange risk arises from open and imperfectly offset or hedged positions. Imperfect correlations across currencies and international interest rate markets pose particular challenges to the effectiveness of foreign currency hedging strategies. The Group exercises strict control over its foreign currency exposures. The Group reports on foreign currency positions to the Central Bank and has set up conservative internal limits in order to mitigate foreign exchange risk. To manage their foreign currency exposures, dealers operate within prudential limits approved by the Board including intraday/overnight open exposures, stop loss and authorised currencies. These trading limits 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 2019	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
ASSETS							
Cash and cash equivalents	7,123,704	6,998,246	605,988	1,397,285	204,115	1,851,788	18,181,126
Mandatory balances with Central Banks	8,231,853	972,536	94,288	26,276	215,539	1,139,795	10,680,287
Loans to and placements with banks	3,206,385	3,159,705	-	1,237,890	1,636,151	-	9,240,131
Derivative financial instruments	341,770	406,936	3	24	108,729	16,807	874,269
Loans and advances to non-bank customers	60,162,176	27,064,201	802,901	12,203,995	4,575,776	4,587,591	109,396,640
Investment securities	49,263,644	24,225,476	-	1,037,531	3,161,825	16,588,189	94,276,665
Equity investments	4,227,683	-	-	3,411	-	1,783,176	6,014,270
Other assets	1,066,799	75,797	607	45,339	50,531	1,511,422	2,750,495
Total monetary financial assets	133,624,014	62,902,897	1,503,787	15,951,751	9,952,666	27,478,768	251,413,883
LIABILITIES							
Deposits from banks	437,123	294,898	7,176	47,341	114,482	6,501	907,521
Deposits from non-bank customers	102,865,291	61,831,066	2,184,904	11,176,989	3,746,439	17,592,499	199,397,188
Other borrowed funds	673,207	6,855,762	3,254	4,258,148	545,486	3,335,111	15,670,968
Derivative financial instruments	36,073	671,594	2	61,227	93,067	19,213	881,176
Subordinated debts	4,582,051	5,157,930	-	-	-	-	9,739,981
Other liabilities	4,295,901	1,302,538	(561,503)	1,123,475	1,746	1,188,487	7,350,644
Total monetary financial liabilities	112,889,646	76,113,788	1,633,833	16,667,180	4,501,220	22,141,811	233,947,478
On balance sheet position	20,734,368	(13,210,891)	(130,046)	(715,429)	5,451,446	5,336,957	17,466,405
Off balance sheet position	685,112	(338,238)	134,314	(326,002)	(62,752)	(92,434)	-
Net currency position	21,419,480	(13,549,129)	4,268	(1,041,431)	5,388,694	5,244,523	17,466,405

40. 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 2018							
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
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	<u>34,355,665</u>	<u>(5,272,580)</u>	<u>(1,654,507)</u>	<u>3,481,481</u>	<u>2,404,998</u>	<u>(13,175,089)</u>	<u>20,139,968</u>
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	<u>10,754,502</u>	<u>3,403,034</u>	<u>(1,815)</u>	<u>2,854,712</u>	<u>1,496,946</u>	<u>738,457</u>	<u>19,245,836</u>

The Company is exposed to currency risk only in USD in relation to investment securities (financial assets) amounting to MUR 616.18 million (2018 MUR181.26 and 2017: MUR NIL) and subordinated debts (financial liabilities) amounting to MUR 5,157.93 million (2018: MUR 4,829.93 million and 2017: MUR 2,213 million).

Currency risk sensitivity

The following table demonstrate the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant, and the impact on the Group's profit and Equity.

	Impact on Group's profit after tax and Equity				
	USD	GBP	EURO	INR	OTHER
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
31 December 2019					
5%	<u>(660,545)</u>	<u>(6,502)</u>	<u>(35,771)</u>	<u>272,572</u>	<u>266,848</u>
-5%	<u>660,545</u>	<u>6,502</u>	<u>35,771</u>	<u>(272,572)</u>	<u>(266,848)</u>
31 December 2018					
5%	<u>(407,077)</u>	<u>(88,825)</u>	<u>166,565</u>	<u>123,060</u>	<u>(631,608)</u>
-5%	<u>407,077</u>	<u>88,825</u>	<u>(166,565)</u>	<u>(123,060)</u>	<u>631,608</u>
31 December 2017					
5%	<u>(9,882)</u>	<u>(652)</u>	<u>164,719</u>	<u>262,153</u>	<u>41,694</u>
-5%	<u>9,882</u>	<u>652</u>	<u>(164,719)</u>	<u>(262,153)</u>	<u>(41,694)</u>

40. RISK MANAGEMENT (CONT'D)

d Market risk (cont'd)

(iii) Currency risk (cont'd)

Value-at-Risk Analysis

The Group uses Value-at-Risk (VAR) to estimate the potential foreign exchange loss arising from adverse movements in an ordinary market environment. To calculate VAR, the Group uses the historical method which assumes that historical changes in market values are representative of future changes. The VAR is based on the previous 12 months data. The Group calculates VAR using 10 days holding period and an expected tail-loss methodology, which approximates a 99% confidence level. This would mean that only once in every 100 trading days, The group would expect to incur losses greater than the VAR estimates, or about two to three times a year. The use of 10 days holding period and a one-year historical observation period are in line with the Basel II recommendation.

The Group's VAR amounted to:

	31 December 2019 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000
Minimum for the year	850	1,095	651
Maximum for the year	19,588	22,309	7,579
Year end	3,271	6,186	1,282

(iv) Equity price sensitivity 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 2019 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000	31 December 2019 MUR' 000	31 December 2018 MUR' 000	31 December 2017 MUR' 000
Statement of comprehensive income	300,713	287,643	306,889	211,384	211,384	214,646
Statement of profit or loss	-	-	-	-	-	-
	<u>300,713</u>	<u>287,643</u>	<u>306,889</u>	<u>211,384</u>	<u>211,384</u>	<u>214,646</u>

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 4* to the financial statements (summary of accounting policies).

41. SEGMENT INFORMATION - THE GROUP

Accounting policy

Segmental reporting is based on the internal reports regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess their performance. The operating segments are the banking, the non-bank financial institution, the non-financial institutions and the other institutions segments. Only the banking segment is a reportable segment.

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker i.e the Group Chief Executive Officer 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 2019						
Interest income from external customers	10,521,666	54,345	-	68,079	-	10,644,090
Non-interest income from external customers	2,878,639	224,223	3,621	(107,000)	-	2,999,483
Revenue from external customers	13,400,305	278,568	3,621	(38,921)	-	13,643,573
Interest income from internal customers	-	28,466	-	-	(28,466)	-
Non interest income from internal customers	1,327,881	121,277	-	1,412,849	(2,862,007)	-
Revenue from other segments of the entity	1,327,881	149,743	-	1,412,849	(2,890,473)	-
Total gross revenue	14,728,186	428,311	3,621	1,373,928	(2,890,473)	13,643,573
Interest and fee and commission expense to external customers	(3,727,578)	4,083	-	(476,739)	-	(4,200,234)
Interest expense to internal customers	(28,466)	-	-	-	28,466	-
	(3,756,044)	4,083	-	(476,739)	28,466	(4,200,234)
Operating income	10,972,142	432,394	3,621	897,189	(2,862,007)	9,443,339
Depreciation and amortisation	(1,081,376)	(10,476)	(396)	(2,424)	-	(1,094,672)
Other non-interest expenses	(4,637,246)	(152,519)	(2,763)	(132,294)	(4,418)	(4,929,240)
Net impairment loss on financial assets	(3,012,041)	-	(284)	1,085	15,098	(2,996,142)
Operating profit	2,241,479	269,399	178	763,556	(2,851,327)	423,285
Share of profit of associate	-	-	-	139,237	-	139,237
Profit before income tax	2,241,479	269,399	178	902,793	(2,851,327)	562,522
Tax expense	(440,514)	(21,797)	(169)	(357)	(84,650)	(547,487)
Profit for the year	1,800,965	247,602	9	902,436	(2,935,977)	15,035
Segment assets	278,248,224	4,159,936	650,743	37,486,471	(60,069,381)	260,475,993
Segment liabilities	226,416,712	1,590,353	213	9,857,987	(1,907,156)	235,958,109
Additions to tangible and intangible assets	525,517	8,490	-	1,548	-	535,555

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41. SEGMENT INFORMATION - THE GROUP (CONT'D)

(a) Information about the reportable segment profit, assets and liabilities (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 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	(2,692,221)	(1,008)	-	(309,203)	-	(3,002,432)
Interest expense to internal customers	(10,436)	-	-	-	10,436	-
	(2,702,657)	(1,008)	-	(309,203)	10,436	(3,002,432)
Operating income	13,349,424	374,636	19,138	999,868	(4,964,627)	9,778,439
Depreciation and amortisation	(823,310)	(1,326)	(540)	(2,020)	-	(827,196)
Other non-interest expenses	(3,052,134)	(138,700)	(2,125)	(358,276)	(319,122)	(3,870,357)
Net impairment loss on financial assets	(3,557,624)	(80)	-	(1,646)	-	(3,559,350)
Operating profit	5,916,356	234,530	16,473	637,926	(5,283,749)	1,521,536
Share of profit of associate	-	-	-	100,240	-	100,240
Profit before income tax	5,916,356	234,530	16,473	738,166	(5,283,749)	1,621,776
Tax expense	(334,115)	(25,841)	(5,159)	(10,867)	-	(375,982)
Profit for the year	5,582,241	208,689	11,314	727,299	(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	194,136,465	173,949	1,389	9,505,393	(1,620,076)	202,197,120
Additions to tangible and intangible assets	518,840	2,939	-	-	-	521,779
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	195,864	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)
	(4,171,112)	(109,073)	(151,029)	(81,945)	9,646	(4,503,512)
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	86,791	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	3,508,016	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	290,565	2,939	-	-	-	293,504

41. SEGMENT INFORMATION - THE GROUP (CONT'D)

(b) Information about the reportable segment revenue from products and services

	Banking		
	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Revenue from external customers arising from the following products and services:			
Loans and advances to non-bank customers	404,611	278,949	5,798,567
Loans to and placements with banks	497,293	478,630	190,172
Exchange income	657,814	758,677	560,843
Card income	387,850	332,573	381,191
Trade finance services	805,365	1,001,780	427,305
Deposit and other products /services	174,541	177,238	176,006
	2,927,474	3,027,847	7,534,084

(c) Information about revenue of the reportable segment by geographical areas

	Banking		
	Mauritius	Other countries	Total
	MUR' 000	MUR' 000	MUR' 000
31 December 2019			
Revenue from external customers	5,895,106	4,626,559	10,521,666
Tangible and intangible assets	5,372,893	1,360,438	6,733,331
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

42. EVENT AFTER THE REPORTING DATE

SBM Bank (Mauritius) Ltd COVID-19 Outbreak

The global economy has come to a standstill with the spread of the Corona Virus 2019 disease (Covid-19). Given that Mauritius is heavily dependent on the tourism sector and the exportation industry, the contingent negative impact on the Mauritian economy is inevitable.

In order to limit the impact on the economy the Government of Mauritius has taken a series of accompanying measures. Some of these key measures are described below:

- (i) Wage assistance scheme: partially funding salary of employees earning MUR 50,000 per month or less during the lockdown period;
- (ii) Assistance scheme for self-employed; financial support of MUR 5,100 for the period 16 March 2020 to 15 April 2020;
- (iii) Setting up of a solidarity fund to assist persons affected by the pandemic;
- (iv) For MSMEs with turnover of up to MUR 50 million, a moratorium of six months on capital and interest payments with respect to their existing loans with commercial banks;
- (v) Under the Special Relief Amount of MUR 5 billion earmarked by the Bank of Mauritius through its Support Programme, MSMEs are eligible for a moratorium of six months on both capital and interest payments in respect of new loans with commercial banks;
- (vi) Special line of credit of USD 300 million targeting operators having foreign currency earnings; and
- (vii) Support to households: moratorium of six months on capital and interest repayments on all loans from commercial banks to households with combined basic salary not exceeding MUR 50,000 for the period 01 April to 30 June 2020.

Management has considered the impact of COVID-19 as well as the Government's accompanying measures described above on its business. These are explained below.

Impact on ECL

Due to the abnormal circumstances brought about by the COVID-19 pandemic, management have considered the impact on its book within different segments (corporates and SMEs, retail, bank and sovereigns) by considering baseline, mild case and worst-case scenarios in its stress testing exercise.

The Bank of Mauritius has announced supervisory and prudential policy measures to address the challenges of COVID-19. These measures aim to provide flexibility to help companies maintain their financial soundness. Some of the measures are listed below:

- Special Relief Amount of MUR 5 Bn made available to commercial banks to meet cash flow and working capital requirements of economic operators which are being directly impacted by COVID-19. The interest rate is capped at the fixed rate of 2.5 per cent per annum for these advances and there is a moratorium of six months on capital and interest repayments, with the loan repayment period being two years.
- SBM Bank (Mauritius) Ltd ("SBMBM") will provide a moratorium of six months on capital repayment for existing loans for economic operators that are being affected by COVID-19.

42. EVENT AFTER THE REPORTING DATE (CONT'D)

SBM Bank (Mauritius) Ltd (cont'd)

Impact on ECL (con'd)

- Bank of Mauritius has come up with a support scheme to Mauritian households impacted by COVID-19 by allowing a moratorium of three months on capital and interest repayment where the three months interest will be refunded to commercial banks on household facilities excluding overdrafts, credit cards and leasing.
- SBMBM is providing a maximum of six months voluntary moratorium on capital repayment on existing household facilities.

Management have considered the impact of those measures on its portfolios by considering different scenarios reflecting both the temporary and long-term nature of the shock and the global slowdown.

SBMBM is also assessing the impact of the introduction of the payment holidays on its ECL and Significant Increase in Credit Risk Criteria (SICR) on a case-by-case basis. The deferral of the repayment may not necessarily indicate per se a change in significant increase in credit risk and an assessment of the borrower's individual circumstances will need to be undertaken to determine whether there has been SICR. At the time the customer applies for the payment holiday an assessment will need to be undertaken to determine whether the relief measures under these exceptional circumstances will constitute SICR. In combination with other reasonable and supportable information SBMBM will be reassessing the watchlist and SICR criteria. Forbearance measures with a loss in principle or interest might also result into a classification into stage 3.

Although, SBMBM considered macroeconomic variables in the computation of the ECL, the COVID-19 is an exceptional event which has not been considered at the year end of 2019. In absence of reliable macroeconomic forecast in this time of turbulence, SBMBM has in its stress testing scenarios considered management overlays in increasing the probability of default and has as well used a downturn loss given default. SBMBM is actively monitoring developments closely and the impact of the relief measures announced by the Government and Regulator on its ECL estimates and Capital Base. SBMBM continues to consider the potential interaction of COVID-19 with IFRS9 through discussion with relevant regulatory bodies domestically and with the concerned counterparties.

Given the nature of the outbreak and the on-going developments, there is a high degree of uncertainty and it is not possible at this time to predict the extent and nature of the overall future impact on the ECL. However, SBMBM analysed the impact on its ECL and its Capital Base through the scenario analysis and Stress-Testing.

Other Estimation Uncertainties

SBMBM makes use of models which are dependent on market variables, notably interest rates and the term structure of the rates. In computing the fair values of instruments, the term structure of the curves used was at reporting date. The impact of the pandemic was not reflected in the valuation since this is a non-adjusting post balance sheet event. The possible impact of COVID-19 on these estimates and hence on the various balance items of SBMBM are outlined below.

Cash and cash equivalents, mandatory balances with central banks and loans to and placements with banks:

Management does not expect a significant impact on the carrying value of these items as they are considered to carry low credit risks and less susceptible to changes in value in the event of an economic downturn.

Derivative Financial Instruments:

The value of SBMBM's derivatives will be subject to increased volatility given the fluctuations in market prices including foreign currency exchange rates and interest rates brought about by the COVID-19 pandemic. However given that most of SBMBM's derivatives are taken as hedging instruments against non-derivative hedged items or are entered into as back to back transactions with counterparties, the net impact on the SBMBM's financial position or profits are expected to be minimal.

Loans to non-bank customers:

The impact of the pandemic on SBMBM's loans to non-bank customers will arise mostly on the corresponding ECL. This is discussed above under the heading "impact on ECL" and below under the heading "credit risk".

Investment Securities:

For investment securities (fixed income instruments) carried at fair value, the main impact of COVID-19 will be due to changes in market rates including interest rates and foreign currency exchange rates as well as any changes in the credit quality of the instruments. As there is an observed tendency for lowering of interest rates and for a depreciating Mauritian rupee against major currencies, Management expects there to be an increase in the fair value of both local and foreign bonds & bills (most of which are High Quality Liquid Assets).

Property, Equipment, Right of Use Assets and Intangible Assets:

These assets are carried at cost less accumulated depreciation and impairment. The assessment of impairment of the above-mentioned assets will be done in 2020, the impact of COVID-19 will be taken into account

Deposits from non-bank customers and other borrowed funds:

These liabilities are accounted for at amortised cost and therefore their carrying values are not expected to be affected by COVID-19, except for any impact that the latter may have on the exchange rate of the rupee vis-à-vis major currencies. In this respect, the depreciation of the rupee observed lately is likely to result in an increase in the carrying value of foreign currency denominated deposits.

Pension liabilities included in other liabilities:

The net retirement benefit liability of SBMBM is highly sensitive to interest rate (which affects the discount rate used in the actuarial valuation). Given the tendency for lower interest rates and the significant decline in equity prices experienced in most markets, Management expects the net benefit liability to widen.

Going concern

In the light of the anticipated economic impact of COVID-19, Management has made an assessment of the SBMBM's ability to continue as a going concern on the following elements:

42. EVENT AFTER THE REPORTING DATE (CONT'D)

SBM Bank (Mauritius) Ltd (cont'd)

Going concern (con'd)

Liquidity risk

SBMBM's liquidity position has remained strong and as at 31 December 2019, Liquidity Coverage Ratio (LCR) stood at 149%. This is well above the LCR ratio of 100% imposed by BOM. The LCR exists to cater for this type of stress situation under which banks have to potentially face. High Quality Liquid Assets currently held by SBMBM included some MUR 70 billion, mostly in local government securities and highly rated USD sovereign securities.

SBMBM has been monitoring its liquidity level on a daily basis to ensure that with the impact of COVID-19, there is no significant outflow other than the business as usual. So far, the deposit base is more or less stable.

Management has carried out a stress test based on several scenarios including (deposit flight, additional impairment and provision of moratorium on capital repayment) and is satisfied that SBMBM's LCR will remain within the regulatory limits in all the stress scenarios.

Interest rate risk

SBMBM has also stress-tested the impact that COVID-19 could have on its net interest income. Albeit the reduction of interest rate would directly reduce the interest income of SBMBM, the impact of a 2% (worst case shock) is well within the Basel target of 10% of the budgeted net interest income. As part of its interest rate risk management framework, SBMBM uses Interest Rate Swaps to mitigate the risk, and it shall do so to keep the exposure within its risk appetite.

Capital risks

SBMBM's current Capital Adequacy Ratio at 31 December 2019 stands at 14.65% (Capital Base MUR 15,741 Mn) compared to the regulatory requirement of 13.375%.

Management has carried some stress testing to evaluate impact of COVID-19 on the capital requirement of SBMBM. Several scenarios, including a longer-term impact of COVID-19 until the end of the year have been assessed. SBMBM remains within the regulatory CAR ratio under both mild and worst case scenario.

Credit risk

The COVID-19 outbreak has brought the world to a standstill with unparalleled impact on the lives of all people on this planet, our economies, our societies and our livelihoods and there are growing risks of a global recession – if this is not already the case. Any assessment of the impact of this unparalleled crisis is quickly surpassed by the fast-changing reality.

Regardless on how effective both the Government and SBMBM sponsored credit modification and forbearance programs prove to be, the overall credit quality of different segments mainly corporates, SMEs and retail is expected to be impacted.

It is not possible at this time to predict the extent and nature of the overall future impact on the macro-economic factors given the nature of the outbreak, ongoing developments and uncertainty regarding the shape of the recovery. SBMBM has developed scenarios aimed to factor in future macroeconomic conditions through management overlays to assess the impact on ECL.

In its mild case scenario, where SBMBM has factored in moratorium on repayment, increase in the probability of default of corporates, SMEs and retail customers coupled with a worsening of credit ratings of clients likely to be impacted by COVID-19, an increase in Loss Given Default and Credit conversion factor, SBMBM ended with a net increase in ECL of MUR 472.9 million for the year after taking into consideration clients that are probable to be classified as stage 3 for which specific provision is made. Under this scenario SBMBM has also identified clients that are most probable to move to stage 3 during the year and a specific provision of MUR 1.85 billion was considered.

In its worse case scenario where in addition to above, SBMBM has considered further downgrade of the credit quality of clients in sectors most likely to be impacted by the pandemic, SBMBM had a net increase of MUR 1.2 billion in the ECL figures over the year. Under this scenario, SBMBM made even higher specific provision for clients likely to move to stage 3 at an amount of MUR 2.4 billion.

SBMBM believes that throughout this situation the main and most complex measure would be on credit management. Depending on the duration of the pandemic and the extent of sanitary measures to contain the spread, businesses and households may see a significant reduction in their cashflows. For some workers like self-employed, the impact will be immediate while for regular salaried employment, the short-term impact might be limited. Beyond the macro stimulus measures that the Government implemented to mitigate the credit impact of this pandemic like reduction in the repo rate, salary support programs and direct monetary transfers, SBMBM has put in place an additional scheme to help businesses and customers impacted by the COVID-19. In addition to considering repayment holidays, SBMBM is also reassessing the working capital needs of customers on a case to case basis.

42. EVENT AFTER THE REPORTING DATE (CONT'D)

SBM Bank (India) Ltd

COVID-19 pandemic and the measures undertaken to combat it have resulted in an economic slowdown both in India and globally. Businesses across sectors, especially MSMEs which are relatively more susceptible to shocks, are struggling with issues arising from nation-wide lockdowns, supply chain & operations' disruptions and poorer offtake/slump in consumer demand. Nationwide lockdown was announced on March 25th, 2020 and is currently to continue till May 3rd 2020. S&P Global Ratings have slashed India growth forecast for the current fiscal from 3.5% to 1.8%. Reserve Bank of India ("RBI") has taken various measures aiming at sustained growth and development during the crisis, in addition to making sure funds are available at reduced costs for both the end borrower and Banks themselves. There exists ample liquidity in the Indian banking system as a result of the same.

Impact on ECL

Due to the disruptions in economic activities brought about by the COVID-19 pandemic, management have considered the impact on its book within different segments (Corporates and Retail) by considering baseline, mild case, and worst-case scenarios for ECL exercise. SBM Bank (India) Ltd (SBMBI) has considered macroeconomic variables in the computation of the ECL on March 31st, 2020, including the likely COVID-19 impact. Given the nature of the outbreak and the on-going developments, there is a high degree of uncertainty and it is not possible at this time to predict the extent and nature of the overall future impact on the ECL. However, SBMBI has developed scenarios aimed to factor in future macroeconomic conditions through management overlays to assess the impact on ECL. The impact will vary with sectors and will be influenced by the extent of trade disruptions, social distancing and resultant economic slowdown. To begin with we have classified all our exposures into three risk categories; high, medium, and low, based on the sectoral impact of COVID 19.

Basis financials as at March 31st, 2019, in its mild case scenario, SBMBI has factored worsening of credit ratings of all the clients across the board by one notch. The resultant ECL is INR 959.19 Mn (equivalent to MUR 492 Mn) (incremental component, over Base Case ECL, of INR 145.96 Mn (equivalent to MUR 75 Mn)).

In its medium risk scenario, SBMBI has considered two notch downgrade of rating for its high risk accounts and one notch downgrade for medium risk accounts, with no downgrade for low risk cases. The resultant total ECL is INR 1190.03 Mn (equivalent to MUR 610 Mn) (an incremental component of INR 376.86 Mn (equivalent to MUR 193 Mn)).

While in a worst-case scenario, rating downgrade of three notches for high risk accounts, two notches for medium risk accounts and one notch for low risk accounts have been considered. The resultant total ECL is INR 1681.04 Mn (equivalent to MUR 862 Mn) (incremental ECL of INR 867.87 Mn (equivalent to MUR 445 Mn)).

Other Estimation Uncertainties

Cash and cash equivalents, mandatory balances with central banks and loans to and placements with banks:

Management does not expect a significant impact on the carrying value of these items as they are considered to carry low credit risks and less susceptible to changes in value in the event of an economic downturn.

Derivative Financial Instruments:

SBMBI currently holds plain vanilla derivative transactions (Short term and long term Forward contracts) on fully matched basis (interbank cover back to back matching client transactions); hence the net impact on the SBMBI's financial position or profits are expected to be minimal.

Loans to non-bank customers:

The main impact on loans to non-bank customers will be on the ECL and this is discussed above.

Investment Securities:

For investment securities (fixed income instruments) held in Available for Sale and Held for Trading category, the main impact of COVID-19 will be due to changes in market interest rates and any changes in the credit quality of the instruments. Most of these holdings are High Quality Liquid Assets (Securities issued by Government of India) and hence safeguarded against credit risk. A small portion of securities is also held in Non sovereign papers issued by issuers with highest Credit ratings. With benign interest rate scenario and comfortable liquidity environment that is expected to prevail for an extended period of time; management expects increase in the market value of these investments.

Deposits from non-bank customers and other borrowed funds:

SBMBI has been constantly monitoring the Deposits from non-Bank customers. The deposits from non-bank customers, between December 2019 and March 2020 have increased. There has been growth across segments like CASA, FCNR B and Term Deposits. There has been strong focus on liabilities during this period. This has also been supported to an extent by deposit rates in line with peers in the higher end of the industry. SBMBI has been dynamically moderating the interest rates keeping in view the liability strategy, liquidity management and industry trend. SBMBI has reduced the TD Interest Rates in the Month of April 2020 and monitoring the impact of the same on the deposit balances.

42. EVENT AFTER THE REPORTING DATE (CONT'D)

SBM Bank India Ltd (cont'd)

Going concern

In the light of the anticipated economic impact of COVID-19, Management had conducted a risk analysis and stress test as at 31st December, 2019 and 31st March, 2020 on the following elements:

(i) Credit risks

See stress tests on credit risks due to Covid-19 in the above section on impact on ECL.

(ii) Liquidity risks

Liquidity position of SBMBI was comfortable as at 31 December 2019, with Liquidity Coverage Ratio (LCR) at 217 %, as against regulatory stipulation of LCR 100% (since reduced to 80%). SBMBI has High Quality Liquid Assets (HQLA) amounting to INR 7,491 Mn (equivalent to MUR 3,842 Mn) as against total liability of INR 19,973 Mn (equivalent to MUR 10,244 Mn) and Deposit of INR 13,340 Mn (equivalent to MUR 6,842 Mn) as on 31st December 2019. These HQLA, taken for LCR, are Government Securities denominated in INR. LCR has improved to 273% as on 31st March 2020 and HQLA has increased to INR 9,410 Mn (equivalent to MUR 4,826 Mn). Net Stable Funding Ratio has remained above BIS stipulation of 100% at 164% as on 31st December 2019 and is at 154% as on 31st March 2020. The Contingency Funding Plan, under assumed stress condition, does not require any additional funding as on 31st December 2019. The excess liquidity, in form of cash and securities eligible for repo, available with SBMBI is expected to be sufficient to address probable outflows. SBMBI has positive gaps from overnight to six-month bucket, in the Structural Statement of Liquidity (SSL), on 31st December 2019 as well as on 31st March 2020, which signifies adequate liquidity. SBMBI has been monitoring its liquidity level regularly against the backdrop of COVID-19, there has been no significant/major outflows other than the business as usual. RBI has been pursuing easy liquidity policy to mellow the economic impact of COVID-19. SBMBI has conducted liquidity stress test for 31st December 2019, on the basis on regulatory guidelines and stress test results do not indicate major impact on cost or capital in a prescribed stress situation considering the level of extra liquidity available with SBMBI.

(iii) Interest rate risks

SBMBI has also stress-tested the impact that any adverse situation could have on its net interest income basis financial statements as at 31st March, 2020. In stressed situation the impact will be INR 192 Mn (equivalent to MUR 99 Mn) on account of Interest Rate Risk in SBMBI's Book and INR 109 Mn (equivalent to MUR 56 Mn) on account of Interest Rate Risk in the Investment Portfolio. SBMBI has also calculated the Earnings at Risk at 200 basis point adverse movement of interest rate. The Earnings at Risk is within 25% of annualized NII as on 31st March 2020 at INR 95 Mn (equivalent to MUR 49 Mn). SBMBI has maintained a low Modified Duration for the investment portfolio as on 31st March 2020 (of 2.96) and thus SBMBI carries moderate interest risk in the investment portfolio. In the post COVID 19 scenario, interest rates are expected to remain benign benefiting fixed income investment portfolio.

(iv) Capital risks

SBMBI's current Capital Adequacy Ratio stands at 36.38% compared to the regulatory requirement of 11.50% with effect from 31st March 2020. The leverage ratio was at 23% above the regulatory floor of 3.50%. Capital adequacy remained around 29% as on 31st March 2020 and leverage ratio remained at 18%.

SBMBI has conducted the stress test on Credit Risk, Forex Portfolio, Investment Book, Liquidity Risk, Interest Rate Risk in SBMBI's Book to assess the impact of Capital Adequacy under assumed stress situation, prescribed by RBI, for its book as on 31st March 2020. Based on the regulatory stressed situation, the stressed CRAR, as on 31st March 2020, came to 15.01%.

The results of stress test indicate that in case such scenario materializes, SBMBI will be within regulatory requirement of CRAR.

42. EVENT AFTER THE REPORTING DATE (CONT'D)

SBM Bank (Kenya) Ltd

The first case of this infection was reported in Kenya on 13th March 2020 and since then some other cases have been identified. As of the date of this assessment, SBM Bank (Kenya) Limited (SBMBK) operations were still running normal and uninterrupted. As such the management of SBMBK considers the post year end pandemic outbreak as a non-adjusting event to the 2019 financial statements. However, the impact of the pandemic in China, Europe and other regions will affect future business of SBMBK. The two regions are both main source of imports and a key export market for many businesses in Kenya, either directly or indirectly. Below is an assessment of the impact of the pandemic on specific aspects of SBMBK. Key factor in this assessment is the fact that there is still uncertainty as to when the pandemic fear of infection will be contained globally. This introduces a level of uncertainty on the estimations process.

Impact on total assets

A decrease of 8% in total assets is expected for 2020 as compared to the full year targets. The budgeted total assets as at close of 2020 is KShs. 88 Bn (equivalent to MUR 32 Bn), an increase of 21% from Dec 2019. Due to the expected economic growth slowdown, total assets of SBMBK by end of 2020 are estimated to close at KShs. 81 Bn (equivalent to MUR 29 Bn). Below are the expected variances in the key asset items.

Impact on deposits

An economic recession, both at local and international market is expected as one of the aftermath of the pandemic. This will definitely slow down deposits mobilization as most businesses attempt to recover from the recession and lost volumes during the lockdowns. There is a likelihood of investors going for more solid and less risky investments like gold. Consequently, SBMBK assessment of the pandemic on deposits is a shortfall of about KShs 6 Bn (equivalent to MUR 2 Bn) from the targeted deposits balance of KShs 66 Bn (equivalent to MUR 24 Bn) by year end.

Impact on loans and advances

Due to the business disruptions and uncertainties arising from the pandemic, SBMBK anticipates going slow on new lending. This is in line with the indications from the industry. SBMBK planned net loans balance by end of 2020 is KShs.34 Bn (equivalent to MUR 12.3 Bn), but in view of the credit slowdown, there is an estimated shortfall of at least KShs 13.2 Bn (equivalent to MUR 4.8 Bn), which is 39%. This shortfall will not materially reduce SBMBK revenue as the funds are already invested in Government securities earning an average yield of 10% compared to yield on new LCY credit assets of about 12.5%.

Impact on asset impairment

SBMBK's 2020 full year budget of net impairment is a credit to income statement of KShs 872 Mn (equivalent to MUR 315 Mn). After taking into consideration impact of the pandemic on impairment of assets lend to different sectors, there is potential increase in probability of default and loss given default leading to a decrease in projected net impairment credit by KShs 571 Mn (equivalent to MUR 206 Mn). The decrease is attributable to expected increase in impairment charge of KShs. 360 Mn (equivalent to MUR 130 Mn) and a reduction in expected write back of KShs 119 Mn (equivalent to MUR 43 Mn). At the backdrop of minimal projected new lending, the incremental impairment was premised on the potential increase in credit risk of the portfolio by end of year 2020.

Impact on liquidity

It is expected that a number of borrowers will request for restructuring of their debts. However, SBMBK still expects to close 2020 at a liquidity of 77.3% compared to the initial target of 62.8% in view of the following.

- a. SBMBK liquidity stood at 77.2% as at end of 2019
- b. Credit squeeze expected post pandemic

Regulatory minimum liquidity is 20%.

Impact on capital adequacy

SBMBK capital adequacy ratio as at end of December 2019 was 23.1% compared to regulatory minimum of 14.5%. The ratio is estimated to be at about 16.8% by end of 2020, which almost equals to the initial target as shown below.

Though going forward growth in credit assets will be lesser, SBMBK had booked a growth of KShs 5 Bn (equivalent to MUR 2 Bn) by the time of the advent of the pandemic.

Impact on going concern

The management concludes that the impact of the COVID-19 on SBMBK future business, does not cast doubt upon SBMBK's ability to continue as a going concern.

42. EVENT AFTER THE REPORTING DATE (CONT'D)

Other subsidiaries

Impact on going concern

The management concludes that the impact of the COVID-19 on the other subsidiaries within the Group business, does not cast doubt upon the Group's ability to continue as going concern. The Group undertakes to inject any capital requirements to any other subsidiaries.