

SBM HOLDINGS LTD

**INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

SBM HOLDINGS LTD
INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

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INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

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1 Management Discussion and Analysis

The management of SBM Holdings Ltd (the “Group”) is pleased to present their Management Discussion and Analysis, in accordance with the Bank of Mauritius Guideline on Public Disclosure of Information for the six months ended 30 June 2018.

1.1 Financial Review

1.1.1 Group key financial highlights

Key Financial indicators	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
Statement of Profit or Loss			
Net interest income (MUR million)	2,770	2,284	4,768
Operating income (MUR million)	4,012	3,534	7,572
Credit loss expense on financial assets (MUR million)	(1,669)	(428)	(1,115)
Profit before impairment and income tax (MUR million)	2,087	1,980	4,184
Profit after tax (MUR million)	156	1,310	2,575
Statement of Financial position			
Total assets (MUR million)	205,872	177,235	194,021
Total gross loans and advances to non bank customers (MUR million)	111,632	95,020	107,198
Deposit from non bank customers (MUR million)	152,271	137,342	144,851
Tier 1 capital (MUR million)	18,973	19,260	20,010
Total regulatory capital (MUR million)	29,365	24,452	25,109
Risk weighted assets (MUR million)	122,650	111,524	125,684
Shareholders' equity (MUR million)	23,974	24,863	25,165
Share information			
Market Price Per Share (MUR)	7.28	7.24	7.50
Earnings per share (Cents)	6.04	50.74	99.73
Efficiency Ratio			
Cost to income (%)	47.98	43.96	44.75
Performance Ratios			
Capital adequacy ratio (%)	23.94	21.79	19.98
Tier 1 capital adequacy ratio	15.47	17.27	15.92
Return on average shareholders' equity (%)	1.28	10.86	10.52
Return on average assets (%)	0.16	1.63	1.51
Return on average risk-weighted assets (%)	0.25	2.58	2.05
Asset Quality Ratios			
Gross impaired advances to gross advances (%)	5.91	7.06	4.47
Net impaired advances to net advances (%)	2.22	3.09	1.98
Provision coverage ratio	64.45	58.74	68.07
Liquidity Ratio			
Credit to deposit ratio	0.69	0.65	0.71

1 Management Discussion and Analysis (Continued)

1.1 Financial Review (Continued)

1.1.2 Revenue

Interest income for the six months ended 30 June 2018 was MUR 3,936 million. The main source of interest income was interest on loans and advances to customers which amounted to MUR 3,070 million. Interest expense for the period under review was MUR 1,166 million which includes interest on deposits of MUR 934 million.

Non-interest income decreased by 0.64% from MUR 1,250 million in June 2017 to MUR 1,242 in June 2018. Net Fee and Commission income increased by MUR 105 million offset by a net decrease of MUR 177 million from net gain on sale of securities.

The Group has recorded profit before net impairment loss and tax of MUR 2,087 million for the six months ended 30 June 2018, as compared to MUR 1,980 million for the corresponding prior period .

1.1.3 Cost Control

Non-interest expenses of the Group for the six months ended 30 June 2018 was MUR 1,925 million.

	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
	MUR' 000	MUR' 000	MUR' 000
Personnel expenses	956,894	761,963	1,618,992
Depreciation and amortisation	359,113	311,598	669,966
Other expenses	608,609	480,153	1,099,274
Non-interest expense	<u>1,924,616</u>	<u>1,553,714</u>	<u>3,388,232</u>

1.1.4 Credit Exposure

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

The Group's strategy is to achieve a right balance between growth, liquidity and profitability through a well-diversified portfolio spread over different sectors of the economy and is in line with the industry practice. The classification is provided in notes 9.4.3 on page 21.

1 Management Discussion and Analysis (Continued)

1.1 Financial Review (Continued)

1.1.5 Credit Quality

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

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

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

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

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

Implementation programme

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

1 Management Discussion and Analysis (Continued)

1.1 Financial Review (Continued)

1.1.5 Credit Quality (Continued)

The Group has performed a final parallel run based on 30 June 2018 data. Overall governance of the programme's implementation has been through The Group's IFRS 9 Steering Committee and includes representation from Finance, Risk, Credit and Credit Services Unit, Audit and IT. Guidance and training on IFRS 9 across The Group has been delivered across businesses and functions as part of The Group's control process and implementation program. The Group enhanced its governance environment to ensure an updated framework for classification and measurement, and impairment by implementing appropriate validations and controls over new key processes and significant areas of judgement. The specific process and business controls under this updated framework are being incorporated and finalized. Governance over the Expected Credit Loss calculation process is shared across Risk and Finance functions.

Hedge Accounting- Applies IAS 39

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

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

Total expected credit loss allowance on loans and advances book as at 30 June 2018 amounted to MUR 5,866.38 million (30 June 2017: MUR 5,169.37 million; 31 December 2017: MUR 4,069 million). As for other financial assets, the total expected loss allowance amounted to MUR 217.71 million (30 June 2017: Nil; 31 December 2017: Nil).

The opening balances of retained earnings have been restated and the ECL movement amounted to MUR 340.94 million.

Further disclosure is available in Note 9.14.

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1 Management Discussion and Analysis (continued)

1.1 Financial Review (continued)

1.1.6 Assets and Liabilities

Total assets of the Group stood at MUR 205,872 million at 30 June 2018 compared to MUR 194,021 million at 31 December 2017, an increase of MUR 11,851 million.

Loans and advances accounted for 51.37% of total assets at 30 June 2018, while Investment in securities and equity investments amounted to MUR 55,620 million at 30 June 2018. Cash and cash equivalents including nostro balances with banks abroad totalled MUR 15,826 million at the reporting date.

Deposits from non-banking customers reached MUR 152,271 million at 30 June 2018, an increase of 5.12 % as compared to 31 December 2017.

1.1.7 Capital Structure

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

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

The table below show the components of Tier 1 and Tier 2 Capital for the Group and the resulting capital adequacy ratios which stood at 23.94% at 30 June 2018 as compared to the statutory requirement of 11.125 % including provision for Domestically Systemic Important Banks (D-SIBs) and Capital Conservation Buffer.

	30 June 2018	30 June 2017	31 December 2017
	MUR'000	MUR'000	MUR'000
Capital Base			
Tier 1	18,973,365	19,260,037	20,010,395
Tier 2	10,391,697	5,191,711	5,098,823
	<u>29,365,062</u>	<u>24,451,748</u>	<u>25,109,218</u>
Risk Weighted Assets			
On balance sheet	104,767,511	98,795,370	107,705,105
Off balance sheet	7,941,533	4,979,651	9,124,627
Operational Risk	8,071,736	7,152,885	8,513,888
Market Risk	1,869,483	1,279,721	340,387
	<u>122,650,263</u>	<u>112,207,627</u>	<u>125,684,007</u>
Capital Adequacy Ratio	<u>23.94%</u>	<u>21.79%</u>	<u>19.98%</u>
Tier 1 Capital Adequacy Ratio (%)	<u>15.47%</u>	<u>17.16%</u>	<u>15.92%</u>

1 Management Discussion and Analysis (continued)

1.1 Financial Review (continued)

1.1.7 Capital Structure (continued)

1.1.7.1 Credit Risk

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

1.2 Risk Management Policies and Controls

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

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

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

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

1.2.1 Credit Risk Concentration

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

The Group has complied with the Bank of Mauritius requirements on credit concentration limit and remains within the regulatory limits. Total outstanding credit facilities, net of deposits where there is a right of set off, including guarantees, acceptances, and other similar commitments extended by the Banking Group to any one customer or group of closely-related customers for amounts aggregating more than 10% of its tier 1 capital amounted to MUR 24,347.76 million representing only 128.3% of its tier 1 capital, well within the 800% allowed under the BOM guideline on credit concentration risk.

1 Management Discussion and Analysis (continued)

1.2 Risk Management Policies and Controls (continued)

1.2.2 Related Party Transactions

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

Outstanding loans to executive officers of SBM totalled MUR 75.44 million as at 30 June 2018.

On and off balance sheet exposures to related parties after set off amounted to MUR 2,116 million representing 1.88 % of aggregate on and off balance sheet exposures and 11.15 % of Tier 1 Capital, well within the limit of 60% as per guideline on related party transactions.

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

1.2.3 Market risk

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

1.2.4 Interest rate risk

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

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

1.2.5 Equity risk

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

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

1 Management Discussion and Analysis (continued)

1.2 Risk Management Policies and Controls (continued)

1.2.6 Foreign Exchange risk

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

1.2.7 Liquidity risk

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

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

1.2.8 Operational risk

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

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

1.2.9 Internal audit

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

1.2.10 Compliance

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

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

2. Statement of Corporate Governance Practices

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

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

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

	<u>Appointment date</u>
Mr. Kee Chong Li Kwong Wing, G.O.S.K. Chairman	14-Apr-15
Mr Azim Fakhruddin Currimjee	28-Jun-16
Mr. Medha Gunpath	4-Feb-15
Mr. Maxime Hardy	30-Jun-15
Mr. Vidianand Lutchmeeparsad	30-Jun-15
Mr. Ramprakash Maunthrooa	30-Jun-15
Mr. Roodesh Muttylall	30-Jun-15
Mr. Subhas Thecka	23-Jun-17
Mr.Andrew Bainbridge	28-Jun-18

The Committees reporting to the Board are as follows:

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

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

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

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

3. Statement of Management's Responsibility for Financial Reporting

The Group's financial statements have been prepared by management, who is responsible for their integrity, consistency, objectivity and reliability. International Financial Reporting Standards, as well as the requirements of the Banking Act 2004 and the guidelines issued and the requirements of the Companies Act have been applied and management has exercised its judgment and made best estimates as deemed necessary.

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

The Group's Board of Directors, acting in part through the Audit Committee, which comprise independent directors who are not officers or employees of the Group, oversees management's responsibility for financial reporting, internal controls, assessment and control of major risk areas and assessment of related party transactions.

The Group's Internal Auditor, who has full and free access to the Audit Committee, conducts a well designed programme of internal audits in coordination with the Group's external auditor. In addition, the Group's compliance function maintains policies, procedures and programmes directed at ensuring compliance with regulatory requirements.

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

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

Approved by the Board on 13 August 2018 and signed on its behalf by:


Kee Chong LI KWONG WING, G.O.S.K.
Chairman
Subhas THECKA
Chairman, Audit Committee

**REVIEW REPORT TO THE BOARD OF DIRECTORS OF
SBM HOLDINGS LTD**

We have reviewed the accompanying interim condensed statements of financial position of SBM Holdings Ltd (the "Company") and its subsidiaries (the "Group") as of 30 June 2018, and the related interim condensed statements of profit or loss and other comprehensive income, changes in equity and abridged cash flows for the six months then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim condensed financial information in accordance with IAS 34 interim Financial Reporting. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information does not present fairly, in all material respects, the financial position of the Group and the Company as at 30 June 2018, and of their financial performance and their cash flows for the six months then ended in accordance with IAS 34 Interim Financial Reporting.



ERNST & YOUNG
Ebène, Mauritius



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

Date: **13 AUG 2018**

SBM HOLDINGS LTD

5. INTERIM UNAUDITED CONDENSED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2018


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Notes	The Group			The Company		
	Unaudited 30 June 2018	Unaudited 30 June 2017	Audited 31 December 2017	Unaudited 30 June 2018	Unaudited 30 June 2017	Audited 31 December 2017
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
ASSETS						
Cash and cash equivalents	9.4.1 15,825,917	16,634,890	16,331,538	4,045,856	53,188	73,223
Mandatory balances with Central Banks	8,972,096	8,802,796	8,966,717	-	-	-
Loans to and placements with banks	8,894,197	4,473,311	8,897,399	-	-	-
Derivative financial instruments	1,057,195	925,033	1,356,774	-	-	-
Loans and advances to non-bank customers	9.4.2 105,765,461	89,850,889	103,128,838	-	-	-
Investment securities	49,633,255	41,448,071	40,000,421	608,395	3,391,041	1,461,801
Equity investments	5,986,371	5,770,574	6,137,779	4,227,683	4,267,800	4,292,925
Investment in associate	1,394,629	1,325,925	1,336,902	1,272,977	1,272,977	1,272,977
Investment in subsidiaries	-	-	-	26,286,453	22,557,311	24,665,178
Property and equipment	2,822,508	2,968,266	2,854,218	6,846	3,708	3,106
Goodwill and other intangible assets	3,705,291	4,071,812	3,875,613	50	16,747	-
Deferred tax assets	91,968	311,915	95,461	-	-	-
Other assets	1,722,690	651,183	1,039,721	1,021,161	158,179	70,448
Total assets	205,871,578	177,234,665	194,021,381	37,469,421	31,720,951	31,839,658
LIABILITIES						
Deposits from banks	545,866	1,634,587	689,265	-	-	-
Deposits from non-bank customers	9.5 152,270,962	137,342,303	144,850,676	-	-	-
Other borrowed funds	14,962,122	5,650,969	13,686,203	-	-	-
Trading liabilities	898,669	759,902	1,334,641	-	-	-
Current tax liabilities	256,888	163,714	124,195	503	2,254	1,005
Deferred tax liabilities	184,015	34,153	170,905	-	64	-
Other liabilities	3,332,546	3,018,612	4,299,258	72,832	262,019	5,501
Subordinated debts	9,446,952	3,767,449	3,701,466	9,446,952	3,767,450	3,701,466
Total liabilities	181,898,020	152,371,689	168,856,609	9,520,287	4,031,787	3,707,972
SHAREHOLDERS' EQUITY						
Stated capital	32,500,204	32,500,204	32,500,204	32,500,204	32,500,204	32,500,204
Retained earnings	1,729,478	1,681,228	2,410,007	1,172,263	834,976	1,242,101
Other reserves	(5,381,093)	(4,443,425)	(4,870,408)	(848,302)	(770,985)	(735,588)
	28,848,589	29,738,007	30,039,803	32,824,165	32,564,195	33,006,717
Less: treasury shares	(4,875,031)	(4,875,031)	(4,875,031)	(4,875,031)	(4,875,031)	(4,875,031)
Total equity attributable to equity holders of the parent	23,973,558	24,862,976	25,164,772	27,949,134	27,689,164	28,131,686
Total equity and liabilities	205,871,578	177,234,665	194,021,381	37,469,421	31,720,951	31,839,658
Contingent liabilities	9.6 23,832,364	18,996,168	26,856,831			

Approved by the Board of Directors and authorised for issue on 13 August 2018.



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



Subhas THECKA
Chairman, Audit Committee

The notes on pages 19 to 44 form an integral part of these interim unaudited condensed financial statements.

**6. INTERIM UNAUDITED CONDENSED STATEMENTS OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

		The Group					The Company				
	Notes	Unaudited Quarter ended 30 June 2018 MUR' 000	Unaudited Quarter ended 30 June 2017 MUR' 000	Unaudited Six months ended 30 June 2018 MUR' 000	Unaudited Six months ended 30 June 2017 MUR' 000	Audited Year ended 31 December 2017 MUR' 000	Unaudited Quarter ended 30 June 2018 MUR' 000	Unaudited Quarter ended 30 June 2017 MUR' 000	Unaudited Six months ended 30 June 2018 MUR' 000	Unaudited Six months ended 30 June 2017 MUR' 000	Audited Year ended 31 December 2017 MUR' 000
Interest income		2,048,273	1,796,060	3,936,062	3,333,162	7,007,347	6,763	34,849	21,257	75,945	131,045
Interest expense		(604,535)	(575,757)	(1,166,380)	(1,048,917)	(2,239,586)	(38,811)	(37,472)	(75,140)	(75,114)	(149,011)
Net interest income / (expense)	9.7	1,443,738	1,220,303	2,769,682	2,284,245	4,767,761	(32,048)	(2,623)	(53,883)	831	(17,966)
Fee and commission income		321,709	278,222	644,605	537,036	1,268,893	-	-	-	-	-
Fee and commission expense		(8,764)	(7,067)	(15,248)	(12,832)	(29,385)	(30)	(178)	(45)	(178)	(339)
Net fee and commission income		312,945	271,155	629,357	524,204	1,239,508	(30)	(178)	(45)	(178)	(339)
Profit arising from dealing in foreign currencies		144,441	3,711	320,608	280,639	560,843	6,006	-	-	-	-
Net gain on sale of securities		42,501	178,947	58,773	236,013	464,433	26,769	17,910	28,426	5,539	12,765
Dividend income		2	146,137	59	7,096	21,501	347,200	155,000	697,500	356,500	1,270,535
Net gain/(loss) from dealing in financial instruments		80,608	-	232,659	201,799	516,538	(58,513)	-	(58,513)	-	67,735
Other operating income		424	-	424	18	1,221	-	-	-	-	-
Non-interest income		580,921	599,950	1,241,880	1,249,769	2,804,044	321,432	172,732	667,368	361,861	1,350,696
Operating income		2,024,659	1,820,253	4,011,562	3,534,014	7,571,805	289,384	170,109	613,485	362,692	1,332,730
Personnel expenses		(499,694)	(403,042)	(956,894)	(761,963)	(1,618,992)	(26,144)	-	(41,878)	-	(18,843)
Depreciation and amortisation		(179,646)	(166,048)	(359,113)	(311,598)	(669,966)	(485)	(301)	(881)	(601)	(1,203)
Other expenses		(349,727)	(263,729)	(608,609)	(480,153)	(1,099,274)	(104,514)	(12,988)	(114,018)	(30,667)	(61,566)
Non-interest expense		(1,029,067)	(832,819)	(1,924,616)	(1,553,714)	(3,388,232)	(131,143)	(13,289)	(156,777)	(31,268)	(81,612)
Profit before credit loss expense		995,592	987,434	2,086,946	1,980,300	4,183,573	158,241	156,820	456,708	331,424	1,251,118
Credit loss expense on financial assets	9.10	(1,431,182)	(131,362)	(1,668,728)	(428,408)	(1,115,280)	-	-	-	-	-
Operating (loss) / profit		(435,590)	856,072	418,218	1,551,892	3,068,293	158,241	156,820	456,708	331,424	1,251,118
Share of profit of associate		35,089	52,492	53,420	52,492	92,005	-	-	-	-	-
(Loss) / profit before income tax		(400,501)	908,564	471,638	1,604,384	3,160,298	158,241	156,820	456,708	331,424	1,251,118
Tax expense	9.8	(190,136)	(180,030)	(315,610)	(294,474)	(585,375)	(10,188)	(450)	(10,188)	(900)	2,895
(Loss) / profit for the quarter / period / year attributable to equity holders of the parent		(590,637)	728,534	156,028	1,309,910	2,574,923	148,053	156,370	446,520	330,524	1,254,013
Earnings per share (Cents)		(22.88)	28.22	6.04	50.74	99.73					

The notes on pages 19 to 44 form an integral part of these interim unaudited condensed financial statements.

SBM HOLDINGS LTD
6.1 INTERIM UNAUDITED CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018

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	The Group					The Company				
	Unaudited Quarter ended 30 June 2018 MUR' 000	Unaudited Quarter ended 30 June 2017 MUR' 000	Unaudited Six months ended 30 June 2018 MUR' 000	Unaudited Six months ended 30 June 2017 MUR' 000	Audited Year ended 31 December 2017 MUR' 000	Unaudited Quarter ended 30 June 2018 MUR' 000	Unaudited Quarter ended 30 June 2017 MUR' 000	Unaudited Six months ended 30 June 2018 MUR' 000	Unaudited Six months ended 30 June 2017 MUR' 000	Audited Year ended 31 December 2017 MUR' 000
(Loss) / profit for the quarter / period / year attributable to equity holders of the parent	(590,637)	728,534	156,028	1,309,910	2,574,923	148,053	156,370	446,520	330,524	1,254,013
Other comprehensive income :										
<i>Items that will not be reclassified subsequently to profit or loss:</i>										
Movement in net property revaluation reserve	1,027	-	-	-	-	-	-	-	-	-
Share of other comprehensive income of associate	6,006	9,215	3,888	9,215	290	-	-	-	-	-
Remeasurement of defined benefit pension plan (net of deferred tax)	-	-	-	-	(32,876)	-	-	-	-	-
	7,033	9,215	3,888	9,215	(32,586)	-	-	-	-	-
<i>Items that may be reclassified subsequently to profit or loss:</i>										
Exchange differences on translation of foreign operations	(33,272)	(57,886)	(45,066)	21,689	(65,347)	-	-	-	-	-
Movement in value of available-for-sale investments	-	265,789	-	261,590	144,422	-	-	-	31,674	52,013
Fair value re-cycled on disposal of available-for-sale investments	-	(85,541)	-	(85,541)	(228,618)	-	-	-	-	15,058
Fair value realised on reclassification of available-for-sale investments to Investment in associate	-	-	-	-	-	-	23,982	-	-	-
Equity instrument at FVOCI-Net movement in fair value	47,157	-	(63,812)	-	-	(65,242)	-	(65,242)	-	-
Debt instruments at fair value through other comprehensive income:	(275,675)	-	(384,955)	-	-	(24,893)	-	(47,472)	-	-
Net movement in fair value during the quarter / period	(293,003)	-	(410,965)	-	-	(24,893)	-	(47,472)	-	-
Net gain on derecognition of financial instruments at fair value through other comprehensive income	17,328	-	26,010	-	-	-	-	-	-	-
	(261,790)	122,362	(493,833)	197,738	(149,543)	(90,135)	23,982	(112,714)	31,674	67,071
Other comprehensive (loss) / income	(254,757)	131,577	(489,944)	206,953	(182,129)	(90,135)	23,982	(112,714)	31,674	67,071
Total comprehensive (loss) / income attributable to equity holders of the parent	(845,394)	860,111	(333,917)	1,516,863	2,392,794	57,918	180,352	333,806	362,198	1,321,084

The notes on pages 19 to 44 form an integral part of these interim unaudited condensed financial statements.

SBM HOLDINGS LTD
**7. INTERIM UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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Group	Stated Capital MUR' 000	Treasury Shares MUR' 000	Statutory Reserve MUR' 000	Revenue Reserve MUR' 000	Net Unrealised Investment Fair Value MUR' 000	Net Property Revaluation Reserve MUR' 000	Net Translation Reserve MUR' 000	Net Other Reserve MUR' 000	Restructure Reserve MUR' 000	Total Equity MUR' 000
At 01 January 2017	32,500,204	(4,875,031)	592,187	865,100	(231,667)	157,777	175,194	1,276	(5,380,340)	23,804,700
Profit for the period	-	-	-	1,309,910	-	-	-	-	-	1,309,910
Other comprehensive income for the period	-	-	-	-	176,049	-	21,689	9,215	-	206,953
Total comprehensive income for the period	-	-	-	1,309,910	176,049	-	21,689	9,215	-	1,516,863
Transfer to retained earnings	-	-	-	22,576	-	(22,576)	-	-	-	-
Dividend (Note 9.9)	-	-	-	(516,358)	-	-	-	-	-	(516,358)
Changes in ownership interest										
Acquisition of subsidiary	-	-	36,681	-	-	21,090	-	-	-	57,771
At 30 June 2017	<u>32,500,204</u>	<u>(4,875,031)</u>	<u>628,868</u>	<u>1,681,228</u>	<u>(55,618)</u>	<u>156,291</u>	<u>196,883</u>	<u>10,491</u>	<u>(5,380,340)</u>	<u>24,862,976</u>
At 01 January 2017	32,500,204	(4,875,031)	592,187	865,100	(231,667)	157,777	175,194	1,276	(5,380,340)	23,804,700
Profit for the year	-	-	-	2,574,923	-	-	-	-	-	2,574,923
Other comprehensive loss for the year	-	-	-	(32,876)	(84,196)	-	(65,347)	290	-	(182,129)
Total comprehensive income for the year	-	-	-	2,542,047	(84,196)	-	(65,347)	290	-	2,392,794
Transfer to retained earnings	-	-	-	37,361	-	(37,361)	-	-	-	-
Transfer to statutory reserve	-	-	1,779	(1,779)	-	-	-	-	-	-
Dividend (Note 9.9)	-	-	-	(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>(315,863)</u>	<u>120,416</u>	<u>109,847</u>	<u>1,566</u>	<u>(5,380,340)</u>	<u>25,164,772</u>
At 01 January 2018	32,500,204	(4,875,031)	593,966	2,410,007	(315,863)	120,416	109,847	1,566	(5,380,340)	25,164,772
Impact of adopting IFRS 9	-	-	-	(340,939)	-	-	-	-	-	(340,939)
Restated opening balance under IFRS 9	32,500,204	(4,875,031)	593,966	2,069,068	(315,863)	120,416	109,847	1,566	(5,380,340)	24,823,833
Profit for the period	-	-	-	156,028	-	-	-	-	-	156,028
Other comprehensive loss for the period	-	-	-	-	(448,767)	-	(45,066)	3,888	-	(489,945)
Total comprehensive loss for the period	-	-	-	156,028	(448,767)	-	(45,066)	3,888	-	(333,917)
Transfer to retained earnings	-	-	-	20,740	-	(20,740)	-	-	-	-
Dividend (Note 9.9)	-	-	-	(516,358)	-	-	-	-	-	(516,358)
At 30 June 2018	<u>32,500,204</u>	<u>(4,875,031)</u>	<u>593,966</u>	<u>1,729,478</u>	<u>(764,630)</u>	<u>99,676</u>	<u>64,781</u>	<u>5,454</u>	<u>(5,380,340)</u>	<u>23,973,558</u>

The notes on pages 19 to 44 form an integral part of these interim unaudited condensed financial statements.

SBM HOLDINGS LTD
7. INTERIM UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2018
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Company	Stated capital MUR' 000	Treasury shares MUR' 000	Retained earnings MUR' 000	Net unrealised investment fair value reserve MUR' 000	Total equity MUR' 000
At 01 January 2017	32,500,204	(4,875,031)	1,020,810	(802,659)	27,843,324
Profit for the period	-	-	330,524	-	330,524
Other comprehensive income for the period	-	-	-	31,674	31,674
Total comprehensive income for the period	-	-	330,524	31,674	362,198
Dividend (Note 9.9)	-	-	(516,358)	-	(516,358)
At 30 June 2017	32,500,204	(4,875,031)	834,976	(770,985)	27,689,164
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 9.9)	-	-	(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 period	-	-	446,520	-	446,520
Other comprehensive loss for the period	-	-	-	(112,714)	(112,714)
Total comprehensive income for the period	-	-	446,520	(112,714)	333,806
Dividend (Note 9.9)	-	-	(516,358)	-	(516,358)
At 30 June 2018	32,500,204	(4,875,031)	1,172,263	(848,302)	27,949,134

SBM HOLDINGS LTD
**8. INTERIM UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**
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	The Group			The Company		
	Unaudited Six months ended 30 June 2018	Unaudited Six months ended 30 June 2017	Audited Year ended 31 December 2017	Unaudited Six months ended 30 June 2018	Unaudited Six months ended 30 June 2017	Audited Year ended 31 December 2017
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Net cash (used in) / from operating activities	(6,857,777)	7,127,529	922,948	(328,049)	978,282	3,801,568
Net cash from / (used in) financing activities	6,505,048	808,859	6,740,105	5,229,128	(356,100)	(1,030,697)
Net cash used in investing activities	(152,892)	(791,706)	(821,723)	(928,446)	(584,315)	(2,712,969)
Net change in cash and cash equivalents	(505,621)	7,144,682	6,841,330	3,972,633	37,867	57,902
Cash and cash equivalents at beginning of period / year	16,331,538	9,490,208	9,490,208	73,223	15,321	15,321
Cash and cash equivalents at period / year end (Note 9.4.1)	15,825,917	16,634,890	16,331,538	4,045,856	53,188	73,223

9 Notes to the Financial Statements

9.1 General information

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

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

9.2 Accounting policies

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

9.2.1 Basis of preparation

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

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

9.3.1 New standards, interpretations and amendments applied by the Group

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

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

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

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

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

9 Notes to the financial statements (Continued)

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

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

IFRS 9 Financial instruments

For IFRS 9 Financial instruments refer to Note 9.14.

IFRS 15 Revenue

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

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

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

IFRIC 22 Foreign currency transactions and advance consideration

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

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

The Interpretations Committee came to the following conclusion:

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

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

SBM HOLDINGS LTD
INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

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9 Notes to the Financial Statements (Continued)

9.4.1 Cash and cash equivalents	Unaudited	The Group		Unaudited	The Company	
	30 June	Unaudited	Audited	30 June	Unaudited	Audited
	2018	30 June	31 December	2018	30 June	31 December
	MUR'000	2017	2017	MUR'000	2017	2017
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Cash in hand	1,273,965	1,322,088	1,842,521	-	-	-
Foreign currency notes and coins	259,356	219,213	327,026	-	-	-
	4,197,694	1,004,188	1,494,175	-	-	-
Unrestricted balances with central banks	7,136,385	5,592,424	5,819,471	-	-	-
Loans and placements with banks	2,958,517	8,496,977	6,848,345	4,045,856	53,188	73,223
Balances with banks	15,825,917	16,634,890	16,331,538	4,045,856	53,188	73,223

9.4.2 Loans and advances to non-bank customers	Unaudited	The Group		Unaudited	The Company	
	30 June	Unaudited	Audited	30 June	Unaudited	Audited
	2018	30 June	31 December	2018	30 June	31 December
	MUR'000	2017	2017	MUR'000	2017	2017
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
1. Government	2,708,666	-	2,458,655	-	-	-
2. Retail customers	34,143,745	29,725,101	31,990,963	-	-	-
Credit cards	558,733	528,452	559,351	-	-	-
Mortgages	21,160,346	18,485,927	19,834,763	-	-	-
Other retail loans	12,424,666	10,710,722	11,596,849	-	-	-
3. Corporate customers	40,138,887	38,737,908	38,364,068	-	-	-
4. Entities outside Mauritius (including offshore / Global Business Licence Holders)	34,640,542	26,557,251	34,384,155	-	-	-
	111,631,840	95,020,260	107,197,841	-	-	-
<i>Less impairment allowance</i>	(5,866,379)	(5,169,371)	(4,069,003)	-	-	-
	105,765,461	89,850,889	103,128,838	-	-	-

9.4.3 Gross Advances by industry sectors	Unaudited	The Group		Unaudited	The Company	
	30 June	Unaudited	Audited	30 June	Unaudited	Audited
	2018	30 June	31 December	2018	30 June	31 December
	MUR'000	2017	2017	MUR'000	2017	2017
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Agriculture and fishing	5,314,404	4,205,318	4,224,704	-	-	-
Manufacturing	9,155,681	7,135,520	6,476,511	-	-	-
<i>of which EPZ</i>	1,072,080	1,053,527	1,013,525	-	-	-
Tourism	11,234,717	10,056,804	11,203,632	-	-	-
Transport	3,503,251	1,674,198	1,513,115	-	-	-
Construction	8,256,041	6,681,462	7,185,805	-	-	-
Financial and business services	12,531,914	14,846,905	13,513,693	-	-	-
Traders	15,301,842	10,983,907	19,937,146	-	-	-
Personal	32,912,374	28,106,400	31,125,000	-	-	-
<i>of which credit cards</i>	608,255	541,174	559,351	-	-	-
Professional	493,946	491,028	1,843,720	-	-	-
Global Business Licence holders	5,097,852	2,203,476	2,438,163	-	-	-
Others	7,829,818	8,635,243	7,736,352	-	-	-
	111,631,840	95,020,260	107,197,841	-	-	-

9 Notes to the Financial Statements (Continued)

9.4.4 Allowance for credit impairment

	The Group		
	Specific allowance for credit impairment	Portfolio allowance for credit impairment	Total
	MUR' 000	MUR' 000	MUR' 000
At 01 January 2017	3,105,952	1,044,728	4,150,680
Acquisition of new business	605,704	-	605,704
Exchange differences	(11,545)	283	(11,262)
Loans written off	(4,159)	-	(4,159)
Allowance for credit impairment for the period	250,910	177,498	428,408
At 30 June 2017	3,946,862	1,222,509	5,169,371

At 01 January 2017	3,105,952	1,044,728	4,150,680
Acquisition of new business	605,704	-	605,704
Exchange differences	(37,034)	(2,400)	(39,434)
Loans written off	(1,749,383)	-	(1,749,383)
Allowance for credit impairment for the year	815,902	285,533	1,101,435
At 31 December 2017 (Note 9.14)	2,741,142	1,327,861	4,069,003

	Stage 1	Stage 2	Stage 3	Provisioning per IFRS 9	BOM Provisioning	Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
At 01 January 2018 (Note 9.14)	663,232	500,494	2,741,142	3,904,868	245,661	4,150,529
Increase in impairment	33,259	335,663	1,594,568	1,963,490	(147,779)	1,815,710
Assets derecognised (excluding write offs)	-	(12,662)	(85,927)	(98,589)	-	(98,589)
Amount written off	-	-	(5,715)	(5,715)	-	(5,715)
Foreign exchange adjustments	3,080	(901)	7,821	10,000	(5,557)	4,443
At 30 June 2018	699,571	822,594	4,251,889	5,774,054	92,325	5,866,379

9 Notes to the Financial Statements (Continued)

9.5 Deposits from non-bank customers

	The Group			The Company		
	Unaudited 30 June 2018	Unaudited 30 June 2017	Audited 31 December 2017	Unaudited 30 June 2018	Unaudited 30 June 2017	Audited 31 December 2017
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Retail	82,060,971	76,034,280	81,825,006	-	-	-
Corporate	60,189,058	50,971,864	55,429,045	-	-	-
Government	10,020,933	10,336,159	7,596,625	-	-	-
	152,270,962	137,342,303	144,850,676	-	-	-

9.6 Contingent liabilities

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

	The Group			The Company		
	Unaudited 30 June 2018	Unaudited 30 June 2017	Audited 31 December 2017	Unaudited 30 June 2018	Unaudited 30 June 2017	Audited 31 December 2017
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Acceptances on account of customers	868,040	332,215	804,367	-	-	-
Guarantees on account of customers	8,098,713	5,418,124	7,565,487	-	-	-
Letters of credit and other obligations on account of customers	1,277,512	1,170,855	2,129,501	-	-	-
Undrawn credit facilities	11,578,881	10,992,413	14,238,833	-	-	-
Money guarantees	-	-	-	-	-	-
Other contingent items	-	-	-	-	-	-
	21,823,146	17,913,607	24,738,188	-	-	-

Others

	The Group			The Company		
	Unaudited 30 June 2018	Unaudited 30 June 2017	Audited 31 December 2017	Unaudited 30 June 2018	Unaudited 30 June 2017	Audited 31 December 2017
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Inward bills held for collection	162,591	137,472	188,954	-	-	-
Outward bills sent for collection	1,846,627	945,089	1,929,689	-	-	-
	2,009,218	1,082,561	2,118,643	-	-	-
Total	23,832,364	18,996,168	26,856,830			

9 Notes to the financial statements (Continued)

9.7 Net interest income

	The Group					The Company				
	Unaudited Quarter ended	Unaudited Quarter ended	Unaudited Six months ended	Unaudited Six months ended	Audited Year ended	Unaudited Quarter ended	Unaudited Quarter ended	Unaudited Six months ended	Unaudited Six months ended	Audited Year ended
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	31 December 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017	31 December 2017
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Interest income										
Cash and cash equivalents	51,114	30,413	111,125	56,999	135,336	-	-	-	-	-
Loans to and placements with banks	49,305	14,762	70,452	27,311	54,836	-	-	-	-	-
Loans and advances to customers	1,581,653	1,359,760	3,069,632	2,487,937	5,387,346	-	-	-	-	-
Investment securities	282,244	374,052	639,008	741,627	1,455,691	6,763	34,849	21,257	75,945	131,045
Derivative financial instruments	83,283	11,248	44,996	13,425	(31,902)	-	-	-	-	-
Other	674	5,825	849	5,863	6,040	-	-	-	-	-
Total interest income	2,048,273	1,796,060	3,936,062	3,333,162	7,007,347	6,763	34,849	21,257	75,945	131,045
Interest expense										
Deposits from non-bank customers	(475,462)	(502,121)	(933,550)	(918,805)	(1,926,008)	-	-	-	-	-
Other borrowed funds	(90,262)	(36,163)	(157,690)	(54,999)	(164,567)	-	-	-	-	-
Subordinated debts	(38,811)	(37,473)	(75,140)	(75,113)	(149,011)	(38,811)	(37,472)	(75,140)	(75,114)	(149,011)
Total interest expense	(604,535)	(575,757)	(1,166,380)	(1,048,917)	(2,239,586)	(38,811)	(37,472)	(75,140)	(75,114)	(149,011)
Net interest income / (expense)	1,443,738	1,220,303	2,769,682	2,284,245	4,767,761	(32,048)	(2,623)	(53,883)	831	(17,966)

9 Notes to the Financial Statements (Continued)

9.8 Taxation

	The Group					The Company				
	Unaudited Quarter ended 30 June 2018 MUR'000	Unaudited Quarter ended 30 June 2017 MUR'000	Unaudited Six months ended 30 June 2018 MUR'000	Unaudited Six months ended 30 June 2017 MUR'000	Audited Year ended 31 December 2017 MUR'000	Unaudited Quarter ended 30 June 2018 MUR'000	Unaudited Quarter ended 30 June 2017 MUR'000	Unaudited Six months ended 30 June 2018 MUR'000	Unaudited Six months ended 30 June 2017 MUR'000	Audited Year ended 31 December 2017 MUR'000
Income tax										
Income tax expense	206,472	33,958	290,960	121,290	248,392	10,188	450	10,188	900	(3,835)
Movement in Deferred tax	(22,293)	137,147	13,110	153,148	296,571	-	-	-	-	(64)
Corporate Social responsibility contribution	5,957	8,925	11,540	20,036	40,412	-	-	-	-	1,004
	190,136	180,030	315,610	294,474	585,375	10,188	450	10,188	900	(2,895)

9.9 Dividend

	The Group			The Company		
	Unaudited Six months ended 30 June 2018 MUR'000	Unaudited Six months ended 30 June 2017 MUR'000	Audited Year ended 31 December 2017 MUR' 000	Unaudited Six months ended 30 June 2018 MUR'000	Unaudited Six months ended 30 June 2017 MUR'000	Audited Year ended 31 December 2017 MUR' 000
Dividend declared during the period	516,358	516,358	1,032,722	516,358	516,358	1,032,722
Less: dividend paid	(516,358)	(258,179)	(1,032,722)	(516,358)	(258,179)	(1,032,722)
Dividend payable	-	258,179	-	-	258,179	-

9.10 Credit loss

	Unaudited			Unaudited Quarter ended 30 June 18	
Six months ended 30 June 2018	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	Total MUR'000
Loans and advances to customers	33,259	323,001	1,508,641	1,864,900	1,658,583
Loans and placements with banks	(594)	-	-	(594)	(1,450)
Debt instruments measured at amortised cost	11,064	-	-	11,064	1,832
Loan commitments	(15,824)	-	-	(15,824)	(12,871)
Off balance sheet items (Guarantees, Letters of credit, Acceptances)	(36,501)	-	-	(36,501)	(29,764)
Total credit loss under IFRS 9	(8,596)	323,001	1,508,641	1,823,046	1,616,330
Additional provisioning per regulatory requirements	-	-	-	(147,779)	(182,048)
Recoveries	-	-	-	(6,539)	(3,100)
Total credit loss	(8,596)	323,001	1,508,641	1,668,728	1,431,182

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9 Notes to the Financial Statements (Continued)

9.10 Credit loss (Continued)

	Unaudited Quarter ended 30 June 2017 MUR'000	Unaudited Six months ended 30 June 2017 MUR'000	Audited Year ended 31 December 2017 MUR'000
Portfolio and specific provisions	132,750	435,534	1,101,435
Bad debts written off for which no provisions were made	-	-	8,720
Recoveries of advances written off	(1,388)	(7,126)	(142,873)
Other	-	-	147,998
	<u>131,362</u>	<u>428,408</u>	<u>1,115,280</u>

9.11 Segment Information

	The Group				
	Banking	Non-bank financial institutions	Non financial institutions	Intersegment adjustments	Group Total
	MUR' 000	MUR' 000	MUR' 000	MUR' 000	MUR' 000
Revenue from external customers	5,128,003	53,864	1,374	(5,299)	5,177,942
Revenue from other segments of the entity	<u>697,500</u>	<u>108,772</u>	<u>697,500</u>	<u>(1,503,772)</u>	<u>-</u>
Total gross revenue	<u>5,825,503</u>	<u>162,636</u>	<u>698,874</u>	<u>(1,509,071)</u>	<u>5,177,942</u>
Operating income	<u>4,729,253</u>	<u>162,347</u>	<u>623,734</u>	<u>(1,503,772)</u>	<u>4,011,562</u>
Profit after tax	<u>1,010,517</u>	<u>97,439</u>	<u>451,416</u>	<u>(1,403,344)</u>	<u>156,028</u>
Segment assets	<u>220,621,631</u>	<u>1,720,268</u>	<u>38,211,807</u>	<u>(54,682,128)</u>	<u>205,871,578</u>

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9 Notes to the Financial Statements (Continued)

9.12 Financial Assets And Financial Liabilities

<u>The Group</u>	Unaudited		Audited	
	30 June 18		31 December 17	
	Carrying	Fair Value	Carrying	Fair Value
	Value	Value	Value	Value
	MUR'000	MUR'000	MUR'000	MUR'000
Financial assets				
Cash and cash equivalents	15,825,917	15,825,917	16,331,538	16,331,538
Mandatory balances with Central banks	8,972,096	8,972,096	8,966,717	8,966,717
Loans to and placements with banks	8,894,197	8,894,197	8,897,399	8,897,399
Trading assets	1,057,195	1,057,195	1,356,774	1,356,774
Loans and advances to non-bank customers	105,765,461	105,655,650	103,128,838	103,057,726
Investment securities	49,633,255	52,607,087	40,000,421	42,525,808
Equity investments	5,986,371	5,986,371	6,137,779	6,137,779
Other assets	961,897	961,897	765,324	765,324
	197,096,389	199,960,410	185,584,790	188,039,065
Financial liabilities				
Deposits from banks	545,866	545,866	689,265	689,265
Deposits from non-bank customers	152,270,962	152,460,354	144,850,676	144,855,080
Other borrowed funds	14,962,122	14,962,122	13,686,203	13,686,203
Trading liabilities	898,669	898,669	1,334,641	1,334,641
Other liabilities	2,082,440	2,082,440	2,076,706	2,076,706
Subordinated debts	9,446,952	9,446,952	3,701,466	3,701,466
	180,207,011	180,396,403	166,338,957	166,343,361
<u>The Company</u>	30 June 18		31 December 17	
	Carrying	Fair Value	Carrying	Fair Value
	Value	Value	Value	Value
	MUR'000	MUR'000	MUR'000	MUR'000
Financial assets				
Cash and cash equivalents	4,045,856	4,045,856	73,223	73,223
Investment securities	608,395	616,659	1,461,801	1,508,806
Equity investments	4,227,683	4,227,683	4,292,925	4,292,925
Other assets	670,811	670,811	70,448	70,448
	9,552,745	9,561,009	5,898,397	5,945,402
Financial liabilities				
Other liabilities	71,739	71,739	5,423	5,423
Subordinated debts	9,446,952	9,446,952	3,701,466	3,701,466
	9,518,691	9,518,691	3,706,889	3,706,889

9 Notes to the Financial Statements (Continued)

9.13 Impairment testing of goodwill

As at 30 June 2018, the carrying amount of the goodwill acquired following the business combination is as follows:

	MUR'000
Goodwill on acquisition of SBM Bank (Kenya) Limited (previously known as "Fidelity Commercial Bank Limited")	417,715
Foreign exchange differences	7,046
Carrying value as at 30 June 2018	424,761
Carrying value as at 31 December 2017	401,556
Carrying value as at 30 June 2017	345,325

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

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

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

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

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9

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

IFRS 9 Financial Instruments

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

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

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

Classification and Measurement

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

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

- **Hold to collect:** it is intended to hold the asset to maturity to earn interest and collecting repayments of principal and interest from the customer. These assets are accounted for at amortised cost.
- **Hold to collect and sell:** this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change. These assets are accounted for at fair value through other comprehensive income (FVOCI).

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

Classification and Measurement (Continued)

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

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

A small proportion of the Group's assets does not meet SPPI test and have therefore been reclassified from FVOCI and amortised cost to FVTPL.

SPPI Test

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

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

Business model test

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

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

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

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

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

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

Financial liabilities held at amortised cost

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

Financial guarantee contracts and loan commitments

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

Impairment of financial assets

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

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

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

Measurement

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

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

Measurement (Continued)

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

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

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

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

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

Approach for determining expected credit losses

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

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

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

Approach for determining expected credit losses (Continued)

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

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

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

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

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

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

Backstop

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

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

Recognition

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

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

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

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

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

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

Recognition (Continued)

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

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

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

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

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

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

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

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

Modified financial instruments

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

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

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

Forborne loans

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

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

Transfers between stages

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

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

Transfers between stages (Continued)

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

Improvement in credit risk/ Curing

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

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

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

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

Key judgements

Forward-looking information

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

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

Significant accounting estimates and judgements

From 01 January 2018

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

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

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Life Time 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.

Statutory portfolio allowance

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

Credit cards and other revolving facilities

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

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

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

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

Collateral valuation

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

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

Collateral repossessed

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

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

Write-offs

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

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

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

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

Particulars	IAS 39 measurement category	New measurement category under IFRS 9	As on January 1, 2018		
			Original carrying amount under IAS 39	New carrying amount under IFRS 9	Movement booked in Retained earnings
			MUR'000	MUR'000	MUR'000
Cash and cash equivalents	Loans & receivables	Amortised cost	16,331,538	16,331,538	-
Loans to and placements with Banks	Loans and receivables	Amortised cost	8,897,400	8,865,145	32,255
Derivative financial instruments	Fair value through P&L	Fair value through P&L	1,356,774	1,356,774	-
Loans and advances to non bank customers	Loans and receivables	Amortised cost	103,128,839	103,047,570	81,269
Investments - AFS (Equity and Debt Instruments)	Available for sale	Fair value through OCI	18,293,962	18,258,969	34,993
Investments - HFT	Fair value through P&L	Fair value through P&L	6,676,489	6,676,489	-
Investments - HTM	Held to maturity	Amortised cost	21,167,748	21,148,190	19,558
Deposits from banks	Amortised cost	Amortised cost	689,265	689,265	-
Deposits from non-bank customers	Amortised cost	Amortised cost	144,850,676	144,850,676	-
Derivative financial instruments	Fair value through P&L	Fair value through P&L	1,356,774	1,356,774	-
Other liabilities	Amortised cost	Amortised cost	4,299,258	4,299,258	-
Other borrowed funds	Amortised cost	Amortised cost	13,686,203	13,686,203	-
Off balance sheet items	Off balance sheet	Off balance sheet	26,856,831	26,740,870	115,961
Other credit commitments	Off balance sheet	Off balance sheet	14,238,833	14,181,930	56,903
Total adjustments made to retained earnings					340,939

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

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

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

	MUR'000
Closing balance under IAS 39 (31 December 2017)	2,410,007
<i>IFRS 9 adjustments:</i>	
Recognition of IFRS 9 ECLs including those measured at FVOCI	(335,939)
EIR adjustments made in foreign operations	(5,000)
	(340,939)
Opening balance under IFRS 9 (01 January 2018)	2,069,068

9 Notes to the Financial Statements (Continued)

9.14 Transition from IAS 39 to IFRS 9 (Continued)

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

Monday, January 01, 2018										
	Loss provisions per IAS 39			Expected credit loss per IFRS 9						
	Portfolio impairment provisions MUR '000	Individual impairment provisions MUR '000	Total MUR '000	Stage 1 MUR '000	Stage 2 MUR '000	Stage 3 MUR '000	Total MUR '000	Additional provision per BOM Guidelines MUR '000	Revised Total following IFRS 9 adjustments MUR '000	Adjustments in respect of IFRS 9 MUR '000
Expected credit losses impact										
Loans and advances to customers	1,327,861	2,741,141	4,069,002	663,232	500,494	2,741,142	3,904,868	245,661	4,150,529	81,526
Loans to banks	-	-	-	12,348	1,591	-	13,939	-	13,939	13,939
Placements with banks	-	-	-	18,318	-	-	18,318	-	18,318	18,318
Debt securities- Amortised Cost	-	-	-	49,292	-	-	49,292	-	49,292	49,292
Debt securities- Fair Value at Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Off Balance Sheet Items (incl. financial guarantees)	-	-	-	115,961	-	-	115,961	-	115,961	115,961
Other credit commitments	-	-	-	56,903	-	-	56,903	-	56,903	56,903
TOTAL	1,327,861	2,741,141	4,069,002	916,054	502,085	2,741,142	4,159,281	245,661	4,404,942	335,939