

ANNUAL REPORT 2017



**Banque des
Mascareignes**



BANQUE DES MASCAREIGNES LTÉE

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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MANAGEMENT DISCUSSION & ANALYSIS

01

MANAGEMENT DISCUSSION AND ANALYSIS
FINANCIAL HIGHLIGHTS

	Group			Bank		
	2017	2016	2015	2017	2016	2015
Income Statement (Rs' million)						
Net Interest Income	440	482	445	421	466	424
Revenue	630	680	654	527	624	607
Profit before Tax	131	51	47	70	58	44
Profit for the year	158	50	47	98	58	45

Statement of Financial Position (Rs' million)						
Total Assets	17.545	22.299	22.594	17.115	22.141	22.359
Total Loans (Net)	11.988	12.231	16.299	11.859	12.142	16.169
Total Deposits	11.577	15.591	16.658	11.232	15.401	16.353
Shareholders' Fund	2.205	1.991	1.718	2.127	2.045	1.779
Risk Weighted Assets	15.219	14.041	16.816	14.534	13.603	16.466

Performance Ratios (%)						
Return on average assets	0.8	0.2	0.2	0.5	0.3	0.2
Return on average equity	7.5	2.8	2.8	4.7	3.0	2.6
Non-Interest income/Revenue	30.2	29.2	31.9	20.1	25.3	30.1
Loans to deposits ratio	103.5	78.4	97.8	105.6	78.8	98.9
Cost to income ratio	92.8	85.3	80.3	104.2	84.2	79.9

Asset Quality (%)						
Non-performing loan ratio	8.1	18.6	17.0	7.8	18.5	16.9
Provision Coverage ratio	57.6	57.7	44.5	58.6	58.0	44.7

PERFORMANCE AGAINST OBJECTIVES FOR THE BANK

Objectives for FY 2017	Performance in FY 2017	Objectives for FY 2018
Return on average equity (ROE)		
ROE should stay around the same level.	Return on average equity improved to 4.7% for 2017, from 3.0% for 2016.	ROE should stay around the same level.
Return on average assets (ROA)		
Return on average assets expected to remain at the current level.	ROA of 0.5% achieved for the year against 0.3% in previous year.	No significant change is expected on the ROA level
Revenue		
Net interest income is expected to rise by 7% on the back of a sustained growth in loan book.	Net interest income fell by 10%, largely underpinned by the contraction of the gross loans.	The Bank forecast a growth in NII of more than 26% for the financial year 2018.
Other operating income is anticipated to increase by 10% as we expect a growth in net trading income and net fee and commission income.	Excluding the devaluation of investment in subsidiary in Madagascar, other operating income remained stable and stood at Rs 156 million.	A substantial expansion of the other revenue is anticipated, due to higher commissions and growth in net trading income.
Operating expenses		
The Bank will continue to maintain a cost control policy. However, with the full year impact of IT investments being felt for the first time, operating expenses are forecasted to grow by 11%.	Operating expenses grew by 5%, following the surge in depreciation and amortisation charges related investment in IT and system costs, and partly reflecting effectively cost management.	Growth in operating expenses is expected to exceed 10%, due to major projects in the course of financial year 2018.
Cost to income ratio		
Cost to income should slightly decrease to 83.6% in financial year 2017.	Excluding the devaluation of Rs 50 million of our investment in subsidiary in Madagascar, the cost to income ratio rose to 95.2% taking into consideration a fall in revenue for the year.	Cost to income is targeted to stand at 84.5% in financial year 2018, given an expected higher increase in income as compared to cost.

Loans and advances (net) growth

Objective for financial year 2017 is to grow average loan book by at least 23%, mostly on the back of a strong performance from all our business activities.

A fall of 8% was registered on the gross loans for the year 2017, adversely affected by the contraction of the loan book in the segment B.

Gross loans and advances is expected to expand by more than 20%, following a growth in the segment B business while the domestic front will continue to expand more.

Deposits growth

Average customer deposits to grow by about 20% during the year 2017.

Total deposits were down 27% from the level at the end of 2016, with decrease recorded in particular at segment B business.

Due to development in segment B and constant growth in segment A, the average deposit is targeted to increase by more than 20%.

Asset quality

The Bank will continue to apply its high standards of control in view to maintain these ratios at a satisfactory level.

NPL ratio stood at 7.8% and the provision coverage ratio at 58.6%.

The Bank will maintain these ratios at a satisfactory level.

Capital management

The Bank's CAR is expected to be maintained above the regulatory requirement level of 10%.

The Bank's capital adequacy ratio was at an appreciable level of 13.85% with Tier 1 ratio standing at 12.12%.

Capital adequacy ratio is expected to remain above the regulatory requirement of 11.25%.

International Economic Outlook

Growth in the world economies gained significant momentum in 2017. Improved performance in the advanced economies, owing to a recovery in investment, are the main reasons for this upturn in the economy worldwide. According to the IMF, this is perceived as the broadest synchronised global growth upsurge since 2010 whereby around 120 economies, accounting for three quarters of world GDP, have experienced a year on year growth in 2017. The IMF has revised up its projection by 0.1% to reach 3.7% in 2017. The World Bank predicts that the global economy will return to its full potential for the first time in a decade. Global trade strengthened significantly in 2017 benefiting from a cyclical recovery in global manufacturing and investment growth.

Growth in Sub-Saharan Africa is estimated at 2.7% for 2017 with an increase to 3.3% in 2018, driven by firming of commodity prices and better implementation of reforms. Increased political uncertainty could weigh on confidence and investment, thus undermining future growth.

Mauritian economy

A look-back at the Mauritian economy on the eve of its 50th anniversary, shows that the island has transitioned from a mono-crop economy by developing the agricultural sector into tourism and ultimately changing to become a regional financial centre. Consequently, Mauritius has been a globally competitive upper middle-income economy with a forecasted GDP growth of 3.7% in 2017, owing to a growth in investment activity and stable consumption expenditure as per the Monetary Pricing Committee held in Feb 2018. The MPC expects that the economic recovery will be sustained in 2018 with projection for real GDP growth is 4.0 per cent in 2018. According to the World Economic Forum Global Competitiveness Report 2017-2018, Mauritius is, for the 4th consecutive year, the most competitive jurisdiction in Sub Saharan Africa, transitioning from an efficiency-driven economy to an innovation-driven one. The good performance of the economy is aided by improvement in various pillars such as good market efficiency, technological readiness and business sophistications. Similarly, as per the Doing Business Report 2018, Mauritius has been rated best in the Sub Saharan Region for the ease of doing business. For the 5th year in a row, Mauritius finishes top of the Ibrahim index of African Governance.



Macroeconomic indicators

		2013	2014	2015	2016	2017
GDP growth at market prices	%	3.2	3.4	3.6	3.8 ^e	3.7 ^f
Headline inflation	%	4.0	3.2	1.3	1.0	3.7 ^f
Unemployment rate	%	8.0	7.8	7.9	7.3	7.1 ^p
Current account deficit (% of GDP)	%	6.3	5.6	5.0	4.3	6.3
Key Repo Rate	%	4.65	4.65	4.40	4.00	3.50

Source: Statistics Mauritius, BOM

e = Revised estimates

p = Provisional

f = Forecast

CPI and inflation

According to the Mauritius Statistic report, the Consumer Price Index (CPI) witnessed a hike of 4.6% to reach 114.0 in December 2017 compared to 109.4 for the same period in 2016. The growth resulted from higher prices of food and non-alcoholic beverages, alcoholic drinks as well as petrol. Because of the upturn in the CPI, the headline inflation has pursued an uptrend during 2017 to reach 3.7% compared to 1.0% in December 2016. According to the African Economic Outlook, rises in global energy and food prices are likely to undermine the economy’s current account balance and add to inflationary pressures.

Foreign Direct Investment (FDI)

The Mauritius economy observed an estimated increase in FDI inflows of 16% from Rs 10.6 billion for the first three quarters of 2016 to Rs 12.3 billion for the corresponding period in 2017. The surge is attributed mainly to the real estate activities, 59% of FDIs, through the IRS/RES/IHS/PDS, followed by the financial and insurance services sector, with 25% of the FDI. 70% of FDI originated from developed economies, primarily from France and Luxembourg, Rs 3.7 billion and Rs 3.3 billion of FDI inflows respectively.

Unemployment

The unemployment rate is expected to fall to 7.1%, the lowest point over a decade, aided by new job creation in the public sector and a growth in some of the major pillars of the economy. However, there are certain alarming trends in the statistical figures that require particular attention, such as:

- Around 48% of the unemployed were aged below 25 years in Q3 2017, showing a rise of 5% from Q3;
- Unemployment hit mainly the female gender with 59.6% of the 40,600 unemployed in Q3 2017
- There is still imbalance in the workforce with 61% being man

2018 will see the introduction of the National minimum wage in an effort to achieve social inclusiveness.

Banking sector

According to the Bank of Mauritius (BOM) Annual Report for 2017 published on November 2017, the capital adequacy ratio was at 17.9% as at end of June 2017 evidencing that the banking sector remained sound and well capitalised. NPL ratio showed a drop of 0.1% over one year to 7.0% as at end June 2017. 73% of total impaired credit in Mauritius come from the Manufacturing, construction, tourism, personal and traders sectors.

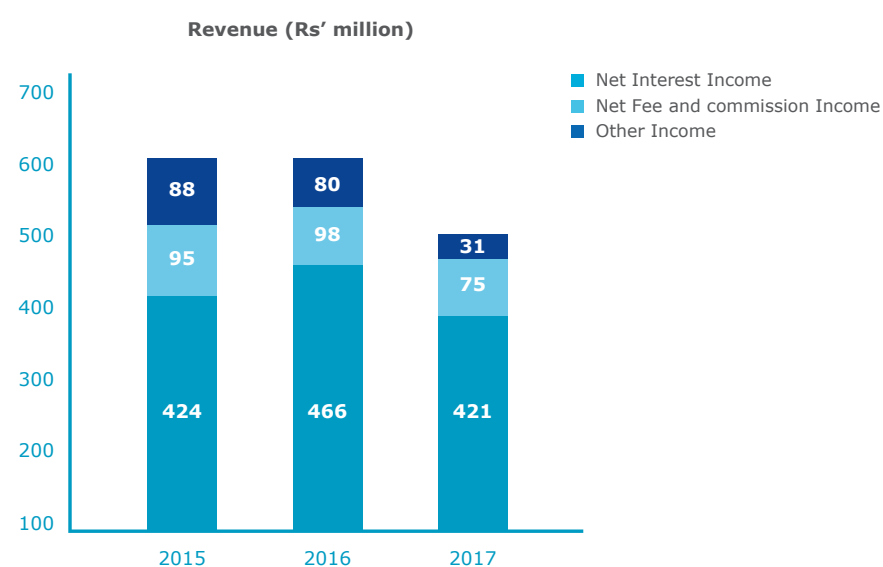
BOM implemented the liquidity coverage ratio in November 2017 whereby all banks will be required to inform BOM about their liquidity back-up plans supporting liquidity strains. The ratio is designed to ensure that banks have the necessary assets on hand to overcome short-term liquidity disruptions.

The Monetary Pricing Committee decided to reduce the Key Repo Rate of the Bank of Mauritius by 50 basis points to 3.5% during its meeting in September 2017 as a means to further stimuli more investments in the productive sectors of the Mauritian economy and thus supporting economic growth. Majority of the domestic banks reacted by reducing their market interest rates.

Revenue growth

The bank's reported an operating income of Rs 527 million, which is a decline of 16% over the last financial year, primarily caused by low performance of the net interest income and also a decrease in the other operating income due to the devaluation of Rs 50 million of our investment in subsidiary in Madagascar. 80% of the revenue is derived from net interest income.

	2017	2016	2015
Net interest income	421,235	465,941	424,036
Net fee income	74,617	77,776	94,621
Net trading income	66,910	63,148	76,430
Other operating income	(35,431)	17,225	11,461
REVENUE	527,331	624,090	606,548



Business Segment Review

Corporate Banking

2017 was an opportunity for Corporate Banking to refocus the business and build a segment that is fit for the future. The team has been successful in reducing a considerable proportion of the non-performing loans which were becoming economically non-viable for the bank and using the capital released to support strategic growth in our Core business. Overall 2017 was a year where good progress was made on a number of fronts including positioning the bank as a key market player for green loans in project financing.

With the significant achievements and milestones passed during the year under review for Corporate Banking, we expect the growth of the business to gather pace in 2018.

Retail Banking, Private banking and SME's

During the year 2017 the bank has continued to lay emphasis on digitalisation whereby various development have been undergone. We have officially launched our Mobile Internet Application via the campaign "Keep in Touch" and in addition "Orange Money" with collaboration of Orange. A total revamping of our website has been done midyear 2017 making it more user-friendly. Furthermore, in view to keep pace with digitalisation, the Bank has set up an internal team in view to further promote innovation and digitalisation.

In 2017, the bank has increased tremendously its visibility to the public in general through Open Days, participation in exhibitions and events such as the "Salon de la Maison" systematic campaign throughout the year in view to promote the bank's products and services and much presence of our sales force in various regions of the country via on site prospection. Furthermore, the bank has continued to increase its presence on the social networks.

There has been continuous and regular training and development programme for our sales force in term of internal and external training in view to increase their knowledge and to offer an excellent customer service.

These combined actions and initiatives will definitely aid the bank in its growth strategy for 2018 and thereby improving our presence and market share on this segment.

Our Private Banking is an important component of the Retail Banking development and in 2017, the bank clearly indicated its ambition to deepen its relationship with its high-net-worth clients and grow this segment by refocusing and restructuring this activity.

In view of the very characteristics of Private Banking clients, the following multi-component structure was developed and implemented during the year:

- A dedicated team of experienced relationship managers;
- A value proposition designed to cater for their specific needs;
- Multichannel access to their accounts;
- The setting up of a support structure to facilitate and fast-track their various requests and banking operations;
- Access to our exclusive Private Banking Lounge.

2017 has been a very challenging year for the SME section. Maintaining our existing client base together with a sound and proactive development approach were our priorities whereas we had to manage the business with low resources.

A ground work has also started for a segmentation review in order to address the unique needs of each SME client. This sector is very demanding and margins applied interesting. The bank has a lot to gain by focusing on this segment and this goes in line with the 10 years master plan of the government.

Business Segment Review (Continued)

Global Business Banking

The Year 2017 has been a fairly good year for Global Business with the establishment of new relationships with both Management Companies and new GBL clients. The objective of the Global Business unit was to rebuild its portfolio of clients following the de-risking exercise done in 2016. Various actions were taken in order to improve the visibility of the bank and marketing the banking products and services. Today the bank works in very close collaboration with various Management Companies which is important to understand the needs of GBL clients. However, it is important to highlight that new relationships have been taken in by ensuring also that they are in line with the Group's strategy. The Global Business environment is facing various challenges where new regulations have been established by developed countries, such as FATCA, BEPS and CRS, for implementation by various international financial centres. Mauritius will have to adapt itself to these new regulations. Over the years Mauritius has continuously upgraded its legal and regulatory framework and on 21 August 2017, the country has been rated as "Compliant" by the OECD's Global Forum. Mauritius has signed up to the OECD's Multilateral Instrument, in July 2017, which confirms that the country is committed to being a clean and transparent jurisdiction, complying with international norms to curb abuse and 'treaty shopping'.

International Banking

In 2017, the International Banking segment of the Bank, continued to follow the specific internal risk policy, as implemented by our banking group in 2016. Selective on-boarding of clients, moderate growth and maintenance of asset quality, remained the central focus. Given the current context, we have not been able to book enough new assets to replace the maturing ones during the year under review. As such, the decline in our asset book combined with prepayments and constantly tightening spreads, negatively impacted our revenue target.

On the syndicated lending side our principal geographical areas of operation, namely EMEA & APAC, had more or less the same fortunes. The year was characterized by a strong bond market, decreasing financing opportunities and increased political volatility – which led to fewer lending opportunities for banks. The syndicated loan margins suffered a fifth consecutive annual drop in 2017, as competition increased for the few mandates that did arise. On the trade side, low commodity prices, namely oil, continued to curb growth and appetite for new facilities, resulting in low utilization levels of trade finance and revolving credit facilities.

EMEA's 2017 annual volume is the lowest since 2012, as low commodity prices, macro-economic and political concerns impacted borrowers' expansion plans.

Overall syndicated lending in EMEA in 2017 dropped by 2% from the 2016, mainly as a result of fewer acquisition financing. Refinancing, traditionally the main driver of the EMEA syndicated loan market, rebounded strongly in 2017 up 31% making up a substantial 63% of the market, as some companies refinanced early while conditions remained positive. In 2016 refinancing made up just 47% of the market as most companies remained comfortable having locked in low-priced loans until 2019 to 2021. Borrowers responded to global uncertainty by refinancing early to secure future liquidity at attractively low margins before any possible rise in interest rates.

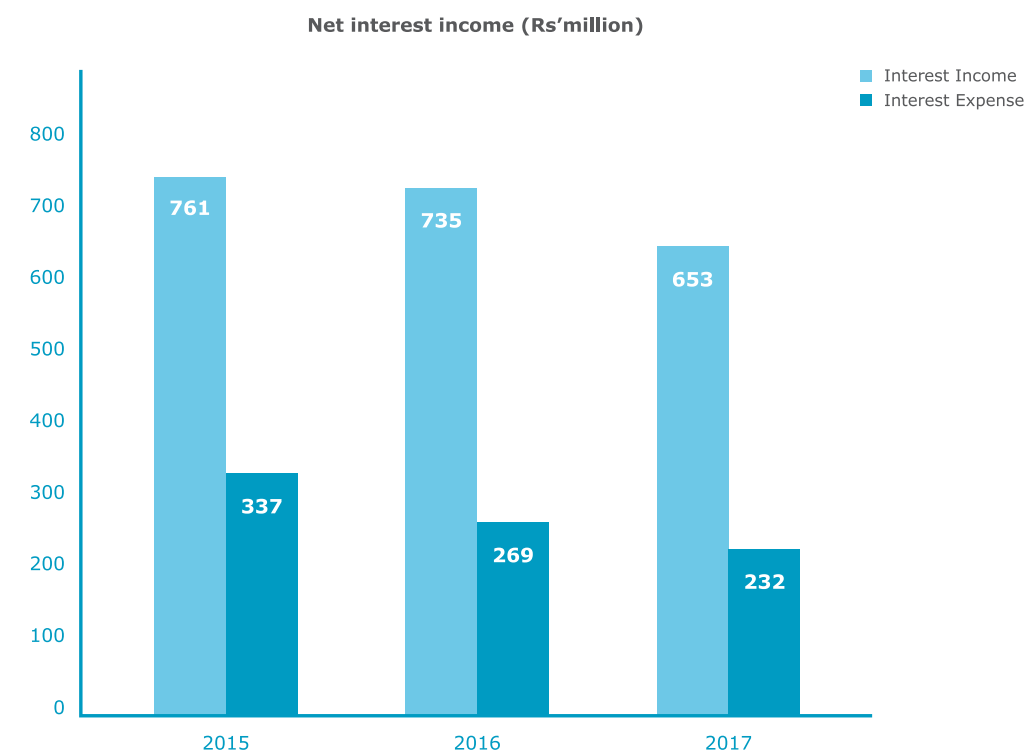
In APAC, syndicated loan volume for 2017 continued to decline, dropping by about 5% compared with 2016, marking the region's third successive annual decline. The drop in syndicated loans volume is mainly due to the deal flow being diverted to bilateral loans and the bond markets. Market activity across most markets in Asia was considerably slower as a result of dull economic growth and lack of sizable event-driven transactions. Despite the subdued activity from China, the mainland and Hong Kong were the biggest contributor to loan volume in APAC, accounting for 49% of Asian lending. New sources of liquidity have emerged in the APAC loan markets with institutional investors tapping into the growing pool of institutional liquidity that is seeking to invest in loans. Also, the traditional bank investors, like lenders from India and South Korea have expanded their focus and are increasingly participating in loans outside their home markets, thus adding extra pockets of liquidity for borrowers – resulting in a drop in spreads.

International Banking (Continued)

The focus for new money in 2018 will instead be on smaller corporate, as the second tier borrowers are now becoming more attractive and will retain the attention of banks. Same is expected to generate moderately higher spreads. However, on the refinancing side, bankers expect that there will be little need for top tier names in 2018 as many have already tapped the market.

Net interest income

Interest income experienced a fall of 11% to Rs 653 million for the year under review, on the account of a regression in the loans and advances book notably driven by the segment B business. Conversely, income from securities rose significantly by 16% largely attributable of a higher average holding of these instruments during the year. For its part, a reduction in the deposits base contributed predominantly to interest expense dropping down from Rs 269 million to Rs 232 million in 2017, or an annual fall of 14%. As a result, net interest income of the bank registered a notable decline of 10% to stand at Rs 421 million for the financial year 2017.

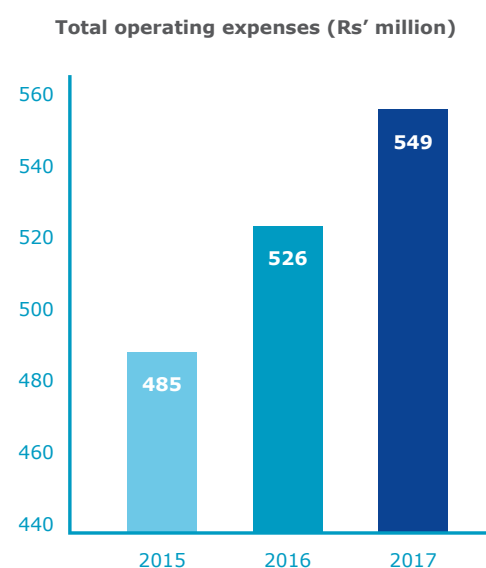


Non-interest income

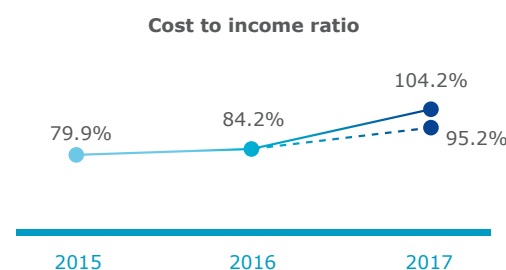
Non-interest income witnessed a plunge of 33% in financial year 2017, from Rs 158 million to Rs 106 million, merely underpinned by the devaluation of Rs 50 million of our investment in subsidiary in Madagascar. Excluding this item, non-interest income fall was contained to a fall of 1%. Net fees and commissions slimmed down by around 4%, in view of a low performance regarding to account related charges as well as trade finance fees albeit a higher income from credit related fees and guarantees fees. Concerning the net trading income, the Bank posted a satisfactory performance, with a growth of 6% in spite of the subdued market conditions.

Cost control

One of the bank's drive is the close monitoring of operating costs besides ensuring enhancements in its operations and productivity. Non-interest expenses rose marginally at a rate of 5% to reach Rs 549 million for the period under review. For its part, investment in IT and system cost provoked a substantial rise of 25% in depreciation and amortisation costs. The other expenses (including personnel and operating lease expenses) growth was contained to 2%, from Rs 474 million to Rs 486 million for financial year 2017, reflecting our ongoing cost control initiatives.



Overall, with revenue growing at a slower pace while expenses continued to expand, the cost to income ratio for financial year 2017 raised to 104.2% at bank level, compared to 84.2% for previous year. On excluding the non-recurring item that has a remarkable impact in the bank's revenue, the surge in cost to income ratio was less pronounced and reached 95.2%.



Impairment charges

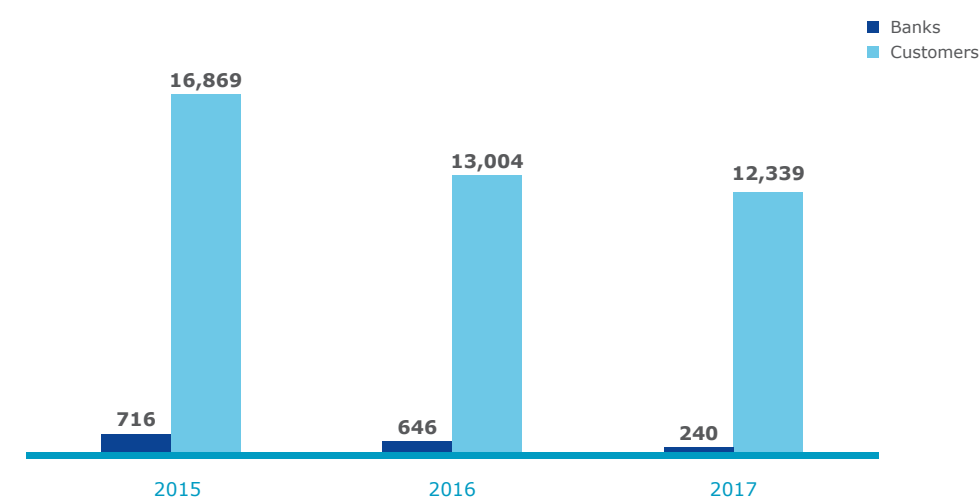
The Bank posted a net impairment gain on financial asset amounted to Rs 92 million in 2017, against a net impairment loss of Rs 41 million in 2016, on the account of recoveries actions made during the year.

Loans and advances

Given the challenging operating conditions, gross loans and advances recorded a drop of 8% during the year ended 31 December 2017 to reach Rs 12.6 billion. However, on the domestic front, Segment A gross loans and advances expanded by 5%. This growth was largely attributable by the constant dynamism of Retail segment in relation to mortgage loans expansion during the year. For its part, the credit to corporate segment improved slightly by 3% regardless of the subdued economic conditions and increased competition within the market. Worth mentioning, the main contributors to this expansion at sectorial level were the agriculture and fishing, manufacturing and tourism. As regards to loans and advances at segment B level, the latter continued its downward trend with a drop of 28% this year, still being explained by a prudent portfolio management with the aim in mitigating risk in accordance with the Group risk policy.

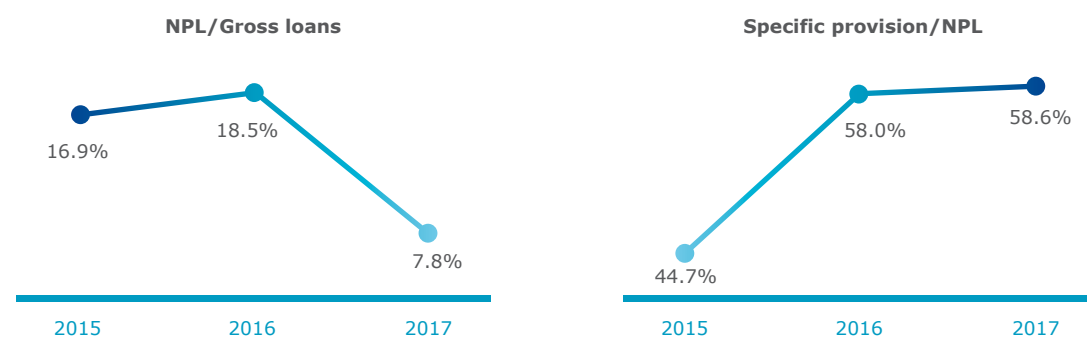


Loans and advances (gross) (Rs' million)



Asset quality

At the year-end of 2017, the Bank's non-performing loans totalled Rs 1.0 billion, representing a decrease of more than 59% from the prior end, supported by major bad debts being written off and recoveries actions made during the year. As a result, the ratio of non-performing loans to gross loans to customers dropped by 10.7% to 7.8% compared with the prior year-end. The coverage ratio of NPLs remained steady at around 58.6% in 2017 compared to 58.0% as at 31 December 2016.

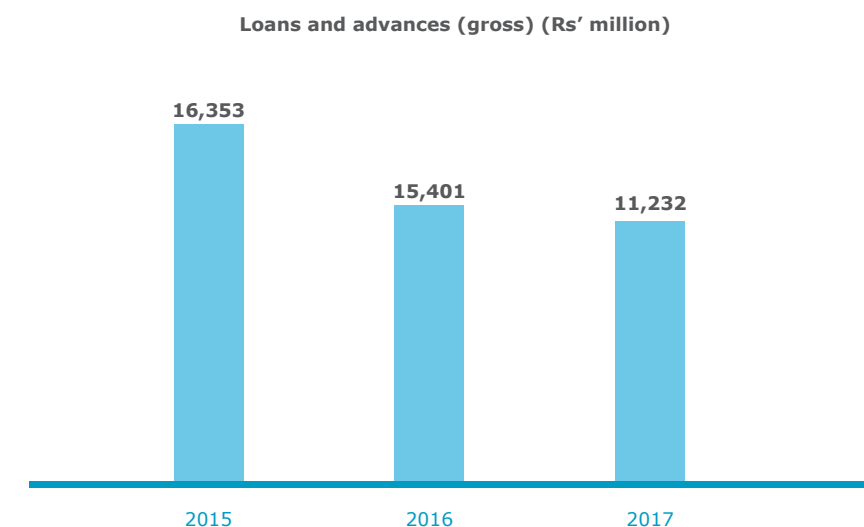


Investment securities

Reflecting the prevailing excess liquidity condition in the Mauritian market, investment securities of the Bank that comprise Treasury Bills, Treasury notes and Government bonds climbed notably by 39%, from Rs 1.7 billion as at December 2016 to Rs 2.4 billion as at December 2017. In the same vein, the ratio investment securities to total deposits MUR increased over financial year 2016 and remained at a comfortable level of 31% in 2017.

Deposits

Deposits totalled Rs 11.2 billion as at end of December 2017, a decrease of Rs 4.2 billion, or 27% from last financial year. The decline in the deposits base resulted from a substantial shrinkage in the time deposits from segment B with maturity less than 3 months, partially offset by a remarkable growth of 19% in the segment A deposit base. As a result, the proportion of current and savings deposits (CASA) as a percentage of total deposits increased to 57% against 39% as at end of December 2016.



Borrowed funds

Funding which arise from interbank and intra-group activities are mainly in foreign currencies and experienced a significant reduction of 23% at bank level to reach a Rs 3.2 billion as at 31 December 2017. This was due to lower needs in terms of segment B credit activity.

Introduction

The role of the risk management function is to identify, assess and manage the risks to which the Bank is exposed, with a view to improving the risk-return profile of its activities while upholding an environment conducive to attracting and promoting business opportunities. The aim is to enhance stakeholders’ confidence with respect to the Bank’s management of current and potential sources of risks through adequate internal control mechanisms, up-to-date and comprehensive risk policies, adherence to legal and regulatory requirements and reliable decision-making support.

The Bank’s and Group’s approach to managing risk is set out in the risk and compliance framework and policies, approved by the Risk Management committee. The framework has two components:

- Governance committees; and
- Governance documents.

Governance committees are in place at both board and management level. They have clearly defined mandates and delegated authorities which are reviewed regularly. Board subcommittees responsible for the oversight of various aspects of risk are the Audit Committee, the Risk Management Committee and the Corporate Governance Committee. The management committees responsible for the oversight of risk are the Credit Committee, Watchlist Committee, Non-Performing Loans Review & Provisioning Committee, Arrears Committee, Risk Management Committee, Internal Control Committee, Assets and Liabilities Management Committee, Compliance Committee, Treasury Committee, Business Development Committee and Organisation & Information System Committee.

Governance documents comprise frameworks and policies which set out the requirements for effective oversight of risks, including the identification, assessment, measurement, monitoring, managing and reporting of risks, and requirements for the effective management of capital.

The Group uses the three lines of defence governance model which promotes transparency, accountability and consistency through the clear identification and segregation of risks. The first line of defence is made up of the management of business lines as the originators of risk. The second line of defence functions provide independent oversight of risks by the Risk Management Division. They support management in ensuring that their specific risks are effectively managed as close to the source as possible. The risk management functions, report to the Group Chief Risk Officer. Internal audit is the third line of defence and reports to and operates under a mandate from the Audit Committee. In terms of its mandate, the Internal Audit function’s role is to provide independent and objective assurance. It has the authority to independently determine the scope and extent of work to be performed.

Risk Governance Structure

The Board of Directors is ultimately responsible for defining business strategies. They are ultimately the reliability and integrity of the risk management process. The Board oversees the risk management activities of the Bank directly and indirectly, via sub committees which have been delegated responsibility for closer scrutiny of risk management process. The composition and functions of these committees are described in the Corporate Governance Report.

Risk Management Framework

The risk management framework defines the roles and responsibilities as well as the reporting lines for its different business units. Alongside ensuring adherence to regulatory norms, the structure aims at safeguarding the Group’s and Bank’s assets and promoting the deployment of its strategic orientations in an effective manner. The delegation of authority, control processes and operational procedures are accordingly documented and disseminated to staff at different levels.

- The Group and The Bank operate within a clearly defined risk policy and risk control framework to achieve financial strength and sustainable growth.
- The Group’s and Bank’s operations are based on the principle of delegated and clearly defined authority. Individuals are accountable for their actions and their incentives are aligned with the overall business objectives.
- Dedicated specialised units within Risk Management, as well as internal auditors, monitor The Bank’s risk-taking activities.
- Risk transparency, knowledge sharing and responsiveness to change are integral to the risk control process.

Risk Management Structure

The risk management organisational structure consists of a top down approach whereby the risk appetite of the Group and the Bank is set by the Board of Directors in line with its business strategy, taking into account the business strategies, objectives and plans. The Board, assisted by its committees has oversight responsibilities in relation to risk management, adherence to internal policies and compliance with the prudential, regulatory and legal requirements. The roles of the Board and its committees are described in detail in the Corporate Governance Report.

The management committees are chaired by the Chief Executive Officer and comprise of the Director Risk and Compliance and other executive management as members. The enterprise-wide risk profile and portfolio appetite are discussed at the respective management committees. The Director Risk and Compliance reports to the Chief Executive with direct access to the Chairman, the Audit Committee and the Risk Management Committee.

The Board Committees with oversight on Risk Management are:

- Audit Committee;
- Risk Management Committee;
- Conduct Review Committee; and
- Remuneration & Nomination Committee

The Management Committees with oversight on Risk Management are:

- Credit Committee
- Watchlist Committee
- Non-Performing Loan review and Provisioning Committee
- Arrears Committee
- Risk Management Committee
- Internal Control Committee
- Assets and Liabilities Management Committee;
- Treasury Committee
- Compliance Committee
- Business Development Committee (in respect of New Products); and
- Organisation & Information Systems Committee

Enterprise-wide Risk Policy

The Bank is directly regulated by the Bank of Mauritius and falls under the consolidated supervision of the European Central Bank through its French Parents, BPCE International and BPCE. BM Madagascar, the Bank's subsidiary, falls under the consolidated supervision of the Bank of Mauritius. In line with international banking practice and regulatory requirements, whenever there are different requirements under the different regulators, the stricter requirement must be complied with.

The Bank's Risk Policy, as approved by the Risk Management Committee, follows the above-mentioned principle. It incorporates all the requirements of the BPCE International's Risk Policy as well as requirements of the Bank of Mauritius legislations and guidelines. The Risk Policy covers, inter alia:

- The Risk Management Framework and Structure, detailing the main functions of Risk Department;
- The Credit Risk Policy, detailing:
 - The Credit initiation, evaluation and approval process;
 - The delegated authorities in terms of credit approval;
 - The limit of exposures by types of facilities, by sector, by country, by rating, by counterparty, and by the currency; and
 - The main guidelines in respect of credit impairment monitoring, management and recovery
- The Governance Structure and Terms of Reference for the various risk management committees;
- The Operational Risk Policy; and
- The Market Risk Policy (Liquidity and Interest Rate Risk).

A. CREDIT RISK

Credit risk is the risk of loss arising out of failure of client counterparties to meet their financial or contractual obligations when due. Credit risk is composed of counterparty risk and concentration risk. Amongst the risks faced by the Group and the Bank, credit risk generates the largest regulatory capital requirement. The approved regulatory approach for Credit Risk is the Standardised Approach.

The Board has ultimate control and oversight of the credit risk policies, which are subject to review on an annual basis. The policies are designed to provide effective internal control within the Bank.

Any developments in the customers' financial situation are closely monitored by the Bank, thus enabling it to assess whether the basis for granting the credit facility has changed. Credit facilities are generally granted on the basis of an understanding of customers' individual financial circumstances, cash flows, assessments of market conditions and security procedures. The facilities should match the customers' creditworthiness, capital position and assets to a reasonable degree and customers should be able to substantiate their repayment ability. In order to reduce credit risk, the Bank generally requires collateral that corresponds to the risk for the product segment.

A. CREDIT RISK (Continued)

Credit Risk Management

The enterprise-wide credit risk policy, approved and reviewed by the Risk Management Committee, sets forth the principles by which the Bank conducts its credit risk management activities. The credit processes are designed with the aim of combining an appropriate level of authority in its credit approval processes with timely and responsive decision-making and customer services.

The process for each division is tailored to the risk profile and service requirements of its customers and product portfolio. Key parameters, associated with credit structuring and approval, are periodically reviewed to ensure their continued relevance. The credit appraisal and measurement process, leading to approval/rejection, is segregated from loan origination in order to maintain the independence and integrity of credit decision making and to continue to effectively build-up quality assets.

Credit Risk Management Process

The effective management of credit risk requires the establishment of an appropriate credit risk process.

Credit Origination

Credit origination is undertaken by the Front Office / Relationship Manager. Credit Origination involves:

An operational evaluation of Credit request, to include details on the deal and rationale for financing, details on client's background, client base and products base and markets, details of the key business risks and a review MCIB and search report.

Credit Evaluation

The Credit Evaluation decision is independent of the Front Office functions. Credit Evaluation involves:

- Risk Rating of the underlying prospective borrower. The Bank has implemented to BPCE International's Grading Model, the Outil de Notation International (ONI) for the risk grading of corporate clients. With respect to retail clients, an internally developed scorecard is used.
- Evaluation of the credit request taking into consideration the quantitative and qualitative information on the counterparty and analysing the inherent risks. The evaluation exercise also looks at the resulting risks, after mitigating factors, for example security taking.
- Assessing the Risk/Return relationship, through the use of an internally developed «ROE model».
- Reviewing and analysing compliance with limits as set by The Bank and / or regulators.

Credit Approval

Credit approval authority is delegated within a structure that is tiered according to the counterparty rating, exposure and credit risk type. The local credit committee has comprehensive mandates and delegated authorities, as delegated by the Board and set out in our Risk Policy. Requests outside the delegation of the local Credit Committee are submitted for approval to the Parent Company's Credit Committee.

A. CREDIT RISK (Continued)

Credit Risk Control and Monitoring

The role of the Risk Division, independent from the Credit Risk Evaluation, is as follows:

- To monitor credit risk (review of warning signals, impairment, unauthorised overdraft, financial difficulties, watchlist monitoring);
- To monitor compliance with risk policy and the regulatory guidelines;
- To monitor compliance with limits approved as well as with the terms and conditions of approval; and
- To monitor on-going compliance, after the disbursement of funds.

It is noted that periodic reviews are scheduled for the continuous assessment of all counterparties. This is complemented by the reviews undertaken at the Watch List Committee, for higher risk counterparties.

Impairment and Provisioning

Loans and advances are analysed and categorised based on credit quality using the following definitions.

- Performing loans - Neither past due nor specifically impaired loans are loans that are current and fully compliant with all contractual terms and conditions.
- Early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse conditions persist.
- Non-performing loans - Non-performing loans are those loans for which the Group has identified objective evidence of default, such as a breach of a material loan covenant or condition, or instalments are due and unpaid for 90 days or more. Non-performing but not specifically impaired loans are not specifically impaired due to the expected recoverability of the full carrying value when considering the recoverability of discontinued future cash flows, including collateral.
- Non-Performing specifically impaired loans are those loans that are regarded as Non-Performing and for which there has been A measurable decrease in estimated future cash flows.

All non-performing loans are individually assessed for impairment and impairment provisions are recognised in line with International Accounting Standards and Bank of Mauritius guidelines.

The Committee relating to impairment and provisioning is the Non-Performing Loan review and Provisioning Committee. The committee reviews all "loans with arrears" and evaluates and approves:

- The strategy for recovery; and
- The fair value of the loan and hence the required level of specific provisions.

A. CREDIT RISK (Continued)

Key indicators (Group)	2017	2016	2015
Gross loans and advances (Rs billion)	12.3	13.5	16.9
Non-performing loans ratio	8.0%	18.6%	16.9%
Provision coverage ratio	58.1%	57.7%	44.5%

Credit Risk Concentration

The Group and the Bank maintain a portfolio of credit risk that is adequately diversified and avoids unnecessarily excessive concentration risks. Diversification is achieved through setting maximum exposure guidelines to individual counterparties, sectors and countries.

The Bank of Mauritius Guidelines on Credit Concentration (revised December 2017) restricts the granting of credit facilities to non-financial institutions and other related parties, to:

- A maximum exposure (in MUR) to any single customer of 25% and to related Group of companies to 40% of the Bank's Tier 1 capital base.
- A maximum exposure (in foreign currency) to any single customer of 50% and to related Group of companies to 75% of the Bank's Tier 1 capital base.

In aggregate, any individual or group exposure of 10% above the Bank's capital base shall not exceed 1200% of its capital base.

Large Credit Exposure

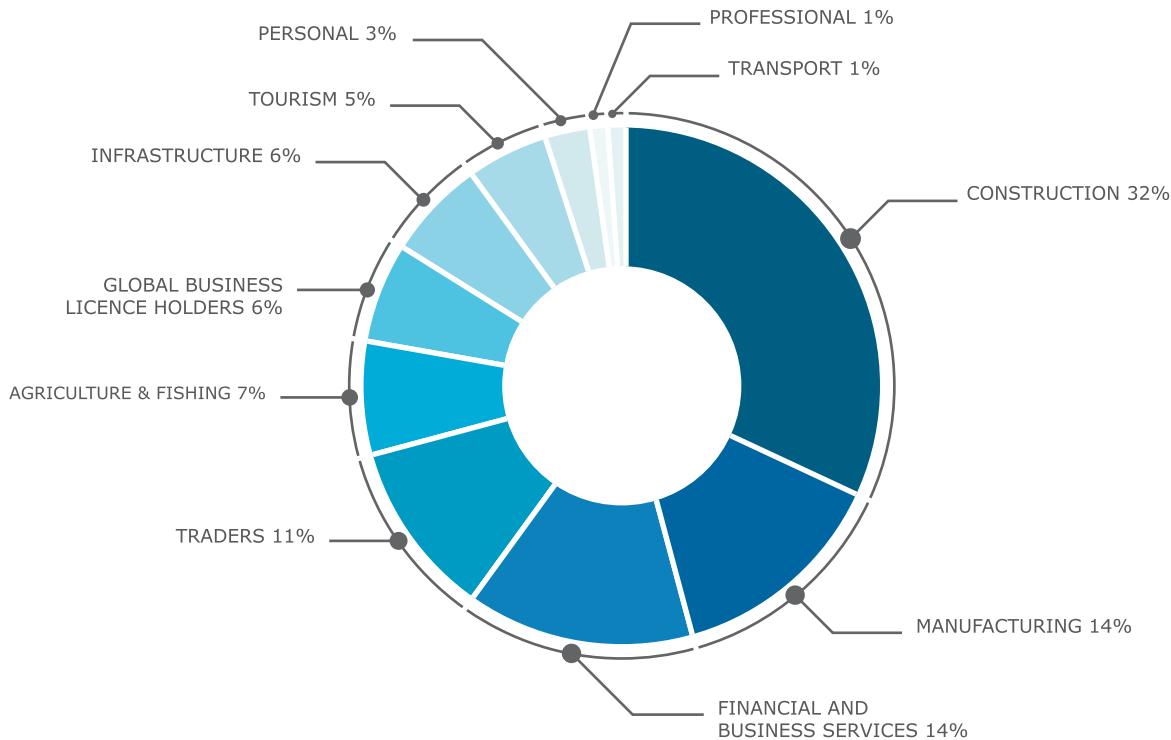
The Bank has always kept its large exposures within the regulatory limits.

As at 31 December 2017, the concentration ratio of large exposures above 15% before applicable set off was 406%, well within the regulatory limit of 800%. After set off, the aggregate exposure under large exposure was 384%.

A. CREDIT RISK (Continued)

Sectorwise Distribution of Risks

The sectorwise distribution of credit of the Bank is as per shown below:

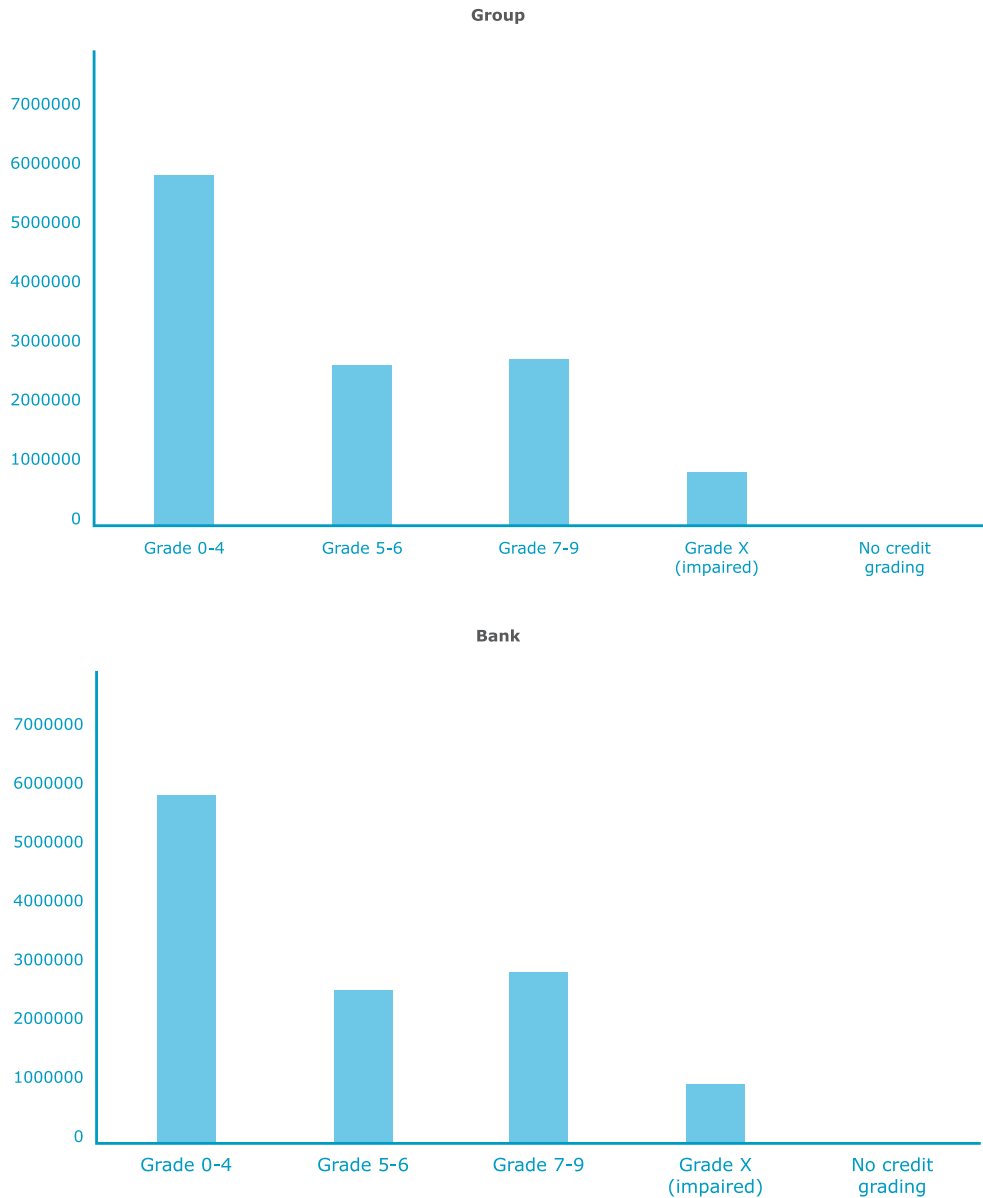


A. CREDIT RISK (Continued)

Credit Quality

The Group’s and Bank’s Risk Management framework include the risk grading of all credit counterparties.

- For the Corporate customers (Domestic and International customers), the Bank uses the BPCE International’s rating model ONI (Outil de Notation International). The model uses qualitative as well as quantitative information to rate counterparties, with a rating scale of 0 to 9. The lowest risk is rated 0 and highest risk 9. All impaired counterparties are rated X.



A. CREDIT RISK (Continued)

Credit Risk Mitigation

Collateral, guarantees, derivatives and on- and off-balance sheet netting are widely used to mitigate credit risk. Credit Risk policies and procedures ensure that credit risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforcement. Detailed processes and procedures are in place to guide each type of mitigation used.

Irrespective of Credit Risk mitigates used, all decisions are based upon the customer or counterparty's credit profile, cash flow performance and ability to repay.

The main types of collateral taken are:

- Mortgage bonds over residential, commercial and industrial properties;
- Cession of book debts;
- Charge over plant and equipment and other assets; and
- Guaranteed and pledge over financial instruments such as debt securities, equities and bank deposits.

Credit risk - Focus areas for 2018

The Group and the Bank will continue to apply appropriate and responsible lending criteria to ensure prudent lending practices in line with anticipated economic conditions and risk appetite. Focus will continue to be placed on standardising credit risk methodologies and processes across the Group, and on enhancing stress-testing practices. BM will enhance its controls over the correct guarantees roll over (ie. Building insurance) and will develop in house rating models.

B. COUNTRY RISK

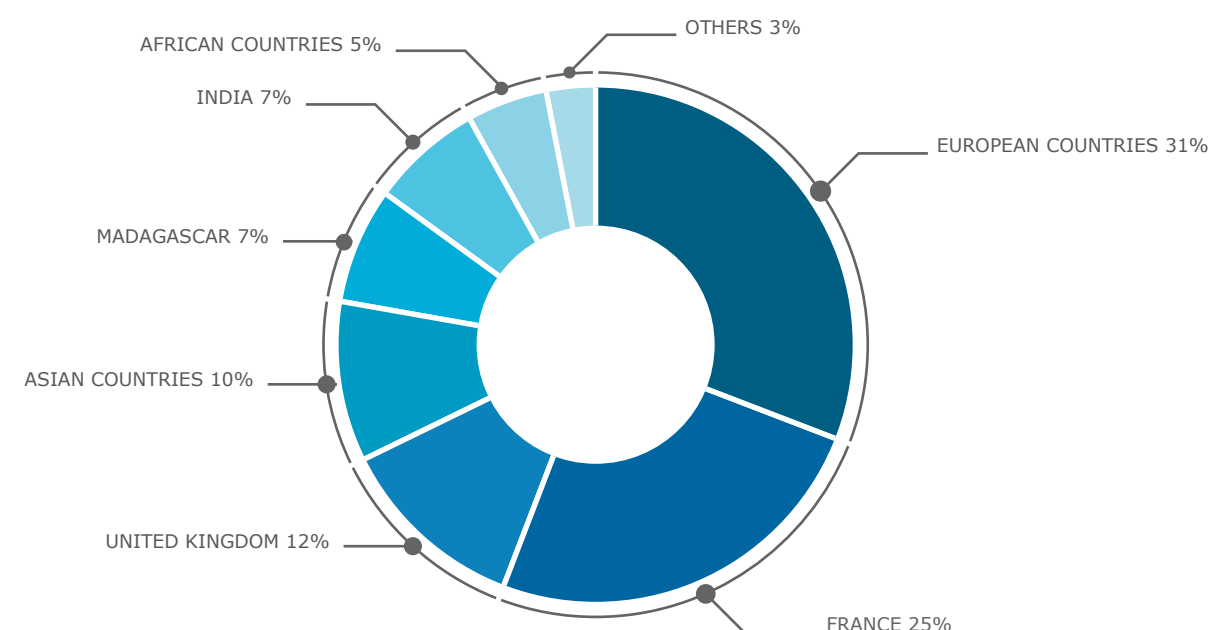
Country risk, also referred to as cross-border transfer risk, is the uncertainty that a client or counterparty, including the relevant sovereign, will be able to fulfil its obligations to the Group due to political or economic conditions in the host country. There are no regulatory capital requirements for country risk. Country risk is, however, incorporated into regulatory capital for credit in the standardised approaches through the country risk ratings / credit grades.

All countries to which the Group and the Bank are exposed are reviewed at least annually. BPCE International's internal rating models are employed to determine ratings for country, sovereign and transfer and convertibility risk. In determining the ratings, extensive use is made of the Group's network of operations, country visits and external information sources. These ratings are also a key input into the Group's credit rating models, with credit loan conditions and covenants linked to country risk events.

Country risk is mitigated through a number of methods, including:

- Political and commercial risk insurance;
- Co-financing with multilateral institutions;
- Co-financing with prime banks or investors; and
- Structures to mitigate transferability and convertibility risk such as collection, collateral and managing deposits outside the jurisdiction on question.

The distribution of exposure by country other than Mauritius is provided in the following pie chart.



B. COUNTRY RISK (Continued)

Country Risk - Focus areas for 2018

Country risk appetite and the mitigation of country specific risks will be proactively managed in response to the challenging global economic and political risk environment. During year 2018, the Indian and Chinese risk will be especially monitored (by monitoring our syndications portfolio including calls and meetings with Natixis specialists).

C. MARKET RISK

Market risk is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

The Group's key market risks are:

- Foreign currency risk;
- Interest Rate in the Trading Book; and
- Interest Rate on the Banking Book.

The governance committees overseeing market risk are the Risk Committee (Board Committee), the Asset & Liability Management Committee and the Treasury Committee. The Board is ultimately responsible for setting risk appetite in respect of market risk, in compliance with the prudential guidelines set by the Bank of Mauritius. Operating within this framework, the Asset & Liability Management Committee and Treasury Committee review and take decisions with regards to the overall mix of assets and liabilities within the balance sheet. The committees set and review liability allocation objectives and targets to sustain both the diversification and growth of the Bank's balance sheet and income statement from a funding, market and profitability perspective, while taking into account the changing economic and competitive landscapes. The Asset & Liability Management Committee, which meets on a quarterly basis under the chairmanship of the Chief Executive Officer, is attended by the Director Risk and Compliance, Chief Financial Officer and the business unit heads. Furthermore, under the Risk Division, the Market Risk acts as the primary risk control and risk-monitoring function related to market risk activities, including counterparty credit and operational risk arising from market risk activities.

The framework of policies, principles and main functional responsibilities in relation to the management of market risk at the Bank is established as per the Risk Policy, as approved by the Board reviewed periodically.

Market risk is controlled primarily through a series of limits, whether set internally by management in the context of the market environment and business strategy and/or set by regulators. In setting limits, the Bank takes into consideration factors such as market volatility, product liquidity and accommodation of client business and management experience. The Bank maintains different levels of limits:

- Dealers' limits - Dealers operate within limits approved and are tightly monitored by Back Office. Sign-off from delegated signatories ahead of a deal that triggers their dealing limits are required.
- Counterparty limits - exposure is determined according to the nature of the contract and its maturity.
- Product limits - Dealers can only transact in products that have been approved. Product limits are tightly monitored at The Treasury Back Office and Risk Division.
- Forex exposure limits - FX exposure is monitored daily and a report is sent to The Bank of Mauritius every day.

There are no regulatory capital requirements for interest rate risk in the Banking Book or on structural foreign exchange exposures. However, the translation effect on the structural foreign exchange exposure may give rise to capital impairments.

C. MARKET RISK (Continued)

Foreign Currency Risk

The Group's primary exposures to foreign currency risk arise as a result of the translation effect on the Group's net assets in foreign currency, intragroup foreign-denominated debt and foreign denominated cash exposures and accruals.

The currency risk is managed according to existing regulations and guidelines of the regulators. It takes into account naturally offsetting risk positions and manages the residual risk through limit setting. The Group does ordinarily hold open exposures of any significance with respect to the banking book. As per the Bank of Mauritius Guideline on Foreign Currency Exposure, overall currency exposure may not exceed 15% of Tier 1 Capital and single currency limit is set at 10% of Tier 1 Capital. As per the BPCE Group's policy, overall currency exposure may not exceed USD 3 million, which is equivalent to circa 6% of the Bank's Tier 1 capital.



Gains or losses on derivatives that have been designated as either net investment or cash flow hedging relationships are reported directly in OCI, with all other gains and losses on derivatives being reported in profit or loss.

While the Group does not actively take foreign exchange risk in its core deposit taking and lending operations, it services clients' activity in products across foreign exchange and structured FX products and acting as a dealer for corporate and institutional clients does require the management of 'open positions' from foreign exchange transactions with these counterparties. These positions are monitored daily relative to prudential trading limits that have been delegated to dealers by the Board on intra-day and overnight open exposures.

The Bank's net open, either overbought/oversold, position against the Rupee has been no more than 15% of Tier I capital, throughout the financial year ended 31 December 2017, which is in compliance with the Bank of Mauritius requirements.

The sensitivity analysis shows that a 1% unilateral change in the exchange rate of the major currencies would result in an impact of Rs 26 million and Rs 25 million for the Group's and the Bank's profit respectively.

Interest Rate Risk

Trading book interest rate risk is represented by financial instruments held on the investment securities portfolio, arising out of normal global markets' trading activity. For the Bank, this relates to the Treasury Bills / Bonds and Government Bills /Notes held in the Trading Book. In 2014, the Bank surrendered its Primary Dealer's license and as a result all financial instruments in 2015 were classified under the Banking Book.

Banking book interest rate risk are risks that have an impact on net interest income that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities. For the Bank, this risk is further divided into the following sub risk types:

- Repricing risk: timing differences in The Maturity (fixed rate) and Repricing (floating rate) of ASSETS and liabilities.
- Yield curve risk: shifts in The Yield curve that have adverse effects on The Group's income or underlying economic value.
- Basis risk: price not moving in line with the changing market price, e.g. impact of a portfolio of current account at 0% interest rate on the net interest income further to reduction in the Bank's deposit rates.

C. MARKET RISK (Continued)

Interest Rate Risk (Continued)

Banking book-interest rate risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income). The Bank's approach to managing banking book-interest rate risk is governed by applicable regulations and is influenced by the competitive environment in which the Bank operates. The Bank monitors banking book interest rate risk operating under the oversight of Asset & Liabilities Management Committee.

Interest rate risk limits are set in relation to changes in forecast banking book earnings. All assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on behavioural profiling. The interest rate view is formulated, following meetings of the monetary policy committees, or notable market developments.

Market Risk - Focus areas for 2018

The Bank will focus on monitoring and managing the market risk and associated hedges in the context of current market volatility and monetary policy expectations.

D. LIQUIDITY RISK

Liquidity risk is the risk that the Group cannot maintain or generate sufficient cash resources to meet its payment obligations as they fall due.

The nature of banking gives rise to continuous exposure to liquidity risk. Liquidity risk arises when the Group, despite being solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so at materially disadvantageous terms. This type of event may arise where counterparties, who provide the Group / Bank with short-term funding, withdraw or do not roll over that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The Group and the Bank manage liquidity in accordance with applicable regulations and within their risk appetite. The liquidity risk management governance framework supports the measurement and management of liquidity across the Group / Bank to ensure that payment obligations can be met, under both normal and stressed conditions. Liquidity risk management ensures that the Group and the Bank have the appropriate amount, diversification and tenor of funding and liquidity to support their asset base at all times.

The governance committees overseeing liquidity risk are the Risk Committee (Board Committee), the Asset & Liability Management Committee and the Treasury Committee. There are no regulatory capital requirements for liquidity risk.

The Group's liquidity risk management framework differentiates between:

- Tactical (shorter-term) risk management: managing intraday liquidity positions and daily cash flow requirements, and monitoring adherence to prudential and internal requirements and setting deposit rates as informed by Treasury Committee.
- Structural (long-term) liquidity risk management: ensuring a structurally sound balance sheet, a diversified funding base and prudent term funding requirements.
- Contingent liquidity risk management: monitoring and managing early warning liquidity indicators while establishing and maintaining contingency funding plans, undertaking regular liquidity stress testing and scenario analysis, and setting liquidity buffers in accordance with anticipated stress events.

D. LIQUIDITY RISK (Continued)

Structural liquidity mismatch

Structural liquidity mismatch analyses are performed regularly to anticipate the mismatch between payment profiles of balance sheet items, in order to highlight potential risks within the Group's defined liquidity risk thresholds. Expected aggregate cash outflows are subtracted from expected aggregate cash inflows. Limits are set internally to restrict the cumulative liquidity mismatch between expected inflows and outflows of funds in different time buckets. These mismatches are monitored on a regular basis with active management intervention if potential limit breaches are evidenced.

Whilst following a consistent approach to liquidity risk management in respect of the foreign currency component of the balance sheet, specific indicators are observed in order to monitor changes in market liquidity as well as the impacts on liquidity as a result of movements in exchange rates.

Funding strategy

Funding markets are evaluated on an ongoing basis to ensure appropriate Group funding strategies are executed depending on the market, competitive and regulatory environment. The Group employs a diversified funding strategy, sourcing liquidity in both domestic and offshore markets, and incorporates a coordinated approach to accessing loan across the BPCE Group.

Concentration risk limits are used to ensure that funding diversification is maintained across products, sectors, geographic regions and counterparties.

A component of the funding strategy is to ensure that sufficient contractual term funding is raised in support of term lending and to ensure adherence to the structural mismatch limits and guidelines.

Contingency funding plans

Contingency funding plans are designed to protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an early warning indicator process supported by clear crisis response strategies. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event.

Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on the Group's funding profiles and liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the Group's ability to maintain sufficient liquidity under adverse conditions.

Liquidity buffer

Portfolios of highly marketable liquid securities over and above prudential and regulatory requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within defined limits on the basis of diversification and liquidity.

D. LIQUIDITY RISK (Continued)

Liquidity Risk - Focus areas for 2018

Liquidity Coverage Ratio was implemented in November 2017 and the risk management department will ensure close monitoring of the required ratios in 2018.

E. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk subtypes are managed and overseen by specialist functions. These subtypes include:

- Legal risk;
- Compliance risk;
- Environmental and social risk;
- Business continuity management (BCM);
- Technology risk management;
- Information risk management;
- Financial crime control; and
- Occupational health and safety.



Operational risk exists in the natural course of business activity. It is not an objective to eliminate all exposure to operational risk as this would be neither commercially viable nor possible. The Group's approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist business line management in understanding their inherent risk and reducing their risk profile while maximising their operational performance and efficiency.

The operational risk management function is independent from business line management and is part of the second line of defence. It is responsible for the development and maintenance of the operational risk governance framework, facilitating business's adoption of the framework, oversight and reporting, as well as for challenging the risk profile. The team proactively analyses root causes, trends and emerging threats, advises on the remediation of potential control weaknesses and recommends best practice solutions. This is effected through the "Incident Reporting Mechanism" and the "Business Process Analysis". These teams work alongside their business areas and facilitate the adoption of the operational risk governance framework.

As part of the second line of defence they also monitor and challenge the business units' and enabling functions' management of their operational risk profile.

Incident Reporting - The operational risk function has set up an incident reporting process which contributes to reinforce visibility and understanding of the Group's overall operational risk profile. This process plays a catalytic role in embedding operational risk management practices in the day-to-day business activities. The operational risk incident reporting serves to report, track and escalate operational risk issues within the Group and supports decision making and timely resolution. All staff members are expected to report any operational risks, incidents, losses or near misses that they have knowledge of.

The operational risk function verifies that the incident and loss data reports are comprehensively documented for recording and analysis of the root cause of losses and incidents. Depending on the results of the analysis, corrective or preventive measures are taken to reduce the exposure to the inherent operational risk and hence improve controls. All significant incidents are reported periodically to the Risk Management Committee. Operational risk reports include mitigation strategies and improvement actions put in place to avoid recurrence of such operational loss events.

E. OPERATIONAL RISK (Continued)

Business Process Analysis

Through Operational Risk Management, and the use of the tool OSIRISK, the Group assesses and manages its exposures to operational risk, including severity events with a low probability of occurrence, for example fraud. These exposures are measured in a chart, updated regularly. The operational risk map highlights the key risk indicators and the frequency of major incidents which may result in loss or not.

The operational risk management is entrusted to the Risk Department, which should provide a general measurement, monitoring, control and reporting of the Group's risk, particularly those inherent operational risks as recommended for the Internal Capital Adequacy Assessment Process (ICAAP). In these missions, the Department is assisted as necessary by the person responsible for the security of information systems (RSSI).

The "Cartographie des Risques Opérationnels", whose elements are updated regularly, is established by the Risk Department, with the collaboration of organizational units (back-office and network). It is validated and monitored by an Ad Hoc Committee. Objectives and scope of the "Cartographie des Risques Opérationnels" are:

- Identify risk events and processes specific to Banque des Mascareignes Ltée;
- Evaluate the risks;
- Describe the risk control systems and evaluate them in order to assess the net risks (residual);
- Develop the risk management arrangement, particularly for major risks, through action plans;
- Propose a definition of roles and responsibilities of different actors involved in the management device; and
- Validate these definitions and their implementation.

The Group buys insurance to mitigate operational risk. This cover is reviewed on an annual basis. The primary insurance policies in place are the Group crime, professional indemnity, and Group directors' and officers' liability insurance policies.

The primary governance committees overseeing operational risk, including the various subtypes, are:

- Risk Management Committee (Board Committee);
- Audit Committee (Board Committee);
- Compliance Committee;
- Internal Control Committee;
- Organisational and Information System Committee; and
- Risk Committee.

The Group applies the Basic Indicator Approach in determining the required operational risk capital, mainly driven by its more conservative results and ease of computation. The capital charge, under the Basic Indicator Approach, is arrived at by applying 15% (denoted as alpha) to the average of positive annual gross income over the previous three years. This alpha percentage is set by regulator and relates to the industry-wide level of required capital.

The Capital Charge for the Bank has been computed as follows:

- Annual gross income: Rs 527 million
- Average gross income over 3 years: Rs 586 million
- Capital charge for operational risk: Rs 88 million

E. OPERATIONAL RISK (Continued)

Operational risk subtypes

Legal risk

Legal risk is defined as the exposure to the adverse consequences of judgements or private settlements, including punitive damages resulting from inaccurately drafted contracts, their execution, the absence of written agreements or inadequate agreements. This includes exceeding authority as contained in the contract. The Group has processes and controls in place to manage its legal risks. Failure to manage these risks effectively could result in legal proceedings impacting the Group adversely, both financially and reputational.

Compliance risk

This is the risk of legal or regulatory sanctions, financial loss or loss to reputation that the Group may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards of good practice applicable to its business activities. This includes the exposure to new laws as well as changes in interpretations of existing laws by appropriate authorities.

The compliance function operates independently of business in terms of its mandate, which is approved annually by the Board and is drawn primarily from the Banking Act. The Group's approach to managing compliance risk is proactive and premised on internationally accepted principles of compliance risk management. Compliance risk management is a core risk management activity, overseen by the Director Risk and Compliance. The Director Risk and Compliance has unrestricted access to the chief executives and to the chairman of the Audit Committee, thereby ensuring the function's independence.

Legislation pertaining to money laundering and terrorist financing control imposes significant requirements in terms of customer due diligence, record keeping, staff training and the obligation to detect, prevent and report suspected money laundering and terrorist financing. The Group subscribes to the principles of the Financial Action Task Force, an intergovernmental body that develops and promotes policies to combat money laundering and terrorist financing.

The Group actively manages the legal, regulatory, reputational and operational risks associated with doing business in jurisdictions or with clients that are subject to embargoes or sanctions imposed by competent authorities.

Environmental and social risk

Environmental risk is described as a measure of the potential threats to the environment. It combines the probability that events will cause or lead to the degradation of the environment and the magnitude of such degradation. Environmental risk includes risks related to or resulting from climate change, human activities or from natural processes that are disturbed by changes in natural cycles. Social risk is described as risks to people, their livelihoods, health and welfare, socioeconomic development, social cohesion and the ability to adapt to changing circumstances.

Environmental and social risk assessment and management deals with two aspects:

- Risks over which the Group does not have control but which have potential to impact on our operations and those of the Group's clients.
- Risks over which the Group has direct control. These include our immediate direct impact, such as our waste management and the use of energy and water; as well as our broader impact, including risks that occur as a result of our lending or financial services activities.

E. OPERATIONAL RISK (Continued)

Operational risk subtypes (Continued)

Business continuity management and resilience

Business Continuity Management (BCM) is a process that identifies potential operational disruptions and provides a basis for planning for the mitigation of the negative impact from such disruptions. In addition, it promotes operational resilience and ensures an effective response that safeguards the interests of the Group and its stakeholders. The Group BCM framework encompasses emergency response preparedness and crisis management capabilities to manage the business through a crisis to full recovery. The Group's business continuity capabilities are evaluated by testing business continuity plans and conducting crisis simulations.

Technology risk management

Technology risk encompasses both IT risk and IT change risk. IT risk refers to the risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Group. It consists of IT-related events and conditions that could potentially impact the business. IT change risk refers to risk arising from changes, updates or alterations made to the IT infrastructure, systems or applications that could affect service reliability and availability. The Group relies heavily on technology to support complex business processes and handle large volumes of critical information. As a result, a technology failure can have a crippling impact on the Group's brand and reputation. The operational risk IT risk function oversees compliance with the IT risk and IT change risk governance standard.

Information risk management

Information risk encompasses all the challenges that result from the need to control and protect the Group's information. These risks can culminate from accidental or intentional unauthorised use, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity or availability of information. The Group has adopted a risk-based approach to managing information risks. The IOR management function oversees the information security management system, policies and practices across the Group. The execution of these policies and practices is driven through information security officers, within the Risk Division.

Financial crime control

The Group defines financial crime control as the prevention, detection and response to all financial crime to mitigate economic loss, reputational risk and regulatory sanction. Financial crime includes fraud, bribery and corruption and misconduct by staff, customers, suppliers, business partners and stakeholders. The financial crime risk control function forms part of the Compliance function, which reports to the Director Risk and Compliance. As is the case with the other functions within operational risk, financial crime risk management maintains close working relationships with other risk functions, specifically compliance, legal risk and credit risk, and with other Group functions such as information technology, human resources, and finance.

E. OPERATIONAL RISK (Continued)

Operational risk subtypes (Continued)

Occupational health and safety

Any risks to the health and safety of employees resulting from hazards in the workplace or potential exposure to occupational illness are managed by the occupational health and safety officer. Training of health and safety officers and employee awareness is an ongoing endeavour.

Managing such risk is becoming an important feature of sound risk management practice in modern financial markets. Through different tools defined by the Group and the appointment of operational risk correspondents, the Group ensures that operational risks are properly identified, assessed, monitored, managed and reported in a structured and consistent manner. Moreover, to mitigate operational risk, the Group promotes an organisational structure that emphasizes on recruitment of people with high level of ethics and integrity.

The Group has opted to adopt the Basic Indicator Approach for capital charge to operational risk. Periodic review takes place to ensure effective management of operational risk. This includes review of incidents, measures taken and updating of procedures as and when required. All operational risks identified are discussed and reported on a quarterly basis in the Risk Management Committee.

Operational Risk - Focus areas for 2018

In addition to the specialist operational subtypes above, the Group also has areas of special focus based on the organisation's evolving needs. These focus areas are still:

- Supporting increased innovation and the use of new technology in the banking industry to provide solutions to customers.
- Compliance with increased scope of monitoring and reporting required by regulators.
- Ensuring robust control over balance sheet substantiation and other key financial controls.
- The 2018 compliance focus areas will be driven by supervisory expectations, international best practice and legislative developments impacting the financial services sector. Training and awareness initiatives will continue to be undertaken to ensure that staff members are aware of their regulatory responsibilities relating to relevant legislation.

In addition to managing the risks arising in the ordinary course of business, the Group has identified the key potential operational risk threats for 2018, which will be addressed within the risk management framework, namely financial crime, cyber security, technology risks, internal controls and regulatory risks.

F. CAPITAL MANAGEMENT

The risk management function is designed to ensure that regulatory requirements are met at all times and that the Group and its subsidiary are capitalised in line with the Group's target ratios, as approved by the board. Key responsibilities are:

- Risk-adjusted performance measurement, and managing the ICAAP and capital planning process, including stress testing.
- Measurement and analysis of regulatory and economic capital, internal and external reporting and implementation of new regulatory requirements.
- Providing support on deal pricing, balance sheet utilisation and management of capital consumption against budgets.

F. CAPITAL MANAGEMENT (Continued)

At the regulatory level, the minimum capital adequacy ratio set by Bank of Mauritius for banks presently stands at 10% of risk weighted assets, with newly-unveiled Basel III rules which come in force as from 1 July 2014, in relation to the Guideline on Scope of Application of Basel III and Eligible Capital as well as the Guideline for dealing with Domestic – Systemically Important Banks. Overall, the Group and the Bank are committed to complying with the stipulated thresholds, including capital limits and buffers that will be phased-in in forthcoming years as per the transitional arrangements defined by the Central Bank.

Basel III

Basel III is a new global regulatory standard on bank capital adequacy and liquidity agreed by the members of the Basel Committee on Banking Supervision in December 2010. Basel III strengthens bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage. It proposes many newer capital, leverage and liquidity standards to strengthen the regulation, supervision and risk management of the banking sector. The capital standards and new capital buffers will require banks to hold more capital and higher quality of capital than under current Basel II rules. The new leverage and liquidity ratios introduce a non-risk based measure to supplement the risk based minimum capital requirements and measures to ensure that adequate funding is maintained in case of crisis. As per the recommendations, banks are expected to be compliant by 1st July 2014.

As part of its action for Basel III implementation, the Bank of Mauritius has issued the following Guidelines:

- Guideline on Scope of Application of Basel III and Eligible Capital (Superseding the 2008 Guidelines on Eligible Capital & Basel II), effective 1st July 2014. The main purpose of the guideline is to set out the rules text and timelines to implement some of the elements related to the strengthening of the capital framework and to formulate the definition of regulatory capital, regulatory adjustments, transitional arrangements, disclosure requirements and capital conservation buffer.
- Guideline for dealing with Domestic Systemically Important Banks, effective 30 June 2014. The main purpose of the guideline is to put in place a reference system for assessing the systemic importance of banks and ensure that the systemically important banks have the capacity to absorb losses through higher capital. Of note, after its assessment, the Bank of Mauritius has identified 5 banks as Domestic Systemically Important Banks. Banque des Mascareignes Ltée has not been identified as a Domestic Systemically Important Bank.

The Group and the Bank are well positioned to comply with the requirements that are subject to phase-in rules when they become effective.

F. CAPITAL MANAGEMENT (Continued)

Basel III (Continued)

Basel III aims to improve the quality of capital, increase capital levels and remove inconsistencies in the definition of capital across jurisdictions. The main objectives are:

Increased quality, quantity and consistency of capital	- Increased focus on CET I. - Increased capital levels.
Increased risk coverage	- Credit valuation adjustment (CVA) for over-the-counter (OTC) derivatives, being the capital charge for potential mark-to-market losses associated with deterioration in counterparty creditworthiness. - Asset value correlation being the increased capital charge on exposures to financial institutions. - Strengthened standards for collateral management, margin period of risk, management of general wrong-way risk and stress testing.
Capital conservation buffer	- Bank of Mauritius has implemented a 2.5% capital buffer by 2020 to decrease pro-cyclicality. - Build up capital during favourable economic conditions that can be drawn on during times of stress.
Pillar 2a and domestic systemically important bank (D-SIB) buffer	- Additional buffer to be held against systemic risk requirements.
Countercyclical buffer	- Capital buffer deployed by national jurisdictions when system wide risk builds up. - Ensures capital adequacy takes macro-financial environment into account.
Leverage ratio	- Constrain build-up of leverage in the banking sector. The ratio is calculated as tier I qualifying capital/on and off-balance sheet exposures, as defined by the BCBS, and to measure against the nationally SARB prescribed minimum ratio.

F. CAPITAL MANAGEMENT (Continued)

Implementation of new capital requirements under Basel III

The below reflects the minimum capital requirements and phase-in periods applicable to banks in Mauritius.

	2015	2106	2017	2018	2019	2020
	(All dates are as of 01 January)					
Minimum CET 1 CAR	6.00%	6.50%	6.50%	6.50%	6.50%	6.50%
Capital Conservation Buffer			0.625%	1.25%	1.875%	2.50%
Minimum CET 1 CAR plus	6.00%	6.50%	7.125%	7.75%	8.375%	9.00%
Phase in of deductions from CET 1	50.00%	50.00%	60.00%	80.00%	100.00%	100.00%
Minimum Tier 1 CAR	7.50%	8.00%	8.00%	8.00%	8.00%	8.00%
Minimum Total CAR	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Minimum Total CAR Plus Capital Conservation Buffer	10.00%	10.00%	10.625%	11.25%	11.875%	12.50%
Capital Instruments that no longer qualify as AT1 capital or Tier 2 capital	Phased out over 10 year horizon beginning 01 July 2014					

Capital Structure

Regulatory capital adequacy is measured through three risk-based ratios:

- CET I: ordinary share capital, share premium and retained earnings divided by total risk-weighted assets.
- Tier I: CET I plus perpetual, non-cumulative instruments with principal loss absorption features issued under the Basel III rules divided by total risk-weighted assets. Perpetual non-cumulative preference shares issued under Basel I and II are included in tier I capital but are subject to regulatory phase-out requirements.
- Total capital adequacy: Tier I plus other items such as the general allowance for credit impairments and subordinated debt with principal loss-absorption features issued under Basel III divided by total risk-weighted assets. Subordinated debt issued under Basel I and Basel II are included in total capital but are subject to regulatory phase-out requirements.

F. CAPITAL MANAGEMENT (Continued)**Capital Structure (Continued)**

For each of the three categories above, the Bank of Mauritius has defined in its Guideline on Eligible Capital a single set of criteria that the instruments are required to meet before they can be included in the relevant category.

As at 31 December 2017, the Bank's and Group's capital instruments comprised of only

- Ordinary Shares issued;
- Subordinated Debt availed by the Bank from its holding company (BPCE International).

The Bank's CET 1, Tier 1 and Tier 2 capital are as per below. The Bank's and Group's capital structure and capital adequacy ratio are as follows (the components of Capital may be reconciled with the Financial Statements as per notes below):

BASEL III	GROUP		BANK	
	2017	2016	2017	2016
	Rs M	Rs M	Rs M	Rs M
Tier 1 Capital				
Paid up or assigned capital (note 31)	1,944	1,944	1,944	1,944
Statutory reserve	102	83	102	83
Other disclosed free reserves, including undistributed balance in income statement	78	-145	36	-63
Current year's retained profits				
Minority interests	9	8	-	-
Deduct:				
Goodwill (note 23)	-	-76	-	-
Investment in Subsidiary (note 21)	-	-	-	-95
Other Intangible assets (note 23)	-117	-134	-115	-134
Deferred Tax (note 16)	-205	-176	-205	-176
CET 1 Capital	1,811	1,504	1,762	1,559
Additional Tier 1 Capital	-	-	-	-
Total Tier 1 Capital	1,811	1,504	1,762	1,559
Tier 2 Capital				
Portfolio Provision (note 19)	147	144	147	143
Subordinated debts (note 28)	104	157	104	157
Deduct:				
Investment in Subsidiary (note 21)	-	-	0	-95
Total Tier 2 Capital	251	301	251	205
Total Capital Base	2,062	1,805	2,013	1,764
Risk weighted assets for:				
On-balance sheet assets	12,921	11,634	12,331	11,267
Off-balance sheet exposures	1,320	1,396	1,310	1,386
Operational risk	962	1,003	879	940
Aggregate net open foreign exchange position	14	8	14	8
Total assets held in Trading book	-	-	-	-
TOTAL RISK WEIGHTED ASSETS	15,217	14,041	14,534	13,601
CET 1 Ratio (%)	11.90%	10.71%	12.12%	11.48%
Tier 1 Ratio (%)	11.90%	10.71%	12.12%	11.48%
Total Capital Adequacy Ratio (%)	13.55%	12.86%	13.85%	12.99%

F. CAPITAL MANAGEMENT (Continued)**Limits and minima applicable**

As per the Bank of Mauritius Guideline of Eligible Capital for the implementation of Basel III, the following limits and minima are applicable, as from 01 January 2016:

- A minimum Core Equity Tier 1 ratio of 6.5%;
- A minimum Tier 1 ratio of 8%; and
- A minimum Capital Adequacy Ratio of 10%.

As at 31 December 2017, the Group and the Bank has complied with all the limits and minimum requirements of the Bank of Mauritius guidelines. The Group and the Bank is well positioned to meet the phase in requirements as per the guidelines.

Risk Weighted Assets for Credit Risk

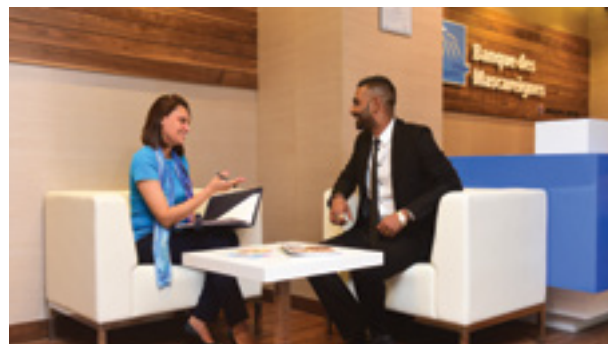
			GROUP		BANK	
Risk Weighted On-Balance Sheet Assets		Risk Weight	Exposures after CRM	Risk Weighted Assets	Exposures after CRM	Risk Weighted Assets
		%	Rs M			
Cash items		0 - 20	237	-	201	-
Claims on Sovereigns		0 - 150	2.293	73	2.22	-
Claims on Central banks		0	2.108	757	1.975	624
Claims on Multilateral development banks		0 - 150	-	-	-	-
Claims on banks		20 - 150	833	354	832	353
Claims on non-central government public sector entities		0 - 150	-	-	-	-
Claims on corporates		20 - 150	6.952	6.998	6.861	6.861
Claims included in the regulatory retail portfolio		75	182	137	182	137
Claims secured by residential property		35-100	3.426	3.146	3.425	3.146
Claims secured by commercial real estate		100	323	323	323	323
Past due claims		50-150	785	540	757	505
Other assets		100	593	593	383	383
Total Risk Weighted On-Balance Sheet Assets			17.732	12.921	17.159	12.331
Risk Weighted Off-Balance Sheet Assets	Credit Conversion Factor	Risk Weight	Exposures after CRM	Risk Weighted Assets	Exposures after CRM	Risk Weighted Assets
Transaction-related contingent items	50	0-100	1.522	761	1.515	757
Trade-related contingencies	20	0-100	346	69	346	69
Other commitments	20	0-100	1.879	490	1.864	483
Foreign exchange contracts	2	100	-	-	-	-
Total Risk Weighted Off-Balance Sheet Assets			3.747	1.32	3.725	1.31
Total Risk Weighted On & Off Balance Sheet			21.479	14.241	20.884	13.642

F. CAPITAL MANAGEMENT (Continued)

Supervisory Review Process - Internal Capital Adequacy Assessment Process (ICAAP)

The Group and the Bank are guided by its Internal Capital Adequacy Assessment Process (ICAAP) in determining its capital planning and formulating its risk appetite process. Overall, the purpose of the ICAAP document is to provide an informative description of the methodology and procedures that the Group and the Bank uses to assess and mitigate its risks and to make sure that adequate capital is kept to support its risks beyond the core minimum requirements. It delineates the process through which the Bank assesses the extent to which it holds sufficient capital in order to duly support its business activities.

Specifically, through the ICAAP, the Bank assesses its forecast capital supply and demand relative to its regulatory and internal capital targets, under various scenarios. The Bank's capital plan is defined every year during the budgeting and strategic planning exercise while financial year risk appetite limits are set by the Board.



Exposures are monitored on a quarterly basis against those limits and reported to the Risk Management Committee. Actually, the ICAAP framework has been developed and applied at the Bank pursuant to the issue of the Bank of Mauritius Guideline on Supervisory Review Process in April 2010. The document, which is approved by the Board, is reviewed periodically to ensure that the Bank remains well capitalised after considering all material risks. Stress testing is a risk management exercise that forms an integral part of the ICAAP. As part of the Bank's ICAAP, forecasts are made, taking into account the Basel Pillar I and II stresses. The ICAAP provides for an assessment of the Pillar I risk types (i.e. credit, operational, market risks) and Pillar II risk types (i.e. concentration of risk, liquidity risk, interest rate risk, strategic risks and so on). These assessments are conducted with a view to understanding the sensitivity of the key assumptions of the capital plan to the realisation of plausible stress scenarios and in order to evaluate how the Bank can continue to maintain adequate capital under such scenarios. The overriding aim of the stress testing framework is to ensure that risk management exercises are firmly embedded in the organisation's overall governance culture.

As a subsidiary of Groupe BPCE and benefitting from the implicit and explicit the support of its sole shareholder, BPCE IOM, Banque des Mascareignes Ltée leverages on various tools to raise its capital, as and when needed. Capital may be raised through the issue of Ordinary Shares, Preference Share or Subordinated Debt, in multiple currencies. In addition, the Bank uses various instruments issued by its shareholder to mitigate its Credit Risk, namely through Bank Guarantees, Unfunded Risk Participation and others.

The Compliance Function assesses and ensures that all the Group's and Bank's activities comply with the relevant laws, regulations and internal policies and procedures. Compliance reviews are conducted across departments and appropriate recommendations are made. Any type of non-compliance and risk identified is duly reported to Senior Management, the Internal Control Committee, the Compliance Committee, Audit Committee and Risk Management Committee of the Board and the Board of Directors. It also co-ordinates and supports the activities within the Bank and provides expertise and advice in compliance-related matters. A summary of main points of the Compliance Committee, which meets on a quarterly basis, is also presented to the Risk Management Committee and the Audit Committee of the Board at the same intervals.

The Governance Committees relating to Compliance are the Internal Control Committee, the Compliance Committee, Audit Committee and Risk Management Committee of the Board and the Board of Directors. The Compliance Function has a matrix reporting line to BPCE Group Compliance.

A Sanction Screening system is in place to enable real time screening of all details contained in incoming and outgoing swift messages. This screening tool and the approved work flow for treatment of flows help to reduce the Bank's risk of being exposed in facilitating payments for individuals and organizations blacklisted under the US, EU, OFAC and UNSC.

To manage the money laundering risk which the Bank could be exposed to, the Compliance function through the Money Laundering Reporting Officer tracks and reviews suspicious transactions. Moreover, it is empowered to independently report to the Financial Intelligence Unit ('FIU') any suspicious transactions. An automated Transaction Monitoring system (NORKOM) is actually in place for detection of higher risk transactions to guard against money laundering and financing of Terrorism. The Anti-Money Laundering ('AML') framework adopted by the Bank is supported by an automated profiling system (VOR) to enable the KYC profiling of customers through enhanced due diligence, customer identification, screening and customer risk scoring. It also enhances the monitoring and review of customers and their activities and allows the Bank to manage financial crime and regulatory risk more effectively.

An automated Transaction Monitoring system (NORKOM) is actually in place for the detection of higher risk transactions to guard against money laundering and combat financing of terrorism (CFT) risks.

The Anti-Money Laundering ('AML') framework adopted by the Bank is supported by an automated profiling system (VOR) to enable the KYC profiling of customers through enhanced due diligence, customer identification, screening and customer risk scoring. It also enhances the monitoring and review of customers and their activities and allows the Bank to manage financial crime and regulatory risk more effectively.

The AML Training Programme of the Bank is set up as per below:

- Immediate training for all new recruits;
- At least one annual refresher training is conducted for all staff by the Head of Compliance / Anti Money laundering;
- Senior Management provides "on the job" AML awareness training to their respective staff; and
- Regular updates / Advisories from the Heads of Risk and Compliance/Compliance / Anti Money laundering

With the internal procedures and control in place, the Bank is also continually developing screening methods to detect attempted frauds and prevent losses for all parties involved. As per the instructions issued to senior management and front liners, all attempted frauds are also duly reported to Compliance and Internal Audit teams for onward information to the Bank of Mauritius.

Compliance activity is covered through an Annual Compliance plan, approved by the Compliance Committee and Risk Management Committee, which comprises a schedule and frequency of field reviews of all the areas of regulatory risks. Other activities of the Compliance function are:

- Conducting independent investigations for suspicious cases and ensuring that appropriate actions and decisions are taken as well as assisting investigative authorities in conducting investigations;
- Conduction specific controls including tellers' transactions following findings made necessitating rapid actions;
- Implementation of FATCA (Foreign Account Tax Compliance Act) and coming CRS (Common Reporting Standard);
- By preparing Action Plan document, modifying Account Opening Forms and providing training to Front Liners as well as back office staff;
- Assisting the Bank of Mauritius, Financial Services Commission and external auditors during their audit;
- Providing support on new projects of the Bank;
- Preparing and circulating to staff of the Bank, action points and summary of changes in existing Legislations and Guidelines and new Legislations and Guidelines. On a quarterly basis the regulatory changes are also reported to the Control Committee, Compliance Committee, Risk Management Committee and Board Audit Committee;
- Assisting other departments in setting up and preparing Policies and Procedures;
- Actively participating in Compliance meetings held at the Bank of Mauritius, Mauritius Bankers Association level, FIU's level, etc; and
- Compliance workshops are organised for Senior Management and Relationship Managers to discuss compliance issues and update them about recent regulatory developments.

Compliance - Focus areas for 2018

The 2017 compliance focus areas will be driven by the 2016 findings and recommendations made to mitigate risks throughout the organisation; supervisory expectations, international best practice and legislative developments impacting the financial services sector.

Enhanced focus has been made on the review of processes and procedures to ensure that they are taking in consideration any amendment made by regulatory bodies as well as BPCE Group Compliance as well as reviewing documentations to secure adequate and reliable due diligence documents that substantiate the level of business activity of customers.

The Bank has adopted a three-layer control system:

- Line Management – 1st level of Control;
- Compliance review – 2nd level of Control; and
- Internal Audit – 3rd level of Control.

In addition to the above, the Group and the Bank are subject to regular specialised and general Inspection Audit from BPCE Group Internal Audit teams; the latest done in 2015.

Line management remains primarily responsible for establishing appropriate control over their operations, independent periodic assessment of the risks associated, the setting up of appropriate procedures and active walking-of-the job to identify lapses and bring in remedying measures. The Group and the Bank is committed to operate as per best industry practices as far as controls are concerned and to enforce day-to-day application. At the beginning of each financial year, all Executives and staff are assigned a number of appropriate control-related measurable performance indicators which have an equivalent weightage as normal commercial targets.

To safeguard the total independence of Internal Audit, the latter reports directly to the Audit Committee with a dotted line reporting to the CEO for day-to-day matters and the Bank has subscribed to the principle that Internal Audit has unfettered access to all the Bank's records and information. The responsibility for the appointment and dismissal of the Head of Internal Audit remains with the Audit Committee.

Internal Audit implements an annual inventory of all lines of business and operations followed by a risk assessment and risk scoring of each of these entities. Based on this risk assessment, an annual audit plan is drawn up and submitted to the Audit Committee for approval. The calendar of execution of the audits is known only to the CEO and Audit Committee. The Audit Plan is reviewed at each quarterly meeting of the Audit Committee.

The coverage of the Bank's internal audit also includes the Madagascar subsidiary.

The final audit reports provide clearly identifiable examples in support of findings, highlight the risk associated with each finding, and provide concrete remedying recommendations, which together with an implementation date are agreed with line management prior to the issue of the reports. Every finding is allocated a rating depending upon the level of the associated risk. It is to be noted that internal audit will systematically allocate a higher risk rating where findings may be contrary to law or relate to deficient observance of regulatory guidelines. The reports are presented to the Audit Committee and BPCE Group Internal Audit.

Periodically, all departments are required to certify that all previous audit recommendations have been implemented and not allowed to lapse. In addition, Internal Audit carries out checks to ensure such implementation. A report in this respect is presented to the Audit Committee.

CORPORATE GOVERNANCE REPORT

02 | CORPORATE GOVERNANCE REPORT

Corporate Governance Report

Good corporate governance remains integral to the way the Bank operates. The Bank is committed to operating in a correct, principled and commercially astute manner and staying accountable to its stakeholders. The Bank holds the view that transparency and accountability is essential for the bank to thrive and succeed in the short, medium and long term.

Governance framework

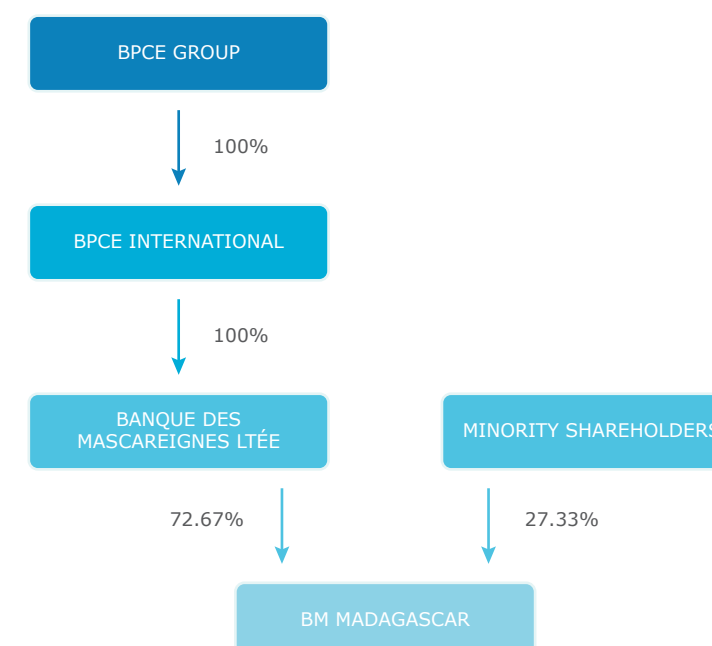
The Bank operates within a clearly defined governance framework. Through this framework, the board balances its role of providing risk oversight and strategic counsel while ensuring adherence to regulatory requirements and risk tolerance. The governance framework provides for delegation of authority while enabling the board to retain effective control. The board delegates authority to relevant board committees and the Chief Executive Officer with clearly defined mandates and authorities, while preserving its accountability.

Board committees facilitate the discharge of board responsibilities and provide in-depth focus on specific areas. Each committee has a mandate, which the board reviews regularly. Mandates for each committee set out its role, responsibilities, scope of authority, composition and terms of reference. The committees report to the board through their respective chairmen and minutes of all committee meetings are submitted to the board.

The board delegates authority to the Chief Executive to manage the business and affairs of the Bank. This delegated authority is set out in writing, together with the matters reserved for board decision. The Senior Management Committee and Executive Management Committee assist the Chief Executive in the day-to-day management of the affairs of the Bank, subject to statutory parameters and matters reserved for the board.

Governance structure

The shareholding and Group structure is as follows:



Governance structure (Continued)

The Governance Framework is as follows:

- Board of Directors
- Board Committees, namely:
 - Audit Committee;
 - Risk Management Committee;
 - Conduct Review Committee;
 - Corporate Governance Committee; and
 - Remuneration and Nomination Committee.
- Management Committees, namely
 - Senior Management Committee (Comité de Direction Générale);
 - Executive Management Committee (Comité Exécutif);
 - Business Development Committee;
 - Finance Committee;
 - Pricing Committee;
 - Assets & Liabilities Management Committee;
 - Treasury Committee;
 - Credit Committee;
 - Non-Performing Loans review and Provisioning Committee;
 - Arrears Committee;
 - Watchlist Committee;
 - Compliance Committee;
 - Internal Control Committee (Comité de Cohérence et Conformité);
 - Risk Management Committee; and
 - Organisation and Information Systems Committee.

The Board of Directors

The role of the board:

The board provides effective leadership based on an ethical foundation. It strives to balance the interests of the Bank and those of its various stakeholders. It is the highest decision-making body in the Bank and is responsible for the Group’s strategic direction. It ensures that strategy is aligned with the Group’s values and monitors strategy implementation and performance targets in relation to the agreed risk profile. It is collectively responsible for the long-term success of the Group and is accountable to shareholders for financial and operational performance.

In line with banking regulations, the board decides on the Group’s corporate governance and risk management objectives for the year ahead. The relevant governance and risk management committees monitor performance against governance and risk objectives, respectively, and reports are submitted to the board. A self-assessment of board members and board committees was carried out in 2017 to assess their performance.

The Board of Directors (Continued)

The Board of Directors’ terms of reference are set out in a written charter, the ‘Charte de Bonne Governance d’Entreprise et Règles de Bonne Conduite’. The mandate is reviewed at least annually and complies with the provisions of the Guideline on Corporate Governance, The Companies Act, The Banking Act and the Bank’s constitution. It sets out the guidelines with regards to:

- Composition of the board;
- Term of office;
- Reporting responsibilities;
- Rules of engagement; and
- Matters reserved for board decision.

The board’s key terms of reference are set out below:

- Provide effective leadership based on an ethical foundation;
- Approve the strategy and ensure that the Group’s objectives take into account the need to align its strategy and risk profile, together with the performance levels and sustainability concerns of stakeholders;
- Review the corporate governance and risk and capital management processes and ensure that there is an effective risk management process and internal control system;
- Delegate relevant authority to the Chief Executive Officer and the Deputy Chief Executive Officer and monitor their performance;
- Determine the terms of reference and procedures of all board committees, review the board’s and committees’ performance annually, and review their reports and minutes;
- Ensure that the Audit Committee is effective and independent;
- Ensure that an adequate budget and planning process exists, measure performance against budgets and plans, and approve annual budgets;
- Consider and approve the annual financial statements and the annual report, results, dividend announcements and notice to shareholders; and
- Approve significant acquisitions, mergers, takeovers, divestments of operating companies, equity investments and new strategic alliances.

Board meetings allow sufficient time for consideration of all items. Care is taken to ensure that the board attends to matters critical to the Group’s success, with sufficient attention to compliance and administrative matters.

The Group has a unitary board structure with executive and non-executive directors. The board functions effectively and efficiently and is considered to be of an appropriate size for the Group, taking into account, among other considerations, the need to have sufficient directors to structure board committees appropriately, the regulatory requirements as well as the need to adequately address the board’s succession plans. Non-executive directors bring diverse perspectives to board deliberations, and constructive challenging of the views of executive directors and management is encouraged.

The Board of Directors (Continued)

The Board members are:

- **Non-Executive Directors**
- Jean-Pierre Levayer (Chairperson);
- Sylvain Faure;
- Anthony Ruffo; and
- Yvan De La Porte Du Theil

- **Executive Directors**
- Philippe Wattecamps
- Cedric Glorieux

The Company Secretary acts as secretary of the Board of Directors.

The roles of the Chairman and Chief Executive Officer continue to be substantively different and separated. The Chairman is a non-executive director responsible for leading the board, ensuring its effective functioning and setting its agenda, in consultation with the Company Secretary and the Chief Executive Officer. The board is aware of the other commitments of its directors and is satisfied that all directors allocate sufficient time to enable them to discharge their responsibilities effectively. The Company Secretary maintains a register of directors' interests.

There is ongoing engagement between executive management and the board. In addition to the executive directors, senior management attend board meetings. External auditors are invited to attend Audit Committee. Directors have unrestricted access to management information, as well as the resources to carry out their duties and responsibilities.

The Audit Committee

In line with the Banking Act 2004 and international best practice, the Audit Committee's principal responsibilities are to:

- Review the interim and annual financial statements, summarised financial information, dividend declaration and all financial information and recommend them to the board for approval;
- Evaluate the adequacy and effectiveness of the accounting policies and all proposed changes in accounting policies and practices;
- Review the basis for determination as a going concern;
- Review the effectiveness of financial management, including the management of financial risks, the quality of internal accounting control systems and reports produced, including financial reporting risks and internal financial controls;
- Review the impact of new financial systems, tax and litigation matters on financial reporting;
- Review and approve the Group external audit plan;
- Assess the independence and effectiveness of the external auditors on an annual basis;
- Oversee the appointment of external auditors, their terms of engagement and fees;
- Review significant differences of opinion between external auditors and management;
- Review the external auditors' management reports concerning deviations from and weaknesses in accounting and operational controls, and ensure that management takes appropriate action to satisfactorily resolve issues;
- Review, approve and monitor the internal audit plan and charter;

The Audit Committee (Continued)

- Consider and review the internal auditors' significant findings and management's response;
- Evaluate annually the role, independence and effectiveness of the internal audit function in the overall context of the Group's risk management system;
- Monitor the maintenance of proper and adequate accounting records and the overall financial and operational environment;
- Review reports and activities of the financial crime control unit to ensure the mitigation and control of fraud and related risks;
- Review, approve and monitor the compliance plan; and
- Monitor compliance with the Companies Act, Banking Act and all other applicable legislations and guidelines.

The Audit Committee is comprised of non-executive directors of the Bank. The Chairman of the Board is not a member of the Audit Committee. The Head of Internal Audit, the External Auditor, the Head of Compliance and relevant Senior Management officers attend the committee. The Company Secretary acts as secretary to the Audit Committee.

Members of the Audit Committee are:

- Sylvain Faure (Chairperson);
- Anthony Ruffo; and
- Yvan de la Porte du Theil.

The audit committee meets at least four times in a year.

The Risk Management Committee

In line with the requirements of the guidelines of the Bank of Mauritius and the international best practice, the main responsibilities of the Risk Management Committee are to:

- Determine the Group's risk appetite;
- Monitor the current and future risk profile to ensure that the Group is managed within risk appetite;
- Consider and approve the macroeconomic scenarios used for stress testing, and evaluate the results of stress testing;
- Approve all risk governance standards, frameworks and relevant policies;
- Monitor all risk types;
- Approve risk disclosure in published reports;
- Review and recommend the ICAAP and internal capital target ratio ranges to the board for approval and monitor the utilisation of capital to make sure that the Bank has, at any time, a capital adequacy ratio corresponding to at least the regulatory minimum requirements;
- Review the impact on capital of significant transactions entered into by the Group;
- Review and approve the strategy, policies and practices relating to the management of the Bank's liquidity;
- Approve the Risk Policy, which sets out the credit granting process and limits; and
- Monitor large and impaired credits as well as the overall level of provisioning, that is, overseeing Credit and Risk exposures.

The Risk Management Committee (continued)

The Risk Management Committee is comprised of 3 non-executive directors of the Bank and the Chief Executive Officer. The Chairman of the Board is not a member of the Committee. The Head of Internal Audit, the Head of Risk and Compliance and relevant Senior Management officers attend the committee. The Company Secretary acts as secretary to the Risk Management Committee. The Risk Management Committee reports to the Board, through its Chairman.

Members of the Risk Management Committee are:

- Sylvain Faure (Chairperson);
- Anthony Ruffo;
- Yvan de la Porte du Theil; and
- Philippe Wattecamps.

The Risk Management Committee meets on a quarterly basis.

The Conduct Review Committee

In line with the Guidelines of the Bank of Mauritius, the Conduct Review Committee's main responsibilities are to:

- Establish the policies and procedures to comply with the requirements of the Guideline on Related Party Transactions;
- Review the Bank's transactions with related parties in line with the Conduct Review Policy, ensuring that the latter is in compliance with all reporting and/or approval procedures of the Bank of Mauritius;
- Review and approve all credit facility with related parties; and
- Ensure that transactions which could materially affect the financial stability of the Bank are identified at source and review all related party transactions when said dealings are above 2% of Tier 1 Capital.

The Conduct Review Committee (CRC) consists of three non-executive members, namely:

- Sylvain Faure (Chairperson);
- Anthony Ruffo;
- Yvan de la Porte du Theil.

The Senior Management team, including the Head of Compliance and the Head of Audit, attend all meetings.

The Conduct Review Committee reports to the Board, through its Chairman.

The conduct Review Committee meets at least four times in a year.

The Corporate Governance Committee

In line with the Guidelines of the Bank of Mauritius, the Corporate Governance Committee's responsibilities are to:

- Deal with all Corporate Governance issues and make recommendation to the Board accordingly;
- Ensure that the Bank complies with the Code of Corporate Governance and Corporate Governance Guidelines issued by the Bank of Mauritius;
- Ensure that disclosures are made in the annual financial statements in compliance with the disclosure provisions in accordance with the best international practice; and
- Ensure effective communication between stakeholders.

The Corporate Governance Committee consists of three non-executive members, namely:

- Yvan de la Porte du Theil (Chairperson);
- Anthony Ruffo; and
- Sylvain Faure.

The Senior Management team, including the Head of Compliance and the Head of Audit, attend all meetings.

The Corporate Governance Committee reports to the Board, through its Chairman.

The Corporate Governance Committee meets at least once a year.

The Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of three non-executive directors. The Committee is responsible for making recommendations to the Board on the appointment of directors and senior executives. The Committee also oversees remuneration and compensation of directors; senior management and other key personnel with a view to attract, retain and motivate them. It reviews periodically compensation levels of the Bank's employees vis-a-vis other banks and the industry in general. The Committee ensures that compensation is consistent with the current market conditions as well as with the Bank's strategy and objectives.

The responsibilities of the Nomination and Remuneration Committee include:

- Ascertaining whether the potential directors, chief executive and senior officers are fit and proper persons, have the required skills and expertise, and are free from material conflicts of interest, and ensuring that an induction programme is provided to new directors;
- Reviewing the Board structure, size and composition (including balance between independent/ non-executive/ executive) and the composition of Board Committees;
- Reviewing, for submission to the Board, remunerations for directors and executives/senior officers as well as proposals of promotion to the General Management; and
- Reviewing the succession plan of senior executives and the list of talents.

The Nomination and Remuneration Committee (continued)

The members of the Nomination and Remuneration Committee are:

- Jean-Pierre Levayer (Chairperson);
- Sylvain Faure; and
- Yvan de la Porte du Theil.

The Nomination and Remuneration Committee meets at least once a year.

Management Committees

- **The Senior Management Committee** is composed of the Chief Executive Officer, the Deputy Chief Executive Officer, the Head of Consumer Banking and Business Development Division and the Head of Corporate, International and Global Business Division. The Senior Management Committee meets on a weekly basis and considers all matters relating to the Bank's strategy as well as day to day running of the Bank.
- **The Executive Management Committee** is chaired either by the Chief Executive Officer or the Deputy Chief Executive Officer and it consists of members of the Senior Management Committee and all Heads of Departments except for the Head of Legal and Recovery. The committee meets on a monthly basis and is responsible for the day-to-day management of the Bank, including risk issues, business development, compliance and IT related issues.
- **The Business Development Committee** is chaired by either the Chief Executive Officer or the Deputy Chief Executive Officer and is composed of the Head of Consumer Banking and Business Development Division, Head of Corporate, International and Global Business Division, the Head of Marketing and Business Development, the Head of Retail Banking, the Head of Marketing and Business Development, Head of Private Banking, the Manager of Marketing, Manager of Sales and Manager of Communication Services. The committee meets on a monthly basis and is chaired by the Head of Consumer Banking and Business Development Division. The main purpose of the Business Development Committee is the review of segmental, commercial and financial results against targets and to decide on marketing strategies.
- **The Assets and Liabilities Management Committee** is chaired by either the Chief Executive Officer or the Deputy Chief Executive Officer and it consists of the Deputy Chief Executive Officer, the Chief Financial Officer, the Director of Risk and Compliance, and the Head of Treasury, Manager of Risk and Monitoring Department and Manager of Account Control Department. The Committee is overseen by the ALM team of the parent company, BPCE-International. The committee has the authority and responsibility for managing the Bank's assets and liabilities, and the measurement of all market risks associated, based on a static and dynamic simulation of the Bank's balance sheet. Moreover, it ensures that the overall asset/liability and market risk mix are managed effectively and are within Group guidelines. The Committee meets on a quarterly basis.
- **The Finance Committee** is chaired either by the Chief Executive Officer or the Deputy Executive Officer and consists of, the Deputy Chief Executive Officer, the Chief Financial Officer, the Head of Consumer Banking and Business Development Division, the Head of Corporate, International and Global Business Division, the Director of Risk and Compliance, the Head of Treasury, the Manager of Risk Control and Monitoring Department, the Manager of Business Finance and the Manager of Accounting Departments. The Committee:
 - Reviews performance against budgets and approves operational strategies to the Bank's and Group's medium to long term plan; and
 - Reviews market intelligence reports and competitor reviews.

The committee meets on a monthly basis.

Management Committees (continued)

- **The Pricing Committee (Comité Tarification)** is chaired either by the Chief Executive Officer or Deputy Chief Executive Officer and consists of the Deputy Chief Executive Officer, the Chief Financial Officer, the Head of Consumer Banking and Business Development, Head of Corporate, International and Global Business Division, the Director of Risks and Compliance, the Head of Treasury, Head of Marketing and Business Development, Manager Marketing and Manager of Account Control Department. The Committee approves changes in pricing, tariffs and charges as well as marketing campaigns. The Committee meets on a monthly basis.
- **The Credit Committee** is chaired by the Chief Executive Officer or the Deputy Chief Executive Officer, meets at least twice a week and comprises of the Chief Financial Officer, Head of Consumer Banking and Business Development Divisions, the Head of Corporate, International and Global Business Division, the Heads of business segment and the Director of Risks and Compliance. Heads of Business units and the credit underwriting team attend the meeting. The committee reviews and recommends and / or approves credit requests within its delegated authority. All requests outside its delegated authority are forwarded for a decision to BPCE International and / or BPCE Credit Committees.
- **The Non-Performing Loans Review and Provisioning Committee** reviews the status on all non-performing loans and approves the percentage of specific provisions to be provided for each impaired credit. It also assesses and agrees on the recovery strategy of impaired credits. The Committee meets on a monthly basis and is chaired by the Chief Executive Officer. The committee comprises of the Deputy Chief Executive Officer, the Chief Financial Officer, the Head of Consumer Banking and Business Development, Head of Corporate, International and Global Business Division, the Director of Risk and Compliance, the Head of Legal and Recovery, Manager Recovery and Collections and members of the Risk Control and Monitoring unit.
- **The Arrears Committee (Comité des dépassements et impayés)** meets on a monthly basis and is an integral part of the risk monitoring system. This committee monitors any overdrawn amounts (unauthorised overdrawn accounts and/or overdrafts with expired limits) and loan arrears. Through monitoring of these credit risks, potential non-performing loans are identified and action plans agreed for implementation. The Committee is chaired by either the Chief Executive Officer or the Deputy Chief Executive Officer and the other members consists of the Deputy Chief Executive Officer, the Chief Financial Officer, the Head of Consumer Banking and Business Development, the Director of Risks, members of the Risk Control and Monitoring Department, Head of Legal and Recovery and the Heads of Business segment.
- **The Watchlist Committee** is chaired by either the Chief Executive Officer or the Deputy Chief Executive Officer. The responsibility of the committee is to monitor all exposures, as defined by the Watchlist Policy. This policy adopts a risk-based approach to the monitoring of exposures. The Committee meets on a quarterly basis and reports to BPCE International Watchlist Committee. The members are the Deputy Chief Executive Officer, the Chief Financial Officer, the Head of Consumer Banking and Business Development, Head of Corporate, International and Global Business Division, the Director of Risk and Compliance, members of the Risk Control and Monitoring unit, the Manager Recovery and Collections, and the Head of Business segments attend the meetings as and when required.

Management Committees (continued)

- **The Compliance Committee** is chaired by the Chief Executive Officer or the Deputy Chief Executive Committee and it is comprised of the Chief Financial Officer, the Head of Consumer Banking and Business Development, Head of Corporate, International and Global Business Division, the Head of Compliance, the Director of Risk and Compliance, the Head of internal Audit, the Money Laundering Reporting Officer (MLRO), Head of Human Resources, Manager of Investigation Unit, DSIO and Manager of Retail Banking Operations, or Head of Retail Banking. The Compliance Committee drives the compliance policy of the Bank and monitors its implementation. The main role of Compliance Committee is to ensure consistency and efficiency of most internal controls within the Bank. The Compliance Committee takes decisions and provides guidance for the solving of major problems relating to internal controls so as to ensure better coordination, effectiveness and efficiency in the activities of the Bank, thereby mitigating intrinsic risks arising from the banking activities. The committee meets on a monthly basis.
- **The Internal Control Committee** is chaired by either the Chief Executive Officer or the Deputy Chief Executive Officer and comprises of the Deputy Chief Executive Officer, the Chief Financial Officer, the Head of Consumer Banking and Business Development, the Head of Corporate, International and Global Business Division, the Head of Compliance and Internal control, the Director of Risks and Compliance, the Head of internal Audit, the Manager of Information System and Organisation, the Head of Consumer Satisfaction and Quality, and other members who have responsibility for the efficiency and effectiveness of controls in their respective fields. The committee looks at all aspects relating to internal control and non-compliance issues identified in the internal controls system of the Bank so that adequate remedial actions can be taken in a timely manner. The committee meets on a quarterly basis.
- **The Risk Management Committee** is chaired by either the Chief Executive Officer or the Deputy Chief Executive Committee and the other members are the Deputy Chief Executive Officer, the Chief Financial Officer, the Head of Consumer Banking and Business Development Division, the Head of Corporate, International and Global Business Division, the Director of Risk and Compliance, the Head of Legal and Recovery, the Head of Retail Banking, Manager of the Risk Control and Monitoring department and Manager of Credit Analysis Department. The primary function of the Risk Management Committee is to monitor the risks of the bank against approved risk appetite, limits and regulatory guidance. The committee meets on a quarterly basis.
- **The Organisation and Information System Committee** is composed of the Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Financial Officer, the Head of Consumer Banking and Business Development Division, the Director of Risk and Compliance, the Head of Marketing and Business Development, the Manager of Information System and Organisation, Head of Technical Unit, Head of Organisation and MOA, Manager of MOA, Rssi/Rpca, Head of Operations and Head of Information System and Organisation. The Committee is chaired by the either the Chief Executive Officer or the Deputy Chief Executive Officer. The purpose of the Committee is to have a follow up of projects relating mainly to IT. The committee meets on a monthly basis.
- **The Treasury Committee** is composed of the Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Financial Officer, the Head of Consumer Banking and Business Development Division, the Head of Corporate, International and Global Business Division, the Head of Operations, the Head of Treasury, the Manager of Marketing and Manager of Account Control Department. The Committee meets on a weekly basis, to review the structural liquidity positions (MUR and Foreign Currency). It also provides guidance on deposit rates as well as daily business strategies to improve the Net Interest Income as well as Foreign Exchange Income.

Board of Directors – Composition**Board of Directors**

Non-Executive Directors

- Jean-Pierre Levayer (Chairperson);
- Sylvain Faure;
- Antony Ruffo; and
- Yvan De La Porte Du Theil

Executive Directors

- Philippe Wattecamps; and
- Cédric Glorieux

Committees of the Board

Audit Committee

- Sylvain Faure (Chairperson);
- Anthony Ruffo; and
- Yvan de la Porte du Theil.

Conduct Review Committee

- Sylvain Faure (Chairperson);
- Anthony Ruffo; and
- Yvan de la Porte du Theil.

Risk Management Committee

- Sylvain Faure (Chairperson);
- Anthony Ruffo;
- Yvan de la Porte du Theil; and
- Philippe Wattecamps.

Corporate Governance Committee

- Yvan de la Porte du Theil (Chairperson);
- Sylvain Faure; and
- Anthony Ruffo.

Nomination and Remuneration Committee

- Jean-Pierre Levayer (Chairperson);
- Sylvain Faure; and
- Yvan de la Porte du Theil.

General Management

Senior Management Committee (Comité de Direction Générale)

- Wattecamps Philippe	Chief Executive Officer
- Glorieux Cédric	Deputy Chief Executive Officer
- Ramkelawon Sangeetha	Head of Corporate, International and Global Business Division
- Beeharri Nirish	Head of Consumer Banking and Business Development Division

Executive Committee

- Beeharri Nirish	Head of Consumer Banking and Business Development Division
- Bernard Franck	Director – Risk and Compliance
- Caullee Doodassen	Head of Retail Banking
- Constant Virginie	Head of Private Banking
- Daby Shakil	Head of Corporate Banking
- Dandjee Nadia	Chief Financial Officer
- Glorieux Cédric	Deputy Chief Executive Officer
- Houbert Valérie	Head of Compliance and Internal control
- Jahajeeah Avinash	Head of International Banking
- Lalanne Bertrand	Director – Information system and Organisation
- Letimier Ingrid	Head of Marketing and Business Development
- Modeley Patrice	Head of Operations
- Peerally Zubeir*	Head of Human Resources Department
- Ramkelawon Sangeetha	Head of Corporate, International and Global Business Division
- Ramlagun Neelmanee**	Secrétaire Générale
- Thomas Alain	Head of Treasury
- Wattecamps Philippe	Chief Executive Officer
- Wong Sik Tsang Laura	Head of Internal Audit

* left on [31st July 2017]

** left on [15th March 2017]

Directors' profile

The Board consists of 6 members who are experienced professionals with expertise in a variety of fields.

Levayer Jean-Pierre (Chairperson)

Jean-Pierre Levayer who was appointed as a Board member of the Bank on the 25th April 2017, is the Chief Executive Officer of BPCE International. Jean-Levayer holds a master with specialization in Finance from ESSEC Business School and has 38 years of experience in the Banking Sector. Jean-Pierre Levayer held various positions at BPCE Group, namely, in the field of business development and operations. He was the Chief Executive Officer at Banque Populaire Loire et Lyonnais before being appointed Chief Executive Officer of BPCE International.

Faure Sylvain

Faure Sylvain who was appointed as a Board Member of the Bank on 26th January 2017, is the Head of Business Development of BPCE International. Sylvain Faure holds a Masters in Finance from the University of Paris Sorbonne and has 30 years of experience in the Banking field.

De La Porte Du Theil Yvan

De La Porte Du Theil Yvan who was appointed to the Board of the Bank on the 18th of March 2010, is a member of the Board of Directors of BPCE International, Coface Banque Tuniso-Koweitienne (BTK) and Fransabank (France).

Ruffo Anthony

Ruffo Anthony who was appointed as a Board member of the bank on 18th April 2017, is Chargé de mission auprès du directeur general Pôle Banque de proximité et Assurance of Groupe BPCE. He holds a Masters in Management and Finance from EDHEC Business School, Lille and has 10 years of experience in the Banking Sector.

Wattecamps Philippe - Chief Executive Officer

Wattecamps Philippe who was appointed as a board member of the Bank in October 2014, is the Chief Executive Officer of the Bank. He is also Director of BM Madagascar. Philippe holds a Masters in Law from Rennes University. Philippe has been working for 27 years in the banking sector. Before joining Banque des Mascareignes, Philippe held the post of Deputy Chief Executive Officer at BPCE International. He also worked at Banque Tuniso-Kowetienne as Deputy Chief Executive Officer and at Banque Populaire de l'Ouest, where he was in charge of Business Development and Credit Underwriting.

Glorieux Cédric - Deputy Chief Executive Officer

Glorieux Cédric who was appointed as a board member of the bank on 20th August 2016, is the Deputy Chief Executive Officer of the Bank. He is also Director of BM Madagascar. Cédric Glorieux holds a master with specialization in Finance from ESSEC Business School and holds 18 years of experience in the Banking Sector. Cedric held various positions at BPCE Group, namely, in the field of audit, business development and Finance at Banque Populaire – Paris and Rennes. He was the Executive Director – Business Development at Banque Populaire de l'Ouest, Rennes before joining Banque des Mascareignes Ltée.

Profile of the Management Team

Beeharry Nirish - Head of Consumer Banking and Business Development Division

Prior to joining the Banque des Mascareignes in May 2017, Nirish held the positions of Executive Head of Consumer Banking & Ag Head of Marketing and Corporate affairs for the MauBank in Mauritius, a position he had been promoted to in 2016. Prior positions held by Nirish include Head of Retail and Head of Cards at the Bramer Bank, as well as over 11 years of Retail Management experience attained at the Barclays Bank in Mauritius. Roles at Barclay's have included the setting up of the SME proposition, to that of Business Development Manager, where he was key in setting up of the Alternate Sales Channels-, which was a first for the country in 2007/8. He has also held the positions of Area Leader and finally Head of Sales, for the bank's Retail/Consumer proposition.

Bernard Frank– Director, Risk and Compliance

Franck Bernard holds a Master degree (DESS) from Paris Dauphine University in Banking and Financial Institutions Management. Franck worked for the BPCE Group, where he held different positions in the field of audit and risks. He also held various positions in audit, risk and compliance, for more than 15 years, in various companies, namely Euronext, Euroclear and HSBC Private Bank. Franck also worked for the French Conseil des Marchés Financiers.

Caullee Doodassen – Head of Retail Banking

Doodassen Caullee holds a Master degree with specialisation in Marketing. He has 17 years of experience in the banking sector and he started his career at South East Asia Bank Limited where he worked for 8 years as Front Liner and Branch Manager before joining Barclays Bank PLC as Relationship Manager – Premier Banking. From 2008 to 2012, he worked for Banque des Mascareignes Ltée as Branch Manager and Head of Direct Sales Team and spent two years at Bramer Banking Corporation as Area Manager/ Leader. Doodassen was back in the team of Banque des Mascareignes Ltée in 2012 as 'Animateur Commercial' and in 2016, was promoted as Head of Retail Banking.

Constant Virginie– Head of Private Banking

Virginie has 20 years of experience in the banking sector. She started her career at HSBC Mauritius and after 9 years in the operations, she moved to Standard Chartered Bank (Mauritius) Limited as Business Development Manager and Head of Corporate Affairs. After 1 year, she joined Banque des Mascareignes Ltée where she held different positions before being promoted as Head of Private Banking in 2016.

Daby Shakil - Head of Corporate Banking

Shakil Daby holds a Bsc (Hons) Double Major Law and Management from Middlesex University London, UK. He is undergoing an MSC in International Finance and Banking Law with the University of Liverpool. He worked at AOL Time Warner (UK) as Finance Manager for a year and then came back to Mauritius to join HSBC Mauritius as Bank Officer in 2006. He was promoted as Relationship Manager in 2007 and then as Associate Global Banking in 2011 before joining Banque des Mascareignes Ltée in 2016 as Head of Corporate Banking.

Dandjee Nadia - Chief Financial Officer

Nadia Danjee holds a specialisation in Accounting Audit and Consulting at HEC, School of Management. She started her career at Paridoc, France in 1993 in the Finance department and then moved to Deloitte Touche Tohmatsu as Senior Assistant Audit in 1995. She then occupied different management positions at BNP Parisbas in the Finance and IT departments. She joined Harel Mallac Group in 2010 as Operations Manager. She last held the position of Product and Business Development Manager at Harel Mallac Group before joining Banque des Mascareignes Ltée in 2012 as "Responsable – Organisation et Maitrise d'Ouvrage. In 2016, she was promoted as Chief Financial Officer at Banque des Mascareignes Ltée.

Profile of the Management Team (continued)

Houbert Valérie - Head of compliance and Internal control

Valérie Houbert holds a master in Commercial Law and a master II in International Comparative Law and Globalisation and reckons 10 years of experience in the Banking sector. She started her career as Legal and Compliance officer at Standard Chartered Bank (Mauritius) Limited in 2006 and occupied a company Secretarial role for 2 years. She was then promoted as Head of Legal, Compliance and Assurance/ CMLRO/MLRO for 3 years. Valérie was the Head of WB Legal/ Legal Counsel and CMLRO at Standard Chartered Bank (Mauritius) Limited before joining Banque des Mascareignes Ltée in 2016 as Head of compliance and Internal control.

Jahajeeah Avinash - Head of International Banking

Avinash Jahajeeah is an Actuarial & Management Sciences graduate of the University of Manitoba, Canada. Avinash has been involved in the field of pension and benefit consulting for 6 years at Mercer (part of the Marsh & McLennan Group) in Calgary and at AON in Montreal, before joining Banque des Mascareignes' International Banking department in February 2005.

Lalanne Bertrand – Director, Information System and Organisation

Bertrand holds a 'Docteur/Ingénieur en Informatique' from the University of Valenciennes. Bertrand has over 30 years of experience in the Information Systems with a specialisation in the finance sector. He has held various positions such as Project Manager, Head of Information Systems and Head of Organisation for more than 24 years. Bertrand joined Groupe BPCE in 2007 and Banque des Mascareignes Ltée in 2013.

Letimier Ingrid – Head of Marketing and Business Development

Ingrid holds a Bachelor Degree with a Double Major in Marketing and in Management. Ingrid has over 15 years' experience in Marketing, Communication and Advertising with a specialisation in the financial sector, through experience acquired at CIM Finance, Mauritius Union Assurance, and Bank One. She first joined Banque des Mascareignes in 2003 as Marketing Manager and in 2007 was appointed Head of Retail and Marketing. She joined Banque des Mascareignes again in February 2013 as Head of Marketing and Business Development.

Peerally Zubeir – Head of Human Resources Department

Zubeir holds a bachelor of social Science majored in Human Resource Management & a Postgraduate Diploma in Management (Tourism and Leisure). Zubeir has 13 years of experience in the human resources field in the Tourism sector.

Modeley Patrice – Head of Operations

Patrice holds a degree in International finance delivered by Chambre de Commerce International of Paris, with specialisation in Trade Finance. Patrice has more than 20 years of experience in the Banking sector of which he has spent almost 10 years as Head of Operations in BNPI, AfrAsia Bank and Banque des Mascareignes.

Ramkelawon Sangeetha – Head of Corporate, International and Global Business Division

Sangeetha holds a degree in Management Studies- International Finance with 13 years of experience in the Banking sector. She started her career as Banking Operations Officer/ Portfolio Manager at International Proximity in year 2000. She then moved to Deutsche Bank (Mauritius) Limited in 2003 as Deputy Head of Banking and was promoted as Assistant Vice President – Head of Institutional and Intermediary Business in 2006. She held the position of Vice President – Head of Banking – Global Transaction Banking before joining Banque des Mascareignes Ltée in 2016 as Head of Corporate, International and Global Business Division).

Profile of the Management Team (continued)**Ramlagun Neelmanee (Varuna) – Secrétaire Générale**

Varuna holds a Masters in Management from the University of Surrey. Varuna started her career in the HR field at Air Mauritius Ltd where she worked for 8 years. She then moved to Accenture and Mauritius Union Assurance Ltd subsequently. She has lead the merger between Mauritius Union Assurance Co. Ltd. and La Prudence Mauricienne Ltée on the Human Resources aspect. She joined Banque des Mascareignes Ltée in August 2012 as Head of Human Resources and was promoted as 'Secrétaire Générale' in April 2015.

Thomas Alain – Head of Treasury

Alain has over 30 years of experience in the banking and finance sector of which over 20 years as Head of Treasury. He has worked for 23 years at Banque Nationale de Paris Intercontinentale in several departments, namely: finance, foreign exchange and treasury departments. Alain joined the management team of Banque des Mascareignes Ltée in 2008.

Wong Laura– Head of Internal Audit

Laura holds a "Maîtrise en Sciences Economiques" from the University of Pantheon-Sorbonne, Paris Intercontinentale. Laura has 14 years of experience in the banking sector, having worked for "Banque Nationale de Paris". Laura joined Banque des Mascareignes in 2011 and is heading the Internal Audit department since June 2016.

	Board Committee					
	Board of Directors	Audit Committe	Risk Management Committee	Conduct Review Committee	Corporate Governance Committee	Remuneration and Nomination Committee
Numbers of meetings held as at end of December 2017	6	4	4	4	1	1

Executive	Philippe WATTECAMPS	6	4	4	4	1	1
	Cedric GIORIEUX	4	2	2	2	1	1

Non Executive	Jean-Pierre LEVAYER	4	N/a	N/a	N/a	N/a	N/a
	Sylvain FAURE	6	4	4	4	1	1
	Bernard FREMONT	A	A	A	A	A	N/a
	Anthony RUFFO	1	A	A	A	A	N/a
	Yvan DE LA PORTE DU THEIL	6	4	4	4	1	1

Role and responsibilities of the Chief Executive Officer

The Chief Executive Officer, with the active involvement and overview of the board, is responsible for the strategic direction of the Bank and must, therefore, take the initiative of setting the vision and long and short-term goals. He must ensure that an appropriate strategic planning process is in place and takes the lead in coming up with a proposed strategic plan, including the objectives to be achieved. The board will examine the plan and provide an objective assessment thereof. In addition, the conduct of business is entrusted to the Chief Executive Officer, who has the responsibility to operate within the risk appetites and policies set by the Board while adhering to regulatory requirements. To this end, various committees involving the Bank's senior officers are in place to support the Chief Executive Officer to deliberate on key issues for informed decision making.

Remuneration of Directors

The non-executive directors (external to the Group) receive a fee for each board meeting or other board committees. The remuneration packages of executive directors are determined based on a number of factors including qualifications, skills, market conditions and responsibility shouldered and is approved by the Remuneration and Nomination Committee.

Remuneration paid to the Directors is as follows:

Rs 000	2017	2016	2015
Executive Directors			
Philippe Wattecamps	11,181	16,260	14,399
Cédric Glorieux	6,111	4,209	-
Matthieu Dabout	-	8,366	12,228
Non-Executive Directors			
Jean-Pierre Levayer	-	-	-
Sylvain Faure	-	-	-
Yvan De La Porte du Theil	313	312	313
Anthony Ruffo	-	-	-

Material clauses of the Bank's constitution

Some of the main clauses of the Bank's constitution are as follows:

- The duration of the Company is unlimited.
- The Company is a private company limited by shares.
- Pre-emptive rights – Future issue of shares that rank to voting or distribution rights, or both, shall be offered to the holder of shares already issued in a manner which would, if the offer were accepted, maintain the relative voting and distribution rights of those shareholders.
- Distributions – The Board may authorise a distribution of dividend by the Bank.
- The Bank may to the extent provided by the provisions of Section 62 of the Companies Act 2001 by special resolution reduce its stated capital to such amount as it thinks fit.
- The minimum number of directors is five and the maximum number of directors is twelve.

Statement of Recruitment and Remuneration Philosophy

The Group's and Bank's recruitment and remuneration philosophy for Management and staff is based on meritocracy and ensures that:

- Full protection is provided, at the lower end of the income ladder, against cost of living increases;
- Fairness and equity are promoted throughout the organisation; and
- Opportunities are given to all employees to benefit from the financial results and development of the Bank.

Indeed, all staff members of the Bank receive an annual bonus based on the performance of the Company as well as their own rated contribution thereto. Generally, the finalisation of remuneration packages is anchored on a range of factors including qualifications, skills scarcity, past performance, potential, market norms, responsibilities shouldered and experience. With a view to attaining appropriate remuneration levels, the Bank is guided by the following considerations:

- General market conditions are regularly surveyed in order to ensure that remuneration packages are motivating and competitive;
- Superior team and Group performance is stimulated and rewarded with strong incentives; and
- Remuneration practices are regularly reviewed and restructured where necessary, providing clear differentiation between individuals' contribution to the Bank's performance.

The Group and the Bank do not have any Employee Share Scheme nor any Share Options Plans.

Ethics and organisational integrity

The board aims to provide effective and ethical leadership, and ensures that its conduct and that of management is aligned to the Group's values and to the Banking code of ethics. The Group's value and code of ethics are designed to empower employees and enable effective decision-making at all levels of the business according to defined ethical principles and values.

In ensuring that the Group operates ethically, the board uses the inclusive stakeholder model of governance that considers and promotes the interests of all the Group's stakeholders.

Shareholders' agreement

There is currently no shareholders' agreement between the Bank and its shareholders.

There is a shareholders' agreement between the Bank and its subsidiary, BM Madagascar. The shareholders' agreement describes the terms and conditions of the set-up of the subsidiary as well as future capital injections, governance structures and required technical support from the Bank.

Significant contracts

There is currently no significant contract between third parties with the Bank and its subsidiary.

Management agreements

There is currently no management agreement between third parties with the Bank and its subsidiaries.

Environment

The Bank fully subscribes to and actively supports a Clean Environment Policy. To the extent possible, unnecessary printing is avoided and information and instructions are conveyed through electronic channels.

Health and safety

The Bank is fully committed towards the Health and Safety of its employees and aspires to create a culture whereby the management of risk and prevention of harm is part of everyday business. The Bank recognises that managing Health and Safety risk is a core management activity and an important component of its values.

Social issues

The Bank has fulfilled its Corporate Social Responsibility, by supporting various initiatives during the year. Banque des Mascareignes Ltée believes in the importance of investing in the community especially in the young generations.

Donation

Banque des Mascareignes Ltée supported various associations in their projects during the year review with donations amounting to Rs200,000.

Political contributions

No political contribution was made during the year under review.

Going concern

There is no reason to believe that the Bank will not be a going concern in the year ahead.

Dividend policy

The bank has no formal dividend policy. The Board has discretion to consider and declare a dividend pay-out based on capital availability as per the Bank of Mauritius Capital Adequacy Guidelines.

Rs 000	2017	2016	2015
Audit fees payable to auditors	2,350	2,350	2,825

Related party transactions policies and practices

The Bank of Mauritius Guideline on Related Party Transactions, as revised in June 2015, is articulated around three main elements, namely:

- The role of the Board of Directors of a financial institution, its Conduct Review Committee and that of its Senior Management in establishing and implementing appropriate policies on related party transactions and administering the process for handling the transactions;
- The definition of the different types of related party transactions and the setting out of regulatory limits on credit exposures to related parties; and
- The definition of basic rules for monitoring and regulatory reporting of related party transactions and their disclosure in the Annual Report.



As a general rule, related parties are considered to be related to the Bank if they have the ability, directly or indirectly, to control the Bank or exercise significant influence over the Bank in making financial and operating decisions, or vice versa, or if they and the Bank are subject to common control. All transactions with a related party must be carried out on terms and conditions that are at least as favourable to the Bank as market terms and conditions.

Related party transactions policies and practices (continued)

Related party transactions include:

- Loans, finance leases and service agreements;
- Giving a guarantee on behalf of a related party;
- Making an investment in any securities of a related party;
- Deposits and placements; and
- Professional service contracts.

The Guideline defines 3 categories of related party transactions for the purpose of regulatory reporting and limits, namely:

- Category 1 - Directors, their close family members and any entity where any of them holds more than a 10% interest; Shareholders owning more than 10% of the financial institution's capital; Directors of any controlling shareholder; and Entities (excluding subsidiaries) where the financial institution holds more than a 10% interest.
- Category 2 - Senior Management, their close family members and any entity where any of them holds more than 10% interest; Senior Management of any controlling shareholder; and Subsidiaries of the financial institution.
- Category 3 - Senior Management, provided their exposures are within the terms and conditions of their employment contract.

Categories 3 above, as well as exposures representing less than 2% of the institution's Tier 1 capital, are excluded from regulatory limits which are set, in aggregate, at

- 60% of Tier 1 capital for category 1 and
- 150% thereof for the total of categories 1 and 2.

The Bank adheres to the Guideline on Related Party Transactions. In line with this guideline, the Board of Directors has established a Conduct Review Committee, which meets on a quarterly basis to review all related party transactions, approve Category 1, 2 and 3 related party transactions and monitor compliance with the Guideline. All related party transactions are reported to the Conduct Review Committee. The related party reporting to the Bank of Mauritius is made on a quarterly basis.

Note 36 to the Financial Statements sets out on- and off- balance sheet exposures to related parties as at 31 December 2017.

Statement of Compliance

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

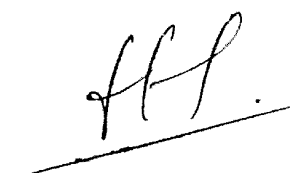
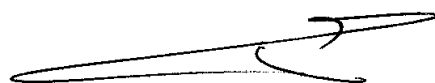
Name of Public Interest Entity: Banque des Mascareignes Ltée

Reporting Period: 31 December 2017

We, the Directors of Banque des Mascareignes Ltée, confirm that to the best of our knowledge:

- The PIE has complied with all sections of the Code, with the exception of
 - Section 3.9.1, which requires the PIE to have at least 2 independent directors; and
 - Section 3.9.4, which requires the Chairman of the Audit Committee of the Bank to be an independent director.

The reason for non-compliance is that the PIE, as a wholly owned subsidiary of Group BPCE, is allowed by the Regulator, Bank of Mauritius, to have non-executive directors instead of independent directors. The PIE is in compliance with the Banking Act and the Bank of Mauritius guidelines.


Jean-Pierre LEVAYER
Chairperson

Philippe WATTECAMPS
Chief Executive Officer

Statement of Director's Responsibility For Financial Reporting

The Bank's financial statements have been prepared by the directors, who are 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 thereunder have been applied and management has exercised its judgement and made best estimates where deemed necessary.

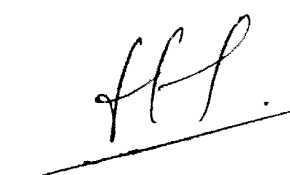
The Bank has designed and maintained its accounting systems, related internal controls and supporting procedures, to provide reasonable assurance that financial records are complete and accurate and that assets are safeguarded against loss from unauthorised use or disposal. These supporting procedures 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 Bank's policies, procedures manuals and guidelines of the Bank of Mauritius throughout the Bank.

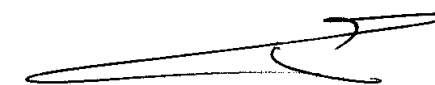
The Bank's Board of Directors, acting in part through the Audit Committee, which is comprised of non-executive directors, oversees the management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

The Bank's internal auditor, who has full and free access to the Audit Committee, conducts a well-designed program of internal audits. In addition, the Bank's compliance function maintains policies, procedures, and programs 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 Bank as it deems necessary.

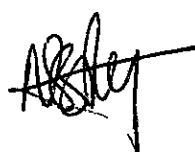
The Bank's external auditors, Mazars, have full and free access to the management and its committees to discuss the audit and matters arising therefrom, such as, their observations and fairness of financial reporting and the adequacy of internal controls.


Jean-Pierre LEVAYER
Chairperson

Sylvain FAURE
Chairperson, Audit Committee

Philippe WATTECAMPS
Chief Executive Officer

Secretary's certificate

In my capacity as Company Secretary of Banque Des Mascareignes Ltée (the "Company"), I hereby confirm that, to the best of my knowledge and belief, the Company has filed with the Registrar of Companies, for the financial year ended 31 December 2017, all such returns as are required of the Company under the Companies Act 2001.



Nashreen ROJOA

Date: 29/03/2018

FINANCIAL STATEMENTS





INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF BANQUE DES MASCAREIGNES
Report on the Audit of the Financial Statements

Our Opinion

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of Banque des Mascareignes Ltée (the "Bank") and its subsidiary (together referred as the "Group") at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and in compliance with the requirements of the Mauritius Companies Act 2001.

What have we audited

The accompanying consolidated and separate financial statements of the bank is set out on pages 57 to 134 and comprise:

- The consolidated and separate statement of financial position as at 31 December 2017;
- The consolidated and separate statement of profit and loss and other comprehensive income for the year then ended;
- The consolidated and separate statement of changes in equity for the year ended;
- The consolidated and separate statement of cash flows for the year then ended; and
- The notes, comprising significant accounting policies and other explanatory notes.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of Financial Statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act 2001, the Banking Act 2004 and regulations and guidelines of the Bank of Mauritius, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intent to liquidate the Group and/or the Bank to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's and the Bank's financial reporting process.

CHARTERED ACCOUNTANTS
4th FLOOR, UNICORN CENTRE,
FRERE FÉLIX DE VALOIS STREET PORT LOUIS MAURITIUS
TEL : +230 208 7777 • FAX : +230 208 4444
info@mazars.mu • www.mazars.mu

A FULL LIST OF PARTNERS IS AVAILABLE ON REQUEST OR AT www.mazars.mu



Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date our audit report. However, future events on conditions may cause the Group and/or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Bank to express an opinion on the financial consolidated and separate statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of audit and significant audit findings, including any deficiencies in internal control that we identify during our audit.



Report on Other Legal and Regulatory Requirements

Mauritius Companies Act 2001

The Mauritius Companies Act 2001 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- We have no relationship with, or interests in, the Bank or its subsidiary other than in our capacity as auditor of the Bank;
- We have obtained all the information and explanations we have required; and
- In our opinion, proper accounting records have been kept by the Bank as far as appears from our examination of those records.

Mauritius Banking Act 2004

The Mauritius Banking Act 2004 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

In our opinion, the consolidated and separate financial statements have been prepared on a basis consistent with that of

The preceding year and are complete, fair and properly drawn up and comply with the Mauritius Banking Act 2004 and the regulations and guidelines of the Bank of Mauritius; and

The explanations or information called for or given to us by the officers or agents of the Bank were satisfactory.

Mauritius Financial Reporting Act 2004

The directors are responsible for preparing the corporate governance report. Our responsibility is to report on the extent of compliance with the requirements of the Code of Corporate Governance (the "Code") as disclosed in the annual report on page 34 to 50 and on whether the disclosure is consistent with the requirements of the Code.

Other matters

This report, including the opinion has been prepared for and only for the Bank's member, as a body, in accordance with Section 205 of the Mauritius Companies Act 2001 and for no other purpose. To the fullest extent permitted by law, we do not, in giving this opinion, accept and assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Mazars,
Port Louis, Mauritius

Date: 09/03/2018

Udaysingh Taukoordass, FCA
Licensed by FRC

		Group		Bank		
	Note	2017 Rs 000	2016 Rs 000	2015 Rs 000	2017 Rs 000	2016 Rs 000
Interest income		679,943	757,510	790,022	653,026	735,288
Interest expense		(239,900)	(275,500)	(344,782)	(231,791)	(269,347)
Net interest income	8	440,043	482,010	445,240	421,235	465,941
Fee and commission income		138,054	139,295	146,170	102,944	116,753
Fee and commission expense		(30,298)	(40,600)	(28,088)	(28,327)	(38,978)
Net fee and commission income	9	107,756	98,695	118,082	74,617	77,775
Net trading income	10	77,814	70,597	88,817	66,910	63,148
Net income from financial instruments at fair value through profit or loss	11	-	(27,941)	(49)	(49,924)	(27,941)
Other income	12	4,533	56,976	1,708	14,493	45,166
		190,103	198,327	208,558	106,096	158,148
		630,146	680,337	653,798	527,331	624,089
Revenue						
Personnel expenses	13	(266,607)	(277,180)	(271,983)	(259,363)	(270,636)
Operating lease expenses	14	(49,830)	(48,243)	(50,402)	(44,557)	(43,500)
Depreciation and amortization		(65,380)	(55,744)	(26,490)	(63,732)	(51,124)
Other expenses	15	(203,246)	(199,357)	(175,949)	(181,719)	(160,285)
		(585,063)	(580,524)	(524,824)	(549,371)	(525,545)
Operating profit		45,083	99,813	128,974	(22,040)	98,544
Net impairment reversal / (loss) on loans and advances	19(c)	86,325	(48,565)	(81,901)	92,224	(40,551)
Profit before tax		131,408	51,248	47,073	70,184	57,993
Income tax credit / (expense)	16(i)	26,348	(1,040)	(91)	27,442	(70)
Profit for the year		157,756	50,208	46,982	97,626	57,923
Other comprehensive income:						
- Items that may be subsequently reclassified to profit or loss						
Foreign currency translation differences for foreign operations		5,280	(17,599)	(5,097)	(600)	204
Net change in fair value of available for sale financial assets		(6,391)	12,391	(21,015)	(6,391)	12,391
- Items that will not be reclassified to profit or loss						
Remeasurement of retirement benefit obligations		(8,095)	-	(4,341)	(8,095)	-
Others		64,840	-	-	-	-
Other comprehensive income		55,634	(5,208)	(30,453)	(15,086)	12,595
Total comprehensive income for the year		213,390	45,000	(16,529)	82,540	70,518
Profit attributable to:						
Equity holders		167,336	54,764	49,853	(9,580)	49,853
Non-controlling interests		(9,580)	(4,556)	(2,871)	(9,580)	(2,871)
Profit for the year		157,756	50,208	46,982	97,626	57,923
Total comprehensive income attributable to:						
Equity holders		222,970	49,556	19,400	(9,580)	49,556
Non-controlling interest		(9,580)	(4,556)	(2,871)	(9,580)	(2,871)
Total comprehensive income for the year		213,390	45,000	16,529	82,540	70,518

The notes on pages 63 to 134 form an integral part of these consolidated and separate financial statements.

Consolidated and separate statements of financial position

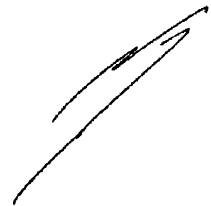
For the year ended 31 December 2017

			Group			Bank	
	Note	2017 Rs 000	2016 Rs 000	2015 Rs 000	2017 Rs 000	2016 Rs 000	2015 Rs 000
ASSETS							
Cash and cash equivalents	17	1,772,246	6,856,475	3,466,895	1,598,593	6,790,496	3,345,550
Loans and advances to banks	18	240,030	645,760	715,800	240,030	645,760	715,800
Loans and advances to customers	19	11,747,721	11,584,758	15,582,847	11,618,639	11,496,362	15,453,646
Investment securities	20	2,503,659	1,835,894	1,491,030	2,426,590	1,746,350	1,438,119
Investment in subsidiary	21	-	-	-	-	189,706	190,201
Property, plant and equipment	22	59,050	69,882	46,132	50,340	63,579	44,546
Goodwill and Intangible assets	23	117,098	210,063	151,136	115,351	132,900	73,902
Deferred tax assets	16(ii)	204,294	175,807	179,916	204,294	175,080	178,264
Other assets	24	901,201	920,561	959,985	860,902	900,549	918,656
Total assets		17,545,299	22,299,200	22,593,741	17,114,739	22,140,782	22,358,684
LIABILITIES							
Deposits from banks	25	16	1,209	-	-	1,209	-
Deposits from customers	26	11,577,272	15,589,446	16,658,055	11,231,868	15,399,339	16,353,446
Borrowed funds	27	3,151,846	4,117,034	3,339,829	3,151,778	4,117,034	3,339,829
Derivative financial instruments	28	-	2,284	170	-	2,284	170
Subordinated liabilities	29	202,470	274,283	528,737	202,470	274,283	528,737
Current tax liabilities	16(iii)	1,002	1,273	274	688	1,049	-
Other liabilities	30	407,859	322,227	348,818	400,673	300,862	357,299
Total liabilities		15,340,465	20,307,756	20,875,883	14,987,477	20,096,060	20,579,481
Equity							
Share capital	31	1,944,015	1,944,015	1,749,016	1,944,015	1,944,015	1,749,016
Retained earnings		77,903	(145,250)	(223,399)	35,916	(63,374)	(121,299)
Reserves		161,499	172,369	177,577	147,331	164,081	151,486
Total equity attributable to the equity holders of the Bank							
		2,183,417	1,971,134	1,703,194	2,127,262	2,044,722	1,779,203
Non-controlling interests		21,417	20,310	14,664	-	-	-
Total equity		2,204,834	1,991,444	1,717,858	2,127,262	2,044,722	1,779,203
Total liabilities and equity		17,545,299	22,299,200	22,593,741	17,114,739	22,140,782	22,358,684

These financial statements were approved for issue by the Board of Directors on the 9th March 2018.



Jean-Pierre LEVAYER
Chairperson



Sylvain FAURE
Chairperson, Audit Committee



Philippe WATTECAMPS
Chief Executive Officer

Consolidated and separate statements of change in equity

For the year ended 31 December 2017

Group	Attributable to equity holders of the Bank								
		Reserves							
	Share capital	Statutory reserve	General banking reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance at 01 January 2015	1,749,016	83,372	28,709	31,929	59,679	(268,911)	1,683,794	14,958	1,698,752
Total comprehensive income									
Profit for the year	-	-	-	-	-	49,853	49,853	(2,871)	46,982
Other comprehensive income for the year	-	-	-	(21,015)	(5,097)	(4,341)	(30,453)		(30,453)
Total comprehensive income / (loss) for the year	-	-	-	(21,015)	(5,097)	45,512	19,400	(2,871)	16,529
Transactions with owners of the Bank									
Issue of shares	-	-	-	-	-	-	-	2,577	2,577
Balance at 31 December 2015	1,749,016	83,372	28,709	10,914	54,582	(223,399)	1,703,194	14,664	1,717,858
Balance at 01 January 2016	1,749,016	83,372	28,709	10,914	54,582	(223,399)	1,703,194	14,664	1,717,858
Total comprehensive income									
Profit for the year	-	-	-	-	-	50,208	50,208	(4,556)	45,652
Other comprehensive income for the year	-	-	-	12,391	(17,599)	27,941	22,733		22,733
Total comprehensive income / (loss) for the year	-	-	-	12,391	(17,599)	78,149	72,941	(4,556)	68,385
Transactions with owners of the Bank									
Issue of shares	194,999	-	-	-	-	-	194,999	10,202	205,201
Balance at 31 December 2016	1,944,015	83,372	28,709	23,305	36,983	(145,250)	1,971,134	20,310	1,991,444

The notes on pages 63 to 134 form an integral part of these consolidated and separate financial statements.

Consolidated and separate statements of change in equity

For the year ended 31 December 2017

Group	Attributable to equity holders of the Bank							
	Reserves					Retained earnings	Total	Non-controlling interest
	Share capital	Statutory reserve	General banking reserve	Fair value reserve	Foreign currency translation reserve			
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance at 01 January 2017	1,944,015	83,372	28,709	23,305	36,983	(145,250)	1,971,134	20,310
Total comprehensive income								
Profit for the year	-	-	-	-	-	157,756	157,756	1,107
Transfer from general reserve	-	-	(28,709)	-	-	28,709	-	-
Transfer to statutory reserve	-	18,950	-	-	-	(18,950)	-	-
Other comprehensive income for the year	-	-	-	(6,391)	5,280	55,638	54,527	-
Total comprehensive income / (loss) for the year	-	18,950	(28,709)	(6,391)	5,280	223,153	212,283	1,107
Transactions with owners of the Bank								
Issue of shares	-	-	-	-	-	-	-	-
Balance at 31 December 2017	1,944,015	102,322	-	16,914	42,263	77,903	2,183,417	21,417
							2,204,834	

The notes on pages 63 to 134 form an integral part of these consolidated and separate financial statements.

Consolidated and separate statements of change in equity

For the year ended 31 December 2017

Bank	Share capital	Statutory reserve	General banking reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance at 01 January 2015	1,749,016	83,372	28,709	31,929	30,161	(162,434)	1,760,753
Total comprehensive income							
Profit for the year	-	-	-	-	-	45,476	45,476
Other comprehensive loss for the year	-	-	-	(21,015)	(1,670)	(4,341)	(27,026)
Total comprehensive income for the year	-	-	-	(21,015)	(1,670)	41,135	18,450
Transactions with owners of the Bank							
Issue of shares	-	-	-	-	-	-	-
Total contributions and distributions	-	-	-	-	-	-	-
At 31 December 2015	1,749,016	83,372	28,709	10,914	28,491	(121,299)	1,779,203
Balance at 01 January 2016	1,749,016	83,372	28,709	10,914	28,491	(121,299)	1,779,203
Total comprehensive income							
Profit for the year						57,925	57,925
Other comprehensive income for the year				12,391	204	12,595	12,595
Total comprehensive income for the year	-	-	-	12,391	204	57,925	70,520
Transactions with owners of the Bank							
Issue of shares	-	-	-	-	-	-	-
194,999	-	-	-	-	-	-	194,999
Total contributions and distributions	194,999	-	-	-	-	-	194,999
At 31 December 2016	1,944,015	83,372	28,709	23,305	28,695	(63,374)	2,044,722
Balance at 01 January 2017	1,944,015	83,372	28,709	23,305	28,695	(63,374)	2,044,722
Total comprehensive income							
Profit for the year	-	-	(28,709)	-	-	97,626	97,626
Transfer from general reserve	-	18,950	-	-	-	28,709	-
Transfer to statutory reserve	-	-	-	-	-	(18,950)	-
Other comprehensive income for the year	-	-	-	(6,391)	(600)	(8,095)	(15,086)
Total comprehensive income for the year	-	18,950	(28,709)	(6,391)	(600)	99,290	82,540
Transactions with owners of the Bank							
Issue of shares	-	-	-	-	-	-	-
Total contributions and distributions	-	-	-	-	-	-	-
At 31 December 2017	1,944,015	102,322	-	16,914	28,095	35,916	2,127,262

The notes on pages 63 to 134 form an integral part of these consolidated and separate financial statements.

	Note	2017 Rs 000	Group 2016 Rs 000	2015 Rs 000	2017 Rs 000	Bank 2016 Rs 000	2015 Rs 000
Cash flows from operating activities							
Profit before tax		131,408	51,248	47,073	70,184	57,993	44,467
Adjustments for:							
Depreciation and amortisation		65,380	55,744	26,490	63,732	51,124	21,812
Net impairment loss on loans and advances		(86,326)	48,565	81,901	(92,224)	40,551	77,426
Net income from financial instruments at fair value through profit and loss		-	-	(49)	-	-	(49)
Profit on sale of equipment		-	-	(615)	-	-	(615)
		110,462	155,557	154,800	41,692	149,668	143,041
Changes in:							
Loans and advances to banks		405,730	70,040	(193,616)	405,730	70,041	(193,616)
Loans and advances to customers		(27,366)	3,998,090	29,502	20,856	3,864,593	82,047
Other assets		19,360	39,424	(116,878)	39,647	18,108	(88,631)
Deposits from banks		(1,193)	(1,512,051)	1,038,735	(1,209)	(1,512,051)	1,038,735
Deposits from customers		(4,012,175)	(1,068,608)	2,819,208	(4,167,471)	(954,107)	2,773,498
Other liabilities and provisions		(12,863)	(24,477)	(101,773)	97,527	64,536	(112,419)
		(3,518,045)	1,657,975	3,629,978	(3,563,228)	1,700,788	3,642,655
Income taxes paid		(509)	(999)	(19,715)	(226)	-	(19,531)
Net cash (used in)/ generated from operating activities		(3,518,554)	1,656,976	3,610,263	(3,563,454)	1,700,788	3,623,124
Cash flows from investing activities							
Acquisition of investment securities		(2,672,774)	(2,324,322)	(1,272,743)	(2,236,900)	(1,766,900)	(1,002,165)
Proceeds from sale of investment securities		2,094,163	2,001,734	1,744,619	1,638,400	1,477,000	1,510,100
Acquisition of property and equipment		(18,020)	(52,634)	(23,319)	(15,565)	(44,541)	(23,016)
Proceeds from sale of property and equipment		-	1,571	615	-	1,572	615
Acquisition of intangible assets		(9,186)	(86,016)	(71,898)	(7,863)	(84,567)	(70,569)
Net cash (used in)/generated from investing activities		(605,817)	(459,667)	377,274	(621,928)	(417,436)	414,965
Cash flows from financing activities							
Repayment of subordinated liabilities		(57,555)	(247,663)	(19,853)	(57,555)	(247,663)	(19,853)
Repayment of borrowed funds		(965,188)	2,290,465	(2,189,161)	(965,256)	2,290,465	(2,189,161)
Proceeds from issue of shares		-	194,999	-	-	194,999	-
Net cash (used in)/generated from financing activities		(1,022,743)	2,237,801	(2,209,014)	(1,022,811)	2,237,801	(2,209,014)
Net (decrease)/increase in cash and cash equivalents		(5,147,114)	3,435,110	1,778,523	(5,208,193)	3,521,153	1,829,075
Cash and cash equivalents at 01 January		6,856,475	3,466,895	1,578,864	6,790,496	3,345,550	1,440,115
Effect of exchange rate fluctuations on cash and cash equivalents held		62,885	(45,530)	109,508	16,290	(76,207)	76,360
Cash and cash equivalents at 31 December	17	1,772,246	6,856,475	3,466,895	1,598,593	6,790,496	3,345,550

The notes on pages 63 to 134 form an integral part of these consolidated and separate financial statements.

1. Reporting entity

Banque des Mascareignes Ltée (the 'Bank') is a private company incorporated on the 27th June 2003 and domiciled in Mauritius. The Bank holds a banking licence issued by the Bank of Mauritius on the 8th January 2004. The Bank's registered office is at 9th Floor, Maeva Tower, Corner Silicon Avenue and Bank Street, CyberCity, Ebène, Mauritius.

These consolidated and separate financial statements comprise the Bank and its subsidiary (collectively the 'Group'). The main activities of the Group and the Bank consist of providing a whole range of banking and financial services.

2. Basis of preparation

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in compliance with the requirements of the Mauritius Companies Act and instructions, Guidelines and Guidance Notes issued by the Bank of Mauritius.

They were authorised for issue by the Bank's board of directors on the 09 March 2018.

3. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

These policies have been consistently applied to all years presented, unless otherwise stated:

Standards, amendments to published Standards and interpretations effective in the reporting period.

The following standards, amendments to published standards and interpretations were effective and applicable to the Group and the Bank in the reporting period:

Amendments to published standards (effective as from 01 January 2017):

- Amendments to IAS 12 on recognition of deferred tax assets for unrealised losses;
- Amendments to IAS 7 on Disclosure Initiative.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

Standards, amendments to published Standards and interpretations issued but not yet effective

Certain standards, amendments to published standards and interpretations issued but not yet effective for accounting periods beginning after 01 January 2017 and which the Group has not adopted.

At the reporting date of these financial statements, the following were in issue but not yet effective:

- IFRS 2 Share-based payment Amendment on clarifying share-based payment transactions – effective 01 January 2018;
- IFRS 9 Financial Instruments – effective 01 January 2018;
- IFRS 15 Revenue from contracts with customers – effective 01 January 2018;
- IFRS 16 Leases – effective 01 January 2019;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration – effective 01 January 2018;
- IFRIC 23 Uncertainty over Income Tax Treatments – effective 01 January 2019; and
- Annual Improvements 2014 – 2016 Cycle – effective 01 January 2018.

Where relevant, the Group and the Bank are still evaluating the effect of these Standards, amendments to published Standards and interpretations issued but not yet effective on the financial statements.

3. Significant accounting policies (Continued)*Standards, amendments to published Standards and interpretations issued but not yet effective (Continued)**IFRS 9 Financial Instruments – effective 01 January 2018*

IFRS 9 is of particular importance to the Group and the Bank. In July 2014, the IASB issued IFRS 9 Financial Instruments, which is the comprehensive standard to replace IAS 39 Financial Instruments: Recognition and Measurement and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise. For example, under IFRS 9, embedded derivatives are not separated from host financial assets and equity securities are measured at FVPL or, in limited circumstances, at FVOCI. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair valued compared with IAS 39. The classification of financial liabilities is essentially unchanged. For certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Impairment

The impairment requirements apply to financial assets measured at amortised cost, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-months ECL is recognised are considered to be "stage 1" financial assets which are considered to have experienced a significant increase in credit risk are in "stage 2" and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in "stage 3".

The assessment of whether credit risk has increased significantly since initial recognition is performed at the end of each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instruments, rather than by considering an increase in ECL.

The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

3. Significant accounting policies (Continued)*Standards, amendments to published Standards and interpretations issued but not yet effective (Continued)**IFRS 9 Financial Instruments – effective 01 January 2018 (Continued)***Hedge accounting**

The new hedge accounting rules will align the accounting for hedge instruments more closely with the bank's risk management practices. As a general rule, more hedge relationship might be eligible for hedge accounting as the Standard introduces a more principles-based approach.

Transition

The classification and measurement, and impairment requirements are applied retrospectively by adjusting the opening retained earnings at the date of initial application, with no requirement to restate comparative periods.

The mandatory application date for the standard as a whole is 01 January 2018, but it is possible to apply the revised presentation for certain liabilities at fair value from an earlier date.

4. Functional and presentation currency

These consolidated and separate financial statements are prepared in Mauritian rupees (Rs), which is the basic functional and presentation currency. Except when otherwise indicated, financial information presented in Mauritian rupees has been rounded to the nearest thousand.

5. Use of judgements and estimates

In the process of applying the Group's and the Bank's accounting policies, management has exercised its judgement and made assumptions and estimates in determining the amounts recognised in the financial statements. Actual results may differ from these estimates.

a. Judgements

Information about judgements made in applying accounting policies which have the most significant effect on the amounts recognised in the financial statements:

Determination of control over investees

Management applies its judgement to determine whether the control indicators set out in note 5(a)(iii) indicate that the Group controls an investee Company.

Specifically, the Group controls an investee if and only if the Group has:

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

5. Use of judgements and estimates (Continued)**b. Assumptions and estimation uncertainties**

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

- **Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where observable data is not available, a degree of judgement is required in establishing fair values.

The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Further details in respect of the fair valuation of financial instruments are included in Note 36(f) to the financial statements.

- **Employee benefits**

The present value of the retirement benefits obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost / income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

Other key assumptions for retirement benefits obligations are based in part on current market conditions.

Additional information is disclosed in Note 13

The value of the retirement benefits obligations is based on the report submitted by an independent actuarial firm on an annual basis.

- **Deferred tax**

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized and/or recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Additional information is disclosed in Note 16.

5. Use of judgements and estimates (Continued)**b. Assumptions and estimation uncertainties (Continued)**

- **Allowance for Impairment on loans and advances**

The Group and the Bank review individually all loans and advances with past dues at each reporting date to assess whether an allowance for impairment should be recorded in the statements of profit or loss and other comprehensive income.

In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group and the Bank make judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired are assessed together with all "neither past due nor impaired" loans and advances. This is to determine the level of General Provisions and Macro Prudential Provisions, in line with the Bank of Mauritius Guidelines.

The allowance for impairment on loans and advances is disclosed in more detail in Note 19.

- **Assets lives and residual values**

Property and equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Consideration is also given to the extent of current profits and losses on the disposal of similar assets.

- **Depreciation policies**

Property and equipment are depreciated to their residual values over their estimated useful lives. The residual value of an asset is the estimated net amount that the Group would currently obtain from the disposal of the asset, if the asset were already of the age and in condition expected at the end of its useful life.

6. Basis of measurement

The consolidated and separate financial statements have been prepared on a historical cost basis, except for available-for-sale investments and financial instruments at fair value through profit or loss, all of which have been measured at fair value.

7. Other significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of consolidation*i. Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, that is, when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Business combinations are accounted for using the acquisition method as at the acquisition date, that is, when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

ii. Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

In the Bank's separate financial statement, investments in subsidiary is shown at cost and where the recoverable amount of the investment is less than its carrying amount, the investment is written down immediately to its recoverable amount and the impairment loss is recognised as an expense in the statement of profit or loss and other comprehensive income. On disposal of the investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of comprehensive income.

7. Other significant accounting policies (Continued)**a. Basis of consolidation (Continued)***iv. Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

v. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency*i. Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of available for sale equity instruments are recognised in OCI.

ii. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Mauritian Rupee at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Mauritian Rupee at spot exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in OCI, and accumulated in the translation reserve within equity.

7. Other significant accounting policies (Continued)**c. Interest income and expenses**

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss and OCI include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- Interest on available-for-sale investment securities calculated on an effective interest basis.

d. Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

e. Net trading income

Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised foreign exchange differences.

f. Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at fair value through profit or loss relates to financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes.

g. Revenue

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

h. Expenses

Expenses are accounted for in the statement of profit or loss and other comprehensive income on an accrual basis.

i. Leases**i. Lease payments - Lessee**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

7. Other significant accounting policies (Continued)**i. Leases (Continued)****ii. Lease assets - Lessee**

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

j. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

ii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognized to the extent it has become probable that future taxable profits will be available against which they can be used.

7. Other significant accounting policies (Continued)**j. Income tax (Continued)***ii. Deferred tax (Continued)*

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

iii. Tax exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

k. Financial assets and financial liabilities*i. Recognition*

The Group initially recognises loans and advances, deposits, borrowed funds and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

*ii. Classification***Financial assets**

The Group classifies its financial assets into one of the following categories:

- Loans and receivables
- Held to maturity
- Available-for-sale; and
- At fair value through profit or loss, and within this category as:
 - Held for trading; or
 - Designated at fair value through profit or loss

7. Other significant accounting policies (Continued)**k. Financial assets and financial liabilities (Continued)***ii. Classification (Continued)***Financial liabilities**

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

*iii. Derecognition***Financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Group of similar transactions such as in the Group's trading activity.

7. Other significant accounting policies (Continued)**k. Financial assets and financial liabilities (Continued)****v. Amortised cost measurement**

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

vi. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

7. Other significant accounting policies (Continued)**k. Financial assets and financial liabilities (Continued)****vii. Identification and measurement of impairment**

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a Group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- Significant financial difficulty of the borrower or issuer;
- Default or delinquency by a borrower;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; and
- Indications that a borrower or issuer will enter bankruptcy.
- The disappearance of an active market for a security; or
- Observable data relating to a Group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by Grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value.

The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial assets.

7. Other significant accounting policies (Continued)**k. Financial assets and financial liabilities (Continued)****vii. Identification and measurement of impairment (Continued)**

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in OCI.

The Group writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Risk determines that there is no realistic prospect of recovery.

viii. Designation at fair value through profit or loss

The Group has designated financial assets and financial liabilities at fair value through profit or loss in either of the following circumstances.

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 33 provides details of each class of financial asset or financial liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

l. Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

7. Other significant accounting policies (Continued)**m. Loans and advances**

'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances originated by the Bank by providing money directly to the borrower (at draw-down) are categorised as loans and receivables by the Bank and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate these loans as is determinable by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to borrowers.

n. Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available-for-sale.

i. Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- Sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

ii. Fair value through profit or loss

The Group designates some investment securities at fair value, with fair value changes recognised immediately in profit or loss.

iii. Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

7. Other significant accounting policies (Continued)**n. Investment securities (Continued)****iii. Available-for-sale (Continued)**

Other fair value changes, other than impairment losses are recognised in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

o. Property and equipment**i. Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

ii. Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

Improvement to leasehold property	5 years
Computer equipment	3 to 5 years
Office equipment	3 to 5 years
Motor vehicles	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

7. Other significant accounting policies (Continued)**p. Goodwill and Intangible assets****i. Goodwill**

Goodwill that arises on the acquisition of subsidiaries is presented separately on the Statement of Financial Position. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

ii. Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

q. Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

r. Deposits, borrowed funds and subordinated liabilities

Deposits, borrowed funds and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, borrowed funds and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

7. Other significant accounting policies (Continued)**s. Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

i. Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

ii. Bank levies

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

t. Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are recognized as off balance sheet liabilities and commitments respectively.

u. Employee benefits*i. Defined benefit plan*

Contributions are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

7. Other significant accounting policies (Continued)**u. Employee benefits (Continued)***i. Defined benefit plan (Continued)*

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

ii. Other long term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

iii. Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

v. Share capital and reserves

The Group classifies instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

w. Segment reporting

Segment results that are reported to the Group's CEO include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's headquarters), head office expenses and tax assets and liabilities.

8. Net interest income

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Interest income						
Cash and cash equivalents	1,143	794	8,540	1,142	794	6,007
Loans and advances to banks	40,415	44,913	9,986	40,379	44,913	9,986
Loans and advances to customers	555,787	641,179	691,215	536,024	623,242	669,739
Investment securities	82,536	69,549	75,460	75,419	65,264	70,933
Other	62	1,075	4,821	62	1,075	4,821
Total interest income	679,943	757,510	790,022	653,026	735,288	761,486
Interest expense						
Deposits from banks	(637)	(16,138)	(1,727)	(637)	(16,138)	(1,727)
Deposits from customers	(216,103)	(248,303)	(326,126)	(208,024)	(242,150)	(318,809)
Borrowed funds	(14,205)	(381)	(7,382)	(14,174)	(381)	(7,367)
Investment securities	(1,872)	(988)	-	(1,873)	(988)	-
Subordinated liabilities	(7,083)	(9,690)	(9,547)	(7,083)	(9,690)	(9,547)
Total interest expense	(239,900)	(275,500)	(344,782)	(231,791)	(269,347)	(337,450)
Net interest income	440,043	482,010	445,240	421,235	465,941	424,036
Interest income relating to impaired financial assets	5,055	9,230	15,728	5,055	9,230	15,728

8. Net interest income (Continued)

	Bank		
	2017	2016	2015
	Rs 000	Rs 000	Rs 000
Segment A			
Interest income			
Cash and cash equivalents	1,142	-	479
Loans and advances to banks	267	-	-
Loans and advances to customers	445,745	379,139	479,282
Investment securities	75,419	65,264	70,932
Other	62	860	2,862
Total interest income	522,635	445,263	553,555
Segment B			
Interest income			
Cash and cash equivalents	-	794	5,528
Loans and advances to banks	40,112	44,914	9,987
Loans and advances to customers	90,279	244,102	190,457
Other	-	215	1,959
Total interest income	130,391	290,025	207,931
Total interest income from segment A and segment B	653,026	735,288	761,486
Segment A			
Interest expense			
Deposits from banks	(10)	(163)	-
Deposits from customers	(144,520)	(139,855)	(243,176)
Borrowed funds	-	-	(99)
Investment securities	(1,873)	(988)	-
Total interest expense	(146,403)	(141,006)	(243,275)
Segment B			
Interest expense			
Deposits from banks	(637)	(15,975)	(438)
Deposits from customers	(63,504)	(102,295)	(76,921)
Borrowed funds	(14,164)	(381)	(7,269)
Subordinated liabilities	(7,083)	(9,690)	(9,547)
Total interest expense	(85,388)	(128,341)	(94,175)
Total interest expense from segment A and segment B	(231,791)	(269,347)	(337,450)

9. Net fee and commission income

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Fee and commission income						
Customer and credit related fees	138,054	139,295	146,170	102,944	116,752	120,788
Fee and commission expense						
Interbank transaction fees	(1,854)	(2,058)	(5,606)	(1,854)	(2,058)	(4,357)
Other	(28,444)	(38,542)	(22,482)	(26,473)	(36,919)	(21,810)
Total fee and commission expense	(30,298)	(40,600)	(28,088)	(28,327)	(38,978)	(26,167)
Net fee and commission income	107,756	98,695	118,082	74,617	77,774	94,621

	Bank		
	2017	2016	2015
	Rs 000	Rs 000	Rs 000
Segment A			
Fee and commission income			
Customer and credit related fees	82,692	65,382	68,173

Segment B			
Fee and commission income			
Customer and credit related fees	20,252	51,371	52,615
Total fee and commission income from segment A and segment B	102,944	116,753	120,788

Segment A			
Fee and commission expense			
Interbank transaction fees	(1,854)	(1,050)	(2,359)
Other	(25,511)	(18,829)	(11,096)
Total fee and commission expense	(27,365)	(19,879)	(13,455)

Segment B			
Fee and commission expense			
Interbank transaction fees	-	(1,008)	(1,999)
Other	(962)	(18,090)	(10,713)
Total fee and commission expense	(962)	(19,098)	(12,712)
Total fee and commission expense from segment A and segment B	(28,327)	(38,977)	(26,167)

10. Net trading income

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Profit from dealings in foreign currencies	77,814	70,597	88,817	66,910	63,148	76,430

Segment A			
Foreign Exchange	58,883	51,946	70,389

Segment B			
Foreign Exchange	8,027	11,202	6,041

11. Net income from financial instruments at fair value through profit or loss

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Net fair value movement in financial assets at fair value through profit or loss	-	(27,941)	-	(189,706)	(27,941)	-
Indemnification received from BPCE International (Note 21)	-	-	0	139,782	-	-
Government bonds/Treasury Bills (Segment A)	-	-	(49)	-	-	(49)
	-	(27,941)	(49)	(49,924)	(27,941)	(49)

12. Other income

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Other Income	4,533	56,976	1,708	14,493	45,166	11,510

Segment A			
Other Income	3,093	3,062	1,100

Segment B			
Other Income	11,400	42,104	10,410

Total other income	14,493	45,166	11,510
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13. Personnel expenses

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Wages and salaries	237,897	235,862	230,040	232,032	230,549	224,627
Compulsory social security contributions	7,847	6,379	6,857	6,468	5,683	6,160
Contributions pension plan	14,397	23,416	21,850	14,397	23,416	21,850
Increase in liability for pension plans	-	-	-	-	-	-
Other	6,466	11,523	13,236	6,466	10,988	12,563
	266,607	277,180	271,983	259,363	270,636	265,200

Employee Benefit Liabilities

	Group and Bank		
	2017	2016	2015
	Rs 000	Rs 000	Rs 000
Reconciliation of present value of defined benefit obligation			
Balance at 1 January	20,145	19,063	9,878
Included in profit or loss			
Current service cost	2,335	1,636	4,213
Past service cost	-	-	-
Interest expense	2,923	2,647	1,926
	5,258	4,283	6,139
Included in OCI			
Remeasurements loss (gain):			
- Actuarial loss (gain)	8,748	-	-
arising from:			
- Demographic assumption	-	-	-
- experience adjustment	-	(2,918)	4,341
	8,748	(2,918)	4,341
Other			
Change in estimates	-	-	-
Benefit paid	-	(283)	(1,295)
	-	(283)	(1,295)
Balance at 31 December	34,151	20,145	19,063

13. Personnel expenses (Continued)**Principal actuarial assumptions at the end of the year**

	Group and Bank		
	2017	2016	2015
	Rs 000	Rs 000	Rs 000
Discount rate	7.81%	7.50%	7.50%
Rate of salary increases	5.00%	6.00%	6.00%
Retirement Age	65	65	65

Sensitivity analysis on defined benefit obligation at end of period

	2017	2016	2015
	Rs 000	Rs 000	Rs 000
Increase due to 1% increase in discount rate	6,816	18,836	16,165
Decrease due to a 1% decrease in discount rate	21,358	21,858	22,685

The above sensitivity analysis has been carried out by recalculating the present value of obligation at end of period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation.

Future cash flows

The funding policy requires that the Bank makes provision for all the required contributions, as determined by an Actuarial report.

Expected employer contribution for the next year Rs 5.4 million

Weighted average duration of the defined benefit obligation 17.5 years

Note: Employee benefits obligations have been provided for based on the report from Orpere, an insurance consultant and broker operating in France.

Fund Investment

The contributions under the Bank's Pension Scheme are invested through Unit Linked Fund as per details below:

- 36% in Local Equity;
- 46% in Local Fixed Income;
- 14% in Foreign Equity;
- 2% in Property;
- 2% in Cash & Cash Equivalents.

These defined benefit plans, through the Fund Investment expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

14. Operating leases expenses

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Operating lease rentals	49,830	48,243	50,402	44,557	43,500	45,599

The Group and the Bank lease a number of branches and office premises under operating leases. The leases typically run for periods of 3 to 5 years, with the lease of the Corporate office being for 10 years. There are no restrictions placed upon the lessee by entering the leases.

At 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows.

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Less than one year	43,742	39,189	41,590	43,694	39,151	38,646
Between one and five years	136,486	142,894	133,059	136,334	142,772	125,143
More than five years	21,442	42,937	90,934	21,436	42,932	90,934
	201,670	225,020	265,583	201,464	224,855	254,723

15. Other expenses

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Software licensing and other IT costs	63,446	70,615	29,476	55,136	60,365	26,263
Professional fees	9,324	3,109	3,594	7,940	2,784	3,249
Other	130,476	125,633	142,879	118,643	97,136	122,532
	203,246	199,357	175,949	181,719	160,285	152,044

16. Income taxes**i. Income taxes****a. Amounts recognised in profit or loss**

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Current tax (expense)/credit	(810)	699	(3,578)	1,124	927	3,304
Deferred tax movement	(27,786)	(1,739)	3,487	(28,566)	(997)	(4,313)
Total income tax (expense)/credit	(28,596)	(1,040)	(91)	(27,442)	(70)	1,009

Segment A

Deferred tax movement	(31,728)	4,143	(4,157)
Income tax expense/(credit)	(31,728)	4,143	(4,157)

Segment B

Current tax (expense)/ credit	1,124	927	3,304
Deferred tax movement	3,162	(5,140)	(156)
Income tax (credit) / expense	4,286	(4,213)	3,148

Total income tax expense/(credit)	(27,442)	(70)	(1,009)
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b. Reconciliation of income taxes

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Profit before tax	131,408	51,249	47,073	70,184	57,993	44,467
Tax at statutory tax rate	10,842	7,729	6,944	10,528	8,699	6,670
Foreign tax credit	(8,529)	(10,036)	(9,155)	(8,529)	(10,036)	(9,155)
Non-deductible expenses	1,520	86	588	1,520	86	588
Corporate social responsibility	(18)	(9)	(570)	(18)	(9)	(570)
Special levy on banks	672	(470)	869	672	(470)	869
Changes in estimates relating to prior years	-	1,049	2,158	-	1,049	2,158
Other	(30,835)	611	(743)	(31,615)	611	(1,569)
Total income tax (credit) / expense	(26,348)	(1,040)	91	(27,442)	(70)	(1,009)

16. Income taxes (continued)**b. Reconciliation of income taxes (Continued)**

Segment A			
Loss before tax	(895)	(25,368)	(31,823)
Tax at statutory tax rate	(134)	(3,528)	(4,773)
Non-deductible expenses	1,444	11	500
Corporate social responsibility	(18)	(9)	(570)
Special levy on banks	-	(470)	-
	-	(151)	2,255
Changes in estimates relating to prior years	(33,020)	-	(1,569)
Other	(31,728)	(4,147)	(4,157)
Total income tax expense			
Segment B			
Profit before tax	71,079	83,361	76,290
Tax at statutory tax rate	10,662	12,545	11,444
Foreign tax credit	(8,529)	(10,036)	(9,155)
Non-deductible expenses	76	75	88
Special levy on banks	672	-	869
Prior year adjustment	-	1,200	(98)
Other	1,405	293	-
Total income tax expense	4,286	4,077	3,148

Corporate Social Responsibility fund

The Corporate Social Responsibility ('CSR') was legislated by the Government of Mauritius in July 2009. In terms of the legislation, the Bank is required to allocate 2% of its chargeable income Segment A ('Residents') of the preceding financial year to Government-approved CSR projects.

Special levy

Special levy on banks was legislated by the Government of Mauritius in 2007, as amended by the Finance Act 2009. Every bank shall in every year be liable to pay to the Mauritius tax authorities, a special levy calculated at 3.4% of its book profit and 1% of its operating income, with regards to segment B whereas for segment A the special levy is 10% of chargeable income derived during the previous year. Operating income means the sum of net interest income and other income before deducting non-interest expense.

16. Income taxes (Continued)**ii. Movement in Deferred tax balances**

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
At 01 January	175,807	179,916	172,843	175,080	178,264	170,243
Credited/(Charged) to equity	648	(2,370)	3,708	648	(4,181)	3,708
Charged to profit or loss	27,839	(1,739)	3,487	28,566	997	4,313
At 31 December	204,294	175,807	180,038	204,294	175,080	178,264
Deferred tax assets:						
Allowance for loan losses	82,652	142,908	143,048	82,652	142,908	140,448
Other	128,181	47,400	37,132	128,181	46,673	38,080
	210,833	190,308	180,180	210,833	189,581	178,528
Deferred tax liabilities:						
Accelerated capital allowances	(3,510)	(9,067)	(230)	(3,510)	(9,067)	(230)
Fair value gains	(34)	(34)	(34)	(34)	(34)	(34)
Other	(2,995)	(5,400)		(2,995)	(5,400)	-
	(6,539)	(14,501)	(264)	(6,539)	(14,501)	(264)
Net deferred tax assets	204,294	175,807	179,916	204,294	175,080	178,264

Bank	Segment A	Segment B	Total
	Rs 000	Rs 000	Rs 000
2017			
Balance at 01 January	165,062	10,018	175,080
Property, Equipment and Software	2,618	354	2,972
Allowance for loan losses	(47,526)	(13,431)	(60,957)
Fair value gains	-	-	-
Other adjustments	77,284	9,915	87,199
Balance at 31 December	197,438	6,856	204,294
2016			
Balance at 01 January	160,919	17,345	178,264
Property, Equipment and Software	(8,649)	(188)	(8,837)
Allowance for loan losses	2,031	428	2,459
Fair value gains	10,610	(2,016)	8,594
Other adjustments	151	(5,551)	(5,400)
Balance at 31 December	165,062	10,018	175,080
2015			
Balance at 01 January	153,053	17,190	170,243
Property, Equipment and Software	(223)	(7)	(230)
Allowance for loan losses	(29,059)	141	(28,918)
Fair value gains	34,856	-	34,856
Other adjustments	2,292	21	2,313
Balance at 31 December	160,919	17,345	178,264

16. Income taxes (continued)**iii. Current tax liabilities**

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Current tax liabilities	1,002	1,273	274	688	1,049	-

Segment A

Current tax liabilities				-	-	-
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Segment B

Current tax liabilities				688	1,049	-
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17. Cash and cash equivalents

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash in hand	209,715	126,794	161,738	171,638	104,941	118,273
Foreign currency notes and coins	29,388	19,498	26,612	29,388	19,498	25,845
Unrestricted balances with central banks	1,339,553	719,319	533,558	1,198,561	667,798	455,900
Money market placements	6,758	5,512,821	2,210,591	6,758	5,512,821	2,210,591
Balances with banks abroad	186,832	478,043	534,396	192,248	485,438	534,941
	1,772,246	6,856,475	3,466,895	1,598,593	6,790,496	3,345,550

Segment A

Cash in hand				171,638	104,941	118,273
Foreign currency notes and coins				29,388	19,498	25,845
Unrestricted balances with central banks				1,198,561	667,798	455,900
				1,399,587	792,237	600,018

Segment B

Money market placements				6,758	5,512,821	2,210,591
Balances with banks abroad				192,248	485,438	534,941
				199,006	5,998,259	2,745,532
Total Cash and cash equivalents				1,598,593	6,790,496	3,345,550

Unrestricted balances with central bank represent amounts above the minimum cash requirements.

18. Loans and advances to banks

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Loans and advances to banks						
- In Mauritius (Segment A)	-	17,800	28,121	-	17,800	28,121
- Outside Mauritius (Segment B)	240,030	627,960	687,679	240,030	627,960	687,679
	240,030	645,760	715,800	240,030	645,760	715,800

Remaining term to maturity

Up to 3 months	-	370,012	5	-	370,012	5
Over 3 months and up to 6 months	6,994	28,544	39,967	6,994	28,544	39,967
Over 6 months and up to 12 months	30,566	30,024	40,218	30,566	30,024	40,218
Over 1 year and up to 5 years	202,470	217,180	262,110	202,470	217,180	262,110
Over 5 years	-	-	373,500	-	-	373,500
	240,030	645,760	715,800	240,030	645,760	715,800

19. Loans and advances to customers**a. Remaining term to maturity**

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Retail customers						
Mortgages	3,479,562	3,088,924	2,792,655	3,479,238	3,088,501	2,792,059
Other retail loans	506,789	755,978	731,273	499,410	741,089	721,874
Corporate customers	7,248,035	6,380,710	9,098,772	7,109,263	6,295,460	8,971,343
Entities outside Mauritius	1,251,499	2,880,089	4,384,568	1,251,498	2,878,918	4,383,285
	12,485,885	13,105,701	17,007,268	12,339,409	13,003,968	16,868,561
Less allowance for impairment	(738,164)	(1,520,943)	(1,424,421)	(720,770)	(1,507,606)	(1,414,915)
	11,747,721	11,584,758	15,582,847	11,618,639	11,496,362	15,453,646

Remaining term to maturity

Up to 3 months	5,489,680	7,039,117	7,623,805	5,363,175	6,955,944	7,502,576
Over 3 months and up to 6 months	56,528	60,520	38,491	51,060	60,291	52,108
Over 6 months and up to 12 months	19,216	419,191	157,215	18,255	416,222	156,801
Over 1 year and up to 5 years	1,225,215	1,431,231	4,662,408	1,211,673	1,415,869	4,631,727
Over 5 years	5,695,246	4,155,642	4,525,349	5,695,246	4,155,642	4,525,349
	12,485,885	13,105,701	17,007,268	12,339,409	13,003,968	16,868,561

19. Loans and advances to customers (Continued)**a. Remaining term to maturity (Continued)**

	2017	Bank	
	2017	2016	2015
	Rs 000	Rs 000	Rs 000
Segment A			
Retail customers			
Mortgages	2,916,268	2,592,812	2,329,591
Other retail loans	435,986	480,442	455,176
Corporate customers	6,162,891	5,955,805	7,481,255
	9,515,145	9,029,059	10,266,022
Less allowance for impairment losses	(604,967)	(968,251)	(868,007)
	8,910,178	8,060,808	9,398,015
Remaining term to maturity			
Up to 3 months	3,350,841	3,894,805	4,465,758
Over 3 months and up to 6 months	42,445	47,660	16,707
Over 6 months and up to 12 months	13,680	71,427	113,826
Over 1 year and up to 5 years	1,177,640	1,307,299	1,586,864
Over 5 years	4,930,539	3,707,868	4,082,867
	9,515,145	9,029,059	10,266,022
Segment B			
Retail customers			
Mortgages	562,970	495,690	462,468
Other retail loans	63,424	260,647	266,698
Corporate customers	946,372	339,656	1,490,088
Entities outside Mauritius	1,251,498	2,878,916	4,383,285
	2,824,264	3,974,909	6,602,539
Less allowance for impairment losses	(115,803)	(539,355)	(546,908)
	2,708,461	3,435,554	6,055,631
Remaining term to maturity			
Up to 3 months	2,012,334	3,061,138	3,050,554
Over 3 months and up to 6 months	8,615	12,632	21,664
Over 6 months and up to 12 months	4,575	344,795	42,976
Over 1 year and up to 5 years	34,033	108,570	3,044,863
Over 5 years	764,707	447,774	442,482
	2,824,264	3,974,909	6,602,539

19. Loans and advances to customers (Continued)**b. Credit concentration of risk by industry sectors**

	2017	Group		2017	Bank	
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Agriculture and fishing	918,339	787,914	839,897	917,460	787,062	838,751
Manufacturing	1,803,779	1,158,678	1,573,941	1,788,165	1,150,828	1,552,294
Tourism	619,590	393,821	631,833	618,858	391,949	628,559
Transport	86,104	488,627	453,639	73,896	473,984	432,821
Construction	4,098,393	3,787,679	3,561,735	4,091,316	3,779,965	3,556,326
Financial and business services	1,554,426	2,407,461	2,524,339	1,550,432	2,403,772	2,521,534
Traders	1,394,151	2,079,265	3,349,574	1,299,095	2,021,926	3,278,062
Personal	414,984	427,594	407,774	412,304	424,855	402,955
Professional	92,130	319,814	324,076	87,106	316,208	318,900
Global Business Licence holders	701,533	278,210	1,433,657	701,533	278,210	1,433,657
Others	802,456	976,638	1,906,803	799,244	975,208	1,904,702
	12,485,885	13,105,701	17,007,268	12,339,409	13,003,967	16,868,561
Segment A						
Agriculture and fishing				883,715	425,212	478,451
Manufacturing				1,187,387	498,602	713,970
Tourism				618,858	391,949	536,915
Transport				1,585	1,717	7,305
Construction				3,528,346	3,284,276	3,093,858
Financial and business services				1,157,485	1,777,778	1,817,348
Traders				1,104,409	1,552,030	2,133,976
Personal				348,880	395,434	374,837
Professional				87,106	84,983	80,30
Others				597,374	617,078	1,029,059
				9,515,145	9,029,059	10,266,022
Segment B						
Agriculture and fishing				33,745	361,850	360,300
Manufacturing				600,778	652,226	838,324
Tourism				-	-	91,644
Transport				72,311	472,267	425,516
Construction				562,970	495,690	462,468
Financial and business services				392,948	625,994	704,186
Traders				194,686	469,897	1,144,086
Personal				63,424	29,421	28,118
Professional				-	231,226	238,597
Global Business Licence holders				701,533	278,210	1,433,657
Others				201,870	358,128	875,643
				2,824,265	3,974,909	6,602,539

19. Loans and advances to customers (Continued)**b. Credit concentration of risk by industry sectors (Continued)**

Group	Individual allowances for impairment Rs 000	Collective allowances and general provisions for impairment Rs 000	Low-interest rate loans impairment Rs 000	Total Rs 000
At 1 January 2015	1,448,552	101,431	-	1,549,983
Charge for the year	46,039	36,178	-	82,217
Effect of foreign currency movements	36,203	-	-	36,203
Write-offs	(243,982)	-	-	(243,982)
At 31 December 2015	1,286,812	137,609	-	1,424,421
Charge for the year	70,713	(22,148)	-	48,565
Effect of foreign currency movements	(31,265)	-	-	(31,265)
Receivable on counter guarantee	118,858	-	-	118,858
Write-offs	(39,836)	-	-	(39,836)
At 31 December 2016	1,405,282	115,461	-	1,520,743
Charge for the year	(118,357)	32,032	-	(86,325)
Effect of foreign currency movements	18,739	(833)	-	17,906
Receivable on counter guarantee	(118,839)	-	-	(118,839)
Write-offs	(595,321)	-	-	(595,321)
At 31 December 2017	591,504	146,660	-	738,164
Bank				
At 1 January 2015	1,442,949	101,431	-	1,544,380
Charge for the year	42,335	35,091	-	77,426
Effect of foreign currency movements	36,776	-	-	36,776
Write-offs	(243,667)	-	-	(243,667)
At 31 December 2015	1,278,393	136,522	-	1,414,915
Charge for the year	62,446	(21,895)	-	40,551
Effect of foreign currency movements	(28,830)	-	-	(28,830)
Receivable on counter guarantees	118,858	-	-	118,858
Write-offs	(37,888)	-	-	(37,888)
At 31 December 2016	1,392,979	114,627	-	1,507,606
Charge for the year	(124,204)	31,980	-	(92,224)
Effect of foreign currency movements	16,456	-	-	16,456
Receivable on counter guarantees	(118,839)	-	-	(118,839)
Write-offs	(592,229)	-	-	(592,229)
At 31 December 2017	574,163	146,607	-	720,770

19. Loans and advances to customers (Continued)**c. Allowance for impairment**

Net impairment loss on financial assets

	Group			Bank		
	2017 Rs 000	2016 Rs 000	2015 Rs 000	2017 Rs 000	2016 Rs 000	2015 Rs 000
Collective allowance and general provision for impairment	(32,032)	22,148	(36,182)	(31,979)	21,895	(35,091)
Charge for the year	(198,949)	(70,738)	(45,726)	(193,104)	(62,471)	(42,342)
Reversal	1,031,130	-	-	1,028,376	-	-
Bad debts written off / Recoveries	(713,824)	25	7	(711,069)	25	7
	86,325	(48,565)	(81,901)	92,224	(40,551)	(77,426)

d. Allowances for credit impairment by industry sectors

Group	2017				2016	2015
	Gross amount of loans Rs 000	Impaired loans Rs 000	Specific allowances for credit impairment Rs 000	Collective /portfolio allowances and general provision for impairment Rs 000	Total allowances for credit impairment Rs 000	Total allowances for credit impairment Rs 000
Agriculture and Fishing	918,339	381	381	9,180	9,561	8,283
Manufacturing	1,803,779	128,314	53,417	16,764	70,181	337,420
Tourism	619,591	28,137	26,969	11,845	38,814	36,727
Transport	86,103	758	375	803	1,178	5,749
Construction	4,098,393	114,344	35,891	61,460	97,351	210,648
Financial and Business Services	1,554,426	172,577	43,617	15,514	59,131	65,507
Traders	1,394,151	282,915	225,073	11,153	236,226	363,381
Personal	414,984	141,978	97,756	5,218	102,974	112,138
Professional	92,129	73,319	57,263	187	57,450	289,247
Global Business Licence holders	701,533	24,901	24,897	6,766	31,663	29,161
Others	802,457	58,543	25,865	7,770	33,635	62,682
	12,485,885	1,026,167	591,504	146,660	738,164	1,520,943
						1,424,422

19. Loans and advances to customers (continued)

d. Allowances for credit impairment by industry sectors (continued)

Bank	2017					2016	2015
	Gross amount of loans Rs 000	Impaired loans Rs 000	Specific allowances for credit impairment Rs 000	Collective/ portfolio allowances and general provision for impairment Rs 000	Total allowances for credit impairment Rs 000	Total allowances for credit impairment Rs 000	Total allowances for credit impairment Rs 000
Agriculture and Fishing	917,460	381	381	9,171	9,552	8,274	8,780
Manufacturing	1,788,165	125,171	52,056	16,640	68,696	336,510	192,568
Tourism	618,858	28,137	26,969	11,838	38,807	36,708	41,914
Transport	73,896	96	95	738	833	4,847	9,926
Construction	4,091,316	107,393	35,670	62,188	97,858	211,156	187,299
Financial and Business Services	1,550,432	170,320	42,579	15,514	58,093	65,433	19,556
Traders	1,299,095	252,156	212,380	10,660	223,040	353,815	457,869
Personal	412,304	141,032	97,756	5,197	102,953	112,108	103,495
Professional	87,106	71,996	55,940	151	56,091	287,369	295,495
Global Business Licence holders	701,533	24,901	24,897	6,766	31,663	29,161	40,995
Others	799,244	58,118	25,440	7,744	33,184	62,224	57,018
	12,339,409	979,701	574,163	146,607	720,770	1,507,605	1,414,915

19. Loans and advances to customers (continued)

d. Allowances for credit impairment by industry sectors (continued)

Bank	2017					2016	2015
	Gross amount of loans Rs 000	Impaired loans Rs 000	Specific allowances for credit impairment Rs 000	Collective/ portfolio allowances and general provisions for impairment Rs 000	Total allowances for credit impairment Rs 000	Total allowances for credit impairment Rs 000	Total allowances for credit impairment Rs 000
Segment A							
Agriculture and Fishing	883,715	381	381	8,833	9,214	4,655	5,177
Manufacturing	1,187,387	125,171	52,056	10,932	62,988	116,998	184,739
Tourism	618,858	28,137	26,969	11,838	38,807	36,707	40,997
Transport	1,585	96	95	15	110	100	5,647
Construction	3,528,346	107,393	35,670	25,034	60,704	203,716	180,053
Financial and Business Services	1,157,485	8	1	11,716	11,717	21,498	9,869
Traders	1,104,409	252,153	212,380	7,684	220,064	349,106	226,005
Personal	348,880	117,373	77,813	4,795	82,608	93,196	81,668
Professional	87,106	71,996	55,940	151	56,091	56,143	56,922
Others	597,374	58,118	25,440	5,701	31,141	58,641	48,258
	9,515,145	760,826	486,745	86,699	573,444	940,760	839,335
Segment B							
Agriculture and Fishing	33,745	-	-	338	338	3,619	3,603
Manufacturing	600,778	-	-	5,708	5,708	219,512	7,829
Tourism	-	-	-	-	-	-	917
Transport	72,311	-	-	723	723	4,747	4,279
Construction	562,970	-	-	37,154	37,154	7,440	7,246
Financial and business services	392,948	170,312	42,578	3,798	46,376	43,935	9,687
Traders	194,686	3	-	2,976	2,976	4,709	231,864
Personal	63,424	23,659	19,943	402	20,345	18,913	21,827
Professional	-	-	-	-	-	231,226	238,573
Global Business Licence holders	701,533	24,901	24,897	6,766	31,663	29,161	40,995
Others	201,869	-	-	2,043	2,043	3,582	8,760
	2,824,264	218,875	87,418	59,908	147,326	566,844	575,580
	12,339,409	979,701	574,163	146,607	720,770	1,507,604	1,414,915

20. Investment in securities

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Classified as :						
Available-for-sale Financial Assets						
	2,503,659	1,835,894	1,491,030	2,426,590	1,746,350	1,438,119
Available for sale investment securities includes						
Government of Mauritius bonds	1,337,298	788,983	623,277	1,337,298	788,984	623,277
Treasury Bills	798,731	1,046,911	770,040	721,662	957,366	717,129
Bank of Mauritius Bills	197,318	-	97,713	197,318	-	97,713
Corporate Bonds	170,312	-	-	170,312	-	-
	2,503,659	1,835,894	1,491,030	2,426,590	1,746,350	1,438,119

Segment A

Available for sale investment securities

Government of Mauritius Bonds

Treasury Bills

Bank of Mauritius Bills

1,337,298 788,984 623,277**721,662** 957,366 717,129**197,318** - 97,713**2,256,278** 1,746,350 1,438,119**Segment B**

Available for sale investment securities

Corporate Bonds

170,312 - -**21. Investment in subsidiary**

	2017	2016	2015
Bank	Rs 000	Rs 000	Rs 000
Investment in subsidiary as at 31 December	-	189,706	190,201
	2017	2016	2015
Bank	Rs 000	Rs 000	Rs 000
At 01 January	189,706	190,201	191,896
Additions during the year	-	27,687	-
Fair value adjustments (Note 11)	(189,706)	(27,941)	-
Effects of foreign currency	-	(241)	(1,695)
	-	189,706	190,201

Details of investments held by the Bank are as follows:

Name of Investee Company	Country of incorporation	Business Activity	Type of shares	% holding		Fair value		
				2017	2016	2017	2016	2015
						Rs 000	Rs 000	Rs 000
BM Madagascar	Madagascar	Banking	Ordinary shares	72.67	72.67	-	189,706	190,201

22. Property, plant and equipment

Group	Improvement to leasehold property Rs 000	Computer equipment Rs 000	Office equipment Rs 000	Furniture, fixtures & fittings Rs 000	Motor Vehicles Rs 000	Land & Building Rs 000	Total Rs 000
Cost							
Balance at 01 January 2015	94,424	91,240	27,669	17,955	18,309	-	249,597
Additions	9,133	9,641	3,436	238	871	-	23,319
Scrapped assets	(60)	-	-	-	(5,328)	-	(5,388)
Foreign currency translation	(659)	(554)	(217)	(50)	(93)	-	(1,573)
Balance at 31 December 2015	102,838	100,327	30,888	18,143	13,759	-	265,955
Balance at 01 January 2016	102,838	100,327	30,888	18,143	13,759	-	265,955
Additions	5,055	24,974	4,425	163	9,730	8,188	52,535
Scrapped assets	-	-	-	-	(8,262)	-	(8,262)
Foreign currency translation	(1,585)	(1,343)	(548)	(121)	(218)	-	(3,815)
Balance at 31 December 2016	106,308	123,958	34,765	18,185	15,009	8,188	306,413
Balance at 01 January 2017	106,308	123,958	34,765	18,185	15,009	8,188	306,413
Additions	5,600	11,069	814	538	-	-	18,020
Disposal	(262)	-	-	-	(1,484)	-	(1,746)
Scrapped assets	(41)	(35,888)	(4,656)	-	-	-	(40,585)
Foreign currency translation	1,524	743	301	65	119	-	2,751
Balance at 31 December 2017	113,129	99,882	31,224	18,788	13,644	8,188	284,853
Accumulated depreciation							
Balance at 01 January 2015	75,961	78,498	17,941	16,974	16,520	-	205,894
Depreciation for the year	8,853	7,431	3,061	408	901	-	20,654
Scrapped assets	(36)	-	-	-	(5,328)	-	(5,364)
Foreign currency translation	(503)	(552)	(194)	(50)	(62)	-	(1,361)
Balance at 31 December 2015	84,275	85,377	20,808	17,332	12,031	-	219,823
Balance at 01 January 2016	84,275	85,377	20,808	17,332	12,031	-	219,823
Depreciation for the year	7,325	11,848	3,320	420	3,852	1,997	28,762
Scrapped assets	-	-	-	-	(8,262)	-	(8,262)
Foreign currency translation	(1,650)	(1,332)	(507)	(119)	(184)	-	(3,792)
Balance at 31 December 2016	89,950	95,893	23,621	17,633	7,437	1,997	236,531
Balance at 01 January 2017	89,950	95,893	23,621	17,633	7,437	1,997	236,531
Depreciation for the year	6,196	15,358	3,806	293	3,741	1,935	31,329
Disposal	(225)	-	-	-	(1,484)	-	(1,709)
Scrapped assets	(41)	(35,877)	(4,656)	-	-	-	(40,574)
Foreign currency translation	(963)	725	286	67	111	-	226
Balance at 31 December 2017	94,917	76,099	23,057	17,993	9,805	3,932	225,803
Net book value							
Balance at 31 December 2015	18,563	14,950	10,080	811	1,728	-	46,132
Balance at 31 December 2016	16,358	28,065	11,144	552	7,572	6,191.00	69,882
Balance at 31 December 2017	18,212	23,783	8,167	795	3,839	4,256	59,050

22. Property, plant and equipment (Continued)

Bank	Improvement to leasehold property Rs 000	Computer equipment Rs 000	Office equipment Rs 000	Furniture, fixtures & fittings Rs 000	Motor Vehicles Rs 000	Total Rs 000
Cost						
Balance at 01 January 2015	80,545	79,555	23,085	16,893	16,394	216,472
Additions	9,121	9,557	3,229	238	872	23,017
Scrapped assets	(60)	-	-	-	(5,328)	(5,388)
Balance at 31 December 2015	89,606	89,112	26,314	17,131	11,938	234,101
Balance at 01 January 2016	89,606	89,112	26,314	17,131	11,938	234,101
Additions	5,594	24,713	4,341	163	9,730	44,541
Scrapped assets	-	-	-	-	(8,262)	(8,262)
Balance at 31 December 2016	95,200	113,825	30,655	17,294	13,406	270,380
Balance at 01 January 2017	95,200	113,825	30,655	17,294	13,406	270,380
Additions	5,277	9,011	738	538	-	15,564
Disposal	(261)	-	-	-	(1,485)	(1,746)
Scrapped assets	(32)	(35,752)	(4,220)	-	-	(40,004)
Balance at 31 December 2017	100,184	87,084	27,173	17,832	11,921	244,194
Accumulated depreciation						
Balance at 01 January 2015	65,335	66,877	13,856	15,941	15,210	177,219
Depreciation for the year	6,586	7,377	2,724	403	610	17,700
Scrapped assets	(36)	-	-	-	(5,328)	(5,364)
Balance at 31 December 2015	71,885	74,254	16,580	16,344	10,492	189,555
Balance at 01 January 2016	71,885	74,254	16,580	16,344	10,492	189,555
Depreciation for the year	6,643	11,738	3,089	413	3,625	25,508
Scrapped assets	-	-	-	-	(8,262)	(8,262)
Balance at 31 December 2016	78,528	85,992	19,669	16,757	5,855	206,801
Balance at 01 January 2017	78,528	85,992	19,669	16,757	5,855	206,801
Depreciation for the year	6,088	15,002	3,668	286	3,711	28,755
Disposal	(225)	-	-	-	(1,484)	(1,709)
Scrapped assets	(32)	(35,741)	(4,220)	-	-	(39,993)
Balance at 31 December 2017	84,359	65,253	19,117	17,043	8,082	193,854
Net book value						
Balance at 31 December 2015	17,721	14,858	9,734	787	1,446	44,546
Balance at 31 December 2016	16,672	27,833	10,986	537	7,551	63,579
Balance at 31 December 2017	15,825	21,831	8,056	789	3,839	50,340
2015						
Segment A	15,775	13,704	8,628	787	1,356	40,253
Segment B	1,946	1,154	1,106	-	90	4,293
	17,721	14,858	9,734	787	1,446	44,546
2016						
Segment A	14,855	25,249	9,739	537	6,785	57,165
Segment B	1,818	2,583	1,247	-	766	6,414
	16,673	27,832	10,986	537	7,551	63,579
2017						
Segment A	14,100	19,908	7,132	761	3,482	45,383
Segment B	1,725	1,923	924	28	357	4,957
	15,825	21,831	8,056	789	3,839	50,340

23. Intangible assets and goodwill**a. Computer Software**

	Group		Bank		
2017 Rs 000	2016 Rs 000	2015 Rs 000	2017 Rs 000	2016 Rs 000	2015 Rs 000
Cost					
Balance at 01 January	255,380	170,569	242,832	158,264	87,695
Additions	18,748	86,016	17,425	84,568	70,569
Assets written off	(73,972)	-	(73,972)	-	-
Foreign currency translation	633	(1,205)	-	-	-
Balance at 31 December	200,789	255,380	186,285	242,832	158,264
Accumulated amortisation					
Balance at 01 January	121,024	95,140	109,932	84,362	80,250
Amortisation for the year	36,115	26,982	34,974	25,616	4,112
Write-off	(73,972)	-	(73,972)	-	-
Foreign currency translation	524	(1,098)	-	(46)	-
Balance at 31 December	83,691	121,024	70,934	109,932	84,362
Net book value					
Balance at 31 December	117,098	134,356	115,351	132,900	73,902
Carrying amounts at end of year by segments					
Segment A			102,662	118,288	65,796
Segment B			12,689	14,612	8,106
			115,351	132,900	73,902

b. Goodwill

	Group		Bank		
2017 Rs 000	2016 Rs 000	2015 Rs 000	2017 Rs 000	2016 Rs 000	2015 Rs 000
Balance at 31 December	-	75,707	-	75,707	75,707
Total intangible assets and goodwill	117,098	210,063	115,351	132,900	73,902

24. Other assets

Summary	Group			Bank		
	2017 Rs 000	2016 Rs 000	2015 Rs 000	2017 Rs 000	2016 Rs 000	2015 Rs 000
Accounts receivable and prepayments	21,872	199,710	47,119	20,973	198,850	46,170
Accrued interest receivable	28,314	26,966	28,350	27,898	26,901	28,297
Mandatory deposits with central banks	773,730	657,037	789,340	773,730	657,037	789,340
Balances due in clearing	50,841	14,614	39,996	28,138	-	1,846
Other receivables	26,444	22,234	55,180	10,163	17,761	53,003
	901,201	920,561	959,985	860,902	900,549	918,656
				2017 Rs 000	2016 Rs 000	2015 Rs 000
Segment A						
Accounts receivable and prepayments				19,349	162,671	13,150
Accrued interest receivable				21,275	13,500	12,674
Mandatory deposits with central banks				773,730	657,037	789,340
Balances due in clearing				28,138	-	1,846
Other receivables				6,520	17,710	52,913
				849,012	850,918	869,923
Segment B						
Accounts receivable and prepayments				1,624	36,179	33,020
Accrued interest receivable				6,623	13,401	15,623
Other receivables				3,643	51	90
				11,890	49,631	48,733
Total other assets				860,902	900,549	918,656

25. Deposits from banks

	Group			Bank		
	2017 Rs 000	2016 Rs 000	2015 Rs 000	2017 Rs 000	2016 Rs 000	2015 Rs 000
Term Deposits (Segment B)	16	1,209	-	-	1,209	-

26. Deposits from customers

	Group			Bank		
	2017 Rs 000	2016 Rs 000	2015 Rs 000	2017 Rs 000	2016 Rs 000	2015 Rs 000
Retail customers						
Current accounts	1,199,774	1,443,092	2,031,526	1,174,677	1,409,641	1,942,444
Savings accounts	1,946,597	1,812,531	2,149,380	1,920,629	1,775,137	2,050,464
Time deposits with remaining term to maturity						
Up to 3 months	231,179	221,761	362,895	228,977	221,761	358,233
Over 3 months and up to 6 months	128,590	120,336	358,563	127,159	119,310	351,689
Over 6 months and up to 12 months	333,293	229,692	425,365	307,362	208,546	403,522
Over 1 year and up to 5 years	642,130	652,651	730,393	642,130	652,446	730,160
Over 5 years	-	1,005	2,347	-	1,005	2,347
Corporate customers						
Current accounts	3,304,897	2,412,863	2,073,077	3,100,578	2,326,055	1,997,998
Savings accounts	214,490	570,494	808,619	214,490	570,472	808,392
Time deposits with remaining term to maturity	1,885,908	7,183,229	6,400,722	1,878,720	7,180,664	6,396,875
Up to 3 months						
Over 3 months and up to 6 months	895,136	459,107	650,447	865,073	452,643	647,766
Over 6 months and up to 12 months	533,486	469,373	653,445	510,928	468,347	652,280
Over 1 year and up to 5 years	261,792	13,312	11,276	261,145	13,312	11,276
	11,577,272	15,589,446	16,658,055	11,231,868	15,399,339	16,353,446
Segment A						
Retail customers						
Current accounts	781,250	939,732	1,252,366			
Savings accounts	1,441,002	1,254,578	1,473,983			
Time deposit with remaining term to maturity						
Up to 3 months	129,669	133,311	252,501			
Over 3 months and up to 6 months	91,491	73,181	224,378			
Over 6 months and up to 12 months	175,790	116,912	250,300			
Over 1 year and up to 5 years	403,492	386,580	450,871			
Over 5 years	-	1,005	787			
Corporate customers						
Current accounts	1,578,600	1,271,826	690,475			
Savings accounts	214,342	570,327	793,202			
Time deposit with remaining term to maturity						
Up to 3 months	1,706,245	840,260	988,940			
Over 3 months and up to 6 months	527,421	452,643	478,534			
Over 6 months and up to 12 months	443,438	460,076	618,860			
Over 1 year and up to 5 years	261,145	13,092	11,176			
	7,753,885	6,513,523	7,486,373			

26. Deposits from customers (Continued)

	Bank		
	2017	2016	2015
	Rs 000	Rs 000	Rs 000
Segment B			
Retail customers			
Current accounts	393,427	469,910	690,078
Savings accounts	479,627	520,559	576,481
Time deposit with remaining term to maturity Up to 3 months	99,308	88,449	105,732
Over 3 months and up to 6 months	35,668	46,129	127,311
Over 6 months and up to 12 months	131,572	91,634	153,222
Over 1 year and up to 5 years	238,638	265,866	279,289
Over 5 years	-	-	1,560
Corporate customers			
Current accounts	1,521,978	1,054,228	1,307,523
Savings accounts	148	144	15,190
Time deposit with remaining term to maturity Up to 3 months	172,475	6,340,404	5,407,935
Over 3 months and up to 6 months	337,652	-	169,232
Over 6 months and up to 12 months	67,490	8,272	33,420
Over 1 year and up to 5 years	-	220	100
	3,477,983	8,885,816	8,867,073

27. Borrowed funds

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Borrowed funds	3,151,846	4,117,034	3,339,829	3,151,778	4,117,034	3,339,829
Remaining term to maturity						
Up to 3 months	2,029,295	3,525,718	1,429,968	2,029,227	3,525,718	1,429,968
Over 3 months and up to 6 months	907,650	251,884	84,843	907,650	251,884	84,843
Over 6 months and up to 12 months	-	86,844	-	-	86,844	-
Over 1 year and up to 5 years	214,901	223,245	1,513,260	214,901	223,245	1,513,260
Over 5 years	-	29,343	311,758	-	29,343	311,758
	3,151,846	4,117,034	3,339,829	3,151,778	4,117,034	3,339,829

27. Borrowed funds (Continued)

	Bank		
	2017	2016	2015
	Rs 000	Rs 000	Rs 000
Segment A			
Borrowings from financial institutions	25,880	29,343	-
Remaining term to maturity			
Up to 3 months	-	-	-
Over 6 months and up to 12 months	-	-	-
Over 1 year and up to 5 years	25,880	-	-
Over 5 years	-	29,343	-
	25,880	29,343	-
Segment B			
Borrowings from banks abroad	3,125,898	4,087,691	3,339,829
Remaining term to maturity			
Up to 3 months	2,029,227	3,525,718	1,429,968
Over 3 months and up to 6 months	907,650	251,884	84,843
Over 6 months and up to 12 months	-	86,844	-
Over 1 year and up to 5 years	189,021	223,245	1,513,260
Over 5 years	-	-	311,758
	3,125,898	4,087,691	3,339,829

28. Derivative Financial Instruments

	2017	2016	2015	Bank	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Derivative financial instruments	-	2,284	170	-	2,284	170

Segment A

Derivative financial instruments	-	99	80
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Segment B

Derivative financial instruments (Forward contracts)	-	2,185	91
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The Group utilises the following derivative instruments to manage its exposure to foreign currency risk:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies.

The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

29. Subordinated liabilities

	Group and Bank		
	2017	2016	2015
	Rs 000	Rs 000	Rs 000
Subordinated debt	202,470	274,283	528,737
Remaining term to maturity			
Less than 3 years	-	57,173	155,237
More than 3 years but less than 5 years	202,470	217,110	-
Over 5 years	-	-	373,500
	202,470	274,283	528,737
Segment B			
Subordinated debt	202,470	274,283	528,737

Subordinated debt have been contracted from the holding company and qualifies as Tier 2 Capital in line with the Bank of Mauritius guidelines. The carrying value of subordinated liabilities are approximate from their values.

30. Other liabilities

	Bank					
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Recognised liability for defined benefit obligations (Note (i))	34,151	20,145	19,063	34,151	20,145	19,063
Creditors and accruals	179,848	186,281	190,031	162,131	176,346	178,656
Accrued interest payable	62,039	62,623	104,924	58,384	61,597	103,809
Other	131,821	53,178	34,800	146,007	42,774	55,771
	407,859	322,227	348,818	400,673	300,862	357,299
Segment A						
Recognised liability for defined benefit obligations				34,151	20,145	19,063
Creditors and accruals				91,126	136,144	93,013
Accrued interest payable				65,796	76,767	101,890
Other				28,477	21,132	8,018
				219,550	214,712	205,394
Segment B						
Creditors and accruals				43,736	627	68,973
Accrued interest payable				19,857	24,405	18,589
Other				117,530	21,642	47,752
				181,123	41,394	134,623
Total other liabilities				400,673	256,106	340,017

Note (i)
Disclosure pertaining to the defined benefits obligations is listed under Note 13 to the financial statements.

31. Share Capital

	Group and Bank		
	2017	2016	2015
	Rs 000	Rs 000	Rs 000
Issued capital			
At 1 January,	1,944,015	1,749,016	1,749,016
Issue of shares	-	194,999	-
At 31 December,	1,944,015	1,944,015	1,749,016
Number of shares			
At 1 January,	2,505,035	2,253,760	2,253,760
Issue of shares	-	251,275	-
At 31 December,	2,505,035	2,505,035	2,253,760

The issued capital comprises of ordinary shares at no par value. Ordinary shares carry one vote each and right to dividend.

32. Reserves**Nature and purpose of reserves****Foreign Currency Translation reserve**

The Translation Reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Fair value reserve

The Fair Value Reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired.

Statutory reserve

Statutory reserve represents accumulated transfers from retained earnings in accordance with relevant local banking legislations. These reserves are not distributable.

33. Financial assets and liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

Group	Loans and receivables Rs 000	Available for-sale Rs 000	Other liabilities at amortised cost Rs 000	Carrying amount Rs 000	Fair value Rs 000
31 December 2017					
Assets					
Cash and cash equivalents	1,772,246	-	-	1,772,246	1,772,246
Loans and advances to banks	240,030	-	-	240,030	240,030
Loans and advances to customers	11,747,721	-	-	11,747,721	11,747,721
Investment securities	-	2,503,659	-	2,503,659	2,503,659
Other assets	901,201	-	-	901,201	901,201
	14,661,198	2,503,659	-	17,164,857	17,164,857
Liabilities					
Deposits from banks	-	-	16	16	16
Deposits from customers	-	-	11,577,272	11,577,272	11,577,272
Borrowed funds	-	-	3,151,846	3,151,846	3,151,846
Subordinated liabilities	-	-	202,470	202,470	202,470
Other liabilities	-	-	407,859	407,859	407,859
	-	-	14,931,604	14,931,604	14,931,604
Group					
31 December 2016					
Assets					
Cash and cash equivalents	6,856,475	-	-	6,856,475	6,856,475
Loans and advances to banks	645,760	-	-	645,760	645,760
Loans and advances to customers	11,584,758	-	-	11,584,758	11,584,758
Investment securities	-	1,835,894	-	1,835,894	1,835,894
Other assets	920,561	-	-	920,561	920,561
	20,021,407	1,835,894	-	21,843,448	21,843,448
Liabilities					
Deposits from banks	-	-	1,209	1,209	1,209
Deposits from customers	-	-	15,589,446	15,589,446	15,589,446
Borrowed funds	-	-	4,117,034	4,117,034	4,117,034
Subordinated liabilities	-	-	274,282	274,282	274,282
Other liabilities	-	-	322,227	322,227	322,227
	-	-	20,304,198	20,304,198	20,304,198

33. Financial assets and liabilities (Continued)

Group	Loans and receivables Rs 000	Available-for-sale Rs 000	Other liabilities at amortised cost Rs 000	Carrying amount Rs 000	Fair value Rs 000
31 December 2015					
Assets					
Cash and cash equivalents	3,466,895	-	-	3,466,895	3,466,895
Loans and advances to banks	715,800	-	-	715,800	715,800
Loans and advances to customers	15,582,847	-	-	15,582,847	15,582,847
Investment securities	-	1,491,030	-	1,491,030	1,491,030
Other assets	959,985	-	-	959,985	959,985
	20,725,527	1,491,030	-	22,216,557	22,216,557
Liabilities					
Deposits from banks	-	-	-	-	-
Deposits from customers	-	-	16,658,055	16,658,055	16,658,055
Borrowed funds	-	-	3,339,829	3,339,829	3,339,829
Subordinated liabilities	-	-	528,737	528,737	528,737
Other liabilities	-	-	348,818	348,818	348,818
	-	-	20,875,439	20,875,439	20,875,439
Bank					
31 December 2017					
Assets					
Cash and cash equivalents	1,598,593	-	-	1,598,593	1,598,593
Loans and advances to banks	240,030	-	-	240,030	240,030
Loans and advances to customers	11,618,639	-	-	11,618,639	11,618,639
Investment securities	-	2,426,590	-	2,426,590	2,426,590
Other assets	860,902	-	-	860,902	860,902
	14,318,164	2,426,590	-	16,744,754	16,744,754
Liabilities					
Deposits from banks	-	-	-	-	-
Deposits from customers	-	-	11,231,868	11,231,868	11,231,868
Borrowed funds	-	-	3,151,778	3,151,778	3,151,778
Subordinated liabilities	-	-	202,470	202,470	202,470
Other liabilities	-	-	400,673	400,673	400,673
	-	-	14,986,789	14,986,789	14,986,789

33. Financial assets and liabilities (Continued)

Bank	Loans and receivables Rs 000	Available-for- sale Rs 000	Other liabilities at amortised cost Rs 000	Carrying amount Rs 000	Fair value Rs 000
31 December 2016					
Assets					
Cash and cash equivalents	6,790,496	-	-	6,790,496	6,790,496
Loans and advances to banks	645,760	-	-	645,760	645,760
Loans and advances to customers	11,496,362	-	-	11,496,362	11,496,362
Investment securities	-	1,746,350	-	1,746,350	1,746,350
Other assets	900,549	-	-	900,549	900,549
	<u>19,833,167</u>	<u>1,746,350</u>	<u>-</u>	<u>21,579,517</u>	<u>21,579,517</u>
Liabilities					
Deposits from banks	-	-	1,209	1,209	1,209
Deposits from customers	-	-	15,399,339	15,399,339	15,399,339
Borrowed funds	-	-	4,117,034	4,117,034	4,117,034
Subordinated liabilities	-	-	274,283	274,283	274,283
Other liabilities	-	-	300,862	300,862	300,862
		<u>-</u>	<u>20,092,727</u>	<u>20,092,727</u>	<u>20,092,727</u>
Bank					
31 December 2015					
Assets					
Cash and cash equivalents	3,345,550	-	-	3,345,550	3,345,550
Loans and advances to customers	715,800	-	-	715,800	715,800
Loans and advances to banks	15,453,646	-	-	15,453,646	15,453,646
Investment securities	-	1,438,119	-	1,438,119	1,438,119
Other assets	918,656	-	-	918,656	918,656
	<u>20,433,652</u>	<u>1,438,119</u>	<u>-</u>	<u>21,871,771</u>	<u>21,871,771</u>
Liabilities					
Deposits from banks	-	-	-	-	-
Deposits from customers	-	-	16,353,446	16,353,446	16,353,446
Borrowed funds	-	-	3,339,829	3,339,829	3,339,829
Subordinated liabilities	-	-	528,737	528,737	528,737
Other liabilities	-	-	357,299	357,299	357,299
	<u>-</u>	<u>-</u>	<u>20,579,311</u>	<u>20,222,012</u>	<u>20,222,012</u>

34. Contingencies**a. Commitments**

	Group			Bank		
	2017 Rs 000	2016 Rs 000	2015 Rs 000	2017 Rs 000	2016 Rs 000	2015 Rs 000
Undrawn credit facilities	1,914,449	3,287,930	2,727,126	1,898,619	3,265,984	2,719,624

Segment A

Undrawn credit facilities	1,131,287	1,296,817	1,768,369
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Segment B

Undrawn credit facilities	767,332	1,969,167	951,255
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b. Pledged assets

	Group and Bank		
	2017 Rs 000	2016 Rs 000	2015 Rs 000
Government Bonds (Segment A)	200,000	200,000	200,000

c. Contingent liabilities

	Group			Bank		
	2017 Rs 000	2016 Rs 000	2015 Rs 000	2017 Rs 000	2016 Rs 000	2015 Rs 000
Acceptances on account of customers	16,462	54,551	41,931	16,462	54,551	41,931
Guarantees on account of customers	1,267,745	809,581	1,286,359	1,260,321	802,013	1,280,772
Letters of credit and other obligations on account of customers	343,270	443,978	469,457	327,440	422,032	461,955
Foreign exchange contracts	64,652	418,281	701,754	64,652	250,642	685,458
Other contingent items	128,024	51,645	22,500	864	34,335	7,392
	<u>1,820,153</u>	<u>1,778,036</u>	<u>2,522,001</u>	<u>1,669,739</u>	<u>1,563,573</u>	<u>2,477,508</u>

Segment A

Acceptances on account of customers	3,455	1,850	11,866
Guarantees on account of customers	976,175	480,611	594,297
Letters of credit and other obligations on account of customers	11,216	316,525	-
Foreign exchange contracts	64,652	250,642	236,297
Other contingent items	864	6,020	7,212
	<u>1,056,362</u>	<u>1,055,648</u>	<u>849,672</u>

Segment B

Acceptances on account of customers	13,007	52,700	30,065
Guarantees on account of customers	284,146	321,402	686,475
Letters of credit and other obligations on account of customers	316,224	105,507	461,955
Foreign exchange contracts	-	156,674	449,161
Other contingent items	-	28,315	180
	<u>613,377</u>	<u>664,598</u>	<u>1,627,836</u>

35. Related parties

In addition to transactions with key management personnel, the Group and the Bank enter into transactions with its holding company, BPCE International and other entities within BPCE Group.

Nature of transactions	Nature of relationship	Group			Bank		
		2017 Rs 000	2016 Rs 000	2015 Rs 000	2017 Rs 000	2016 Rs 000	2015 Rs 000
Placements with banks	Group companies	241,321	217,110	2,210,591	241,321	217,110	2,210,591
Loans and advances	Holding company		-	373,500	-	-	373,500
	Group companies	86,657	410,189	52,065	86,657	405,004	52,065
	Key management personnel	17,591	189,239	172,513	17,591	188,238	171,814
Deposits	Holding company	17,431	-	972,810	17,431	-	972,810
	Group companies	425	-	540,450	425	-	540,450
	Key management personnel	27,822	64,563	55,875	27,822	64,563	55,714
Balances due to	Holding company	-	17,431	15,935	-	17,431	15,935
	Group companies	45,414	4,032	-	45,414	4,032	-
Borrowed funds	Holding company	-	-	-	-	-	-
	Group companies	3,125,899	1,519,770	1,791,245	3,125,899	1,519,770	1,791,245
Subordinated liabilities	Holding company	202,470	274,283	528,737	202,470	274,283	528,737
Amounts due to	Holding company	-	2,167	502	-	2,167	502
Interest income	Holding company	4,629	6,654	4,106	4,629	6,654	4,106
	Group companies	29,572	32,648	8,004	29,572	32,648	8,004
	Key management personnel	1,313	6,817	1,707	1,313	6,746	1,705
Interest expense	Holding company	11,962	9,326	9,972	11,962	9,326	9,972
	Group companies	7,854	7,035	6,673	7,854	7,035	6,673
	Key management personnel	817	1,386	147	817	1,386	147
Fee and commission	Holding company	7,510	20,056	11,018	7,510	20,056	11,018
Management Fee Paid	Holding company	33,953	8,395	37,479	33,953	8,395	37,479
Management Fee Received	Subsidiary	-	-	-	11,400	13,985	10,000
Indemnification from BPCE International	Holding company	139,182	27,941	-	139,182	27,941	-

The related party transactions were carried out under market terms and conditions with exception of loans to key management personnel who benefitted from potential rates as applicable to staff of the Bank. Credit facilities granted to related parties are secured except for credit cards and short term and immaterial facilities.

35. Related parties (Continued)**Key management personnel compensation**

Key management personnel compensation comprised the following.

	Group			Bank		
	2017 Rs 000	2016 Rs 000	2015 Rs 000	2017 Rs 000	2016 Rs 000	2015 Rs 000
Short-term employee benefits	57,521	74,528	71,258	57,005	68,609	64,311
Post-employment benefits	2,235	11,274	12,125	2,089	11,274	10,997
	59,756	85,802	83,383	59,094	79,883	75,308

Compensation of the Group's key management personnel includes salaries, non-cash benefits and contributions to the post-employment defined benefit plans.

36. Financial risk review

Risk is inherent in the Group's and the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Board of Directors is ultimately responsible for risk management. It approves the risk policies and sets prudential limits and risk tolerance limits, besides regulatory limits, within which the Group and the Bank operate.

The principal risks arising from financial instruments to which the Group and the Bank is exposed include credit risk, liquidity risk, market risk and operational risk.

a. Risk Management framework and governance structure

Effective risk management is fundamental to the sustainability of the Group and the Bank. The role of the risk management function is to identify, assess, measure and manage those risks that arise in the pursuit of the Group's strategic goals.

The Group's and the Bank's approach to managing risk is set out in the various risk and compliance policies as approved by the Risk

Management Committee. The policies generally have two components:

- governance committees;
- governance documents.

Governance committees are in place at both a board and management level. They have clearly defined mandates and delegated authorities which are reviewed regularly. Board subcommittees responsible for the oversight of various aspects of risk are the Risk Management Committee, Corporate Governance Committee and Audit Committee. The management committees responsible for the oversight of risk management are Credit Committee, Non Performing Loan review and Provision Committee, Watchlist Committee, Compliance Committee, IT Committee, Risk Committee and Assets and Liabilities, Management Committee and Arrears Committee.

Governance documents comprise frameworks, policies and procedures which set out the requirements for effective oversight of risks, including the identification, assessment, measurement, monitoring, managing and reporting of risks.

The Group and the Bank use the three lines of defence governance model which promotes transparency, accountability and consistency through the clear identification and segregation of risks. The first line of defence is made up of the management of business lines and the originators of risk. The second line of defence functions provides independent oversight of risks. The risk management functions, including compliance, report to the chief risk officer. Group internal audit (GIA) is the third line of defence and reports to and operates under a mandate from the Chief Executive and Audit Committee. In terms of its mandate, the Internal Audit function's role is to provide independent and objective assurance. It has the authority to independently determine the scope and extent of work to be performed.

36. Financial risk review (Continued)**b. Credit Risk**

Credit risk is the risk of loss arising out of failure of client counterparties to meet their financial or contractual obligations when due. Credit risk is composed of counterparty risk and concentration risk.

The Group's credit risk comprises mainly wholesale and retail loans and advances, together with the counterparty credit risk arising from off balance sheet commitments entered into with our clients and market counterparties.

The Group and the Bank manage credit risk through

- Maintaining a strong culture of responsible lending and a robust risk policy and control framework;
- Identifying, assessing and measuring credit risk clearly and accurately across the Group, from the level of individual facilities up to the total portfolio;
- Defining, implementing and continually re-evaluating our risk appetite under actual and stress conditions;
- Monitoring the Group's credit risk relative to limits;
- Ensuring that there is expert scrutiny and independent approval of credit risks and their mitigation.

The primary governance committees overseeing credit risk are the Bank's Credit Committee and BPCE / BPCE International's Credit Committees, responsible for credit risk and credit concentration risk decision-making, and delegation thereof to credit officers and committees within defined parameters. The committees approve key aspects of rating systems. Regular model validation and reporting to Risk and Audit committees is undertaken.

The Group and the Bank has adopted the standardised approach for credit risk.

Credit Portfolio Analysis – Credit Quality

In Rs 000	Loans and advances to customers					
	2017	Group 2016	2015	2017	Bank 2016	2015
Total neither past due nor impaired	11,487,678	10,496,003	13,343,244	11,388,829	10,440,889	13,235,467
Past due but not impaired						
due up to 30 days	48,861	11,818	633,768	48,861	10,447	633,410
31-90 days	478,625	89,725	103,512	478,625	89,394	103,286
91-180 days	195	61,565	37,199	196	61,565	37,120
180 days+	-	307	232	-	307	149
Total past due but not impaired	527,681	163,415	774,711	527,681	161,713	773,965
Individually impaired	998,206	2,446,283	2,889,313	950,580	2,401,366	2,859,128

In Rs 000	Investment securities					
	2017	Group 2016	2015	2017	Bank 2016	2015
Total neither past due nor impaired	2,503,659	1,835,894	1,491,030	2,426,590	1,746,350	1,438,119

36. Financial risk review (Continued)**b. Credit Risk (Continued)****Credit Portfolio Analysis – Credit Quality (Continued)**

In Rs 000	Loans and advances to customers					
	2017	Group 2016	2015	2017	Bank 2016	2015
Allowance for impairment						
Individual	591,504	1,406,568	1,286,812	574,163	1,392,979	1,278,393
Collective	146,660	110,666	137,609	146,607	110,918	136,522
Total allowance for impairment	738,164	1,517,234	1,424,421	720,770	1,503,897	1,414,915
In Rs 000	Loans and advances to banks					
	2017	Group 2016	2015	2017	Bank 2016	2015
Allowance for impairment						
Individual	-	-	-	-	-	-
Collective	-	3,709	-	-	3,709	-
Total allowance for impairment	-	3,709	-	-	3,709	-

Loans and advances with renegotiated terms

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure.

In Rs 000	Loans and advances to customers					
	2017	Group 2016	2015	2017	Bank 2016	2015
Gross carrying amount	287,774	352,075	107,055	283,115	352,075	107,055
Of which Impaired amount	102,244	1,142	24,787	102,244	1,142	24,787
Allowance for impairment	40,838	1,142	10,318	40,838	1,142	10,318
Net carrying amount	246,936	350,933	96,737	242,277	350,933	96,737

36. Financial risk review (Continued)**b. Credit Risk (Continued)****Credit Portfolio Analysis – by Risk Grade**

The Group and the Bank rates its credit portfolio, according to the perceived risk level, as follows:

- For its Corporate Portfolio, the Group and the Bank have adopted BPCE / BPCE International's rating model [ONI, Outil de Notation International];
- For its Retail portfolio, the Group and the Bank has adopted an internally developed rating scorecard.

With respect to Banks and Financial Institutions, the Group and the Bank have developed a mapping using ratings of eligible External Rating Agencies.

	Loans and advances to customers					
	Group			Bank		
In Rs 000	2017	2016	2015	2017	2016	2015
Grade 0-4	6,011,971	4,913,395	7,967,829	5,941,369	3,908,238	7,921,595
Grade 5-6	2,734,390	3,027,572	2,969,772	2,714,333	3,022,022	2,937,270
Grade 7-9	2,737,031	2,719,899	2,924,000	2,733,127	2,710,510	2,900,421
Grade X (impaired)	1,001,253	2,443,918	2,889,313	950,580	2,401,366	2,859,535
No credit grading	1,239	916	256,354	-	961,832	250,146
Total gross amount	12,485,885	13,105,700	17,007,268	12,339,409	13,003,968	16,868,967
Allowance for impairment (individual and collective)	(738,164)	(1,520,943)	(1,424,421)	(720,770)	(1,507,606)	(1,414,915)
Net carrying amount	11,747,721	11,584,758	15,582,847	11,618,639	11,496,362	15,454,052
Off balance sheet						
Grade 1-4	2,768,671	2,626,371	3,334,475	2,746,078	2,432,393	3,326,066
Grade 5-6	266,872	410,947	240,130	266,211	401,169	239,300
Grade 7-9	894,628	1,583,657	935,962	894,628	1,583,486	932,111
Grade X (impaired)	3,431	10,380	31,730	3,432	10,380	31,730
No credit grading	-	-	63,532	-	177,949	63,532
Total exposure	3,933,603	4,631,355	4,605,829	3,910,349	4,605,377	4,592,739
	Loans and advances to banks					
	Group			Bank		
In Rs 000	2017	2016	2015	2017	2016	2015
Outstanding Exposure						
Grade 1-4	240,046	645,760	715,800	240,030	645,759	715,800
Grade 5-6	-	-	-	-	-	-
Grade 7-9	-	-	-	-	-	-
Grade X (impaired)	-	-	-	-	-	-
No credit grading	-	-	-	-	-	-
Total gross amount	240,046	645,760	715,800	240,030	645,759	715,800

36. Financial risk review (Continued)**b. Credit Risk (Continued)****Concentrations of credit risk**

The Group and the Bank maintain a portfolio of credit risk that is adequately diversified and avoids unnecessarily excessive concentration risks. Diversification is achieved through setting maximum exposure guidelines to individual counterparties, sectors and geographic location.

Large Exposures

The Group and the Bank adopts the definition of "Large exposures", as defined by the Bank of Mauritius Guidelines on Credit Concentration Risk. The table below shows the "Large exposures" as at 31st December 2017.

Customer / Group of closely related customers	Total exposures after set offs (MMUR)	% of Bank's capital base
1	649	32%
2	525	26%
3	503	25%
4	471	23%
5	445	22%
6	431	21%
7	426	21%
8	412	21%
9	399	20%
10	389	19%
11	337	17%
12	334	17%
13	329	16%
14	315	16%
15	300	16%
16	294	15%
17	270	13%
18	255	13%
19	202	10%
Aggregate exposure of "Large Exposures"	7,286	363%

36. Financial risk review (Continued)**b. Credit Risk (Continued)**

<i>Sector wise distribution</i>	2017		2016	
	Group Rs 000	Bank Rs 000	Group Rs 000	Bank Rs 000
Loans and advances to customers				
Agriculture & Fishing	918,339	917,460	787,914	787,062
Manufacturing	1,803,779	1,788,165	1,158,674	1,150,828
Education	21,470	21,467	-	-
Tourism	619,591	618,858	393,821	391,949
Transport	86,103	73,896	490,877	473,984
Construction	4,098,393	4,091,316	3,784,947	3,779,965
Financial and Business Services	1,554,260	1,550,267	2,406,030	2,403,772
Freeport Enterprise Certificate Holders	19,935	19,935	-	-
Traders	1,394,317	1,299,260	2,081,124	2,021,926
Personal	414,984	412,304	427,817	424,855
Professional	92,129	87,106	319,593	316,208
Global Business Licence Holders	701,533	701,533	278,210	278,210
Infrastructure	742,262	742,152	-	-
Others	18,790	15,690	976,694	975,209
Total amount	12,485,885	12,339,409	13,105,701	13,003,968

<i>Country wise distribution</i>	2017		2016	
	Group Rs 000	Bank Rs 000	Group Rs 000	Bank Rs 000
Loans and advances to customers				
Australia	9,955	9,955	10,723	10,723
Austria	-	-	-	-
Cayman Islands	-	-	53,607	53,607
China	4,062	-	-	-
France	607,265	607,265	795,549	795,548
Gabon	19,462	19,462	20,864	20,864
Hong Kong SAR of China	201,701	201,701	-	-
India	168,725	168,725	182,017	182,017
Indonesia	-	-	119,411	119,411
Ivory Coast	28,270	28,270	-	-
Luxembourg	311,090	168,725	335,575	335,575
Madagascar	160,234	160,234	624,694	524,065
Maldives	193	144	-	-
Mauritius	10,259,802	10,259,802	9,369,889	9,368,719
Netherlands	-	-	97,175	97,175
Nigeria	23	23	163,813	163,813
Réunion	-	-	108,182	108,182
Seychelles	605	605	54	54
Singapore	28,145	28,145	376,480	376,480
South Africa	84,228	84,228	137,469	137,469
Switzerland	250,766	250,766	38,049	38,049
United Kingdom	276,692	276,692	204,344	204,344
Others	74,667	74,667	467,806	467,873
Total amount	12,485,885	12,339,409	13,105,701	13,003,968

36. Financial risk review (Continued)**b. Credit Risk (Continued)**

	2017		2016	
	Group Rs 000	Bank Rs 000	Group Rs 000	Bank Rs 000
Loans and advances to banks				
India	-	-	110,927	110,927
Mauritius	-	-	17,800	17,800
Egypt	-	-	259,085	259,085
Total amount	-	-	387,812	387,812

Credit risk mitigation

Collateral, guarantees, derivatives and on and off-balance sheet netting are widely used to mitigate credit risk. Policies and procedures ensure that credit risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforcement. Detailed processes and procedures are in place to guide each type of mitigation used.

The main types of collateral taken are:

- Mortgage bonds over residential, commercial and industrial properties;
- Cession of book debts;
- Floating charge over plant and equipment and the assets of the company.

Guarantees and related legal contracts are often required, particularly in support of credit extension to Groups of companies and weaker counterparties. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantor as for other counterparty credit approvals.

36. Financial risk review (Continued)**b. Credit Risk (Continued)****General and Portfolio Provisioning**

Loans and advances that have been assessed individually and found not to be impaired are assessed together with all "neither past due nor impaired" loans and advances. This is to determine the level of General Provisions and Macro Prudential Provisions, in line with the Bank of Mauritius Guidelines.

A reconciliation of the level of General Provisions and Macro Prudential Provisions are as follows:

In Rs 000	2017 Bank	2016 Bank
Gross Loans and advances to customers	12,339,409	13,003,968
Add Loans and advances to banks not qualified for exemption	-	-
Add Interest receivable	-	-
Add credit balances eligible for set off	-	-
Less Impaired loans	1,120,892	2,401,366
Less Loans secured by cash collateral	66,549	58,823
Less Loans secured by bank guarantees	1,665,788	1,323,272
Less Loans treated as claims on banks and exempted	-	-
Net adjusted loans and advances	9,486,180	9,220,507
1% General Provision	116,024	117,874
0.5% Macro Prudential Provision	30,583	25,462
Total General and Macro Prudential Provision	146,607	143,336

In Rs 000	2017 Bank	2016 Bank
Balance Sheet General Provision	146,607	114,627
General Reserve	-	28,709
Balance Sheet General Provision	146,607	143,336

As per Banque Centrale de Madagascar requirements, there is no General Provisioning nor Portfolio Provisioning requirements for the Bank's subsidiary, BM Madagascar.

36. Financial risk review (Continued)**c. Liquidity Risk**

Liquidity risk is the risk that the Group and the Bank cannot maintain or generate sufficient cash resources to meet its payment obligations as they fall due. The nature of banking gives rise to continuous exposure to liquidity risk. Liquidity risk arises when the Group, despite being solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so at materially disadvantageous terms. The Group and the Bank manages liquidity in accordance with approved risk policies, compliant with Bank of Mauritius guideline.

The liquidity risk management framework differentiates between:

- Tactical (shorter-term) risk management: managing intraday liquidity positions and daily cash flow requirements, and monitoring adherence to prudential and internal requirements and setting deposit rates as informed by the Treasury Committee.
- Structural (long-term) liquidity risk management: ensuring a structurally sound balance sheet, a diversified funding base and prudent term funding requirements.
- Contingent liquidity risk management: monitoring and managing early warning liquidity indicators while establishing and maintaining contingency funding plans, undertaking regular liquidity stress testing and scenario analysis, and setting liquidity buffers in accordance with anticipated stress events.

The primary governance committee overseeing this risk is the Risk Committee (Board Committee), the Asset & Liability Management Committee and Treasury Committee.

Maturities (contractual) of financial assets and financial liabilities.

Group	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non- maturity	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
2017 Assets								
Cash and Cash equivalents	1,772,246	-	-	-	-	-	-	1,772,246
Loans and advances to banks	-	-	6,994	30,565	-	202,470	-	240,030
Loans and advances to customers	3,328,844	1,343,195	55,053	18,950	549,434	6,021,890	1,168,519	12,485,885
Investment securities	218,232	448,235	323,803	106,492	1,052,890	354,007	-	2,503,659
Other assets	40,314	-	-	-	-	-	860,886	901,201
	5,359,636	1,791,430	385,850	156,008	1,602,324	6,578,367	2,029,405	17,903,020
Less allowances for credit impairment								(738,164)
Total assets								17,164,856
2017 Liabilities								
Deposits from banks	16	-	-	-	-	-	-	16
Deposits from customers	1,453,694	1,518,694	1,649,463	2,155,372	1,065,057	3,733,136	1,857	11,577,272
Borrowed funds	360,138	1,669,157	383,230	524,420	-	214,901	-	3,151,846
Subordinated liabilities	-	-	-	-	-	202,470	-	202,470
Other liabilities	71,774	-	-	-	-	-	336,085	407,859
	1,885,622	3,187,851	2,032,693	2,679,792	1,065,057	4,150,507	337,942	15,339,464
Equity								2,204,834
Total liabilities								17,544,298
Net Liquidity Gap	3,474,014	(1,396,421)	(1,646,843)	(2,523,784)	537,267	2,427,861	1,691,463	

36. Financial risk review (Continued)**c. Liquidity Risk (Continued)**

Maturities (contractual) of financial assets and financial liabilities.

Group	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-maturity	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
2016								
Assets								
Cash and Cash equivalents	1,670,683	5,179,181	-	6,165	446	-	-	6,856,475
Loans and advances to banks	101,912	153,754	114,345	58,638	-	217,111	-	645,760
Loans and advances to customers	4,566,282	1,304,935	111,707	1,017,662	511,216	5,593,899	-	13,105,701
Investment securities	281,866	153,728	401,500	470,000	378,800	150,000	-	1,835,894
Other assets	677,049	-	-	-	-	-	243,511	920,560
	7,297,792	6,791,598	627,552	1,552,465	890,462	5,961,010	243,511	23,364,390
Less allowances for credit impairment								(1,520,943)
Total assets								21,843,446
2016								
Liabilities								
Deposits from banks	-	-	-	-	-	-	1,209	1,209
Deposits from customers	12,905,910	758,732	580,020	678,021	526,352	140,411	-	15,589,446
Borrowed funds	1,612,252	1,913,466	251,884	86,844	-	252,588	-	4,117,034
Subordinated liabilities	-	57,172	-	-	-	217,111	-	274,283
Other liabilities	18,537	-	-	-	-	-	303,690	322,227
	14,536,699	2,729,370	831,904	764,865	526,352	610,110	304,899	20,304,199
Equity								1,993,559
Total liabilities								22,297,758
Net Liquidity Gap	(7,238,907)	4,062,228	(204,352)	787,600	364,110	5,350,900	(61,388)	

36. Financial risk review (Continued)**c. Liquidity Risk (Continued)**

Bank	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-maturity	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
2017								
Assets								
Cash and Cash equivalents	1,598,593	-	-	-	-	-	-	1,598,593
Loans and advances to banks	-	-	6,994	30,565	-	202,470	-	240,030
Loans and advances to customers	3,240,997	1,343,183	51,060	17,988	548,417	6,016,872	1,120,892	12,339,409
Investment securities	149,972	448,235	323,803	97,683	1,052,890	354,007	-	2,426,590
Other assets	-	-	-	-	-	-	860,902	860,902
	4,989,562	1,791,418	381,858	146,236	1,601,307	6,573,349	1,981,794	17,465,524
Less allowances for credit impairment								(720,770)
Total assets								16,744,754
2017								
Liabilities								
Deposits from banks	-	-	-	-	-	-	-	-
Deposits from customers	1,197,965	1,511,507	1,617,969	2,106,883	1,064,410	3,733,134	-	11,231,868
Borrowed funds	360,070	1,669,157	383,230	524,420	-	214,901	-	3,151,778
Subordinated liabilities	-	-	-	-	-	202,470	-	202,470
Other liabilities	-	-	-	-	-	-	400,673	400,673
	1,558,035	3,180,664	2,001,199	2,631,303	1,064,410	4,150,505	400,673	14,986,789
Equity								2,127,262
Total liabilities								17,114,051
Net Liquidity Gap	3,431,527	(1,389,246)	(1,619,341)	(2,485,067)	536,897	2,422,844	1,581,121	

36. Financial risk review (Continued)**c. Liquidity Risk (Continued)**

Bank	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non- maturity	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
2016								
Assets								
Cash and Cash equivalents	1,604,704	5,179,181	-	6,165	446	-	-	6,790,496
Loans and advances to banks	101,912	153,754	114,345	58,639	-	217,110	-	645,760
Loans and advances to customers	4,484,504	1,303,571	111,478	1,014,688	499,525	5,590,202	-	13,003,968
Investment securities	261,150	84,900	401,500	470,000	378,800	150,000	189,706	1,936,056
Other assets	657,037	-	-	-	-	-	243,512	900,549
	<u>7,109,307</u>	<u>6,721,406</u>	<u>627,323</u>	<u>1,549,492</u>	<u>878,771</u>	<u>5,957,312</u>	<u>433,218</u>	<u>23,276,829</u>
Less allowances for credit impairment								(1,507,606)
Total assets								<u>21,769,223</u>
2016								
Liabilities								
Deposits from banks	-	-	-	-	-	-	1,209	1,209
Deposits from customers	12,715,803	758,732	580,020	678,021	526,352	140,411	-	15,399,339
Borrowed funds	1,612,252	1,913,466	251,884	86,844	-	252,588	-	4,117,034
Subordinated liabilities	-	57,172	-	-	-	217,111	-	274,283
Other liabilities	-	-	-	-	-	-	300,862	300,862
	<u>14,328,055</u>	<u>2,729,370</u>	<u>831,904</u>	<u>764,865</u>	<u>526,352</u>	<u>610,110</u>	<u>302,071</u>	<u>20,092,727</u>
Equity								2,046,839
Total liabilities								<u>22,139,566</u>
Net Liquidity Gap	<u>(7,218,748)</u>	<u>3,992,036</u>	<u>(204,581)</u>	<u>784,627</u>	<u>352,419</u>	<u>5,347,202</u>	<u>131,147</u>	

36. Financial risk review (Continued)**d. Market Risk**

Market risk is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, caused by adverse movements in market variables such as currency exchange and interest rates, credit spreads, recovery rates, correlations, equity, bond and commodity prices, and implied volatilities in all of these variables.

The Group's and the Bank's key market risks are:

- Trading Book Interest Rate risk;
- Banking Book Interest Rate risk;
- Foreign currency risk.

The governance committees overseeing market risk are the Risk Committee (Board Committee), the Asset & Liability Management Committee and Treasury Committee.

Trading Book Interest Rate Risk is represented by financial instruments, namely Treasury Bills and Bonds, held on the trading book, arising out of normal global markets trading activity.

Interest Rate Risk in the Banking Book

These are risks that have an impact on net interest income that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities. This is further divided into the following sub risk types:

- Repricing risk: timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities.
- Yield curve risk: shifts in the yield curve that have adverse effects on the income or underlying economic value.
- Basis risk: hedge price not moving in line with the price of the hedged position.

36. Financial risk review (Continued)**d. Market Risk (Continued)**

Exposure to interest rate risk

Group	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-interest bearing	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
2017								
Assets								
Cash and Cash equivalents	1,772,246	-	-	-	-	-	-	1,772,246
Loans and advances to banks	-	-	-	-	37,560	202,470	-	240,030
Loans and advances to customers	1,638,833	2,079,311	634,511	204,223	204,434	6,773,993	950,580	12,485,885
Investment securities	18,705	38,542	410,061	620,644	571,444	844,263	-	2,503,659
Other Assets	40,314	-	-	-	-	-	860,886	901,200
	3,470,098	2,117,853	1,044,572	824,867	813,438	7,820,726	1,811,466	17,903,020
Less allowances for credit impairment								(738,164)
Total assets								17,164,856
2017								
Liabilities								
Deposits from banks	16	-	-	-	-	-	-	16
Deposits from customers	1,451,491	1,511,507	1,618,769	2,109,415	1,150,230	3,734,003	1,857	11,577,272
Borrowed funds	97,928	351,729	1,579,638	907,650	-	214,901	-	3,151,846
Subordinated liabilities	-	-	-	-	-	202,470	-	202,470
Other Liabilities	-	-	-	-	-	-	407,859	407,859
Total liabilities	1,549,435	1,863,236	3,198,407	3,017,065	1,150,230	4,151,374	409,716	15,339,463
Interest rate sensitivity gap	1,920,663	254,617	(2,153,835)	(2,192,198)	(336,792)	3,669,352	1,401,750	1,825,393

36. Financial risk review (Continued)**d. Market Risk (Continued)**

Exposure to interest rate risk

Group	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-interest bearing	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
2016								
Assets								
Cash and Cash equivalents	1,670,683	5,179,181	-	6,165	446	-	-	6,856,475
Loans and advances to banks	17,321	-	238,346	58,638	114,345	217,110	-	645,760
Loans and advances to customers	2,502,856	1,323,214	1,931,407	721,582	20,654	6,605,988	-	13,105,701
Investment securities	10,470	79,075	160,050	426,000	315,000	845,299	-	1,835,894
Other Assets	677,049	-	-	-	-	-	243,510	920,559
	4,878,379	6,581,470	2,329,803	1,212,385	450,445	7,668,397	243,510	23,364,389
Less allowances for credit impairment								(1,520,943)
Total assets								21,843,446
2016								
Liabilities								
Deposits from banks	-	-	-	-	-	-	1,209	1,209
Deposits from customers	6,653,734	6,551,077	45,638	1,390,843	268,880	679,274	-	15,589,446
Borrowed funds	426,888	1,395,732	762,288	1,279,538	-	252,588	-	4,117,034
Subordinated liabilities	-	-	-	-	-	274,283	-	274,283
Other Liabilities	18,537	-	-	-	-	-	303,690	322,227
Total liabilities	7,099,159	7,946,809	807,926	2,670,381	268,880	1,206,145	304,899	20,304,199
Interest rate sensitivity gap	(2,220,780)	(1,365,339)	1,521,877	(1,457,996)	181,565	6,462,252	(61,389)	1,539,247

36. Financial risk review (Continued)**d. Market Risk (Continued)**

Exposure to interest rate risk

Group	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-interest bearing	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
2015								
Assets								
Cash and Cash equivalents	2,841,833	5,391	5,372	9,795	2,879	-	601,625	3,466,895
Loans and advances to banks	5	-	2,616	35,305	304,374	373,500	-	715,800
Loans and advances to customers	5,041,440	784,536	1,341,496	508,357	1,145,776	8,185,663	-	17,007,268
Investment securities	-	31,377	235,517	85,052	414,884	724,200	-	1,491,030
Other Assets	-	-	-	-	-	-	959,985	959,985
	7,883,278	821,304	1,585,001	638,509	1,867,913	9,283,363	1,561,610	23,640,978
Less allowances for credit impairment								(1,424,421)
Total assets								22,216,557
2015								
Liabilities								
Deposits from banks	-	-	900,750	612,510	-	-	-	1,513,260
Deposits from customers	12,575,191	93,939	534,176	520,062	2,021,977	912,710	-	16,658,055
Borrowed funds	613,676	500,110	108,884	292,141	-	311,758	-	1,826,569
Subordinated liabilities	-	-	-	-	-	528,737	-	528,737
Other Liabilities	-	-	-	-	-	-	348,818	348,818
Total liabilities	13,188,867	594,049	1,543,810	1,424,713	2,021,977	1,753,205	348,818	20,875,439
Interest rate sensitivity gap	(5,305,589)	227,255	41,191	(786,204)	(154,064)	7,530,158	1,212,792	1,341,118

36. Financial risk review (Continued)**d. Market Risk (Continued)**

Exposure to interest rate risk

Bank	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-interest bearing	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
2017								
Assets								
Cash and Cash equivalents	1,598,593	-	-	-	-	-	-	1,598,593
Loans and advances to banks	-	-	-	-	37,560	202,470	-	240,030
Loans and advances to customers	1,550,720	2,040,769	623,500	204,223	195,625	6,773,993	950,579	12,339,409
Investment securities	-	-	399,049	620,644	562,634	844,263	-	2,426,590
Other Assets	-	-	-	-	-	-	860,902	860,902
	3,149,313	2,040,769	1,022,549	824,867	795,819	7,820,726	1,811,481	17,465,524
Less allowances for credit impairment								(720,770)
Total assets								16,744,754
2017								
Liabilities								
Deposits from banks	-	-	-	-	-	-	-	-
Deposits from customers	1,197,965	1,511,507	1,617,968	2,106,883	1,064,410	3,733,135	-	11,231,868
Borrowed funds	97,861	351,729	1,579,637	907,650	-	214,901	-	3,151,778
Subordinated liabilities	-	-	-	-	-	202,470	-	202,470
Other Liabilities	-	-	-	-	-	-	400,673	400,673
Total liabilities	1,295,826	1,863,236	3,197,605	3,014,533	1,064,410	4,150,506	400,673	14,986,789
Interest rate sensitivity gap	1,853,487	177,533	(2,175,056)	(2,189,666)	(268,591)	3,670,220	1,410,808	1,757,965

36. Financial risk review (Continued)**d. Market Risk (Continued)**

Exposure to interest rate risk

Bank	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-interest bearing	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
2016								
Assets								
Cash and Cash equivalents	1,604,704	5,179,181	-	6,165	446	-	-	6,790,496
Loans and advances to banks	17,321	-	238,346	58,638	114,345	217,110	-	645,760
Loans and advances to customers	2,421,215	1,321,776	1,931,407	721,582	14,025	6,593,963	-	13,003,968
Investment securities	-	-	160,050	426,000	315,000	845,300	189,706	1,936,056
Other Assets	657,037	-	-	-	-	-	243,512	900,549
	4,700,277	6,500,957	2,329,803	1,212,385	443,816	7,656,373	433,218	23,276,829
Less allowances for credit impairment								(1,507,606)
Total assets								21,769,223
2016								
Liabilities								
Deposits from banks	-	-	-	-	-	-	1,209	1,209
Deposits from customers	6,463,627	6,551,077	45,638	1,390,843	268,880	679,274	-	15,399,339
Borrowed funds	426,888	1,395,732	762,288	1,279,538	-	252,588	-	4,117,034
Subordinated liabilities	-	-	-	-	-	274,283	-	274,283
Other Liabilities	-	-	-	-	-	-	300,862	300,862
Total liabilities	6,890,515	7,946,809	807,926	2,670,381	268,880	1,206,145	302,071	20,092,727
Interest rate sensitivity gap	(2,190,238)	(1,445,852)	1,521,877	(1,457,996)	174,936	6,450,228	131,147	1,676,496

36. Financial risk review (Continued)**d. Market Risk (Continued)**

Exposure to interest rate risk

Bank	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-interest bearing	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
2015								
Assets								
Cash and Cash equivalents	2,720,488	5,391	5,372	9,795	2,879	-	601,625	3,345,550
Loans and advances to banks	5	-	2,616	35,305	304,374	373,500	-	715,800
Loans and advances to customers	4,934,150	784,536	1,341,496	508,310	1,130,913	8,169,156	-	16,868,561
Investment securities	-	-	224,327	74,708	414,884	724,200	-	1,438,119
Other Assets	-	-	-	-	-	-	918,656	918,656
	7,654,643	789,927	1,573,811	628,118	1,853,050	9,266,856	1,520,281	23,286,686
Less allowances for credit impairment								(1,414,915)
Total assets								21,871,771
2015								
Liabilities								
Deposits from banks	-	-	900,750	612,510	-	-	-	1,513,260
Deposits from customers	12,311,890	93,939	530,679	515,050	1,989,411	912,477	-	16,353,446
Borrowed funds	613,676	500,110	108,884	292,141	-	311,758	-	1,826,569
Subordinated liabilities	-	-	-	-	-	528,737	-	528,737
Other Liabilities	-	-	-	-	-	-	357,299	357,299
Total liabilities	12,925,566	594,049	1,540,313	1,419,701	1,989,411	1,752,972	357,299	20,579,311
Interest rate sensitivity gap	(5,270,923)	195,878	33,498	(791,583)	(136,361)	7,513,884	1,162,982	1,292,460

36. Financial risk review (Continued)**d. Market Risk (Continued)**

The Group's and the Bank's primary exposures to foreign currency risk arise as a result of the translation effect on the net assets in foreign operations, intragroup foreign-denominated debt and foreign denominated cash exposures and accruals.

Group	MUR Rs 000	USD Rs 000	GBP Rs 000	EUR Rs 000	Other Rs 000	Total Rs 000
2017						
Assets						
Cash and Cash equivalents	485,462	950,654	13,461	101,238	221,431	1,772,246
Loans and advances to banks	-	202,470	2,497	-	35,062	240,029
Loans and advances to customers	6,647,391	2,088,167	34,459	3,569,421	146,447	12,485,885
Investment securities	2,256,277	-	-	170,312	77,069	2,503,658
Other assets	860,902	-	-	1,029	39,270	901,201
	10,250,032	3,241,291	50,417	3,842,000	519,279	17,903,019
Less allowances for credit impairment						(738,164)
Total assets						17,164,855
2017						
Liabilities						
Deposits from banks	-	-	-	-	-	-
Deposits from customers	7,862,672	2,053,981	33,152	1,215,336	412,131	11,577,272
Borrowed funds	-	890,868	6,356	2,254,554	-	3,151,778
Subordinated liabilities	-	202,470	-	-	-	202,470
Other liabilities	404,840	-	-	-	3,019	407,859
Total liabilities	8,267,512	3,147,319	39,508	3,469,890	415,150	15,339,379
Net on-balance sheet position less allowances for credit impairment	1,982,520	93,972	10,909	372,110	104,129	1,825,476

36. Financial risk review (Continued)**d. Market Risk (Continued)**

Currency risk

Group	MUR Rs 000	USD Rs 000	GBP Rs 000	EUR Rs 000	Other Rs 000	Total Rs 000
2016						
Assets						
Cash and Cash equivalents	691,262	5,617,186	10,111	438,942	98,974	6,856,475
Loans and advances to banks	17,800	361,850	2,444	225,272	38,394	645,760
Loans and advances to customers	5,946,767	3,207,080	32,572	3,811,763	107,519	13,105,701
Investment securities	1,746,350	-	-	-	89,544	1,835,894
Other assets	900,048	3,001	-	-	17,510	920,559
	9,302,227	9,189,117	45,127	4,475,977	351,941	23,364,389
Less allowances for credit impairment						(1,520,943)
Total assets						21,843,446
2016						
Liabilities						
Deposits from banks	1,209	-	-	-	-	1,209
Deposits from customers	6,556,757	7,292,510	42,489	1,442,485	255,205	15,589,446
Borrowed funds	-	1,794,776	-	2,322,258	-	4,117,034
Subordinated liabilities	-	217,110	-	57,173	-	274,283
Other liabilities	307,120	-	-	-	15,107	322,227
Total liabilities	6,865,086	9,304,396	42,489	3,821,916	270,312	20,304,199
Net on-balance sheet position less allowances for credit impairment	2,437,141	(115,279)	2,638	654,061	81,629	1,539,247

36. Financial risk review (Continued)**d. Market Risk (Continued)***Currency risk (Continued)*

Group	MUR Rs 000	USD Rs 000	GBP Rs 000	EUR Rs 000	Other Rs 000	Total Rs 000
2015						
Assets						
Cash and Cash equivalents	525,653	2,552,059	101,804	51,014	236,365	3,466,895
Loans and advances to banks	28,120	360,300	13,545	275,315	38,520	715,800
Loans and advances to customers	6,997,025	5,787,791	28,195	4,006,558	187,699	17,007,268
Investment securities	1,438,119	-	-	-	52,911	1,491,030
Other assets	817,283	39,146	3,421	56,440	43,695	959,985
	9,806,200	8,739,296	146,965	4,389,327	559,190	23,640,978
Less allowances for credit impairment						(1,424,421)
Total assets						22,216,557
2015						
Liabilities						
Deposits from banks	-	1,513,260	-	-	-	1,513,260
Deposits from customers	7,707,638	6,751,766	137,052	1,721,311	340,288	16,658,055
Borrowed funds	-	-	-	1,784,103	42,466	1,826,569
Subordinated liabilities	-	271,126	-	257,611	-	528,737
Other liabilities	348,818	-	-	-	-	348,818
Total liabilities	8,056,456	8,536,152	137,052	3,763,025	382,754	20,875,439
Net on-balance sheet position less allowances for credit impairment	1,749,744	203,144	9,913	626,302	176,436	1,341,118

36. Financial risk review (Continued)**d. Market Risk (Continued)***Currency risk (Continued)*

Bank	MUR Rs 000	USD Rs 000	GBP Rs 000	EUR Rs 000	Other Rs 000	Total Rs 000
2017						
Assets						
Cash and Cash equivalents	485,461	950,237	13,461	100,356	49,078	1,598,593
Loans and advances to banks	-	202,470	2,497	-	35,063	240,030
Loans and advances to customers	6,647,391	2,088,133	34,459	3,569,415	11	12,339,409
Investment securities	2,256,278	-	-	170,312	-	2,426,590
Other assets	860,902	-	-	-	-	860,902
	10,250,032	3,240,840	50,417	3,840,083	84,152	17,465,524
Less allowances for credit impairment						(720,770)
Total assets						16,744,754
2017						
Liabilities						
Deposits from banks	-	-	-	-	-	-
Deposits from customers	7,862,672	2,051,584	33,152	1,213,721	70,739	11,231,868
Borrowed funds	-	890,868	6,357	2,254,553	-	3,151,778
Subordinated liabilities	-	202,470	-	-	-	202,470
Other liabilities	400,673	-	-	-	-	400,673
Total liabilities	8,263,345	3,144,922	39,509	3,468,274	70,739	14,986,789
Net on-balance sheet position less allowances for credit impairment	1,986,687	95,918	10,908	371,809	13,413	1,757,965

36. Financial risk review (Continued)**d. Market Risk (Continued)***Currency risk (Continued)*

Bank	MUR Rs 000	USD Rs 000	GBP Rs 000	EUR Rs 000	Other Rs 000	Total Rs 000
2016						
Assets						
Cash and Cash equivalents	691,261	5,616,800	10,110	436,151	36,174	6,790,496
Loans and advances to banks	17,800	361,850	2,444	225,272	38,394	645,760
Loans and advances to customers	5,946,777	3,207,028	32,572	3,811,738	5,860	13,003,975
Investment securities	1,936,056	-	-	-	-	1,936,056
Other assets	900,548	-	-	-	-	900,548
	9,492,442	9,185,678	45,126	4,473,161	80,428	23,276,835
Less allowances for credit impairment						(1,507,606)
Total assets						21,769,229
2016						
Liabilities						
Deposits from banks	1,209	-	-	-	-	1,209
Deposits from customers	6,556,757	7,292,510	42,489	1,442,485	65,098	15,399,339
Borrowed funds	-	1,794,776	-	2,322,258	-	4,117,034
Subordinated liabilities	-	217,110	-	57,173	-	274,283
Other liabilities	300,862	-	-	-	-	300,862
Total liabilities	6,858,828	9,304,396	42,489	3,821,916	65,098	20,092,727
Net on-balance sheet position less allowances for credit impairment	2,633,614	(118,718)	2,637	651,245	15,330	1,676,502

36. Financial risk review (Continued)**d. Market Risk (Continued)***Currency risk (Continued)*

Bank	MUR Rs 000	USD Rs 000	GBP Rs 000	EUR Rs 000	Other Rs 000	Total Rs 000
2015						
Assets						
Cash and Cash equivalents	525,653	2,551,878	101,804	48,332	117,883	3,345,550
Loans and advances to banks	28,120	360,300	13,545	275,315	38,520	715,800
Loans and advances to customers	6,997,025	5,787,729	28,195	4,006,545	49,067	16,868,561
Investment securities	1,438,119	-	-	-	-	1,438,119
Other assets	817,283	39,146	3,421	56,440	2,366	918,656
	9,806,200	8,739,053	146,965	4,386,632	207,836	23,286,686
Less allowances for credit impairment						(1,414,915)
Total assets						21,871,771
2015						
Liabilities						
Deposits from banks	-	1,513,260	-	-	-	1,513,260
Deposits from customers	7,674,848	6,744,623	137,052	1,719,054	77,869	16,353,446
Borrowed funds	-	-	-	1,784,103	42,466	1,826,569
Subordinated liabilities	-	271,126	-	257,611	-	528,737
Other liabilities	357,299	-	-	-	-	357,299
Total liabilities	8,032,147	8,529,009	137,052	3,760,768	120,335	20,579,311
Net on-balance sheet position less allowances for credit impairment	1,774,053	210,044	9,913	625,864	87,501	1,292,460

36. Financial risk review (Continued)**d. Market Risk (Continued)***Currency Risk (Continued)*

The foreign currency risk sensitivity analysis below reflects the expected financial impact, in MUR equivalent, resulting from a 1% shock to foreign currency risk exposures, with respect to designated financial instruments, foreign-denominated cash balances and accruals and intragroup foreign-denominated debt.

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Effect of +/- 1% change	26,397	31,263	8,394	25,449	32,289	8,458

e. Capital Management

The Group's and the Bank's objective in its capital management function is designed to ensure that regulatory requirements are met at all times and that the Group and the Bank are capitalised in line with the regulatory requirements. During the past year, the Group and the Bank have complied in full with all its externally imposed capital requirements.

At the regulatory level, the minimum capital adequacy ratio set by BOM for banks presently stands at 10% of risk-weighted assets, with newly-unveiled Basel III rules which came into force as from 1 July 2014, in relation to the Guideline on Scope of Application of Basel III and Eligible Capital as well as the Guideline for dealing with Domestic – Systemically Important Banks.

As per the Bank of Mauritius Guideline of Eligible Capital for the implementation of Basel III, the following limits and minima are applicable:

- A minimum Core Equity Tier 1 ratio of 5.5% ;
- A minimum Tier 1 ratio of 6.5%; and
- A Minimum Capital Adequacy Ratio of 10%.

The Group and the Bank are well positioned to comply with the requirements that are subject to phase-in rules when they become effective.

36. Financial risk review (Continued)**e. Capital Management (Continued)****Implementation of new capital requirements under Basel III**

The below reflects the minimum capital requirements and phase-in periods applicable to banks in Mauritius.

	2014	2015	2017	2016	2019	2017	2018	2019	2020
	(All dates are as of 1 January)								
Minimum CET 1 CAR	5.50%	6.00%		6.50%		6.50%	6.50%	6.50%	6.50%
Capital Conservation Buffer						0.625%	1.25%	1.875%	2.5%
Minimum CET 1 CAR plus Capital Conservation Buffer	5.50%	6.00%		6.50%		7.125%	7.750%	8.375%	9.00%
Phase in of deductions from CET 1				50%		60%	80%	100%	100%
Minimum Tier 1 CAR	6.50%	7.50%		8.00%		8.00%	8.00%	8.00%	8.00%
Minimum Total CAR	10.00%	10.00%		10.00%		10.00%	10.00%	10.00%	10.00%
Minimum Total CAR Plus Capital Conservation Buffer	10.00%	10.00%		10.00%		10.625%	11.25%	11.875%	12.50%
Capital instruments that no longer qualify as AT1 capital or Tier 2 capital	Phased out over 10 year horizon beginning 1 July 2014								

Capital Structure

Regulatory capital adequacy is measured through three risk-based ratios:

- CET I: ordinary share capital, share premium and retained earnings divided by total risk-weighted assets.
- Tier I: CET I plus perpetual, non-cumulative instruments with principal loss absorption features issued under the Basel III rules divided by total risk-weighted assets. perpetual non-cumulative preference shares issued under Basel I and II are included in Tier I capital but are subject to regulatory phase-out requirements.
- Total capital adequacy: Tier I plus other items such as the general allowance for credit impairments and subordinated debt with principal loss-absorption features issued under Basel III divided by total risk-weighted assets. subordinated debt issued under Basel I and Basel II are included in total capital but are subject to regulatory phase-out requirements

For each of the three categories above, the Bank of Mauritius has defined in its Guideline on Eligible Capital a single set of criteria that the instruments are required to meet before they can be included in the relevant category.

36. Financial risk review (Continued)**e. Capital Management (Continued)****Capital Structure (Continued)**

As at 31st December 2017, the Bank's and Group's capital instruments comprised of only

- Ordinary Shares issued;
- Subordinated Debt availed by the Bank from its holding company (BPCE International).

The Bank's CET 1, Tier 1 and Tier 2 capital are as per below:

	GROUP		BANK	
	Dec-17	Dec-16	Dec-17	Dec-16
	Rs M	Rs M	Rs M	Rs M
BASEL III				
Tier 1 Capital				
Paid up or assigned capital (note 31)	1,944	1,944	1,944	1,944
Statutory reserve	102	83	102	83
Other disclosed free reserves, including undistributed balance in income statement	78	(145)	36	(63)
Current year's retained profits				
Minority interests	9	8	-	-
Deduct:				
Goodwill (note 23)	-	(76)	-	-
Investment in Subsidiary (note 21)	-	-	-	(95)
Other Intangible assets (note 23)	(117)	(134)	(115)	(134)
Deferred Tax (note 16)	(205)	(176)	(205)	(176)
CET 1 Capital	1,811	1,504	1,762	1,559
Additional Tier 1 Capital	-	-	-	-
Total Tier 1 Capital	1,811	1,504	1,762	1,559
Tier 2 Capital				
Portfolio Provision (note 19)	147	144	147	143
Subordinated debts (note 29)	104	157	104	157
Deduct:				
Investment in Subsidiary (note 21)	-	-	-	(95)
Total Tier 2 Capital	251	301	251	205
Total Capital Base	2,062	1,805	2,013	1,764

36. Financial risk review (Continued)**e. Capital Management (Continued)****Capital Structure (Continued)****Risk Weighted Assets for Credit Risk**

The Bank has adopted the Standardised Approach for credit risk capital allocation.

Risk Weighted On-Balance Sheet Assets	Risk Weight	GROUP		BANK		
		Exposures after CRM	Risk Weighted Assets	Exposures after CRM	Risk Weighted Assets	
	%				Rs M	
Cash items	0-20	237	-	201	-	
Claims on Sovereigns	0-150	2,293	73	2,220	-	
Claims on Central banks	-	2,108	757	1,975	624	
Claims on Multilateral development banks	0-150	-	-	-	-	
Claims on banks	20-150	833	354	833	353	
Claims on non-central government public sector entities	0-150	-	-	-	-	
Claims on corporates	20-150	6,952	6,998	6,861	6,861	
Claims included in the regulatory retail portfolio	75	182	137	182	137	
Claims secured by residential property	35-100	3,426	3,146	3,425	3,146	
Claims secured by commercial real estate	100	323	323	323	323	
Past due claims	50-150	785	540	757	505	
Other assets	100	593	593	382	382	
Total Risk Weighted On-Balance Sheet Assets		17,732	12,921	17,159	12,331	
Risk Weighted Off-Balance Sheet Assets	Credit Conversion Factor	Risk Weight	Exposures after CRM	Risk Weighted Assets	Exposures after CRM	Risk Weighted Assets
	50	0-100	1,522	761	1,515	757
	20	0-100	346	69	346	69
	20	0-100	1,879	490	1,864	483
	2	100	-	-	-	-
Total Risk Weighted Off-Balance Sheet Assets			3,747	1,320	3,725	1,309
Total Risk Weighted On & Off Balance Sheet Assets			21,479	14,241	20,884	13,640

Risk Weighted Assets for Operational Risk

The Group applies the Basic Indicator Approach in determining the required operational risk capital, mainly driven by its more conservative results and ease of computation. The capital charge, under the Basic Indicator Approach, is arrived at by applying 15% (denoted as alpha) to the average of positive annual gross income over the previous three years. This alpha percentage is set by regulator and relates to the industry-wide level of required capital.

The Capital Charge for the Group has been computed as follows:

- Annual gross income: Rs 680 million
- Average gross income over 3 years: Rs 668 million
- Capital charge for operational risk: Rs 100 million

The Capital Charge for the Bank has been computed as follows:

- Annual gross income: Rs 624 million
- Average gross income over 3 years: Rs 626 million
- Capital charge for operational risk: Rs 94 million

36. Financial risk review (Continued)**e. Capital Management (Continued)****Capital Structure (Continued)****Risk Weighted Capital Adequacy Ratio**

The regulatory Capital Adequacy Ratio is as follows:

	Group			Bank		
	2017	2016	2015	2017	2016	2015
	Rs M	Rs M	Rs M	Rs M	Rs M	Rs M
Core Equity Tier 1 Capital	1,811	1,504	1,290	1,762	1,561	1,364
Total Tier 1 Capital	1,811	1,504	1,290	1,762	1,561	1,364
Total Tier 2 Capital	251	301	411	251	205	315
Total Capital Base	2,062	1,805	1,701	2,013	1,766	1,679
Risk Weighted Assets	15,218	14,040	16,818	13,641	13,601	16,466
CET 1 Ratio	11.9%	10.7%	7.7%	12.1%	11.5%	8.3%
Tier 1 Ratio	11.9%	10.7%	7.7%	12.1%	11.5%	8.3%
Capital Adequacy Ratio	13.6%	12.9%	10.1%	13.9%	13.0%	10.2%

f. Fair values of financial instruments

The tables that follow analyse the Group's and Bank's financial assets and liabilities that are measured at fair value at the end of the reporting period, by level of fair value hierarchy as required by IFRS. The different levels are based on the extent to which observable market data and inputs are used in the calculation of the fair value of the financial assets and liabilities. The levels of the hierarchy are defined as follows:

Level 1 – fair values are based on quoted market prices (unadjusted) in active markets for an identical financial asset or liability. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – fair values are calculated using valuation techniques based on observable inputs, either directly (that is, as prices) or indirectly (that is, derived from prices). This category includes financial assets and liabilities valued using quoted market prices in active markets for similar financial assets or liabilities, quoted prices for identical or similar financial assets or liabilities in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly derived or corroborated from observable market data.

Level 3 – fair values are based on valuation techniques using significant unobservable inputs. This category includes financial assets and liabilities where the valuation technique includes unobservable inputs that have a significant effect on the financial asset or liability's valuation. This category includes financial assets and liabilities that are valued based on quoted prices for similar financial assets or liabilities and for which significant unobservable adjustments or assumptions are required to reflect differences between the financial assets or liabilities.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

36. Financial risk review (Continued)**f. Fair values of financial instruments (Continued)****Group - 2017****In Rs 000****Assets**

Investment securities

Liabilities

Derivative financial instruments

Group - 2016

In Rs 000

Assets

Investment securities

Liabilities

Derivative financial instruments

Group - 2015

In Rs 000

Assets

Investment securities

Bank – 2017**In Rs 000****Assets**

Investment securities

Investment in subsidiary

Liabilities

Derivative financial instruments

Bank – 2016

In Rs 000

Assets

Investment securities

Investment in subsidiary

Liabilities

Derivative financial instruments

Bank - 2015

In Rs 000

Assets

Investment securities

Investment in subsidiary

Liabilities

Derivative financial instruments

Fair Value			Carrying amount
Level 1	Level 2	Level 3	
-	2,503,659	-	2,503,659

Fair Value			Carrying amount
Level 1	Level 2	Level 3	
	1,835,894		1,835,894

-	2,284	-	2,284
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Fair Value			Carrying amount
Level 1	Level 2	Level 3	
-	1,491,030	-	1,491,030

Fair Value			Carrying amount
Level 1	Level 2	Level 3	
-	1,936,056	-	1,936,056
-	189,706	-	189,706
-	2,125,762	-	2,125,762

-	-	-	-
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Fair Value			Carrying amount
Level 1	Level 2	Level 3	
-	1,746,350	-	1,746,350
-	-	189,706	189,706
-	1,746,350	189,706	1,936,056

-	-	2,284	-
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Fair Value			Carrying amount
Level 1	Level 2	Level 3	
-	-	-	-
-	-	190,201	190,201
-	-	190,201	190,201

-	170	-	170
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36. Financial risk review (Continued)**f. Fair values of financial instruments (Continued)****Level 2 financial assets and financial liabilities**

The following table sets out the group's principal valuation techniques as at 31 December 2017 used in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

Level 3 financial assets and financial liabilities

The fair value of an unquoted equity investment is deemed to be reliably measured if:

- The variability in the range of reasonable fair value estimates is not significant; or
- The probabilities of the various estimates within the range can be reasonably assessed.

In case of investment in subsidiary (operating in Madagascar) the Bank considers that the range of fair value estimates is significantly wide and that the probabilities of estimates cannot be reliably measured. As a result, cost less accumulated impairment is deemed to be the best estimates of fair value.

Hence, there are no significant quantitative observable inputs which will affect the fair value of the investment in subsidiary.

37. Supplementary information as required by the Bank of Mauritius

The Bank of Mauritius requires the Bank to disclose its assets and liabilities, income and expenditure classified into segments A and B. Segment B activity is essentially directed to the provision of international financial services that give rise to 'foreign source income'. Segment A activity relates to all banking business other than Segment B activity. Expenditure incurred by the Bank but which is not directly attributable to its income derived from Mauritius or its foreign source income is apportioned in a fair and reasonable manner.

Statements of profit or loss

Bank	2017			2016			2015		
	Segment A	Segment B	Total	Segment A	Segment B	Total	Segment A	Segment B	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Interest income	522,635	130,391	653,026	445,264	290,024	735,288	553,555	207,931	761,486
Interest expense	(146,403)	(85,388)	(231,791)	(141,006)	(128,341)	(269,347)	(243,275)	(94,175)	(337,450)
Net interest income	376,232	45,003	421,235	304,258	161,683	465,941	310,280	113,756	424,036
Fee and commission income	82,692	20,252	102,944	65,382	51,371	116,753	68,173	52,615	120,788
Fee and commission expense	(27,365)	(962)	(28,327)	(19,879)	(19,098)	(38,977)	(13,455)	(12,712)	(26,167)
Net fee and commission income	55,327	19,290	74,617	45,503	32,273	77,776	54,718	39,903	94,621
Net trading income	58,883	8,027	66,910	51,946	11,202	63,148	70,389	6,041	76,430
Net income from other financial instruments at fair value through profit or loss	-	(49,924)	(49,924)	-	(27,941)	(27,941)	(49)	-	(49)
Other income	3,093	11,400	14,493	3,062	42,104	45,166	1,100	10,410	11,510
				100,511	57,638	158,149	126,158	56,354	182,512
Revenue	493,535	33,796	527,331	404,769	219,321	624,090	436,438	170,110	606,548
			-						
Personnel expenses	(218,785)	(40,578)	(259,363)	(227,334)	(43,302)	(270,636)	(223,709)	(41,491)	(265,200)
Operating lease expenses	(36,699)	(7,858)	(44,557)	(38,330)	(5,170)	(43,500)	(40,999)	(4,600)	(45,599)
Depreciation and amortization	(54,269)	(9,463)	(63,732)	(45,500)	(5,624)	(51,124)	(18,573)	(3,239)	(21,812)
Other expenses	(150,572)	(31,147)	(181,719)	(120,283)	(40,002)	(160,285)	(119,920)	(32,124)	(152,044)
	(460,325)	(89,046)	(549,371)	(431,447)	(94,098)	(525,545)	(403,201)	(81,454)	(484,655)
Operating profit	33,210	(55,250)	(22,040)	(26,678)	125,223	98,545	33,237	88,656	121,893
Net impairment loss on loans and advances	(24,167)	116,391	92,224	(33,090)	(7,461)	(40,551)	(72,734)	(4,692)	(77,426)
Profit / (Loss) before tax	9,043	61,141	70,184	(59,768)	117,762	57,994	(39,497)	83,964	44,467
Income tax (Expense) / Credit	31,728	(4,286)	27,442	(70)	-	(70)	4,157	(3,148)	1,009
Profit / (Loss) for the year	40,771	56,855	97,626	(59,838)	117,762	57,924	(35,340)	80,816	45,476

38. Subsequent event

Groupe BPCE announced on the 20th of February 2018 that it has conditionally entered into agreements in respect of the sale of 100% of its equity stake in Banque Des Mascareignes ('BDM') to a Consortium of acquirers. The agreements are conditional upon their approval of the regulatory bodies in Mauritius. The deferred tax assets of Rs 204 M as disclosed in note (16), include an amount of Rs 125M in respect of income tax losses which the Company is carrying forward for set off against future income tax liabilities. According to Regulation 19 (3) of the Income Tax Act 1995, where a Company claims to carry forward to an income year any loss incurred by it in any former income year, the claim shall not be allowed in the eventuality that there is more than 50% change in shareholding. In the event that the sale goes ahead and under the current tax legislation, BDM will not be able to carry forward income tax losses of about Mur 839,650,492 and consequently, the deferred tax assets will have to revised down by Mur 125M- negatively impacting the profits for the year.

39. Ultimate holding company

The immediate and ultimate holding company are BPCE International and BPCE respectively, both incorporated in France.

40. Liquidity Coverage Ratio

During FY 2017, due to the persistence of excess liquidity conditions in MUR, the LCR ratio was maintained above 100%; in foreign currencies, the Bank constituted the required stock of High Quality Liquid Assets to meet the regulatory requirement. The overall ratio stands at 188 % which demonstrates the bank's resilience should it face any shortfall of liquidity.

	TOTAL UNWEIGHTED VALUE (AVERAGE) - Rs000	TOTAL WEIGHTED VALUE (AVERAGE) - Rs000
HIGH-QUALITY LIQUID ASSETS		
1 Total High-Quality Liquid Assets (HQLA)	3,643,048	3,643,049
CASH OUTFLOWS	3,643,048	3,643,049
2 Retail deposits and term deposits from small business customers, of which:	4,161,671	416,167
3 Stable deposits	-	-
4 Less stable deposits	4,161,671	416,167
5 Unsecured wholesale funding, of which:	6,760,744	2,493,439
6 Operational deposits (all counterparties)	-	-
7 Non-operational deposits (all counterparties)	6,760,743	2,493,439
8 Unsecured debt	-	-
9 Secured wholesale funding		
10 Additional requirements, of which:	2,480,742	260,380
11 Outflows related to derivative exposures and other collateral requirements	-	-
12 Outflows related to loss of funding on debt products	-	-
13 Credit and liquidity facilities	2,480,742	260,380
14 Other contractual funding obligations	487,777	487,777
15 Other contingent funding obligations	3,695	185
16 TOTAL CASH OUTFLOWS	13,894,629	3,657,948
CASH INFLOWS		
17 Secured funding (e.g. reverse repos)		
18 Inflows from fully performing exposures		
19 Other cash inflows	2,684,222	1,719,747
20 TOTAL CASH INFLOWS	2,684,222	1,719,747
	TOTAL ADJUSTED VALUE	
21 TOTAL HQLA		3,643,049
22 TOTAL NET CASH OUTFLOWS		1,938,201
23 LIQUIDITY COVERAGE RATIO (%)		188%

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