Out of the Ordinary

Investec

Annual Report

Investec Bank (Mauritius) Limited annual financial statements

2018

Corporate information

Secretary and registered office

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Directorate

David M Lawrence (67)
BA(Econ) (Hons), MCom
Chairman

Peter RS Thomas (73)
CA(SA)

Craig C McKenzie (57)
BSc, MSc (Agric Economics), CFA
Chief executive officer (CEO)

Pierre de Chasteigner du Mée (65) ACEA, FBIM, FMAAT

Angelique A Desvaux de Marigny (42)
LLB, Barrister-at-Law
Maitrise en Droit Privé (Université de Paris I Panthéon-Sorbonne)

Board committees

Board sub-committee

David M Lawrence (chairman)
Pierre de Chasteigner du Mée
Craig C McKenzie

Audit committee

Peter RS Thomas (chairman)
Angelique A Desvaux de Marigny
Pierre de Chasteigner du Mée

In attendance

Craig C McKenzie (CEO)
Lara Ann Vaudin (COO)
David Desvaux de Marigny (head of finance)
Farzanah Nowbuth (head of compliance)
Group head of market risk
Group head of internal audit
Group compliance officer
External auditors

Nomination and remuneration committee

David M Lawrence (chairman)
Peter RS Thomas
Pierre de Chasteigner du Mée

In attendance

Craig C McKenzie (CEO)
Lara Ann Vaudin (COO)
Group head of HR

Conduct review committee

Pierre de Chasteigner du Mée (chairman)
David M Lawrence
Peter RS Thomas

In attendance

Craig C McKenzie (CEO)

Corporate governance committee

Angelique A Desvaux de Marigny (chairperson)
David M Lawrence
Peter RS Thomas

Investment committee

Craig C McKenzie (chairman)
David M Lawrence
Pierre de Chasteigner du Mée

Risk management committee

Pierre de Chasteigner du Mée (chairman)
Craig C McKenzie
David M Lawrence

In attendance

Peter RS Thomas
Angelique A Desvaux de Marigny
Lara Ann Vaudin (COO)
David Desvaux de Marigny (head of finance)
Farzanah Nowbuth (head of compliance)

The 2018 annual report covers the period 1 April 2017 to 31 March 2018

This report covers our operations in Mauritius and has been structured to provide stakeholders with relevant financial and non-financial information.

Cross reference tools

1

Audited information

Denotes information in the risk and remuneration reports that forms part of the group's audited annual financial statements

2

Page references

Refers readers to information elsewhere in this report

3

Website

Indicates that additional information is available on our website: www.investec.com

4

Sustainability

Refers readers to further information in our sustainability report available on our website: www.investec.com

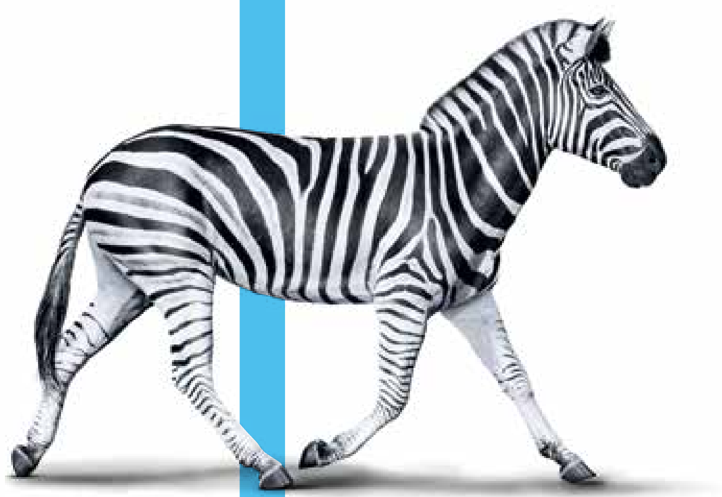
5

Reporting standard

Denotes our consideration of a reporting standard

Contents

Investec Bank (Mauritius) Limited in perspective



Investec Bank (Mauritius) Limited was established as a wholly-owned subsidiary of Investec Bank Limited in 1997

Who we are

Investec Bank (Mauritius) Limited (the bank) was established as a wholly-owned subsidiary of Investec Bank Limited in 1997. Initially the bank focused on structured finance transactions and then broadened its focus to cover a wider range of products, including property finance across most geographical regions where the Investec group has a footprint. Since being established, the bank has become recognised as one of the leading international banks in Mauritius.

The bank and its subsidiary (together referred to in this report as the group) employ a team of 85 staff and have an efficient and profitable business operating in compliance with regulatory standards and banking practices both in Mauritius and in South Africa.

The group embraces Investec group's strategic goals and objectives, which are based on the aspiration to be recognised as a distinctive specialist banking group and asset manager. This distinction is embodied in an entrepreneurial culture which is balanced by a strong risk management discipline, client-centric approach and the ability to be nimble, flexible and innovative. An essential pillar of the bank's operating philosophy is that it does not seek to be all things to all people. The bank's core philosophy has been to build a well-defined, value-added business, focused on serving the needs of select market niches where it can compete effectively.

The bank's specialised services in cross-border transactions are complemented by dedicated personal service, competitive rates and distinctive products.

Mauritius offers a convenient time zone with no exchange control or withholding taxes for non-residents.

What we do

The bank remains highly focused on the trends and dynamics within its jurisdiction and industry. Strong interaction takes place between the bank and its clients in developing new specialist products and services.

The bank offers the following services:

Specialised finance and lending

The bank provides aircraft finance, medium- to long-term structured finance, customised debt and equity products, commodity-based finance, and cash-backed and general lending services in major foreign currencies.

The bank offers residential and commercial property finance and is actively involved in financing commercial property developments as well as integrated resort schemes (IRS), real estate schemes (RES), property development schemes (PDS) and villa acquisitions in Mauritius.

Complementing its specialised finance and lending expertise, the bank offers advisory services covering structured finance, project finance and debt origination.

Treasury and deposit products

A range of treasury and deposit products, in the major foreign currencies, include call and fixed-term deposit accounts as well as foreign exchange and hedging.

The bank offers a secure online transactional banking facility that allows deposit account holders to open accounts, transact online, view account balances, transaction history and monthly statements and execute foreign currency dealings for amounts of up to one million US dollars or its equivalent in GBP, Euro and ZAR.

The bank also offers US Dollar, Euro and Pounds Sterling debit cards.

A wide network of correspondent banks and a SWIFT capability ensures a rapid and efficient service for the transfer of funds.

Wealth and Investment

The bank offers Private Wealth and Investment business via its subsidiary, Investec Wealth & Investment (Mauritius) Limited.

We strive to be a distinctive specialist bank and asset manager, driven by commitment to our core philosophies and values

Who we are

Founded as a leasing company in Johannesburg in 1974.

The Investec group acquired a banking licence in 1980 and was listed on the JSE Limited South Africa in 1986.

In 2002, the Investec group implemented a dual listed companies structure (DLC) listed in London and Johannesburg.

A year later, we concluded a significant empowerment transaction in which our empowerment partners collectively acquired a 25.1% stake in the issued share capital of Investec Limited.

Since inception, the Investec group has expanded through a combination of substantial organic growth and a series of strategic acquisitions.

Today, it has an efficient integrated international business platform offering all its core activities in the UK and the Southern African region.

Our philosophies

- Single organisation
- Meritocracy
- Focused businesses
- Differentiated, yet integrated
- Material employee ownership
- Creating an environment that stimulates extraordinary performance

We value

Distinctive performance

- Outstanding talent – empowered, enabled and inspired
- Meritocracy
- Passion, energy, stamina and tenacity
- Entrepreneurial spirit

Client focus

- Distinctive offering
- Leverage resources
- Break china for the client

Cast-iron integrity

- Moral strength
- Risk consciousness
- Highest ethical standards

Dedicated partnership

- Respect for others
- Embrace diversity
- Open and honest dialogue
- Unselfish contribution to colleagues, clients and society

What we do

Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity, namely: Asset Management, Wealth & Investment and Specialist Banking.

Overview of Investec's and Investec Bank (Mauritius) Limited's organisational structure

Operating structure

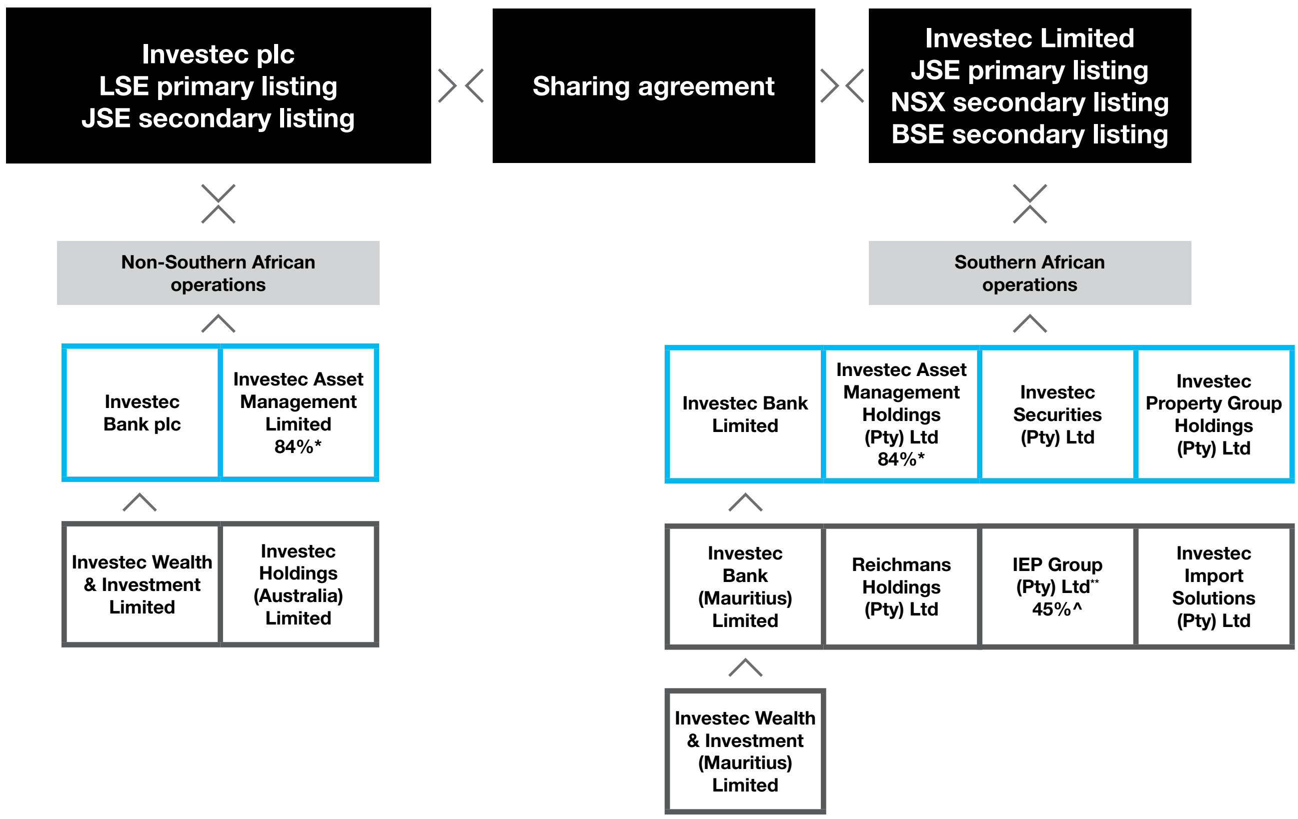
Investec Limited, which houses our Southern African and Mauritius operations, has been listed in South Africa since 1986.

During July 2002 Investec Group Limited (since renamed Investec Limited) implemented a dual listed companies (DLC) structure and listed its offshore business on the London Stock Exchange.

A circular on the establishment of our DLC structure was issued on 20 June 2002 and is available on our website.

In terms of the DLC structure, Investec Limited is the controlling company of our businesses in Southern Africa and Mauritius, and Investec plc is the controlling company of our non-Southern African businesses. Investec Limited is listed on the JSE Limited South Africa and Investec plc is listed on the London Stock Exchange. Investec Bank (Mauritius) Limited is a subsidiary of Investec Bank Limited.

Our DLC structure and main operating subsidiaries as at 31 March 2018



All shareholdings in the ordinary share capital of the subsidiaries are 100%, unless otherwise stated.

* *16% held by senior management in the company.*
** *Previously Investec Equity Partners (Pty) Ltd.*
^ *55% held by third party investors in the company together with senior management of the business.*

Salient features of the DLC structure

- Investec plc and Investec Limited are separate legal entities and listings, but are bound together by contractual agreements and mechanisms.
- Investec operates as if it is a single unified economic enterprise.
- Shareholders have common economic and voting interests as if Investec plc and Investec Limited were a single company.
- Creditors, however, are ring-fenced to either Investec plc or Investec Limited as there are no cross-guarantees between the companies.

Management discussion and analysis

Management discussion and analysis

Management discussion and analysis

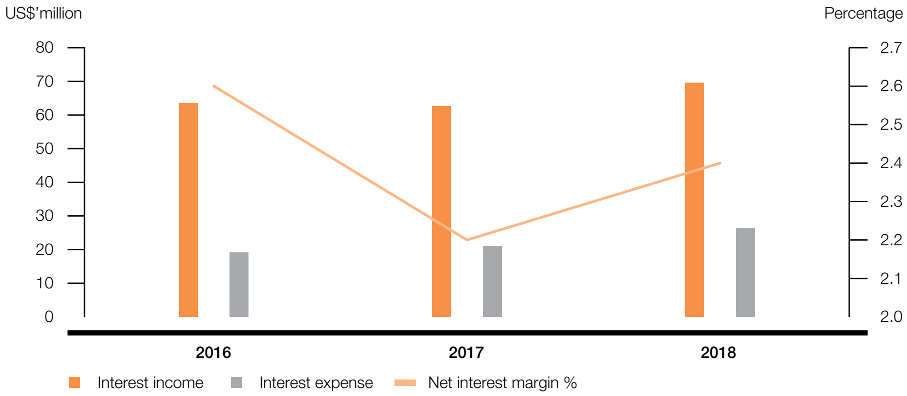
Business overview

The group posted an increase in net profit after tax of 22% to US$31.7 million (2017: US$25.9 million). Our improved performance was supported by an increase in operating income; net interest income and net fee income grew while investment loss reduced. Return on asset and equity improved while our capital ratio remains in excess of regulatory requirements. The group remains well equipped for growth while continuing to maintain its high credit standards.

Financial performance analysis

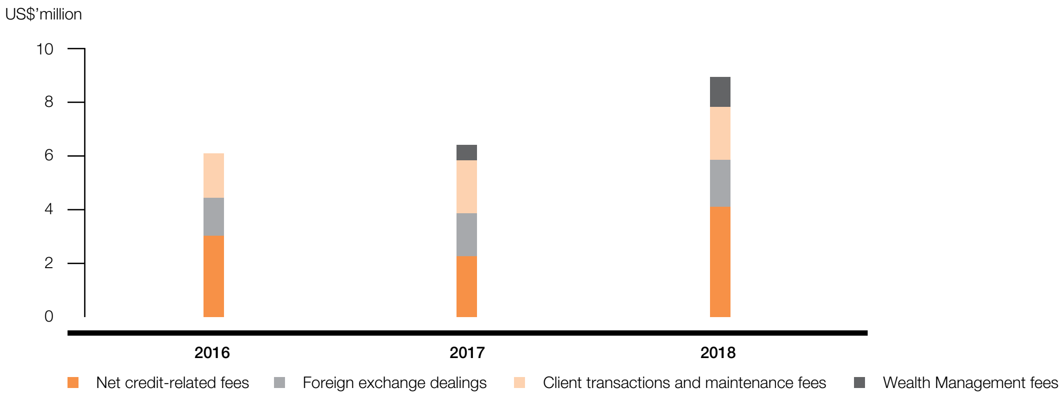
The overview that follows highlights variances in the major line items on the face of the income statements for the year under review.

Net interest income



Net interest income increased by 3.8% to US$43.1 million during the year under review. The deposit base and cash position decreased which, together with a positive net interest income on derivatives, resulted in an improved net interest margin ratio which stood at 2.4%, in line with expectations, as compared to 2.2% in the previous year.

Net fee income



Net fee income increased by 39% during the year as a result of an increase in activity and improved asset performance.

Investment loss

An unrealised investment loss of US$1.7 million was recorded on the investment portfolio, compared to a loss of US$5.2 million in the prior year, as share prices declined.

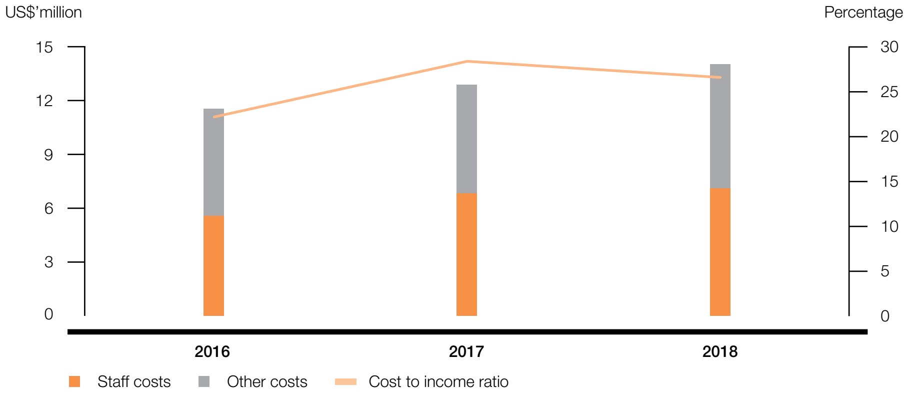
Net trading income

Net trading income decreased to US$0.4 million from US$1.0 million in 2017, driven by lower mark-to-market on derivatives.

Impairments on loans and advances

Impairments decreased by 9.1% from US$3.5 million to US$3.2 million and the credit loss ratio decreased from 0.39% to 0.34%.

Operating costs



Total costs increased by 8.7% to US$14.0 million mainly driven by IT and compliance costs. Staff costs represented 50.7% of the cost base, down from 52.8% for the previous year.

The cost-to-income ratio decreased by 5.8% from 29.4% in 2017 to 27.7% for the current year as a result of increased operating income.

Financial position analysis

For the year to 31 March US$'000	2018	% change 2018 vs 2017	2017	% change 2017 vs 2016	2016
Loans and advances to customers	952 637	4.2%	913 995	2.6%	891 098
Cash holdings	542 431	(33.5%)	816 070	18.8%	687 049
Customer deposits	893 397	(25.7%)	1 202 181	11.5%	1 077 907
Loans to deposits ratio	1.07	40.8%	0.76	(8.4%)	0.83

Loans and advances

Loans and advances grew by 4.2% to US$952.6 million during the year.

Cash holdings

Cash holdings, which include reverse repos, decreased by 33.5% to US$542.4 million as a result of a decrease in the deposit base.

Customer deposits

Total deposits, driven by a rationalisation of the deposit portfolio, decreased by 25.7% to US$893.4 million resulting in an increase in the loans to deposits ratio to 1.07.

Performance ratios

For the year to 31 March %	2018	2017	2016
Return on average equity	7.8	6.9	10.2
Return on average assets*	1.7	1.4	2.2

* *Figures based on average interest-earning assets.*

Return on average equity

Return on average equity increased to 7.8% as a result of the increase in net profit after tax for the year. The low return on equity should improve in the following year given anticipated dividend distributions.

Return on average assets

Return on assets was also positively impacted by the increase in profitability, increasing from 1.4% last year to 1.7% for the year. This should also improve in the following year as a lower amount of excess cash is projected.

Capital

For the year to 31 March %	2018	2017	2016
Shareholders' equity (US$'000)	419 976	388 015	359 883
Capital adequacy ratio (%)	30.9	27.2	27.5
Tier 1 ratio (%)	29.8	26.0	26.6

Total equity stood at US$420.0 million with the increase coming from the current year's profit. The capital adequacy ratio, mainly made up of tier 1 capital stood at 30.9%, well above the regulatory requirement.

Risk management

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included within this section of the annual report (pages 12 to 51) with further disclosures provided within the financial statements section (pages 66 to 160).

All sections, paragraphs, tables and graphs on which an audit opinion is expressed are marked as audited.

Philosophy and approach

The bank recognises that an effective risk management function is fundamental to its business. Taking international best practice into account, the bank's comprehensive risk management process involves identifying, quantifying, managing and mitigating the risks associated with its business.

Risk management's objectives

The bank's risk management's objectives are to:

- Be the custodian of its risk management culture
- Ensure the business operates within the board-stated appetite
- Support the long-term sustainability of the bank by providing an established independent framework for identifying, evaluating, monitoring and mitigating risk
- Set, approve and monitor adherence to risk parameters and limits across the group and ensure they are implemented and adhered to consistently
- Aggregate and monitor its exposure across risk classes
- Coordinate risk management activities across the organisation
- Give the board reasonable assurance that the risks the bank is exposed to are identified and, to the best extent possible, managed and controlled
- Run appropriate risk committees as mandated by the board.

Executive summary of the year in review from a risk perspective

The bank has continued to maintain a sound balance sheet with low leverage and a diversified business model. This has been supported by the following key operating fundamentals:

- Intimate involvement by senior management ensuring stringent management of risk, liquidity and capital
- A strong risk and capital management culture embedded into its day-to-day activities and values. The bank seeks to achieve an appropriate balance between risk and reward in its business taking cognisance of all stakeholders' interests
- Credit and counterparty exposures are restricted to a select target market, the bank's risk appetite continues to favour lower risk income-based lending with credit risk taken over a short-to medium term. Exposure is taken against defined target clients displaying a profile of good character, sound financial strength and integrity, a core competency and sound track record in the activity funded. Credit losses on core loans and advances for the year under review were low with a credit loss ratio standing at 0.3%
- Exposure to rated and unrated structured credit investments representing less than 1% of total assets
- A low leverage ratio of approximately 4.1 times
- A high level of readily available, high-quality liquid assets with cash and cash equivalent representing 32% of total assets
- High level of liquidity; the bank does not rely on interbank wholesale funding to fund core lending asset growth
- Healthy capital ratios; the bank has always held capital in excess of regulatory requirements and it intends to perpetuate this philosophy. The bank continued to strengthen its capital base and increased its asset during the period
- A high level of recurring income which continues to support sustainability of operating profit.

The bank's overall risk management philosophies, practices and frameworks have remained largely unchanged, and have held the bank in good stead. Maintaining credit quality, strictly managing risk and liquidity, and continuing to grow the capital base remain core strategic imperatives.

An overview of key risks

In the ordinary course of business the bank faces a number of risks that could affect its business operations

These risks are summarised in the table below along with the relevant page numbers.

The sections that follow provide information on a number of these risk areas:

14 – 35	43 – 46	46
Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients.	**Operational risk** may disrupt our business or result in regulatory action.	**Legal and regulatory risks** are substantial in our businesses.
40 – 42	46	38 – 39
Liquidity risk may impair our ability to fund our operations.	**Reputational, strategic** and **business risk.**	The bank's net interest earnings and net asset value may be adversely affected by **interest rate risk**.
43 – 45	43	36
The bank may be **vulnerable to the failure of its systems** and breaches of its security systems.	The bank is exposed to **non-traded currency risk** where fluctuation in exchange rates against the US dollar could have an impact on its financial results.	Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways.
47 – 51	43 – 46	36
The bank may have insufficient capital in the future and may be unable to secure additional financing when it is required.	**Employee misconduct** could cause harm that is difficult to detect.	**Equity and investment risk**
43 – 45		
The bank may be unable to **recruit, retain and motivate key personnel**.		*Additional risks and uncertainties not presently known to us or that we currently deem immaterial may in the future also negatively impact our business operations.*

See Investec's 2018 integrated annual report on our website.

Credit and counterparty risk management

Credit and counterparty risk description

Credit and counterparty risk is defined as the risk arising from an obligor's (typically a client's or counterparty's) failure to meet the terms of any agreement. Credit and counterparty risk arises when funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements whether reflected on- or off-balance sheet.

Credit and counterparty risk arises primarily from three types of transactions:

- Lending transactions, through loans and advances to clients and counterparties, create the risk that an obligor will be unable or unwilling to repay capital and/or interest on loans and advances granted to them. This category includes bank placements where the bank has placed funds with other financial institutions.
- Issuer risk on financial instruments where payments due from the issuer of a financial instrument will not be received.
- Trading transactions giving rise to settlement and replacement risk (collectively counterparty risk):
  - Settlement risk is the risk that the settlement of a transaction does not take place as expected. The bank's definition of settlement debtor is a short-term receivable (i.e. less than five days) excluded from credit and counterparty risk due to market-guaranteed settlement mechanisms.
  - Replacement risk is the financial cost of having to enter into a replacement contract with an alternative market counterparty, following default by the original counterparty.

Credit and counterparty risk can be impacted by country risk where cross-border transactions are undertaken. This can include geopolitical risks, transfer and convertibility risks and the impact on the borrower's credit profile due to local economic and political conditions.

In terms of the bank's country risk policy, the bank's credit committee with the approval of the group's credit committee will set either a general country limit or a deal-specific country limit specifically for the bank, for those countries where the bank has or will have an exposure. General and deal-specific country limits are classified as follows:

- General country limits are set for countries with an A to AAA country rating, determined by an eligible external credit assessment institution (ECAI) in which the bank has or will have an exposure
- Deal-specific country limits are set by the credit committee for those countries which do not have an A to AAA country rating and where the bank wishes to or has an exposure in that country.

Notwithstanding the country rating granted to a country by any one of the ECAIs allowing the country to be assigned a deal-specific country limit, the relevant credit committee has the mandate to assign a general country limit for that country.

For country and sovereign risk provisioning purposes, the bank's credit committee shall choose the country which better reflects the risk on each exposure between the country from which the cash flow shall emanate in order to service the debt, the country of incorporation or residency and the country where the bank will look to perfect its security in the first instance.

At 31 March 2018, the bank has provided an amount of US$2.4 million in respect of country risk which is included in tier 2 capital as part of 'general banking reserves and portfolio provisions'.

Credit and counterparty risk governance structure

The bank's credit committee manages, measures and mitigates credit and counterparty risk. This committee operates under board-approved delegated limits, policies and procedures. There is a high level of executive involvement and non-executive review and oversight in the credit decision-making forums. It is policy that the credit committee has a majority of voting members who are independent of the originating business unit. All decisions to enter into a transaction are based on unanimous consent.

In addition to the credit committee, the following processes assist in managing, measuring and monitoring credit and counterparty risk:

- Arrears management and regular arrears reporting ensures that individual positions and any potential trends are dealt with in a timely manner.
- The bank's operations committee and management committee review the management of distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision.
- The bank's investment committee reviews and manages exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements.
- The bank's credit review committee reviews all credit exposures on an annual basis.

Credit and counterparty risk appetite

Credit and counterparty risk is always assessed with reference to the aggregate exposure to a single counterparty or group of related parties to avoid or minimise over exposure and concentration risk.

The bank's assessment of its clients and counterparties includes consideration of their character and integrity, core competencies, track record and financial strength. A strong emphasis is placed on income and cash flow streams generated by the clients. Our primary assessment method is therefore the ability of the client to meet these payment obligations. Furthermore, the bank has very little appetite for unsecured debt and ensures that good quality collateral is provided in support of obligations.

Refer to pages 34 and 35 for further information.

Target clients include high-net-worth and/or high-income individuals, professionally qualified individuals, established corporates, small and medium enterprises, financial institutions and sovereigns. Corporates must have scale and relevance in their market, an experienced management team and able board members, and strong earnings and cash flow.

The bank typically originates loans with the intent of holding these assets to maturity, and thereby developing a 'hands-on' and long-standing relationship with our clients.

Pricing is motivated on a transaction by transaction basis, with consideration given to the manner of origination of the asset, capital usage and liquidity. Pricing recommendations are discussed and agreed at the credit committee to ensure that reward is appropriate to the risk and that pricing is not compromised in the pursuit of volume or relationship. As a consequence of market behaviour, pricing for similar risk may differ from time to time.

Concentration risk

Concentration risk is when large exposures exist to a single client or counterparty, group of connected counterparties, or to a particular geography, asset class or industry. An example of this would be where a number of counterparties are affected by similar economic, legal, regulatory or other factors that could mean their ability to meet contractual obligations are correlated.

Concentration risk can also exist where portfolio loan maturities are clustered to single periods in time. Loan maturities are monitored on a portfolio and a transaction level by the bank's risk management, group risk management and group lending operations.

Credit and counterparty risk is always assessed with reference to the aggregate exposure to a single counterparty or group of related parties to manage concentration risk.

Concentration of risk policies

The bank has adopted and complies with the Bank of Mauritius Guideline on Credit Concentration Risk. The bank ensures that it does not grant credit to a single customer and its related parties which exceed the regulatory limit stipulated in the guideline.

The bank which is a subsidiary of a foreign bank ensures that its credit exposures are within the following limits:

(i) Denominated in Mauritian rupees
 - (a) Aggregate credit exposure to any single customer shall not exceed 25% of the bank's Tier 1 Capital;
 - (b) Aggregate credit exposure to any group of connected counterparties shall not exceed 40% of the bank's Tier 1 Capital; and
 - (c) Aggregate large exposures to all customers and groups of connected counterparties shall not exceed 800% of the bank's Tier 1 capital.

(ii) Denominated in currencies other than Mauritian rupee
 - (a) Aggregate credit exposure to any single customer shall not exceed 50% of the bank's Tier 1 Capital;
 - (b) Aggregate credit exposure to any group of connected counterparties shall not exceed 75% of the bank's Tier 1 Capital; and
 - (c) Aggregate large exposures to all customers and groups of connected counterparties shall not exceed 1200% of the bank's Tier 1 capital. This limit is exclusive of the limit of 800% imposed in Mauritian rupee denominated credit.

Effective from 2 October 2017, the Bank of Mauritius revised the definition of large credit exposure as the sum of all exposures to a customer or group of connected counterparties in Mauritian Rupees or foreign currencies or both which is over 10% (previously 15%) of the financial institution's Tier 1 Capital (previously total capital base).

At 31 March 2018, there were seven customers or group of connected counterparties to whom the bank granted facilities aggregating more than 10% of its Tier 1 capital for a total amount of US$330.5 million (80.5 per cent of Tier 1 Capital).

At 31 March 2017, there were no customers or group of closely related customers to whom the bank granted facilities aggregating more than 15% of its capital base (2016: nil).

Risk appetite

The board has set the bank's risk appetite limit framework which regulates the maximum exposures the bank would be comfortable to tolerate in order to diversify and mitigate risk. This limit framework is monitored on an ongoing basis and reported to the group risk and capital committee (GRCC) and board risk and capital committee (BRCC) on a regular basis. Should there be any breaches to limits or where exposures are nearing limits, these exceptions are specifically highlighted for attention and any remedial actions agreed.

Management and measurement of credit and counterparty risk

Fundamental principles employed in the management of credit and counterparty risk are:

- A clear definition of the bank's target market.
- A quantitative and qualitative assessment of the creditworthiness of the bank's counterparties. Analysis of risks, including concentration risk (concentration risk considerations include asset class, industry, counterparty and geographical concentration).
- Prudential limits.
- Regular monitoring and review of existing and potential exposures once facilities have been approved.
- A high level of executive involvement in decision-making with non-executive review and oversight.

Regular reporting of credit and counterparty risk exposures is made to management, the executives and the board. The board regularly reviews and approves the appetite for credit and counterparty risk.

Despite strict adherence to the above principles, increased default risk may arise from unforeseen circumstances particularly in times of extreme market volatility and weak economic conditions.

A large proportion of the portfolio is not rated by external rating agencies. The bank mainly places reliance upon internal considerations of counterparties and borrowers and uses ratings prepared externally where available for support.

Within the credit approval process all available internal and external ratings are included in the assessment of the client quality.

Fitch (UK only), S&P, Moody's and Global Credit Ratings (SA only) have been nominated as eligible ECAI for the purposes of determining external credit ratings. The following elections have been made:

- In relation to sovereigns and securitisations, Fitch (UK only), Moody's, S&P and Global Credit Ratings (SA only) have been selected by Investec as eligible ECAIs.
- In relation to banks, corporates and debt securities, Fitch (UK only), Moody's and S&P are recognised as eligible ECAIs.
- If two assessments are available, the more conservative will apply.
- Where there are three or more credit ratings with different risk weightings, the credit ratings corresponding to the two lowest ratings should be referred to and the higher of those two ratings should be applied. The group applies the standardised approach for calculating capital requirements in the assessment of its credit and counterparty exposures. The group's banking subsidiaries conduct their mapping of credit and counterparty exposures in accordance with the mapping procedures specified by the Central Bank, in the respective geographies in which the group operates.

Related party transactions, policies and practices

The bank adheres to the Bank of Mauritius Guideline on Related Party Transactions. All transactions with a related party are carried out on terms and conditions that are at least as favourable to the bank as the market terms and conditions.

The conduct review committee (CRC) – which consists of three non-executive directors – approves, reviews and monitors the related party transactions. The committee meets at least once every quarter to review and approve all related party transactions. After each meeting the matters approved and reviewed by the CRC are reported to the board of directors.

The bank reports on the proceedings of the CRC during the year to the Bank of Mauritius on a yearly basis.

For the year to 31 March	2018	2017	2016
On- and off-balance sheet credit exposure (US$'million)	55.2	75.7	85.6
On- and off-balance sheet credit exposure to related parties as a percentage of exposure to all customers (%)	3.2	3.7	4.6
Proportion of credit exposure that has become non-performing (%)	–	–	–
Amount of credit exposure to six related parties with the highest exposure (US$'million)	55.1	74.5	85.5
Amount of credit exposure to six related parties with the highest exposure to tier 1 capital (%)	13.4	19.7	24.1

All the related party transactions were within the regulatory limits as recommended in the abovementioned guideline.

Asset quality analysis – credit risk classification and provisioning policy

It is a policy requirement that the bank makes provision for specific impairments and calculates the appropriate level of portfolio impairments. This is in accordance with established Investec group policies and the Bank of Mauritius guidelines. In the financial statements, credit losses and impairments are reported in accordance with International Financial Reporting Standards (IFRS).

Specific impairments

The bank determines the impairment appropriate for each loan or advance on an individual basis. Items considered when determining impairments include the sustainability of the counterparty's business plan, its ability to improve performance once financial difficulty has arisen, projected receipts and the expected dividend payouts should bankruptcy occur, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Portfolio impairments

The portfolio impairment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses and post write-off recoveries on the portfolio and current economic conditions. The impairment is then reviewed by management to ensure alignment with the bank's overall policy. Portfolio and Prudential Norm impairments are conducted in accordance with IFRS the Bank of Mauritius 'Guideline on Credit Impairment Measurement and Income Recognition'.

Prudential Norm impairment provisions

As per the Bank of Mauritius 'Guideline on Credit Impairment Measurement and Income Recognition' which came into effect in July 2016, the bank is required to compute credit impairment provisions on 'impaired' assets under the Prudential Norm.

Where credit provisions computed in terms of IFRS are different from those computed under Prudential Provisioning Norm, the financial institution will be required to adhere to the following requirements:

- If the specific provision computed in terms of Prudential Provisioning Norm is higher than the specific provision computed in terms of IFRS, the difference shall be accounted as General Provision, through an appropriation of distributable reserves.
- If the specific provision computed in terms of IFRS is higher than the specific provision computed in terms of Prudential Provisioning Norm, then the entire specific provision computed under the IFRS shall be treated as an expense in the income statement.

The information provided below reflects the guidelines and definitions that have been applied in assessing the asset quality of credit exposures (see page 26).

The impairment definitions and guidelines are consistent with IFRS. IFRS differs from the requirements laid out in the 'International Convergence of Capital Measurement and Capital Standards' Basel II framework.

Regulatory and economic capital classification	IFRS impairment treatment	Arrears, default and recoveries classification category	Description
Performing assets	For assets which form part of a homogeneous portfolio, a portfolio impairment is required which recognises asset impairments that have not been individually identified. The portfolio impairment takes into account past events and does not cover impairments to exposures arising out of uncertain future events. By definition, this impairment is only calculated for credit exposures which are managed on a portfolio basis and only for assets where a loss trigger event has not occurred.	Past due	An account is considered to be past due when it is greater than zero and less than or equal to 60 days past due the contractual/ credit agreed payment due date. Management, however, is not concerned and there is confidence in the counterparty's ability to repay the past due obligations.
		Special mention	The counterparty is placed in special mention when that counterparty is considered to be experiencing difficulties that may threaten the counterparty's ability to fulfil its credit obligation to the bank (i.e. credit committee is concerned) for any of the following reasons: • Covenant breaches. • There is a slowdown in the counterparty's business activity. • An adverse trend in operations that signals a potential weakness in the financial strength of the counterparty. • Any restructured credit exposures until credit committee decides otherwise • Any specific country problems. Ultimate loss is not expected, but may occur if adverse conditions persist. Reporting categories: • Credit exposures overdue 1 – 90 days and management concerned. • Credit exposures overdue 61 – 90 days and item well secured.

Management discussion and analysis

(continued)

Regulatory and economic capital classification	IFRS impairment treatment	Arrears, default and recoveries classification category	Description
Assets in default (non-performing assets)	Specific impairments are evaluated on a case-by-case basis where objective evidence of impairment has arisen. In determining specific impairments, the following factors are considered: • Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business. • Likely dividend or amount recoverable on liquidation or bankruptcy or business rescue. • Nature and extent of claims by other creditors. • Amount and timing of expected cash flows. • Realisable value of security held (or other credit mitigants). • Ability of the client to make payments in the foreign currency, for foreign currency denominated accounts.	Sub-standard	The counterparty is placed in 'sub-standard' when the credit exposure reflects an underlying well-defined weakness that may lead to probable loss if not corrected: • The risk that such credit exposure may become an impaired asset is probable; • The bank is relying, to a large extent, on available collateral or; • The primary sources of repayment are insufficient to service the remaining contractual principal and interest amounts, and the bank has to rely on secondary sources for repayment. These secondary sources may include collateral, the sale of a fixed asset, refinancing and further capital. Credit exposures overdue for more than 90 days will at a minimum be included in sub-standard (or a lower quality category).*
		Doubtful	The counterparty is placed in doubtful when the credit exposure is considered to be impaired but not yet considered a final loss due to some pending factors such as a merger, new financing or capital injection which may strengthen the quality of the relevant exposure. Credit exposures overdue for more than 180 days will at a minimum be included in doubtful (or a lower quality category).*
		Loss	A counterparty is placed in the loss category when: • The credit exposure is considered to be uncollectible once all efforts, such as realisation of collateral and institution of legal proceedings, have been exhausted; or • Assets in this category are expected to be written off in the short-term since the likelihood of future economic benefits resulting from such assets is remote. Credit exposures overdue for more than a year will be classified as a loss.*

* *According to the Prudential Norms in Credit Classification as per the Guideline on Credit Impairment Measurement and Income Recognition.*

Credit risk mitigation

Credit risk mitigation techniques can be defined as all methods by which Investec seeks to decrease the credit risk associated with an exposure. Investec considers credit risk mitigation techniques as part of the credit assessment of a potential client or business proposal and not as a separate consideration of mitigation of risk. Credit risk mitigants can include any collateral item over which the bank has pledge or security, netting and margining agreements, covenants or terms and conditions imposed on a borrower with the aim of reducing the credit risk inherent to that transaction.

As Investec has a limited appetite for unsecured debt, the credit risk mitigation technique most commonly used is the taking of collateral, with a strong preference for tangible assets. Collateral is assessed with reference to the sustainability of value and the likelihood of realisation. Acceptable collateral generally exhibits characteristics that allow for it to be easily identified and appropriately valued.

An analysis of collateral is provided on pages 34 and 35.

Where a transaction is supported by a mortgage or charge over property, the primary credit risk is still taken on the borrower. For property-backed lending such as residential mortgages, the following characteristics of the property are considered: the type of property, its location, and the ease with which the property could be re-let and/or re-sold. Where the property is secured by lease agreements, the credit committee prefers not to lend for a term beyond the maximum period of the lease.

Commercial real estate generally takes the form of good quality property often underpinned by strong third party leases. Residential property is also generally of a high quality and based in desirable locations. Residential and commercial property valuations will continue to form part of our ongoing focus on collateral assessment. It is our policy to obtain a formal valuation of every commercial property offered as collateral for a lending facility before advancing funds.

Residential properties are valued by desktop valuation and/or approved valuers, where appropriate.

Other common forms of collateral in the retail asset class are cash and share portfolios. In addition, the relevant credit committee normally requires a suretyship or guarantee in support of a transaction in our private client business.

Lending against investment portfolios is typically geared at very conservative loan-to-value ratios after considering the quality, diversification, risk profile and liquidity of the portfolio.

Our corporate, government and institutional clients provide a range of collateral including cash, corporate assets, debtors (accounts receivable), trading stock, debt securities (bonds), listed and unlisted shares and guarantees.

The majority of credit mitigation techniques linked to trading activity is in the form of netting (primarily International Swap Dealers Association, Global Master Securities Lending Agreement and International Securities Master Agreement) and margining agreements (primarily through Credit Support Agreements).

Set-off has been applied between assets subject to credit risk and related liabilities in the financial statements where:

- A legally enforceable right to set-off exists.
- There is the ability to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

In addition to the above accounting set-off criteria, banking regulators impose the following additional criteria:

- Debit and credit balances relate to the same obligor/counterparty.
- Debit and credit balances are denominated in the same currency and have identical maturities.
- Exposures subject to set-off are risk managed on a net basis.
- Market practice considerations.

For this reason, there will be instances where credit and counterparty exposures are displayed on a net basis in these annual financial statements but reported on a gross basis to regulators.

Investec places minimal reliance on credit derivatives in its credit risk mitigation techniques.

Credit and counterparty risk year in review

The bank is mainly exposed to credit risk and has continued to remain prudent in its lending approach.

Loans to customers are well secured and monitored in order to remain within credit approved limit while unsecured lending represents only 0.9% of gross core loans.

Credit quality remains solid with non-performing loans standing at 1.5% of gross loans and advances to customers. The unsecured portion of non-performing loans have been fully provided for while the other exposures remains relatively well secured.

No exposures have been written off during the year (2017: US$2.5 million).

Gross core loans increased by 4.7% to US$964.7 million as at 31 March 2018.

Management discussion and analysis

(continued)

Credit and counterparty risk information

Pages 14 to 35 describe where and how credit counterparty risk exists in the bank's operations

The tables that follow provide an analysis of the bank's credit and counterparty exposures.

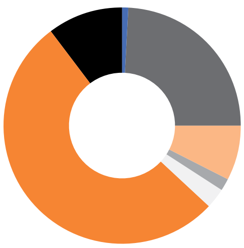
An analysis of gross credit and counterparty exposures

US$'000	31 March 2018	31 March 2017	31 March 2016	2018 vs 2017 % change	Average* 2018 vs 2017	2017 vs 2016 % change	Average* 2017 vs 2016
On-balance sheet exposures							
Cash and balances at central bank	16 691	13 706	9 943	21.8%	15 199	37.8%	11 824
Due from banks	443 357	796 611	347 420	(44.3%)	619 984	> 100%	572 015
Sovereign debt securities	–	22 214	–	(100.0%)	11 107	100.0%	11 107
Bank debt securities	137 604	108 399	112 357	26.9%	123 001	(3.5%)	110 378
Other debt securities	30 172	100 202	95 699	(69.9%)	65 187	4.7%	97 950
Derivative financial instruments	–	1	23	(100.0%)	1	(94.7%)	12
Reverse repurchase agreements	50 097	–	–	100.0%	25 048	100.0%	–
Loans and advances to customers	964 687	921 790	897 788	4.7%	943 239	2.7%	909 789
Total on-balance sheet credit and counterparty exposures	**1 642 608**	**1 962 923**	**1 463 230**	**(16.3%)**	**1 802 766**	**34.2%**	**1 713 076**
Guarantees^	7 417	4 854	17 138	52.8%	6 136	(71.7%)	10 996
Committed facilities	178 125	156 986	108 057	13.5%	167 555	45.3%	132 522
Off-balance sheet exposures	**185 542**	**161 840**	**125 195**	**14.6%**	**173 691**	**29.3%**	**143 518**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**1 828 150**	**2 124 763**	**1 588 425**	**(14.0%)**	**1 976 457**	**33.8%**	**1 856 594**

* *Where the average is based on a straight-line average.*

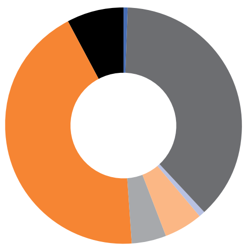
^ *Excludes guarantees provided to clients which are backed/secured by cash deposit with the bank.*

An analysis of gross credit and counterparty exposures



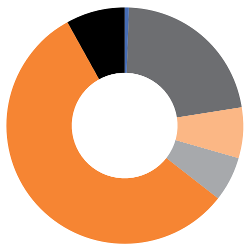
31 March 2018
US$1 828 million

Cash and balances at central banks	0.9%
Loans and advances to banks	24.3%
Sovereign debt securities	0.0%
Bank debt securities	7.5%
Other debt securities	1.7%
Derivative financial instruments	0.0%
Reverse repurchase agreements	2.7%
Loans and advances to customers	52.8%
Other assets	0.0%
Off-balance sheet exposures	10.1%



31 March 2017
US$2 125 million

Cash and balances at central banks	0.6%
Loans and advances to banks	37.5%
Sovereign debt securities	1.0%
Bank debt securities	5.1%
Other debt securities	4.7%
Derivative financial instruments	0.0%
Reverse repurchase agreements	0.0%
Loans and advances to customers	43.5%
Other assets	0.0%
Off-balance sheet exposures	7.6%

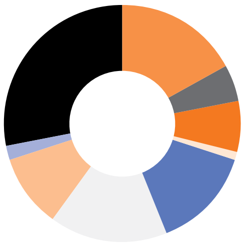


31 March 2016
US$1 588 million

Cash and balances at central banks	0.6%
Loans and advances to banks	21.9%
Sovereign debt securities	0.0%
Bank debt securities	7.1%
Other debt securities	6.0%
Derivative financial instruments	0.0%
Reverse repurchase agreements	0.0%
Loans and advances to customers	56.5%
Other assets	0.0%
Off-balance sheet exposures	7.9%

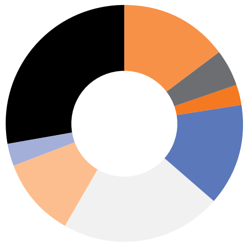
Concentration of risk is managed by client/counterparty, by geographical region and industry sector. The maximum exposure to any client and counterparty at 31 March 2018 was US$92.5 million (2017: US$201.2 million and 2016: US$61.5 million).

An analysis of gross credit and counterparty exposures by geography



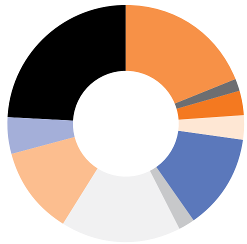
31 March 2018
US$1 828 million

Mauritius	**17.0%**
South Africa	**5.0%**
Africa (excl RSA)	**7.0%**
Asia	**1.0%**
European Union	**14.0%**
Europe (non-EU)	**0.0%**
North America	**16.0%**
Other	**10.0%**
Australia	**2.0%**
United Kingdom	**28.0%**



31 March 2017
US$2 125 million

Mauritius	**15.0%**
South Africa	**5.0%**
Africa (excl RSA)	**3.0%**
Asia	**0.0%**
European Union	**14.0%**
Europe (non-EU)	**0.0%**
North America	**22.0%**
Other	**11.0%**
Australia	**3.0%**
United Kingdom	**28.0%**



31 March 2016
US$1 588 million

Mauritius	**18.9%**
South Africa	**1.7%**
Africa (excl RSA)	**3.3%**
Asia	**3.5%**
European Union	**12.9%**
Europe (non-EU)	**2.4%**
North America	**16.4%**
Other	**11.9%**
Australia	**5.0%**
United Kingdom	**24.0%**

A further analysis of our on-balance sheet credit and counterparty exposures

At 31 March US$'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
2018				
Cash and balances at central bank	16 691	4		16 695
Due from banks	443 357	15 762	1	459 119
Bank debt securities	137 604	–		137 604
Other debt securities	30 172	–		30 172
Derivative financial instruments	–	17 437		17 437
Reverse repurchase agreements	50 097	25 089		75 186
Loans and advances to customers	964 687	(12 050)	2	952 637
Other assets	–	7 203		7 203
Investment portfolio	–	12 993	3	12 993
Investment in associate	–	4 598		4 598
Deferred taxation asset	–	438		438
Equipment	–	395		395
Amount due from group companies	–	3 366	1	3 366
Total on-balance sheet exposures	**1 642 608**	**75 235**		**1 717 843**

A further analysis of our on-balance sheet credit and counterparty exposures *(continued)*

At 31 March US$'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
2017				
Cash and balances at central bank	13 706	9		13 715
Due from banks	796 611	15 765	1	812 376
Sovereign debt securities	22 214	–		22 214
Bank debt securities	108 399	–		108 399
Other debt securities	100 202	–		100 202
Derivative financial instruments	1	21 803		21 804
Loans and advances to customers	921 790	(7 795)	2	913 995
Other assets	–	4 521		4 521
Investment portfolio	–	14 473	3	14 473
Investment in associate	–	4 160		4 160
Deferred taxation asset	–	357		357
Equipment	–	294		294
Amount due from group companies	–	3 698	1	3 698
Total on-balance sheet exposures	**1 962 923**	**57 285**		**2 020 208**
2016				
Cash and balances at central bank	9 943	4		9 947
Due from banks	347 420	334 740	1	682 160
Bank debt securities	112 357	–		112 357
Other debt securities	95 699	–		95 699
Derivative financial instruments	23	25 266		25 289
Loans and advances to customers	897 788	(6 690)	2	891 098
Other assets	–	2 476		2 476
Investment portfolio	–	17 045	3	17 045
Investment in associate	–	3 720		3 720
Deferred taxation asset	–	116		116
Equipment	–	337		337
Amount due from group companies	–	3 536	1	3 536
Total on-balance sheet exposures	**1 463 230**	**380 550**		**1 843 780**

1. *Relates to intergroup balances.*
2. *Largely relates to impairments.*
3. *Largely relates to exposures that are classified as equity in the banking book.*

Summary of analysis of gross credit and counterparty exposure by industry

	Gross core loans and advances			Other credit and counterparty exposures			Total		
As at 31 March US$'000	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Agriculture	–	2 003	1 995	–	–	–	–	2 003	1 995
Construction	258 624	221 178	296 388	50 246	67 706	23 521	308 870	288 884	319 909
Personal	29 459	30 096	30 981	461	865	5 095	29 920	30 961	36 076
Global business licence holders	99 558	122 373	174 256	71 839	38 321	48 823	171 397	160 694	223 079
Finance and business services	315 380	265 501	124 136	728 799	1 064 901	570 177	1 044 179	1 330 402	694 313
Traders	9 954	–	–	5 051	–	30 000	15 005	–	30 000
Manufacturing	17 880	14 861	19 197	–	653	–	17 880	15 514	19 197
Transport	139 512	164 444	124 717	–	–	–	139 512	164 444	124 717
Tourism	12 958	15 419	20 043	–	–	–	12 958	15 419	20 043
Infrastructure	38 694	40 005	57 345	–	1 259	1 271	38 694	41 264	58 616
Information, communication and technology	20 270	14 412	8 351	–	21 798	11 750	20 270	36 210	20 101
Media, entertainment and recreational	703	151	194	–	–	–	703	151	194
Other industries	21 695	31 347	40 185	7 067	7 470	–	28 762	38 817	40 185
Total	**964 687**	**921 790**	**897 788**	**863 463**	**1 202 973**	**690 637**	**1 828 150**	**2 124 763**	**1 588 425**

Management discussion and analysis

(continued)

Detailed analysis of gross credit and counterparty exposures by industry

At 31 March US$'000	Agriculture	Construction	Personal	Global business licence holders	Finance and business services
2018					
On-balance sheet exposures	**–**	**258 624**	**29 459**	**99 558**	**993 301**
Other debt securities	–	–	–	–	30 172
Bank debt securities	–	–	–	–	137 604
Bank placements	–	–	–	–	460 048
Reverse repurchase agreements	–	–	–	–	50 097
Gross core loans and advances to customers	–	258 624	29 459	99 558	315 380
Off-balance sheet exposures	**–**	**50 246**	**461**	**71 839**	**50 878**
Guarantees	–	2 994		3 977	–
Committed facilities	–	47 252	461	67 862	50 878
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**–**	**308 870**	**29 920**	**171 397**	**1 044 179**
2017					
On-balance sheet exposures	**2 003**	**221 178**	**30 097**	**122 373**	**1 290 585**
Other debt securities	–	–	–	–	84 154
Bank debt securities	–	–	–	–	108 399
Sovereign debt securities	–	–	–	–	22 214
Bank placements	–	–	–	–	810 317
Derivative financial instruments	–	–	1	–	–
Gross core loans and advances to customers	2 003	221 178	30 096	122 373	265 501
Off-balance sheet exposures	**–**	**67 706**	**864**	**38 321**	**39 817**
Guarantees	–	1 419	–	3 435	–
Committed facilities	–	66 287	864	34 886	39 817
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**2 003**	**288 884**	**30 961**	**160 694**	**1 330 402**
2016					
On-balance sheet exposures	**1 995**	**296 388**	**30 981**	**174 256**	**689 578**
Other debt securities	–	–	–	–	95 699
Bank debt securities	–	–	–	–	112 357
Bank placements	–	–	–	–	357 363
Derivative financial instruments	–	–	–	–	23
Gross core loans and advances to customers	1 995	296 388	30 981	174 256	124 136
Off-balance sheet exposures	**–**	**23 521**	**5 095**	**48 823**	**4 735**
Guarantees	–	10 138	3 400	3 600	–
Committed facilities	–	13 383	1 695	45 223	4 735
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**1 995**	**319 909**	**36 076**	**223 079**	**694 313**

Traders	Manufac-turing	Transport	Tourism	Infra-structure	Information, communi-cation and technology	Media, entertain-ment and recreational	Other industries	Total
9 954	**17 880**	**139 512**	**12 958**	**38 694**	**20 270**	**703**	**21 695**	**1 642 608**
–	–	–	–	–	–	–	–	30 172
–	–	–	–	–	–	–	–	137 604
–	–	–	–	–	–	–	–	460 048
–	–	–	–	–	–	–	–	50 097
9 954	17 880	139 512	12 958	38 694	20 270	703	21 695	964 687
5 051	**–**	**–**	**–**	**–**	**–**	**–**	**7 067**	**185 542**
–	–	–	–	–	–	–	446	7 417
5 051	–	–	–	–	–	–	6 621	178 125
15 005	**17 880**	**139 512**	**12 958**	**38 694**	**20 270**	**703**	**28 762**	**1 828 150**
–	**14 861**	**164 444**	**15 419**	**40 005**	**30 460**	**151**	**31 347**	**1 962 923**
–	–	–	–	–	16 048	–	–	100 202
–	–	–	–	–	–	–	–	108 399
–	–	–	–	–	–	–	–	22 214
–	–	–	–	–	–	–	–	810 317
–	–	–	–	–	–	–	–	1
–	14 861	164 444	15 419	40 005	14 412	151	31 347	921 790
–	**653**	**–**	**–**	**1 259**	**5 750**	**–**	**7 470**	**161 840**
–	–	–	–	–	–	–	–	4 854
–	653	–	–	1 259	5 750	–	7 470	156 986
–	**15 514**	**164 444**	**15 419**	**41 264**	**36 210**	**151**	**38 817**	**2 124 763**
–	**19 197**	**124 717**	**20 043**	**57 345**	**8 351**	**194**	**40 185**	**1 463 230**
–	–	–	–	–	–	–	–	95 699
–	–	–	–	–	–	–	–	112 357
–	–	–	–	–	–	–	–	357 363
–	–	–	–	–	–	–	–	23
–	19 197	124 717	20 043	57 345	8 351	194	40 185	897 788
30 000	**–**	**–**	**–**	**1 271**	**11 750**	**–**	**–**	**125 195**
–	–	–	–	–	–	–	–	17 138
30 000	–	–	–	1 271	11 750	–	–	108 057
30 000	**19 197**	**124 717**	**20 043**	**58 616**	**20 101**	**194**	**40 185**	**1 588 425**

Management discussion and analysis

(continued)

Asset quality and impairments

An analysis of core loans and advances, asset quality and impairments

The tables that follow provide information with respect to the asset quality of the bank's core loans and advances to customers:

At 31 March US$'000	2018	2017	2016
Gross core loans and advances to customers	**964 687**	**921 790**	**897 788**
Total impairments	**(12 050)**	**(7 795)**	**(6 690)**
Portfolio impairments	(7 174)	(7 142)	(6 690)
Specific impairments	(4 876)	(653)	–
Net core loans and advances to customers	**952 637**	**913 995**	**891 098**
Average gross core loans and advances to customers	**943 239**	**909 789**	**915 177**
Current loans and advances to customers	905 709	863 381	863 626
Past due loans and advances to customers (1 – 60 days)	30 863	1 456	11 095
Special mention loans and advances to customers	14 563	28 008	22 142
Default loans and advances to customers	13 552	28 945	925
Gross core loans and advances to customers	**964 687**	**921 790**	**897 788**
Current loans and advances to customers	905 917	880 729	884 970
Gross core loans and advances to customers that are past due but not impaired	46 134	16 844	12 818
Gross core loans and advances to customers that are impaired	12 636	24 217	–
Gross core loans and advances to customers	**964 687**	**921 790**	**897 788**
Total income statement charge for impairments on loans and advances	**(3 214)**	**(3 535)**	**1 003**
Gross default loans and advances to customers	13 552	28 945	925
Specific impairments	(4 876)	(653)	–
Portfolio impairments	(7 174)	(7 142)	(6 690)
Defaults net of impairments	**1 502**	**21 150**	**(5 765)**
Collateral and other credit enhancements	10 535	40 325	1 793
Net default loans and advances to customers (limited to zero)	**–**	**–**	**–**
Ratios:			
Total impairments as a % of gross core loans and advances to customers	1.25%	0.85%	0.75%
Total impairments as a % of gross default loans	88.92%	26.93%	> 100%
Gross defaults as a % of gross core loans and advances to customers	1.40%	3.14%	0.10%
Defaults (net of impairments) as a % of net core loans and advances to customers	0.16%	2.31%	(0.65%)
Net defaults as a % of gross core loans and advances to customers	0.00%	0.00%	0.00%
Credit loss ratio (i.e. income statement charge on core loans as a % of average gross core loans and advances)	0.34%	0.39%	(0.11%)

An age analysis of watchlist, past due and default core loans and advances to customers

At 31 March US$'000	2018	2017	2016
Watchlist loans neither past due nor impaired	208	17 348	21 344
1 – 60 days	45 218	19 968	11 893
61 – 90 days	–	286	–
91 – 180 days	–	16 212	–
181 – 365 days	–	4 595	925
> 365 days	13 552	–	–
Past due and default core loans and advances to customers (actual capital exposure)	**58 978**	**58 409**	**34 162**
1 – 60 days	28 815	8 038	189
61 – 90 days	–	16	–
91 – 180 days	–	1 602	–
181 – 365 days	–	256	275
> 365 days	13 029	–	–
Past due and default loans and advances to customers (actual amount in arrears)	**41 844**	**9 912**	**464**

A further age analysis of watchlist and non-current loans and advances to customers

At 31 March US$'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
2018							
Watchlist loans							
Total capital exposure	208	–	–	–	–	–	208
Amount in arrears	–	–	–	–	–	–	–
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	45 218	–	–	–	916	46 134
Amount in arrears	–	28 815	–	–	–	393	29 208
Gross core loans and advances to customers that are impaired							
Total capital exposure	–	–	–	–	–	12 636	12 636
Amount in arrears	–	–	–	–	–	12 636	12 636
2017							
Watchlist loans							
Total capital exposure	17 348	–	–	–	–	–	17 348
Amount in arrears	–	–	–	–	–	–	–
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	16 558	286	–	–	–	16 844
Amount in arrears	–	4 628	16	–	–	–	4 644
Gross core loans and advances to customers that are impaired							
Total capital exposure	–	3 410	–	16 212	4 595	–	24 217
Amount in arrears	–	3 410	–	1 602	256	–	5 268
2016							
Watchlist loans							
Total capital exposure	21 344	798	–	–	–	–	22 142
Amount in arrears	–	21	–	–	–	–	21
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	11 095	–	–	925	–	12 020
Amount in arrears	–	168	–	–	275	–	443
Gross core loans and advances to customers that are impaired							
Total capital exposure	–	–	–	–	–	–	–
Amount in arrears	–	–	–	–	–	–	–

Of the total aggregate amount of gross past due but not impaired loans and advances to customers, the fair value of collateral that the bank held against the loans at 31 March 2018 was US$95.5 million (2017: US$35.2 million and 2016: US$19.9 million).

A further age analysis based of gross non-current and watchlist core loans and advances to customers as at 31 March 2018 (based on total capital exposure)

US$'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**30 863**	**–**	**–**	**–**	**–**	**30 863**
Special mention	**208**	**14 355**	**–**	**–**	**–**	**–**	**14 563**
Special mention (1 – 90 days and management concerned)	–	14 355	–	–	–	–	14 355
Special mention (61 – 90 days and item well secured)	–	–	–	–	–	–	–
Special mention – current	208	–	–	–	–	–	208
Default	**–**	**–**	**–**	**–**	**–**	**13 552**	**13 552**
Sub-standard	–	–	–	–	–	–	–
Doubtful	–	–	–	–	–	–	–
Loss	–	–	–	–	–	13 552	13 552
Total	**208**	**45 218**	**–**	**–**	**–**	**13 552**	**58 978**

A further age analysis based of gross non-current and watchlist core loans and advances to customers as at 31 March 2018 (based on actual amount in arrears)

US$'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**28 165**	**–**	**–**	**–**	**–**	**28 165**
Special mention	**–**	**650**	**–**	**–**	**–**	**–**	**650**
Special mention (1 – 90 days and management concerned)	–	650	–	–	–	–	650
Special mention (61 – 90 days and item well secured)	–	–	–	–	–	–	–
Special mention – current	–	–	–	–	–	–	–
Default	**–**	**–**	**–**	**–**	**–**	**13 029**	**13 029**
Sub-standard	–	–	–	–	–	–	–
Doubtful	–	–	–	–	–	–	–
Loss	–	–	–	–	–	13 029	13 029
Total	**–**	**28 815**	**–**	**–**	**–**	**13 029**	**41 844**

A further age analysis based of gross non-current and watchlist core loans and advances to customers as at 31 March 2017 (based on total capital exposure)

US$'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**1 456**	**–**	**–**	**–**	**–**	**1 456**
Special mention	**17 348**	**10 374**	**286**	**–**	**–**	**–**	**28 008**
Special mention (1 – 90 days and management concerned)	–	10 374	–	–	–	–	10 374
Special mention (61 – 90 days and item well secured)	–	–	286	–	–	–	286
Special mention – current	17 348	–	–	–	–	–	17 348
Default	**–**	**8 138**	**–**	**16 212**	**4 595**	**–**	**28 945**
Sub-standard	–	4 728	–	–	–	–	4 728
Doubtful	–	3 410	–	16 212	4 595	–	24 217
Loss	–	–	–	–	–	–	–
Total	**17 348**	**19 968**	**286**	**16 212**	**4 595**	**–**	**58 409**

A further age analysis based of gross non-current and watchlist core loans and advances to customers as at 31 March 2017 (based on actual amount in arrears)

US$'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**13**	**–**	**–**	**–**	**–**	**13**
Special mention	**–**	**358**	**16**	**–**	**–**	**–**	**374**
Special mention (1 – 90 days and management concerned)	–	358	–	–	–	–	358
Special mention (61 – 90 days and item well secured)	–	–	16	–	–	–	16
Special mention – current	–	–	–	–	–	–	–
Default	**–**	**7 667**	**–**	**1 602**	**256**	**–**	**9 525**
Sub-standard	–	4 257	–	–	–	–	4 257
Doubtful	–	3 410	–	1 602	256	–	5 268
Loss	–	–	–	–	–	–	–
Total	**–**	**8 038**	**16**	**1 602**	**256**	**–**	**9 912**

A further age analysis based of gross non-current and watchlist core loans and advances to customers as at 31 March 2016 (based on total capital exposure)

US$'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**11 095**	**–**	**–**	**–**	**–**	**11 095**
Special mention	**21 344**	**798**	**–**	**–**	**–**	**–**	**22 142**
Special mention (1 – 90 days and management concerned)	–	798	–	–	–	–	798
Special mention (61 – 90 days and item well secured)	–	–	–	–	–	–	–
Special mention – current	21 344	–	–	–	–	–	21 344
Default	**–**	**–**	**–**	**–**	**925**	**–**	**925**
Sub-standard	–	–	–	–	925	–	925
Doubtful	–	–	–	–	–	–	–
Loss	–	–	–	–	–	–	–
Total	**21 344**	**11 893**	**–**	**–**	**925**	**–**	**34 162**

A further age analysis based of gross non-current core and watchlist loans and advances to customers as at 31 March 2016 (based on actual amount in arrears)

US$'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**168**	**–**	**–**	**–**	**–**	**168**
Special mention	**–**	**21**	**–**	**–**	**–**	**–**	**21**
Special mention (1 – 90 days and management concerned)	–	21	–	–	–	–	21
Special mention (61 – 90 days and item well secured)	–	–	–	–	–	–	–
Special mention – current	–	–	–	–	–	–	–
Default	**–**	**–**	**–**	**–**	**275**	**–**	**275**
Sub-standard	–	–	–	–	275	–	275
Doubtful	–	–	–	–	–	–	–
Loss	–	–	–	–	–	–	–
Total	**–**	**189**	**–**	**–**	**275**	**–**	**464**

An analysis of core loans and advances to customers

At 31 March US$'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
2018								
Current core loans and advances	**905 709**	**–**	**–**	**905 709**	**–**	**(6 828)**	**898 881**	**–**
Past due (1 – 60 days)	**–**	**30 863**	**–**	**30 863**	**–**	**(230)**	**30 633**	**28 165**
Special mention	**208**	**14 355**	**–**	**14 563**	**–**	**(109)**	**14 454**	**650**
Special mention (1 – 90 days)	–	14 355	–	14 355	–	(107)	14 248	650
Special mention (61 – 90 days and item well secured)	–	–	–	–	–	–	–	–
Special mention – current	208	–		208	–	(2)	206	–
Default	**–**	**916**	**12 636**	**13 552**	**(4 876)**	**(7)**	**8 669**	**13 029**
Sub-standard	–	–	–	–	–	–	–	–
Doubtful	–	–	–	–	–	–	–	–
Loss	–	916	12 636	13 552	(4 876)	(7)	8 669	13 029
Total	**905 917**	**46 134**	**12 636**	**964 687**	**(4 876)**	**(7 174)**	**952 637**	**41 844**
2017								
Current core loans and advances	**863 381**	**–**	**–**	**863 381**	**–**	**(6 852)**	**856 529**	**–**
Past due (1 – 60 days)	**–**	**1 456**	**–**	**1 456**	**–**	**(12)**	**1 444**	**13**
Special mention	**17 348**	**10 660**	**–**	**28 008**	**–**	**(216)**	**27 792**	**374**
Special mention (1 – 90 days)	–	10 374	–	10 374	–	(80)	10 294	358
Special mention (61 – 90 days and item well secured)	–	286	–	286	–	(2)	284	16
Special mention – current	17 348	–	–	17 348	–	(134)	17 214	–
Default	**–**	**4 728**	**24 217**	**28 945**	**(653)**	**(62)**	**28 230**	**9 525**
Sub-standard	–	4 728	–	4 728	–	(62)	4 666	4 257
Doubtful	–	–	24 217	24 217	(653)	–	23 654	5 268
Loss	–	–	–	–	–	–	–	–
Total	**880 729**	**16 844**	**24 217**	**921 790**	**(653)**	**(7 142)**	**913 995**	**9 912**
2016								
Current core loans and advances	**863 626**	**–**	**–**	**863 626**	**–**	**(6 435)**	**857 191**	**–**
Past due (1 – 60 days)	**–**	**11 095**	**–**	**11 095**	**–**	**(83)**	**11 012**	**168**
Special mention	**21 344**	**798**	**–**	**22 142**	**–**	**(165)**	**21 977**	**21**
Special mention (1 – 90 days)	–	798	–	798	–	(6)	792	21
Special mention (61 – 90 days and item well secured)	–	–	–	–	–	–	–	–
Special mention – current	21 344	–	–	21 344	–	(159)	21 185	–
Default	**–**	**925**	**–**	**925**	**–**	**(7)**	**918**	**275**
Sub-standard	–	925	–	925	–	(7)	918	275
Doubtful	–	–	–	–	–	–	–	
Loss	–	–	–	–	–	–	–	–
Total	**884 970**	**12 818**	**–**	**897 788**	**–**	**(6 690)**	**891 098**	**464**

Management discussion and analysis

(continued)

An analysis of core loans and advances to customers and impairments by counterparty type

At 31 March US$'000	Current core loans and advances	Past due (1 – 60 days)	Special mention (1 – 90 days)	Special mention (1 – 90 days and items well secured)
2018				
Construction	223 619	28 571	–	–
Personal	27 167	2 292	–	–
Global business licence holders	99 558	–	–	–
Financial and business services	315 380	–	–	–
Traders	9 954	–	–	–
Manufacturing	17 880	–	–	–
Transport	118 643	–	14 355	–
Tourism	12 146	–	–	–
Infrastructure	38 694	–	–	–
Information, communication and technology	20 270	–	–	–
Media, entertainment and recreational	703	–	–	–
Other entities	21 695	–	–	–
Total gross core loans and advances to customers	**905 709**	**30 863**	**14 355**	**–**
2017				
Agriculture	2 003	–	–	–
Construction	212 060	1 456	–	–
Personal	30 096	–	–	–
Global business licence holders	122 373	–	–	–
Financial and business services	265 215	–	–	286
Traders	–	–	–	–
Manufacturing	14 861	–	–	–
Transport	116 705	–	10 374	–
Tourism	14 153	–	–	–
Infrastructure	40 005	–	–	–
Information, communication and technology	14 412	–	–	–
Media, entertainment and recreational	151	–	–	–
Other entities	31 347	–	–	–
Total gross core loans and advances to customers	**863 381**	**1 456**	**10 374**	**286**
2016				
Agriculture	1 995	–	–	–
Construction	295 347	1 041	–	–
Personal	29 020	1 036	–	–
Global business licence holders	171 187	3 069	–	–
Financial and business services	123 811	325	–	–
Traders	–	–	–	–
Manufacturing	19 197	–	–	–
Transport	98 303	5 070	–	–
Tourism	18 691	554	798	–
Infrastructure	57 345	–	–	–
Information, communication and technology	8 351	–	–	–
Media, entertainment and recreational	194	–	–	–
Other entities	40 185	–	–	–
Total gross core loans and advances to customers	**863 626**	**11 095**	**798**	**–**

Special mention – current	Sub-standard	Doubtful	Loss	Total gross core loans and advances to customers	Portfolio impairments	Specific impairments	Total impairments
–	–	–	6 434	258 624	(1 806)	(2 050)	(3 856)
–	–	–	–	29 459	(219)	–	(219)
–	–	–	–	99 558	(740)	–	(740)
–	–	–	–	315 380	(2 345)	–	(2 345)
–	–	–	–	9 954	(75)	–	(75)
–	–	–	–	17 880	(133)	–	(133)
–	–	–	6 514	139 512	(1 037)	(2 826)	(3 863)
208	–	–	604	12 958	(214)	–	(214)
–	–	–	–	38 694	(288)	–	(288)
–	–	–	–	20 270	(151)	–	(151)
–	–	–		703	(5)	–	(5)
–	–	–	–	21 695	(161)	–	(161)
208	**–**	**–**	**13 552**	**964 687**	**(7 174)**	**(4 876)**	**(12 050)**
–	–	–	–	2 003	(33)	–	(33)
–	4 252	3 410	–	221 178	(1 714)	(462)	(2 176)
–	–	–	–	30 096	(233)	–	(233)
–	–	–	–	122 373	(848)	–	(848)
–	–	–	–	265 501	(2 057)	–	(2 057)
–	–	–	–	–	–	–	–
–	–	–	–	14 861	(115)	–	(115)
17 348	–	20 017	–	164 444	(1 224)	(191)	(1 415)
–	476	790	–	15 419	(252)	–	(252)
–	–	–	–	40 005	(310)	–	(310)
–	–	–	–	14 412	(112)	–	(112)
–	–	–	–	151	(1)	–	(1)
–	–	–	–	31 347	(243)	–	(243)
17 348	**4 728**	**24 217**	**–**	**921 790**	**(7 142)**	**(653)**	**(7 795)**
–	–	–	–	1 995	(15)	–	(15)
–	–	–	–	296 388	(2 210)	–	(2 210)
–	925	–	–	30 981	(231)	–	(231)
–	–	–	–	174 256	(1 299)	–	(1 299)
–	–	–	–	124 136	(925)	–	(925)
–	–	–	–	–	–	–	–
–	–	–	–	19 197	(143)	–	(143)
21 344	–	–	–	124 717	(929)	–	(929)
–	–	–	–	20 043	(149)	–	(149)
–	–	–	–	57 345	(427)	–	(427)
–	–	–	–	8 351	(62)	–	(62)
–	–	–	–	194	(1)	–	(1)
–	–	–	–	40 185	(299)	–	(299)
21 344	**925**	**–**	**–**	**897 788**	**(6 690)**	**–**	**(6 690)**

Collateral

A summary of total collateral is provided in the table below:

At 31 March US$'000	Collateral held against: Gross core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
2018			
Eligible financial collateral	**16 753**	**1 920**	**18 673**
Listed shares	–	–	–
Cash**	16 753	1 920	18 673
Mortgage bonds	**1 073 872**	**4 170**	**1 078 042**
Residential mortgages	279 468	–	279 468
Residential development	–	–	–
Commercial property developments	585 222	4 170	589 392
Commercial property investments	209 182	–	209 182
Other collateral	**685 437**	**4**	**685 441**
Unlisted shares	186 407	–	186 407
Charges other than property	288 443	–	288 443
Debtors, stock and other corporate assets	192 657	4	192 661
Guarantees	17 930	–	17 930
Other	–	–	–
Total collateral	**1 776 062**	**6 094**	**1 782 156**
2017			
Eligible financial collateral	**6 186**	**1 040**	**7 226**
Listed shares	–	–	–
Cash**	6 186	1 040	7 226
Mortgage bonds	**1 472 845**	**7 414**	**1 480 259**
Residential mortgages	241 163	1 084	242 247
Commercial property developments	1 044 278	6 330	1 050 608
Commercial property investments	187 404	–	187 404
Other collateral	**970 234**	**1 642**	**971 876**
Unlisted shares	254 175	1 642	255 817
Charges other than property	392 381	–	392 381
Asset-backed lending	293 482	–	293 482
Guarantees	30 196	–	30 196
Other	–	–	–
Total collateral	**2 449 265**	**10 096**	**2 459 361**

* *A large percentage of these exposures (e.g. bank placements) are to highly rated financial institutions where limited collateral would be required due to the nature of the exposure.*

** *The bank has received cash collateral amounting to US$16.8 million (2017: US$6.2 million and 2016: US$9.9 million) with regard to loans and advances of US$135.8 million (2017: US$111.8 million and 2016: US$106.4 million). The bank has the right to invoke the cash collateral only in an event of default from the borrower and as a result was not offset against the loans and advances balance. The cash collateral is included in 'Customer accounts (deposits)'. The effect of offsetting the above financial instruments would have resulted in net balances for loans and advances of US$119.0 million (2017: US$106.0 million and 2016: US$96.5 million).*

Collateral *(continued)*

At 31 March US$'000	Collateral held against: Gross core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
2016			
Eligible financial collateral	**9 858**	**1 500**	**11 358**
Listed shares	–	–	–
Cash**	9 858	1 500	11 358
Property charge	**954 780**	**14 539**	**969 319**
Residential mortgages	117 321	7 422	124 743
Residential development	–	–	–
Commercial property developments	820 402	7 117	827 519
Commercial property investments	17 057	–	17 057
Other collateral	**837 889**	**15 877**	**853 766**
Unlisted shares	264 301	–	264 301
Charges other than property	239 836	–	239 836
Debtors, stock and other corporate assets	244 911	–	244 911
Guarantees	65 165	2 413	67 578
Other	23 676	13 464	37 140
Total collateral	**1 802 527**	**31 916**	**1 834 443**

* *A large percentage of these exposures (e.g. bank placements) are to highly rated financial institutions where limited collateral would be required due to the nature of the exposure.*

** *The bank has received cash collateral amounting to US$16.8 million (2017: US$6.2 million and 2016: US$9.9 million) with regard to loans and advances of US$135.8 million (2017: US$111.8 million and 2016: US$106.4 million). The bank has the right to invoke the cash collateral only in an event of default from the borrower and as a result was not offset against the loans and advances balance. The cash collateral is included in 'Customer accounts (deposits)'. The effect of offsetting the above financial instruments would have resulted in net balances for loans and advances of US$119.0 million (2017: US$106.0 million and 2016: US$96.5 million).*

Equity and investment risk in the banking book

The bank is exposed to equity and investment risk which may arise from the various investments it has made in listed and unlisted companies. The credit committee reviews all new investment proposals and makes its recommendations known to the investment committee, being a board sub-committee. The investment committee reviews all new investment proposals and makes its determinations known to the group investment committee which will sanction the investments. The investment committee is empowered to sell securities as and when deemed appropriate.

The bank's investment committee manages the investment portfolio. The committee reviews the performance of the investment portfolio at least once a month and reports its findings to the board every quarter. The gains/losses on these investments are included in note 5 to the financial statements.

Equity and investment risk in the banking book *(continued)*

Summary of investments held and stress testing analysis

The table below provides an analysis of income and revaluations recorded with respect to these investments:

At 31 March US$'000	On balance sheet value of investments 2018	Valuation change stress test* 2018	On balance sheet value of investments 2017	Valuation change stress test* 2017	On balance sheet value of investments 2016	Valuation change stress test* 2016
Unlisted investments	12 984	1 948	14 450	2 168	17 012	2 552
Listed equities	9	2	23	6	33	8
Equity derivatives	16 106	5 637	14 102	4 936	15 449	5 407
Total	**29 099**	**7 587**	**28 575**	**7 110**	**32 494**	**7 967**

* *In order to assess the bank's earnings sensitivity to a movement in the valuation of these investments, the following stress testing parameters are applied:*

Stress test values applied	
Unlisted	15%
Listed	25%
Equity derivatives	35%

Stress testing summary

The severe stress scenario, at 31 March 2018, indicates that the bank could have a US$7.6 million reversal in investment income. This would not cause the bank to report a loss, but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which the bank operates being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is high.

Capital requirements

In terms of Basel III capital requirements, unlisted and listed equities within the banking book are represented under the category of 'equity risk', and profit shares and embedded derivatives are considered in the calculation of capital required for credit risk.

Balance sheet risk management

Balance sheet risk description

Balance sheet risk encompasses the financial risks relating to our asset and liability portfolios comprising market liquidity, funding, concentration, non-trading interest rate and foreign exchange, encumbrance and leverage risks on balance sheet.

Balance sheet risk mitigation

The Central Treasury function centrally directs the raising of wholesale liabilities, establishes and maintains access to stable funds with appropriate tenor and pricing characteristics, and manages liquid securities and collateral, providing for a controlled and flexible response to volatile market conditions. The treasury function is the sole interface with the wholesale market for both cash and derivative transactions, and actively manages the liquidity mismatch and non-trading interest rate risk arising from the bank's asset and liability portfolios.

The treasurer is required to exercise tight control over funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the bank approved risk appetite policy.

Balance sheet risk management combines traditional gap analysis and quantitative models, including stress tests. This is designed to measure the range of possible future liquidity needs and potential distribution of net interest income and economic value under various scenarios covering a spectrum of events in which the bank could find itself and prepare accordingly. The modelling process is supported by ongoing technical and economic analysis. The result is formally reported to management and the board on a regular basis. The entire process is underpinned by a system of extensive internal and external controls.

The bank complies with the Basel committee on Banking Supervision's Principles for Sound Liquidity Risk Management and Supervision.

Non-trading interest rate risk description

Non-trading interest rate risk, otherwise known as interest rate risk in the banking book, is the impact on net interest earnings and sensitivity to economic value, as a result of unexpected adverse movements in interest rates arising from the execution of our core business strategies and the delivery of products and services to our customers.

Sources of interest rate risk include:

- **Repricing risk:** arises from the timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and off-balance sheet derivative positions. This affects the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive portfolios.
- **Yield curve risk:** repricing mismatches also expose the bank to changes in the slope and shape of the yield curve.
- **Basis risk:** arises from imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar repricing characteristics.
- **Embedded option risk:** the bank is not materially exposed to embedded option risk, as contract breakage penalties on fixed-rate advances specifically cover this risk, while prepayment optionality is restricted to variable rate contracts and has no impact on interest rate risk.
- **Endowment risk:** refers to the interest rate exposure arising from the net differential between interest rate insensitive assets, interest rate insensitive liabilities and capital.

The above sources of interest rate risk affect the interest rate margin realised between lending income and borrowing costs,when applied to our rate sensitive asset and liability portfolios, which has a direct effect on future net interest income and the economic value of equity.

Management and measurement of non-trading interest rate risk

Non-trading interest rate risk in the banking book is an inherent consequence of conducting banking activities and arises from the provision of retail and wholesale (non-trading) banking products and services.

We are exposed to repricing risk due to timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and derivative positions. Additionally, we are exposed to yield curve and basis risk due to the difference in repricing characteristics of two floating-rate indices. We are not materially exposed to optionality risk as contract breakage penalties on fixed-rate advances specifically cover this risk.

Non-trading interest rate risk is measured and managed both from a net interest margin perspective over a specified time horizon, and the sensitivity of economic value of equity to hypothetical changes to market factors on the current values of financial assets and liabilities.

Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon. The aim is to protect and enhance net interest income and economic value in accordance with the board-approved risk appetite. The standard tools that are used to measure the sensitivity of earnings to changes in interest rates are the repricing gap which provides a basic representation of the balance sheet structure and allows for the detection of interest rate risk by concentration of repricing; net interest income sensitivity which measures the change in accruals expected over the specified horizon in response to a shift in the yield curve; and economic value sensitivity and stress-testing to macroeconomic movement or changes which measure the interest risk implicit change in net worth as a result of a change in interest rates on the current values of financial assets and liabilities.

Technical interest rate analysis and economic review of fundamental developments are used to estimate a set of forward-looking interest rate scenarios incorporating movements in the yield curve level and shape by geography, taking global trends into account.

This combination of measures provides senior management and the asset and liability committee (ALCO) with an assessment of the financial impact of identified rate changes on potential future net interest income and sensitivity to changes in economic value. This is consistent with the standardised interest rate measurement recommended by the Basel III framework for assessing banking book (non-trading) interest rate risk.

Management monitors closely net interest margins by entering into a number of interest rate swaps to protect it against changes in interest rates.

Interest rate sensitivity gap

The tables below show our non-trading interest rate mismatch. These exposures affect the interest rate margin realised between lending income and borrowing costs, assuming no management intervention. The bank's assets and liabilities are included at carrying amount and are categorised by earlier of contractual repricing or maturity date.

At 31 March 2018 US$'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	535	–	–	–	–	–	535
Investment/trading assets	67	–	–	98	–	36	201
Securitised assets	–	–	–	–	–	–	–
Advances	891	20	2	40	–	–	953
Other assets	–	–	–	–	–	8	8
Assets	**1 493**	**20**	**2**	**138**	**–**	**44**	**1 697**
Deposits – non-banks	(797)	(27)	(64)	(6)	–	–	(894)
Securities sold under repurchase agreement	(102)	–	–	–	–	–	(102)
Other liabilities	–	–	–	–	–	(8)	(8)
Liabilities	**(899)**	**(27)**	**(64)**	**(6)**	**–**	**(8)**	**(1 004)**
Intercompany loans	(180)	–	–	(91)	–	–	(271)
Shareholders' funds	–	–	–	–	–	(420)	(420)
Balance sheet	**414**	**(7)**	**(62)**	**41**	**–**	**(384)**	**2**
Off-balance sheet	48	(2)	(3)	(45)	–	–	(2)
Repricing gap	**462**	**(9)**	**(65)**	**(4)**	**–**	**(384)**	**–**
Cumulative repricing gap	462	453	388	384	384	–	–

At 31 March 2017 US$'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	810	–	–	–	–	–	810
Investment/trading assets	8	52	20	129	16	39	264
Advances	796	18	16	84	–	–	914
Other assets	–	–	–	–	–	5	5
Assets	**1 614**	**70**	**36**	**213**	**16**	**44**	**1 993**
Deposits – non-banks	(1 106)	(21)	(69)	(6)	–	–	(1 202)
Securities sold under repurchase agreement	(102)	–	–	–	–	–	(102)
Other liabilities	–	–	–	–	–	(62)	(62)
Liabilities	**(1 208)**	**(21)**	**(69)**	**(6)**	**–**	**(62)**	**(1 366)**
Intercompany loans	(94)	(44)	(18)	(86)	–	–	(242)
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**(388)**	**(388)**
Balance sheet	**312**	**5**	**(51)**	**121**	**16**	**(406)**	**(3)**
Off-balance sheet	145	(9)	5	(122)	(16)	–	3
Repricing gap	**457**	**(4)**	**(46)**	**(1)**	**–**	**(406)**	**–**
Cumulative repricing gap	457	453	407	406	406	–	–

At 31 March 2016 US$'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	352	–	–	–	–	5	357
Investment/trading assets	8	–	–	172	19	45	244
Advances	774	24	13	79	1	–	891
Other assets	–	–	–	–	–	3	3
Assets	**1 134**	**24**	**13**	**251**	**20**	**53**	**1 495**
Deposits – non-banks	(1 013)	(10)	(32)	(23)	–	–	(1 078)
Securities sold under repurchase agreement	(108)	–	–	–	–	–	(108)
Other liabilities	–	–	–	–	–	(28)	(28)
Liabilities	**(1 121)**	**(10)**	**(32)**	**(23)**	**–**	**(28)**	**(1 214)**
Intercompany loans	227	–	–	(151)	–	–	76
Shareholders' funds	–	–	–	–	–	(360)	(360)
Balance sheet	**240**	**14**	**(19)**	**77**	**20**	**(335)**	**(3)**
Off-balance sheet	127	(3)	(20)	(78)	(21)	(2)	3
Repricing gap	**367**	**11**	**(39)**	**(1)**	**(1)**	**(337)**	**–**
Cumulative repricing gap	367	378	339	338	337	–	–

The positive interest rate mismatch shown is largely attributable to the allocation of shareholders' funds to non-rate.

Economic value sensitivity

As discussed above, our preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. The tables below reflect our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention. The numbers represent the change to the value of the interest rate sensitive portfolios should such a hypothetical scenario arise. The sensitivity effect does not have a significant direct impact on our equity.

	Sensitivity to the following interest rates (expressed in original currencies)					
At 31 March 'million	**ZAR**	**GBP**	**USD**	**EUR**	**AUD**	**All (USD)**
2018						
200bp down	0.24	0.30	(4.58)	0.10	(0.07)	(4.07)
200bp up	(0.12)	(0.29)	4.53	(0.10)	0.07	4.04
2017						
200bp down	(0.65)	1.45	(2.38)	0.27	(0.08)	(0.39)
200bp up	0.68	(1.35)	2.10	(0.26)	0.08	0.25
2016						
200bp down	(0.84)	1.48	2.48	0.65	0.03	5.31
200bp up	0.94	(1.36)	(2.35)	(0.60)	(0.04)	(4.95)

Liquidity risk

Liquidity risk description

Liquidity risk is the risk that, despite being solvent, we have insufficient capacity to fund increases in assets, or are unable to meet our payment obligations as they fall due without incurring unacceptable losses. This includes repaying depositors or maturing wholesale debt. This risk is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events.

Liquidity risk is further broken down into:

- **Funding liquidity:** which relates to the risk that the bank will be unable to meet current and/or future cash flow or collateral requirements in the normal course of business, without adversely affecting its financial position or its reputation.
- **Market liquidity:** which relates to the risk that the bank may be unable to trade in specific markets or that it may only be able to do so with difficulty due to market disruptions or a lack of market liquidity.

Sources of liquidity risk include:

- Unforeseen withdrawals of deposits.
- Restricted access to new funding with appropriate maturity and interest rate characteristics.
- Inability to liquidate a marketable asset in a timely manner with minimal risk of capital loss.
- Unpredicted customer non-payment of loan obligations.
- Sudden increased demand for loans in the absence of corresponding funding inflows of appropriate maturity.

Management and measurement of liquidity risk

Maturity transformation performed by banks is a crucial part of financial intermediation that contributes to efficient resource allocation and credit creation.

Cohesive liquidity management is vital for protecting our depositors, preserving market confidence, safeguarding our reputation and ensuring sustainable growth with established funding sources. Through active liquidity management, we seek to preserve stable, reliable and cost-effective sources of funding. Inadequate liquidity can bring untimely demise of any financial institution. As such, the bank considers ongoing access to appropriate liquidity for all its operations to be of paramount importance, and our core liquidity philosophy is reflected in our day-to-day practices.

The bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the bank maintains a statutory deposit with the Bank of Mauritius equal to 9.0% of Mauritian rupee customer deposits and 6.0% Segment A foreign currency deposits. The liquidity position is assessed and managed under a variety of scenarios giving due consideration to stress factors relating to both the market in general and specifically to the bank.

Liquidity risk is calculated by the contractual maturity cash flow mismatch between assets and liabilities.

The bank's liquidity management processes are based on the following elements:

- Preparation of cash flow projections (assets and liabilities) and funding requirements corresponding to the forecasted cash flow mismatch, which are translated into short-term and long-term funding strategies.
- Maintaining an appropriate mix of term funding.
- Management of concentration risk, being undue reliance on any single counterparty or counterparty group, sector, market, product, instrument, currency and tenor.
- Daily monitoring and reporting of cash flow measurement and projections for the key periods for liquidity management, against the risk limits set.
- Performing assumption-based scenario analysis to assess potential cash flows at risk.
- Maintenance of liquidity contingency plans and the identification of alternative sources of funds in the market. This is to ensure that cash flow estimates and commitments can be met in the event of general market disruption or adverse business and economic scenarios, while minimising detrimental long-term implications for the business.
- Basel standards for liquidity measurement: while not having been enforced in Mauritius, the bank monitors the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) required by Basel III.

Liquidity mismatch

The tables that follow show the bank's liquidity mismatch.

With respect to the contractual liquidity mismatch:

- No assumptions are made and we record all assets and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal.
- As an integral part of the broader liquidity generation strategy, we maintain a liquidity buffer in the form of unencumbered cash and near cash as a buffer against both expected and unexpected cash flows.

With respect to the behavioural liquidity mismatch:

- The new funding we would require under normal business circumstances is shown in the 'behavioural mismatch'. To this end, behavioural profiling is applied to liabilities with an indeterminable maturity as the contractual repayments of many customer accounts are on demand or at short notice, but expected cash flows vary significantly from contractual maturity.
- An internal analysis model is used, based on statistical research of the historical series of products which models the point of probable maturity. In addition, reinvestment behaviour, with profile and attrition based on history, is applied to term deposits in the normal course of business.

Contractual liquidity

At 31 March 2018 US$'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Cash and short-term funds – banks	261	220	54	–	–	–	–	535
Investment/trading assets	–	–	–	–	–	142	59	201
Advances	35	53	80	115	215	359	96	953
Other assets	–	–	–	–	–	–	8	8
Assets	**296**	**273**	**134**	**115**	**215**	**501**	**163**	**1 697**
Deposits – non-banks	(664)	(32)	(79)	(49)	(64)	(6)	–	(894)
Securities sold under repurchase agreement	(12)	–	–	–	–	(90)	–	(102)
Other liabilities	(2)	–	–	(6)	–	–	–	(8)
Liabilities	**(678)**	**(32)**	**(79)**	**(55)**	**(64)**	**(96)**	**–**	**(1 004)**
Intercompany loans	13	–	–	–	–	(214)	(70)	(271)
Shareholders' funds	–	–	–	–	–	–	(420)	(420)
Balance sheet	**(369)**	**241**	**55**	**60**	**151**	**191**	**(327)**	**2**
Off-balance sheet	–	1	–	–	–	(3)	–	(2)
Contractual liquidity gap	**(369)**	**242**	**55**	**60**	**151**	**188**	**(327)**	**–**
Cumulative liquidity gap	(369)	(127)	(72)	(12)	139	327	–	–

At 31 March 2017 US$'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Cash and short-term funds – banks	620	190	–	–	–	–	–	810
Investment/trading assets	–	–	1	53	21	147	42	264
Advances	14	34	20	127	182	423	114	914
Other assets	–	–	–	–	–	–	5	5
Assets	**634**	**224**	**21**	**180**	**203**	**570**	**161**	**1 993**
Deposits – non-banks	(940)	(61)	(104)	(21)	(70)	(6)	–	(1 202)
Securities sold under repurchase agreement	–	–	–	–	(17)	(85)	–	(102)
Other liabilities	(57)	–	–	(5)	–	–	–	(62)
Liabilities	**(997)**	**(61)**	**(104)**	**(26)**	**(87)**	**(91)**	**–**	**(1 366)**
Intercompany loans	8	–	–	–	–	(205)	(45)	(242)
Shareholders' funds	–	–	–	–	–	–	(388)	(388)
Balance sheet	**355**	**163**	**(83)**	**154**	**116**	**274**	**(272)**	**(3)**
Off-balance sheet	1	(2)	–	–	–	3	1	3
Contractual liquidity gap	**(354)**	**161**	**(83)**	**154**	**116**	**277**	**(271)**	**–**
Cumulative liquidity gap	(354)	(193)	(276)	(122)	(6)	271	–	–

Contractual liquidity *(continued)*

At 31 March 2016 US$'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Cash and short-term funds – banks	236	70	51	–	–	–	–	357
Investment/trading assets	–	–	–	15	–	183	46	244
Securitised assets	–	–	–	–	–	–	–	–
Advances	7	3	21	139	165	405	151	891
Other assets	–	–	–	–	–	–	3	3
Assets	**243**	**73**	**72**	**154**	**165**	**588**	**200**	**1 495**
Deposits – non-banks	(904)	(28)	(82)	(9)	(32)	(23)	–	(1 078)
Securities sold under repurchase agreement	(3)	–	–	–	–	(105)	–	(108)
Other liabilities	(23)	–	–	(5)	–	–	–	(28)
Liabilities	**(930)**	**(28)**	**(82)**	**(14)**	**(32)**	**(128)**	**–**	**(1 214)**
Intercompany loans	176	120	33	–	–	–	(253)	76
Shareholders' funds	–	–	–	–	–	–	(360)	(360)
Balance sheet	**(511)**	**165**	**23**	**140**	**133**	**460**	**(413)**	**(3)**
Off-balance sheet	–	1	–	–	6	(2)	(2)	3
Contractual liquidity gap	**(511)**	**166**	**23**	**140**	**139**	**458**	**(415)**	**–**
Cumulative liquidity gap	(511)	(345)	(322)	(182)	(43)	415	–	–

Behavioural liquidity (as discussed on page 40)

At 31 March US$'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
2018								
Behavioural liquidity gap	**158**	**143**	**86**	**39**	**210**	**9**	**(645)**	**–**
Cumulative	158	301	387	426	636	645	–	–
2017								
Behavioural liquidity gap	**514**	**138**	**(69)**	**111**	**278**	**(123)**	**(849)**	**–**
Cumulative	514	652	683	694	972	849	–	–
2016								
Behavioural liquidity gap	**264**	**254**	**114**	**27**	**246**	**64**	**(969)**	**–**
Cumulative	264	518	632	659	905	969	–	

Net Stable Funding Ratio (NSFR)

The bank's NSFR stood at 137% as at 31 March 2018.

Liquidity Coverage Ratio (LCR)*

The bank monitors the LCR as required by Basel III and the Guideline on Liquidity Risk Management issued by the Bank of Mauritius. The LCR is applicable since 30 November 2017 with transitional arrangements which requires the bank to maintain a minimum ratio of 70% as from 31 January 2018. The minimum requirement will increase to 80% as from 31 January 2019 and finally to 100% as from 31 January 2020.

As at 31 March 2018, the bank's LCR stood at 116%, well above regulatory requirements.

* *Detailed disclosure is available on the bank's website.*

Foreign exchange risk

Foreign exchange risk arises on financial instruments that are denominated in a foreign currency other than the functional currency. Foreign currency risk does not arise from financial instruments that are non-monetary or from financial instruments denominated in the functional currency.

The bank computes its net open foreign exchange position in accordance with the Bank of Mauritius Guideline for Calculation and Reporting of Foreign Exchange Exposures by taking the higher of the absolute values of all net short and net long positions. The bank monitors the net open position on a daily basis.

					Other currencies		
At 31 March US$'000	% change in currency rate	EUR	GBP	MUR	Long	Short	Aggregate net open foreign exchange position
Open position							
2018							
Long/(short) position		1 579	1 917	(1 179)	1 265	(4 798)	(5 977)
Sensitivity on net income and equity	+5	79	96	(59)	63	(240)	(299)
	–5	(79)	(96)	59	(63)	240	299
2017							
Long/(short) position		667	1 960	(273)	624	(2 453)	3 251
Sensitivity on net income and equity	+5	33	98	(14)	31	(123)	163
	–5	(33)	(98)	14	(31)	123	(163)
2016							
Long/(short) position		619	1 181	(258)	734	(234)	2 534
Sensitivity on net income and equity	+5	31	59	(13)	37	(12)	127
	–5	(31)	(59)	13	(37)	12	(127)

Operational risk management

Operational risk definition

Operational risk is defined as the potential or actual impact to the bank as a result of failures relating to internal processes, people and systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

Operational risk is an inherent risk in the operations of the bank. The bank aims to appropriately identify and manage operational risk within acceptable levels by adopting sound operational risk management practices which are fit for purpose.

Governance

The governance structure adopted to manage operational risk within the bank operates in terms of a level of defence model and includes principles relating to combined assurance. The level of defence model is applied as follows:

- Level 1 – Business line management: responsible for identifying and managing risks inherent in the products, activities, processes and systems for which it is accountable;
- Level 2 – Independent corporate operational risk function: key function is to challenge the business lines' inputs to, and outputs from, the bank's risk management, risk measurement and reporting systems;
- Level 3 – Independent review and challenge: required to review and challenge the bank's operational risk management controls, processes and systems.

Risk appetite

- Operational risk appetite is defined as the level of risk exposure that is acceptable to the board in order to achieve its business and strategic objectives. The board is responsible for setting and regularly reviewing risk appetite.
- The Operational Risk Tolerance policy defines the amount of operational risk exposure, or potential adverse impact of a risk event, that the bank is willing to accept. The objective of the policy is to encourage action and mitigation of risk exposures and provides management with the guidance to respond appropriately. Additionally, the policy defines capturing and reporting thresholds for risk events and guidance to respond to key risk indicators appropriately. All exceptions and breaches of thresholds are reported to the relevant operational risk governance forums and the GRCC who are responsible for escalation to the BRCC as appropriate.

Operational risk management framework

The bank applies the standardised approach (TSA) for regulatory capital purposes in the assessment of operational risk.

The changing regulatory landscape includes The Basel Committee on Banking Supervision ('BCBS') proposing reforms on how banks calculate operational risk capital. The bank continues to work closely with regulators and industry bodies to remain cognisant of reforms.

The framework is embedded at all levels of the group, supported by the risk culture and enhanced on a continual basis as the discipline matures and in line with regulatory developments.

The operational risk management framework is supported by practices and processes which facilitate the identification, assessment and mitigation of operational risk. Practices consist of the following:

Risk and control assessment	Internal risk events	External risk events	Key risk indicators	Scenarios and capital calculation	Reporting
Forward-looking qualitative assessments performed on key business processes, are used to identify, manage and monitor operational risks and controls	Internal risk events are analysed to enable business to identify trends in risk events and address control weaknesses	An external data service is used to analyse operational risk events from other organisations. This provides insight into possible emerging risks and input into the scenarios analysis	Metrics are used to monitor risk exposures against identified thresholds. The output assist in predictive capability and assessing the risk profile of the business	Extreme yet plausible scenarios are used to analyse and manage significant operational risk which have the potential of materially affecting the group's operations and financial stability. The output of this evaluation is used to determine internal operational risk capital requirements	Ongoing monitoring and reporting of the operational risk profile supports decision-making

Definition of risk	Mitigation approach and priority for 2017/2018
Business continuity	
Risk associated with disruptive incidents which can impact premises, staff, equipment, systems, and key business processes	• Maintain continuity through appropriate resilience strategies that cater for all disruptions, irrespective of the cause. The strategies include, but are not limited to relocating impacted business to alternate processing sites, the application of high availability technology solutions and ensuring physical solutions for critical infrastructure components • Enhance the global resilience capability through a team of dedicated resources and robust governance processes • Incorporate resilience into business operations to lessen the impact of disruptions • Conduct ongoing validation of recovery strategies to ensure they remain effective and appropriate • Participate in regulatory and financial industry resilience activities to collaboratively minimise national systemic continuity risks
Cyber security	
Risk associated with cyber attacks which can interrupt client services or business processes, or result in financial losses	• Maintain a risk-based cyber security strategy to ensure the group is adequately protected against advanced and targeted cyber attacks • Manage an adaptive cyber security architecture, supported by relevant policies and ongoing staff awareness • Continue to expand visibility, coverage, and proactive reporting of cyber controls to ensure they are effective and consistent • Improve and mature evolving cyber security prediction, prevention, detection and response capabilities • Establish secure IT system development and testing practices to ensure they are secure both by design and in operation • Enhance cyber resilience through effective, coordinated security incident response, aligned to disaster recovery and business continuity processes

Definition of risk	Mitigation approach and priority for 2017/2018
Financial crime	
Risk associated with fraud, bribery, corruption, theft, money laundering, terrorist financing, tax evasion, forgery and integrity misconduct by staff, clients, suppliers and other stakeholders	**Anti-Money Laundering (AML), Terrorist Financing and Sanctions** • Enhancement of AML and Sanctions control systems across the group • Policies, procedures and minimum standards are reviewed regularly to ensure they remain relevant, robust and current to prevent and detect AML-related activities • Continuous monitoring of adherence to AML policies and legislative requirements • AML awareness remains a key component of the control environment. The awareness is supported by mandatory training for all staff and specialist training for AML roles • Participate at industry bodies to manage legislative requirements through engagements with regulators **Fraud** • Enhance the group's global approach to fraud management through a holistic framework and consistent policies, standards and methodologies • Maintain the Integrity Line to ensure staff is able to report regulatory breaches, allegations of bribery, fraud and corruption, and non-compliance with policies • Proactive monitoring of adherence to fraud prevention policies and embedding of practices which comply with regulations, industry guidance and best practice • Continue to focus on training staff and clients on fraud prevention and detection • Participate in industry working groups to gain an understanding of current trends in order to enhance the control environment
Information security	
Risk associated with the compromise of information assets which can impact their confidentiality, integrity, or availability	• Identify high-value information assets based on confidentiality and business criticality • Implement strong security controls to protect information against unauthorised access or disclosure from both internal and external threats • Manage role-based access to systems and data in support of least-privilege and segregation of duty principles • Develop mechanisms to monitor for, identify, and guard against data loss • Establish effective security monitoring to proactively identify and swiftly respond to suspicious activity • Align practices and controls to ensure compliance with the rapidly changing legal and regulatory privacy requirements • Safeguard and monitor information flows to enhance visibility and to ensure that data remains accurate, relevant, and protected
Outsourcing and third party	
Risk associated with the reliance on, and use of a service provider to provide services to the group	• Governance structures are in place to approve outsource and third party arrangements • Policies and practices include adequate guidance over the assessment, selection, suitability and oversight of the outsource and third party providers • Continue to strengthen governance processes and relevant policies relating to how we identify, assess, mitigate and manage risks across the range of outsource and third party providers

Definition of risk	Mitigation approach and priority for 2017/2018
Process failure	
Risk associated with inadequate internal processes, including human errors and control failures within the business. This includes process origination, execution and operations	• Proactive assessment relating to new products and projects to implement adequate and effective controls including the management of change • Address human errors through training and continuous automation of processes • Segregation of incompatible duties and appropriate authorisation controls • Causal analysis is used to identify weaknesses in controls following the occurrence of risk events • Risk and performance indicators are used to monitor the effectiveness of controls across business units • Thematic reviews across business units to ensure consistent and efficient application of controls
Regulatory and compliance	
Risk associated with identification, implementation and monitoring of compliance with regulations	• Group Compliance and Group Legal assist in the management of regulatory and compliance risk which includes the identification and adherence to legal and regulatory requirements • Align regulatory and compliance approach to reflect new regulatory landscapes particularly the change of regulatory structures • Manage business impact and implementation challenges as a result of significant volumes of statutory and regulatory changes and developments (Refer to the Compliance section on page 62) • Monitoring remains focused appropriately as areas of conduct and regulatory risk develop • Ensure that the business is appropriately positioned to cope with the regulatory changes resulting from Brexit
Technology	
Risk associated with the disruptions to the IT systems which underpin our critical business processes and client services	• Align architecture across the group to reduce technical complexity and leverage common functions and processes • Enhance operational processes to better control IT changes in order to minimise business impact and recurrence • Drive automation and proactive monitoring of the technology environment to reduce human error whilst enhancing efficiency • Implement strategic infrastructure and application roadmaps to improve technology capacity, scalability and resilience • Maintain and test IT recovery capabilities to withstand system failures and safeguard against service disruptions • Establish effective technology and operational monitoring for oversight of the adequacy and effectiveness of IT systems and processes

Insurance

The bank maintains adequate insurance to cover key insurable risks. The insurance process and requirements are managed by the bank's chief operating officer in consultation with the group insurance risk manager. Regular interaction between the bank, group operational risk management and group insurance risk management ensures that there is an exchange of information in order to enhance the mitigation of operational risks.

Reputational risk

Reputational risk is damage to our reputation, name or brand. Reputational risk arises as a result of other risks manifesting and not being mitigated.

The bank has various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced. We also subscribe to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles.

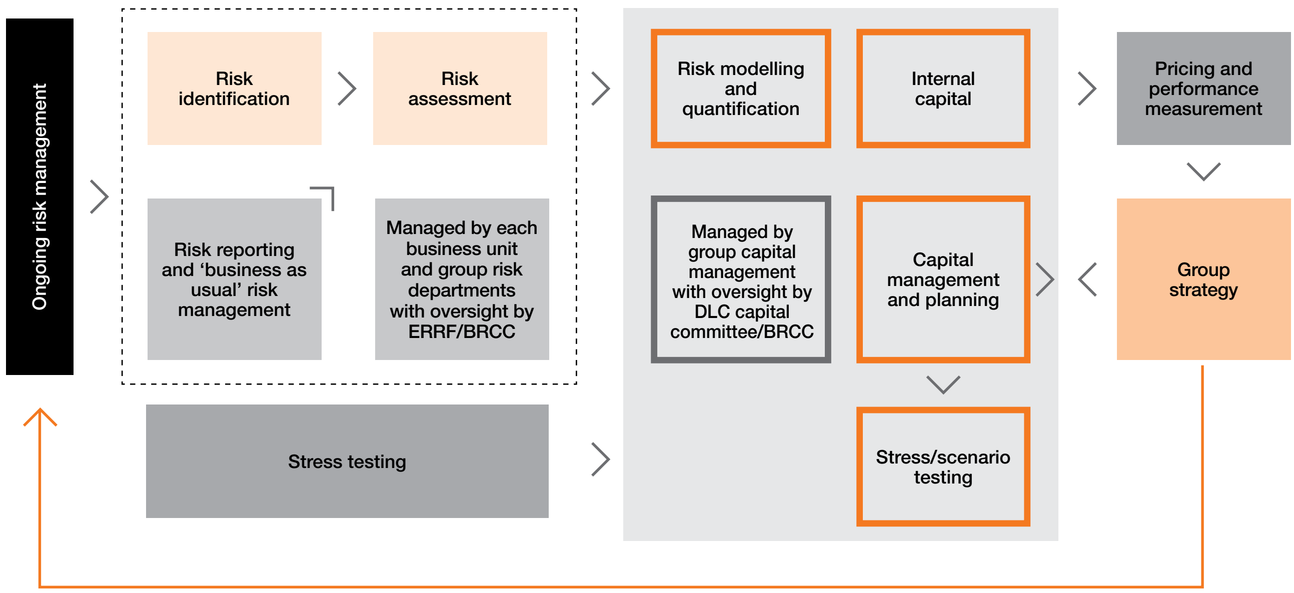
The board of directors and management are aware of the impact of practices that may result in a breakdown of trust and confidence in the organisation.

The bank's policies and practices are regularly reinforced through transparent communication, accurate reporting, continuous group culture and values assessment, internal audit and regulatory compliance review and risk management practices.

Legal risk management

Legal risk is the risk of loss resulting from any of our rights not being fully enforceable or from our obligations not being properly performed. This includes our rights and obligations under contracts entered into with counterparties. Such risk is especially applicable where the counterparty defaults and the relevant documentation may not give rise to the rights and remedies anticipated when entering the transaction.

The legal team seeks to ensure that any agreement which the bank enters into provides the bank with appropriate rights and remedies. The bank has two qualified lawyers in permanent employment and also engages external legal counsel.



Capital management and allocation

Philosophy and approach

Over recent years, capital adequacy standards for banks globally have been raised as part of attempts to increase stability and resilience of the global banking sector. The bank has always held capital in excess of regulatory requirements and it intends to perpetuate this philosophy to ensure that it continues to remain well capitalised. Accordingly, the bank targets a minimum capital adequacy ratio of 15%.

The bank reports information on its capital position to the Investec Limited capital committee which in turn reports to the Investec group DLC capital committee.

The bank's internal capital framework approved by the board is based on processes and is used to provide a risk-based approach to capital allocation, performance and structuring of our balance sheet.

The objectives of the internal capital framework are to quantify the minimum capital required to:

- Maintain sufficient capital to satisfy the board's risk appetite across all risks faced by the bank
- Support a target level of financial strength aligned with long-term external rating of at least A
- Provide protection to depositors against losses arising from risks inherent in the business
- Provide sufficient capital surplus to ensure that the bank is able to retain its going concern basis under relatively severe operating conditions
- Maintain sufficient capital to meet regulatory requirements across each regulated entity
- Support our growth strategy
- Allow the exploration of acquisition opportunities where such opportunities are consistent with our strategy and risk appetite
- Facilitate pricing that is commensurate with the risk being taken
- Allocate capital according to the best available expected marginal risk-based return, and track performance on this basis
- Reward performance taking into account the relative levels of risk adopted.

In order to achieve the above objectives, we adhere to the following approach to the integration of risk and capital management.

Risk assessment and identification

We review the business annually to map our universe of key risks, which are ultimately reviewed and agreed by the bank's board and the Investec group BRCC following an extensive process of engagement with the bank's senior management. Assessment of the materiality of risks is directly linked to the bank's stated risk appetite and risk management policies covering all key risks.

Risk reporting

As part of standard business practice, key identified risks are monitored by the bank together with group risk management and by Internal Audit to ensure that risks are managed to an acceptable level of risk. Detailed performance and control metrics of these risks are reported to each executive risk review forum (ERRF) and BRCC meeting including, where appropriate, the results of scenario testing. Key risk types that are considered, fall within the following:

- Credit and counterparty risk
- Traded market risk
- Equity risk in the banking book
- Balance sheet liquidity and non-trading interest rate risk
- Legal risk (considered within operational risk for capital purposes)
- Operational, conduct and reputational risk.

Each of these risk categories may consist of a number of specific risks, each of which are analysed in detail and managed through the ERRF and BRCC.

Risk modelling and quantification (internal capital)

Internal capital requirements are quantified by analysis of the potential impact of key risks to a degree consistent with our risk appetite. Internal capital requirements are supported by the board-approved risk assessment process described above. Quantification of all risks is based on analysis of internal data, management expertise and judgement and external benchmarking.

The following risks are included within the internal capital framework and quantified for capital allocation purposes:

- Credit and counterparty risk, including:
  - Underlying counterparty risk
  - Concentration risk
  - Securitisation risk
- Equity and property risk held in the banking book
- Balance sheet risk, including:
  - Liquidity
  - Non-trading interest rate risk
- Strategic and reputational risks
- Business risk

Operational risk is considered as an umbrella term and covers a range of independent risks including, but not limited to, risks relating to fraud, litigation, business continuity, outsourcing and out of policy trading. The specific risks covered are assessed dynamically through constant assessment of the underlying business environment.

Capital management, planning and scenario testing

A capital plan is prepared and maintained under the guidance of the relevant group committees to facilitate discussion of the impact of business strategy and market conditions on our capital adequacy.

This plan is designed to assess capital adequacy under a range of economic and internal conditions over the medium-term (three years), with the impact on earnings, asset growth, risk appetite and liquidity considered. The plan provides the board (via the BRCC) with an input into strategy and the setting of risk appetite by considering business risks and potential vulnerabilities, capital usage and funding requirements given constraints where these exist.

Capital planning is performed on the basis of both regulatory and internal capital, with regulatory capital being the key driver of decision-making. The goal of capital planning is to provide insight into potential sources of vulnerability of capital adequacy by way of market, economic or internal events. As such, we stress the capital plans based on conditions most likely to place us under duress.

The conditions themselves are agreed by the DLC capital committee after consultation with relevant internal and external experts and research. Such plans are used by management to formulate balance sheet strategy and agree management actions, trigger points and influence the determination of our risk appetite.

The output of capital planning allows senior management to make decisions to ensure that the bank continues to hold sufficient capital to meet its targets against regulatory and internal capital targets. On certain occasions, especially under stressed scenarios, management may plan to undertake a number of actions. Assessment of the relative merits of undertaking various actions is then considered using an internal view of relative returns across portfolios which are themselves based on internal assessments of risk and capital.

Our capital plans are designed to allow senior management and the board to review:

- Changes to capital demand caused by implementation of agreed strategic objectives, including the creation or acquisition of new businesses, or as a result of the manifestation of one or more of the risks to which we are potentially susceptible.
- The impact on profitability of current and future strategies.
- Required changes to the capital structure.
- The impact of alternate market or operating conditions on any of the above.

At a minimum level, the capital plan assesses the impact on our capital adequacy over expected case, upturn and downturn scenarios. On the basis of the results of this analysis the DLC capital committee, and the BRCC, are presented with the potential variability in capital adequacy and are responsible, in consultation with the board, for consideration of the appropriate response.

Pricing and performance measurement

The use of internal capital means that all transactions are considered in the context of the impact on the allocation of our capital resources, and hence on the basis of their contribution to return on risk-adjusted internal capital. This is to ensure that expected returns are sufficient after taking recognition of the inherent risk generated for a given transaction. This approach allows us to embed risk and capital discipline at the level of deal initiation.

Using expectations of risk-based returns as the basis for pricing and deal acceptance ensures that risk management retains a key role in ensuring that the portfolio is appropriately managed for that risk.

In addition to pricing, returns on internal capital are monitored and relative performance is assessed on this basis. Assessment of performance in this way is a fundamental consideration used in setting strategy and risk appetite as well as rewarding performance.

The process is designed to ensure that risk and capital management form the basis for key decisions at both a group and a transactional level. Responsibility for oversight for each of these processes ultimately falls to the BRCC.

Basel III

The bank has adopted and complies with the Bank of Mauritius Guideline on Scope of Application of Basel III and Eligible Capital.

The guideline sets out the rules, text and timelines to implement some of the elements related to the strengthening of the capital framework. It formulates the characteristics that an instrument must have in order to qualify as regulatory capital, and the various adjustments that have to be made in determining the regulatory capital of a bank. In addition, it outlines the operation of the capital conservation buffer which is designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. It also lays down the transitional arrangements for implementing certain elements of the Basel III capital framework, as well as the limits and minima of the different components of capital as per the table below:

	1 January 2015	1 January 2016	1 January 2017	1 January 2018	1 January 2019	1 January 2020
Minimum common equity tier 1 CAR	6.0%	6.5%	6.5%	6.5%	6.5%	6.5%
Capital Conservation Buffer			0.625%	1.25%	1.875%	2.5%
Minimum CAT 1 CAR plus Capital Conservation Buffer	6.0%	6.5%	7.125%	7.75%	8.375%	9.0%
Phase-in of deductions from CAT 1*	50%	50%	50%	80%	100%	100%
Minimum tier 1 CAR	7.50%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum total CAR	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Minimum total CAR plus Capital Conservation Buffer	10.0%	10.0%	10.625%	11.25%	11.875%	12.5%
Capital instruments that no longer qualify as tier 1 capital or tier 2 capital	Phased out over 10-year horizon beginning 1 July 2014					

* *Applicable to significant investments in the capital of banking, financial and insurance entities that are outside the scope of consolidation.*

Capital disclosures in terms of Basel III

The tables that follow provide information as required by the Guideline on Scope of Application of Basel III and Eligible Capital.

Capital structure

US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Common equity tier 1 capital: instruments and reserves						
Ordinary shares (paid-up) capital	56 478	56 478	56 478	56 478	56 478	56 478
Retained earnings	298 346	265 260	243 418	298 533	265 695	243 857
Accumulated other comprehensive income and other disclosed reserves (excluding revaluation surpluses on land and building assets)	56 174	55 949	53 755	56 174	55 949	53 755
Common equity tier 1 capital before regulatory adjustments	**410 998**	**377 687**	**353 651**	**411 185**	**378 122**	**354 090**
Deferred tax asset	(438)	(357)	(116)	(437)	(305)	(116)
Total regulatory adjustments to common equity tier 1 capital	**(438)**	**(357)**	**(116)**	**(437)**	**(305)**	**(116)**
Common equity tier 1 capital (CET1)	**410 560**	**377 330**	**353 535**	**410 748**	**377 817**	**353 974**
Tier 2 capital: instruments and provisions						
Provisions or loan-loss reserves (subject to a maximum of 1.25 percentage points of credit risk-weighted risk assets calculated under the standardised approach)	16 153	16 934	12 923	16 153	16 953	12 923
Tier 2 capital (T2)	**16 153**	**16 934**	**12 923**	**16 153**	**16 953**	**12 923**
Total capital (capital base) (TC = T1 + T2)	**426 713**	**394 264**	**366 458**	**426 901**	**394 770**	**366 897**
Risk-weighted assets						
Risk-weighted on balance sheet assets	1 204 838	1 256 567	1 141 392	1 206 017	1 258 083	1 141 873
Non-market-related off balance sheet risk-weighted assets	83 925	91 219	81 653	83 925	91 219	81 653
Market-related off balance sheet risk-weighted assets	4 748	6 973	9 224	4 748	6 973	9 224
Operational risk	79 118	87 146	95 580	79 118	87 146	95 580
Aggregate net open foreign exchange position	5 977	3 251	2 534	5 977	3 251	2 534
Total risk-weighted assets	**1 378 606**	**1 445 156**	**1 330 383**	**1 379 785**	**1 446 672**	**1 330 864**
Capital adequacy %						
Total capital ratio	**30.9%**	**27.2%**	**27.5%**	**30.9%**	**27.2%**	**27.6%**
of which tier 1 capital ratio	**29.8%**	**26.0%**	**26.6%**	**29.8%**	**26.0%**	**26.6%**

The table below reconciles the amounts as per the balance sheet to the regulatory capital elements:

US$'000	Group Balance sheet amount	Group Amounts included for regulatory purposes	Bank Balance sheet amount	Bank Amounts included for regulatory purposes
Common Equity Tier 1 capital: instruments and reserves				
Ordinary shares (paid-up) capital	56 478	56 478	56 478	56 478
Retained earnings	298 346	298 346	298 533	298 533
Other reserves	65 152	56 174	65 152	56 174
Common Equity Tier 1 capital before regulatory adjustments	**419 976**	**410 998**	**420 163**	**411 185**
Deferred tax asset		(438)		(437)
Common Equity Tier 1 capital (CET1)	**419 976**	**410 560**	**420 163**	**410 748**
Tier 2 capital (T2)		**16 153**		**16 153**
Total capital (capital base) (TC = T1 + T2)	**419 976**	**426 713**	**420 163**	**426 901**

Risk-weighted on balance sheet assets

31 March US$'000 Risk-weighted on-balance sheet assets	2018 Total on-balance sheet amount	2018 Risk-weights %	2018 Risk-weighted asset	2017 Risk-weighted asset	2016 Risk-weighted asset
Cash items	4	0%	–	–	–
Claims on sovereigns	36 769	0% – 50%	28 753	28 442	37 346
Claims on central banks and international institutions	91 877	0% – 50%	18 011	5 494	3 748
Claims on banks				231 699	229 454
Claims on non-central government public sector entities (PSEs)	522 707	20% – 100%	139 098	27 198	
Claims on corporates	816 804	20% – 100%	789 797	725 024	566 966
Claims included in the regulatory retail portfolio	–	75%	–	–	84
Claims secured by residential property	42 995	35% – 125%	30 350	25 253	34 905
Claims secured by commercial real estate	161 888	100% – 125%	165 419	148 786	244 441
Past due claims	8 670	0% – 150%	7 989	40 934	920
Other assets	25 421	100%	25 421	23 737	23 528
Total on-balance sheet credit risk-weighted exposures			**1 204 838**	**1 256 567**	**1 141 392**

Risk-weighted non-market-related off balance sheet assets

31 March US$'000 Non-market-related off balance sheet credit exposures	2018 Notional principal amount	2018 Credit conversion factor %	2018 Credit equivalent amount	2018 Risk-weighted asset	2017 Risk-weighted asset	2016 Risk-weighted asset
Direct credit substitutes	5 286	100	5 286	4 839	4 267	8 201
Transaction-related contingent items	2 157	50	1 079	1 235	233	3 561
Trade-related contingencies	446	20	89	89	86 719	69 891
Total other commitments	243 228		79 034	77 762		
Total non-market-related off balance sheet risk-weighted credit exposures			**85 488**	**83 925**	**91 219**	**81 653**

Risk-weighted market-related off balance sheet assets

31 March US$'000 Market-related off balance sheet risk-weighted asset	2018 Notional principal amount	2018 Potential future exposure	2018 Current exposure	2018 Credit equivalent amount	2018 Risk-weighted asset	2017 Risk-weighted asset	2016 Risk-weighted asset
Interest rate contracts	53 489	275	497	771	771	815	432
Foreign exchange contracts	467 040	5 368	834	6 202	3 531	4 847	6 867
Other market-related contracts	–	–	16 106	16 106	446	1 311	1 925
Total market-related off balance sheet risk-weighted credit exposures					**4 748**	**6 973**	**9 224**

Audit committee report

Financial Reporting

Process

The chairman of the audit committee is pleased to present the report for the financial year ended 31 March 2018.

The audit committee complied with all legal and regulatory requirements as necessary under Mauritian legislation and executed its duties during the last financial year in accordance with its Terms of Reference, the Companies Act 2001, Guideline on Corporate Governance, National Code on Corporate Governance, King Report on Governance for South (and the JSE Listings Requirements), where applicable.

Functions of the audit committee

The audit committee is part of the risk management and corporate governance processes and procedures of the bank which provides oversight and monitoring of the:

- financial reporting process and risk management;
- fraud and IT risks as they relate to financial reporting;
- the effectiveness of the internal controls, internal audit and risk management systems;
- the statutory audit and annual financial statements; and
- the independence and performance of the statutory and internal auditor and appropriateness of the statutory auditor's provision of non-audit services.

At each audit committee meeting, the chief executive officer, the chief operating officer, the head of finance and the head of compliance provide an in-depth assessment of their current risk-related concerns and the procedures introduced by management to control or mitigate these risks.

Following the completion of all the audit committee meetings, the chairman of the audit committee provides feedback to the next meeting of the board of directors highlighting matters of which the audit committee believes the board should be aware of.

The chairman of the audit committee regularly meets with the head of Internal Audit as well as the lead external audit partner without management being present to gain a better understanding of the bank's operations and the risks and challenges it faces.

The chairman also has regular meetings with the head of finance to discuss issues relating to the finance function of the bank and to ensure the adequacy of the required expertise, resources and experience of the company's finance function.

The audit committee is satisfied that it carried out its audit committee functions in an appropriate and satisfactory manner.

External audit

The audit committee has responsibility for reviewing the relationship with the external auditors, including considering audit fees, non-audit services and the independence and objectivity of the external auditors.

Auditor appointment, independence and objectivity

The audit committee has satisfied itself that the external auditors are independent, experienced in the audit of financial institutions and have the necessary resources to undertake audits of financial institutions. The audit committee considers the reappointment of the external auditors each year before making a recommendation to shareholders and it assesses the independence of the external auditors on an ongoing basis.

The external audit firm is required to rotate every five years in terms of section 39 of the Banking Act 2004. In terms of the rotation process, KPMG has replaced EY as auditors for the 2018 financial year.

Working with the external auditor

The audit committee meets with the external auditors to review the scope of the external audit plan, budgets, the extent of non-audit services rendered and all other audit matters. The external auditors are invited to attend audit committee meetings and have access to the audit committee chairman. John Chung is the engagement partner from KPMG responsible for the statutory audit.

The audit committee also evaluates the effectiveness of the auditors, the audit partners, audit team and audit approach during their presentation at audit committee meetings and *ad hoc* meetings held with the auditors throughout the year.

Significant audit matters

The audit committee has considered the appropriateness of the key audit matters reported in the external audit opinion. The audit committee also considered the significant audit matters relating to the annual financial statements and how these were addressed by the committee:

Significant audit matter	How the audit committee addressed the matter
The allowance for impairment of loans and advances is considered to be a matter of most significance as it requires the application of judgement and use of subjective assumptions by management.	The audit committee reviewed the level and appropriateness of impairments, provisioning methodologies and related key judgements in determining the impairment amounts.
	The committee was satisfied that the impairment provisions were appropriate.

Non-audit services

The bank may engage the firm responsible for its audit to provide non-audit services. This may be done with the prior approval of the audit committee which ensures that the non-audit work does not entail any conflict with the audit work. Furthermore, the firm's partner responsible for non-audit work should have no responsibility for the audit of the bank.

Financial statements, accounting practices and internal financial controls

The audit committee was satisfied that the financial statements for the bank were prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Mauritius Companies Act, Financial Reporting Act 2004 and the Banking Act 2004. The audit committee has examined and reviewed the financial statements to ensure that they fairly represent the financial position at the end of the financial year and the results of the operations and cash flows for the 2018 financial year.

Combined assurance

The audit committee has satisfied itself that a combined assurance model is applied which incorporates and optimises the various occurrence, services and practices so that, taken as a whole, these support the objectives for assurance. The audit committee assesses the output of the bank's combined assurance with objectivity and professional scepticism, and applies an enquiring mind, form their own opinion on the integrity of the information and reports, and the degree to which the effective control environment has been achieved.

Key focus areas

- IT risk and cyber security
- Business continuity
- Implementation of IFRS 9.

Internal controls

The audit committee has responsibility for assessing the adequacy of internal controls. The audit committee was satisfied that internal financial controls were effective.

To fulfil this responsibility, the audit committee received a written opinion from internal audit on the risk management framework, internal controls and internal financial controls.

Internal audit

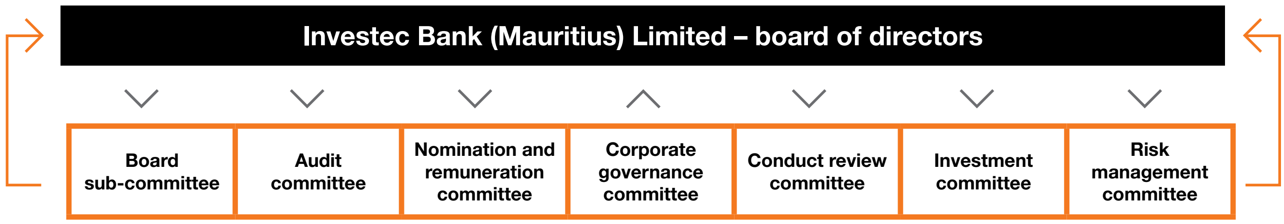
The audit committee also reviewed the Internal Audit function (including the process for evaluating the control environment), approved the Internal Audit plan and considered the internal audit reports. The audit committee established processes to allow for the review and appropriate handling of any concerns and complaints relating to reporting and other practices of the company. No matters of significance were raised in the past financial year.

Peter RS Thomas
Chairman audit committee

21 June 2018

Corporate governance report

Governance framework



Chairman's introduction

I am pleased to present the annual corporate governance report for the year ended 31 March 2018 which describes our approach to corporate governance.

Investec plc and Investec Limited, together with their subsidiaries, are managed as a single economic enterprise as a result of the DLC structure.

Investec Bank (Mauritius) Limited is a subsidiary of Investec Bank Limited and due to the DLC operational structure, compliance with many of the specific corporate governance requirements is at the group DLC level. We encourage all stakeholders to read this corporate governance report which provides a more detailed review including the functions of the various board committees.

Regulatory context

The board, management and employees of the bank are committed and aligned to the principles of sound corporate governance, transparency, accountability and integrity which are inherent in the rules, requirements of the regulators of the bank and requirements of the Code of Corporate Governance for Mauritius (the Code). This will assure all stakeholders that the bank is managed ethically and properly in compliance with the latest legislation, regulations and best practices.

A new Code of Corporate Governance is effective in Mauritius as from 1 July 2017, and the application of this new code is as from the reporting year ending on or after 30 June 2018 and in the bank's case therefore, the year ending 31 March 2019. The main change brought about by the new Code is that it introduces a principles-based approach. The bank must explain (apply and explain) how the principles have been applied.

Our culture, values and philosophy

Sound corporate governance depends upon much more than processes and procedures, it fundamentally depends upon the people and the culture within the organisation. At Investec, sound corporate governance is embedded in our values, culture, processes, functions and organisational structure. Our values require that directors and employees behave with integrity, displaying consistent and uncompromising moral strength in order to promote and maintain trust. The board sets the tone from the top in the manner in which it conducts itself and oversees the structures and the framework for corporate governance. Each business area and each employee of the bank is responsible for acting in accordance with our values and philosophies and we conduct our business and measure behaviour and practices against them so as to ensure that we demonstrate the characteristics of good governance.

Our culture and values have always been at the heart of how we operate, and we believe the strength with which these are embedded and live throughout the organisation distinguishes Investec from others. Safeguarding our culture to ensure good conduct and ethical practice will promote delivery of our long-term success and will remain a key focus of the board.

Board effectiveness

We recognise that an effective and efficient governance framework provides a solid structure for transparent decision making and reflects the importance that we place on honesty, integrity, quality and trust.

The board continues to be committed to regularly evaluating its own effectiveness and that of its committees. In this light, the board undertakes an annual evaluation of its performance and every three years that of its committees and individual directors. No material issues were identified in this process.

Strategic initiatives

The board has continued to exercise leadership, integrity and judgement in pursuit of the bank's strategic goals and objectives. In terms of positioning for future opportunities a particular focus has been the continued investment in infrastructure and people necessary to deliver an out of the ordinary client experience and the incorporation of new technologies into our core strategic planning.

Conclusion

The governance framework and structures that are in place ensure that the bank is able to maintain the highest standards of corporate governance. Some key aspects of the framework are described in greater detail below.

We acknowledge that the environment in which we operate provides challenges from a governance and regulatory perspective; however, we are confident that our culture and values will continue, as ever, to provide the bank and the Investec group with a strong foundation that will enable the board and the Investec group to meet these challenges going forward. The board recognises that practices and procedures can always be improved. Accordingly, the Corporate Governance Framework is kept under regular review to take into account changing standards and regulations.

David M Lawrence
Chairman, board of directors

21 June 2018

Statement of compliance

(Section 75(3) of the Financial Reporting Act 2004)

The Code of Corporate Governance

As per the Financial Reporting Act 2004, public interest entities are required to comply with the Code of Corporate Governance for Mauritius (the Code) and provide justification for not adopting any of the provisions of the Code in their financial statements or reports.

In case of conflict between the Code and the Bank of Mauritius guideline, the Bank of Mauritius guideline takes precedence. The board reviews the implications of corporate governance best practices and accordingly it has taken all the required actions to comply with the requirements of the Guideline on Corporate Governance issued by Bank of Mauritius.

The board is of the opinion that, based on the practices disclosed throughout this report, which were in operation during the year under review, the bank has complied with all of its obligations and requirements under the Code except for the disclosures explained below.

We, the directors of Investec Bank (Mauritius) Limited, confirm that Investec Bank (Mauritius) Limited has not complied with section 2.2.3 – requirement to have at least two executives as members of the board. Through the CEO's membership on the board, management is adequately represented; and section 2.8 – Remuneration of directors – of the Code. Investec Bank (Mauritius) Limited is a wholly owned subsidiary of Investec Bank Limited. Investec Bank Limited has consented to the disclosure of the directors' emoluments on an aggregated basis in line with the resolution referred to under the section 'other statutory disclosures' of the 2018 Annual report.

David M Lawrence
Chairman, board of directors

Angelique Desvaux de Marigny
Chairperson, corporate governance committee

21 June 2018

Board committees

In accordance with the Code of Corporate Governance for Mauritius issued by the National Committee on Corporate Governance established under the Financial Reporting Act 2004 (the Code) and the Bank of Mauritius Guideline on Corporate Governance, the board of directors of the bank established seven sub-committees of the board as well as various management committees and forums to assist it in discharging its duties and responsibilities. The seven sub-committees of the board are as follows:

Board sub-committee

This committee comprises three members, including the chief executive officer. The committee meets as and when required to take decisions as per its specific mandate conferred by the board.

The committee has all the powers other than the powers provided for under any of the following sections which are listed in the Seventh Schedule to the Companies Act 2001 and under section 23.2(a) of the Bank's constitution:

i. Issue of other shares
ii. Consideration for issue of shares
iii. Shares not paid for in cash
iv. Board may authorise distribution
v. Shares *in lieu* of dividends
vi. Shareholder discounts
vii. Purchase of own shares
viii. Redemption at option of company
ix. Restrictions on giving financial assistance
x. Change of registered office
xi Approval of amalgamation proposal
xii. Short-form amalgamation.

The committee met five times during the year under review.

Audit committee

The audit committee comprises three members; two of them are independent external directors. In addition to the chief executive officer, the global head of market risk, the chief operating officer, the head of finance, the head of treasury, the head of legal, the head of compliance, the group head of internal audit, the group compliance officer and the external auditors are invitees. Four audit committee meetings were held during the year under review.

This committee examines and reviews the findings of all internal and external audits conducted at the bank by the bank's duly appointed external auditors and the group internal auditors respectively. The bank's internal audit function is outsourced to Investec group internal audit. The committee examines and reviews all audit findings in order to ensure that there are adequate internal controls to safeguard its assets and integrity.

The responsibilities of the audit committee includes the following:

i. approve the audit plans (external and internal) to ensure that these are risk-based and address all activities over a measurable cycle, and that the work of external and internal auditors is coordinated;

ii. recommend to shareholders the appointment, removal, and remuneration of external auditors;

   It also approves the engagement letter setting out the scope and terms of external audit;

iii. assess periodically the skills, resources, and independence of the external audit firm and its practices for quality control;

iv. assess whether the accounting practices of the bank are appropriate and within the bounds of acceptable practice;

v. ensure that there is appropriate structure in place for identifying, monitoring, and managing compliance risk as well as a reporting system to advise the committee and the board of instances of non-compliance on a timely basis;

vi. discuss with senior management and external auditors the overall results of the audit, the quality of financial statements and any concerns raised by external auditors. This includes:

   a. key areas of risk for misinformation in the financial statements, including critical accounting policies, accounting estimates and financial statement disclosures;

   b. changes in audit scope;

   c. whether the external auditor considers the estimates used as aggressive or conservative within an acceptable range;

   d. significant or unusual transactions; and

   e. internal control deficiencies identified during the course of the audit.

vii. Further responsibilities of the audit committee includes:

   a. review of the audited financial statements for adequacy before their approval by the board;

   b. assessment of whether the institution has implemented adequate internal control and financial disclosure procedures;

   c. review of any transactions brought to its attention by auditors or any officers of the bank, or that might otherwise come to its attention, which might adversely affect the financial condition of the bank;

   d. report to the board on the conduct of its responsibilities in frequency specified by the board, with particular reference to section 39 of the Banking Act 2004; and

   e. ensures that management is taking appropriate corrective action in response to deficiencies identified by the auditors, including internal control weaknesses and instances of non-compliance with laws.

The committee met four times during the year under review.

Nomination and remuneration committee

This committee comprises three members, with the chief executive officer, chief operating officer and the head of group HR being invitees. The committee reviews the salaries and bonuses of senior employees and senior management based on key performance indicators.

The nomination and remuneration committee operates within the following mandate:

(a) recommend to the board candidates for board positions, including the chair of the board and chairs of the board committees;

(b) recommend criteria for the selection of board members and criteria for the evaluation of their performance;

(c) prepare for approval of the board the remuneration and compensation package for directors, senior managers, and other key personnel, taking into account the soundness of risk taking and risk outcomes as well as any relevant information available on industry norms;

(d) recommend to the board an incentive package, as necessary, to enhance staff performance, while ensuring that incentives embedded within remuneration structures do not incentivise staff to take excessive risk;

(e) recommend nominees for board committees; and

(f) comment on the contribution of individual directors to the achievement of corporate objectives as well as on the regularity of their attendance at the board and committee meetings.

The committee met once during the year under review.

Corporate governance committee

This committee comprises three members with the chairman being an independent external director. The two other members are also directors on the parent company's board. The role of the corporate governance committee is to ensure that the reporting requirement with regards to corporate governance, whether in this annual report or on an ongoing basis, is in accordance with the principles of the applicable regulatory requirements and applicable code of corporate governance.

The corporate governance committee carries the following activities:

- advise the board on all aspects of corporate governance and recommend the adoption of best practices as appropriate;
- determine, agree and develop the bank's general policy on corporate governance in accordance with the Code of Corporate Governance for Mauritius and the Bank of Mauritius Guidelines;
- approve the corporate governance report to be published in the bank's annual report; and
- ensure that all reporting requirements and disclosures made in the annual report are in compliance with the disclosure provisions in the Code of Corporate Governance and the Bank of Mauritius Guidelines.

The committee met once during the year under review.

Conduct review committee

This committee comprises three members: the chairman of the board, one independent external director and one director who is also a director on the parent company's board. The committee monitors and reviews all related party transactions and ensures that market-based terms and conditions are applied to all related party transactions. The committee met four times during the year under review and noted no breaches of the Guideline on Related Party transactions issued by the Bank of Mauritius.

The responsibilities of the conduct review committee, as specified in the Guideline on Related Party Transactions issued by the Bank of Mauritius, include the following:

- require the management of the bank to establish policies and procedures to comply with the requirements of the Guideline on Related Party Transactions;
- review the policies and procedures periodically to ensure their continuing adequacy and enforcement, in the best interests of the bank;
- review and approve each credit exposure to related parties;
- ensure that market terms and conditions are applied to all related party transactions;
- review the practices of the bank to ensure that any transaction with related parties that may have a material effect on the stability and solvency of the financial institution is identified and dealt with in a timely manner; and
- report periodically and in any case not less frequently than on a quarterly basis to the board of directors on matters reviewed by it, including exceptions to policies, processes and limits.

Investment committee

This committee comprises the chief executive officer, the chairman of the board and one independent external director. The committee is responsible for the review and management of the bank's investment portfolio and the review of new investment proposals. The investment committee meets on an ad hoc basis as circumstances dictate in order to conduct its affairs with respect to purchase or sell investment decisions.

The credit committee reviews all the new investment proposals and makes its recommendation known to the Investment committee. The investment committee then reviews all the new investment proposals and makes its determination known to the group investment committee. All investment proposals require the sanction of the group investment committee.

The committee met nine times during the year under review.

Risk management committee

This committee comprises three members including the chief executive officer.

The objectives of the committee are to:

- advise the board on the bank's overall current and future risk appetite;
- oversee senior management's implementation of the risk appetite framework; and
- report on the state of risk culture in the bank.

Four risk management committee meetings were held during the year under review.

King IV

The board is of the opinion that, based on the practices disclosed throughout this report, which were in operation during the year under review, the bank has applied the King IV principles as per below.

King IV Principles	
Leadership, Ethics and Corporate Citizen	
Principle 1 The governing body should lead ethically and effectively	The board is the governing body of the bank and committed to the good corporate governance principles as set out in King IV, the JSE Listing Requirements, the Companies Act 2001, the Banking Act 2004 and the National Code on Corporate Governance ('the Code'). Investec's values of commitment, integrity, responsibility, innovation and connectivity guide the behaviour of the fulfilment of daily responsibilities and duties.
Principle 2 The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	The board sets the tone from the top in the manner in which it conducts itself and oversees the governance framework and structures. Investec operates under a DLC structure and therefore considers the corporate governance principles and regulations of both the United Kingdom and South Africa and the other jurisdictions it operates through subsidiaries to adopting the appropriate standard for the group. Investec's code of ethics and business conduct guides the ethical behaviour of all Investec employees and directors. The code is published on the Investec intranet, and incorporated by reference in employee contracts, employee induction and training programmes.
Principle 3 The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.	The corporate social investment (CSI) committee has been tasked with the responsibility for monitoring the overall responsible corporate citizenship performance of the bank. The board approves the strategy and priorities of the bank in accordance with its role of overseeing Investec's conduct as a responsible corporate citizen. The board oversees and monitors how operations and activities of Investec affect its status as a responsible corporate citizen.
Strategy, Performance and Reporting	
Principle 4 The governing body should appreciate that the organisations core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	The board is responsible for setting the strategy of the bank. The strategy is discussed in depth at the board. The bank's management present strategies to the board and Investec Group which the board and Investec Group in turn challenge and interrogate. The monitoring and evaluation of the strategy is done on a regular basis. A review of performance against strategic objectives is included in the board pack for each meeting.
Principle 5 The governing body should ensure that reports issued by the organisation enables stakeholders to make informed assessments of the organisations performance and its short-, medium- and long-term prospects.	The bank's annual report is published annually and is available online and in printed form. The board ensures that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosures to stakeholders and monitors Investec's communication with all stakeholders and disclosures made to ensure transparent and effective communication. The audit committee is tasked with the specific duty of considering whether the annual report taken as a whole was fair, balanced, and comprehensible and provided the information necessary for stakeholders to assess the bank's performance.
Governing Structures and Delegation	
Principle 6 The governing body should serve as the focal point and custodian of corporate governance in the organisation.	The board sets the tone from the top in the manner in which it conducts itself and oversees the governance framework and structures. The bank's constitution details the board's role, matters specifically reserved for the board, delegation to the CEO, membership requirements and procedural conduct at board meetings, amongst other things.
Principle 7 The governing body should comprise the appropriate balance of knowledge, skills experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively	The board, with the assistance of nomination and remuneration committee considers on an annual basis its composition in terms of balance of knowledge, skills, experience, diversity and independence and whether this enables it to effectively discharge its governance role and responsibilities objectively and effectively. The balance of executive and non-executive directors is such that there is a clear division of responsibility to ensure a balance of power. Directors are required to disclosure any actual or potential conflict for consideration.
Principle 8 The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.	The board has retained specific matters for decision-making by the board, as per the bank's constitution. To achieve its objectives, the board, in terms of defined terms of reference, has delegated certain of its duties and functions to various committees, group forums and the CEO.

King IV Principles	
Governing Structures and Delegation	
Principle 9 The Governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.	The board continues to be committed to regularly evaluating its own effectiveness and that of its committees. The Board undertakes an annual evaluation of its performance and that of its committees and directors, with independent external input into the process every third year. The company secretary's performance is evaluated annually to ensure that there is an arm's length relationship with the board. The board is satisfied that the company secretary and the function that he oversees is performing well.
Principle 10 The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.	The board appoints the CEO who has the necessary powers and mandate to manage the bank and conduct the affairs of the bank in his discretion and as he deems fit, save for matters specifically reserved to the board, as per the constitution or agreed by the board from time to time, dealt with and provided for in the formally adopted terms of reference of a board committee or other recognised forum. The CEO is a regular invitee at the nomination and remuneration committee. Any professional positions are discussed with the Chair and at the nomination and remuneration committee.
Governance Functional Areas	
Principle 11 The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.	Risk management is embedded into day-to-day operations and culture. The board ensures that all decisions of the board on risk management policies and procedures are implemented and monitored. Independent risk management, compliance, financial control functions supplemented by internal audit, who reports independently to the audit committee, ensures the management of risk.
Principle 12 The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.	The board delegates responsibility to management and monitors progress.
Principle 13 The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and good corporate citizen.	There were no regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations imposed on the bank.
Principle 14 The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short-, medium- and long-term.	The nomination and remuneration committee assumes responsibility for the governance of remuneration and sets the direction for how remuneration should be approached. The bank's overarching remuneration philosophy remains focused on employing and retaining the highest calibre individuals through the payment of industry competitive packages and long-term share awards, which ensure alignment with key stakeholders in our business.
Principle 15 The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.	Representation from external audit, internal audit compliance and operational risk on the audit committee enables an effective internal control environment to support the integrity of information used for internal decision-making and support the integrity of external reports. A combined assurance framework includes both coverage of significant risks and reporting of any issues raised relating to these risks. An internal audit plan is presented for approval annually to the audit committee. The internal audit charter is revised every year. This charter defines the role and associated responsibilities and authority of internal audit, including addressing its role within combined assurance and the internal audit standards to be adopted.
Stakeholders Relations	
Principle 16 In its execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.	The bank's continually seeks to achieve an appropriate balance between risk and reward in its business, taking cognisance of all stakeholders' interests. The CSI committee has been tasked to ensure a stakeholder-inclusive approach is followed. The independence of appointed non-executive directors promote the interest of stakeholders. The bank's reward programmes are administered to align directors' and employees' interests with those of all stakeholders and ensure the bank's short-, medium- and long-term success.

Financial reporting and going concern

The directors are required to confirm that they are satisfied that the bank has adequate resources to continue in business for the foreseeable future. The assumptions underlying the going concern statement are discussed at the time of the approval of the annual financial statements and these include:

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity

In addition, the directors are responsible for monitoring and reviewing the preparation, integrity and reliability of the bank's financial statements, accounting policies and the information contained in the annual report.

The bank's financial statements are prepared on a going concern basis.

The board is of the opinion – based on its knowledge of the bank, key processes in operation and specific enquiries – that there are adequate resources to support the bank as a going concern for the foreseeable future.

Further information on the liquidity and capital position is provided on pages 40 to 42 and pages 47 to 51.

Furthermore, the board is of the opinion that the bank's risk management processes and systems of internal control are effective.

Management and succession planning

Business unit heads are appointed by executive management and endorsed by the board, based on the skills and experience deemed necessary to perform the required function.

Matters of succession are considered regularly. Decision-making is spread to encourage and develop an experienced pool of talent.

Internal control

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The Investec group's board risk and capital committee and the audit committee assist the board in this regard. The board recognises its responsibility for the overall risk and control framework and for reviewing its effectiveness.

Internal control is designed to mitigate, not eliminate, significant risks faced by the bank. It is recognised that such a system provides reasonable, but not absolute, assurance against material error, omission, misstatement or loss. This is achieved through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums, and assurance and control functions such as risk management, internal audit and compliance. These ongoing processes were in place throughout the year under review and until the date of approval of the annual report and accounts.

Internal audit reports any control recommendations to senior management and the audit committee. Appropriate processes ensure that timely corrective action is taken on matters raised by Internal Audit.

Internal financial controls

Internal financial controls are based on established policies and procedures. Management is responsible for implementing internal financial controls, ensuring that personnel are suitably qualified, that appropriate segregation exists between duties, and that there is suitable independent review. These areas are monitored by the board through the audit committee and are independently assessed by internal audit and compliance.

Processes are in place to monitor internal control effectiveness; identify and report material breakdowns; and ensure that timely and appropriate corrective action is taken.

Board of directors

The board seeks to exercise leadership, integrity and judgement in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity. The board operates within the group's governance framework and is accountable for the performance and affairs of the bank. It provides leadership for the bank within a framework of prudent and effective controls which allows risks to be assessed and managed.

The board:

- Approves the bank's strategy
- Ensures that the bank complies with the applicable laws and considers adherence to non-binding rules and standards.
- Is responsible for the governance of risk, including that of information technology (IT).
- Acts as focal point for, and custodian of, corporate governance.
- Provides effective leadership on an ethical foundation.
- Ensures the bank is and is seen to be a responsible corporate citizen.

The board meets its objectives by reviewing and guiding corporate strategy, setting the bank's values and standards, promoting high standards of corporate governance, approving key policies and objectives, ensuring that obligations to its shareholders and other stakeholders are understood and met, understanding the key risks the bank faces, determining the bank's risk tolerance and approving and reviewing the processes in operation to mitigate risk from materialising, including the approval of the terms of reference of key supporting board committees.

In accordance with the Code of Corporate Governance for Mauritius and the Bank of Mauritius Guidelines on Corporate Governance, there is a clear division of responsibility between the chairman and the chief executive officer to ensure balance of power and authority. The board is led by the chairman while the chief executive officer leads the executive management team responsible for the day-to-day running of the business and affairs of the bank.

The majority of the board members are non-executive directors. The board comprises five members: the bank's chief executive officer, two independent external directors and two directors who are also directors on the parent company's board. Three of the directors are residents of Mauritius. A brief profile of each director is included below:

Directorate

Name	Age at date of this report	Date of appointment	Qualifications	Current other directorships	Committee membership	Brief biography
David M Lawrence (Chairman)*	67	3 October 1997	BA(Econ) (Hons) MCom	Investec Bank Limited and a number of outside companies including JSE Limited	1,3,4,5,6,7	Currently the deputy chairman of Investec Bank Limited and chairman of the board of directors of the bank. Former chairman and managing director of Citibank (South Africa), and managing director of FirstCorp Bank Limited.
Peter RS Thomas*	73	13 May 2005	CA(SA)	Investec Bank Limited, various Investec companies, JCI Limited and various listed and unlisted companies	2,3,4,5	Peter was the former managing director of The Unisec Group Limited. Currently chairman of the audit committee of the bank.
Pierre de Chasteigner du Mée**	65	4 June 1999	ACEA FBIM FMAAT	Investec Wealth & Investment (Mauritius) Limited P.O.L.I.C.Y Ltd, and various private companies	1,2,3,4,6,7	Pierre, a stockbroker, is the director and secretary of Associated Brokers Ltd. Pierre is also a director of the National Pensions Fund, National Pension/National Savings Fund's investment committee and vice-president of P.O.L.I.C.Y. Limited.
Angelique Anne Desvaux de Marigny**	42	14 August 2005	LLB, barrister-at-law Maitrise en Droit Privé (Université de Paris I-Panthéon-Sorbonne)	None	2,5	Angelique is a barrister-at-law. She initially practised as a litigation counsel for the first years of her career before joining the CIEL group as head of legal affairs. In 2009, she returned to private practice and has since undertaken advisory work and litigation before the domestic courts in various fields. In 2014, she was actively involved in setting up De Speville-Desvaux, a multi-disciplinary set of chambers where she is currently practising.
Craig C Mckenzie	57	25 February 2000	Bsc Msc CFA	Investec Wealth & Investment (Mauritius) Limited various unlisted companies	1,6,7	Chief executive officer with 29 years of banking experience.

1. Board sub-committee.
2. Audit committee.
3. Nomination and remuneration committee.
4. Conduct review committee.
5. Corporate governance committee.
6. Investment committee.
7. Risk management committee.
** Non-executive director.*
*** Independent director.*

Details of the attendance at the board and board committee meetings held during the year are shown in the table below:

	Meetings attendance							
Directors	**Board**	**Audit committee**	**Board sub-committee**	**Nomination and remuneration committee**	**Conduct review committee**	**Corporate governance committee**	**Investment committee**	**Risk management committee**
David M Lawrence	4/4		5/5	1/1	4/4	1/1	9/9	4/4
Craig C McKenzie	4/4		5/5				9/9	4/4
Pierre de Chasteigner du Mée	4/4	4/4	5/5	1/1	4/4		6/9	4/4
Angelique A Desvaux de Marigny	4/4	4/4				1/1		
Peter RS Thomas	4/4	4/4		1/1	4/4	1/1		

The directors of the subsidiary, Investec Wealth & Investment (Mauritius) Limited, are as follows:

Craig C McKenzie (chairman)
Henry Blumenthal (non-executive)
Joubert Hay (non-executive)
Pierre de Chasteigner du Mée
Rodney Marthinusen (non-executive)
Mathieu Leheilleix (chief executive officer)

Skills, knowledge, experience and attributes of directors

The board considers that the skills, knowledge, experience and attributes of the directors as a whole are appropriate for their responsibilities and the bank's activities. The directors bring a range of skills to the board including:

- International business and operational experience.
- Understanding of the economics of the sectors in which we operate.
- Knowledge of the regulatory environments in which we operate.
- Financial, accounting, legal and banking experience and knowledge.

The skills and experience profile of the board and its committees are regularly reviewed to ensure an appropriate and relevant composition from a governance, succession and effectiveness perspective.

Board and board committees

The board's performance is evaluated annually and covers areas of the board's processes and responsibilities according to leading practice. The board committees are evaluated every three years.

The performance evaluation process takes place both informally, through personal observations and discussions, and/or in the form of evaluation questionnaires. The results are considered and discussed by the board. The chairman meets with directors to discuss the results of the formal and informal evaluations and, in particular, to seek comments on strengths and developmental areas of the members, the chairman and the board as a whole. Individual training and development needs are discussed with each board member and any requests for training are communicated to the company secretary for implementation.

Performance evaluation of the board as well as training and development of directors are matters that are often raised at the board.

Ongoing training and development

Board members receive formal presentations on regulatory and governance matters as well as on the business and support functions.

The company secretary liaises with directors to source relevant seminars and conferences which directors could attend, funded by Investec.

Following the board's and board committee's performance evaluation process, any training needs are communicated to the company secretary who ensures these needs are addressed.

During the period under review, one training session for directors was organised.

Directors' interest and dealings in shares

All the shares of the bank are held by its sole shareholder namely, Investec Bank Limited.

Directors' emoluments

The executive and non-executive directors received emoluments amounting to US$1 587 472 for the year under review (2017: US$1 068 672 and 2016: US$1 217 682).

The remuneration of directors has not been disclosed on an individual basis as the parent company, being the sole shareholder, has the detailed remuneration information.

Directors' service contracts and terms of employment

The chief executive officer, who is the only executive director of the bank, has an indefinite contract of employment, terminable by either party giving the required written notice to the other. The chief executive officer is entitled to receive a basic salary and is also eligible for an annual bonus and to participate in the group share incentive scheme, the amount of which is determined at the discretion of the nomination and remuneration committee.

The non-executive directors do not have service contracts, but letters of appointment confirming the terms and conditions of their service. Unless the non-executive directors resign earlier or are removed from their positions, they will remain as directors until the close of the next annual general meeting.

Directors' and officers' liability insurance

The bank has arranged for appropriate insurance cover in respect of any legal action against its directors and officers.

Donations

Any donations provided by the bank are made as part of the bank's corporate social and business responsibility. No political donations are made.

Dividend policy

Although the bank does not have a formal dividend policy, dividends are paid to its sole shareholder subject to profitability and subject to the approval from the Bank of Mauritius and the solvency test required under section 61(2) of the Companies Act 2001 of Mauritius being satisfied.

No dividends were paid during the year (2017: nil).

Executive management

The board has delegated the day-to-day running of the business and affairs of the bank to its executive management. Issues are debated and decisions in management forums are taken unanimously.
The executive management team of the bank is made up of the chief executive officer and chief operating officer. Below is the profile of the management team.

Craig C McKenzie – chief executive officer

Craig C McKenzie joined Investec Bank (Mauritius) Limited in 2000 as chief executive officer. He has more than 29 years' banking experience and holds Bachelor and Master of Science degrees in agricultural economics from the University of Natal (South Africa). He is also a chartered financial analyst (CFA).

Lara Ann Vaudin – chief operating officer

Lara Ann Vaudin qualified as an attorney-at-law in Johannesburg, South Africa in 1996. She holds a BA LLB from the University of the Witwatersrand and an LLM (corporate law) from the University of South Africa. She joined the bank in 2004 as the bank's legal adviser and is currently the chief operating officer of the bank.

Other statutory disclosures

In accordance with section 221(4) of the Companies Act 2001, the sole shareholder of the bank has, by way of written resolution, agreed that the annual report of the bank does not need to comply with paragraphs (a) and (d) to (i) of section 221(1) of the Companies Act 2001.

External audit

Ernst & Young (EY) were the bank's external auditors up to 31 March 2017. As from April 2017, KPMG have been appointed as the external auditors following the change in the Banking Act which requires banks to rotate audit firms every five years. EY were not eligible for reappointment having been auditors for more than five years.

The independence of the external auditors is reviewed by the audit committee each year. The audit committee meets with the external auditors to review the scope of the external audit, budgets, the extent of non-audit services rendered and all other audit matters.

The external auditors are invited to attend audit committee meetings and have access to the chairman of the audit committee.

Regulation and supervision

The bank is subject to regulation by its host regulator, Bank of Mauritius as well as the South African Reserve Bank. It seeks to achieve open and active dialogue with its regulators and supervisors in order to comply with the various regulatory and supervisory requirements. The bank reports to regulators and supervisory bodies regularly and is subject to an annual on-site inspection.

Values and code of conduct

Investec has a strong organisational culture of entrenched values, which forms the cornerstone of its behaviour towards all stakeholders. These values are embodied in a written statement of values which serves as its code of ethics, and is continually reinforced.

The bank conducts its business with uncompromising integrity and fairness, so as to promote trust and confidence in the banking industry.

Human resources and remuneration policy

The bank's philosophy is to employ high calibre individuals who are characterised by integrity and innovation and who adhere and subscribe to its culture, values and philosophies. The bank promotes entrepreneurship by providing a working environment which stimulates extraordinary performance.

The bank rewards its employees for their contribution through payment of a competitive annual package, a variable performance bonus and ownership in the form of share incentive scheme participation in Investec Limited. Other factors are also considered important such as the organisation's core values, work content and management style in the attraction, retention and motivation of employees.

Related party transactions

Refer to note 38 to the financial statements.

Risk management

Refer to pages 12 to 51.

Internal audit

The internal audit function is managed at a group level and is tasked with providing the board with an independent and objective opinion as to the bank's control environment in relation to the risks it faces. Internal audit recommends enhancements to risk management, control and governance processes where weaknesses are identified.

A representative from group internal audit reports at each audit committee meeting and has a direct reporting line to the chairman of the audit committee. He/she operates independently of executive management, but has access to the chief executive officer and the chairman of the audit committee.

Annually, group internal audit conducts a formal risk assessment of the bank's business from which a comprehensive risk-based annual audit plan is derived. The assessment and programme are validated by executive management and approved by the audit committee.

The group internal audit team comprises well-qualified, experienced staff and ensures that the function has the competence to match the bank's diverse requirements. Where specific specialist skills or additional resources are required, these will be obtained from third parties as appropriate. The internal audit resources are subject to review by the audit committee.

The audit committee receives a report on significant issues and actions taken by management to enhance related controls.

Compliance

Compliance risk is the risk that the bank fails to comply with the letter and spirit of all statutes, regulations, supervisory requirements and industry codes of conduct which apply to the bank's business. The bank seeks to bring the highest standard of compliance best practice. In keeping with its core values, the bank also endeavours to comply with the highest professional standards of integrity and behaviour, which build trust.

The compliance function ensures that the bank complies with existing and emerging regulations impacting on its operations.

The bank recognises its responsibility to conduct business in accordance with the laws and regulations of the country and areas in which it operates. The compliance function is supported by group compliance and the compliance officer of the bank.

The bank is subject to extensive supervisory and regulatory governance. Significant business developments in any of its operations must be approved by both the Bank of Mauritius and the South African Reserve Bank.

The bank's head of compliance reports to the chief executive officer, as well as to the group head of compliance and the audit committee. The bank's head of compliance provides regular training to ensure that all employees are familiar with their regulatory obligations; provides advice on regulatory issues; and works closely with business and operational units to ensure consistent management of compliance risk.

Sustainability

The bank believes in making a positive contribution to the society and the environment in which we operate. Our corporate social investment (CSI) strategy is to focus on projects and initiatives in the following areas:

- Education
- Environment
- Sports development.

Investec bank looks to spend 30% of its budget in each of the above areas. The remaining 10% of the annual budget is allocated to discretionary philanthropic donations; while it may fall out of the bank's focus areas, it allows us to make small but meaningful donations to worthwhile causes.

Moreover, corporate social responsibility (CSR) was legislated by the government of Mauritius in July 2009. In terms of the legislation, all Mauritian companies need to allocate 2% of their Segment A chargeable income to CSR-approved NGOs or projects. The bank will remit 50% of its CSR Funds to the Mauritius Revenue Authority (MRA), in accordance with the Income Tax Act. Segment B profits pertaining to offshore income derived by banks is, however, exempt. Notwithstanding this the bank has chosen to contribute an additional 0.25% of the average previous three years' Segment B chargeable income to corporate social investment. In line with the government's focus on poverty alleviation, the bank's CSI projects are directed at communities or beneficiaries that are financially disadvantaged. Its approach is to ensure long-term sustainability. This means making multi-faceted interventions in selected communities and may include building operational skills and organisational capacity.

The bank criteria for assessing projects are:

- Ability to make a meaningful difference
- Capacity to deliver sustained benefits
- Measurability
- Potential to engage co-sponsors to increase leverage and provide an integrated solution
- Opportunity for staff involvement.

In terms of ad hoc donations, Investec has reached towards 'Link to life', an NGO that supports cancer patients by providing psychological assistance, early detection screening and cancer awareness education. Investec encourages its staff to contribute and participate in its CSI programme, whereby in December 2017, 68% of staff participated in the Santa shoebox volunteer drive by providing Christmas and grocery boxes for communities in need from Solitude. Staff have given their time to assist the Terrain for the Interactive Pedagogy through Arts (TIPA) and the SOS Children's Villages.

Projects supported by Investec Bank Mauritius:

Education

Education is the key to empowering disadvantaged communities and enables individuals to make a better life for themselves.

- Our key project within the education sector is our support of the Guy Rozemont Government School in Tranquebar for the past five years which includes a remedial education programme for children preparing to write their exams, programmes that raise pupils' self-esteem and develop life skills through art and drama, skills development for teachers, a forum for parental participation in education, as well as the upgrade of the children's playground.
- Assistance for children preparing to write Club de Parents – Investec sponsors the monthly meeting of parents and school representatives. The purpose of this club is to provide a forum for parental participation in education. The club supports their CPE exams also uses this forum as an opportunity to upgrade and enhance the skills of parents.
- TIPA (Terrain for Interactive Pedagogy through Arts): is an NGO that runs an educational programme at the Guy Rozemont School enabling vulnerable children to develop essential life skills. Their focus is to empower children to become critical thinkers, participate in discussions, be responsible and be team players through art, drama and cultural education. They also develop teachers' skills and organise an annual art festival at the school.

The bank supports Education for Sustainability (EFS) at Loretto College Curepipe. The project develops ecologically literate students who will play a role in society, steering business and the Mauritian economy towards a responsible approach to our non-renewable resources and an attitude of care and stewardship towards our natural environment. The EFS programme embeds the ecosystems education into the curriculum. The project is a partnership between the Bureau de l'Education Catholique and Earth wise centre, an entity focusing on education, training and consulting for sustainability.

Environment

The bank believes that the natural heritage of Mauritius is a critical resource to the country and needs to be respected and protected. In the environment sector we support the Mauritian Wildlife Foundations' Learning with Nature Education Project and the Protection of Animal Welfare Society (PAWS) to develop and implement its education programme that focuses on the health and welfare of companion animals.

- In terms of the Mauritian Wildlife Foundations' Learning, the bank supports the Mauritian Wildlife Foundation's 'Learning with Nature' education project at L'îles aux Aigrettes that teaches children about the flora and fauna of Mauritius. The project allows students to experience and understand their natural environment, and appreciate its relevance in their day-to-day lives and their school curriculum.
- The bank partners with the Protection of Animal Welfare Society (PAWS) to implement its education programme focusing on the health and welfare of companion animals and the dire need to have them sterilised. Aside from the cruelty and the negative image to tourists, stray dogs and cats can be a danger to community health.
- Continuation of its environmental project in collaboration with Ecole Pere Henri Souchon and Animaterra – Vegetable Farming Project. The project teaches pupils basic crop cultivation skills in a sustainable manner using principals of biological farming and no chemical pesticides. This school is a vocational school for those pupils who are unable

to continue in mainstream government education. This project is part of the school curriculum and provides pupils with skills that assist them in finding employment in the agricultural/horticultural sector. This year, they plan to do theoretical teaching which will enhance their practical skills.

Sports development

Investec believes that access to sport should be available to all. We also believe that aside from the importance of physical exercise, sport also teaches children discipline, perseverance, teamwork and develops self-esteem. Our support of the sports development sector includes the following sport development projects:

Tranquebar Boxing Club

Investec has been sponsoring the Tranquebar Boxing Club in renewing their equipment and providing them with adequate training. The team competes at National and International Level.

Tranquebar Dalton Football Club

Investec has been sponsoring the Tranquebar Dalton Football Club for the past four years. The team has reached the Super League Regional of the capital of Mauritius, Port Louis and are currently participating in the international games of 'Trophee de la Jenesse'.

Tranquebar Black Rangers Women's Volley Ball Club

Investec has been sponsoring the Women's Volley Ball Club 'Black Rangers' for the past 10 years. The club consists of 45 members and are made up of a strong first team with a junior development team.

Environmental footprint

In terms of the bank's environmental footprint, it measures its use of energy, paper and water. The bank continues to work towards reducing its overall energy and resource usage. Investec is environmentally friendly with a no plastic approach. Going forward, the bank will implement the "go-green" strategy by recycling its waste.

Shareholder diary

Financial year:	31 March
Unaudited quarterly report:	Within 45 days from the quarters ending June, September and December
Audited financial statements:	Within three months of 31 March 2018
Annual general meeting:	June 2018

Signed on behalf of the board

David M Lawrence
Chairman

Angelique Desvaux de Marigny
Chairperson, corporate governance committee

Craig C McKenzie
Chief executive officer

21 June 2018

Annual financial statements

Statement of management's responsibility for financial reporting

Directors' responsibilities

The financial statements in this annual report have been prepared by management which is responsible for their integrity, consistency, objectivity and reliability. International Financial Reporting Standards of the International Accounting Standards Board 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, risk management committee and conduct review committee which comprise independent directors, oversees management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

The group's internal auditor has full and free access to the audit committee and conducts a well-designed programme of internal audits in coordination with the bank's external auditors. In addition, the bank's compliance function maintains policies, procedures and programmes directed at ensuring compliance with regulatory requirements.

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

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

Directors' compliance

Company law requires the directors to prepare financial statements for each financial year which present fairly the financial position, financial performance and cash flows of the bank. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the bank and to enable them to ensure that the financial statements comply with the Mauritius Companies Act 2001. They are also responsible for safeguarding the assets of the bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

Signed on behalf of the board

David M Lawrence
Chairman
Board of directors

Pierre de Chasteigner du Mée
Director

Craig C McKenzie
Chief executive officer

21 June 2018

Secretary's report

Under section 166(d) of the Companies Act 2001, I certify that, to the best of my knowledge and belief, the bank has lodged with the Registrar of Companies all such returns as are required of the bank in terms of the Act.

Prithiviraj Jeewooth
Secretary

21 June 2018

Independent auditor's report to the member of Investec Bank (Mauritius) Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Investec Bank (Mauritius) Limited ('the Group' and 'the Bank'), which comprise the balance sheets as at 31 March 2018, the income statements, statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies, as set out on pages 72 to 160, and the specified disclosures within the risk management section that are marked as audited.

In our opinion, these consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Investec Bank (Mauritius) Limited as at 31 March 2018 and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act, Banking Act and Financial Reporting Act.

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 auditors' responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the Group and the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment on loans and advances to customers

Refer to notes 2.2 and 23 to the financial statements.

Key audit matter	How the matter was addressed in the audit
The Bank reviews its individually significant loans and advances relating to the Group and Bank at each reporting date to assess whether an impairment loss should be recorded. Management apply significant judgement in estimating the amount and timing of future cash flows when determining the impairment loss. The Group and the Bank records both portfolio and specific allowances for impairment of loans and advances. In addition, management's impairment assessment takes into account and judgements on the effect of concentration risks and economic data (collateral valuations and country risk). We identified the impairment of loans and advances to customers as a key audit matter in our audit of the consolidated and separate financial statements because of the judgement involved and the work effort from the audit team.	We evaluated the appropriateness of accounting policies and assessed the loan impairment methodologies applied, and compared these to the requirements of IAS 39 Financial Instruments: Recognition and Measurement. We considered the overall credit process of the Group and the Bank by: • Testing controls and governance over credit origination and impairment processes; • Evaluating controls over the monitoring and recording of loans with higher risk of default, annual loan credit file reviews and the assessment and approval of impairment allowances including the valuation of collateral; • Evaluating the data between the loan administration systems and the general ledger and the accuracy of the loan arrears report; and • Evaluating the appropriateness of the disclosures in the financial statements in relation to impairment of loans and advances to customers with reference to the requirements of the relevant accounting standards.

Key audit matter	How the matter was addressed in the audit
	Specific impairment: For impairments determined on specific assets our audit procedures included: • For loans showing an indication of impairment, we independently evaluated the appropriateness of provisioning methodologies and policies applied by management; • We evaluated the reasonableness of assumptions used to support the timing and extent of the cash flows and the valuation of collateral held; • For loans where the recovery was dependent on collateral we considered the inputs supporting the collateral valuation; and • In addition, we selected a sample of performing loans to evaluate whether all necessary impairments had been identified by management. **Portfolio impairment:** Our audit procedures on the portfolio impairment included: • We recalculated the inputs and assumptions used by management in order to confirm their accuracy; and • We benchmarked the resultant credit loss ratio against financial institutions with a similar credit risk.

Independent auditor's report to the member of Investec Bank (Mauritius) Limited

(continued)

Other information

The directors are responsible for the other information. The other information is all information included in the Annual Report. The other information does not include the consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act, Banking Act and Financial Reporting Act, 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, the 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 intend to liquidate the Group and/or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated and separate 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 auditors' 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 judgement and maintain professional scepticism 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 events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or 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 consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matters

The consolidated and separate financial statements for the year ended 31 March 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 20 June 2017.

This report is made solely to the Bank's member, in accordance with section 205 of the Mauritius Companies Act. Our audit work has been undertaken so that we might state to the Bank's member those matters that we are required to state in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's member, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Mauritius Companies Act

We have no relationship with or interests in the Group and the Bank other than in our capacity as auditors.

We have obtained all the information and explanations we have required.

In our opinion, proper accounting records have been kept by the Bank as far as it appears from our examination of those records.

Banking Act

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 Banking Act and the regulations and guidelines of the Bank of Mauritius.

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

Financial Reporting Act

The directors are responsible for preparing the Corporate Governance Report. Our responsibility is to report on the extent of compliance with the Code of Corporate Governance as disclosed in the consolidated and separate financial statements and on whether the disclosure is consistent with the requirements of the Code.

In our opinion, the disclosure in the annual report is consistent with the requirements of the Code.

KPMG

KPMG
Ebène, Mauritius

John Chung, BSc FCA
Licensed by FRC

21 June 2018

Income statements

For the year to 31 March US$'000	Notes	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Interest income*	3	69 538	62 509	63 472	69 571	62 530	63 475
Interest expense*	3	(26 469)	(21 009)	(19 173)	(26 483)	(21 009)	(19 173)
Net interest income		**43 069**	**41 500**	**44 299**	**43 088**	**41 521**	**44 302**
Fee and commission income	4	10 372	8 191	7 770	9 256	7 609	7 770
Fee and commission expense	4	(1 434)	(1 781)	(1 677)	(1 434)	(1 781)	(1 677)
Net fee and commission income		**8 938**	**6 410**	**6 093**	**7 822**	**5 828**	**6 093**
Investment (loss)/income	5	(1 678)	(5 151)	2 058	(1 678)	(5 151)	2 058
Net trading income/(loss)*	6	369	1 045	(603)	321	1 048	(603)
Total operating income before impairment losses on loans and advances		**50 698**	**43 804**	**51 847**	**49 553**	**43 246**	**51 850**
Impairment (losses)/reversals on loans and advances	23	(3 214)	(3 535)	1 003	(3 214)	(3 535)	1 003
Operating income		**47 484**	**40 269**	**52 850**	**46 339**	**39 711**	**52 853**
Operating costs	7	(14 018)	(12 897)	(11 522)	(13 172)	(12 291)	(11 086)
Operating profit		**33 466**	**27 372**	**41 328**	**33 167**	**27 420**	**41 767**
Share of profit/(loss) in associate	24	138	448	(784)	138	448	(784)
Profit before taxation		**33 604**	**27 820**	**40 544**	**33 305**	**27 868**	**40 983**
Taxation	9	(1 904)	(1 883)	(2 565)	(1 853)	(1 935)	(2 565)
Profit after taxation		**31 700**	**25 937**	**37 979**	**31 452**	**25 933**	**38 418**
Analysed as follows:							
Transfer to statutory reserve		–	–	1 104	–	–	1 104
Transfer (from)/to regulatory general risk reserve		(1 386)	4 095	124	(1 386)	4 095	124
Transfer to retained earnings		33 086	21 842	36 751	32 838	21 838	37 190
Profit attributable to equity holder of the bank		**31 700**	**25 937**	**37 979**	**31 452**	**25 933**	**38 418**

** Refer to note 42: Reclassifcations.*

Statements of other comprehensive income

For the year ended 31 March US$'000	Notes	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Profit after taxation		31 700	25 937	37 979	31 452	25 933	38 418
Other comprehensive income, net of tax:							
Items that may be reclassified to the income statement							
Fair value movements on available-for-sale assets taken directly to other comprehensive income		(75)	2 229	(2 230)	(75)	2 229	(2 230)
Gain on realisation of available-for-sale assets recycled through the income statement	5	–	(26)	–	–	(26)	–
Foreign currency adjustments on translating associated undertaking		300	(8)	(411)	300	(8)	(411)
Other comprehensive income		36	–	–	36	–	–
Total comprehensive income		**261**	**2 195**	**(2 641)**	**261**	**2 195**	**(2 641)**
Total comprehensive income attributable to equity holder of the bank		**31 961**	**28 132**	**35 338**	**31 713**	**28 128**	**35 777**

Balance sheets

As at 31 March US$'000	Notes	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Assets							
Cash and balances at central bank	15	16 695	13 715	9 947	16 695	13 715	9 947
Due from banks	16	459 119	812 376	682 160	459 119	812 376	682 160
Reverse repurchase agreements	17	75 186	–	–	75 186	–	–
Sovereign debt securities	18	–	22 214	–	–	22 214	–
Bank debt securities	19	137 604	108 399	112 357	137 604	108 399	112 357
Other debt securities	20	30 172	100 202	95 699	30 172	100 202	95 699
Derivative financial instruments	21	17 437	21 804	25 289	17 437	21 804	25 289
Investment portfolio	22	12 993	14 473	17 045	12 993	14 473	17 045
Loans and advances to customers	23	952 637	913 995	891 098	952 637	913 995	891 098
Investment in associate	24	4 598	4 160	3 720	4 598	4 160	3 720
Deferred taxation asset	25	438	357	116	437	305	116
Other assets	26	7 203	4 521	2 476	7 137	4 520	2 476
Equipment	27	395	294	337	394	294	337
Amount due from group companies	28	3 366	3 698	3 536	3 365	4 040	3 958
Investment in subsidiary	29	–	–	–	467	467	17
		1 717 843	**2 020 208**	**1 843 780**	**1 718 241**	**2 020 964**	**1 844 219**
Liabilities							
Derivative financial instruments	21	3 508	4 542	6 610	3 508	4 542	6 610
Repurchase agreements	17	101 924	101 645	108 260	101 924	101 645	108 260
Customer deposits	30	893 397	1 202 181	1 077 907	893 717	1 202 181	1 077 907
Debt securities in issue	31	258 563	249 879	253 547	258 563	249 879	253 547
Amount due to group companies	28	32 030	11 887	9 684	32 024	12 318	9 684
Current taxation liabilities	9	1 020	950	334	1 020	950	334
Other liabilities	32	7 425	61 109	27 555	7 322	60 999	27 555
		1 297 867	**1 632 193**	**1 483 897**	**1 298 078**	**1 632 514**	**1 483 897**
Equity							
Ordinary share capital	33	56 478	56 478	56 478	56 478	56 478	56 478
Other reserves	33	65 152	66 277	59 987	65 152	66 277	59 987
Retained income		298 346	265 260	243 418	298 533	265 695	243 857
Shareholders' equity		**419 976**	**388 015**	**359 883**	**420 163**	**388 450**	**360 322**
Total liabilities and equity		**1 717 843**	**2 020 208**	**1 843 780**	**1 718 241**	**2 020 964**	**1 844 219**

Signed on behalf of the board

David M Lawrence
Chairman

Pierre de Chasteigner du Mée
Director

Craig C McKenzie
Chief executive officer

21 June 2018

Statements of changes in equity

		Other reserves					
US$'000	**Ordinary share capital**	**Foreign currency reserves**	**Available-for-sale reserve**	**Regulatory general risk reserve**	**Statutory reserve**	**Retained income**	**Total equity**
Group							
At 1 April 2015	**56 478**	**–**	**(83)**	**6 109**	**55 374**	**266 667**	**384 545**
Movement in reserves 1 April 2015 – 31 March 2016							
Profit after taxation	–	–	–	–	–	37 979	37 979
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	(2 230)	–	–	–	(2 230)
Foreign currency adjustments on translating associated undertakings	–	(411)	–	–	–	–	(411)
Total comprehensive income	**–**	**(411)**	**(2 230)**	**–**	**–**	**37 979**	**35 338**
Dividends paid to equity holder of the bank (Note 10)	–	–	–	–	–	(60 000)	(60 000)
Transfer to statutory reserve	–	–	–	–	1 104	(1 104)	–
Transfer to regulatory general risk reserve	–	–	–	124	–	(124)	–
At 31 March 2016	**56 478**	**(411)**	**(2 313)**	**6 233**	**56 478**	**243 418**	**359 883**
Movement in reserves 1 April 2016 – 31 March 2017							
Profit after taxation	–	–	–	–	–	25 937	25 937
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	2 229	–	–	–	2 229
Gain on realisation of available-for-sale assets recycled through the income statement	–	–	(26)	–	–	–	(26)
Foreign currency adjustments on translating associated undertakings	–	(8)	–	–	–	–	(8)
Total comprehensive income	**–**	**(8)**	**2 203**	**–**	**–**	**25 937**	**28 132**
Transfer to regulatory general risk reserve	–	–	–	4 095	–	(4 095)	–
At 31 March 2017	**56 478**	**(419)**	**(110)**	**10 328**	**56 478**	**265 260**	**388 015**
Movement in reserves 1 April 2017 – 31 March 2018							
Profit after taxation	–	–	–	–	–	31 700	31 700
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	(75)	–	–	–	(75)
Foreign currency adjustments on translating associated undertakings	–	300	–	–	–	–	300
Other comprehensive income	–	–	–	36	–	–	36
Total comprehensive income	**–**	**300**	**(75)**	**36**	**–**	**31 700**	**31 961**
Transfer from regulatory general risk reserve	–	–	–	(1 386)	–	1 386	–
At 31 March 2018	**56 478**	**(119)**	**(185)**	**8 978**	**56 478**	**298 346**	**419 976**

Statements of changes in equity

(continued)

US$'000	Ordinary share capital	Other reserves: Foreign currency reserves	Other reserves: Available-for-sale reserve	Other reserves: Regulatory general risk reserve	Statutory reserve	Retained income	Total equity
Bank							
At 1 April 2015	**56 478**	**–**	**(83)**	**6 109**	**55 374**	**266 667**	**384 545**
Movement in reserves 1 April 2015 – 31 March 2016							
Profit after taxation	–	–	–	–	–	38 418	38 418
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	(2 230)	–	–	–	(2 230)
Foreign currency adjustments on translating associated undertakings	–	(411)	–	–	–	–	(411)
Total comprehensive income	**–**	**(411)**	**(2 230)**	**–**	**–**	**38 418**	**35 777**
Dividends paid to equity holder of the bank (Note 10)	–	–	–	–	–	(60 000)	(60 000)
Transfer to statutory reserve	–	–	–	–	1 104	(1 104)	–
Transfer to regulatory general risk reserve	–	–	–	124	–	(124)	–
At 31 March 2016	**56 478**	**(411)**	**(2 313)**	**6 233**	**56 478**	**243 857**	**360 322**
Movement in reserves 1 April 2016 – 31 March 2017							
Profit after taxation	–	–	–	–	–	25 933	25 933
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	2 229	–	–	–	2 229
Gains on realisation of available-for-sale assets recycled through the income statement	–	–	(26)	–	–	–	(26)
Foreign currency adjustments on translating associated undertakings	–	(8)	–	–	–	–	(8)
Total comprehensive income	**–**	**(8)**	**2 203**	**–**	**–**	**25 933**	**28 128**
Transfer to regulatory general risk reserve	–	–	–	4 095	–	(4 095)	–
At 31 March 2017	**56 478**	**(419)**	**(110)**	**10 328**	**56 478**	**265 695**	**388 450**
Movement in reserves 1 April 2017 – 31 March 2018							
Profit after taxation	–	–	–	–	–	31 452	31 452
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	(75)	–	–	–	(75)
Foreign currency adjustments on translating associated undertakings	–	300	–	–	–	–	300
Other comprehensive income	–	–	–	36	–	–	36
Total comprehensive income	**–**	**300**	**(75)**	**36**	**–**	**31 452**	**31 713**
Transfer from regulatory general risk reserve	–	–	–	(1 386)	–	1 386	–
At 31 March 2018	**56 478**	**(119)**	**(185)**	**8 978**	**56 478**	**298 533**	**420 163**

Cash flow statements

For the year ended 31 March US$'000	Notes	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Cash flows from operating activities							
Profit before taxation adjusted for non-cash items	34	37 066	44 957	47 770	36 768	45 005	48 209
Dividend received		–	–	91	–	–	91
Taxation paid		(1 915)	(1 507)	(3 618)	(1 915)	(1 507)	(3 618)
(Increase)/decrease in operating assets	34	(35 523)	(32 825)	44 664	(35 116)	(32 744)	44 242
(Decrease)/increase in operating liabilities	34	(343 365)	157 964	277 524	(343 475)	158 285	277 524
Net cash (outflow)/inflow from operating activities		**(343 737)**	**168 589**	**366 431**	**(343 738)**	**169 039**	**366 448**
Cash flows from investing activities							
Purchase of investment securities		(45 000)	(37 468)	(22 555)	(45 000)	(37 468)	(22 555)
Proceeds from disposal of investment securities		93 348	4 299	9 959	93 348	4 299	9 959
Cash flow on acquisition of equipment		(213)	(79)	(50)	(212)	(79)	(50)
Cash flow on disposal of equipment		–	–	2	–	–	2
Proceeds from disposal of subsidiary		–	–	360	–	–	360
Cash flow on additional investment in subsidiary		–	–	–	–	(450)	(17)
Net cash inflow/(outflow) from investing activities		**48 135**	**(33 248)**	**(12 284)**	**48 136**	**(33 698)**	**(12 301)**
Cash flows from financing activities							
Dividends paid to ordinary shareholders		–	–	(60 000)	–	–	(60 000)
Reverse repurchase agreement		(75 087)	–	–	(75 087)	–	–
Net cash outflow from financing activities		**(75 087)**	**–**	**(60 000)**	**(75 087)**	**–**	**(60 000)**
Effects of exchange rates on cash and cash equivalents		**21 864**	**(6 320)**	**3 121**	**21 864**	**(6 320)**	**3 121**
Net (decrease)/increase in cash and cash equivalents		**(348 825)**	**129 021**	**297 268**	**(348 825)**	**129 021**	**297 268**
Cash and cash equivalents at the beginning of the year		816 070	687 049	389 781	816 070	687 049	389 781
Cash and cash equivalents at the end of the year		**467 245**	**816 070**	**687 049**	**467 245**	**816 070**	**687 049**
Cash and cash equivalents is defined as including:							
Cash in hand	15	4	9	5	4	9	5
Cash and balances at central bank (unrestricted)	15	8 122	3 685	4 884	8 122	3 685	4 884
Due from banks	16	459 119	812 376	682 160	459 119	812 376	682 160
Cash and cash equivalents at the end of the year		**467 245**	**816 070**	**687 049**	**467 245**	**816 070**	**687 049**

Cash and cash equivalents have a maturity profile of less than three months.

1. Corporate information

Investec Bank (Mauritius) Limited (the bank) is a public company incorporated and domiciled in the Republic of Mauritius on 20 April 1990. The bank's principal activity is the provision of banking facilities. Its registered office is 6th Floor, Dias Pier Building, Caudan Waterfront, Caudan, Port Louis, Mauritius.

The financial statements for the year ended 31 March 2018 were authorised for issue in accordance with a resolution of the directors on 21 June 2018.

2. Accounting policies

The accounting policies are both for the group and the bank unless specifically noted otherwise.

2.1 Basis of preparation

The consolidated and separate financial statements of the bank have been prepared on a historical cost basis, except for derivative financial instruments, financial assets and financial liabilities held at fair value through profit or loss, available-for-sale financial assets that have been measured at fair value. All values are rounded to the nearest thousand United States Dollars (US$), unless otherwise indicated.

Statement of compliance

The consolidated and separate financial statements of the bank have been prepared in accordance with International Financial Reporting Standards (IFRS).

Presentation of information

Some disclosures under IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements, relating to the nature and extent of risks, have been included in the risk management report on pages in sections marked as audited.

Going concern

The bank's management has made an assessment of the bank's ability to continue as a going concern and is satisfied that the bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.2 Significant accounting judgements and estimates

In the process of applying the bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet 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 are 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 notes 13 and 14 to the financial statements.

Impairment losses on loans and advances

The bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. 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 individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, etc.), and judgements on the effect of concentrations of risks and economic data (including real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in note 23.

2. Accounting policies *(continued)*

2.3 Change in accounting policies

The accounting policies adopted on these financial statements are consistent with those of the previous financial year except with the following exceptions caused by the adoption of the following standards on 1 April 2017:

Amendments	Effective for accounting period beginning on or after
Disclosure Initiative (Amendments to IAS 7)	1 January 2017
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017

Disclosure Initiative (Amendments to IAS 7)

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities were required to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (gains and losses due to foreign currency movements).

Amendments were made to the disclosures in the statement of cash flows.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes.

The amendment did not have a material impact on the financial statements.

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Foreign currency translation

The group's functional currency and presentation currency is US dollars.

Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency at the rate of exchange ruling on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency at the spot rate of exchange ruling at the reporting date. All differences are taken to 'net trading income or loss' in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of the recognition.

Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Investec Bank (Mauritius) Limited and its subsidiary as at 31 March 2018. The bank uses the direct method of consolidation.

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

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

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the group gains control until the date the group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in income statement
- Reclassifies the parent's share of components previously recognised in other

comprehensive income to income statement or retained earnings, as appropriate, as would be required if the group had directly disposed of the related assets or liabilities.

Investment in subsidiaries

Financial statements of the bank

Investment in subsidiary companies are carried at cost. The carrying amount is reduced to recognise any impairment in the value of individual investments. The impairment loss is taken to profit or loss.

Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiary). Business combinations are accounted for using the purchase method of accounting.

Financial instruments – initial recognition and subsequent measurement

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the bank becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value with transaction costs being expensed in income statement, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

Derivatives recorded at fair value through profit or loss

The bank uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps and forward foreign exchange contracts. Derivatives are recorded at fair value and are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'net trading income or loss'.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held-for-trading or designated at fair value through profit or loss.

The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

Financial assets or financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value of investments have been recorded in 'investment income'. Relevant interest earned or incurred is accrued in 'interest income' or 'interest expense', respectively, using the effective interest rate (EIR), while any dividend income is recorded in 'investment income' when the right to the payment has been established.

Included in this classification are equities and debt securities.

'Day 1' profit or loss

Where the transaction price in a non-active market is different to the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Available-for-sale (AFS) financial investments

Available-for-sale investments relates to debt securities. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in 'other comprehensive income' in the 'available-for sale reserve'.

2. Accounting policies
(continued)

When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'investment income'. Interest earned while holding available-for-sale financial investments is reported as interest income using the EIR.

The losses arising from impairment of such investments are recognised in the income statement in 'impairment losses on financial investments' and removed from the 'available-for-sale reserve'.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets which carry fixed or determinable payments and have fixed maturities and which the bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The losses arising from impairment of such assets are recognised in the income statement.

If the bank was to sell or reclassify more than an insignificant amount of held-to-maturity financial assets before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Due from banks, loans and advances to customers, other assets and amounts due from group companies

These financial assets include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the bank intends to sell immediately or in the near term (held-for-trading) and those that the bank upon initial recognition designates as fair value through profit or loss; or
- Those that the bank, upon initial recognition, designates as available-for-sale; or
- Those for which the bank may not recover substantially all of its initial investment, other than because of credit deterioration which is accounted for at fair value through profit or loss.

After initial measurement, these financial assets are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the income statement. The losses arising from impairment are recognised in the income statement in 'impairment loss on loans and advances'.

The bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short-term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the bank, and not sold in the short-term, the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (e.g. due to a counterparty credit event).

Debt securities in issue

The debt securities relate to preference shares. The legal form of payout is dividend and this is accounted for as interest expense.

Financial instruments issued by the bank, which are not designated at fair value through profit or loss, are classified as liabilities under 'debt securities in issue' where the substance of the contractual arrangement results in the bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

An analysis of the bank's issued debt is disclosed in note 31 to the financial statements.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset or where applicable a part of a financial asset or part of a group of similar financial assets is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the bank has transferred substantially all the risks and rewards of the asset or (b) the bank has neither transferred nor retained substantially all the risks and rewards on the asset, but has transferred control of the asset.

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the income statement.

Financial liabilities include amounts due to group companies and customer deposits.

Repurchase agreements

Securities sold under agreements to be repurchased at a specified future date (repos) are not derecognised from the balance sheet as the bank retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognised on the balance sheet as 'repurchase agreement', reflecting its economic substance as a loan.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the bank reclassifies those securities in its balance sheet to 'reverse repurchase agreement'.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the balance sheet. The consideration paid, including accrued interest, is recorded in the balance sheet, within 'repurchase agreements', reflecting the transaction's economic substance as a loan. The difference between the purchase and resale prices is recorded in 'net interest income' and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale and measured at fair value with any gains or losses included in 'net trading income'.

Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the balance sheet if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the balance sheet, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'net trading income or loss'.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques.

Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models.

An analysis of the fair values of financial instruments and further details as to how they are measured are provided in note 13.

Impairment of financial assets

The bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. The following sets out the policies of the bank regarding the impairment of specific classes of assets:

Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks and loans and advances to customers as well as held-to-maturity financial assets), the bank first assesses individually whether objective evidence of impairment exists. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

2. Accounting policies
(continued)

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale (AFS) financial asset

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement the impairment loss is reversed through the income statement.

Renegotiated loans

Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Collateral valuation

The bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements.

The fair value of collateral is generally assessed, at a minimum, at inception.

To the extent possible, the bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and expenses

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

The bank earns fee and commission income from a diverse range of services it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period and recognised as an adjustment to the effective interest rate. These fees include commission income and raising fees.

Dividend income

Revenue is recognised when the bank's right to receive the payment is established, which is generally when the dividend is declared.

Net trading income or loss

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense for financial assets and financial liabilities held-for-trading.

Operating lease

Payments made under operating leases are recognised in profit or loss in a straight line basis over the term of the lease.

Investment in associate

An associate is an entity in which the bank has significant influence and which is neither a subsidiary nor a joint venture. The bank has adopted the amendments to IAS 27 which allows the bank to equity account its investment in associates in its separate financial statements.

The group has also equity accounted its interests in associated undertaking.

The bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the bank calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value, and recognises the amount in profit or loss.

Equipment

Equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

	Rate %
Furniture and fittings	10
Office equipment	20
Computer equipment	33
Motor vehicles	20

An item of equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement in 'investment income' in the year the asset is derecognised.

Residual values and useful lives are reviewed at least at each financial year-end.

Impairment of non-financial assets

The bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value-in-use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

2. Accounting policies
(continued)

These calculations are corroborated by valuation multiples, or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement in the period in which they are identified.

Contingent liabilities

Contingent liabilities, which include certain guarantees, other than financial guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the bank's control. Contingent liabilities are not recognised in the financial statements but are disclosed in note 37 to the financial statements unless they are remote.

Pension benefits

Defined contribution pension plan

The bank operates a defined contribution pension plan. The contribution payable to the defined contribution plan is in proportion to the services rendered to the bank by the employees and is recorded as an expense under 'personnel expenses'. Unpaid contributions are recorded as a liability.

Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in profit or loss net of any reimbursement.

Share-based payment transactions

Employees of the bank receive remuneration in the form of share-based payment transactions which can only be settled in equity (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value of the shares or share options at the grant date.

The cost is expensed in personnel expenses over the period until the vesting date in note 8.

Taxes

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of 'other assets' or 'other liabilities' in the balance sheet.

Corporate social responsibility

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 Segment A chargeable income of the preceding financial year to government-approved CSR NGOs. This is recorded as part of income tax expense.

Bank levy

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 threshold is reached.

The bank provides for 10% of its Segment A taxable income as special levy and an effective special levy of 3.4% on its Segment B book profit as required by the Mauritius Revenue Authority.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the bank's board of directors. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Equity reserves

The reserves recorded in equity on the bank's statement of financial position include:

- 'Statutory reserve' which represents 15% of the net profit transferred in accordance with the Banking Act 2004 until the amount equals the state capital of the bank; and
- 'Regulatory general risk reserve' which comprises:

(i) the difference between the actual historical loss ratio and the statutory general provision of 1% and the provision computed under the Prudential Norm which are both in line with the Bank of Mauritius Guidelines on Credit Impairment Measurement and Income Recognition; and

(ii) country risk allowance computed in accordance with the Bank of Mauritius Guidelines on Country Risk Management.

Statutory segmental reporting

The bank's segmental reporting is based on the requirements of the Bank of Mauritius Guideline on Public Disclosure of Information, which requires that segment information should be provided by Segment A and Segment B banking businesses.

Segment B

Segment B activity essentially relates to the provision of international financial services that give rise to 'foreign source income'. Such services may be fund-based and/or non-fund-based. Segment B assets will generally consist of placements with and advances to foreign companies, institutions as well as individuals including stocks and debt instruments and claims on non-resident and/or GBLs. Segment B liabilities will normally arise from deposits, borrowings, funds deposited by non-residents and GBLs and capital.

Segment A

Segment A activity relates to all banking business other than Segment B activity. The financial services provided under Segment A may be funded and/or non-fund-based. Segment A business will essentially consist of transactions with residents of Mauritius, excluding GBLs companies, both on the liability side and asset side.

Standards issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the bank's financial statements are listed below. This listing of standards and interpretations issued, which the bank reasonably expects to be applicable at a future date. The bank intends to adopt those standards when they become effective.

2. Accounting policies *(continued)*

Where the standards and interpretations may affect the bank's financial position and performance in the future periods, the impact has been disclosed below:

	Effective for accounting period beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 2 Amendments – Clarifying Share – based Payment Accounting	1 January 2018
IFRS 23 Uncertainty over Income Tax Treatment	1 January 2019
IFRS 16 Leases	1 January 2019

IFRS 9 Financial Instruments – 1 January 2018

IFRS 9 Financial Instruments was issued in July 2014 and will replace certain key elements of IAS 39. The mandatory effective date for IFRS 9 is for annual periods beginning on or after 1 January 2018 with early adoption permitted. The two key elements that would impact the group's accounting policies include:

- classification and measurement of financial assets and financial liabilities: the standard requires that all financial assets be classified as either held at fair value through profit or loss, fair value through other comprehensive income or amortised cost. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and that the cash flows arise solely from payment of principal and interest. Financial assets which are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (and whose contractual cash flows represent solely payments of principal and interest will be measured at fair value through other comprehensive income. The standard further provides that gains or losses on assets held at fair value are recognised in the income statement unless the entity has elected to recognise gains or losses on non-trading equity investments directly through other comprehensive income. With reference to financial liabilities held at fair value, the standard requires that changes to fair value attributable to own credit risk are recognised directly in other comprehensive income without recycling through the income statement;
- impairment methodology: the key change is related to a shift from an incurred loss to an expected loss impairment methodology. At initial recognition an 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 since initial recognition, IFRS 9 requires the recognition of lifetime expected credit losses. Impairment measurement will involve increased complexity and significant judgements on areas such as the estimation of probabilities of default, loss given default, unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing whether a significant increase in credit risk has occurred.

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

On 12 October 2017, the IASB published an amendment to IFRS 9, relating to prepayment features with negative compensation; this amendment is effective from 1 January 2019 with early application permitted. This amendment allows financial assets with such features to be measured at amortised cost or fair value through other comprehensive income provided the SPPI (solely payments of principal and interest) criteria in IFRS 9 are otherwise met. In addition the amendment to IFRS 9 clarifies that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract, and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The group's loans with such prepayment features are present in some fixed rate loans, and are considered to meet the criteria for amortised cost under IFRS 9. This is because the prepayment features within these loans are consistent with the solely payments of principal and interest criteria if the prepayment feature substantially represents unpaid amounts of principal and interest and reasonable compensation for early termination of the contract.

Transitional impact

IFRS 9 is effective and will be implemented by the group from 1 April 2018. The impairment allowance is expected to decrease by between 20% and 25%. There are no significant changes in the classification of the financial assets.

IFRS 15 Revenue from Contracts with Customers – effective 1 January 2018.

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

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

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The group's current measurement and recognition principles are aligned to the standard and there is no impact to measurement principles currently applied. The impact of the disclosure requirements of the standard is currently being finalised, however, no significant effect is expected.

IFRS 2 Amendments – Clarifying Share-based Payment Accounting

Currently, there is ambiguity over how the group should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 Share-based Payments.

The amendments cover three accounting areas:

Measurement of cash-settled share-based payments –The new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement.

Classification of share-based payments settled net of tax withholdings –The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met.

Accounting for a modification of a share-based payment from cash-settled to equity-settled. The amendments clarify the approach that companies are to apply.

The new requirements could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognised for new and outstanding awards.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgments made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

The group is still assessing the impact of this new standard, but it is not expected to have a significant effect on its financial performance.

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted.

IFRS 16 Leases – effective 1 January 2019

In January 2016, the IASB issued IFRS 16 Leases. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet.

The asset will be amortised over the period of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17.

The group is currently assessing the impact of this standard.

No early adoption of these standards and interpretations is intended by the board of directors in the 2018 financial statements.

There are no other standards or interpretations that are not yet effective that would be expected to have a material impact on the group.

3. Net interest income

For the year to 31 March US$'000	Notes	Group 2018 Balance sheet value	Group 2018 Interest income
Cash, near cash and bank debt and sovereign debt securities	1	691 970	14 538
Core loans and advances	2	952 637	45 741
Other debt securities		30 172	472
Interest income on derivative financial instruments	4	17 437	8 787
Total interest-earning assets/interest income		**1 692 216**	**69 538**

For the year to 31 March US$'000	Notes	Group 2018 Balance sheet value	Group 2018 Interest expense
Deposits by banks and other debt-related securities	3	360 487	(8 729)
Customer deposits		893 397	(11 138)
Amount due to group companies		32 030	(983)
Interest expense on derivative financial instruments	4	3 508	(5 619)
Total interest-bearing liabilities/interest expense		**1 289 422**	**(26 469)**
Net interest income			**43 069**

1. *Comprises (as per the balance sheet) cash and balances at central banks; due from banks; sovereign debt securities; bank debt securities, reverse repurchase agreements and amount due from group companies.*
2. *Comprises (as per the balance sheet) loans and advances to customers.*
3. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue and repurchase agreements.*
4. *The balance sheet value represents the mark-to-market at reporting date. The interest income/expense is calculated on notional principal amounts (refer to note 21).*

	Group				Bank					
	2017		2016		2018		2017		2016	
	Balance sheet value	Interest income	Balance sheet value	Interest income	Balance sheet value	Interest income	Balance sheet value	Interest income	Balance sheet value	Interest income
	960 402	10 159	808 000	7 842	691 969	14 571	960 744	10 180	808 422	7 845
	913 995	44 048	891 098	48 554	952 637	45 741	913 995	44 048	891 098	48 554
	100 202	3 525	95 699	4 300	30 172	472	100 202	3 525	95 699	4 300
	21 804	4 777	25 289	2 776	17 437	8 787	21 804	4 777	25 289	2 776
	1 996 403	**62 509**	**1 820 086**	**63 472**	**1 692 215**	**69 571**	**1 996 745**	**62 530**	**1 820 508**	**63 475**

	Group				Bank					
	2017		2016		2018		2017		2016	
	Balance sheet value	Interest expense	Balance sheet value	Interest expense	Balance sheet value	Interest expense	Balance sheet value	Interest expense	Balance sheet value	Interest expense
	351 524	(7 629)	361 807	(7 138)	360 487	(8 729)	351 524	(7 629)	361 807	(7 138)
	1 202 181	(6 892)	1 077 907	(3 834)	893 717	(11 138)	1 202 181	(6 892)	1 077 907	(3 834)
	11 887	(12)	9 684	(409)	32 024	(997)	12 318	(12)	9 684	(409)
	4 542	(6 476)	6 610	(7 792)	3 508	(5 619)	4 542	(6 476)	6 610	(7 792)
	1 570 134	**(21 009)**	**1 456 008**	**(19 173)**	**1 289 736**	**(26 483)**	**1 570 565**	**(21 009)**	**1 456 008**	**(19 173)**
		41 500		**44 299**		**43 088**		**41 521**		**44 302**

4. Net fee and commission income

For the year to 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Fee and commission income						
Credit-related fees and commissions	5 527	4 039	4 703	5 527	4 039	4 703
Foreign exchange dealings	1 757	1 606	1 409	1 757	1 606	1 409
Client transactions and maintenance fees	1 972	1 964	1 658	1 972	1 964	1 658
Wealth management fees	1 116	582	–	–	–	–
	10 372	**8 191**	**7 770**	**9 256**	**7 609**	**7 770**
Fee and commission expense						
Credit-related fees paid	(1 426)	(1 752)	(1 677)	(1 426)	(1 752)	(1 677)
Other fees paid	(8)	(29)	–	(8)	(29)	–
Intergroup fees paid	**(1 434)**	**(1 781)**	**(1 677)**	**(1 434)**	**(1 781)**	**(1 677)**
Net fee and commission	**8 938**	**6 410**	**6 093**	**7 822**	**5 828**	**6 093**

5. Investment (loss)/income

For the year to 31 March US$'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Other asset categories**	Total
Group and Bank				
2018				
Realised	–	1 364	(3)	1 361
Unrealised	(3 039)	–	–	(3 039)
	(3 039)	**1 364**	**(3)**	**(1 678)**
2017				
Realised	–	26	–	26
Unrealised	(5 177)	–	–	(5 177)
	(5 177)	**26**	**–**	**(5 151)**
2016				
Realised	(1)	3 270	362	3 631
Unrealised	(1 664)	–	–	(1 664)
Dividend income	91	–	–	91
	(1 574)	**3 270**	**362**	**2 058**

* *Including embedded derivatives (warrants and profit shares).*
** *Including gain on disposal of fixed assets and investment in a subsidiary.*

In a year of realisation, any prior period mark-to-market gains/(losses) recognised are reversed in the unrealised line.

6. Net trading income/(loss)

For the year to 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Changes in fair value of derivative financial instruments	559	1 601	(380)	559	1 601	(380)
Net foreign exchange loss	(190)	(556)	(223)	(238)	(553)	(223)
	369	**1 045**	**(603)**	**321**	**1 048**	**(603)**

Included in 'net foreign exchange loss' are gains and losses from spot and forward contracts and other currency derivatives.

7. Operating costs

For the year to 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Staff costs	7 105	6 813	5 576	6 322	6 262	5 470
– Salaries and wages (including directors' remuneration*)	6 168	5 689	4 620	5 453	5 304	4 516
– Training and other costs	85	98	129	85	97	129
– Share-based payments expense	730	854	699	663	696	699
– Pension fund contributions	122	172	128	121	165	126
Premises expenses (excluding depreciation)	567	539	541	563	535	541
Equipment expenses (excluding depreciation)	3 248	2 913	2 865	3 247	2 909	2 865
Business expenses**	2 805	2 191	2 165	2 754	2 145	1 835
Marketing expenses	184	334	254	177	333	254
Depreciation on equipment	109	107	121	109	107	121
	14 018	**12 897**	**11 522**	**13 172**	**12 291**	**11 086**
The following amounts were paid by the group to the auditors in respect of the audit of the financial statements and for other services provided to the group:						
Auditors' fees (included in business expenses)						
Fees payable to the bank's auditors for the audit of the bank's accounts	180	212	171	170	207	171
Audit-related assurance services	–	24	23	–	24	23
Tax compliance services	–	23	6	–	23	6
	180	**259**	**200**	**170**	**254**	**200**
Minimum operating lease payments recognised in operating costs	**383**	**356**	**350**	**383**	**356**	**350**

* *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report on page 61.*

** *Business expenses mainly comprise insurance costs, consulting and professional fees, subscriptions and IT costs.*

7. Operating costs *(continued)*

Retirement benefit costs

Defined contribution plan

The assets of the plan are held separately from those of the bank in a fund under the control of the trustees.

Where employees leave the plan prior to vesting fully in the contributions, the contributions payable by the bank are reduced by the amount of forfeited contributions.

The total cost charged to income statement of US$120 506 (2017: US$172 403 and 2016: US$215 000) represents contributions payable to these plans by the bank at rates specified in the rules of the plan.

The defined contribution made in respect of key management personnel amounts to US$49 860 (2017: US$52 813 and 2016: US$54 965).

8. Share-based payments

The group operates share option and long-term share incentive plans for employees the majority of which are on an equity basis.

The purpose of the staff share schemes is to promote an esprit de corps within the organisation, create an awareness of the Investec group's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.

	Group			Bank		
For the year to 31 March	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Share-based payment expense charged to the income statement (US$'000)	**730**	854	699	**693**	696	699
Fair value of share options at grant date (R'000)	**1 563**	22 510	11 421	**1 563**	22 510	8 556

	Group			Bank		
For the year to 31 March Number of share options	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Details of share options outstanding during the year						
Outstanding at the beginning of the year	699 395	543 555	422 103	559 064	396 277	422 103
Re-location of employees during the year	(97 252)	31 791	140 000	30 026	9 888	(22 875)
Granted during the year	16 065	239 080	135 413	16 065	239 080	100 635
Exercised during the year^	(160 122)	(99 281)	(141 835)	(153 006)	(80 431)	(91 460)
Lapsed during the year	(72 315)	(15 750)	(12 126)	(72 315)	(5 750)	(12 126)
Outstanding at the end of the year	**385 771**	**699 395**	**543 555**	**379 834**	**559 064**	**396 277**
Exercisable at the end of the year	**–**	**–**	**–**	**–**	**–**	**–**

^ *The weighted average exercise price during the year was Rnil (2017 and 2016: Rnil).*

8. Share-based payments *(continued)*

	Group			Bank		
For the year to 31 March	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
The exercise price range and weighted average remaining contractual life for the share options outstanding were as follows:						
Long-term incentive grants and long-term share awards with no strike price						
Exercise price range	Rnil	Rnil	Rnil	Rnil	Rnil	Rnil
Weighted average remaining contractual life	1.98 years	2.08 years	2.07 years	2.00 years	2.28 years	2.02 years
The fair values of share options granted where calculated using a Black-Scholes option pricing model. **For share options granted during the year, the inputs into the model were as follows:**						
– Share price at date of grant	R94.94 – R97.45	R89.97 – R105.30	R109.98 – R120.88	R94.94 – R97.45	R89.97 – R105.30	R109.98 – R120.88
– Exercise price	Rnil	Rnil	Rnil	Rnil	Rnil	Rnil
– Expected volatility	n/a	0%	30%	n/a	0%	30%
– Option life	4.75 Years	4.75 – 5 Years	5 Years	4.75 Years	4.75 – 5 Years	5 Years
– Expected dividend yields	n/a	0.00%	4.02% – 4.19%	n/a	0.00%	4.02% – 4.19%
– Risk-free rate	n/a	0.00%	7.49 % – 7.66%	n/a	0.00%	7.49 % – 7.66%

Expected volatility was determined based on the implied volatility levels quoted by the equity derivatives trading desk. The expected volatility is based on the respective share price movement over the last six months but also includes an element of forward expectation. The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

9. Taxation

For the year to 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Income tax liability						
Current year	8 595	7 850	8 879	8 595	7 850	8 879
Tax credit	(6 485)	(5 759)	(6 863)	(6 485)	(5 759)	(6 863)
Tax paid under Advance Payment Scheme	(1 090)	(1 141)	(1 682)	(1 090)	(1 141)	(1 682)
	1 020	**950**	**334**	**1 020**	**950**	**334**
Income statement tax charge						
Taxation on income	**1 904**	**1 883**	**2 565**	**1 853**	**1 935**	**2 565**
– Current taxation	1 985	2 124	2 371	1 985	2 124	2 371
in respect of current year	2 110	2 112	2 040	2 110	2 112	2 040
in respect of prior year adjustments	(125)	12	331	(125)	12	331
– Deferred taxation	(81)	(241)	194	(132)	(189)	194
Total taxation charge as per income statement	**1 904**	**1 883**	**2 565**	**1 853**	**1 935**	**2 565**
Tax rate reconciliation:						
Profit before taxation as per income statement	**33 604**	**27 820**	**40 544**	**33 305**	**27 868**	**40 983**
Total taxation charge as per income statement	**1 904**	**1 883**	**2 565**	**1 853**	**1 935**	**2 565**
Effective rate of taxation	6%	7%	6%	6%	7%	6%
At statutory income tax rate of 15% (2017 and 2016: 15%)	5 041	4 173	6 147	4 996	4 180	6 147
Adjustment in respect of current income tax of prior years	(125)	12	332	(125)	12	332
Special levy	495	527	506	495	527	506
Corporate social responsibility	36	24	21	36	24	21
Other deductible items*	(168)	(369)	(236)	(174)	(324)	(236)
Non deductible expenses	425	1 808	424	425	1 808	424
Foreign tax credit	(3 766)	(4 292)	(4 843)	(3 766)	(4 292)	(4 843)
Deferred tax						
– Adjustment in respect of deferred tax of prior years	(34)	–	214	(34)	–	214
Income tax expense reported in the profit or loss	**1 904**	**1 883**	**2 565**	**1 853**	**1 935**	**2 565**

* *Non-deductible items include gain on revaluation of financial instruments, mark to market adjustments and share of profit from associate.*

The corporate tax rate of the bank is 15%. The bank benefits from a presumed foreign tax credit of 80% on its tax payable as it relates to income earned from Segment B activities.

Tax paid under Advance Payment Scheme

The Finance Act 2007 introduced an Advance Payment System ('APS') whereby companies having a turnover of 100 million Mauritian Rupee or more are required to file a quarterly corporate tax return as from 1 July 2008.

Corporate Social Responsibility (CSR)

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 Segment A activities of the preceding financial year to Government approved CSR projects.

Special Levy

The bank is liable to a special levy pursuant to the provisions of the Income Tax Act 1995. For the year under review, the levy on Segment A activities is computed at 10% of the preceding year chargeable income; the levy for Segment B activities is computed at 3.4% of its book profit and 1.0% of the preceding year operating income.

10. Dividends

For the year to 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Ordinary dividend						
Declared and paid during the year						
Equity dividends on ordinary shares	**–**	**–**	**60 000**	**–**	**–**	**60 000**

11. Analysis of income and impairments by category of financial instruments

For the year to 31 March US$'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception
Group		
2018		
Net interest income/(expense)	3 961	–
Fee and commission income	1 757	–
Fee and commission expense	–	–
Investment (loss)/income	–	(3 042)
Net trading (loss)/income	607	–
Total operating income/(loss) before impairment losses on loans and advances	**6 325**	**(3 042)**
Impairment losses on loans and advances	–	–
Operating income/(loss)	**6 325**	**(3 042)**
2017		
Net interest (expense)/income	(1 699)	164
Fee and commission income	1 606	–
Fee and commission expense	–	–
Investment loss	–	(5 151)
Net trading income/(loss)	1 599	–
Total operating income/(loss) before impairment losses on loans and advances	**1 506**	**(4 987)**
Impairment losses on loans and advances	–	–
Operating income/(loss)	**1 506**	**(4 987)**
2016		
Net interest (expense)/income	(5 036)	211
Fee and commission income	1 389	–
Fee and commission expense	–	–
Investment income	–	1 605
Net trading income/(loss)	126	(24)
Total operating (loss)/income before impairment losses on loans and advances	**(3 521)**	**1 792**
Impairment reversals on loans and advances	–	–
Operating (loss)/income	**(3 521)**	**1 792**
Bank		
2018		
Net interest (expense)/income	3 961	–
Fee and commission income	1 757	–
Fee and commission expense	–	–
Investment (loss)/income	–	(3 042)
Net trading income/(loss)	559	–
Total operating income/(loss) before impairment losses on loans and advances	**6 277**	**(3 042)**
Impairment losses on loans and advances	–	–
Operating (loss)/income	**6 277**	**(3 042)**
2017		
Net interest (expense)/income	(1 699)	164
Fee and commission income	1 605	–
Fee and commission expense	–	–
Investment loss	–	(5 151)
Net trading income/(loss)	1 602	–
Total operating income/(loss) before impairment losses on loans and advances	**1 508**	**(4 987)**
Impairment losses on loans and advances	–	–
Operating income/(loss)	**1 508**	**(4 987)**
2016		
Net interest (expense)/income	(5 036)	211
Fee and commission income	1 389	–
Fee and commission expense	–	–
Investment income	–	1 605
Net trading income/(loss)	126	(24)
Total operating (loss)/income before impairment losses on loans and advances	**(3 521)**	**1 792**
Impairment reversals on loans and advances	–	–
Operating (loss)/income	**(3 521)**	**1 792**

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Other fee income	Total
5 237	49 277	3 894	(19 300)	–	43 069
–	6 643	–	1 972	–	10 372
–	(1 434)	–	–	–	(1 434)
–	–	1 364	–	–	(1 678)
–	(238)	–	–	–	369
5 237	**54 248**	**5 258**	**(17 328)**	**–**	**50 698**
–	(3 214)	–	–	–	(3 214)
5 237	**51 034**	**5 258**	**(17 328)**	**–**	**47 484**
6 617	48 270	2 681	(14 533)	–	41 500
–	4 414	–	1 965	206	8 191
–	(1 781)	–	–	–	(1 781)
–	–	–	–	–	(5 151)
–	(554)	–	–	–	1 045
6 617	**50 349**	**2 681**	**(12 568)**	**206**	**43 804**
–	(3 535)	–	–	–	(3 535)
6 617	**46 814**	**2 681**	**(12 568)**	**206**	**40 269**
6 077	51 854	2 569	(11 376)	–	44 299
–	4 640	–	1 741	–	7 770
–	(1 677)	–	–	–	(1 677)
–	–	–	91	362	2 058
–	(705)	–	–	–	(603)
6 077	**54 112**	**2 569**	**(9 544)**	**362**	**51 847**
–	1 003	–	–	–	1 003
6 077	**55 115**	**2 569**	**(9 544)**	**362**	**52 850**
5 237	49 296	3 894	(19 300)	–	43 088
–	5 527	–	1 972	–	9 256
–	(1 434)	–	–	–	(1 434)
–	–	1 364	–	–	(1 678)
–	(238)	–	–	–	321
5 237	**53 151**	**5 258**	**(17 328)**	**–**	**49 553**
–	(3 214)	–	–	–	(3 214)
5 237	**49 937**	**5 258**	**(17 328)**	**–**	**46 339**
6 617	48 291	2 681	(14 533)	–	41 521
–	4 039	–	1 965	–	7 609
–	(1 781)	–	–	–	(1 781)
–	–	–	–	–	(5 151)
–	(554)	–	–	–	1 048
6 617	**49 995**	**2 681**	**(12 568)**	**–**	**43 246**
–	(3 535)	–	–	–	(3 535)
6 617	**46 460**	**2 681**	**(12 568)**	**–**	**39 711**
6 077	51 857	2 569	(11 376)	–	44 302
–	4 640	–	1 741	–	7 770
–	(1 677)	–	–	–	(1 677)
–	–	–	91	362	2 058
–	(705)	–	–	–	(603)
6 077	**54 115**	**2 569**	**(9 544)**	**362**	**51 850**
–	1 003	–	–	–	1 003
6 077	**55 118**	**2 569**	**(9 544)**	**362**	**52 853**

Notes to the financial statements

(continued)

12. Analysis of assets and liabilities by category of financial instruments

	At fair value through profit or loss	
As at 31 March US$'000	**Trading**	**Designated at inception**
Group		
2018		
Assets		
Cash and balances at central banks	–	–
Due from banks	–	–
Reverse repurchase agreements	–	–
Sovereign debt securities	–	–
Bank debt securities	–	–
Other debt securities	–	–
Derivative financial instruments	17 437	–
Investment portfolio	–	12 993
Loans and advances to customers	–	–
Investment in associate	–	–
Deferred taxation asset	–	–
Other assets	–	–
Equipment	–	–
Amount due from group companies	–	–
	17 437	**12 993**
Liabilities		
Derivative financial instruments	3 508	–
Repurchase agreements	–	–
Customer accounts (deposits)	–	–
Debt securities in issue	–	–
Amount due to group companies		
Current taxation liabilities	–	–
Other liabilities	–	–
	3 508	**–**
2017		
Assets		
Cash and balances at central banks	–	–
Due from banks	–	–
Sovereign debt securities	–	–
Bank debt securities	–	–
Other debt securities	–	–
Derivative financial instruments	21 804	–
Investment portfolio	–	14 473
Loans and advances to customers	–	–
Investment in associate	–	–
Deferred taxation asset	–	–
Other assets	–	–
Equipment	–	–
Amount due from group companies	–	–
	21 804	**14 473**
Liabilities		
Derivative financial instruments	4 542	–
Repurchase agreements	–	–
Customer accounts (deposits)	–	–
Debt securities in issue	–	–
Amount due to group companies	–	–
Current taxation liabilities	–	–
Other liabilities	–	–
	4 542	**–**

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	16 695	–	16 695	–	16 695
–	–	–	459 119	–	459 119	–	459 119
–	–	–	75 186	–	75 186	–	75 186
–	–	–	–	–	–	–	–
25 069	25 069	112 535	–	–	112 535	–	137 604
20 036	20 036	7 094	3 042	–	10 136	–	30 172
–	17 437	–	–	–	–	–	17 437
–	12 993	–	–	–	–	–	12 993
–	–	–	952 637	–	952 637	–	952 637
–	–	–	–	–	–	4 598	4 598
–	–	–	–	–	–	438	438
–	–	–	5 744	–	5 744	1 459	7 203
–	–	–	–	–	–	395	395
–	–	–	3 366	–	3 366	–	3 366
45 105	**75 535**	**119 629**	**1 515 789**	**–**	**1 635 418**	**6 890**	**1 717 843**
–	3 508	–	–	–	–	–	3 508
–	–	–	–	101 924	101 924	–	101 924
–	–	–	–	893 397	893 397	–	893 397
–	–	–	–	258 563	258 563	–	258 563
	–			32 030	32 030	–	32 030
–	–	–	–	–	–	1 020	1 020
–	–	–	–	2 818	2 818	4 607	7 425
–	**3 508**	**–**	**–**	**1 288 732**	**1 288 731**	**5 627**	**1 297 867**
–	–	–	13 715	–	13 715	–	13 715
–	–	–	812 376	–	812 376	–	812 376
22 214	22 214	–	–	–	–	–	22 214
–	–	108 399	–	–	108 399	–	108 399
83 142	83 142	10 359	6 701	–	17 060	–	100 202
–	21 804	–	–	–	–	–	21 804
–	14 473	–	–	–	–	–	14 473
–	–	–	913 995	–	913 995	–	913 995
–	–	–	–	–		4 160	4 160
–	–	–	–	–		357	357
–	–	–	2 788	–	2 788	1 733	4 521
–	–	–	–	–	–	294	294
–	–	–	3 698	–	3 698	–	3 698
105 356	**141 633**	**118 758**	**1 753 273**	**–**	**1 872 031**	**6 544**	**2 020 208**
–	4 542	–	–	–	–	–	4 542
–	–	–	–	101 645	101 645	–	101 645
–	–	–	–	1 202 181	1 202 181	–	1 202 181
–	–	–	–	249 879	249 879	–	249 879
–	–	–	–	11 887	11 887	–	11 887
–	–	–	–	–	–	950	950
–	–	–	–	57 274	57 274	3 835	61 109
–	**4 542**	**–**	**–**	**1 622 866**	**1 622 866**	**4 785**	**1 632 193**

12. Analysis of assets and liabilities by category of financial instruments *(continued)*

As at 31 March US$'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception
2016		
Assets		
Cash and balances at central banks	–	–
Due from banks	–	–
Bank debt securities	–	–
Other debt securities	–	–
Derivative financial instruments	25 289	–
Investment portfolio	–	17 045
Loans and advances to customers	–	–
Investment in associate	–	–
Deferred taxation asset	–	–
Other assets	–	–
Equipment	–	–
Amount due to group companies	–	–
	25 289	**17 045**
Liabilities		
Derivative financial instruments	6 610	–
Repurchase agreements	–	–
Customer accounts (deposits)	–	–
Debt securities in issue	–	–
Amount due to holding and group companies	–	–
Current taxation liabilities	–	–
Other liabilities	–	–
	6 610	**–**

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	9 947	–	9 947	–	9 947
–	–	–	682 160	–	682 160	–	682 160
–	–	112 357	–	–	112 357	–	112 357
74 234	74 234	12 907	8 558	–	21 465	–	95 699
–	25 289	–	–	–	–	–	25 289
–	17 045	–	–	–	–	–	17 045
–	–	–	891 098	–	891 098	–	891 098
–	–	–	–	–	–	3 720	3 720
–	–	–	–	–	–	116	116
–	–	–	2 271	–	2 271	205	2 476
–	–	–	–	–	–	337	337
–	–	–	3 536	–	3 536	–	3 536
74 234	**116 568**	**125 264**	**1 597 570**	**–**	**1 722 834**	**4 378**	**1 843 780**
–	6 610	–	–	–	–	–	6 610
–	–	–	–	108 260	108 260	–	108 260
–	–	–	–	1 077 907	1 077 907	–	1 077 907
–	–	–	–	253 547	253 547	–	253 547
–	–	–	–	9 684	9 684	–	9 684
–	–	–	–	–	–	334	334
–	–	–	–	24 002	24 002	3 553	27 555
–	**6 610**	**–**	**–**	**1 473 400**	**1 473 400**	**3 887**	**1 483 897**

12. Analysis of assets and liabilities by category of financial instruments *(continued)*

As at 31 March US$'000	At fair value through profit or loss Trading	 Designated at inception
Bank		
2018		
Assets		
Cash and balances at central banks	–	–
Due from banks	–	–
Reverse repurchase agreements	–	–
Bank debt securities	–	–
Other debt securities	–	–
Derivative financial instruments	17 437	–
Investment portfolio	–	12 993
Loans and advances to customers	–	–
Investment in associate	–	–
Deferred taxation asset	–	–
Other assets	–	–
Equipment	–	–
Amount due from group companies	–	–
Investment in subsidiary	–	–
	17 437	**12 993**
Liabilities		
Derivative financial instruments	3 508	–
Repurchase agreements	–	–
Customer accounts (deposits)	–	–
Debt securities in issue	–	–
Amount due to group companies	–	–
Current taxation liabilities		
Other liabilities	–	–
	3 508	**–**
2017		
Assets		
Cash and balances at central banks	–	–
Due from banks	–	–
Sovereign debt securities	–	–
Bank debt securities	–	–
Other debt securities	–	–
Derivative financial instruments	21 804	–
Investment portfolio	–	14 473
Loans and advances to customers	–	–
Investment in associate	–	–
Deferred taxation asset	–	–
Other assets	–	–
Equipment	–	–
Amount due from group companies	–	–
Investment in subsidiary	–	–
	21 804	**14 473**
Liabilities		
Derivative financial instruments	4 542	–
Repurchase agreements	–	–
Customer accounts (deposits)	–	–
Debt securities in issue	–	–
Amount due to group companies	–	–
Current taxation liabilities		
Other liabilities	–	–
	4 542	**–**

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	16 695	–	16 695	–	16 695
–	–	–	459 119	–	459 119	–	459 119
–	–	–	75 186	–	75 186	–	75 186
25 069	25 069	112 535	–	–	112 535	–	137 604
20 036	20 036	7 094	3 042	–	10 136	–	30 172
–	17 437	–	–	–	–	–	17 437
–	12 993	–	–	–	–	–	12 993
–	–	–	952 637	–	952 637	–	952 637
–	–	–	–	–	–	4 598	4 598
–	–	–	–	–	–	437	437
–	–	–	5 738	–	5 738	1 399	7 137
–	–	–	–	–	–	394	394
–	–	–	3 365	–	3 365	–	3 365
–	–	–	–	–	–	467	467
45 105	**75 535**	**119 629**	**1 515 782**	**–**	**1 635 411**	**7 295**	**1 718 241**
–	3 508	–	–	–	–	–	3 508
–	–	–	–	101 924	101 924	–	101 924
–	–	–	–	893 717	893 717	–	893 717
–	–	–	–	258 563	258 563	–	258 563
–	–	–	–	32 024	32 024		32 024
				–	–	1 020	1 020
–	–	–	–	2 808	2 808	4 514	7 322
–	**3 508**	**–**	**–**	**1 289 036**	**1 289 036**	**5 534**	**1 298 078**
–	–	–	13 715	–	13 715	–	13 715
–	–	–	812 376	–	812 376	–	812 376
22 214	22 214	–	–	–	–	–	22 214
–	–	108 399	–	–	108 399	–	108 399
83 142	83 142	10 359	6 701	–	17 060	–	100 202
–	21 804	–	–	–	–	–	21 804
–	14 473	–	–	–	–	–	14 473
–	–	–	913 995	–	913 995	–	913 995
–	–	–	–	–	–	4 160	4 160
–	–	–	–	–	–	305	305
–	–	–	2 787	–	2 787	1 733	4 520
–	–	–	–	–	–	294	294
–	–	–	4 040	–	4 040	–	4 040
–	–	–	–	–	–	467	467
105 356	**141 633**	**118 758**	**1 753 614**	**–**	**1 872 372**	**6 959**	**2 020 964**
–	4 542	–	–	–	–	–	4 542
–	–	–	–	101 645	101 645	–	101 645
–	–	–	–	1 202 181	1 202 181	–	1 202 181
–	–	–	–	249 879	249 879	–	249 879
–	–	–	–	12 318	12 318	–	12 318
				–	–	950	950
–	–	–	–	57 270	57 270	3 729	60 999
–	**4 542**	**–**	**–**	**1 623 293**	**1 623 293**	**4 679**	**1 632 514**

12. Analysis of assets and liabilities by category of financial instruments *(continued)*

As at 31 March US$'000	At fair value through profit or loss Trading	At fair value through profit or loss Designated at inception
2016		
Assets		
Cash and balances at central banks	–	–
Due from banks	–	–
Bank debt securities	–	–
Other debt securities	–	–
Derivative financial instruments	25 289	–
Investment portfolio	–	17 045
Loans and advances to customers	–	–
Investment in associate	–	–
Deferred taxation asset	–	–
Other assets	–	–
Equipment	–	–
Amount due to group companies	–	–
Investment in subsidiary	–	–
	25 289	**17 045**
Liabilities		
Derivative financial instruments	6 610	–
Repurchase agreements	–	–
Customer accounts (deposits)	–	–
Debt securities in issue	–	–
Amount due to group companies	–	–
Current taxation liabilities	–	–
Other liabilities	–	–
	6 610	**–**

	Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
	–	–	–	9 947	–	9 947	–	9 947
	–	–	–	682 160	–	682 160	–	682 160
	–	–	112 357	–	–	112 357	–	112 357
	74 234	74 234	12 907	8 558	–	21 465	–	95 699
	–	25 289	–	–	–	–	–	25 289
	–	17 045	–	–	–	–	–	17 045
	–	–	–	891 098	–	891 098	–	891 098
	–	–	–	–	–	–	3 720	3 720
	–	–	–	–	–	–	116	116
	–	–	–	2 271	–	2 271	205	2 476
	–	–	–	–	–	–	337	337
	–	–	–	3 958	–	3 958	–	3 958
	–	–	–	–	–	–	17	17
	74 234	**116 568**	**125 264**	**1 597 992**	**–**	**1 723 256**	**4 395**	**1 844 219**
	–	6 610	–	–	–	–	–	6 610
	–	–	–	–	108 260	108 260	–	108 260
	–	–	–	–	1 077 907	1 077 907	–	1 077 907
	–	–	–	–	253 547	253 547	–	253 547
	–	–	–	–	9 684	9 684	–	9 684
	–	–	–	–	–	–	334	334
	–	–	–	–	24 511	24 511	3 044	27 555
	–	**6 610**	**–**	**–**	**1 473 909**	**1 473 909**	**3 378**	**1 483 897**

13. Financial instruments at fair value

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used. The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e as prices) or indirectly (ie derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For the year to 31 March US$'000	Total instruments at fair value	Fair value category Level 1	Fair value category Level 2
Group			
2018			
Assets			
Bank debt securities	25 069	25 069	–
Other debt securities	20 036	20 036	–
Derivative financial instruments	17 437	–	17 437
Investment portfolio	12 993	9	12 984
	75 535	**45 114**	**30 421**
Liabilities			
Derivative financial instruments	3 508	–	3 508
	3 508	**–**	**3 508**
Net financial assets at fair value	**72 027**	**45 114**	**26 913**
2017			
Assets			
Sovereign debt securities	22 214	22 214	–
Other debt securities	83 142	83 142	–
Derivative financial instruments	21 804	–	21 804
Investment portfolio	14 473	23	14 450
	141 633	**105 379**	**36 254**
Liabilities			
Derivative financial instruments	4 542	–	4 542
	4 542	**–**	**4 542**
Net financial assets at fair value	**137 091**	**105 379**	**31 712**
2016			
Assets			
Other debt securities	74 234	74 234	–
Derivative financial instruments	25 289	–	25 289
Investment portfolio	17 045	33	17 012
	116 568	**74 267**	**42 301**
Liabilities			
Derivative financial instruments	6 610	–	6 610
	6 610	**–**	**6 610**
Net financial assets at fair value	**109 958**	**74 267**	**35 691**

13. Financial instruments at fair value *(continued)*

For the year to 31 March US$'000	Total instruments at fair value	Fair value category Level 1	Level 2
Bank			
2018			
Assets			
Bank debt securities	25 069	25 069	–
Other debt securities	20 036	20 036	–
Derivative financial instruments	17 437	–	17 437
Investment portfolio	12 993	9	12 984
	75 535	**45 114**	**30 421**
Liabilities			
Derivative financial instruments	3 508	–	3 508
	3 508	**–**	**3 508**
Net financial assets at fair value	**72 027**	**45 114**	**26 913**
2017			
Assets			
Sovereign debt securities	22 214	22 214	–
Other debt securities	83 142	83 142	–
Derivative financial instruments	21 804	–	21 804
Investment portfolio	14 473	23	14 450
	141 633	**105 379**	**36 254**
Liabilities			
Derivative financial instruments	4 542	–	4 542
	4 542	**–**	**4 542**
Net financial assets at fair value	**137 091**	**105 379**	**31 712**
2016			
Assets			
Other debt securities	74 234	74 234	–
Derivative financial instruments	25 289	–	25 289
Investment portfolio	17 045	33	17 012
	116 568	**74 267**	**42 301**
Liabilities			
Derivative financial instruments	6 610	–	6 610
	6 610	**–**	**6 610**
Net financial assets at fair value	**109 958**	**74 267**	**35 691**

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 in the current and prior year.

13. Financial instruments at fair value *(continued)*

Level 3 instruments

During the year ended 31 March 2017 and 2018, there were no movement in financial instruments at fair value for level 3 instruments as the balances were nil at each reporting period.
The following table shows a reconciliation of the opening balances to the closing balances for level 3 financial instruments for the year ended 31 March 2016. All instruments are at fair value through profit or loss.

For the year to 31 March US$'000	Total level 3 financial instruments
Group and Bank	
Balance at 1 April 2015	2 979
Total gains or losses	3 299
In the income statement	3 299
In the income statement of comprehensive income	–
Sales	(6 388)
Foreign exchange adjustments	110
Balance at 31 March 2016	**–**

The following table quantifies the gains included in the income statement and other comprehensive income recognised on level 3 financial instruments:

For the year to 31 March US$'000	Total	Realised	Unrealised
Group and Bank			
2016			
Total gains included in the income statement for the year			
Net interest income	29	29	–
Investment income	3 270	3 270	–
	3 299	**3 299**	**–**

Measurement of financial assets and liabilities at level 2

The table below sets out information about the valuation techniques used at the end of the reporting year in measuring financial instruments categorised as level 2 in the fair value hierarchy:

	Valuation basis/techniques	Main assumptions
Assets		
Derivative financial instruments	Discounted cash flow model	Yield curve volatilities
Investment portfolio	Adjusted quoted price	Liquidity adjustment
Liabilities		
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve volatilities

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data.

Discount rates

Discount rates are the interest rates used to discount future cash flows in the discounted cash flow valuation method. The discount rate takes into account time value of money and uncertainty of cash flows.

Valuation techniques

The valuation techniques relating to financial instruments classified under level 2 have been further elaborated in note 14.

14. Fair value of financial instruments at amortised cost

At 31 March US$'000	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Group					
2018					
Assets					
Cash and balances at central banks	16 695	16 695	^	^	^
Due from banks	459 119	459 119	^	^	^
Reverse repurchase agreements	75 186	75 186	^	^	^
Bank debt securities	112 535	115 575	115 575	^	^
Other debt securities	10 136	11 177	^	11 177	^
Loans and advances to customers	952 637	961 563	^	^	961 563
Other assets	3 095	3 095	^	^	^
Amount due from group companies	3 366	3 366	^	^	^
	1 632 769	**1 645 776**			
Liabilities					
Repurchase agreements	101 924	101 924	^	^	^
Customer deposits	893 397	894 648	625 556	269 092	^
Debt securities in issue	258 563	261 530	^	261 530	^
Amount due to group companies	32 030	32 030	^	^	^
Other liabilities	7 425	7 425	^	^	^
	1 293 339	**1 297 557**			
2017					
Assets					
Cash and balances at central banks	13 715	13 715	^	^	^
Due from banks	812 376	812 376	^	^	^
Bank debt securities	108 399	112 463	112 463	^	^
Other debt securities	17 060	17 819	^	17 819	^
Loans and advances to customers	913 995	922 546	^	^	922 546
Other assets	2 790	2 790	^	^	^
Amount due from group companies	3 698	3 698	^	^	^
	1 872 033	**1 885 407**			
Liabilities					
Repurchase agreements	101 645	101 645	^	^	^
Customer deposits	1 202 181	1 202 726	905 849	296 877	^
Debt securities in issue	249 879	258 063	^	258 063	^
Amount due to group companies	11 887	11 887	^	^	^
Other liabilities	57 274	57 274	^	^	^
	1 622 866	**1 631 595**			
2016					
Assets					
Cash and balances at central banks	9 947	9 947	^	^	^
Due from banks	682 160	347 420	^	^	^
Bank debt securities	112 357	174 213	174 213	^	^
Other debt securities	21 465	22 600	^	22 600	^
Loans and advances to customers	891 098	899 602	^	^	899 602
Other assets	84	84	^	^	^
Amount due from group companies	3 536	3 536	^	^	^
	1 720 647	**1 457 402**			
Liabilities					
Repurchase agreements	108 260	108 260	^	^	^
Customer deposits	1 077 907	1 078 449	903 387	175 062	^
Debt securities in issue	253 547	264 412	^	264 412	^
Other liabilities	24 002	24 002	^	^	^
Amount due to group companies	9 684	9 684	^	^	^
	1 473 400	**1 484 807**			

^ *Financial instruments for which fair value approximates carrying value.*

14. Fair value of financial instruments at amortised cost *(continued)*

At 31 March US$'000	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Bank					
2018					
Assets					
Cash and balances at central banks	16 695	16 695	^	^	^
Due from banks	459 119	459 119	^	^	^
Reverse repurchase agreements	75 186	75 186	^	^	^
Bank debt securities	112 535	115 575	115 575	^	^
Other debt securities	10 136	11 177	^	11 177	^
Loans and advances to customers	952 637	961 563	^	^	961 563
Other assets	3 035	3 035	^	^	^
Amount due from group companies	3 365	3 365	^	^	^
	1 632 708	**1 645 715**			
Liabilities					
Repurchase agreements	101 924	101 924	^	^	^
Customer deposits	893 717	894 648	625 556	259 092	^
Debt securities in issue	258 563	261 530	^	261 530	^
Amount due to group companies	32 024	32 024	^	^	^
Other liabilities	3 215	3 215	^	^	^
	1 289 443	**1 293 341**			
2017					
Assets					
Cash and balances at central banks	13 715	13 715	^	^	^
Due from banks	812 376	812 376	^	^	^
Bank debt securities	108 399	112 463	112 463	^	^
Other debt securities	17 060	17 819	^	17 819	^
Loans and advances to customers	913 995	922 546	^	^	922 546
Other assets	2 847	2 847	^	^	^
Amount due from group companies	4 040	4 040	^	^	^
	1 872 432	**1 885 806**			
Liabilities					
Repurchase agreements	101 645	101 645	^	^	^
Customer deposits	1 202 181	1 202 726	905 849	296 877	^
Debt securities in issue	249 879	258 063	^	258 063	^
Amount due to group companies	12 318	12 318	^	^	^
Other liabilities	57 270	57 270	^	^	^
	1 623 293	**1 632 022**			
2016					
Assets					
Cash and balances at central banks	9 947	9 947	^	^	^
Due from banks	682 160	682 160	^	^	^
Bank debt securities	112 357	174 213	174 213	^	^
Other debt securities	21 465	22 600	^	22 600	^
Loans and advances to customers	891 098	899 602	^	^	899 602
Other assets	84	84	^	^	^
Amount due from group companies	3 958	3 958	^	^	^
	1 721 069	**1 792 564**			
Liabilities					
Repurchase agreements	108 260	108 260	^	^	^
Customer deposits	1 077 907	1 078 449	903 387	175 062	^
Debt securities in issue	253 547	264 412	^	264 412	^
Other liabilities	24 002	24 002	^	^	^
Amount due to group companies	9 684	9 684	^	^	^
	1 473 400	**1 484 807**			

^ *Financial instruments for which fair value approximates carrying value.*

14. Fair value of financial instruments at amortised cost *(continued)*

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring level 2 and level 3 financial instruments not held at fair value:

	Valuation basis/technique	Main inputs
Assets		
Other debt securities	Discounted cash flow model	Discount rates
Loans and advances to customers	Discounted cash flow model	Discount rates
Liabilities		
Repurchase agreements	Discounted cash flow model	Discount rates
Customer accounts (deposits)	Discounted cash flow model	Interest rate yield curve
Debt securities in issue	Discounted cash flow model	Discount rates

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity.

Investment securities held-to-maturity

The fair value of fixed rate financial assets and financial liabilities carried at amortised cost are estimated by comparing spreads earned on the transactions with spreads earned on similar new transactions entered into by the group. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows, using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted sub-debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Certain financial instruments, that would normally be carried at fair value, continue to be recognised at transaction price. This occurs when the fair value would normally be determined using valuation techniques which cannot be relied on due to insufficient external inputs. This results in gains or losses which have not been recognised on balance sheet.

15. Cash and balances at central bank

	Group			Bank		
As at 31 March US$'000	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Cash in hand	4	9	5	4	9	5
Cash balance with the central bank						
– Restricted	8 569	10 021	5 058	8 569	10 021	5 058
– Unrestricted	8 122	3 685	4 884	8 122	3 685	4 884
	16 695	**13 715**	**9 947**	**16 695**	**13 715**	**9 947**

The restricted reserve with the Central Bank of Mauritius is not available to finance the bank's day-to-day operations.

16. Due from banks

	Group			Bank		
At 31 March US$'000	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Holding bank	15 762	15 765	334 740	15 762	15 765	334 740
Other banks	443 357	796 611	347 420	443 357	796 611	347 420
	459 119	**812 376**	**682 160**	**459 119**	**812 376**	**682 160**

17. Repurchase and reverse repurchase agreements

	Group			Bank		
At 31 March US$'000	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Assets						
Reverse repurchase agreements	75 186	–	–	75 186	–	–
	75 186	**–**	**–**	**75 186**	**–**	**–**
Liabilities						
Repurchase agreements	101 924	101 645	108 260	101 924	101 645	108 260
	101 924	**101 645**	**108 260**	**101 924**	**101 645**	**108 260**

The assets transferred and not derecognised in the above repurchase agreements are fair valued at USD113 million (2017: USD112 million and 2016: USD122 million). They are pledged as security for the term of the underlying repurchase agreement.

The bank has a programme to sell securities under agreements to repurchase (repos).

The securities sold under agreements to repurchase are transferred to a third party and the bank receives cash in exchange. These transactions are conducted under terms based on the applicable ISDA Collateral Guidelines. If the securities increase or decrease in value the bank may, in certain circumstances, require, or be required, to pay additional cash collateral. The bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

18. Sovereign debt securities

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Bonds	–	22 214	–	–	22 214	–
	–	**22 214**	**–**	**–**	**22 214**	**–**
The country risk of the sovereign debt securities lies in the following geography:						
South Africa	–	22 214	–	–	22 214	–
	–	**22 214**	**–**	**–**	**22 214**	**–**

19. Bank debt securities

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Bonds	137 604	108 399	112 357	137 604	108 399	112 357
	137 604	**108 399**	**112 357**	**137 604**	**108 399**	**112 357**
The country risk of bank debt securities lies in the following geographies:						
United Kingdom	51 250	52 076	52 917	51 250	52 076	52 917
United States of America	86 354	56 323	59 440	86 354	56 323	59 440
	137 604	**108 399**	**112 357**	**137 604**	**108 399**	**112 357**

20. Other debt securities

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Bonds	27 129	93 501	87 140	27 129	93 501	87 140
Other investments	3 043	6 701	8 559	3 043	6 701	8 559
	30 172	**100 202**	**95 699**	**30 172**	**100 202**	**95 699**
The country risk of other debt securities lies in the following geographies:						
South Africa	–	51 177	52 732	–	51 177	52 732
United Kingdom	2 889	18 492	24 462	2 889	18 492	24 462
Europe (excluding UK)	24 240	7 783	9 947	24 240	7 783	9 947
Australia	3 043	6 701	8 558	3 043	6 701	8 558
United States of America	–	16 048	–	–	16 048	–
	30 172	**100 202**	**95 699**	**30 172**	**100 202**	**95 699**

21. Derivative financial instruments

The group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial options, swaps and forward rate agreements.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables that follow notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk.

The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

	2018			2017			2016		
At 31 March US$'000	**Notional principal amounts**	**Positive fair value**	**Negative fair value**	**Notional principal amounts**	**Positive fair value**	**Negative fair value**	**Notional principal amounts**	**Positive fair value**	**Negative fair value**
Group and bank									
Foreign exchange derivatives									
Forward foreign exchange contracts	447 211	834	(405)	339 621	2 381	(3 099)	245 824	24	(4 088)
Currency swaps	16 667	–	(2 981)	60 106	4 376	(372)	145 931	9 572	(595)
	463 878	**834**	**(3 386)**	**399 727**	**6 757**	**(3 471)**	**391 755**	**9 596**	**(4 683)**
Interest rate derivatives									
Interest rate swaps	55 879	497	(122)	120 714	945	(1 071)	83 505	245	(1 927)
Equity and stock index derivatives									
Stay in option	–	16 106	–	–	14 102	–	–	15 448	–
Derivatives per balance sheet	**519 757**	**17 437**	**(3 508)**	**520 441**	**21 804**	**(4 542)**	**475 260**	**25 289**	**(6 610)**
Bank									
Foreign exchange derivatives									
Forward foreign exchange contracts	447 211	834	(405)	339 621	2 381	(3 099)	245 824	24	(4 088)
Currency swaps	16 667	–	(2 981)	60 106	4 376	(372)	145 931	9 572	(595)
	463 878	**834**	**(3 386)**	**399 727**	**6 757**	**(3 471)**	**391 755**	**9 596**	**(4 683)**
Interest rate derivatives									
Interest rate swaps	55 879	497	(122)	120 714	945	(1 071)	83 505	245	(1 927)
Equity and stock index derivatives									
Stay in option	–	16 106	–	–	14 102	–	–	15 448	–
Derivatives per balance sheet	**519 757**	**17 437**	**(3 508)**	**520 441**	**21 804**	**(4 542)**	**475 260**	**25 289**	**(6 610)**

Most of the bank's derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. The group and the bank may also take positions with the expectation of profiting from favourable movements in prices, rates and indices.

Forwards

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The group and the bank have credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are therefore considered to bear a high liquidity risk. Such contracts also result in market risk exposure.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payment over time based on specified notional amounts in relation to movements in interest rate, foreign currency rate or equity index.

Equity derivative – stay in option

The equity derivative relates to the group's and the bank's right in listed share and is measured at fair value through profit or loss using quoted market price as observable input.

22. Investment portfolio

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Listed equities	9	23	33	9	23	33
Unlisted equities	12 984	14 450	17 012	12 984	14 450	17 012
	12 993	**14 473**	**17 045**	**12 993**	**14 473**	**17 045**

23. Loans and advances to customers

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Gross loans and advances to customers	964 687	921 790	897 788	964 687	921 790	897 788
Impairments of loans and advances to customers	(12 050)	(7 795)	(6 690)	(12 050)	(7 795)	(6 690)
Net loans and advances to customers	**952 637**	**913 995**	**891 098**	**952 637**	**913 995**	**891 098**

For further analysis on loans and advances refer to pages 20 to 33 in the risk management section.

23. Loans and advances to customers *(continued)*

Specific and portfolio impairments

Reconciliation of movements in specific and portfolio impairments

At 31 March US$'000	2018	2017	2016
Group and bank			
Specific impairment			
Balance at beginning of year	653	–	–
Charge to the income statement	3 026	584	–
Intergroup transfers	1 130	77	–
Exchange adjustment	67	(8)	–
Balance at end of year	**4 876**	**653**	**–**
Portfolio impairment			
Balance at the beginning of the year	7 142	6 690	6 653
Charge to the income statement	188	452	37
Transfers	(156)	–	–
Balance at the end of the year	**7 174**	**7 142**	**6 690**
Total impairments	**12 050**	**7 795**	**6 690**
Interest income recognised on loans that have been impaired	**1 649**	**1 893**	**–**
Reconciliation of income statement charge			
Loans and advances to customers	**(3 214)**	**(3 535)**	**1 003**
Specific impairment charged to income statement	(3 026)	(584)	–
Portfolio impairment charged to income statement	(188)	(452)	(37)
Loss on disposal of loans and advances	–	(2 495)	–
Loans and advances recovered	–	(4)	1 040
Total income statement (charge) reversal	**(3 214)**	**(3 535)**	**1 003**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**13 467**	**23 714**	**–**

24. Investment in associate

At 31 March US$'000	2018	2017	2016
Group and bank			
Investment in associate consists of:			
Net asset value	4 598	4 160	3 720
Investment in associate	**4 598**	**4 160**	**3 720**
Investment in associate comprises unlisted investments.			
Analysis of the movement in our share of net assets:			
At beginning of year	4 160	3 720	4 915
Share of profit/(loss) in associate	138	448	(784)
Foreign currency adjustments through OCI	300	(8)	(411)
At end of year	**4 598**	**4 160**	**3 720**

The group and the bank own 34.54% interest in Dolphin Coast Marina Estate Ltd (DCME), a company incorporated in Mauritius undertaking property development. The group's and the bank's interest in DCME is accounted for using the equity accounting method.

The following table illustrates the summarised financial information of the group's and the bank's investment in the above associate.

At 31 March US$'000	2018	2017	2016
Group and bank			
Share of associate's balance sheet:			
Assets	21 040	19 381	23 477
Liabilities	(7 729)	(7 337)	(12 707)
Net assets	**13 311**	**12 044**	**10 770**
Share associates' net assets	**4 598**	**4 160**	**3 720**
Share of associate's revenue and profit:			
Revenue	**1 611**	**2 449**	**1 936**
Share of profit	**138**	**448**	**(784)**

25. Deferred taxation asset

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Deferred taxation assets	614	514	278	613	462	278
Deferred taxation liabilities	(176)	(157)	(162)	(176)	(157)	(162)
Net deferred taxation asset	**438**	**357**	**116**	**437**	**305**	**116**
The net deferred taxation assets arise from						
Impairment of loans and advances to customers	597	514	278	597	462	278
Capital allowances	2	–	(1)	1	–	(1)
Income and expenditure accruals	(161)	(157)	(161)	(161)	(157)	(161)
Net deferred taxation assets	**438**	**357**	**116**	**437**	**305**	**116**
Reconciliation of net deferred taxation assets						
At the beginning of the year	357	116	310	305	116	310
Charge to income statement – current year taxation	81	241	(194)	132	189	(194)
At year-end	**438**	**357**	**116**	**437**	**305**	**116**

Deferred taxation assets are recognised to the extent it is likely that profits will be available in future periods. The assessment of the likelihood of future profits is based on past performance and current projections. Deferred taxation assets are not recognised in respect of capital losses as crystallisation of capital gains and the eligibility of potential losses is uncertain.

26. Other assets

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Settlement debtors	29	15	13	29	15	13
Prepayments and accruals	1 459	1 733	205	1 399	1 733	205
Other receivables	5 715	2 773	2 258	5 709	2 772	2 258
	7 203	**4 521**	**2 476**	**7 137**	**4 520**	**2 476**

27. Equipment

At 31 March US$'000	Computer equipment	Furniture and fittings	Office equipment	Motor vehicles	Total
Group					
2018					
Cost					
At the beginning of the year	206	489	393	76	1 164
Additions	12	174	27	–	213
Disposals	–	–	–	(43)	(43)
Foreign exchange movements	(1)	(20)	(10)	–	(31)
At the end of the year	**217**	**643**	**410**	**33**	**1 303**
Accumulated depreciation					
At the beginning of the year	171	318	305	76	870
Disposals	–	–	–	(43)	(43)
Depreciation charge for the year	17	51	41	–	109
Foreign exchange movements	(1)	(10)	(17)	–	(28)
At the end of the year	**187**	**359**	**329**	**33**	**908**
Net carrying value	**30**	**284**	**81**	**–**	**395**
Bank					
2018					
Cost					
At the beginning of the year	206	489	393	76	1 164
Additions	12	174	26	–	212
Disposals	–	–	–	(43)	(43)
Foreign exchange movements	(1)	(20)	(10)	–	(31)
At the end of the year	**217**	**643**	**409**	**33**	**1 302**
Accumulated depreciation					
At the beginning of the year	171	318	305	76	870
Disposals	–	–	–	(43)	(43)
Depreciation charge for the year	17	51	41	–	109
Foreign exchange movements	(1)	(10)	(17)	–	(28)
At the end of the year	**187**	**359**	**329**	**33**	**908**
Net carrying value	**30**	**284**	**80**	**–**	**394**

27. Equipment *(continued)*

At 31 March US$'000	Computer equipment	Furniture and fittings	Office equipment	Motor vehicles	Total
Group and Bank					
2017					
Cost					
At the beginning of the year	191	463	363	76	1 093
Additions	23	31	25	–	79
Adjustments	(8)	(5)	5	–	(8)
At the end of the year	**206**	**489**	**393**	**76**	**1 164**
Accumulated depreciation					
At the beginning of the year	141	274	272	69	756
Depreciation charge for the year	30	44	26	7	107
Adjustments	–	–	7	–	7
At the end of the year	**171**	**318**	**305**	**76**	**870**
Net carrying value	**35**	**171**	**88**	**–**	**294**
Group and Bank					
2016					
Cost					
At the beginning of the year	190	463	351	96	1 100
Additions	38	–	12	–	50
Disposals	–	–	–	(20)	(20)
Adjustments	(37)	–	–	–	(37)
At the end of the year	**191**	**463**	**363**	**76**	**1 093**
Accumulated depreciation					
At the beginning of the year	130	231	247	83	691
Disposals	–	–	–	(20)	(20)
Depreciation charge for the year	41	43	31	6	121
Adjustments	(30)	–	(6)	–	(36)
At the end of the year	**141**	**274**	**272**	**69**	**756**
Net carrying value	**50**	**189**	**91**	**7**	**337**

28. Amounts due from/to group companies

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Assets						
Amount due from group companies						
Amount due to holding Bank – Investec Bank Limited	1 276	–	–	1 275	–	–
Amount due from group companies	2 090	3 698	3 536	2 090	4 040	3 958
	3 366	**3 698**	**3 536**	**3 365**	**4 040**	**3 958**
Liabilities						
Amount due to group companies						
Amount due to holding bank – Investec Bank Limited	26 051	1 985	377	26 051	1 985	377
Amount due to group companies	5 979	9 902	9 307	5 973	10 333	9 307
	32 030	**11 887**	**9 684**	**32 024**	**12 318**	**9 684**

Amount due from/to group companies are unsecured, interest-bearing, with various maturity/repayment terms.

Terms and conditions of transactions with related parties

The abovementioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances at year-end are unsecured except for loans and advances where security is given. For the year ended 31 March 2018, the bank has not made any impairment loss relating to amounts owed by related parties (2017 and 2016: Nil).

29. Investment in subsidiary

			Issued ordinary shares			Shares at book value			Net indebtedness		
At 31 March	Nature of business	Holding (%)	2018 '000	2017 '000	2016 '000	2018 US$'000	2017 US$'000	2016 US$'000	2018 US$'000	2017 US$'000	2016 US$'000
Investec Wealth and Investment (Mauritius) Limited	Investment advisor	100	1 050	1 050	600	467	467	17	5	(89)	422
Analysis of the movement in investment in subsidiary											
At the beginning of the year			1 050	600	–	467	17	–			
Acquisition of shares			–	450	600	–	450	17			
At the end of the year			**1 050**	**1 050**	**600**	**467**	**467**	**17**	**5**	**(89)**	**422**

IBM consolidates its financial statements as at 31 March 2018.

30. Customer deposits

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Private clients						
– Current accounts	54 743	79 335	122 395	54 743	79 335	122 395
– Term deposits	31 214	41 740	42 365	31 214	41 740	42 365
Corporates						
– Current accounts	570 493	826 514	780 992	570 813	826 514	780 992
– Term deposits	236 947	254 592	132 155	236 947	254 592	132 155
	893 397	**1 202 181**	**1 077 907**	**893 717**	**1 202 181**	**1 077 907**

31. Debt securities in issue

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Redeemable cumulative non-participating preference shares of nominal value USD191 525 000 and EUR52 700 000 at no par value (2017 and 2016: USD191 525 000 and EUR52 700 000).	**258 563**	**249 879**	**253 547**	**258 563**	**249 879**	**253 547**

The 10-years redeemable preference shares bear interest as follows and are listed on the Johannesburg Stock Exchange.

CLASS IMRP1	Fixed rate 3.962% up to 4 September 2019 thereafter 3 month Euribor+1.35% up to 3 September 2021
CLASS IMRP2	Fixed rate 3.99% up to 23 October 2019 thereafter 3 month Euribor+1.35% up to 22 October 2021
CLASS IMRP3	3 month Euribor+1.63% up to 28 November 2021
CLASS IMRP4	Fixed rate 3.075% up to 1 April 2018 thereafter 3 month USD Libor+1.35% up to 30 September 2021
CLASS IMRP5	Fixed rate 1.912% up to 28 July 2017 thereafter 3 month USD Libor+1% up to 23 July 2023
CLASS IMRP6	3 month USD Libor+1.35% up to 31 August 2021
CLASS IMRP7	Fixed rate 3.394% up to 22 May 2019 thereafter 3 month USD Libor+1.35% up to 26 August 2021

32. Other liabilities

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Settlement liabilities	1 374	55 639	23 013	1 374	55 639	23 013
Other creditors and accruals	4 607	3 835	3 044	4 514	3 729	3 044
Other non-interest-bearing liabilities	1 444	1 635	1 498	1 434	1 631	1 498
	7 425	**61 109**	**27 555**	**7 322**	**60 999**	**27 555**

33. Ordinary share capital

	Group			Bank		
At 31 March US$'000	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Authorised						
Issued and fully paid						
56 478 463 (2017 and 2016: 56 478 463) ordinary shares	56 478	56 478	56 478	56 478	56 478	56 478

Available-for-sale reserve

This reserve comprised fair value movements recognised on available-for-sale financial assets.

Foreign currency translation reserve

The reserve comprised foreign exchange differences arising from the translation of the financial statements of the associated undertaking.

Regulatory general risk reserve

This reserve comprises amounts set aside for general banking risks, including future losses and other unforeseeable risks. It also includes the country risk provision computed in accordance with the BOM guideline on country risk management and the provision computed under the Prudential Norm.

Statutory reserve

This reserve represents transfers from retained earnings in accordance with the Banking Act 2004. A sum equal to not less than 15% of the profit for the year is transferred each year until the balance is equal to the amount paid as stated capital.

Holding company

The immediate holding Bank is Investec Bank Limited, and ultimate holding is Investec Limited, both incorporated in Republic of South Africa.

Notes to the financial statements

(continued)

Annual financial statements

34. Notes to the cash flow statements

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Profit before taxation adjusted for non-cash items is derived as follows:						
Profit before taxation	33 604	27 820	40 544	33 305	27 868	40 983
Adjustment for:						
Foreign exchange (gain)/loss on cash and cash equivalent	(21 846)	6 320	(3 121)	(21 846)	6 320	(3 121)
Loss/(profit) on disposal of equipment	3	15	(2)	3	15	(2)
Depreciation of equipment	109	107	121	109	107	121
Impairment loss on loans and advances	3 214	3 535	37	3 214	3 535	37
Interest and foreign exchange loss/(gain) on debt securities in issue	8 683	(3 669)	4 036	8 684	(3 669)	4 036
Interest and foreign exchange loss on debt and investment securities	591	12 250	1 967	591	12 250	1 967
Interest and foreign exchange loss/(gain) on securities sold under repurchase agreement	15 720	(6 615)	(1 765)	15 720	(6 615)	(1 765)
Dividend income	–	–	(91)	–	–	(91)
Profit on disposal of debt securities	(1 364)	(26)	–	(1 364)	(26)	–
Profit on disposal of investment in subsidiary	–	–	(360)	–	–	(360)
Share of (gain)/loss in associate	(138)	(448)	784	(138)	(448)	784
(Gain)/loss on investment securities and derivatives	(1 510)	5 668	5 620	(1 510)	5 668	5 620
Profit before taxation adjusted for non-cash items	**37 066**	**44 957**	**47 770**	**36 768**	**45 005**	**48 209**
(Increase)/decrease in operating assets						
Balance with central bank – restricted	1 452	(4 963)	(3 265)	1 452	(4 963)	(3 265)
Reverse repurchase agreements	–	–	13 987	–	–	13 987
Derivative financial instruments	7 358	779	(1 799)	7 358	779	(1 799)
Loans and advances to customers	(41 856)	(26 432)	34 778	(41 856)	(26 432)	34 778
Other assets	(2 812)	(2 045)	808	(2 747)	(2 043)	808
Amount due from group companies	335	(164)	155	677	(85)	(267)
	(35 523)	**(32 825)**	**44 664**	**(35 116)**	**(32 744)**	**44 242**
(Decrease)/increase in operating liabilities						
Derivative financial instruments	(1 034)	(2 068)	5 572	(1 034)	(2 068)	5 572
Customer deposits	(308 784)	124 274	300 700	(308 464)	124 274	300 700
Amount due to group companies	20 140	2 203	(42 956)	19 704	2 634	(42 956)
Other liabilities	(53 687)	33 555	14 208	(53 681)	33 445	14 208
	(343 365)	**157 964**	**277 524**	**(343 475)**	**158 285**	**277 524**

35. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

	Group			Bank		
At 31 March US$'000	**Less than 12 months**	**Over 12 months**	**Total**	**Less than 12 months**	**Over 12 months**	**Total**
2018						
Assets						
Cash and balances at central banks	8 126	8 569	16 695	8 126	8 569	16 695
Due from banks	459 119	–	459 119	459 119	–	459 119
Reverse repurchase agreements	75 186	–	75 186	75 186	–	75 186
Bank debt securities	18 980	118 624	137 604	18 980	118 624	137 604
Other debt securities	3 043	27 129	30 172	3 043	27 129	30 172
Derivative financial instruments	16 940	497	17 437	16 940	497	17 437
Investment portfolio	–	12 993	12 993	–	12 993	12 993
Loans and advances to customers	453 012	499 625	952 637	484 986	467 651	952 637
Investment in associate	–	4 598	4 598	–	4 598	4 598
Deferred taxation asset	–	438	438	–	437	437
Other assets	7 203	–	7 203	7 137	–	7 137
Equipment	–	395	395	–	394	394
Amount due from group companies	3 366	–	3 366	3 365	–	3 365
Investment in subsidiary	–	–	–	–	467	467
Total	**1 044 975**	**672 868**	**1 717 843**	**1 076 882**	**641 359**	**1 718 241**
Liabilities						
Derivative financial instruments	405	3 103	3 508	405	3 103	3 508
Repurchase agreements	–	101 924	101 924	–	101 924	101 924
Customer deposits	887 890	5 507	893 397	888 210	5 507	893 717
Debt securities in issue	–	258 563	258 563	–	258 563	258 563
Amount due to group companies	32 030	–	32 030	32 024	–	32 024
Current taxation liabilities	1 020	–	1 020	1 020	–	1 020
Other liabilities	7 425	–	7 425	7 322	–	7 322
Total	**928 770**	**369 097**	**1 297 867**	**928 981**	**369 097**	**1 298 078**
Net	**116 205**	**303 771**	**419 976**	**147 901**	**272 262**	**420 163**
2017						
Assets						
Cash and balances at central banks	3 694	10 021	13 715	3 694	10 021	13 715
Due from banks	812 376	–	812 376	812 376	–	812 376
Sovereign debt securities	–	22 214	22 214	–	22 214	22 214
Bank debt securities	–	108 399	108 399	–	108 399	108 399
Other debt securities	51 177	49 025	100 202	51 177	49 025	100 202
Derivative financial instruments	16 843	4 961	21 804	16 843	4 961	21 804
Investment portfolio	–	14 473	14 473	–	14 473	14 473
Loans and advances to customers	345 973	568 022	913 995	345 973	568 022	913 995
Investment in associate	–	4 160	4 160	–	4 160	4 160
Deferred taxation asset	–	357	357	–	305	305
Other assets	4 521	–	4 521	4 520	–	4 520
Equipment	–	294	294	–	294	294
Amount due from group companies	3 698	–	3 698	4 040	–	4 040
Investment in subsidiary	–	–	–	–	467	467
Total	**1 238 282**	**781 926**	**2 020 208**	**1 238 623**	**782 341**	**2 020 964**

Notes to the financial statements

(continued)

35. Maturity analysis of assets and liabilities *(continued)*

At 31 March US$'000	Group Less than 12 months	Group Over 12 months	Group Total	Bank Less than 12 months	Bank Over 12 months	Bank Total
2017 *(continued)*						
Liabilities						
Derivative financial instruments	3 100	1 442	4 542	3 100	1 442	4 542
Repurchase agreements	–	101 645	101 645	–	101 645	101 645
Customer deposits	1 196 300	5 881	1 202 181	1 196 300	5 881	1 202 181
Debt securities in issue	–	249 879	249 879	–	249 879	249 879
Amount due to group companies	11 887	–	11 887	12 318	–	12 318
Current taxation liabilities	950	–	950	950	–	950
Other liabilities	61 109	–	61 109	60 999	–	60 999
Total	**1 273 346**	**358 847**	**1 632 193**	**1 273 667**	**358 847**	**1 632 514**
Net	**(35 064)**	**423 079**	**388 015**	**(35 044)**	**423 494**	**388 450**
2016						
Assets						
Cash and balances at central banks	4 889	5 058	9 947	4 889	5 058	9 947
Due from banks	682 160	–	682 160	682 160	–	682 160
Bank debt securities	–	112 357	112 357	–	112 357	112 357
Other debt securities	–	95 699	95 699	–	95 699	95 699
Derivative financial instruments	25 045	244	25 289	25 045	244	25 289
Investment portfolio	–	17 045	17 045	–	17 045	17 045
Loans and advances to customers	299 199	591 899	891 098	299 199	591 899	891 098
Investment in associate	–	3 720	3 720	–	3 720	3 720
Deferred taxation asset	–	116	116	–	116	116
Other assets	2 476	–	2 476	2 476	–	2 476
Equipment	–	337	337	–	337	337
Amount due from group companies	3 536	–	3 536	3 958	–	3 958
Investment in subsidiary	–	–	–	–	17	17
Total	**1 017 305**	**826 475**	**1 843 780**	**1 017 727**	**826 492**	**1 844 219**
Liabilities						
Derivative financial instruments	4 080	2 530	6 610	4 080	2 530	6 610
Repurchase agreements	–	108 260	108 260	–	108 260	108 260
Customer deposits	1 055 184	22 723	1 077 907	1 055 184	22 723	1 077 907
Debt securities in issue	–	253 547	253 547	–	253 547	253 547
Amount due to group companies	9 684	–	9 684	9 684	–	9 684
Current taxation liabilities	334	–	334	334	–	334
Other liabilities	27 555	–	27 555	27 555	–	27 555
Total	**1 096 837**	**387 060**	**1 483 897**	**1 096 837**	**387 060**	**1 483 897**
Net	**(79 532)**	**439 415**	**359 883**	**(79 110)**	**439 432**	**360 322**

36. Commitments

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though the obligations may not be recognised on the reporting date they do contain credit risk and are therefore part of the overall risk of the bank.

The table below sets out such contingent liabilities and commitments:

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Undrawn facilities	178 125	156 986	108 057	178 125	156 986	108 057
	178 125	**156 986**	**108 057**	**178 125**	**156 986**	**108 057**

Undrawn commitments to lend

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Operating lease commitments

The Bank has entered into operating leases for office buildings with lease terms up to three years.

Future minimum rentals payable under non-cancellable operating leases as at 31 March are, as follows:

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Not later than one year	440	399	405	438	396	405
Later than one year and not later than five years	233	634	1 024	232	628	1 024
	673	**1 033**	**1 429**	**670**	**1 024**	**1 429**

37. Contingent liabilities

At 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Guarantees and assets pledged as collateral security:						
– Guarantees and irrevocable letters of credit	9 426	5 384	17 138	9 426	5 384	17 138
	9 426	**5 384**	**17 138**	**9 426**	**5 384**	**17 138**

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by Investec Bank (Mauritius) Limited on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

Guarantees

Guarantees commit the bank to make payments on behalf of customers on the occurrence or non-occurrence of a specific, uncertain future event.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The group and the bank have an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the year-end, there were no legal claims against the group and the bank.

Notes to the financial statements

(continued)

38. Related party disclosures

For the year to 31 March US$'000	Group 2018	Group 2017	Group 2016	Bank 2018	Bank 2017	Bank 2016
Compensation of key management personnel						
Short-term employee benefits	**2 531**	**2 393**	**2 021**	**1 865**	**2 047**	**1 955**
Other benefits	**719**	**854**	**699**	**663**	**854**	**699**
Transactions with key management personnel						
Loans and advances to key management personnel	**141**	**3 585**	**1 667**	**–**	**3 585**	**1 667**
Deposits from key management personnel	**2 420**	**2 668**	**2 278**	**2 420**	**2 668**	**2 278**

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired.

For the year to 31 March US$'000	Holding bank	Associate	Subsidiaries and fellow subsidiaries	Significant influence*	Pension Fund	Corporate Social Responsibility Fund	Total
Group							
2018							
Income statement							
Interest income	770	330	754	2 589	–	–	4 443
Interest expense	(8 226)	(87)	(31)	–	–	–	(8 344)
Fees income	608	102	–	–	–	–	710
Fees expense	(1 094)	–	(410)	–	–	–	(1 504)
Contribution	–	–	–	–	(122)	–	(122)
Statement of financial position							
Assets							
Due from banks	15 762	–	–	–	–	–	15 762
Reverse repurchase agreements	–	–	25 089	–	–	–	25 089
Derivative assets	17 431	–	5	–	–	–	17 436
Investment portfolio	–	–	–	12 984	–	–	12 984
Investment in associate	–	4 598	–	–	–	–	4 598
Amount due from group companies	1 276	–	2 090	–	–	–	3 366
Loans and advances	–	4 487	–	592	–	–	5 079
Other assets	1 131	188	–	–	–	–	1 319
Liabilities							
Derivative liabilities	(3 508)	–	–	–	–	–	(3 508)
Amount due to group companies	(26 051)	–	(5 979)	–	–	–	(32 030)
Deposits	–	(3 745)	–	(6 673)	–	–	(10 418)
Debt securities in issue	(258 563)	–	–	–	–	–	(258 563)
Other liabilities	(36)						(36)
Off balance sheet							
Guarantees received	1 893	–	–	–	–	–	1 893

* *This refers to significant influences defined by the BoM guidelines, but not as defined by IFRS.*

38. Related party disclosures *(continued)*

For the year to 31 March US$'000	Holding bank	Associate	Subsidiaries and fellow subsidiaries	Significant influence*	Pension Fund	Corporate Social Responsibility Fund	Total
Group *(continued)*							
2017							
Income statement							
Interest income	952	345	1 103	2 434	–	–	4 834
Interest expense	(6 544)	(14)	(11)	–	–	–	(6 569)
Fees income	109	329	–	–	–	–	438
Fees expense	(380)	–	(543)	–	–	–	(923)
contribution	–	–	–	–	(172)	(24)	(196)
Statement of financial position							
Assets							
Due from banks	15 766	–	–	–	–	–	15 766
Derivative assets	2 970	–	4 731	–	–	–	7 701
Investment portfolio	–	–	–	14 450	–	–	14 450
Investment in associate	–	4 160	–	–	–	–	4 160
Amount due from group companies	–	–	3 698	–	–	–	3 698
Loans and advances	–	–	–	41 840	–	–	41 840
Other assets	–	463	–	–	–	–	463
Liabilities							
Derivative liabilities	(4 505)	–	(37)	–	–	–	(4 542)
Amount due to group companies	(1 986)	–	(9 901)	–	–	–	(11 887)
Deposits	–	(2 618)	–	(3 713)	–	–	(6 331)
Debt securities in issue	(249 877)	–	–	–	–	–	(249 877)
Off balance sheet							
Guarantees received	6 774	–	–	–	–	–	6 774

* *This refers to significant influences defined by the BoM guidelines, but not as defined by IFRS.*

38. Related party disclosures *(continued)*

For the year to 31 March US$'000	Holding bank	Associate	Subsidiaries and fellow subsidiaries	Significant influence*	Pension Fund	Corporate Social Responsibility Fund	Total
Group *(continued)*							
2016							
Income statement							
Interest income	1 339	189	676	4 495	–	–	6 699
Interest expense	(6 664)	–	(5)	–	–	–	(6 669)
Fees expense	(378)	–	(909)	–	–	–	(1 287)
contribution	–	–	–	–	(215)	(2)	(217)
Statement of financial position							
Assets							
Due from banks	334 740	–	–	–	–	–	334 740
Derivative assets	9 574	–	243	–	–	–	9 817
Investment portfolio	–	–	–	17 012	–	–	17 012
Investment in associate	–	3 720	–	–	–	–	3 720
Amount due from group companies	–	–	3 536	–	–	–	3 536
Loans and advances	–	7 394	–	46 904	–	–	54 298
Liabilities							
Derivative liabilities	(5 976)	–	(611)	–	–	–	(6 587)
Amount due from group companies	–	–	(9 684)	–	–	–	(9 684)
Deposits	–	(1 692)	–	(4 635)	–	–	(6 327)
Debt securities in issue	(253 547)	–	–	–	–	–	(253 547)
Off balance sheet							
Guarantees received	(59 705)	–	–	–	–	–	(59 705)

* *This refers to significant influences defined by the BoM guidelines, but not as defined by IFRS.*

38. Related party disclosures *(continued)*

For the year to 31 March US$'000	Holding bank	Sub-sidiary	Asso-ciate	Sub-sidiaries and fellow sub-sidiaries	Sig-nificant influence*	Pension Fund	Corporate Social Responsi-bility Fund	Total
Bank								
2018								
Income statement								
Interest income	770	33	330	754	2 589	–	–	4 476
Interest expense	(8 226)	(14)	(87)	(31)	–	–	–	(8 358)
Fees income	76	–	102	–	–	–	–	178
Fees expense	(1 094)	–	–	(410)	–	–	–	(1 504)
contribution	–	–	–	–	–	(122)	–	(122)
Statement of financial position								
Assets								
Due from banks	15 762	–	–	–	–	–	–	15 762
Reverse repurchase agreements	–	–	–	25 089	–	–	–	25 089
Derivative assets	17 431	–	–	5	–	–	–	17 436
Investment portfolio	–	–	–	–	12 984	–	–	12 984
Investment in associate	–	–	4 598	–	–	–	–	4 598
Investment in subsidiary	–	467	–	–	–	–	–	467
Amount due from group companies	1 275	–	–	2 090	–	–	–	3 365
Loans and advances	–	–	4 487	–	592	–	–	5 079
Other assets	1 131	–	188	–	–	–	–	1 319
Liabilities								
Derivative liabilities	(3 508)	–	–	–	–	–	–	(3 508)
Amount due to group companies	(26 051)	6	–	(5 979)	–	–	–	(32 024)
Deposits	–	–	(3 745)	–	(6 674)	–	–	(10 419)
Debt securities in issue	(258 563)	–	–	–	–	–	–	(258 563)
Other liabilities	(36)	–	–	–	–	–	–	(36)
Off balance sheet								
Guarantees received	1 893	–	–	–	–	–	–	1 893

* *This refers to significant influences defined by the BoM guidelines, but not as defined by IFRS.*

38. Related party disclosures *(continued)*

For the year to 31 March US$'000	Holding bank	Sub-sidiary	Asso-ciate	Sub-sidiaries and fellow sub-sidiaries	Sig-nificant influence*	Pension Fund	Corporate Social Responsi-bility Fund	Total
Bank *(continued)*								
2017								
Income statement								
Interest income	952	22	345	1 103	2 434	–	–	4 856
Interest expense	(6 544)	–	(14)	(11)	–	–	–	(6 569)
Fees income	109	–	329	–	–	–	–	438
Fees expense	(380)	–	–	(543)	–	–	–	(923)
Contribution	–	–	–	–	–	(165)	(24)	(189)
Statement of financial position								
Assets								
Due from banks	15 766	–	–	–	–	–	–	15 766
Derivative assets	2 970	–	–	4 731	–	–	–	7 701
Investment portfolio	–	–	–	–	14 450	–	–	14 450
Investment in associate	–	–	4 160	–	–	–	–	4 160
Investment in subsidiary	467	–	–	–	–	–	–	467
Amount due from group companies	–	348	–	3 692	–	–	–	4 040
Loans and advances	–	–	6 126	–	41 840	–	–	47 966
Other assets	–	–	463	–	–	–	–	463
Liabilities								
Derivative liabilities	(4 505)	–	–	(37)	–	–	–	(4 542)
Amount due to group companies	(1 985)	–	–	(10 333)	–	–	–	(12 318)
Deposits	–	–	(2 618)	–	(3 713)	–	–	(6 331)
Debt securities in issue	(249 877)	–	–	–	–	–	–	(249 877)
Off balance sheet								
Guarantees received	6 774	–	–	–	–	–	–	6 774

* *This refers to significant influences defined by the BoM guidelines, but not as defined by IFRS.*

38. Related party disclosures *(continued)*

For the year to 31 March US$'000	Holding bank	Subsidiary	Associate	Subsidiaries and fellow subsidiaries	Significant influence*	Pension Fund	Corporate Social Responsibility Fund	Total
Bank *(continued)*								
2016								
Income statement								
Interest income	1 339	3	189	676	4 495	–	–	6 702
Interest expense	(6 664)	–	–	(5)	–	–	–	(6 669)
Fees expense	(378)	–	–	(909)	–	–	–	(1 287)
Contribution	–	–	–	–	–	(215)	(2)	(217)
Statement of financial position								
Assets								
Due from banks	334 740	–	–	–	–	–	–	334 740
Derivative assets	9 574	–	–	243	–	–	–	9 817
Investment portfolio	–	–	–	–	17 012	–	–	17 012
Investment in associate	–	–	3 720	–		–	–	3 720
Investment in subsidiary	–	17	–	–	–	–	–	17
Amount due from group companies	–	–	–	3 958	–	–	–	3 958
Loans and advances	–	–	7 394	–	46 904	–	–	54 298
Liabilities								
Derivative liabilities	(5 976)	–	–	(611)	–	–	–	(6 587)
Amount due from group companies	–	–	–	(9 684)	–	–	–	(9 684)
Deposits	–	–	(1 692)	–	(4 635)	–	–	(6 327)
Debt securities in issue	(253 547)	–	–	–	–	–	–	(253 547)
Off balance sheet								
Guarantees received	(59 705)	–	–	–	–	–	–	(59 705)

* *This refers to significant influences defined by the BoM guidelines, but not as defined by IFRS.*

Terms and conditions of transactions with related parties

The abovementioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances at year-end are unsecured except for loans and advances where security is given. For the year ended 31 March 2018, the bank has not made any impairment loss relating to amounts owed by related parties (2017 and 2016: Nil).

Notes to the financial statements

(continued)

39. Liquidity analysis of financial liabilities based on undiscounted cash flows

At 31 March US$'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2018								
Liabilities								
Derivative financial instruments	–	405	–	–	–	3 103	–	3 508
Repurchase agreements	–	108	338	446	892	108 182	–	109 966
Customer deposits	625 556	70 773	79 804	46 917	66 621	5 653	–	895 324
Debt securities in issue	–	283	1 479	2 359	3 506	269 980	–	277 607
Amount due to group companies	32 030	–	–	–	–	–	–	32 030
Other liabilities	3 645	243	3 018	68	447	–	–	7 421
Total on balance sheet liabilities	**661 231**	**71 812**	**84 639**	**49 790**	**71 466**	**386 918**	**–**	**1 325 856**
2017								
Liabilities								
Derivative financial instruments	–	3 072	27	1		1 372	70	4 542
Repurchase agreements	–	76	214	290	580	103 599	–	104 759
Customer deposits	905 849	95 579	104 462	20 851	70 812	6 065	–	1 203 618
Debt securities in issue	–	283	1 384	1 933	3 065	270 090	–	276 755
Amount due to group companies	11 887	–	–	–	–	–	–	11 887
Other liabilities	55 806	419	388	121	237	303	–	57 274
Total on balance sheet liabilities	**973 542**	**99 429**	**106 475**	**23 196**	**74 694**	**381 429**	**70**	**1 658 835**
2016								
Liabilities								
Derivative financial instruments	–	4 080	–	–	–	1 330	1 200	6 610
Repurchase agreements	–	4	186	249	497	109 350	–	110 286
Customer deposits	903 388	28 379	81 635	9 820	32 550	23 512	–	1 079 284
Debt securities in issue	–	288	1 373	1 839	3 398	27 038	256 082	290 018
Amount due to group companies	9 684	–	–	–	–	–	–	9 684
Other liabilities	23 702	15	30	51	56	148	–	24 002
Total on balance sheet liabilities	**936 774**	**32 766**	**83 224**	**11 959**	**36 501**	**161 378**	**257 282**	**1 519 884**

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet.

39. Liquidity analysis of financial liabilities based on undiscounted cash flows *(continued)*

At 31 March US$'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Bank								
2018								
Liabilities								
Derivative financial instruments	–	405	–	–	–	3 103	–	3 508
Repurchase agreements	–	108	338	446	892	108 182	–	109 966
Customer deposits	625 556	70 773	79 804	46 917	66 621	5 653	–	895 324
Debt securities in issue	–	283	1 479	2 359	3 506	269 980	–	277 607
Amount due to group companies	32 024	–	–	–	–	–	–	32 024
Other liabilities	3 645	243	3 121	68	447	–	–	7 524
Total on balance sheet liabilities	**661 225**	**71 812**	**84 742**	**49 790**	**71 466**	**386 918**	**–**	**1 325 750**
2017								
Liabilities								
Derivative financial instruments	–	3 072	27	1		1 372	70	4 542
Repurchase agreements	–	76	214	290	580	103 599	–	104 759
Customer deposits	905 849	95 579	104 462	20 851	70 812	6 065	–	1 203 618
Debt securities in issue	–	283	1 384	1 933	3 065	270 090	–	276 755
Amount due to group companies	12 318	–	–	–	–	–	–	12 318
Other liabilities	55 806	313	490	121	237	303	–	57 270
Total on balance sheet liabilities	**973 973**	**99 323**	**106 577**	**23 196**	**74 694**	**381 429**	**70**	**1 659 262**
2016								
Liabilities								
Derivative financial instruments	–	4 080	–	–	–	1 330	1 200	6 610
Repurchase agreements and cash collateral on securities lent	–	4	186	249	497	109 350	–	110 286
Customer deposits	903 388	28 379	81 635	9 820	32 550	23 512	–	1 079 284
Debt securities in issue	–	288	1 373	1 839	3 398	27 038	256 082	290 018
Amount due to group companies	9 684	–	–	–	–	–	–	9 684
Other liabilities	23 702	15	30	51	56	148	–	24 002
Total on balance sheet liabilities	**936 774**	**32 766**	**83 224**	**11 959**	**36 501**	**161 378**	**257 282**	**1 519 884**

40. Segmental business units

For management purposes, the bank is organised into three operating segments based on products and services as follows:

Private Clients – Individual and corporate customers' loans

Corporate Clients – Treasury function and corporate customers' loans

Investment Strategies – Investment banking services and finance

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

The following table presents income and profit and certain asset and liability information regarding the bank's operating segments.

For the year ended 31 March US$'000	Private Clients	Corporate Clients	Investment Strategies	Interdivisional adjustment	Total
Group					
2018					
Interest income	18 586	76 938	5 870	(31 856)	69 538
Interest expense	(8 238)	(48 133)	(1 954)	31 856	(26 469)
Net interest income	**10 348**	**28 805**	**3 916**	**–**	**43 069**
Fee and commission income	3 407	5 849	1 116	–	10 372
Fee and commission expense	(364)	(1 070)	–	–	(1 434)
Net fee and commission income	**3 043**	**4 779**	**1 116**	**–**	**8 938**
Investment income/(loss)	–	1 362	(3 040)	–	(1 678)
Net trading income/(loss)	109	1 085	(825)	–	369
Total operating income	**13 500**	**36 031**	**1 167**	**–**	**50 698**
Impairment (losses)/reversals on loans and advances	(1 699)	(1 803)	288	–	(3 214)
Net operating income	**11 801**	**34 228**	**1 455**	**–**	**47 484**
Operating costs	(3 273)	(9 495)	(1 250)	–	(14 018)
Operating profit	**8 528**	**24 733**	**205**	**–**	**33 466**
Cost to income ratio	**24.2%**	**26.4%**	**107.1%**	**–**	**27.6%**
Total assets	**431 959**	**2 576 638**	**506 717**	**(1 797 471)**	**1 717 843**
Total liabilities	**(418 943)**	**(2 548 992)**	**(127 403)**	**1 797 471**	**(1 297 867)**
2017					
Interest income	18 882	66 735	5 492	(28 600)	62 509
Interest expense	(8 405)	(39 010)	(2 194)	28 600	(21 009)
Net interest income	**10 477**	**27 725**	**3 298**	**–**	**41 500**
Fee and commission income	972	6 843	376	–	8 191
Fee and commission expense	(166)	(1 238)	(377)	–	(1 781)
Net fee and commission income/(expense)	**806**	**5 605**	**(1)**	**–**	**6 410**
Investment income/(loss)	–	18	(5 169)	–	(5 151)
Net trading (loss)/income	(35)	1 595	(515)	–	1 045
Total operating income/(loss)	**11 248**	**34 943**	**(2 387)**	**–**	**43 804**
Impairment (losses)/reversals on loans and advances	(39)	(3 572)	76	–	(3 535)
Net operating income/(loss)	**11 209**	**31 371**	**(2 311)**	**–**	**40 269**
Operating costs	(3 344)	(9 359)	(194)	–	(12 897)
Operating profit/(loss)	**7 865**	**22 012**	**(2 505)**	**–**	**27 372**
Cost to income ratio	**29.7%**	**26.8%**	**(8.1%)**	**–**	**29.4%**
Total assets	**386 966**	**2 947 042**	**426 406**	**(1 740 206)**	**2 020 208**
Total liabilities	**(374 625)**	**(2 927 789)**	**(69 985)**	**1 740 206**	**(1 632 193)**

40. Segmental business units *(continued)*

For the year ended 31 March US$'000	Private Clients	Corporate Clients	Investment Strategies	Interdivisional adjustment	Total
Group					
2016					
Interest income	20 179	66 837	6 991	(30 535)	63 472
Interest expense	(10 218)	(36 544)	(2 946)	30 535	(19 173)
Net interest income	**9 961**	**30 293**	**4 045**	**–**	**44 299**
Fee and commission income	1 667	6 101	2	–	7 770
Fee and commission expense	(133)	(1 544)	–	–	(1 677)
Net fee and commission income	**1 534**	**4 557**	**2**	**–**	**6 093**
Investment income	–	90	1 968	–	2 058
Net trading (loss)/income	(44)	76	(635)	–	(603)
Total operating income	**11 451**	**35 016**	**5 380**	**–**	**51 847**
Impairment (losses)/reversals on loans and advances	(83)	3 199	(2 113)	–	1 003
Net operating income	**11 368**	**38 215**	**3 267**	**–**	**52 850**
Operating costs	(2 655)	(8 155)	(712)	–	(11 522)
Operating profit	**9 523**	**29 250**	**2 555**	**–**	**41 328**
Cost to income ratio	**23.2%**	**23.3%**	**13.2%**	**–**	**22.2%**
Total assets	**460 087**	**2 579 906**	**410 492**	**(1 606 705)**	**1 843 780**
Total liabilities	**(448 526)**	**(2 555 594)**	**(86 482)**	**1 606 705**	**(1 483 897)**

40. Segmental business units *(continued)*

For the year ended 31 March US$'000	Private Clients	Corporate Clients	Investment Strategies	Interdivisional adjustment	Total
Bank					
2018					
Interest income	18 586	76 938	5 903	(31 856)	69 571
Interest expense	(8 238)	(48 133)	(1 968)	31 856	(26 483)
Net interest income	**10 348**	**28 805**	**3 935**	**–**	**43 088**
Fee and commission income	3 407	5 849	–	–	9 256
Fee and commission expense	(364)	(1 070)	–	–	(1 434)
Net fee and commission income	**3 043**	**4 779**	**–**	**–**	**7 822**
Investment income/(loss)	–	1 362	(3 040)	–	(1 678)
Net trading income/(loss)	109	1 085	(873)	–	321
Total operating income	**13 500**	**36 031**	**22**	**–**	**49 553**
Impairment (losses)/reversals on loans and advances	(1 699)	(1 803)	288	–	(3 214)
Net operating income	**11 801**	**34 228**	**310**	**–**	**46 339**
Operating costs	(3 354)	(9 730)	(88)	–	(13 172)
Profit before income tax	**8 447**	**24 498**	**222**	**–**	**33 167**
Cost to income ratio	**24.8%**	**27.0%**	**398.4%**	**–**	**26.6%**
Total assets	**431 959**	**2 576 959**	**506 794**	**(1 797 471)**	**1 718 241**
Total liabilities	**(418 943)**	**(2 549 313)**	**(127 293)**	**1 797 471**	**(1 298 078)**
2017					
Interest income	18 882	66 756	5 492	(28 600)	62 530
Interest expense	(8 405)	(39 010)	(2 194)	28 600	(21 009)
Net interest income	**10 477**	**27 746**	**3 298**	**–**	**41 521**
Fee and commission income	972	6 637	–	–	7 609
Fee and commission expense	(166)	(1 613)	(2)	–	(1 781)
Net fee and commission income/(loss)	**806**	**5 024**	**(2)**	**–**	**5 828**
Investment income/(loss)	–	18	(5 169)	–	(5 151)
Net trading (loss)/income	(35)	1 598	(515)	–	1 048
Total operating income/(loss)	**11 248**	**34 386**	**(2 388)**	**–**	**43 246**
Impairment (losses)/reversals on loans and advances	(39)	(3 572)	76	–	(3 535)
Net operating income/(loss)	**11 209**	**30 814**	**(2 312)**	**–**	**39 711**
Operating costs	(3 227)	(8 870)	(194)	–	(12 291)
Operating profit/(loss)	**7 982**	**21 944**	**(2 506)**	**–**	**27 420**
Cost to income ratio	**28.7%**	**25.8%**	**(8.1%)**	**–**	**28.4%**
Total assets	**386 966**	**2 947 798**	**426 406**	**(1 740 206)**	**2 020 964**
Total liabilities	**(374 625)**	**(2 928 110)**	**(69 985)**	**1 740 206**	**(1 632 514)**

40. Segmental business units *(continued)*

For the year ended 31 March US$'000	Private Clients	Corporate Clients	Investment Strategies	Interdivisional adjustment	Total
2016					
Interest income	20 179	66 840	6 991	(30 535)	63 475
Interest expense	(10 218)	(36 544)	(2 946)	30 535	(19 173)
Net interest income	**9 961**	**30 296**	**4 045**	**–**	**44 302**
Fee and commission income	1 667	6 101	2	–	7 770
Fee and commission expense	(133)	(1 544)	–	–	(1 677)
Net fee and commission income	**1 534**	**4 557**	**2**	**–**	**6 093**
Investment income	–	90	1 968	–	2 058
Net trading (loss)/income	(44)	76	(635)	–	(603)
Total operating income	**11 451**	**35 019**	**5 380**	**–**	**51 850**
Impairment reversals/(losses) on loans and advances	725	2 391	(2 113)	–	1 003
Net operating income	**12 176**	**37 410**	**3 267**	**–**	**52 853**
Operating costs	(2 554)	(7 847)	(685)	–	(11 086)
Profit before income tax	**9 622**	**29 563**	**2 582**	**–**	**41 767**
Cost to income ratio	**22.3%**	**22.4%**	**12.7%**	**–**	**21.4%**
Total assets	**460 087**	**2 580 345**	**410 492**	**(1 606 705)**	**1 844 219**
Total liabilities	**(448 526)**	**(2 555 594)**	**(86 482)**	**1 606 705**	**(1 483 897)**

41. Statutory segmental reporting

For the year to 31 March US$'000		Segment A 2018	Segment A 2017	Segment A 2016
Income statement				
Group				
Interest income	I	2 543	2 259	1 486
Interest expense	I	(554)	(479)	(382)
Net interest income		**1 989**	**1 780**	**1 104**
Fee and commission income	II	1 705	1 382	679
Fee and commission expense	II	–	–	–
Net fee and commission income		**1 705**	**1 382**	**679**
Investment income/(loss)	III	–	–	360
Net trading income/(loss)	IV	48	(3)	–
Total operating income before impairment losses on loans and advances		**3 742**	**3 159**	**2 143**
Impairment (loss)/reversal on loans and advances		(856)	(370)	(139)
Operating income		**2 886**	**2 789**	**2 004**
Operating costs	V	(1 341)	(1 296)	(857)
Operating profit		**1 545**	**1 493**	**1 147**
Share of profit/(loss) in associate		138	448	(784)
Profit before taxation		**1 683**	**1 941**	**363**
Taxation		(259)	(291)	(54)
Profit after taxation		**1 424**	**1 650**	**309**

	Segment B			Total		
	2018	2017	2016	2018	2017	2016
	66 995	60 250	61 986	69 538	62 509	63 472
	(25 915)	(20 530)	(18 791)	(26 469)	(21 009)	(19 173)
	41 080	**39 720**	**43 195**	**43 069**	**41 500**	**44 299**
	8 667	6 809	7 091	10 372	8 191	7 770
	(1 434)	(1 781)	(1 677)	(1 434)	(1 781)	(1 677)
	7 233	**5 028**	**5 414**	**8 938**	**6 410**	**6 093**
	(1 678)	(5 151)	1 698	(1 678)	(5 151)	2 058
	321	1 048	(603)	369	1 045	(603)
	46 956	**40 645**	**49 704**	**50 698**	**43 804**	**51 847**
	(2 358)	(3 165)	1 142	(3 214)	(3 535)	1 003
	44 598	**37 480**	**50 846**	**47 484**	**40 269**	**52 850**
	(12 677)	(11 601)	(10 665)	(14 018)	(12 897)	(11 522)
	31 921	**25 879**	**40 181**	**33 466**	**27 372**	**41 328**
	–	–	–	138	448	(784)
	31 921	**25 879**	**40 181**	**33 604**	**27 820**	**40 544**
	(1 645)	(1 592)	(2 511)	(1 904)	(1 883)	(2 565)
	30 276	**24 287**	**37 670**	**31 700**	**25 937**	**37 979**

41. Statutory segmental reporting *(continued)*

As at 31 March US$'000	Notes	Segment A 2018	2017	2016
Group				
Balance sheet				
Cash and balances with central bank		16 695	13 715	9 947
Due from banks		60 378	90 205	20 157
Reverse repurchase agreements	VI	–	–	–
Sovereign debt securities	VII	–	–	–
Bank debt securities	VIII	–	–	–
Other debt securities	IX	–	–	–
Derivative financial instruments		–	–	–
Investment portfolio	X	–	–	–
Loans and advances to customers	XII	54 374	54 536	32 953
Investment in associate		4 598	4 160	3 720
Deferred taxation asset		438	357	116
Other assets	XIII	1 486	2 291	379
Equipment		395	294	337
Amount due from group companies	XI	10	6	–
		138 374	**165 564**	**67 609**
Liabilities and equity				
Derivative financial instruments		–	–	–
Reverse repurchase agreement		–	–	–
Customer deposits	XIV	34 934	47 734	79 920
Debt securities in issue		–	–	–
Amount due to group companies	XI	6	–	–
Current taxation liabilities		1 020	950	334
Other liabilities	XVI	3 836	3 543	2 851
		39 796	**52 227**	**83 105**
Equity				
Ordinary share capital				
Other reserves				
Retained income				
Total equity				
Total liabilities and equity				

Segment B			Total		
2018	2017	2016	2018	2017	2016
–	–	–	16 695	13 715	9 947
398 741	722 171	662 003	459 119	812 376	682 160
75 186	–	–	75 186	–	–
–	22 214	–	–	22 214	–
137 604	108 399	112 357	137 604	108 399	112 357
30 172	100 202	95 699	30 172	100 202	95 699
17 437	21 804	25 289	17 437	21 804	25 289
12 993	14 473	17 045	12 993	14 473	17 045
898 263	859 459	858 145	952 637	913 995	891 098
–	–	–	4 598	4 160	3 720
–	–	–	438	357	116
5 717	2 230	2 097	7 203	4 521	2 476
–	–	–	395	294	337
3 356	3 692	3 536	3 366	3 698	3 536
1 579 469	**1 854 644**	**1 776 171**	**1 717 843**	**2 020 208**	**1 843 780**
3 508	4 542	6 610	3 508	4 542	6 610
101 924	101 645	108 260	101 924	101 645	108 260
858 463	1 154 447	997 987	893 397	1 202 181	1 077 907
258 563	249 879	253 547	258 563	249 879	253 547
32 024	11 887	9 684	32 030	11 887	9 684
–	–	–	1 020	950	334
3 589	57 566	24 704	7 425	61 109	27 555
1 258 071	**1 579 966**	**1 400 792**	**1 297 867**	**1 632 193**	**1 483 897**
			56 478	56 478	56 478
			65 152	66 277	59 987
			298 346	265 260	243 418
			419 976	**388 015**	**359 883**
			1 717 843	**2 020 208**	**1 843 780**

41. Statutory segmental reporting *(continued)*

For the year to 31 March US$'000	Notes	Segment A 2018	2017	2016
Bank				
Income statement				
Interest income	I	2 577	2 280	1 489
Interest expense	I	(568)	(479)	(382)
Net interest income		**2 009**	**1 801**	**1 107**
Fee and commission income	II	589	800	679
Fee and commission expense	II	–	–	–
Net fee and commission income		**589**	**800**	**679**
Investment income/(loss)	III	–	–	360
Net trading income/(loss)	IV	–	–	–
Total operating income before impairment losses on loans and advances		**2 598**	**2 601**	**2 146**
Impairment (loss)/reversal on loans and advances		(856)	(370)	(139)
Operating income		**1 742**	**2 231**	**2 007**
Operating costs	V	(495)	(690)	(421)
Operating profit		**1 247**	**1 541**	**1 586**
Share of result in associate		138	448	(784)
Profit before taxation		**1 385**	**1 989**	**802**
Taxation		(208)	(298)	(120)
Profit after taxation		**1 177**	**1 691**	**682**

Segment B			Total		
2018	2017	2016	2018	2017	2016
66 994	60 250	61 986	69 571	62 530	63 475
(25 915)	(20 530)	(18 791)	(26 483)	(21 009)	(19 173)
41 079	**39 720**	**43 195**	**43 088**	**41 521**	**44 302**
8 667	6 809	7 091	9 256	7 609	7 770
(1 434)	(1 781)	(1 677)	(1 434)	(1 781)	(1 677)
7 233	**5 028**	**5 414**	**7 822**	**5 828**	**6 093**
(1 678)	(5 151)	1 698	(1 678)	(5 151)	2 058
321	1 048	(603)	321	1 048	(603)
46 955	**40 645**	**49 704**	**49 553**	**43 246**	**51 850**
(2 358)	(3 165)	1 142	(3 214)	(3 535)	1 003
44 597	**37 480**	**50 846**	**46 339**	**39 711**	**52 853**
(12 677)	(11 601)	(10 665)	(13 172)	(12 291)	(11 086)
31 920	**25 879**	**40 181**	**33 167**	**27 420**	**41 767**
–	–	–	138	448	(784)
31 920	**25 879**	**40 181**	**33 305**	**27 868**	**40 983**
(1 645)	(1 637)	(2 445)	(1 853)	(1 935)	(2 565)
30 275	**24 242**	**37 736**	**31 452**	**25 933**	**38 418**

41. Statutory segmental reporting *(continued)*

As at 31 March US$'000	Notes	Segment A 2018	2017	2016
Bank				
Balance sheet				
Cash and balances with central bank		16 695	13 715	9 947
Loans and advances to banks		60 378	90 205	20 157
Reverse repurchase agreements	VI	–	–	–
Sovereign debt securities	VII	–	–	–
Bank debt securities	VIII	–	–	–
Other debt securities	IX	–	–	–
Derivative financial instruments		–	–	–
Investment portfolio	X	–	–	–
Loans and advances to customers	XII	54 374	54 536	32 953
Investment in associate		4 598	4 160	3 720
Deferred taxation asset		437	305	116
Other assets	XIII	1 420	2 290	379
Property and equipment		394	294	337
Amount due from group companies	XI	9	348	437
Investment in subsidiary		467	467	17
		138 772	**166 320**	**68 063**
Liabilities and equity				
Derivative financial instruments		–	–	–
Repurchase agreements		–	–	–
Customer deposits	XIV	35 254	47 734	79 920
Debt securities in issue		–	–	–
Amount due to group companies	XI	–	431	17
Current taxation liabilities		1 020	950	334
Other liabilities	XVI	3 733	3 433	2 851
		40 007	**52 548**	**83 122**
Equity				
Ordinary share capital				
Other reserves				
Retained income				
Total equity				
Total liabilities and equity				

Segment B			Total		
2018	2017	2016	2018	2017	2016
–	–	–	16 695	13 715	9 947
398 741	722 171	662 003	459 119	812 376	682 160
75 186	–	–	75 186	–	–
–	22 214	–	–	22 214	–
137 604	108 399	112 357	137 604	108 399	112 357
30 172	100 202	95 699	30 172	100 202	95 699
17 437	21 804	25 289	17 437	21 804	25 289
12 993	14 473	17 045	12 993	14 473	17 045
898 263	859 459	858 145	952 637	913 995	891 098
–	–	–	4 598	4 160	3 720
–	–	–	437	305	116
5 717	2 230	2 097	7 137	4 520	2 476
–	–	–	394	294	337
3 356	3 692	3 521	3 365	4 040	3 958
–	–	–	467	467	17
1 579 469	**1 854 644**	**1 776 156**	**1 718 241**	**2 020 964**	**1 844 219**
3 508	4 542	6 610	3 508	4 542	6 610
101 924	101 645	108 260	101 924	101 645	108 260
858 463	1 154 447	997 987	893 717	1 202 181	1 077 907
258 563	249 879	253 547	258 563	249 879	253 547
32 024	11 887	9 667	32 024	12 318	9 684
–	–	–	1 020	950	334
3 589	57 566	24 704	7 322	60 999	27 555
1 258 071	**1 579 966**	**1 400 775**	**1 298 078**	**1 632 514**	**1 483 897**
			56 478	56 478	56 478
			65 152	66 277	59 987
			298 533	265 695	243 857
			420 163	**388 450**	**360 322**
			1 718 241	**2 020 964**	**1 844 219**

41. Statutory segmental reporting *(continued)*

	Segment A		
For the year to 31 March US$'000	**2018**	**2017**	**2016**
I. Net interest income			
Group			
Cash, near cash and bank debt and sovereign debt securities	340	214	29
Core loans and advances	2 203	2 045	1 457
Other debt securities	–	–	–
Interest income on derivative financial instruments	–	–	–
Total interest income	**2 543**	**2 259**	**1 486**
Deposits by banks and other debt-related securities	–	–	–
Customer accounts	554	479	382
Amount due to group companies	–	–	–
Interest expense on derivative financial instruments	–	–	–
Total interest expense	**554**	**479**	**382**
Net interest income	**1 989**	**1 780**	**1 104**
Bank			
Cash, near cash and bank debt and sovereign debt securities	374	235	32
Core loans and advances	2 203	2 045	1 457
Other debt securities	–	–	–
Interest income on derivative financial instruments	–	–	–
Total interest income	**2 577**	**2 280**	**1 489**
Deposits by banks and other debt-related securities	–	–	–
Customer accounts	567	479	382
Amount due to group companies	1	–	–
Interest expense on derivative financial instruments	–	–	–
Total interest expense	**568**	**479**	**382**
Net interest income	**2 009**	**1 801**	**1 107**
II. Net fee and commission income			
Group			
Credit-related fees and commissions	254	504	456
Brokerage fees received	194	163	90
Client transactions and maintenance fees	141	133	133
Wealth management fees	1 116	582	–
Other fees received	–	–	–
Total fee and commission income	**1 705**	**1 382**	**679**
Credit related fees and commissions	–	–	–
Other fees paid	–	–	–
Total fee and commission expense	**–**	**–**	**–**
Net fee and commission income	**1 705**	**1 382**	**679**

Segment B			Total		
2018	**2017**	**2016**	**2018**	**2017**	**2016**
14 198	9 945	7 813	14 538	10 159	7 842
43 538	42 003	47 097	45 741	44 048	48 554
472	3 525	4 300	472	3 525	4 300
8 787	4 777	2 776	8 787	4 777	2 776
66 995	**60 250**	**61 986**	**69 538**	**62 509**	**63 472**
8 729	7 629	7 138	8 729	7 629	7 138
10 584	6 413	3 452	11 138	6 892	3 834
983	12	409	983	12	409
5 619	6 476	7 792	5 619	6 476	7 792
25 915	**20 530**	**18 791**	**26 469**	**21 009**	**19 173**
41 080	**39 720**	**43 195**	**43 069**	**41 500**	**44 299**
14 197	9 945	7 813	14 571	10 180	7 845
43 538	42 003	47 097	45 741	44 048	48 554
472	3 525	4 300	472	3 525	4 300
8 787	4 777	2 776	8 787	4 777	2 776
66 994	**60 250**	**61 986**	**69 571**	**62 530**	**63 475**
8 729	7 629	7 138	8 729	7 629	7 138
10 571	6 413	3 452	11 138	6 892	3 834
996	12	409	997	12	409
5 619	6 476	7 792	5 619	6 476	7 792
25 915	**20 530**	**18 791**	**26 483**	**21 009**	**19 173**
41 079	**39 720**	**43 195**	**43 088**	**41 521**	**44 302**
5 273	3 535	4 247	5 527	4 039	4 703
1 563	1 443	1 319	1 757	1 606	1 409
1 831	1 831	1 525	1 972	1 964	1 658
–	–	–	1 116	582	–
–	–	–	–	–	–
8 667	**6 809**	**7 091**	**10 372**	**8 191**	**7 770**
1 426	1 752	1 677	1 426	1 752	1 677
8	29	–	8	29	–
1 434	**1 781**	**1 677**	**1 434**	**1 781**	**1 677**
7 233	**5 028**	**5 414**	**8 938**	**6 410**	**6 093**

41. Statutory segmental reporting *(continued)*

For the year to 31 March US$'000	Segment A 2018	2017	2016
II. Net fee and commission income *(continued)*			
Bank			
Credit-related fees and commissions	254	504	456
Foreign exchange dealings	194	163	90
Client transactions and maintenance fees	141	133	133
Other fees received	–	–	–
Total fee and commission income	**589**	**800**	**679**
Brokerage fees paid	–	–	–
Credit related fees and commissions	–	–	–
Other fees paid	–	–	–
Total fee and commission expense	**–**	**–**	**–**
Net fee and commission income	**589**	**800**	**679**
III. Investment income/(loss)			
Group and Bank			
Investment portfolio (listed and unlisted equities)	–	–	–
– Realised	–	–	–
– Unrealised	–	–	–
Debt securities (sovereign, bank and other)			
– Realised	–	–	–
– Unrealised	–	–	–
Other asset categories			
– Realised	–	–	360
– Unrealised	–	–	–
Dividend income	–	–	–
	–	**–**	**360**
IV. Net trading loss			
Group			
Changes in fair value of derivative financial instruments	–	–	–
Net foreign exchange gain/(loss)	48	(3)	–
	48	**(3)**	**–**
Bank			
Changes in fair value of derivative financial instruments	–	–	–
Net foreign exchange	–	–	–
	–	**–**	**–**
V. Operating costs			
Group			
Staff costs	1 021	903	314
Premises expenses (excluding depreciation)	25	34	21
Equipment expenses (excluding depreciation)	123	167	109
Business expenses	155	166	400
Marketing expenses	14	20	10
Depreciation, amortisation and impairment on property, equipment and intangibles	3	6	3
	1 341	**1 296**	**857**

	Segment B			Total		
	2018	2017	2016	2018	2017	2016
	5 273	3 535	4 247	5 527	4 039	4 703
	1 563	1 443	1 319	1 757	1 606	1 409
	1 831	1 831	1 525	1 972	1 964	1 658
	–	–	–	–	–	–
	8 667	**6 809**	**7 091**	**9 256**	**7 609**	**7 770**
	1 426	1 752	1 677	1 426	1 752	1 677
	8	29	–	8	29	–
	1 434	**1 781**	**1 677**	**1 434**	**1 781**	**1 677**
	7 233	**5 028**	**5 414**	**7 822**	**5 828**	**6 093**
	–	–	(1)	–	–	(1)
	(3 039)	(5 177)	(1 664)	(3 039)	(5 177)	(1 664)
	1 364	26	3 270	1 364	26	3 270
	–	–	–	–	–	–
	(3)	–	2	(3)	–	362
	–	–	–	–	–	–
	–	–	91	–	–	91
	(1 678)	**(5 151)**	**1 698**	**(1 678)**	**(5 151)**	**2 058**
	559	1 601	(380)	559	1 601	(380)
	(238)	(553)	(223)	(190)	(556)	(223)
	321	**1 048**	**(603)**	**369**	**1 045**	**(603)**
	559	1 601	(380)	559	1 601	(380)
	(238)	(553)	(223)	(238)	(553)	(223)
	321	**1 048**	**(603)**	**321**	**1 048**	**(603)**
	6 084	5 910	5 262	7 105	6 813	5 576
	542	505	520	567	539	541
	3 125	2 746	2 756	3 248	2 913	2 865
	2 650	2 025	1 765	2 805	2 191	2 165
	170	314	244	184	334	254
	106	101	118	109	107	121
	12 677	**11 601**	**10 665**	**14 018**	**12 897**	**11 522**

41. Statutory segmental reporting *(continued)*

For the year to 31 March US$'000	Segment A 2018	2017	2016
V. Operating costs *(continued)*			
Bank			
Staff costs	238	352	208
Premises expenses (excluding depreciation)	21	30	21
Equipment expenses (excluding depreciation)	122	163	109
Business expenses	104	120	70
Marketing expenses	7	19	10
Depreciation, amortisation and impairment on property, equipment and intangibles	3	6	3
	495	**690**	**421**
VI. Reverse repurchase agreements			
Reverse repurchase agreements	**–**	**–**	**–**
VII. Sovereign debt securities			
Group and Bank			
Financial assets designated at fair value through profit or loss			
– Government related-debt securities	**–**	**–**	**–**
VIII. Bank debt securities			
Group and Bank			
Financial assets designated at fair value through profit or loss			
– Bonds	**–**	**–**	**–**
IX. Other debt securities			
Group and Bank			
Financial assets designated at fair value through profit or loss			
– Bonds	–	–	–
– Other investments	–	–	–
	–	**–**	**–**
X. Investment portfolio			
Group and Bank			
Financial assets designated at fair value through profit or loss			
– Quoted equities	–	–	–
– Unquoted equities	–	–	–
	–	**–**	**–**
XI. Amount due from/to group companies			
Remaining term to maturity			
(a) Amount due from group companies			
Group			
Within 3 months	10	6	–
	10	**6**	**–**
Bank			
Within 3 months	9	348	437
	9	**348**	**437**

Segment B			Total		
2018	2017	2016	2018	2017	2016
6 084	5 910	5 262	6 322	6 262	5 470
542	505	520	563	535	541
3 125	2 746	2 756	3 247	2 909	2 865
2 650	2 025	1 765	2 754	2 145	1 835
170	314	244	177	333	254
106	101	118	109	107	121
12 677	**11 601**	**10 665**	**13 172**	**12 291**	**11 086**
75 186	**–**	**–**	**75 186**	**–**	**–**
–	**22 214**	**–**	**–**	**22 214**	**–**
137 604	**108 399**	**112 357**	**137 604**	**108 399**	**112 357**
27 129	93 501	87 140	27 129	93 501	87 140
3 043	6 701	8 559	3 043	6 701	8 559
30 172	**100 202**	**95 699**	**30 172**	**100 202**	**95 699**
9	23	33	9	23	33
12 984	14 450	17 012	12 984	14 450	17 012
12 993	**14 473**	**17 045**	**12 993**	**14 473**	**17 045**
3 356	3 692	3 536	3 366	3 698	3 536
3 356	**3 692**	**3 536**	**3 366**	**3 698**	**3 536**
3 356	3 692	3 521	3 365	4 040	3 958
3 356	**3 692**	**3 521**	**3 365**	**4 040**	**3 958**

41. Statutory segmental reporting *(continued)*

For the year to 31 March US$'000	Segment A 2018	2017	2016
XI. Amount due from/to group companies			
Remaining term to maturity *(continued)*			
Group			
(b) Amount due to group companies			
Within 3 months	6	–	–
	6	**–**	**–**
Bank			
Within 3 months	–	431	17
Over 3 to 6 months	–	–	–
Over 6 to 12 months	–	–	–
Over 1 to 5 years	–	–	–
	–	**431**	**17**
XII. Loans and advances to customers			
Group and Bank			
(a) Remaining term to maturity			
Within 3 months	1 411	5 505	6 735
Over 3 to 6 months	1 071	4 418	130
Over 6 to 12 months	3 903	1 686	–
Over 1 to 5 years	33 193	40 025	23 514
Over 5 years	14 796	2 902	2 574
	54 374	**54 536**	**32 953**
(b) Allowance for credit impairment losses			
(i) Portfolio provision			
At 1 April	922	552	413
Provision for/(release of) credit losses for the year	14	370	139
Differences due to foreign currency translation	–	–	–
At 31 March	**936**	**922**	**552**
(iii) Specific provision			
At 1 April	–	–	–
(Release of)/provision for credit losses for the year	842	–	–
Transfer	–	–	–
Differences due to foreign currency translation	(8)	–	–
At 31 March	**834**	**–**	**–**
(iii) Total provision			
At 1 April	922	552	413
Written off against balance sheet	–	–	–
(Release of)/provision for credit losses for the year	856	370	139
Transfer	–	–	–
Differences due to foreign currency translation	(8)	–	–
At 31 March	**1 770**	**922**	**552**

Segment B			Total		
2018	2017	2016	2018	2017	2016
32 024	11 887	9 684	32 030	11 887	9 684
32 024	**11 887**	**9 684**	**32 030**	**11 887**	**9 684**
32 024	11 887	9 667	32 024	12 318	9 684
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
32 024	**11 887**	**9 667**	**32 024**	**12 318**	**9 684**
127 710	47 019	14 532	129 121	52 524	21 267
141 995	90 267	130 129	143 066	94 685	130 259
176 922	197 078	147 673	180 825	198 764	147 673
344 719	403 219	410 006	377 912	443 244	433 520
106 917	121 876	155 805	121 713	124 778	158 379
898 263	**859 459**	**858 145**	**952 637**	**913 995**	**891 098**
6 220	6 138	6 240	7 142	6 690	6 653
174	82	(102)	188	452	37
(156)	–	–	(156)	–	–
6 238	**6 220**	**6 138**	**7 174**	**7 142**	**6 690**
653	–	–	653	–	–
2 184	584	–	3 026	584	–
1 130	77	–	1 130	77	–
75	(8)	–	67	(8)	–
4 042	**653**	**–**	**4 876**	**653**	**–**
6 873	6 138	6 240	7 795	6 690	6 653
–	–	–	–	–	–
2 358	666	(102)	3 214	1 036	37
1 130	77	–	1 130	77	–
(81)	(8)	–	(89)	(8)	–
10 280	**6 873**	**6 138**	**12 050**	**7 795**	**6 690**

41. Statutory segmental reporting *(continued)*

For the year to 31 March US$'000	Gross amount of loans	Non-performing loans	Specific provision	Portfolio provision
XI. Loans and advances to customers *(continued)*				
Group and Bank				
(c) Allowance for credit losses by sector				
Agriculture	–	–	–	–
Manufacturing	17 880	–	–	133
Tourism	12 958	604	–	214
Transport	139 512	6 514	2 826	1 037
Construction	258 624	6 434	2 050	1 806
Information, Communication and Technology	20 270	–	–	151
Financial and business services	315 380	–	–	2 345
Traders	9 954	–	–	75
Personal	29 459		–	219
Professional	–	–	–	–
Global Business licence holders (GBL)	99 558	–	–	740
Media, entertainment and recreational activities	703	–	–	5
Infrastructure	38 694	–	–	288
Other entities	21 695	–	–	161
	964 687	**13 552**	**4 876**	**7 174**
Analyst by segments:				
Segment A				
Manufacturing	1 852	–	–	31
Tourism	12 750	604	–	213
Construction	8 142	2 283	834	136
Financial and business services	24 667	–	–	411
Personal	6 013	–	–	100
Other entities	2 721	–	–	45
	56 145	**2 887**	**834**	**936**
Segment B				
Agriculture	–	–	–	–
Manufacturing	16 028	–	–	102
Tourism	208	–	–	1
Transport	139 512	6 514	2 826	1 037
Construction	250 482	4 151	1 216	1 670
Information, Communication and Technology	20 270	–	–	151
Financial and business services	290 713	–	–	1 934
Traders	9 954	–	–	75
Personal	23 446	–	–	119
Global Business Licence holders (GBL)	99 558	–	–	740
Media, entertainment and recreational activities	703	–	–	5
Infrastructure	38 694	–	–	288
Other entities	18 974	–	–	116
	908 542	**10 665**	**4 042**	**6 238**
	964 687	**13 552**	**4 876**	**7 174**

Total provision		
2018	2017	2016
–	33	14
133	115	131
214	252	397
3 863	1 415	853
3 856	2 176	2 293
151	112	57
2 345	2 057	849
75	–	–
219	233	237
–	–	–
740	848	1 191
5	1	1
288	310	392
161	243	275
12 050	**7 795**	**6 690**
31	24	–
213	235	260
970	219	267
411	296	–
100	115	25
45	33	–
1 770	**922**	**552**
–	9	14
102	115	131
1	17	137
3 863	1 415	853
2 886	1 957	2 026
151	112	57
1 934	1 761	849
75	–	–
119	118	212
740	848	1 191
5	1	1
288	310	392
116	210	275
10 280	**6 873**	**6 138**
12 050	**7 795**	**6 690**

41. Statutory segmental reporting *(continued)*

For the year to 31 March US$'000	Segment A 2018	2017	2016
XIII. Other assets			
Group			
Settlement debtors	–	–	–
Prepayments and accruals	1 243	1 561	113
Other	243	730	266
	1 486	**2 291**	**379**
Bank			
Settlement debtors	–	–	–
Prepayments and accruals	1 183	1 561	113
Other	237	729	266
	1 420	**2 290**	**379**
XIV. Customer deposits			
Group			
Demand	20 874	37 978	29 935
Term deposits with remaining term to maturity			
Within 3 months	3 139	2 685	45 682
Over 3 to 6 months	997	2 004	956
Over 6 to 12 months	4 416	2 516	1 869
Over 1 to 5 years	5 507	2 551	1 478
	34 933	**47 734**	**79 920**
Bank			
Demand	20 874	37 978	29 935
Term deposits with remaining term to maturity			
Within 3 months	3 459	2 685	45 682
Over 3 to 6 months	997	2 004	956
Over 6 to 12 months	4 416	2 516	1 869
Over 1 to 5 years	5 507	2 551	1 478
	35 253	**47 734**	**79 920**
XV. Other liabilities			
Group			
Amounts payable and sundry creditors	**3 836**	**3 543**	**2 851**
Bank			
Amounts payable and sundry creditors	**3 733**	**3 433**	**2 851**
XVI. Contingent liabilities			
Group and Bank			
To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though the obligations may not be recognised on the balance sheet they do contain credit risk and are therefore part of the overall risk of the bank.			
Guarantees	2 139	680	10 138
Commitments			
– Irrevocable unutilised facilities	1 495	4 111	3 723
	3 634	**4 791**	**13 861**

Commitments to extend credit represent contractual commitments to make loans and revolving credits.

	Segment B			Total		
	2018	2017	2016	2018	2017	2016
	29	15	13	29	15	13
	216	172	92	1 459	1 733	205
	5 472	2 043	1 992	5 715	2 772	2 258
	5 717	**2 230**	**2 097**	**7 203**	**4 521**	**2 476**
	29	15	13	29	15	13
	216	172	92	1 399	1 733	205
	5 472	2 043	1 992	5 709	2 772	2 258
	5 717	**2 230**	**2 097**	**7 137**	**4 520**	**2 476**
	604 682	867 871	873 453	625 556	905 849	903 388
	146 525	197 137	65 238	149 664	199 822	110 920
	45 853	18 720	7 727	46 850	20 724	8 683
	61 404	67 391	30 324	65 820	69 905	32 193
	–	3 318	21 245	5 507	5 881	22 723
	858 464	**1 154 437**	**997 987**	**893 397**	**1 202 181**	**1 077 907**
	604 682	867 871	873 453	625 556	905 849	903 388
	146 525	197 137	65 238	149 984	199 822	110 920
	45 853	18 720	7 727	46 850	20 724	8 683
	61 404	67 391	30 324	65 820	69 905	32 193
	–	3 318	21 245	5 507	5 881	22 723
	858 464	**1 154 437**	**997 987**	**893 717**	**1 202 181**	**1 077 907**
	3 589	**57 566**	**24 704**	**7 425**	**61 109**	**27 555**
	3 589	**57 566**	**24 704**	**7 322**	**60 999**	**27 555**
	7 287	4 704	7 000	9 426	5 384	17 138
	176 630	152 875	104 334	178 125	156 986	108 057
	183 917	**157 579**	**111 334**	**187 551**	**162 370**	**125 195**

42. Reclassification

Interest income and expenses on derivative financial instruments has been reclassified from net trading income/(loss) to net interest income and expenses for better understanding by the user of the financial statements. These interests relate to swaps that are used for economic hedging. The reclassification has no impact on the prior years reported profit before tax or total equity reported.

The reclassifications made are as follows:

For the year ended 31 March US$'000	As previously reported	Adjustments	As reported
Group			
Income statement			
2017			
Interest income	57 732	4 777	62 509
Interest expense	(14 533)	(6 476)	(21 009)
Net interest income	**43 199**	**(1 699)**	**41 500**
Net trading income/(loss)	(654)	1 699	1 045
2016			
Interest income	60 696	2 776	63 472
Interest expense	(11 381)	(7 792)	(19 173)
Net interest income	**49 315**	**(5 016)**	**44 299**
Net trading income/(loss)	(5 619)	5 016	(603)
Bank			
2017			
Interest income	57 753	4 777	62 530
Interest expense	(14 533)	(6 476)	(21 009)
Net interest income	**43 220**	**(1 699)**	**41 521**
Net trading income/(loss)	(651)	1 699	1 048
2016			
Interest income	60 699	2 776	63 475
Interest expense	(11 381)	(7 792)	(19 173)
Net interest income	**49 318**	**(5 016)**	**44 302**
Net trading income/(loss)	(5 619)	5 016	(603)

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