Banque des Mascareignes

Je suis unique, ma banque me le prouve chaque jour

annual report 2013

GROUPE BPCE

Faites banque à part

Contents

Financial Highlights

	GROUP			BANK		
In MUR M	2013	2012	2011	2013	2012	2011
Statement of profit or loss						
Net interest income	419	478	494	412	474	499
Revenue	602	692	715	584	668	725
Operating expenses	504	457	405	461	402	361
Profit/ (Loss) for the year	85	(723)	88	111	(693)	142
Statement of financial position						
Total assets	18,583	21,297	20,957	18,322	21,116	20,945
Total loans (net of impairment)	13,694	16,368	15,920	13,608	16,338	15,913
Total deposits	11,768	14,598	11,835	11,503	14,416	11,793
Total equity	1,577	1,216	1,409	1,657	1,300	1,436
Performance ratios (%)						
Return on average equity	6.1	-55.1	6.2	7.5	-50.6	10.3
Return on average assets	0.4	-3.4	0.4	0.6	-3.3	0.7
Cost to income ratio	83.7	66.0	56.6	78.9	60.3	49.9
Asset quality (%)						
Specific Provision / NPL	61.8	71.3	30.7	61.7	71.2	30.6
NPL/Gross Loan	16.5	11.8	8.3	16.6	11.8	8.3

Financial Highlights (continued)

Performance Against Objectives

Indicator	Objectives for 2013	Performance in 2013	Objectives for 2014
Return on average equity (ROE)	ROE was expected to reach 12%.	ROE stood at 7.5% for the financial year 2013.	ROE is expected to be above 8%.
Return on average assets (ROA)	ROA was expected to be at 0.9% in 2013.	ROA has increased from -3.3% to 0.6% compared to last year.	ROA is expected to be at 1.1% in next year.
Other revenue	Other revenue was expected to increase by approximately MUR 150M.	Other revenue witnessed a fall of 16%. Net interest income decreased by 13% compared to last year, to reach the level of MUR 412M.	Other revenue is expected to increase by approximately MUR 130M.
Operating expenses	Operating expenses was expected to increase by 15.5%, to cater for the future business growth and improve the quality of its service customers.	Operating expenses grew by 15% in 2013. However, the Bank continues to pursue tight cost control policy in order to maintain operating expenses at a satisfactory level.	Operating expenses is expected to increase by around 5%.
Cost to income ratio	Cost to income ratio was expected to be at 56.8%.	The cost to income ratio stood at 78.9% for the financial year 2013.	Cost to income ratio is expected to be below the level of 70% in 2014.
Loans and advances growth	Loans and advances book was expected to increase by more than MUR 2.5 Bn.	Due to difficult economic conditions, the loans and advances witnessed a fall of 17% to reach MUR 13.6 Bn in 2013 compared to MUR 16.3 billion registered in 2012.	A growth is expected in the loans and advances book in financial year 2014.
Deposits growth and Borrowed funds	An increase of more than 17% was expected in deposits from customers. Borrowed funds were expected to be kept at below current levels.	Total deposits fell by 20% due to a fall in deposits base of the segment B business. A marginal decrease of 1.5% was recorded in borrowed funds compared to last year.	The deposits base is expected to witness a slight growth in the financial year 2014. Borrowed funds is expected to be kept at below current levels.
Asset quality	The objective was to bring NPL ratio below 10%.	NPL/Gross Loan witnessed an increase from 11.8% to reach 16.6% in 2013. Specific provision/ NPL stood at 61.7% as at end of 2013.	The objective is to bring NPL ratio at below the current level.

Executive Summary

Banque des Mascareignes Ltée ("the Bank") has recorded a Profit after Tax of MUR 111 millions for the year ended December 2013, as compared to a loss making position in 2012. This achievement is the result of the Business Re-engineering project kicked off in mid 2012 and which covered a review of the Bank's Capital Structure, Business Model, Organisation Chart and Risk Policies and Procedures.

During the 2nd half of 2012 and in 2013, Groupe BPCE, through its wholly owned subsidiary BPCE International et Outre Mer, the Bank's shareholder, injected MUR 250 million as Tier I Capital. With this capital injection, the Bank's Capital Structure was improved with a Capital Adequacy ratio increasing to 11.8% as at end of December 2013.

Part of Groupe BPCE, the 2nd banking group in France, the Bank aims at contributing positively to the environment in which it operates. In this respect, in line with its strategy, the Bank has increased its activities on the Domestic Market, with an increasing share of its exposure being to the Segment A business (56% in 2013 vs 46% in 2012).

One of the pillars of the Business Re-Engineering project was the review of the Bank's Risk policies and procedures. With the latter, the quality of assets of the Bank improved significantly with Net Impairment profit on financial assets of MUR 10 million as compared to a Net Impairment loss of MUR 1,012 million for the year ended December 2012.

As of date, the Bank is recognised for its differentiated services, namely dedicated relationship managers, extended business hours for our branches and innovative products. During 2013, the Bank pushed its differentiation factor to the next level with the enhancement of existing products and the launch of new products to meet the requirements of its customers, namely floating and / or fixed rate foreign currency denominated facilities, account packages (including "Sérénité"), customised financing packages (e.g. services to student going to study in France). In 2013, the Bank has kick-started the implementation of its new retail banking concept with a standard and updated branch design. The Bank is upgrading its Internet Banking service and plans to implement additional ATMs, in addition to the 3 new ATMs set up in 2013 / 2014.

As required by the Bank of Mauritius and in line with Groupe BPCE's standards, the Bank has set up a Quality Division, responsible to oversee the customer services. Two services within the Bank's Back Office Operations Division were awarded ISO Certification. The Bank aims at having all its Back Office Operations ISO certified within the next 2 years.

Executive Summary (continued)

The Bank's Business Re-engineering process included a review of the Bank's Organisational and Functional Structure. The successful implementation of the various action plans may be gauged with the decreasing staff turnaround. The headcount increased by 6.05%, with an appropriate mix of qualified personnel.

In its success, the Bank continues to maintain its contribution to its environment through its CSR actions. Indeed the Bank partners with two associations helping underprivileged and disabled children to enhance their school performance.

Overall, in 2013, the Bank has seen the results of its Re-engineering efforts. This was proved with the upgrading of its CAMEL rating to 3+ by the Bank of Mauritius.

In 2014, the Bank is expected to maintain this trend back to profitability. The Bank will continue its strategy to improve its level of service to its customers, while maintaining the required and appropriate level of control to protect depositors' fund and increase shareholders' value.

Hoang DANG
Chief Executive Officer

01 Management Discussion and Analysis

Review of the operating environment

Mauritian economy

The Mauritian economy faced many challenges in 2013 as it continued to suffer the vagaries of the Euro Crisis. Nonetheless, Mauritius remains one of the most stable political systems and transparent business environments in Africa. Foreign Direct Investment in Mauritius maintained its growth (16.1 %) in the first six months of 2013 to reach around MUR 4.7 Bn, that is, a rise of MUR 700M compared to the same period in 2012. The growth came principally from the real estate sector especially the IRS projects, which represented more than 50% of total FDI.

Mauritius aims at positioning itself as an ambitious country - one of the major events of 2013 was the inauguration of SSR International Airport's new passenger terminal that took place on August 30. It required an investment of USD 305M (Rs 9.4 Bn). This will help project Mauritius on the international scene especially for investors who wish to use Mauritius as a bridge to invest in African countries, and boost commercial exchanges and the tourism industry.

Macroeconomic indicators

	Unit	2010	2011	2012	2013
Real GDP growth	%	4.2	4.1	3.3	3.2
CPI inflation	%	2.9	6.5	4.6	3.7
Unemployment rate	%	7.8	7.9	8.0	8.3
Key repo rate	%	4.75	5.40	4.90	4.65

Source: CSO, BOM and African outlook

At the last Monetary Policy Committee of the Bank of Mauritius (BOM) held in September 2013, the key repo rate remained unchanged at 4.65%, explaining inflation risk as a reason not to cut rates to support a slowing economy.

Main Economic Indicators

INFLATION & UNEMPLOYMENT

With the economic slowdown and slower growth in commodity prices, worldwide inflationary pressures have receded. Hence, the Bank of Mauritius forecasts that year-on-year inflation would stay within a range of 4.5% to 4.9%, assuming there are no changes in monetary policy.

REVIEW OF THE OPERATING ENVIRONMENT (CONTINUED)
MAIN ECONOMIC INDICATORS (CONTINUED)
INFLATION & UNEMPLOYMENT (CONTINUED)

In 2013, the unemployment rate stood at 8.3%, compared to 8.1% in 2012. It should be noted that the Mauritian unemployment is not temporary but structural, such as skills mismatches and misalignment between wages and productivity. This can only be resolved in the long run by structural measures, such as training, wage policy and flexibility to hire and fire.

TOURISM

For the first semester 2013, tourists' arrivals estimated around 470,000, resulted in a 1% increase compared to the first half of 2012. A further analysis confirms tourists' arrivals are gradually shifting eastward. French tourism market being Mauritius' largest source engendered the biggest hit, with a drop of 6.1% in the first half of 2013. The biggest gains recorded were arrivals from Reunion Island and South Africa. Noted progression in visitors from the Asian/Chinese market has been able to fill in the European market gap to only some extent. Based on this data, the Central Statistical Office re-estimated the tourist arrival to be 980,000 to 990,000.

INTERNATIONAL CONTEXT

For the fifth consecutive year, the World Bank's 2013 Doing Business report ranks Mauritius first among African economies (19th worldwide, out of 183 economies) in terms of overall ease of doing business. The government's objective is for Mauritius to rank among the top 15 most investment- and business-friendly locations in the world. In July 2013, Mauritius has won the "Gold Star International Tourism" for the excellence of its destination.

The Africa Report published in September, classifies 13 Mauritian commercial banks in the best 200 Africa banking establishments. The local banks have developed operations abroad and are turning increasingly to the emerging markets of Africa.

Mauritius ranks 1st in Africa and has moved up by nine places to the 45th place out of 148 countries in the 2013-2014 Global Competitiveness Report, released by the World Economic Forum (WEF). The success of Mauritius is attributed by several factors such as the rating of private institutions as highly accountable. The country's infrastructure is well developed by regional standards, particularly its ports, air transport, and roads, prominent enhancement have occurred in the market efficiency areas and the deepening of the financial markets.

The 2013 Index of Economic Freedom, published annually by the Wall Street Journal and The Heritage Foundation, ranked Mauritius as the eighth in economic freedom in the world. The report says Mauritius is the most liberal economy among the 46 countries in sub-Saharan Africa and continues to be a world leader in economic openness where all the pillars of economic freedom are firmly rooted.

Board of Directors

Philippe GARSUAULT (Chairman) appointed on the 21st of February 2012

Chief Executive Officer of BPCE International et Outre-mer (BPCE IOM); Chairman and Member of the Board of directors of: Banque des Mascareignes Ltée, Banque de Nouvelle Calédonie, Banque des Antilles Françaises, Banque de Saint Pierre et Miquelon, Banque de la Réunion, Banque Tuniso Koweitienne, Banque de Tahiti, Pramex International Corp, Pramex International S.r.l and BPCE Maroc; Vice-Chairman and Member of the Board of directors of Banque Malgache de L'Océan Indien; Vice-Chairman and Permanent representative of BPCE IOM in the Board of directors of Fransabank (France); Member of the Board of directors of Banca Carige, Natixis Algerie, Banque Internationale du Cameroun pour l'Epargne et le Crédit and Banque Commerciale Internationale; Member of the Supervisory Board of Banque BCP SA and Volksbank Romania SA; Management Director of Natixis Pramexrus SARL.

Alain MERLOT (non executive) appointed on the 30th of March 2012

Deputy Chief Executive Officer of BPCE IOM; Member of the Board of Directors of: Banque des Mascareignes Ltée, Banque de la Reunion, Banque Malgache de l'Océan Indien, Ingepar and Océorane; Permanent representative of BPCE IOM in the Board of Directors of: Banque Nationale de Développement Agricole, Technology Shared Services Africa, Technology Shared Services Pacifique, Technology Shared Services Méditerranée and Technology Shared Services Outre-mer.

Yvan DE LA PORTE DU THEIL (independent non executive) appointed on the 18th of March 2010

Member of the Board of Directors of: Banque des Mascareignes Ltée, BPCE IOM, Coface Banque Tuniso-Koweitienne (BTK) and Fransabank (France); Chairman of the Supervisory Board of MA Banque.

Board of Directors (continued)

Bernard FREMONT (non executive) appointed on the 23rd of July 2012

Chief Executive Officer of Banque de la Réunion; Member of the Board of Directors of: Banque des Mascareignes Ltée and Banque Malgache de l'Océan Indien; Permanent representative of Banque de la Réunion in the Board of Directors of: Technology Shared Services Outre-mer and Société Anonyme D'Habitations à loyer modéré de la Réunion.

Huy Hoang DANG (executive) appointed on the 21st of February 2012

Chief Executive Officer of Banque des Mascareignes Ltée and Member of the Board of directors of Banque des Mascareignes Ltée; Chairman and Member of the Board of directors of BM Madagascar; Member of the Board of directors of Banque de la Reunion.

Matthieu DABOUT (executive) appointed on the 23rd of March 2012

Deputy Chief Executive Officer and member of the Board of Directors of Banque des Mascareignes Ltée. Member of the Board of directors of BM Madagascar.

Jean Michel LATY (non executive) resigned on the 26th of February 2013

Christine FABRESSE (non executive) resigned on the 8th of July 2013

Profile of the Management Team

Huy Hoang Dang
Chief Executive Officer
Before joining Banque des Mascareignes, Hoang has held leadership positions at various subsidiaries of Groupe BPCE in France, Paris and China. He also worked at JPMorgan in London, Great Britain and was a consultant with The Boston Consulting Group in Paris, France. Hoang holds an M.Eng. from the Ecole Polytechnique, an M.Sc. from the Ecole Nationale de la Statistique et de l'Administration Economique and an MBA from the Columbia Business School.

Matthieu Dabout
Deputy Chief Executive Officer
Matthieu has been working for 14 years in the retail banking sector. He has worked as an internal auditor and project manager for Groupe CIC in France. He joined Groupe BPCE in 2005 as deputy head manager of internal audit for overseas and international subsidiaries. He was posted as head of internal audit for CIH in Morocco in 2010 before joining Banque des Mascareignes in 2012 as Deputy Chief Executive Officer and Executive Director. Matthieu holds a diploma of EDHEC Business School.

Christophe Descos
Executive Vice President - Finance and Operations
Christophe held several positions in Groupe BPCE in France and in Central and Eastern Europe. After a first experience in investment banking with Société Générale, Christophe worked for the BFBP Group Audit Department for 6 years. Then Christophe joined AEW Europe – a Natixis subsidiary as a CFO for CEE Funds and Deputy Fund Manager. In 2010-2012, he worked for Volksbank International in Vienna as a Member of the Managing Board and Head of Retail and Corporate Business in CEE. Christophe holds an M.Sc in Economics from Sciences Po Strasbourg, an M.Sc. in Organization from La Sorbonne-IAE Paris and a post-graduate master in Corporate Finance from EM Lyon Business School.

Sunil Ramgobin
Executive Vice President - Corporate and International Banking
Sunil holder of a Maîtrise en Droit Des Affaires-Ecole Supérieure des Affaires of Lille/France, has 18 years of experience in the banking sector, having worked for BNP Paribas, Barclays Bank PLC, Standard Bank of South Africa, Al Rajhi Bank in Saudi Arabia and State Bank of Mauritius.

Profile of the Management Team (continued)

Khaled Souchi
Head of Risks
Khaled joined BPCE in 2006 in the group internal audit department where he stayed for six years before joining Banque des Mascareignes as Head of Risks. Khaled holds a "Maîtrise en Sciences de Gestion" from the University Paris Dauphine and a M.Sc. in financial management from Euromed Management.

Sachidanand Ramnarayen
Head of Audit
Sachidanand started his career in an external audit firm where he stayed for eight years before joining a local bank as credit analyst, later in the control and monitoring team and finally in the audit team. After some eight years in the banking sector, Sachidanand joined Banque des Mascareignes in July 2008 as Head of Audit.

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

Bertrand Lalanne
Head of Information System and Organisation
Bertrand has over 30 years of experience in the information systems and organisation fields with a specialisation in the finance sector for more than 24 years as project manager, head of Information systems and head of organisation. Bertrand joined Groupe BPCE in 2007 and holds a Docteur/Ingénieur en informatique from the university of Valenciennes.

Patrice Modeley
Head of Operations
Patrice holds a degree in International finance delivered by Chambre de Commerce International of Paris and is specialized in trade finance. Patrice has 20 years of experience in the Banking sector of which he has spent 8 years as Head of Operations in BNPI, Afrasia Bank and Banque des Mascareignes.

Profile of the Management Team (continued)

Varuna Ramlagun

Head of Human Resources

Varuna holds a Masters in Management from the University of Surrey. She started her career in the HR field at Air Mauritius Ltd where she stayed for 8 years. She then moved to Accenture and Mauritius Union Assurance Ltd subsequently. Varuna has lead the merger between Mauritius Union Assurance Co. ltd. and La Prudence Mauricienne Ltée on the Human Resources aspect.

Chaya Devi Dawonauth

Responsable des Affaires Speciales, Corporate & International Banking

Chaya Devi Dawonauth, holder of a Master in Financial Economics from the University of London, has 15 years of experience in the banking sector, having worked for the Bank of Mauritius, Standard Bank (Mauritius) Ltd and State Bank of Mauritius.

Hocine Benkhaled

Head of Retail Banking

Hocine holds a « Maîtrise en Economie Internationale » from the university of Pantheon-Sorbonne, Paris. He joined the Groupe BPCE in 1990. He held several positions in the retail banking sector. He joined the international banking sector of the Group in 2008. He was responsible for various retail projects in Algeria, Tunisia and Mauritius. He finally joined Banque des Mascareignes in November 2010.

Avinash Jahajeeah

Head of International and Global Business Banking

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

Profile of the Management Team (continued)

Ingrid Letimier

Head of Business Development

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

Fareed Soobadar

Head of Corporate Banking

Fareed Soobadar holds a FCCA (Fellow of the Associate of the Chartered Association of Accountants) and is a member of the ACIB .He held various positions at Barclays Bank .He also worked for AAML Offshore Management Company, HP Financing Company, and HSBC.

Laura Wong Sik Tsang

Head of Compliance

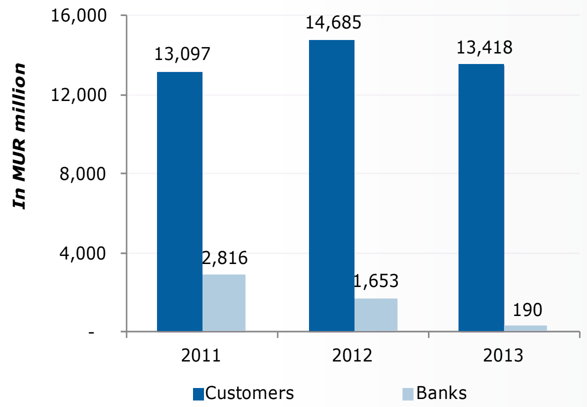
Laura Wong holds a "Maîtrise en Sciences Economiques" from the university of Pantheon-Sorbonne, Paris. She has 7 years of experience in the banking sector, having worked for "Banque Nationale de Paris Intercontinentale". Laura joined Banque des Mascareignes in 2011 as "Responsable de Service Production Crédits" and was recently appointed as "Directeur Adjont Conformité et Contrôles Permanents."

Financial Review
Assets and Liabilities

Loans and advances

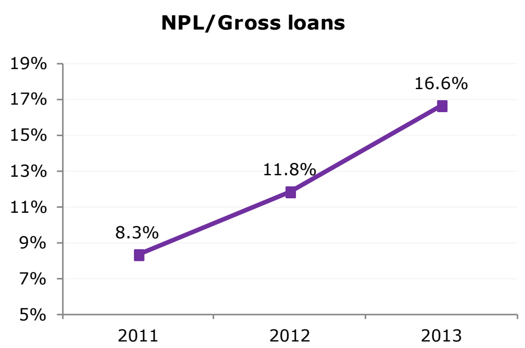
Due to the difficult economic and market conditions prevailing, the loans and advances book decreased from MUR 16.3 Bn to MUR 13.6 Bn, a decline of 17% compared to last year.

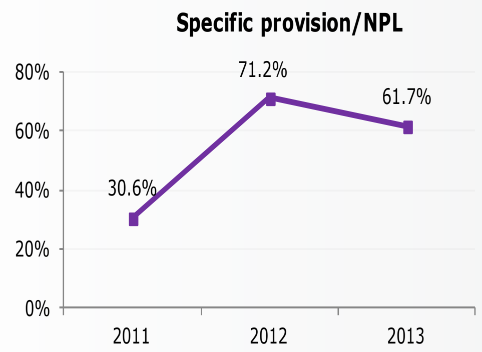
Loans and advances to banks amounted to MUR 190M, which represents a fall of 88.5% compared to last year at the same period. On the other hand, the loans and advances to customers witnessed a slight fall of 8.6% compared to last year, reaching the level of MUR 13.4 Bn.



Provisioning and asset quality

The Bank's non-performing loans amounted to MUR 2.3 Bn as at 31 December 2013, an increase of 16.9% compared to last year. The ratio of non-performing assets to gross loans grew from 11.8% in 2012 to 16.6% in 2013. The increase in the ratio of non-performing loans can be explained by the fall in the overall loans and advances book of the bank and an increase in the total non-performing loans. The rate of provisioning on these non-performing loans has decreased from 71.2% to 61.7% compared to last year and can be explained by good quality collaterals in the additional amount of non-performing loans.





Financial Review (continued)
Assets and Liabilities (continued)

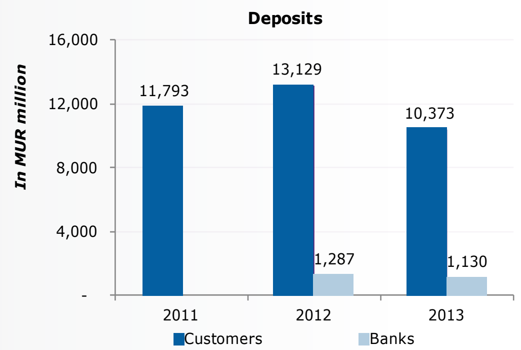
Investment securities

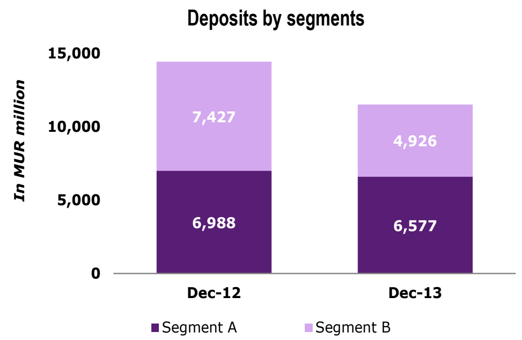
The Bank's investment portfolio stood at MUR 1.8 Bn as at 31 December 2013, representing a year on year growth of 13% over last year, and represented 27% of total deposits in MUR. The Bank adopted a policy whereby any excess of funds in MUR is invested in Government and Bank of Mauritius treasury bills and bonds. As at 31 December 2013, treasury bills represented 10.4% of the total MUR deposits base.

Deposits and borrowings

Deposits

The Bank's deposits base amounted to MUR 11.5 Bn as at 31 December 2013, representing a fall of 20% compared to last year.





The deposits book composed of MUR 1.1 Bn of deposits from banks and MUR 10.4 Bn of deposits from customers. The underperformance of the deposits book is mainly attributable to a drop of 41.7% in the deposits book of the segment B business.

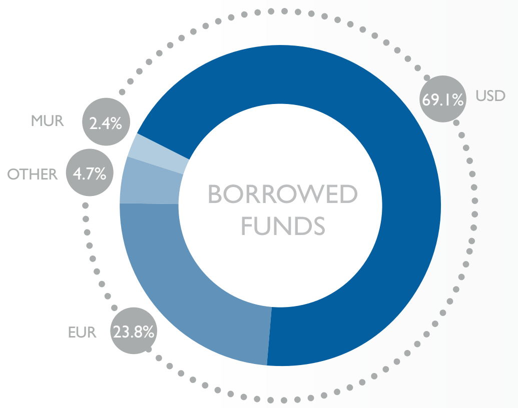
Financial Review (continued)
Assets and Liabilities (continued)

Borrowed funds

Borrowed funds which consists of interbank and intra group borrowings mainly in foreign currencies, recorded a marginal fall of 1.5% to reach MUR 4.1 Bn in 2013 compared to MUR 4.2 Bn registered in 2012.

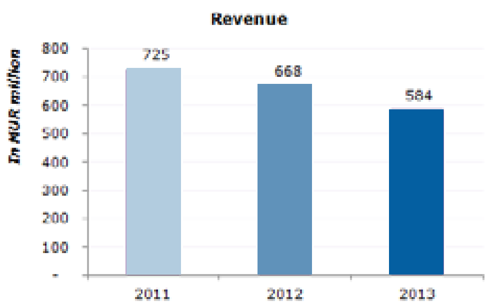
The Bank is aiming towards funding growth in a sustainable and responsible manner, thus decreasing its reliance on interbank borrowing to finance its foreign currency loans and to be within the borrowing limit with the group. As such the Bank is deploying adequate resources to develop foreign currency deposits base to fund its foreign currency loans and advances.

The following chart illustrates the Bank's composition of its borrowed funds as at 31 December 2013.



Revenue

Revenue stood at MUR 584M, depicting a fall of 12% over the last financial year. Net interest income represents 70% of revenue.



In Mur'000	31-Dec-13	31-Dec-12	31-Dec-11
Net Interest Income	411 848	474 021	499 152
Net Fee Income	97 965	105 710	125 173
Net Trading Income	61 804	77 074	88 334
Other Operating Income	12 817	10 733	12 030
REVENUE	**584 434**	**667 538**	**724 689**

Net interest income

Net interest income witnessed a fall of 13% to reach MUR 412M for the financial year 2013.
The decrease is mainly explained by a fall in the loans and advances book.

Financial Review (continued)

Non-interest income

Net fee and commission income for the year ended 31 December 2013 stood at MUR 98M representing a decrease of 7% compared to 31 December 2012. This decrease can be explained by a lack of trade finance activities during the year and fees from transactional banking from the retail and global business segment.

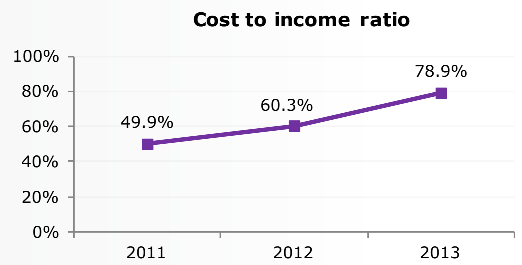
It is worthwhile noting that the foreign exchange turnover witnessed an increase of 27% compared to last year. Despite of tight market conditions and a decreasing yield environment, the Bank managed to record a net trading income of MUR 62M as at 31 December 2013 which represents a decrease of 20% compared to last year.

Total operating expenses

To accompany its continued development process, the Bank focused on the strengthening of its workforce through the recruitment of professionals and the retention of high quality staff. Personnel expenses stood at MUR 244M for the year ended 31 December 2013 which represents an increase of 19% compared to last year. Operating expenses excluding personnel expenses witnessed an increase of 10% compared to last year for the same period.

Cost to income ratio

Cost to income ratio increased from 60.3% to 78.9% compared to last year. The growth in the cost to income ratio can be explained by an increase in the Bank's total operating expenses and a fall recorded in the total operating income for the year ended 31 December 2013.



Net impairment gain on financial assets

A review of the credit portfolio was carried out during the year and consequently, impairment profit amounted to MUR 10M as at 31 December 2013 as compared to an Impairment Loss of MUR 1.0 Bn as at 31 December 2012. The significant decrease is mainly due to a stable level of provisioning, which is explained by good quality collaterals.

Financial Review (continued)

Segmental Distribution

Profit and loss estimates by business segments

In MUR M	Retail	Corporate	Global Business	Bank
31 December 2013				
Revenue	138	193	253	584
Profit/(loss) before tax	(130)	118	144	134
Cost to income ratio	190%	52%	38%	79%
31 December 2012 (restated)				
Revenue	171	281	215	667
Profit/(loss) before tax	(126)	(260)	(361)	(747)
Cost to income ratio	136%	31%	38%	60%

Note: The segmental calculation of profit does not include the results of our subsidiary bank – BM Madagascar.

Retail

Retail banking includes branches, SMEs and private banking. The Bank has a geographically well spread network of 12 branches and one foreign exchange office at the Sir Seewoosagur Ramgoolam Airport. The Bank offers its services to SMEs and Private Banking customers as well.

Loss for the current year stood at MUR 130M whereas in 2012 it stood at MUR 126M. Cost to income ratio stood at 190% and 136% for the year ending December 2013 and 2012 respectively. A fall of 19% has been noted in the total revenue compared to last year.

Corporate

The Bank is very active in meeting the corporate clients' financial requirements in both domestic currency and foreign currency, and is determined to provide value-added services to its customers.

The Corporate segment posted a profit before tax of MUR 118M for the year ended 31 December 2013, whilst a loss of MUR 260M was recorded for the year ended 31 December 2012. Cost to income ratio moved from 31% to 52 % compared to last year.

Global business

The global business segment is committed to provide prompt and high quality service to its customers.

Profit before tax stood at MUR 144M for the year ended 31 December 2013 against a loss before tax stood at MUR 361M as at 31 December 2012. The cost to income ratio remains at 38% for the year 2012 and 2013.

Risk Management Report

Introduction

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

The Risk Management structure of the Bank has been established to define and fine-tune as finely as possible the risk taking appetite of the Bank, while complying with all the regulatory obligations. The approach adopted is in line with Basel II principles and the guidelines of the Bank of Mauritius. Besides, the Risk Management Department has developed a comprehensive system of rating, surveillance and action taking approach in order to be able to cope with any uncertainties which could affect our current and future exposures.

In addition to its Mauritian regulatory obligations, the Bank is also monitored by its French parent company, BPCE IOM, which itself reports to the French regulatory authorities. Under the supervision of its parent company, BPCE IOM, the Bank reviews and optimizes on a quarterly basis its Risk Management policies, through its Risk Management Committee.

The Risk Management Department of the Bank is centralized and independent from BM other business divisions. It has thus developed methodologies to identify, measure, monitor and mitigate the risks faced by the Bank and also reports to the relevant internal body, the Risk Management Committee and ultimately to the Board.

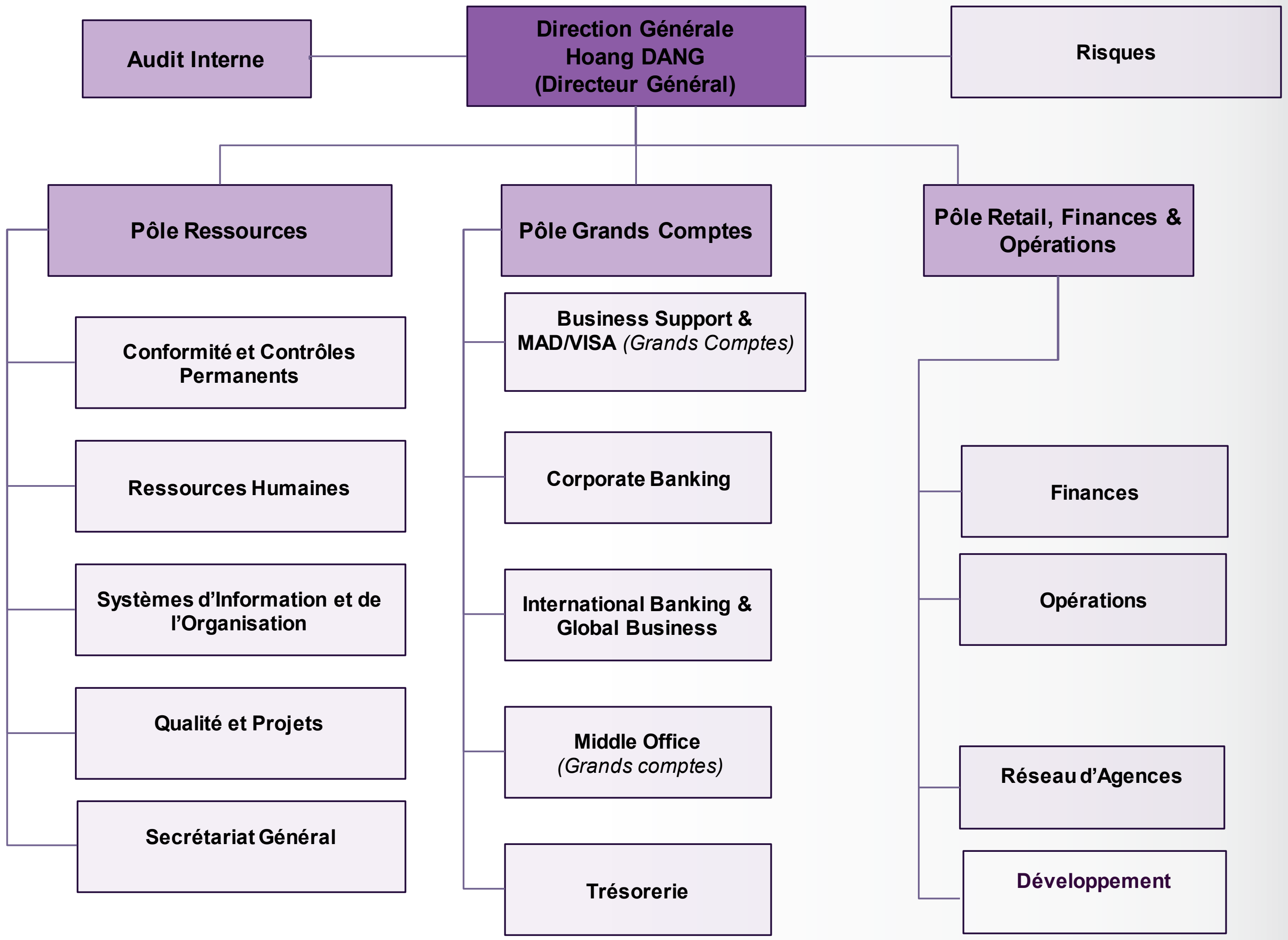
The Risk Management Department has the responsibility to track and report the key risk indicators as well as deviations from internal policies, prudential limits, and regulatory limits, as per the guidelines issued by the Bank of Mauritius. The current difficult economic situation, both globally and, to some extent, in our country, requires from us an ever sharpened approach, in order to deliver its crucial contribution to a sound credit chain.

Regarding its subsidiary in Madagascar, the Risk Management Department has kept a reasonably conservative approach. Even under adverse macroeconomic and market conditions, we have committed ourselves in keeping a satisfactory level of asset quality through identifying, measuring, monitoring and mitigating the risks faced by the subsidiary and reporting to the relevant internal body, the Risk Management Committee and ultimately to the Board in a structured manner.

Risk Management Report (continued)
Risk Management Framework

Responsibility for risk management resides at all levels within the Bank though the Board of Directors and is ultimately responsible for the reliability and integrity of the risk management process. The Board oversees the risk management activities of the Bank directly and via sub committees which have been delegated responsibility for closer scrutiny of risk management. The composition and functions of these committees are described in the Corporate Governance Statement.

The two departments which have been entrusted with the responsibilities of day to day scrutiny of risk management are the Risk Department and the Compliance Department. The Risk Management is more focused on the identification, measurement, monitoring and controlling of the Bank's principal business risks such as the credit risk, market risk, country risk, information system security risk and operational risks. The Compliance Department, on the other hand, oversees the Anti-Money Laundering process, the strict application of internal controls across all departments and the adherence of the Bank to the various regulations.



Risk Management Report (continued)
Risk Management Structure

The Risk Management Committee monitors the risk appetite of the bank and utilisation of capital and current capital adequacy as set by the Board, reviews the integrity of the risk control systems and reports the key risks of the bank to the Board. The Bank, through its Risk Department, has implemented a Risk Policy which reflects the whole framework of Risk Management for the four major segments: the retail market, the professional market, the corporate (domestic) market and the international (international financing, global business) market in a single document.

The Risk Policy of the Bank aims to comply with the « Manuel des Risques » from its parent company, BPCE IOM and the Bank of Mauritius guidelines. The Risk Policy includes:

- The rules in terms of the credit approval process which prescribes the award of credit facilities to clients based on specific criteria and also after a thorough analysis of the counterparty's financial and personal conditions.
- The delegation framework which details the amount and criteria under which the front office is allowed to approve credit facilities.
- The limit of exposures by sector, by country, by rating, by counterparty and by foreign currency exposure.
- The main guidelines about credit impairment monitoring, management and recovery.
- The main functions and the rules of the risk management sub committees (Risk Management Committee, Credit Committee, Committees for Non Performing Loans and Provisioning of Bad & Doubtful Debts, Watch list Committee, Excesses and Arrears Committee).
- The Operational Risk Policy.
- The Liquidity Policy.
- The main function of Risk Department in terms of controls and monitoring.

It is to be noted that the Legal Units and Credit Recovery Units operate separately and independently from Risk Management Department in order to maintain segregation of duties.

Risk Management Report (continued)
(a) CREDIT RISK

Credit risk can be defined as the risk of financial loss arising from the failure of a borrower or counterparty to meet a financial or contractual obligation to the Bank in due time. It arises from lending activities trade finance activities, and also from off- balance sheet exposures

Credit Risk Management

The management of the Bank's credit risk exposure is based on a portfolio management approach, in line with BOM Guideline and its Credit Risk Policy, with a view to diversify its exposure across various sectors, borrower groups and across different countries and products. The Credit Risk Policy sets out the diverse standards by which assets throughout the Bank are prudently managed. It is reviewed at least once a year by the Board Risk Management Committee with required changes recommended to the Board for approval.

Credit Risk Management

A risk report is submitted to the Risk Management Committee on a quarterly basis and to the BPCE-IOM Risk Department to assess the credit risk profile of the Bank. The mandate of the Credit Risk Unit is to handle as smoothly as possible the customers' requests while maintaining the weighted risks at an acceptable level, particularly in relation to the unsecured retail credit portfolio.

Regarding its credit risk measurement approach, the Bank has adopted the Standardised Approach in order to measure and manage its Capital Adequacy Ratio. The Bank measure the credit risk capital requirements by applying the appropriate risk weights exposures in line with the Bank of Mauritius guideline on Credit Risk as required by the Basel II frameworks. The ultimate objective is to determine the capital allocation that yields the optimum return, achieved by driving risk capital away from low-return to high-return business areas.

Risk Management Report (continued)
Credit Risk Management Structure

The current units under the credit risk function are:

Credit Analysis

The Bank has implemented a credit analysis process which separates the credit risk assessment department from the front office. There are various tools used to optimise this process, in terms of risk assessment and efficiency, which are:

- « Note de Synthèse »: this document forms the basis of the proposal which is assessed by the credit analysis unit. The « Note de Synthèse » takes into consideration the quantitative and qualitative aspects of the counterparty and highlights the risk factors associated.

- « Internal risk rating tools »: the bank has different internal risk rating tools to assess the credit risk on domestic and international corporate banking clients, SME clients and retail banking clients. The risk management is characterised by a well calibrated risk rating scale, which ranges from 0 to 8, where the rating 0 to 7 risk rates are tagged as acceptable risk whilst the rating 8 is considered as high risk. A rating of X is attributed to non-performing loans.

- « ROE »: this tool enables the bank to calculate the profitability for each new credit application depending on net income, risks and management costs.

Credit Approval Process

Credit approval authority is delegated within a structure that is tiered according to the counterparty rating, exposure and credit risk type. The credit committee has comprehensive mandates and delegated authorities set out in our credit policy. In order to maintain the independence and integrity of credit decision making, the credit approval process is segregated from loan origination. The credit approval authority is formulated by the Credit Committee, a body chaired by the Chief Executive Officer or his fully entitled representative, with power to decide on the proposed exposures channelled and advised by the « service engagement » for a maximum consolidated amount of EUR 500, 000. As for exposures exceeding this amount, this decision is to be taken by the relevant bodies of our parent company.

Risk Management Report (continued)

Credit Risk Control and Monitoring

In order to strengthen and monitor the credit process, the Credit Risk Control and Monitoring Unit has been established and its roles amongst others is as follows:

- Monitoring credit risk (impairment, unauthorised overdraft, financial difficulties, watchlist monitoring)
- Controlling compliance with risk policy and the main guidelines (credit approval process, guidelines on impairment and recovery)
- Monitoring compliance with limits approved
- Controlling compliance with the decisions of the various committees
- Controlling compliance with the disbursement of funds

Moreover in the post-review process, periodic reviews are scheduled for the continuous assessment of counterparties and this is complemented by the actions of the Watch List Committee whose duties consist of monitoring the largest exposures on each business segment (retail, corporate, international) and following up the low rated counterparties or counterparties which face financial or market difficulties.

Impairment and Provisioning Policies

Impairment provisions are recognised for financial reporting purposes under International Accounting Standards (IAS 39 – Financial Instruments, Recognitions and Measurement) and Bank of Mauritius guidelines based on objective evidence of impairment. Objective evidence based on the following criteria, amongst others:

- Default in payment for more than 90 days;
- Considerable financial difficulty of borrower;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants and conditions;
- Initiation of bankruptcy proceedings or high probability of bankruptcy or other insolvency proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Diversion of funds; and
- Loss of confidence in the borrower's integrity.

Risk Management Report (continued)
Impairment and Provisioning Policies (continued)

All impaired credits are managed by the Legal and Credit Recovery Departments of the Bank. The Bank's approach to provisioning is based on the Bank of Mauritius guideline on « Credit Impairment Measurement and Income Recognition ».

Two sub committees, namely the Committee for Provisioning on Bad & Doubtful Debts and the Non-Performing Loans Committee have been set up in accordance with good practice. The duties of the Committee for provisioning on Bad & Doubtful Debts are:

- To determine and review the recovery strategy of impaired credits that is managed by the legal department
- To decide the amount of specific provisions to be provided for each impaired credit

The Non-Performing Loans Committee meets at the end of each month and gathers recovery, risk and sales units in order to assess impaired exposures and to decide whether to account them as non performing loans and/or place them under recovery management.

Credit Risk Concentration

The Bank seeks to diversify its credit risk while managing exposures to countries and sectors within set limits approved by the Board so as to achieve a well balanced portfolio. Deteriorations in ratings and the risk profile provide early warning signals for weak assets, which are actively monitored and managed.

Exposures showing signs of deterioration are categorised and placed on a watchlist for closer monitoring. Large credit concentrations, notably concentrations over 15% of the Bank's capital base, as governed by the Bank of Mauritius Guideline on Credit Concentration Risk, are reported at least quarterly to the Portfolio and Credit Risk Forum

i. quarterly to the Board Audit Committee and to the Risk Management Committee
ii. quarterly to the Bank of Mauritius

Bank of Mauritius guidelines also require banks to report concentration limits on
a. a stand-alone basis and
b. as a Banking Group

Risk Management Report (continued)
Credit Risk Concentration (continued)

The Bank of Mauritius regulatory limits are as set out below.

Credit Exposures Denominated In Mauritian Rupee:

a. Credit exposure to a single customer shall not exceed 25% of the Bank's/Group's capital base
b. Credit exposure to any group of closely related customers shall not exceed 40% of the Bank's/Group's capital base
c. Aggregate of all exposures to a single customer or a group of closely-related customers which are over 15% of the Bank's/Group's capital base shall not exceed 800% of the Bank's/Group's capital base.

Credit Exposures denominated in Foreign Currency

a. Credit exposure to a single customer must not exceed 50% of the bank's capital base.
b. Credit exposure to any group of closely related customers shall not exceed 75% of the Bank's capital base.
c. Aggregate large credit exposures to all customers or groups of closely-related customers must not exceed 1200% of the bank's capital base, exclusive of the limit sets for credit exposures denominated in Mauritian Rupee.

As at 31 December 2013, no regulatory limit was exceeded in respect of credit risk concentration in Mauritian Rupee as well as in currencies others than the Mauritian Rupee.

(B) COUNTRY RISK

In line with international norms, Banque des Mascareignes defines country risk as:
Country risk refers to the risk of investing in a country, dependent on changes in the business environment that may adversely affect operating profits or the value of assets in a specific country

When the Bank engages in international lending or incurs a cross border exposure, it undertakes not only customary Credit Risk but also Country Risk. Country Risk is defined as the risk arising from uncertainties in economic, social and political factors such as deteriorating economic conditions, political and social upheavals, nationalisation or appropriation of assets, government repudiation of external indebtedness, exchange controls, currency devaluation, other external conditions such as natural disasters etc, in the countries in which the Bank has granted credits, made investments or undertaken contingent liabilities. These factors impact the residents of those countries in such a way that the level of risk of creditworthiness of business undertaking in those countries is affected. Such occurrences may cause the debtors or counterparties to be unable to repay their debts or decline to fulfil their contractual obligations may affect the financial status and operations of the Bank.

Risk Management Report (continued)
Country Exposure Limits

Country exposure limits are approved by our parent company, BPCE IOM. The country exposure limits are proposed by the Risk Management Unit to the Board Audit committee and to the Risk Committee and thus recommendations are made to the BPCE IOM. The Risk Management Unit, independent from the business units, is responsible to prepare and submit quarterly reports to Board Audit committee and to the Risk Committee and assists the Management in anticipating Country Risk exposures.

Countrywise Distribution of Risk

The Group's and Bank's countrywise distribution of risks as at 31 December 2013, shows that the majority of exposures relates to operations in Mauritius (61%), followed by India (14%) and France (10%).

	Loans and advances to customers		Loans and advances to banks	
	2013		2013	
In MUR 000	Group	Bank	Group	Bank
Concentration by country				
Mauritius	7,494,719	7,495,847	-	-
India	2,423,522	2,423,522	29,287	29,287
Madagascar	249,427	202,400	41,339	-
France	506,037	506,037	160,000	160,000
United Kingdom	560,482	560,482	-	-
Austria	343,842	343,842	-	-
South Africa	279,286	279,286	-	-
Luxembourg	273,943	273,943	-	-
Maldives	270,014	270,014	-	-
Global Business - Mauritius	182,775	182,775	-	-
Seychelles	181,007	181,007	-	-
Singapore	149,441	149,441	-	-
Isle of Man	144,770	144,770	-	-
Caiman Islands	143,906	143,906	-	-
Switzeland	115,189	115,189	-	-
Hong Kong	60,923	60,923	-	-
Reunion Island	44,843	44,843	-	-
Ivory Coast	21,818	21,818	-	-
Australia	12,651	12,651	-	-
Tunisia	5,431	5,431	-	-
Sri Lanka	273	273	-	-
Belgium	2	2	-	-
British Virgin Island	2	2	-	-
Others	1	1	-	-
Total amount	13,464,305	13,418,405	230,626	189,287

Risk Management Report (continued)
Countrywise Distribution of Impaired Assets

The Group's and the Bank's countrywise distribution of impaired assets as at 31 December 2013, shows that the majority of impaired exposures relates to operations in Mauritius (65%) followed by Madagascar (22%) and United Kingdom (13%).

	GROUP				BANK			
	2013		2012		2013		2012	
	Assets Impaired (MUR M)	Provisions (MUR M)	Assets Impaired (MUR M)	Provisions (MUR M)	Assets Impaired (MUR M)	Provisions (MUR M)	Assets Impaired (MUR M)	Provisions (MUR M)
Country								
France	-	-	4	-	-	-	4	-
Mauritius	1,450	869	1,436	884	1,450	868	1,436	883
United Kingdom	297	20	-	-	297	20	-	-
Madagacar	511	510	497	496	507	507	494	494
Total	2,258	1,399	1,937	1,380	2,254	1,395	1,934	1,377

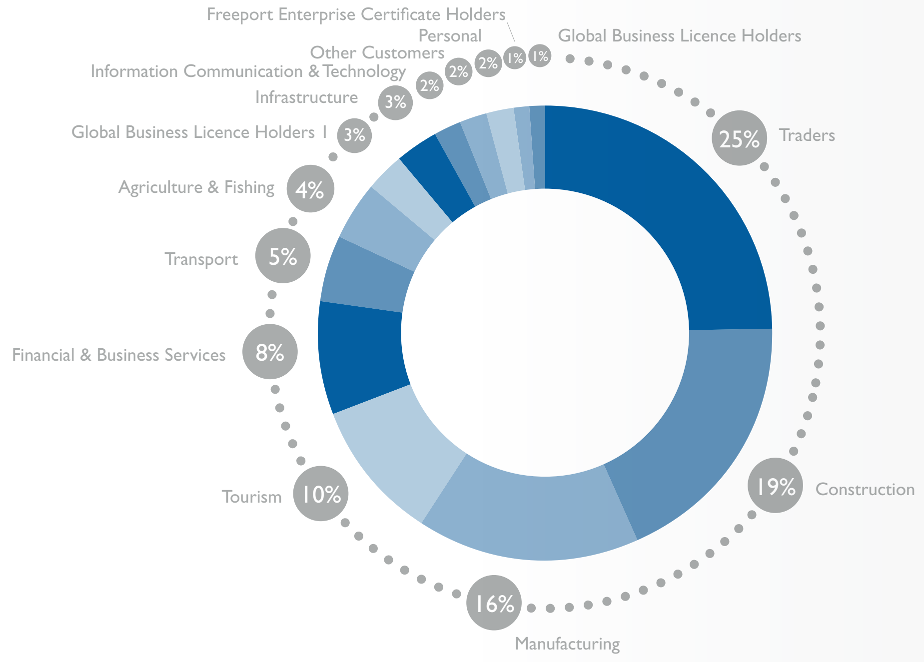
Risk Management Report (continued)
Sectorwise Distribution of Risks

The Bank's credit portfolio is spread mainly among Construction including Mortgage facilities (19%), Manufacturing (16%) and Traders (25%) and Financial and Business Services (8%),

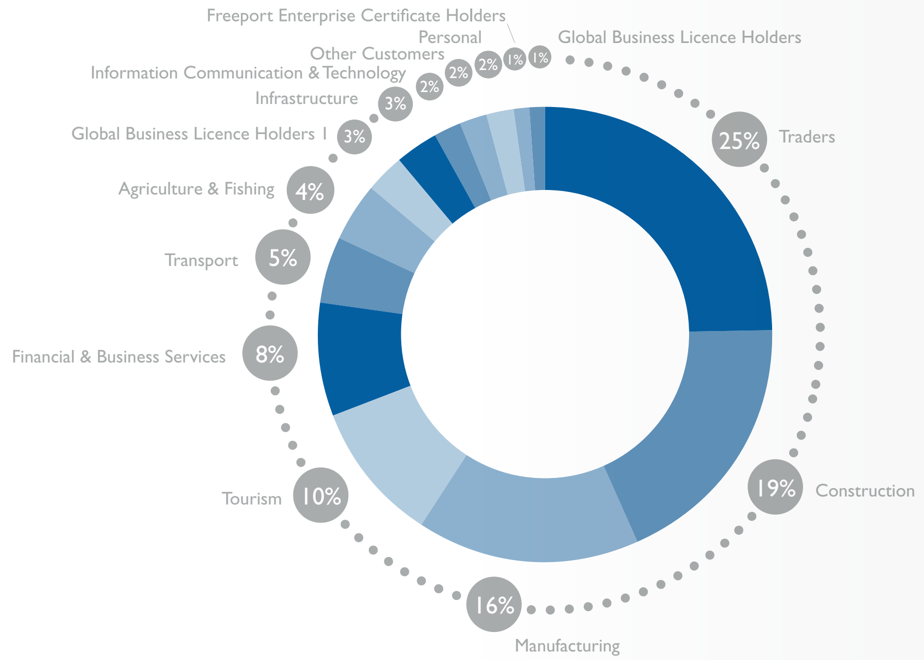
	Loans and advances to customers		Loans and advances to banks	
	2013		2013	
In MUR 000	Group	Bank	Group	Bank
Concentration by sector				
Traders	3,365,245	3,348,536	-	-
Construction	2,562,884	2,558,972	-	-
Manufacturing	2,226,614	2,214,541	-	-
Tourism	1,358,111	1,358,053	-	-
Financial and Business Services	896,543	896,469	230,626	189,287
Transport	731,222	723,169	-	-
Agriculture & Fishing	535,977	535,189	-	-
Global Business Licence Holders 1	371,332	371,332	-	-
Infrastructure	346,166	346,166	-	-
Information Communication and Technology	304,296	303,875	-	-
Other Customers	285,293	286,455	-	-
Personal	224,682	222,127	-	-
Freeport Enterprise Certificate Holders	90,572	90,572	-	-
Global Business Licence Holders	81,163	81,163	-	-
Professional	67,304	64,886	-	-
Education	15,655	15,655	-	-
Media, Entertainment and Recreational Activities	1,245	1,245	-	-
Health Development Certificate Holders	0	0	-	-
Human Resource Development Certificate Holder	0	0	-	-
Total amount	13,464,305	13,418,405	230,626	189,287

Risk Management Report (continued)
Sectorwise Distribution of Risks (continued)

Groupe sectorwise distribution of risks



Bank sectorwise distribution of risks



Risk Management Report (continued)
Large Credit Exposures

The following table (in MMUR) breaks down the Top 20 credits. Credit exposures include loans & advances, guarantees, acceptances and other commitments.

Ranking of customer or group of closely related customers	Fund bades exposures (MMUR)	Non fund based exposures (MMUR)	Set offs (MMUR)	Total exposures after set offs (MMUR)	% of aggregate amount of exposures to financial institution's capital base (GROUP)	% of aggregate amount of exposures to financial institution's capital base (BANK)
1	615	-	263	352	19	20
2	593	-	-	593	32	33
3	546	4	105	445	24	25
4	506	-	-	506	28	28
5	486	-	-	486	27	27
6	481	4	145	340	19	19
7	453	-	-	453	25	25
8	398	49	-	447	24	25
9	200	245	275	170	9	10
10	56	341	-	397	22	22
11	385	-	339	46	3	3
12	373	-	-	373	20	21
13	355	-	-	355	19	20
14	347	-	-	347	19	20
15	302	-	-	302	16	17
16	302	-	-	302	16	17
17	50	250	-	300	16	17
18	297	-	179	118	6	7
19	272	23	-	295	16	17
20	271	12	-	283	15	16

Risk Management Report (continued)
Credit Quality

The Bank has different internal risk rating tools to assess the credit risk on any corporate banking clients, SME clients and retail banking clients. Ratings from Recognised Credit Rating Agencies are also used in assessing credits. Below is the distribution of portfolio ratings based on statement of financial position items as at 31 December 2013.

	Loans and advances to customers				Loans and advances to banks			
	Group		Bank		Group		Bank	
MUR 000	2013	2012	2013	2012	2013	2012	2013	2012
Maximum exposure to credit risk								
At amortised cost								
Grade 1-4	4,968,117	6,594,584	4,958,420	6,585,518	229,900	1,653,246	189,583	1,653,246
Grade 5-6	5,332,316	5,528,038	5,324,547	5,520,896	-	-	-	-
Grade 7-9	2,378,884	2,363,100	2,363,041	1,858,638	-	-	-	-
Grade X (impaired)	2,258,850	1,937,229	2,254,407	1,934,952	-	-	-	-
No credit grading	12,768	268,301	779	270,130	-	-	-	-
Total gross amount	14,950,945	16,202,716	14,901,253	16,170,134	229,900	1,653,246	189,583	1,653,246
Allowance for impairment (individual and collective)	(1,487,939)	(1,487,797)	(1,482,848)	(1,485,520)	-	-	-	-
Net carrying amount	13,464,305	14,714,919	13,418,306	14,684,614	229,900	1,653,246	189,583	1,653,246

Credit Risk Mitigation

In order to mitigate credit risk and where appropriate, the Group obtains collateral to support the credit facility. Credit Risk limit for each financial institution is approved by the Credit Risk Committee and is sent to BPCE IOM for approval with reference to the financial strength and credit rating of each counterparty. The acceptable types of collateral and their characteristics are established within the credit policies, as are the respective margins of finance.

Irrespective of whether collateral is taken, all decisions are based upon the customer or counterparty's credit profile, cash flow performance and ability to repay. The Group employs a range of policies and practices to mitigate Credit Risk. The most traditional of these is the taking of security for advances.

The Group implements guidelines on the acceptability of specific classes of collateral or Credit Risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business such as premises, stock and debtors; and
- Pledge of financial instruments such as debt securities, equities and bank deposits.

Risk Management Report (continued)
C. MARKET RISK

In line with international norms, the Group defines market risk as:

Market risk is the risk that movements in market prices adversely affect on and off-balance sheet positions. It encompasses exposure to interest rates, foreign exchange rates and liquidity risk.

Movements during the liquidation period of a trading portfolio. Market risk could be quantified by sensitivity which is a fundamental measure of market risk. It captures the amount of profit/loss incurred by a movement in risk factor.

The Basel Committee on Banking Supervision defines market risk as the risk of losses in on-balance sheet and off-balance sheet positions arising from movements in market prices. The risks subject to this requirement are:

- The risks pertaining to interest rate related instruments and equities in the trading book.
- Foreign exchange risk and commodities risk throughout the bank.

The Group has established a written policy on market risk management that clearly defines interest rate risk, foreign exchange risk and liquidity risk. The policy outlines principles for identifying, assessing and monitoring these risks. Broad principles have been set up for the implementation of a sound risk management process for an adequate assessment of regulatory capital charge, together with an internal capital buffer that shall match with the level of market risk proportionate to the scale and complexity of the activities of the institution.

Asset and Liability Committee

The purpose of the Asset/Liability Committee (ALCO) is to ensure that the overall asset/liability and market risk mix within the Group is constantly maintained within limits and targets set and as well as within the guidelines laid down by the BOM. Furthermore, its purpose is to identify new areas of risk taken to either exploit such risks for profit, or manage their potential negative impact on the business. It is responsible for initiating action to update or amend existing risk policies as a result of the identification of new sources of market risk. The ALCO is chaired by the Chief Executive Officer and is convened quarterly with attendance by key members of senior management.

Against the backdrop of the delicate global economic climate, ALCO has continued to exercise vigilance in the extension of foreign currency credit. The credit approval process is supported with forward-looking liquidity projections which are subject to conservative loan-to-deposit target ratios. Mismatch analysis is regularly reviewed whilst stress scenarios are conducted to detect potential vulnerabilities which are then addressed. Adequate liquid assets are maintained on a cautionary basis, taking into account the behaviour and profile of the deposit base.

Regular reporting by Assets and Liabilities Committee (ALCO), the Risk Management Committee and the Head Office ensures that adequate review mechanisms are in place for the setting of targets and limits which are ultimately approved by the Board of Directors.

Risk Management Report (continued)
Foreign Exchange Risk

Foreign exchange risk is defined within the Group as per international norms as:

Foreign exchange risk is the risk that movements in the foreign exchange rate between one currency and another has an adverse impact upon the value of the trading book of the Group.

The Group's foreign exchange exposure is monitored by the « Guideline for Calculation and Reporting of Foreign Exchange Exposures of Banks » of the Bank of Mauritius and the guideline on liquidity of the Central Bank of Madagascar. Moreover, dealers operate within prudential limits approved by the Risk Management Committee. Limits are set as a whole, per currency, per daily transaction and per any counterparty.

The Risk Department through the Treasury Middle Office which is independent of trading operations measures the daily foreign exchange risk through the Value-at-Risk (VaR) calculations and estimates the potential loss arising from adverse movements in the market environment and ensures limits are being respected. The VaR used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period. A report to the ALCO and Risk Management Committee underlying any breach in limits is prepared on a quarterly basis.

Foreign exchange risk is apprehended within the framework for follow up of interest rate risk and liquidity risk within the limits set by BM Risk Committee. The currencies which are being considered are those that represent more than 5% of the statement of financial position on a quarterly analysis basis. Foreign exchange exposure is limited to 15% of Tier 1 as per regulatory framework and to USD 3 million as per internal policies.

Risk Management Report (continued)
Interest Rate Risk

In line with international norms, the Group defines interest rate risk as:

Interest rate risk is the exposure of the Bank to adverse movements in interest rates arising from repricing and/or maturity mismatch.

The risk exposure is calculated via ALM tools that have been developed by our Parent Company. The tools perform a static repricing gap analysis which demonstrates the maturity and repricing schedule for all of the earning assets and interest bearing liabilities of the Group. Moreover, in line with the BOM guideline on Measurement and Management of Market Risk, separate repricing schedules for each currency accounting for 5% or more of the bank's book total assets of liabilities are performed. The Group mitigates its exposure to interest fluctuations by attempting to hedge its assets/liability portfolio.

The impact on earnings for a 200 basis point shock in the interest rates is tested on a quarterly basis as recommended by Basel II and discussed during the Group's ALCO. The limit set is 20% and ratio of 15% serving as alert for any excess.

Liquidity Risk

Liquidity risk is defined within the Group as per international norms as:

Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due and/or to replace funds when they are withdrawn; the consequence of which may be the failure to repay depositors or fulfill commitment to lend.

The Liquidity Policy of the Group is in line with the Bank of Mauritius Guideline on Liquidity Risk Management and the Central Bank of Madagascar guidelines in compliance with the Policy «Charte de gestion financière». It sets out the manner in which the liquidity of the Group is to be managed and monitored. The objective is to ensure that the Group can honour its financial obligations in the normal course of business as well as having contingency plans to cater for unexpected funding needs at short notice.

The day to day liquidity management is under the responsibility of the Treasury Department while the Treasury Middle Office monitors that policies and limits are being adhered to.

In view of a potential global liquidity crunch, the Group maintains an active presence on the retail market to attract deposits as well as a liquid assets portfolio composed of Government securities that can be sold on secondary market as the needs arise.

Risk Management Report (continued)
D. OPERATIONAL RISK

In line with international norms, the Group defines operational risk as the risk of direct or indirect loss arising from inadequate or failed internal process, human performance and systems or from external events. As such, it is a very broad concept including legal risks, physical and environmental risk.
Operational risk is inherent in all banking products, activities, processes and systems. The loss event type categories as per Basel II are provided below.

- Damages to physical assets
- External fraud
- Employment practices and workplace safety
- Clients, products and business practices
- Business disruption and system failures
- Execution, delivery and process management
- Internal fraud

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

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

Incident Reporting

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

Risk Management Report (continued)
Incident Reporting

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

Business Process Analysis

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

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

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

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

Risk Management Report (continued)
E. BASEL II ACCORD

The Basel II Accord revises the original Basel Accord agreed in 1988 by the Basel Committee on Banking Supervision. Basel II aims to make the original framework more risk sensitive. Basel II emphasizes the measurement and management of three key banking risks: Credit Risk, Market Risk and Operational Risk. It is based on a three-pillar approach, as outlined below: *Pillar I – Minimum Capital Requirements*

Pillar I – Minimum Capital Requirements
Pillar I provides guidelines for calculating the minimum capital requirement which the regulator requires a bank to meet for credit, market and operational risk. Banks have the flexibility to choose among different methods ranging from the internal ratings-based (IRB) approach and the standardised approach. The capital ratio is calculated using the definition of regulatory capital and risk-weighted assets.

The basis for the calculation of the regulatory capital adequacy ratio is illustrated under this Pillar by setting the definition and calculations of the Risk Weighted Assets and then calculating the regulatory capital base. The Bank of Mauritius has set a minimum Capital Adequacy Ratio of 10% for all locally incorporated banks.

Pillar 2 – Supervisory Review Process
With Pillar 2 the supervisory review process of the Framework is intended not only to ensure that banks have adequate capital to support all the risks in their business, but also to encourage banks to develop and use better risk management techniques in monitoring and managing their risks. It allows discretion to supervisors to:

a. Link capital to the risk profile of a bank;
b. View and review banks' capital assessment and strategies and to monitor and ensure their compliance with regulatory capital ratios and take appropriate remedial measures if required;
c. Request banks to maintain capital at a level higher than the regulatory minimum if required; and
d. Intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank.

Pillar 3 – Market Discipline
With Pillar 3, the Basel Committee seeks to enable market participants to assess key information about a bank's risk profile and level of capitalization - thereby encouraging market discipline through increased disclosures. The purpose of Pillar 3 - market discipline is to complement the minimum capital requirements and the supervisory review process. Market discipline arises by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution.

Risk Management Report (continued)
BASEL II Approach

The Bank of Mauritius, as the supervisory body, has given banks the option to choose on different approaches to the setting of capital requirements. For credit risk, banks may choose between two broad methodologies for calculating their capital requirement, namely:

- the Standardized Approach - the calibration of risk is based on the assessment of External Credit Assessment Institutions (ECAIs) to derive risk-weighted assets.
- the Internal Rating Based Approach (IRB) – where banks may use their internal rating systems to measure credit risk, subject to approval from the Central Bank. Under the IRB approach, there are two versions of different degrees of sophistication: the Foundation Approach and the Advanced Approach. Under the Advanced Approach, greater reliance is placed on the banks' own internal ratings for the inputs used to estimate risk weights and exposures.

With regards to operational risk, banks have three options, namely the Basic Indicator, the Standardized and the Advanced Measurement approaches. In line with its Group policies, the Group has adopted the Standardized Approach to Credit and Market Risks and the Basic Indicator Approach to Operational Risks. Under the Standardized Approach to Credit Risks, the Group has applied the ratings published by Moody's Investors Service, Standard & Poor's and Fitch to determine the risk weights applicable to its claims on banks, overseas sovereign and foreign corporate.

Standard & Poor's	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Moody's Investor Service	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Below B3	Unrated
Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
External Rating Grade	1	2	3	4 to 5	6 to 9	Unrated
Types of claims						
Long term claims on banks	20%	50%	50%	100%	150%	50%
Short term claims on banks	20%	20%	20%	50%	150%	20%
Claims on Multilateral Development Banks	20%	50%	50%	100%	150%	50%
Sovereigns & Central Banks	0%	20%	50%	100%	150%	100%

Standard & Poor's	AAA to AA-	A+ to A-	BBB+ to BB-	Below B-	Unrated
Moody's Investor Service	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Below Ba3	Unrated
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	Below B-	Unrated
External Rating Grade	1	2	3.4	5.6	Unrated
Types of claims					
Corporates	20%	50%	100%	150%	100%

Risk Management Report (continued)

Furthermore, in line with the Guideline on Standardized Approach to Credit Risk, the following risk weights are applied:

- 0% for claims on the Government of Mauritius and the Bank of Mauritius, denominated and funded in Mauritian rupees;
- 50% for claims on Government of Mauritius denominated in foreign currency since Mauritius is rated Baa1 by Moody's Investors Service;
- 20% for short-term lending to banks licensed under the Banking Act 2004;
- 0% for claims on eligible Public Sector Entities;
- 50% for claims on those Public Sector Entities which meet the criteria set by the Bank of Mauritius;
- 100% for claims on domestic corporate which are unrated;
- 75% for claims on retail exposure (including SME) up to Rs 12M;
- 100% for claims secured by commercial real estate;
- 50% to 150% for past due claims according to the proportion of specific provision to the outstanding amount of the exposure.

Under the Basic Indicator Approach to Operational Risk, the capital charge of the Group is calculated by multiplying the three-year average gross income to a beta factor of 15%.

In line with the Basel II Approach, the Group has developed internal rating tools which take into consideration both qualitative and quantitative criteria in order to assess « à dire d'expert » its credit portfolio. Furthermore, with regard to claims on banks, overseas sovereign and foreign corporate, the bank also takes into consideration the ratings published by Moody's Investors Service, Standard & Poor's and Fitch Ratings in its assessments.

Capital Structure

Capital is managed effectively with the view to maximize return to its shareholders on a sustainable basis, to support growth and to adhere to regulatory requirements. The Bank also needs to hold an adequate level of capital so as to absorb potential losses and continue operations in the event of a worst case scenario. The Bank of Mauritius sets the regulatory requirements with respect to a bank's capital structure in Mauritius, following revised guidelines developed by the Basel Committee. The minimum capital adequacy ratio is fixed at 10%. The capital adequacy ratio is calculated by the ratio of capital base ,which is the sum of Tier 1 & Tier 2 capital to the sum of risk-weighted assets of on and off-balance sheet exposures, Operational risk, aggregate net open foreign exchange position. At 31 December 2013, the capital adequacy ratio was successfully kept above the limit set by the regulator at 11.81% and 12.08% on a consolidated basis and stand-alone basis respectively. The Stated Capital stood at MUR 1,749M as at 31 December 2013. An amount of MUR 250M was injected by the Parent Company during the first quarter of 2013.

MANAGEMENT DISCUSSION
AND ANALYSIS
01

Risk Management Report (continued)
Capital Structure (continued)

	GROUP			BANK		
BASEL II	Dec-13 Rs M	Dec-12 Rs M	Dec-11 M MUR	Dec-13 Rs M	Dec-12 Rs M	Dec-11 M MUR
TIER 1 CAPITAL						
Paid up or assigned capital	1,749	1,499	839	1,749	1,499	839
Statutory reserve	83	83	83	83	83	83
Other disclosed free reserves, including undistributed balance in income statement	(340)	(433)	392	(246)	(357)	446
Current year's retained profits						
Minority interests	16	7	16	-	-	-
Deduct:						
Goodwill	(76)	(76)	(74)	-	-	-
Investment in Subsidiary	-	-	-	(85)	(53)	(53)
Other Intangible assets	(6)	(9)	(13)	(2)	(3)	(6)
Deferred Tax	(161)	(158)	(65)	(159)	(156)	(64)
Total Tier 1 Capital	1,266	913	1,178	1,341	1,013	1,245
TIER 2 CAPITAL						
General Banking Reserve						
Portfolio Provision	117	135	144	117	135	144
Subordinated debts	406	457	415	406	475	415
Deduct:						
Investment in Subsidiary	-	-	-	(85)	(53)	(53)
Total Tier 2 Capital	523	592	559	438	557	506
TOTAL CAPITAL BASE	1,789	1,505	1,737	1,778	1,570	1,751
RISK WEIGHTED ASSETS FOR:						
On-balance sheet assets	13,130	12,768	14,229	12,726	12,577	14,192
Off-balance sheet exposures	984	688	858	981	688	858
Operational risk	1,005	1,070	1,018	988	1,063	1,023
Aggregate net open foreign exchange position	25	33	30	25	33	30
Total assets held in Trading book	-	-	166	-	-	166
TOTAL RISK WEIGHTED ASSETS	15,144	14,559	16,301	14,720	14,361	16,269
CAPITAL ADEQUACY RATIO (%)	11.81%	10.34%	10.66%	12.08%	10.93%	10.76%

Risk Management Report (continued)
Capital Structure (continued)

The table below shows the components of capital base for the Group and the Bank and the capital adequacy ratios under the Basel II framework for the last quarter ending 31 December 2013.

Risk Weighted Assets			2013			
			GROUP		BANK	
Risk Weighted On-Balance Sheet Assets	Credit Conversion Factor	Risk Weight	Exposures after CRM	Risk Weighted Assets	Exposures after CRM	Risk Weighted Assets
	%	%	MUR M			
Cash items		0 - 20	143	1	112	1
Claims on Sovereigns		0 - 150	1,805	123	1,723	-
Claims on Central Banks		0	1,106	84	1,050	-
Claims on Multilateral Development Banks		0 - 150	-	-	-	-
Claims on banks		20 - 150	1,695	487	1,623	379
Claims on non-central government public sector entities		0 - 150	216	216	216	216
Claims on corporates		20 - 150	8,467	8,467	8,449	8,449
Claims included in the regulatory retail portfolio		75	153	115	153	115
Claims secured by residential property		35-100	1,516	897	1,516	897
Claims secured by commercial real estate		100	1,044	1,044	1,044	1,044
Past due claims		50-150	786	836	786	836
Other assets		100	859	859	789	789
Total Risk Weighted On-Balance Sheet Assets			17,789	13,130	17,460	12,726
Risk Weighted Off-Balance Sheet Assets						
Transaction-related contingent items	50	0-100	1,145	572	1,144	572
Trade-related contingencies	20	0-100	190	38	190	38
Other commitments	20	0-100	930	359	929	359
Foreign exchange contracts	2	100	716	15	584	12
Total Risk Weighted Off-Balance Sheet Assets			2,980	984	2,846	981
Total Risk Weighted On & Off Balance Sheet Assets			20,769	14,114	20,306	13,707

Risk Management Report (continued)
Supervisory Review Process

Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP was prepared for the first time in 2011 based on the data of 2010. The second ICAAP has been prepared based on the data of 2011 and was presented to the Audit Committee and was validated by the Board of Directors in June 2012. The third ICAAP, for the year 2012, has been submitted to the Bank of Mauritius in October 2013 after validation by the Board of Directors in September 2013.

As part of the ICAAP 2012, stress tests were carried out which impacted upon the capital and risk-weighted assets hence reducing the solvency of the Bank. The impact will generate a complementary theoretical working capital requirement to comply with the regulatory limit.

As a subsidiary of Groupe BPCE benefitting the support of its sole shareholder, BPCE IOM, Banque des Mascareignes has various tools to raise its capital (for example, rise in its capital or/ and subordinated debts) or to reduce its risk weighted asset especially to mitigate its credit risk concentration (for example, guarantee from BPCE IOM on customer exposures).

The Bank's capital management policies and practices support the Bank's business strategy and ensure that the Bank is sufficiently capitalised to withstand severe macroeconomic downturns. In addition, the policies and practices ensure that the Bank complies with regulatory capital requirements and ensure that the Bank has sufficient capital to cover the risks associated with its activities.

Information Technology, People and Assets Security

Disaster can strike a company at any time and as a result jeopardize its core business and bring a halt to its operations. The business continuity plan identifies an organization's exposure to internal and external threats so as to provide effective prevention and recovery for the organization, while maintaining competitive advantage and value system integrity. The Bank has a business continuity plan as an integral part of its strategy to recover and resume critical business functions to minimum acceptable levels of operations within an acceptable time frame following a disaster.

The Bank's disaster recovery site, located outside Port Louis, is fully operational and has been tested successfully during the last quarter of 2011. No test has been carried out during 2012. The latest was carried out in November 2013.

Risk Management Report (continued)

Information Technology, People and Assets Security (continued)

In order to adhere to high level security standards regarding information confidentiality, integrity and availability, the information system disaster recovery plan is regularly tested to ensure minimum disruption through appropriate advanced technological infrastructure. State of the art security devices and software as well as appropriate monitoring processes have been set up to ensure minimal disruption of services to the clients.

Security audits and network penetration testing were carried out to ensure compliance to security policies. The Bank's Security Policy guidelines are being implemented and regular audits are carried out by the Bank's team to ensure compliance with the standards set out. The ultimate objective is to provide an audit uninterrupted service to our customers, our employees and finally our shareholders.

Physical security procedures are enhanced and regular training provided to the staff in order to ensure fullest protection of employees, clients and assets of the Bank. No major incident was reported over the year under review.

A. BASEL III

Under Basel III, greater focus would be placed on Tier I capital to absorb losses. The Committee is introducing transitional arrangements to implement the new standards that help ensure that the banking sector can meet the higher capital standards through reasonable earnings retention and raising of capital, while still supporting lending to the economy.

In December 2010, the Basel Committee on Banking Supervision (BCBS) published its reforms to capital and liquidity rules in the aftermath of the financial crisis that began in 2007. Basel III strengthens the Basel II framework rather than replaces it. Whereas Basel II focused on the asset side of the balance sheet, Basel III mostly addresses the liabilities side i.e. capital and liquidity. The framework sets out higher and better-quality capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk-based requirement, measures to promote the build-up of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards. In summary, banks will have to operate under more stringent capital, funding and liquidity requirements given in the proposed Basel III regulations.

The objective of the reforms is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.

Risk Management Report (continued)

Information Technology, People and Assets Security (continued)

A. BASEL III (continued)

Banks could be required to be fully compliant to Basel III framework as from 1st January 2018. The new standards implications are still being examined at various country levels. The Bank of Mauritius has already issued a draft Guideline on Scope of Application of Basel III and Eligible Capital, to be effective 1st July 2014. Meanwhile, the Bank will continue to monitor developments arising from Basel III and will manage its capital resources accordingly to achieve its capital management objective.

Compliance and Anti-Money Laundering

Compliance

The aim of the compliance function is to ensure that all business operations comply with appropriate laws, regulations, and internal policies. In addition to the existing legal requirements, namely the Banking Act 2004 and the Bank of Mauritius Guidance Notes on « Anti Money laundering and combating the Financing of Terrorism », the Bank is also subject to the directives of the Groupe BPCE, to which it belongs.

The Compliance department is independent from the operational aspects of the Bank and reports to the Audit Committee. Its main responsibilities include:

- Controlling and monitoring the risks of non-compliance of internal procedures and local relevant legislation,
- Identifying and adopting all rules and regulations applicable to Banks,
- Setting up processes and procedures and maintaining them up to date, based on applicable legislation.
- Reporting to our parent BPCE-IOM on all matters relating to internal control, anti-money laundering and compliance issues

In its effort to ascertain that proper controls are being ensured, the compliance department relies on all the Head of units who have the duty of 1st level of control on a continual basis as well as ensuring any action plan and proper follow up in order not to put the bank and its clients at risks. The « Comité de Cohérence des Contrôles Internes » which is held on a quarterly basis helps in the task of identifying the main risks at the Bank.

In addition, the Bank manages compliance risks through the following activities:

- regularly updating the AML (Anti Money Laundering) procedure,
- carrying out compliance reviews on all processes and procedures as and when warranted and
- undertaking the training of employees on a regular basis on AML/CFT and on internal relevant procedures.

Areas of non compliance are reported to the Board committees.

Compliance and Anti-Money Laundering (continued)

Internal controls

The main objective of the Compliance department remains the protection of Bank's assets and customers' interests through regular assessments of the adequacy and appropriateness of the first level of controls put in place by all units:

• to ensure that the financial or reputational loss from errors, omissions, delay and fraud, are minimised
• to ensure compliance with relevant laws, regulations, policies and guidelines

Furthermore, the Compliance department is also called to assess the efficiency of processes, systems and methods in place to ensure the highest level of service to customers and to ensure shareholders' return on capital.

Thus, in order to prevent the risks of financial loss, legal sanctions, loss of reputation and regulatory sanctions, the Compliance department ensures that first level of controls are in place in all units of the Bank and undertakes a second level of controls on a sample of transactions/files.

Hence, an inventory of all units falling under the scope of « Contrôle Permanent » is carried out followed by a risk assessment of each of these units (Cartographie des risques de non-conformité). Based on the risk assessment of each of these units, a risk-based plan for the year is drawn by Compliance department and submitted to the Audit Committee for approval.

Listed below are some of internal controls which provide reasonable assurance regarding the effectiveness and efficiency of operation, the reliability of financial reporting, and the compliance with applicable laws and regulations:

• Make sure that all units comply with security measures
• Make sure that all departments have well updated written policies and procedures manual and apply them
• Make sure that there is segregation of duties (at least 2 sets of eyes)
• Ensure effectiveness and efficiency of operations
• Ensure reliability of financial reporting
• Ensure compliance with applicable laws, regulations, guidelines

Internal controls apply to all units (including all departments/branches/sections) and operations.An effective control system provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations.

Compliance and Anti-Money Laundering (continued)

Internal controls (continued)

All responsible of units are held accountable for managing internal controls.The Compliance department is specifically responsible for ensuring that internal controls are established, properly documented and maintained in Banque des Mascareignes Ltée.

The Bank will be in process of appointing compliance representatives from all the different units to assist in the daily monitoring and control. All the issues are reported to the Compliance Committee whose main role is to ensure consistency and efficiency of all the controls on a permanent basis (Contrôles Permanents).

The Compliance department makes an assessment of internal control performance over time. It determines whether internal control is adequately designed, properly executed and effective. Monitoring by the Compliance department helps to ensure that control activities and other planned actions to effective control are carried out properly and in a timely manner and that the end result is effective internal control.

The Compliance department with the collaboration of BPCE-IOM use actually a reporting tool, PILCOP (Pilotage de Contrôle permanent) which is a software provided by BPCE-IOM to do the monitoring of 1st level of control of transactions undertaken by the various heads of units of the Bank also allows an analysis of management action. The Compliance department follows up on all of these, provides guidance, follows up on controls and provides recommendations for improving depth of controls. Shortcomings are then identified at Group level and plans of actions set up to deal with risk areas. PILCOP will not be the only tool for follow up on almost all major controls at the Banque des Mascareignes.

In addition, Groupe BPCE is actually finalizing a new anti-money laundering (AML) tool controls by the implemention solutions from Norkom Tools as well as 'VOR' tool regarding respectively the detection of specific category of operations and the risk categorization of clients. The implementation is part of Groupe BPCE initiative to implement the solutions across all its including Banque des Mascareignes Ltee to enhance compliance with local AML regulations and international regulatory expectations.

Norkom's solutions are designed to monitor banking accounts, transactions and profile, both in real-time and batch mode, to identify suspicious behavior and match these against various watch lists, identifying transactions to or from individuals, organizations or countries that are viewed as high risk. Alerts are prioritized so that the Bank can focus its attention on those that represent the greatest risk.VOR solution together with NORKOM tool will be be another form of risk categorization of client/accounts and monitoring.

Compliance and Anti-Money Laundering (continued)

Internal controls (continued)

Furthermore to protect customers from fraud, from losses due to financial crime, and comply with regulations and mandate, further actions are in process to reinforce the internal control unit with the detection and management of specific transactions and detect unusual activity based upon known patterns in an account or transaction activity within an institution. Thus enabling to minimize losses, improve efficiencies, comply with government regulations and shield our customers from fraud.

This is amongst a series of initiatives that Banque des Mascareignes Ltee has undertaken in response to heightened global and local expectations on AML. In addition to launching the AML solutions, the Bank has also established a transaction monitoring unit, increased dedicated professionals, revised due diligence procedures and implemented customer database periodic matching technology.

In order to strengthen primary controls at the root, management has set a clear and measurable performance indicator for all managers and staff (in their performance appraisal) reflective of their accountability to Control and Compliance.

By developing effective systems of internal control, the Compliance department contributes to:

- prevent the risk of financial loss (rentabilité et pérennisation des résultats)
- enhance the quality of service (qualité de services – être la banque de référence)
- preserve the reputation of the Bank (maîtrise des risques et de la réglementation)

Compliance and Anti-Money Laundering (continued)

Internal controls (continued)

INTERNAL AUDIT

The Internal Audit function is crucial for maintenance of sound corporate governance. The role of Internal Audit is to provide and evaluate the adequacy, effectiveness and efficiency of the system of control within the Bank. It also ensures that Bank assets are protected and the risk is being mitigated. Based on the Group policy, all high risks areas are covered on an annual basis and other less risky areas are audited at least within a four year cycle.

The result of the audit procedures, follow up of the recommendations status and an update on the approved audit plan are reported to the Audit Committee on a quarterly basis.

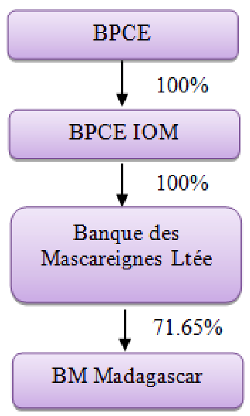
The Head of Audit reports to the Chief Executive Officer and to the Audit committee and has also a direct functional reporting line with the Group's internal audit.

02
Corporate Governance Report

CORPORATE GOVERNANCE REPORT

Corporate Governance is the condition sine qua non for effective management of our business with the objective of ensuring safety and soundness of the affairs of the Bank and enhancing shareholder's value. Corporate governance implies promoting transparency, integrity and total commitment to ethical values and business conduct. The Bank having a very special position as 'trustee' of its clients assets and having an important role to play in the national economy, corporate governance practices become a matter of paramount importance, defining the interrelationships amongst its many stakeholders so that the institution is governed in a manner geared to achieve high level of public trust and confidence in the Bank. As the Bank is fully committed to the highest standards of business integrity, transparency, professionalism, and, in order to fulfill its responsibilities, Banque des Mascareignes Ltée operates under the highest ethical and professional standards of corporate governance.

Group structure



Board of Directors

The Bank has established a corporate governance framework resting upon the underpinning concepts of an effective independent Board of Directors. As such there exists a clear separation of the Board of Director's supervisory role from executive management and the constitution of Board Committees comprising of non-executive Directors.

The Board exercises supervision of all major decisions, strategies and ensures that operations and dealings are conducted in an ethical manner.

The Board comprises of 6 directors, 2 executives and 4 non-executives as of 31 December 2013. The role of the chairman and chief executive officer are separate and distinct. The chairman is elected by the Board and has no executive or managing responsibilities whereas the chief executive officer is entrusted with the stewardship of all day to day affairs of the Bank.

The Board of the Bank is fully committed to attaining and maintaining the highest standards of corporate governance. This is ensured through bank-wide awareness of its operating ethics and the stewardship and close supervision of the management of the Bank by the Board of Directors.

The methods through which the Board exercises its powers and discharges its responsibilities are set out below:
• the composition of the Board comprises a majority of non-executive directors;
• the Chairperson of the Board is a non-executive director;
• the creation of Board Committees that report directly to the Board;
• a corporate code of conduct addressing inter alia issues relating to conflicts of interests;
• the establishment of strategic objectives;
• the appointment and remuneration policy of members of Management;
• the existence of clear lines of responsibility and accountability throughout the organisation;
• the communication to stakeholders of accurate financial results in a timely manner.

Approval of the Board is necessary, amongst other important matters, for the
• formulation of the business plan and strategic objectives
• opening of new branches
• injection of fresh capital

Board of Directors (continued)

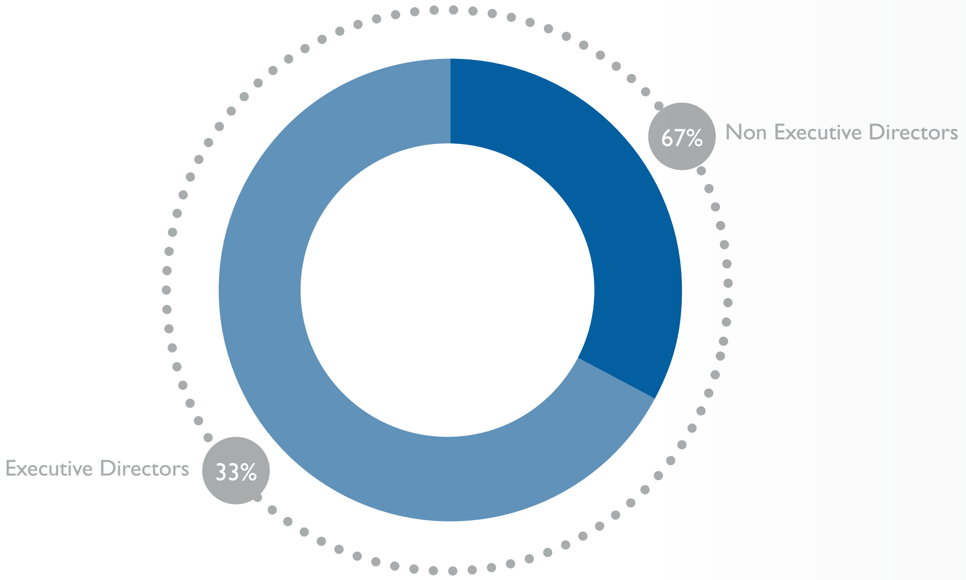
The Board and Senior Management of the Bank are required to demonstrate, inter alia, to the satisfaction of the regulatory authorities, a clear structure of policy and systems of control emanating directly from the Board, which manifestly identifies and manages the risks inherent to the businesses of the Bank. To this end, the Board has approved the Risk Policy of the Bank relating to key risks such as credit, operational and market risk. In line with such requirements, there is a clear separation between the executive role of day to- day decisions relating to the affairs of the Bank and the Board's role of setting out policies and ensuring that, through an adequate organisational structure and proper control and reporting systems, the business is effectively run in accordance with such policies.

Regarding risk management, the Bank is compliant with the requirements of the Guideline on Basel II Standardised Approach. Besides optimising shareholder value, the Bank, being particularly conscious of its responsibilities has always supported new economic initiatives and start-ups whilst contributing to the wellbeing of the community through its involvement in social activities.

The Bank is committed to the highest standards of business integrity, transparency and professionalism and ensures that all its activities are managed responsibly and ethically whilst seeking to enhance shareholder value thereby benefiting all of its stakeholders.

The Board Committees are held on a quarterly basis on a consistent basis.

Board composition as at 31 December 2013

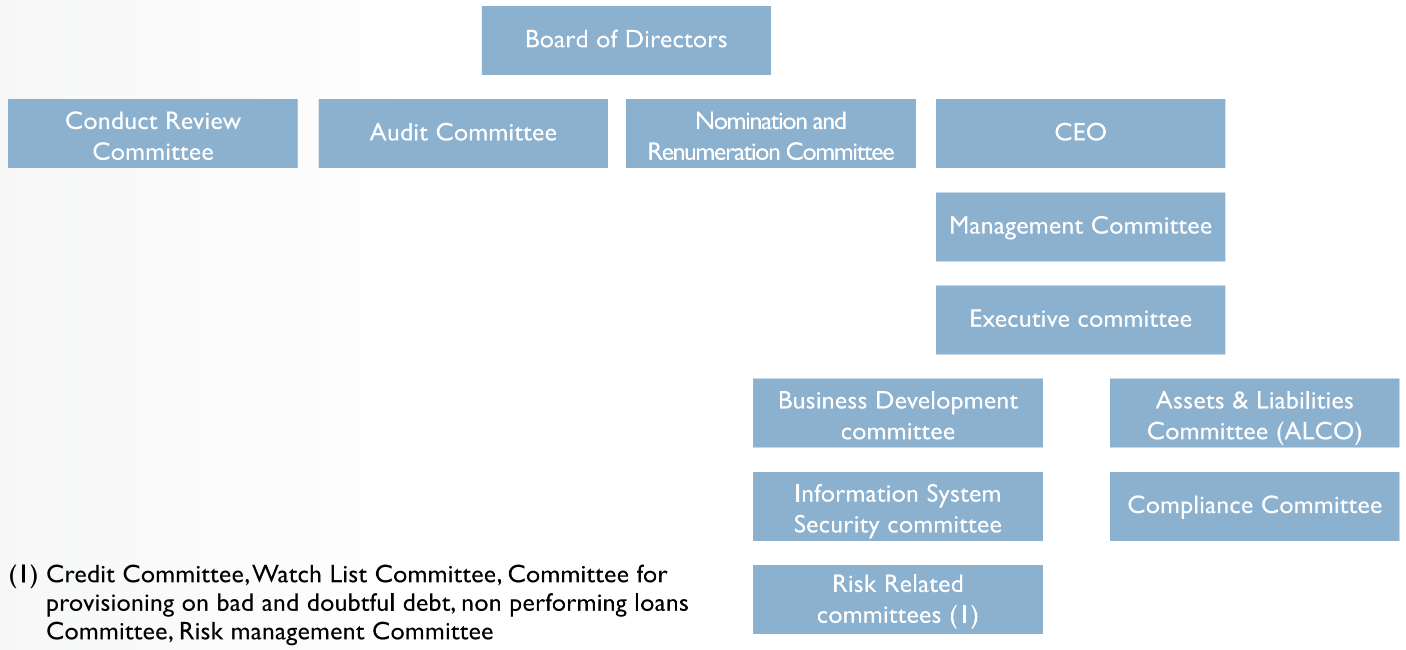


Board and Management Committees

The Board of Directors has set up 3 committees to assist in carrying out its duties and responsibilities: The Audit Committee, Conduct Review Committee, and Nomination and Remuneration Committee. A Corporate Governance Committee will be established in 2014. The risk and compliance Committees are included within the Audit Committee.

They each operate under board approved mandates which set out clearly their roles, responsibilities and scope of authority. Reports are prepared by each Committee which are presented to the Board of Directors regularly during meetings. The day to day running of the business carried out through various sub committees set up to deal with specific matters, is delegated to the chief executive officer who reports to the Board of Directors.

The chart below shows the structure put in place at the bank to ensure maintenance of a high level of corporate governance:



(1) Credit Committee, Watch List Committee, Committee for provisioning on bad and doubtful debt, non performing loans Committee, Risk management Committee

Board and Management Committees (continued)

Meetings in 2013

2013	Board meeting 18/03	25/04	9/07	30/7	2/10	25/10	29/11
NON EXECUTIVE							
Philippe GARSUAULT	A	√	√	√	√	A	√
Alain MERLOT	√	√	√	√	√	√	√
Yvan DE LA PORTE DU THEIL	√	√	A[1]	√	√	√	√
Bernard FREMONT	√	√	√	√	√	√	√
EXECUTIVE							
Huy Hoang DANG	√	√	√	√	√	√	√
Matthieu DABOUT	√	√	A	√	√	√	√

	Audit Committee					Conduct Review Committee			
2013	06/03	24/04	23/07	23/10	29/11	18/03	25/04	23/07	23/10
NON EXECUTIVE									
Alain MERLOT	√	√	√	√	√	√	√	√	√
Yvan DE LA PORTE DU THEIL	√	√	√	√	√	√	√	√	√
Bernard FREMONT	√	√	√	√	√	√	√	√	√
EXECUTIVE									
Huy Hoang DANG	√	√	√	√	√	√	√	√	√
Matthieu DABOUT	√	√	A	√	√	√	√	A	√

Key: √: Attended A: Absent N/A: Not applicable

[1] Absent, but represented by Mr. Philippe GARSUAULT

A. Conduct Review Committee

The Conduct Review Committee (CRC) consists of three non-executive members. Designated members of the Management committee including the Head of Compliance and the Head of Audit are required to attend all meetings.

The Conduct Review Committee (CRC) meets at least once every quarter or whenever a decision needs to be taken on a related party transaction which exceeds the Bank's internal criteria. The CRC looks at all transactions initiated in the quarter under review. After each meeting the matters discussed by the CRC are reported to the Board of Directors. The Bank reports all proceedings of the CRC to the Bank of Mauritius on a yearly basis. The Conduct Review Committee monitors and reviews amongst others, the bank's related party transactions, their terms and conditions, and ensures their effectiveness as per internal procedures and in accordance with Bank of Mauritius Guideline on 'Related Party Transactions'.

The mandate of the Conduct Review Committee is to:

- require the management to implement all directives given by the board of directors and approved by the Central Bank
- ensure that transactions which could materially affect the financial stability of the bank are identified at source
- review the procedures periodically to ensure their continuing adequacy and enforcement, in the best interest of the Bank
- Review the practices of the Bank to ensure that any transactions with related parties that may have a material effect on the stability and solvency of the financial institution are identified and dealt with in a timely manner.

B. The Audit Committee (continued)

The Audit Committee comprises independent members who are non-executive directors of the bank. The Head of Audit is not a member of the Audit Committee but is required to attend all meetings while the external auditor attends as and when requested. Designated members of the management committee and the Head of Compliance are in attendance. The Committee meets at least four times a year. The Company Secretary acts as secretary to the Audit Committee.

The Audit Committee provides direction to the audit function and monitors the quality of internal and statutory audit.

The responsibilities of the Audit Committee include the:

- reviewing of the financial statements of the Bank before they are approved by the Board of directors
- Overseeing the financial reporting processes to ensure that the financial statements show a true and fair view of the Bank's affairs,
- Implementation of appropriate accounting, internal control and financial disclosure procedures, the review, evaluation and approval of such procedures;
- Follow up of compliance of audit reports and those of statutory auditors,
- Follow up on findings of internal investigations.

The Audit committee also reviews the annual financial statements of the bank as well as the budget, before they are approved by the board. It maintains constant communication with the external auditors in order to review and reorient management's financial stewardship of the bank as and when necessary.

C. Nomination and Remuneration Committee

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

The responsibilities of the Nomination and Remuneration Committee include:

- Ascertaining whether candidates are fit and proper persons, have the required skills and expertise and are free from material conflicts of interest,
- Reviewing the board structure, size and composition so as to have a proper balance between independent, non-executive and executive directors,

The Committee meets at least once a year.

CORPORATE
GOVERNANCE REPORT
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C. Nomination and Remuneration Committee (continued)

Remuneration Policy

The Bank periodically reviews the policy implemented so as to ensure that the remuneration package is in line with current market conditions. The aim is to attract, retain and motivate high caliber people to serve the Bank. A review process takes place at least once a year to decide on the remuneration and compensation of staff and executives. This process also includes the determination of individual remunerations as well as reviewing internal promotion proposals based on meritocracy.

In addition the Bank grants an annual bonus to staff based on the performance of the company as well as depending on the achievement of their personal objectives.

D.1 Management Committee

The Management Committee is composed of the Chief Executive Officer, the Deputy Chief Executive Officer, the Executive Vice President of Finance & Operations, the Executive Vice President of Corporate and International Banking.

The Management Committee meets on a weekly basis to decide on the strategic planning as well as day to day running decisions of the bank.

D.2 Executive Committee

The Management Committee under the chairmanship of the Chief Executive Officer comprises of fourteen members namely the Deputy Chief Executive Officer, the Executive Vice President of Finance & Operations, the Executive Vice President of Corporate & International Banking, and almost all Heads of Departments.

The committee meets on a monthly basis and is responsible for the day-to-day management of the Bank, including risk issues, business development, compliance and IT related issues.

This Committee has a stewardship role in identifying problems related to policy and procedural matters and in monitoring the performance of the Bank.

The Head of Compliance and Audit are in attendance and do not have voting rights.

D.3 Business Development Committee

The Business Development Committee is composed of the Chief Executive Officer, the Deputy Chief Executive Officer, the Executive Vice President of Finance & Operations, the Executive Vice President of Corporate and International Banking, the Head of Treasury, the Head of Information Systems, the Head of Corporate, the Head of Business Development, the Head of International Banking, the Head of Retail and the Head of Operations. The committee meets on a monthly basis and is chaired by the Chief Executive Officer.

The main purpose of the Business Development Committee is to conduct a follow up on segmental, commercial and financial results, to decide on marketing strategies, and to perform periodic competitor analysis. The committee also looks into the development of new products and services.

D.4 Assets and Liabilities Committee-("ALCO")

The committee is chaired by the Chief Executive Officer and includes, the Deputy Chief Executive Officer, the Executive Vice President of Finance & Operations, the Executive Vice President of Corporate and International Banking, the Group Finance Director, the Director of Risks, the Head of Treasury, members of the finance team of Banque des Mascareignes and members of the finance team of BPCE-IOM.

The ALCO has authority and responsibility for managing the bank's assets and liabilities, and the measurement of all market risks associated, based on a static and dynamic simulation of the bank's balance sheet. Moreover, it ensures that the overall asset/liability and market risk mix are managed effectively and are within Group guidelines. The Committee meets on a quarterly basis.

D.5 Compliance Committee

The Committee is chaired by the Deputy Chief Executive Officer and comprises the Executive Vice President of Finance & Operations, the Executive Vice President of Corporate and International Banking, the Head of Compliance, the Director of Risks, the Head of Retail banking, the Head of internal Audit and the Money Laundering Reporting Officer (MLRO).

The Compliance Committee drives the compliance policy of the Bank and monitors its implementation. The main role of Compliance Committee is to ensure consistency and efficiency of most internal controls within the Bank.

The Compliance Committee takes decisions and provides guidance for the solving of major problems relating to internal controls so as to ensure better coordination, effectiveness and efficiency in the activities of the Bank, thereby mitigating intrinsic risks arising from the banking activities. The Committee meets on a monthly basis.

D.6 Control Committee (CCCI)

The control committee is chaired by the Chief Executive Officer and comprises of the Deputy Chief Executive Officer, the Executive Vice President of Finance & Operations, the Executive Vice President of Corporate and International Banking, the Head of Compliance, theDirector of Risks, the Head of internal Audit, the Head of the Information Security System, the Director of Quality & Projects, the Head of the Risks and Monitoring unit , the Head of Accounting Review and other members who have responsibility for the efficiency and effectiveness of controls in their respective fields.

The purpose of the committee is to look after all aspects relating to controls and non compliance issues identified in the internal controls system of the Bank so that adequate remedial actions can be taken in a timely manner. The Committee meets on a quarterly basis.

D.7 Credit Committee

This Committee, chaired by the Chief Executive Officer, meets at least on a weekly basis and comprises of the Deputy Chief Executive Officer, the Executive Vice President-Finance and Operations, the Executive Vice President-Corporate and International Banking, the Director of Risks, the manager of underwriting and the Heads of Business segments.

The main objective of this committee is to evaluate the demand of credit by customers. Credit demands exceeding the limit of the Committee are referred to the Head Office in Paris.

D.8 Watch List Committee

The Watch list Committee is chaired by the Chief Executive Officer. The tasks of the committee is to monitor the largest exposures on each segment (retail, corporate, international) and to follow up on the low rated counterparty or counterparty facing financial or market difficulties.

The Committee meets on a quarterly basis and includes the Deputy Chief Executive Officer, the Executive Vice President-Finance and Operations, the Executive Vice President-Corporate and International Banking, the Director of Risks, members of the Risk Control and Monitoring unit, the Manager of Underwriting, the Head of Internal Audit, and the Heads of Business segments.

D.9 Committee for provisioning on Bad & Doubtful debts

The main tasks of the committee are to determine the amount of specific provisions to be provided for each impaired credit (NPLs) and to determine and review the recovery strategy of impaired credits that are managed by the legal and credit recovery department of the Bank. The Committee meets on a monthly basis and is chaired by the Chief Executive Officer. The committee comprises of the Deputy Chief Executive Officer, the Executive Vice President-Finance and Operations, the Executive Vice President-Corporate and International Banking, the Director of Risks, the Head of Recovery, members of the Risk Control and Monitoring unit and the Head of Finance.

D.10 Comité des dépassements et Impayés (arrears committee)

The Comité des dépassements et Impayés (arrears committee) meets on a monthly basis and is an integral part of the risk monitoring system. This committee monitors excesses and loan arrears (unauthorized overdrawn accounts and/or overdrafts with expired limits and loan arrears. Through monitoring of these credit risks, potential non performing loans are identified and action plans discussed for implementation. Otherwise, if all measures for recovery have already been undertaken and have still been unsuccessful the committee validates transfer to "Contentieux-Bad and Doubtful debts).

The Committee is chaired by the Chief Executive Officer and the other members present are the Deputy Chief Executive Officer, the Executive Vice President-Finance and Operations, the Executive Vice President-Corporate and International Banking the Director of Risks, members of the Risk Control and Monitoring department and the Heads of Business segments.

D.11 Risk Management Committee

The Risk Management is chaired by the Chief Executive Officer and the other members present are the Deputy Chief Executive Officer, the Executive Vice President-Finance and Operations, the Executive Vice President-Corporate and International Banking the Director of Risks, the Manager of the Risk Control and Monitoring department and the Manager of Underwriting.

The primary function of the Risk Management Committee is to monitor the credit risks, operational risks and the market risks portfolios while at the same time overseeing the bank's risk profile and tolerance against defined risk appetite.

The Risk Management Committee is also responsible for monitoring the risk concentration i.e. the identification, evaluation, measurement, monitoring and controlling of the bank's principal business and operational risks. As such, the main functions of the Risk Management Committee are to:

- Set out the nature, role, responsibility and authority of the risk management function within the Bank and outline the scope of risk management activities,
- Review and assess the integrity of the risk control systems and ensure that the risk policies and strategies are managed efficiently,
- Monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risk, including immediate and prospective impacts,
- Ensure compliance with laws, regulations, internal policies, and with overall risk profile of the Bank especially with respect to market risks, credit risks and operational risks,
- Scrutinise major exposures of the bank and control the respect of the limits, as well as delegated authorities,
- Approve the Risk Policies in accordance with the Bank's risk framework.

The Committee meets on a quarterly basis.

D.12 Organisation and Information System Committee

The Organisation and Information System Committee is composed of the Chief Executive Officer, the Deputy Chief Executive Officer, the Executive Vice President of Finance and Operations, the Executive Vice President of Corporate and International Banking, the Director of Risks, the Head of Business Development, the Head of Retail Banking, the Head of Information System and Organisation, the Head of Human Resources, the Head of Compliance, the Head of Information System Security and the members of the IT team. The Committee is chaired by the Head of Information System and Organisation.

The purpose of the Committee is to have a follow up of projects relating mainly to IT. The committee meets on a monthly basis.

D.13 Corporate Governance Committee

The Directors consider that the Corporate Governance Committee functions and responsibilities are assumed and discharged by the main Board during the year, and hence no corporate governance committee has been set up.

Material clauses of the Bank's constitution

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

Going concern

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

Dividend policy

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

Integrated Sustainability Reporting

Ethics

Environment

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

Health and Safety

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

Social Issues

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

For the third consecutive year, the Bank has financially contributed to the activities of the NGO Ti Rayons Soleil, which works with the needy children of Riviere Noire, through school support and nutrition programmes.

The Bank has also been involved with two other NGOs, namely Safire, whose objective is the social integration of street children and Courte Echelle du Nord, regarding the educational support of children with disabilities.

Banque des Mascareignes has a strong belief of the importance of sports in the social integration of youngsters, nad has thus contributed to athletics and kickboxing, by providing financial support to Club Maurice (Jeux de la Francophonie 2013) and several clubs of kickboxing (competition equipment).

To be an active partner in the fight against all forms of addictions, Banque des Mascareignes has associated with Centre de Solidarité, an NGO involved in the rehabilitation of substance abusers.

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Donation

No donation was made during the year period review.

Political contributions

No political contribution was made during the period under review.

Remuneration of Directors

The non executive directors (external to the Group) receive a fee for each board meeting or other board committees.

The remuneration packages are determined based on a number of factors including qualifications, skills, market conditions and responsibility shouldered. The current remuneration system offers flexibility to retain and attract talented staffs. The management of the Bank does not take undue risk and in line with the provisions contained in Section 18 (5) of the Banking Act, remuneration is not linked to the income of the Bank or to the level of activities on customers' accounts. The directors' remuneration payable for the year 2013 is listed below:

	MUR 000 2013	MUR 000 2012
Executive		
Huy Hoang DANG	11,406	9,561
Mathieu DABOUT	9,691	7,069
Non executive		
Philippe GARSUAULT	-	-
Alain MERLOT	-	-
Yvan DE LA PORTE DU THEIL	497	-
Jean Michel LATY	-	-
Bernard FREMONT	-	-
Christine FABRESSE	-	-

External auditors fees payable

MUR 000	2013	2012	2011
Audit fees payable to KPMG	2,866	2,385	2,996

Related party transactions

Related Party Transactions are strictly regulated and the Bank of Mauritius Guidelines issued in January 2009 sets the parameters. The Conduct Review Committee meets on a quarterly basis to take note of all related party transactions conducted during the previous quarter in accordance with the Bank of Mauritius guideline. After each meeting, the matters reviewed are reported to the Board of Directors. Parties are captured under the definition of 'related party' if they have the ability, directly or indirectly, to influence the affairs of the bank, in making financial or operating decisions.

A "related party" is:

i A person who has significant interest in the financial institution or a financial institution has significant interest in the person
ii A director or senior officer of the financial institution or of a body corporate that controls the financial institution
iii The spouse, a child or a parent of a natural person covered in (i) and (ii)
iv An entity that is controlled by a person described in (i), (ii) and (iii)
v A person or class of persons who has been designated by the Central Bank as a related party.

The aim of the Guideline on Related Party Transactions is to promote self regulation and self discipline among financial institutions with a view to protecting such institutions from the risks of Related Party Transactions. As a general rule, all transactions with a Related Party must be carried out on terms and conditions that are at least as favourable to the Bank as market terms and conditions.

As per the new Guideline on Related Parties released by the Bank of Mauritius in January 2009 for the purpose of determining the regulatory limits on exposures, related parties are classified into the following three categories:

Category 1

This includes, amongst others credit exposures to a person who has significant interest in the financial institution; a director of the financial institution; a director of a body corporate that controls the financial institution; the spouse, child and parent of those mentioned; any entity that is controlled by a person of those mentioned; any entity in which the financial institution has significant interest excluding a subsidiary of the financial institution mentioned in Category 2.

Category 2

This includes credit exposures to senior officers, which are outside the terms and conditions of employment contracts; the spouse, child and parent of senior officers; senior officers of a body corporate that controls the financial institution; any entity that is controlled by a person described as per the guideline; and a subsidiary of the financial institution with no shareholder holding directly or indirectly more than a significant shareholding in the parent financial institution.

Related party transactions (continued)

Category 3

This includes credit exposures to senior officers, which are within the terms and conditions of employment contracts.

The Bank adheres to the BOM guideline on Related Party Transactions and on Section 46(2) of the Banking Act 2004 relating to the appointment or reappointment of Senior Officers. It monitors closely all transactions with related parties, in terms of loans, other credit facilities, non-fund based commitments, deposits, etc. whilst ensuring that risks are contained, terms and conditions are respected and proper disclosure carried out as per regulations.

As at 31 December 2013, all loans to Directors and other key personnel, classified as Related Party transactions, were carried out at least under market terms and conditions with the exception of facilities to key management personnel who benefitted from preferential rates as applicable to staff. None of the credit facilities to related parties were non-performing.

The table below shows transactions with our related parties (Categories 1 and 3) as at 31 December 2013.

Related party transactions as at 31 December 2013

In Mur'000	Initial amount	Outstanding amount
Category 1	1,335	344
Category 2	N/A	N/A
Category 3	13,177	9,727

The table below shows that, compared to September 2013, there has been a decrease in the figures in facilities taken by senior officers, figures which are insignificant compared to the total credit exposure of the bank. As a percentage of the Tier 1 Capital, the ratio decreased from 1.16% in September 2013 to 0.75% in December 2013 due to the decrease of facilities to senior officers. Total transactions with related parties have decreased from Mur 14.236 million as at 30 September 2013 to Mur 10.071 million in December 2013.

Exempt

Period	Amount (KMUR)	As a percentage of Total Credit Exposure (%)	Tier 1 Capital (KMUR)	As a percentage of Tier 1 Capital of BM (%)
31-Dec-12	8,016	0.05%	1,013,202	0.79%
31-Mar-13	17,132	0.10%	1,245,858	1.38%
30-Jun-13	17,293	0.11%	1,245,858	1.39%
30-Sept-13	14,236	0.09%	1,231,045	1.16%
31-Dec-13	10,071	0.07%	1,340,545	0.75%

Related party transactions (continued)

Category 3 (continued)

Below is a table summarising our interbank borrowing, lending and placements with our holding company BPCE. Borrowings witnessed an increase of 187% compared to September 2013 (figures now including deposits from BPCE-IOM and BM Madagascar as exempted transactions). Placements increased by 45% and loans decreased by 73% for the same period.

BPCE (Interbank transactions)	31st December 2012 MUR million	31st December 2013 MUR million
Borrowings	4388	4964
Placements	952	749
Loans	604	160

Statement of compliance

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

Name of Public Interest Entity: Banque des Mascareignes Ltee

Reporting Period: 31 December 2013

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

• the PIE has not complied with Section 3.5 of the Code.

Reason for non-compliance is that no Corporate Governance Committee has been set up as all the functions and responsibilities of the Corporate Governance Committee are assumed and discharged by the main Board during the year.

Chairman **Director**

STATEMENT OF DIRECTOR'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

The Bank's internal auditor, who has full and free access to the Audit Committee, conducts a well-designed program of internal audits. In addition, the Bank's compliance function maintains policies, procedures, and programs directed at ensuring compliance with regulatory requirements.

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

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

Philippe GARSUAULT
Chairman

Hoang DANG
Chief Executive Officer

Matthieu DABOUT
Deputy Chief Executive Officer

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SECRETARY'S CERTIFICATE

In my capacity as Company Secretary of Banque Des Mascareignes Ltée (the "Company"), I hereby confirm that, to the best of my knowledge and belief, the Company has filed with the Registrar of Companies, for the financial year ended 31 December 2013, all such returns as are required of the Company under the Companies Act 2001.

Feerdaus BUNDHUN

20 March 2014

03 Financial Statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF BANQUE DES MASCAREIGNES LTEE

Report on the Financial Statements

We have audited the consolidated and separate financial statements of Banque des Mascareignes Ltée ("the Bank") and its subsidiary (collectively referred to as the "Group") which comprise the statement of financial position at 31 December 2013 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 57 to 167.

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 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.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing.

Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amountsand disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF BANQUE DES MASCAREIGNES LTEE (CONTINUED)

Report on the Financial Statements (continued)

Opinion

In our opinion, these financial statements give a true and fair view of the consolidated and separate financial position of the Banque des Mascareignes Ltée at 31 December 2013 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.

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 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 (the "Code") as disclosed in the annual report and on whether the disclosure is consistent with the requirements of the Code.

In our opinion, the disclosures in the Corporate Governance Report are consistent with the requirement of the Code.

KPMG

KPMG
Ebène, Mauritius
20 March 2014

John Chung, BSc FCA
Licensed by FRC

Banque des Mascareignes Ltée

Consolidated and separate statement of profit or loss and other comprehensive income

For the year ended 31 December 2013

	Note	Group 2013 Rs 000	Group 2012 Rs 000	Group 2011 Rs 000	Bank 2013 Rs 000	Bank 2012 Rs 000	Bank 2011 Rs 000
Interest income		825,517	902,081	908,248	812,664	892,704	906,162
Interest expense		(406,689)	(423,604)	(414,425)	(400,816)	(418,683)	(407,010)
Net interest income	9	418,828	478,477	493,823	411,848	474,021	499,152
Fee and commission income		143,277	147,362	149,253	130,126	139,607	144,717
Fee and commission expense		(32,303)	(34,111)	(19,902)	(32,161)	(33,897)	(19,544)
Net fee and commission income	10	110,974	113,251	129,351	97,965	105,710	125,173
Net trading income	11	69,068	80,345	89,637	61,804	77,074	88,334
Net income from other financial instruments at fair value through profit or loss	12	(414)	(655)	1,126	(414)	(655)	1,126
Other revenue	13	3,957	5,600	1,519	13,231	11,388	10,904
		183,585	198,541	221,633	172,586	193,517	225,537
Revenue		602,413	677,018	715,456	584,434	667,538	724,689
Personnel expenses	14	(249,747)	(210,740)	(187,250)	(243,992)	(205,737)	(183,096)
Operating lease expenses	15	(42,066)	(37,580)	(34,512)	(36,754)	(34,188)	(32,696)
Depreciation and amortisation		(38,489)	(43,356)	(46,716)	(26,663)	(31,371)	(38,406)
Other expenses	16	(173,765)	(149,977)	(136,399)	(153,512)	(130,990)	(107,164)
		(504,067)	(441,653)	(404,877)	(460,921)	(402,286)	(361,362)
Operating profit		98,346	235,365	310,579	123,513	265,252	363,327
Net impairment loss on financial assets		8,650	(1,013,994)	(221,220)	10,148	(1,012,845)	(220,004)
Profit / (Loss) before tax		106,996	(778,629)	89,359	133,661	(747,593)	143,323
Income tax	17	(21,715)	55,207	(1,299)	(22,453)	54,983	(1,717)
Profit / (Loss)		85,281	(723,422)	88,060	111,208	(692,610)	141,606
Other comprehensive income							
Items that are or may be reclassified to profit or loss							
Foreign currency translation differences for foreign operations		11,408	(25,023)	10,723	-	-	-
Net change in fair value of available for sales financial assets		(3,797)	5,737	(10,082)	(3,797)	5,737	(10,082)
Other comprehensive income		7,611	(19,286)	641	(3,797)	5,737	(10,082)
Total comprehensive income		92,892	(742,708)	88,701	107,411	(686,873)	131,524

The notes on pages 57 to 167 form an integral part of these consolidated and separate financial statements..

Banque des Mascareignes Ltée

Consolidated and separate statement of profit or loss and other comprehensive income

For the year ended 31 December 2013 (continued)

	Group 2013 Rs 000	Group 2012 Rs 000	Group 2011 Rs 000
Profit / (Loss) attributable to :			
Equity holders of the Bank	93,058	(714,428)	(102,370)
Non-controlling interests	(7,777)	(8,994)	(14,310)
Profit / (Loss)	85,281	(723,422)	88,060
Total comprehensive income attributable to:			
Equity holders of the Bank	100,669	(733,714)	103,011
Non-controlling interest	(7,777)	(8,994)	(14,310)
Total comprehensive income	92,892	(742,708)	88,701

The notes on pages 57 to 167 form an integral part of these consolidated and separate financial statements..

Banque des Mascareignes Ltée

Consolidated and separate statement of financial position

As at 31 December 2013

	Note	Group 2013 Rs 000	Group 2012 Rs 000	Group 2011 Rs 000	Bank 2013 Rs 000	Bank 2012 Rs 000	Bank 2011 Rs 000
ASSETS							
Cash and cash equivalents	18	2,017,569	2,290,888	2,515,861	1,897,224	2,180,659	2,467,357
Loans and advances to banks	19	229,900	1,653,246	2,816,033	189,583	1,653,246	2,816,033
Loans and advances to customers	20	13,464,305	14,714,919	13,103,943	13,418,405	14,684,614	13,097,346
Investment securities	21	1,884,133	1,605,904	1,638,462	1,770,194	1,570,446	1,625,308
Investment in subsidiary	22	-	-	-	170,386	106,072	106,072
Goodwill	24	75,707	75,707	73,816	-	-	-
Property and equipment	23	48,710	69,485	89,650	39,124	50,651	63,590
Intangible assets	24	5,760	9,145	13,419	1,891	2,916	6,018
Deferred tax assets	17 (ii)	161,312	157,805	65,291	158,502	155,888	64,265
Other assets	25	695,807	719,997	640,085	676,808	711,403	699,189
Total assets		18,583,203	21,297,096	20,956,560	18,322,117	21,115,895	20,945,178
LIABILITIES							
Deposits from banks	26	1,130,101	1,286,670	-	1,130,101	1,286,670	-
Deposits from customers	27	10,638,327	13,311,624	11,835,434	10,372,838	13,129,066	11,793,005
Borrowed funds	28	4,192,960	4,215,105	6,646,846	4,149,802	4,215,105	6,647,225
Subordinated liabilities	29	619,283	621,200	501,093	619,283	621,200	501,093
Provisions	30	30,736	26,577	18,577	24,698	20,785	16,655
Current tax liabilities	17 (iii)	12,405	15,972	21,646	12,265	15,972	21,646
Other liabilities	31	382,583	603,520	523,827	356,188	527,566	529,149
Total liabilities		17,006,395	20,080,668	19,547,423	16,665,175	19,816,364	19,508,773
Equity							
Share capital	32	1,749,016	1,499,016	838,734	1,749,016	1,499,016	838,734
Retained earnings		(339,653)	(432,711)	392,000	(246,139)	(357,347)	445,546
Reserves		151,173	143,562	162,848	154,065	157,862	152,125
Total equity attributable to the equity holders of the Bank		1,560,536	1,209,867	1,393,582	1,656,942	1,299,531	1,436,405
Non-controlling interests		16,272	6,561	15,555	-	-	-
Total equity		1,576,808	1,216,428	1,409,137	1,656,942	1,299,531	1,436,405
Total liabilities and equity		18,583,203	21,297,096	20,956,560	18,322,117	21,115,895	20,945,178

These financial statements have been approved and authorised for issue by the Board of Directors on the 20 March 2014

Philippe GARSUAULT
Chairman

Hoang DANG
Chief Executive Officer

Matthieu DABOUT
Deputy Chief Executive Officer

The notes on pages 57 to 167 form an integral part of these consolidated and separate financial statements..

Banque des Mascareignes Ltée

Consolidated statement of changes in equity

As at 31 December 2013

Attributable to equity holders of the Bank

Group	Share capital Rs 000	Reserves: Statutory reserve Rs 000	Reserves: General banking reserve Rs 000	Reserves: Fair value reserve Rs 000	Reserves: Foreign currency translation reserve Rs 000	Retained earnings Rs 000	Total Rs 000	Non-controlling interest Rs 000	Total equity Rs 000
Balance at 01 January 2011	838,734	62,131	28,709	21,926	28,200	310,871	1,290,571	-	1,290,571
On acquisition of subsidiary	-	-	-	-	-	-	-	29,865	29,865
Total comprehensive income									
Profit / (loss)	-	-	-	-	-	102,370	102,370	(14,310)	88,060
Other comprehensive income	-	-	-	(10,082)	10,723	-	641	-	641
Total comprehensive income	-	-	-	(10,082)	10,723	102,370	103,011	(14,310)	88,701
Transfer to statutory reserve	-	21,241	-	-	-	(21,241)	-	-	-
At 31 December 2011	838,734	83,372	28,709	11,844	38,923	392,000	1,393,582	15,555	1,409,137
Total comprehensive income									
Loss	-	-	-	-	-	(714,428)	(714,428)	(8,994)	(723,422)
Other comprehensive income / (loss)	-	-	-	5,737	(25,023)	-	(19,286)	-	(19,286)
Total comprehensive income / (loss)	-	-	-	5,737	(25,023)	(714,428)	(733,714)	(8,994)	(742,708)
Transactions with owners of the Bank									
Issue of shares	660,282	-	-	-	-	-	660,282	-	660,282
Dividend	-	-	-	-	-	(110,283)	(110,283)	-	(110,283)
Total contributions and distributions	660,282	-	-	-	-	(110,283)	549,999	-	549,999
At 31 December 2012	1,499,016	83,372	28,709	17,581	13,900	(432,711)	1,209,867	6,561	1,216,428
Total comprehensive income									
Profit / (loss)	-	-	-	-	-	93,058	93,058	(7,777)	85,281
Other comprehensive income / (loss)	-	-	-	(3,797)	11,408	-	7,611	-	7,611
Total comprehensive income / (loss)	-	-	-	(3,797)	11,408	93,058	100,669	(7,777)	92,892
Transactions with owners of the Bank									
Issue of shares	250,000	-	-	-	-	-	250,000	17,488	267,488
Total contributions	250,000	-	-	-	-	-	250,000	17,488	267,488
Balance at 31 December 2013	1,749,016	83,372	28,709	13,784	25,308	(339,653)	1,560,536	16,272	1,576,808

The notes on pages 57 to 167 form an integral part of these consolidated and separate financial statements..

Banque des Mascareignes Ltée

Statement of changes in equity

For the year ended 31 December 2013

Bank	Share capital	Statutory reserve	General banking reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Total
		Reserves					
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance at 01 January 2011	838,734	62,131	28,709	21,926	28,200	325,181	1,304,881
Total comprehensive income							
Profit	-	-	-	-	-	141,606	141,606
Other comprehensive income	-	-	-	(10,082)	-	-	(10,082)
Total comprehensive income	-	-	-	(10,082)	-	141,606	131,524
Transfer to statutory reserve	-	21,241	-	-	-	(21,241)	-
At 31 December 2011	838,734	83,372	28,709	11,844	28,200	445,546	1436,405
Total comprehensive income							
Loss	-	-	-	-	-	(692,610)	(692,610)
Other comprehensive income	-	-	-	5,737	-	-	5,737
Total comprehensive income	-	-	-	5,737	-	(692,610)	(686,873)
Transactions with owners of the Bank							
Issue of shares	660,282	-	-	-	-	-	660,282
Dividend	-	-	-	-	-	(110,283)	(110,283)
Total contributions and distributions	660,282	-	-	-	-	(110,283)	549,999
Balance at 31 December 2012	1,499,016	83,372	28,709	17,581	28,200	(357,347)	1,299,531
Total comprehensive income							
Profit for the year	-	-	-	-	-	111,208	111,208
Other comprehensive income	-	-	-	(3,797)	-	-	(3,797)
Total comprehensive income	-	-	-	(3,797)	-	111,208	107,411
Transactions with owners of the Bank							
Issue of shares	250,000	-	-	-	-	-	250,000
Total contributions	250,000	-	-	-	-	-	250,000
At 31 December 2013	1,749,016	83,372	28,709	13,784	28,200	(246,139)	1,656,942

The notes on pages 57 to 167 form an integral part of these consolidated and separate financial statements..

Banque des Mascareignes Ltée

Consolidated and separate statement of cash flows

For the year ended 31 December 2013

	Note	Group 2013	Group 2012	Group 2011	Bank 2013	Bank 2012	Bank 2011
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash flows from operating activities							
Profit / (loss) before tax		106,996	(778,629)	89,359	133,661	(747,593)	143,323
Adjustments for:							
Depreciation and amortisation	23	38,489	43,356	46,716	26,663	31,371	38,406
Net impairment loss on loans and advances	20	(8,650)	1,013,994	221,220	(10,148)	1,012,845	220,004
Net loss/ (gain) on investment securities at fair value through profit and loss	12	414	655	(1,126)	414	655	(1,126)
Profit/(loss) on sale of equipment	23	-	339	(329)	-	339	(329)
		137,249	279,715	355,840	150,590	297,617	400,278
Changes in:							
Loans and advances to banks	19	1,423,346	1,162,787	3,049,469	1,463,663	1,162,787	3,057,326
Loans and advances to customers	20	1,251,771	(2,577,413)	(1,575,172)	1,268,881	(2,552,550)	(1,780,668)
Other assets	25	24,190	(79,912)	(80,315)	34,595	(12,214)	(83,426)
Deposits from banks	26	(156,569)	1,286,670	-	(156,569)	1,286,670	-
Deposits from customers	27	(2,673,297)	1,476,190	(516,805)	(2,756,228)	1,336,061	(573,006)
Other liabilities and provisions	30, 31	(216,777)	87,693	195,522	(167,465)	2,547	187,691
		(210,087)	1,635,730	1,428,539	(162,533)	1,520,918	1,208,195
Income taxes paid		(24,402)	(43,326)	(48,237)	(24,403)	(43,326)	(47,936)
		(234,489)	1,592,404	1,380,302	(186,936)	1,477,592	1,160,259
Cash flows from investing activities							
Acquisition of investment securities	21	(2,103,621)	(1,447,873)	(1,251,380)	(1,567,291)	(1,378,758)	(1,206,316)
Proceeds from sale of investment securities	21	1,865,274	1,463,849	930,697	1,317,064	1,391,473	1,115,468
Acquisition of shares in subsidiary	22	-	-	(51,069)	-	-	(106,072)
Acquisition of property and equipment	23	(13,900)	(18,907)	(48,996)	(13,475)	(17,326)	(19,169)
Proceeds from sale of property and equipment	23	-	3,215	1,435	-	3,215	1,435
Acquisition of intangible assets	24	(636)	(879)	(9,112)	(636)	(879)	(480)
Net cash used in investing activities		(252,883)	(595)	(428,425)	(264,338)	(2,275)	(215,134)

The notes on pages 57 to 167 form an integral part of these consolidated and separate financial statements..

Banque des Mascareignes Ltée

Consolidated and separate statement of cash flows

For the year ended 31 December 2013 (continued)

	Note	Group 2013 Rs 000	Group 2012 Rs 000	Group 2011 Rs 000	Bank 2013 Rs 000	Bank 2012 Rs 000	Bank 2011 Rs 000
Cash flows from financing activities							
Proceeds from issue of subordinated liabilities	29	-	100,000	176,760	-	100,000	176,760
Repayment of borrowed funds	28	(22,145)	(2,431,741)	191,398	(65,303)	(2,432,120)	188,556
Proceeds from issue of shares		253,854	660,282	-	250,000	660,282	-
Dividends paid		-	(110,283)	-	-	(110,283)	-
Net cash (used in)/from financing activities		231,709	(1,781,742)	368,158	184,697	(1,782,121)	365,316
Net (decrease) / increase in cash and cash equivalents		(255,663)	(189,933)	1,320,035	(266,577)	(306,804)	1,310,441
Cash and cash equivalents at 01 January		2,290,889	2,515,861	1,168,801	2,180,659	2,467,357	1,168,801
Effect of exchange rate fluctuations on cash and cash equivalents held		(17,757)	(35,040)	(9,548)	16,858	20,106	(11,885)
On acquisition of subsidiary		-	-	36,573	-	-	-
Cash and cash equivalents at 31 December	18	2,017,569	2,290,888	2,515,861	1,897,224	2,180,659	2,467,357

The notes on pages 57 to 167 form an integral part of these consolidated and separate financial statements..

Banque des Mascareignes Ltée

Notes to and forming part of the consolidated and separate financial statements

For the year ended 31 December 2013

1. Reporting entity

Banque des Mascareignes Ltée (the 'Bank') is a private company incorporated on 27 June 2003 and domiciled in Mauritius. The Bank holds a banking licence issued by the Bank of Mauritius on 8th January 2004. The Bank's registered office is at 8th Floor, One Cathedral Square, Port-Louis, Mauritius. These consolidated and separate financial statements comprise the Bank and its subsidiary (collectively the 'Group'). The Group is primarily involved in banking.

2. Basis of accounting

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and are in compliance with the Mauritius Companies Act, legislations and guidelines issued by the Bank of Mauritius. They were authorised for issue by the Bank's board of directors on 20 March 2014.

Where necessary, comparative figures have been amended to conform with changes in presentation in the current year.

3. Functional and presentation currency

These consolidated and separate financial statements are presented in Mauritian rupees (MUR), which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

4. Use of judgements and estimates

In preparing these consolidated and separate financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

(a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated and separate financial statements is set out below.

Determination of control over investees

Management applies its judgement to determine whether the control indicators indicate that the Group controls an investee Company.

4. Use of judgements and estimates (continued)

(b) *Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2013 is set out below in relation to the impairment of financial instruments and in the following notes:

- Note 37 – determination of fair value of financial instruments with significant unobservable inputs;
- Note 14 – measurement of defined benefit obligations: key actuarial assumptions;
- Note 17 – recognition of deferred tax assets: availability of future taxable profit against which carryforward tax losses can be used;
- Note 24 (b) – impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts; and
- Notes 30 and 35 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

Impairment of financial instruments

Assets accounted for at amortised cost are evaluated for impairment on the basis described in Note 7.

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

The collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology which uses statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates are regularly benchmarked against actual

loss experience.

4. Use of judgements and estimates (continued)

(b) *Assumptions and estimation uncertainties (continued)*

Impairment of financial instruments (continued)

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

5. Basis of measurement

The consolidated and seperate financial statements have been prepared on a historical cost basis except for the following items.

Items	Measurement basis
Available-for-sale financial assets	Fair value
Financial assets at fair value through profit or loss	Fair value

6. Changes in accounting policies

Except for the changes below, the Group and the Bank has consistently applied the accounting policies as set out in Note 7 to all periods presented in these consolidated and separate financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standard, with a date of initial application of 01 January 2013.

a. IFRS 10 Consolidated Financial Statements (2011).
b. IFRS 13 Fair Value Measurement.
c. Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7).
d. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).
e. IAS 19 Employee Benefits (2011).

The nature and the effects of the changes are explained below.

6. Changes in accounting policies (continued)

(a) Subsidiaries, including structured entities

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed its control conclusions as of 1 January 2013 and no exceptions were noted compared to last year, hence no impact on the Consolidated Financial Statement.

(b) Fair value measurement

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value prospectively.The change had no significant impact on the measurements of the Group's assets and liabilities, but the group has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Group has provided the relevant comparative disclosures under those standards.

(c) Offsetting financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Group has expanded disclosures about offsetting financial assets and financial liabilities.

(d) Presentation of items of OCI

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

(e) Post-employment defined benefit plans

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its defined benefit plans.

Under IAS 19 (2011), the Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of

contributions and benefit payments.

6. Changes in accounting policies (continued)

(e) Post-employment defined benefit plans(continued)

Consequently, the net interest on the net defined benefit liability (asset) now comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect on the asset ceiling.

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

The change did not have a material impact on the Group's financial statements.

7. Significant accounting policies

Except for the changes explained in Note 6, the Group has consistently applied the following accounting policies to all periods presented in these consolidated and separate financial statements.

Certain comparative amounts in the statement of profit or loss and OCI have been re-presented as a result of a change in the accounting policy regarding the presentation of items of OCI.

(a) Basis of consolidation

(i)Business combinations

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

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

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

7. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Non-controlling interests

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

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

(iii) Subsidiaries

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

(iv) Loss of control

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

(v) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

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

7. Significant accounting policies (continued)

(b) Foreign currency (continued)

(i) Foreign currency transactions (continued)

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

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

- Available-for-sale financial assets;

(ii) Foreign operations

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

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

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

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

(c) Interest

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

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

7. Significant accounting policies (continued)

(c) Interest (continued)

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss and OCI include:
- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on available-for-sale investment securities calculated on an effective interest basis;

(d) Fees and commission

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

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

(e) Net trading income

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

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

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

(g) Leases

(i) Lease payments – lessee

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

(ii) Lease assets – lessee

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

7. Significant accounting policies (continued)

(g) Leases (continued)

(ii) Lease assets – lessee (continued)

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

(h) Income tax

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

7. Significant accounting policies (continued)

(h) Income tax (continued)

(ii) Deferred tax (continued)

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

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

(iii) Tax exposures

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

(i) Financial assets and financial liabilities

(i) Recognition

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

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

(ii) Classification

Financial assets

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

- loans and receivables;
- available-for-sale;
- at fair value through profit or loss, and within this category as:
  - held for trading; or
  - designated at fair value through profit or loss.

7. Significant accounting policies (continued)

(i) Financial *assets and financial liabilities (continued)*

Financial liabilities

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

(iii) Derecognition

Financial assets

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

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

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

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

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

Financial liabilities

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

7. Significant accounting policies (continued)

(i) Financia*l assets and financial liabilities (continued)*

Financial liabilities (continued)

(i) Offsetting

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

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

(ii) Amortised cost measurement

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

(iii) Fair value measurement

Policy applicable from 01 January 2013

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

7. Significant accounting policies (continued)

(i) Financia*l assets and financial liabilities (continued)*

Financial liabilities (continued)

(iii) Fair value measurement (continued)

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

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

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

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

'Fair value' is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

7. Significant accounting policies (continued)

(i) Financial *assets and financial liabilities (continued)*

Financial liabilities (continued)

(iii) Fair value measurement (continued)

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument.

In other cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or ask price adjustment is applied only to the net open position as appropriate.

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

(iv) Identification and measurement of impairment

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

Objective evidence that financial assets are impaired includes:

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

7. Significant accounting policies (continued)

(i) Financial *assets and financial liabilities (continued)*

Financial liabilities (continued)

(iv) Identification and measurement of impairment (continued)

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

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

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

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

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

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

7. Significant accounting policies (continued)

(i) Financial *assets and financial liabilities (continued)*

Financial liabilities (continued)

(iv) Identification and measurement of impairment (continued)

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

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

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

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

(v) Designation at fair value through profit or loss

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

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

7. Significant accounting policies (continued)

(i) Financial *assets and financial liabilities (continued)*

Financial liabilities (continued)

(v) Designation at fair value through profit or loss (continued)

Note 34 sets out the amount of each class of financial asset or financial liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

(j) Cash and cash equivalents

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

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

(k) Loans and advances

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

Loans and advances to banks and customers are classified as loans and receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Group chooses to designate the loans and advances as measured at fair value through profit or loss, they are measured at fair value with face value changes recognised immediately in profit or loss.

(l) Investment securities

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

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale. Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses.

7. Significant accounting policies (continued)

(l) Investment securities (continued)

(i) Held-to-maturity (continued)

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

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

(ii) Fair value through profit or loss

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

(iii) Available-for-sale

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

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

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

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

7. Significant accounting policies (continued)

(m) Property and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

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

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

• Improvement to leasehold property	3 to 10 years
• Computer equipment	3 to 5 years
• Office equipment	3 to 5 years
• Furniture, fixtures and fittings	3 to 10 years
• Motor vehicles	3 to 5 years

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

7. Significant accounting policies (continued)

(n) Intangible assets and goodwill

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

(ii) Software

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

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

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

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

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

(o)Impairment of non-financial assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

7. Significant accounting policies (continued)

(o)Impairment of non-financial assets (continued)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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 or CGU.

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

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(p) Deposits, borrowed fund and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

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

The Group classifies capital instruments as financial liabilities or equity instruments in accordancewith the substance of the contractual terms of the instruments. The Group's redeemable preference shares bear non-discretionary coupons and are redeemable by the holder, and are therefore included within subordinated liabilities.

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

7. Significant accounting policies (continued)

(q) Provisions

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

(i) Onerous contracts

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

(ii) Bank levies

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

(r) Financial guarantees and loan commitments

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

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

(s) Employee benefits

(i) Defined contribution plans

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

7. Significant accounting policies (continued)

(s) Employee benefits (continued)

(ii) Defined benefit plans

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

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

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

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

(i) Other long-term employee benefits

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

(ii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

(iii) Short-term employee benefits

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

7. Significant accounting policies (continued)

(t) Share Capital and reserves

Share issue costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(u) Segment reporting

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

8. New Standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 01 January 2013, and have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

Effective for the financial year commencing 1 January 2014
• IAS 32 Offsetting Financial Assets and Financial Liabilities
• IFRS 10, IFRS 12 and IAS 27 amendment Investment entities
• IFRIC 21 Levies
• Recoverable Amount Disclosures for Non-Financial Assets (Amendment to IAS 36)
• Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
Effective for the financial year commencing 1 January 2015
• Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
Effective for the financial year commencing tentatively 1 January 2018
• IFRS 9 Financial Instruments

Amendments to IAS 32 Financial Instruments:
Presentation: Offsetting Financial Assets and Financial Liabilities
The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment will result in the Group no longer offsetting two of its master netting arrangements. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

8. New Standards and interpretations not yet adopted (continued)

Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional.

This amendment will result in the Group having to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2014 with early adoption permitted. The Group will adopt the amendments for the year ending 31 December 2014.

IFRIC 21 Levies
Levies have become more common in recent years, with governments in a number of jurisdictions introducing levies to raise additional income. Current practice on how to account for these levies is mixed. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37 Provisions, Contingent Liabilities and Assets. The Interpretation is effective for annual periods commencing on or after 1 January 2014 with retrospective application.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
IAS 39 Financial Instruments: Recognition and Measurement requires an entity to discontinue hedge accounting if the derivative hedging instrument is novated to a clearing counterparty, unless the hedging instrument is being replaced as part of the entity's original documented hedging strategy.

The amendments add a limited exception to IAS 39, to provide relief from discounting an existing hedging relationship, when a novation was not contemplated in the original hedging documentation meets specific criteria. The Group has several hedging instruments that have will be novated to a new clearing counterparty as a result of law. This amendment will result in the Group being able to continue hedge accounting with these hedging instruments, where previously it was required to discontinue hedge accounting. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014 with early adoption permitted.

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

8. New Standards and interpretations not yet adopted (continued)

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
The amendments introduce relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedient if they are:
• set out in the formal terms of the plan;
• linked to service; and
• independent of the number of years of service.

When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. The Group has a defined benefit plan that requires employees to contribute to the plan, if the Group chooses to apply this amendment the Group will recognise the contributions as reduction of the service costs in the period in which the related service is rendered. The amendments apply retrospectively for annual periods beginning on or after 01 January 2015 with early adoption permitted.

IFRS 9 Financial Instruments
IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The Company will adopt the standard in the first annual period beginning on or after the effective date which has tentatively been set as 01 January 2018.

The Company will assess the impact once the standard has been finalised and the effective date is known.

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

9. Net interest income

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Interest income						
Cash and cash equivalents	36,256	66,811	65,302	36,256	64,392	64,394
Loans and advances tobanks	21,348	168,359	134,974	21,016	168,359	134,974
Loans and advances to customers	685,270	586,889	602,788	677,277	582,595	602,366
Investment securities	77,825	73,125	93,109	73,297	70,461	92,353
Other	4,818	6,897	12,075	4,818	6,897	12,075
Total interest income	825,517	902,081	908,248	812,664	892,704	906,162
Interest expense						
Deposits from banks	27,822	7,365	5,033	27,822	7,365	5,033
Deposits from customers	338,102	306,132	334,508	332,500	301,773	327,865
Borrowed funds	18,677	96,055	61,864	18,406	95,493	61,091
Subordinated liabilities	22,088	14,052	13,020	22,088	14,052	13,021
Total interest expense	406,689	423,604	414,425	400,816	418,683	407,010
Net interest income	418,828	478,477	493,823	411,848	474,021	499,152
Interest income relating to impaired financial assets	17,898	42,808	27,939	17,898	42,808	27,939

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

9. Net interest income (continued)

	Bank		
Segment A	2013	2012	2011
	Rs 000	Rs 000	Rs 000
Interest income			
Cash and cash equivalents	-	-	1,152
Loan and advances to banks	1,128	5,290	3,788
Loans and advances to customers	477,417	507,250	528,126
Investment securities	73,297	70,461	92,353
Other	2,012	2,156	1,901
Total interest income	553,854	585,157	627,320
Interest expense			
Deposits from customers	265,167	227,043	269,488
Other borrowed funds	13,840	15,431	15,826
Total interest expense	279,007	242,474	285,314
Net interest income	274,847	342,683	342,006
Segment B			
Interest income			
Cash and cash equivalents	36,256	64,392	63,242
Loans and advances to banks	19,888	163,069	131,186
Loans and advances to customers	199,860	75,345	74,240
Other	2,806	4,741	10,174
Total interest income	258,810	307,547	278,842
Interest expense			
Deposits from banks	27,822	7,365	5,033
Deposits from customers	67,333	74,730	58,377
Borrowed funds	4,566	80,062	45,265
Subordinated liabilities	22,088	14,052	13,021
Total interest expense	121,809	176,209	121,696
Net interest income	137,001	131,338	157,146

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

10. Net fee and commission income

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Fee and commission income						
Customer and credit related fees	143,277	147,362	149,253	130,126	139,607	144,717
Fee and commission expense						
Interbank transaction fees	2,465	6,365	11,342	2,440	6,356	11,342
Other	29,838	27,746	8,560	29,721	27,541	8,202
Total fee and commission expense	32,303	34,111	19,902	32,161	33,897	19,544
Net fee and commission income	110,974	113,251	129,351	97,965	105,710	125,173
Segment A						
Fee and commission income						
Customer and credit related fees				58,686	68,352	85,664
Fee and commission expense						
Interbank transaction fees				978	1,190	6,341
Other				17,063	22,738	6,619
Total fee and commission expense				18,041	23,928	12,960
Net fee and commission income				40,645	44,424	72,704
Segment B						
Fee and commission income						
Customer and credit related fees				71,440	71,255	59,053
Fee and commission expense						
Interbank transaction fees				1,462	5,166	5,001
Other				12,658	4,803	1,583
Total fee and commission expense				14,120	9,969	6,584
Net fee and commission income				57,320	61,286	52,469

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

11. Net trading income

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Net trading income						
Foreign Exchange	69,068	80,345	89,637	61,804	77,074	88,334
Segment A						
Foreign Exchange				35,556	55,920	65,111
Segment B						
Foreign Exchange				26,248	21,154	23,223

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

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Investment securities						
Corporate bonds/Treasury Bills	(414)	(655)	1,126	(414)	(655)	1,126

13. Other revenue

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Other	3,957	5,600	1,519	13,231	11,388	10,904
Segment A						
Other				3,231	3,866	3,385
Segment B						
Other				10,000	7,522	7,519

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

14. Personnel expenses

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Wages and salaries	208,401	181,728	160,135	203,455	177,315	156,501
Compulsory social security contributions	5,476	4,853	4,308	4,854	4,263	3,788
Contributions to defined contribution plans	30,086	25,361	18,534	30,086	25,361	18,534
Increase in liability for defined benefit plans	145	1,240	(2,070)	145	1,240	(2,070)
Other	5,639	(2,442)	6,343	5,452	(2,442)	6,343
	249,747	210,740	187,250	243,992	205,737	183,096

	Group and Bank		
	2013	2012	2011
	Rs 000	Rs 000	Rs 000
Amounts recognised in the balance sheet:			
Present value of obligations	6,594	5,141	4,299
Net cost for the year recognised in total comprehensive income:			
Current service cost	1,010	811	847
Net interest cost (asset)	202	387	268
Past service cost	(587)	-	-
Net cost for the year recognised in profit or loss	625	1,198	1,115
Remeasurement recognised in OCI	828	(356)	364
Net cost for the period	1,453	842	1,479
Net interest cost for the year			
Interest on obligation	202	387	268
Remeasurement recognised in other comprehensive income for the year:			
Actuarial (gains) / losses on the obligation	828	(356)	364
Changes in the Present Value of the obligation			
Present value of obligation at start of the year	5,141	4,299	2,819
Interest cost	202	387	268
Current service cost	1,010	811	847
Past service cost	(587)	-	-
	5,766	5,497	3,934
Present value of the obligation at the start of the year	6,594	5,141	4,299
Remeasurement recognised in OCI at the end of the year	828	(356)	364

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

14. Personnel expense(continued)

Principal actuarial assumptions at the end of the year

	2013	2012	2011
	%	%	%
Discount rate	7.50	8.00	9.00
Expected rate of return on plan assets	-	-	-
Future salary increases	6.00	6.50	7.50
Experience adjustments on:			
Plan liabilities (define contribution obligations) in KMUR	(398)	(356)	(326)
Sensitivity analysis / Impact on present value of unfunded obligations in KMUR			
Discount rate (1% movement)	7.50	8.00	9.00
1% increase in discount rate	4,001	-	-
1% decrease in discount rate	10,372	-	-

15. Operating leases

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Operating lease	42,066	37,580	34,512	36,754	34,188	32,696

The Group leases a number of branch and office premises under operating leases. The leases typically run for a period of 20 years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

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

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Less than one year	26,983	36,741	32,343	22,747	32,976	29,202
Between one and five years	23,013	20,653	20,720	20,213	18,477	17,591
More than five years	11,261	-	-	11,261	-	-
	61,257	57,394	53,063	54,221	51,453	46,793

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

16. Other expenses

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Software licensing and other IT costs	21,811	18,075	4,658	17,931	14,569	4,658
Professional fees	3,381	3,911	2,214	4,252	3,439	2,214
Other	148,573	127,991	129,527	131,329	112,982	100,292
	173,765	149,977	136,399	153,512	130,990	107,164

17. Income taxes

(i) Tax expense

(a) Amounts recognised in profit or loss

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Current tax expense	23,934	38,313	46,111	23,796	37,653	45,472
Deferred tax movement	(2,219)	(93,520)	(44,812)	(1,343)	(92,636)	(43,755)
Total income tax expense/(credit)	21,715	(55,207)	1,299	22,453	(54,983)	1,717

	2013	2012	2011
Segment A			
Current tax expense	19,160	32,674	39,014
Deferred tax movement	(4,740)	(77,381)	(39,741)
Income tax expense/(credit)	14,420	(44,707)	(727)
Segment B			
Current tax expense	4,636	4,979	6,458
Deferred tax movement	3,397	(15,255)	(4,014)
Income tax expense/(credit)	8,033	(10,276)	2,444
Total income tax expense/(credit)	22,453	(54,983)	1,717

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

17. Income taxes (continued)

(b) Reconciliation of income taxes

	Group			Bank		
	2013	2012	2011	2013	2012	2011
Profit/ (loss) before tax	106,996	(778,629)	89,359	133,661	(747,593)	143,323
Tax using the domestic corporation tax rate	14,716	(118,346)	13,404	20,049	112,139)	21,498
Foreign tax credit	(17,164)	46,351	(20,618)	(17,164)	46,351	(20,618)
Non-deductible expenses	4,311	5,578	(2,360)	(145)	255	(10,036)
Corporate social responsibility	3,271	3,482	-	3,271	3,482	-
Special levy on banks	15,889	7,068	7,223	15,889	7,068	7,223
Other	692	660	3,650	553	-	3,650
Total income tax (expense) / credit	21,715	(55,207)	1,299	22,453	(54,983)	1,717

Segment A

	2013	2012	2011
Profit/ (loss) before tax	(9,782)	(360,754)	21,615
Tax using the domestic corporation tax rate	(1,467)	(54,113)	3,242
Non-deductible expenses	(84)	167	(13,538)
Corporate social responsibility	3,271	3,482	-
Special levy on banks	15,889	5,757	5,919
Other	(3,189)	-	3,650
Total income tax expense	14,420	(44,707)	(727)

Segment B

	2013	2012	2011
Profit/ (loss) before tax	143,443	(386,839)	121,708
Tax using the domestic corporation tax rate	21,516	(58,026)	18,256
Foreign tax credit	(17,164)	46,351	(20,618)
Non-deductible expenses	(61)	88	3,502
Special levy on banks	-	1,311	1,304
Other	3,742	-	-
Total income tax expense	8,033	(10,276)	2,444

The Bank is liable to income tax at a rate of 15% (2012 and 2011:15%) on its profit as adjusted for tax purposes. The segment B activities are entitled to a tax credit of 80% of the income tax payable.

An additional charge of 2% of book profit of the preceding year is applicable for all profitable companies in Mauritius in respect of Corporate social responsibility. BM Madagascar is liable to income tax at the rate of 20 % (2012 and 2011:20%).

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

17. Income taxes (continued)

(ii) Deferred tax assets

	Group			Bank		
	2013	2012	2011	2013	2012	2011
At 01 January	157,805	65,291	18,731	155,888	64,265	18,731
(Charged)/Credited to equity	1,288	(1,006)	1,748	1,271	(1,013)	1,779
Charged to profit or loss	2,219	93,520	44,812	1,343	92,636	43,755
At 31 December	161,312	157,805	65,291	158,502	155,888	64,265
Deferred tax assets:						
Allowance for loan losses	153,350	156,542	66,298	154,620	156,542	66,299
Other	4,754	4,440	3,573	674	4,431	3,573
	158,104	160,982	69,871	155,294	160,973	69,871
Deferred tax liabilities:						
Accelerated capital allowances	3,208	(74)	(2,490)	3,208	(1,983)	(3,516)
Fair value gains	-	(3,103)	(2,090)	-	(3,102)	(2,090)
	3,208	(3,177)	(4,580)	3,208	(5,085)	(5,606)
Net deferred tax assets	161,312	157,805	65,291	158,502	155,888	64,265

Bank

Segment A

	Assets	Liabilities	Net
	Rs 000	Rs 000	Rs 000
2013			
Accelerated capital allowances	3,154	-	3,154
Allowance for loan losses	137,631	-	137,631
Other	674	-	674
	141,459	-	141,459
2012			
Accelerated capital allowances	-	(2,019)	(2,019)
Allowance for loan losses	138,187	-	138,187
Fair value gains	-	(3,102)	(3,102)
Other	2,383	-	2,383
	140,570	(5,121)	135,449
2011			
Accelerated capital allowances	-	(3,503)	(3,503)
Allowance for loan losses	62,378	-	62,378
Fair value gains	-	(2,090)	(2,090)
Other	3,494	-	3,494
	65,872	(5,593)	60,279

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

17. Income taxes (continued)

(ii) Deferred tax assets (continued)

Bank (continued)

Segment B

	Assets	Liabilities	Net
	Rs 000	Rs 000	Rs 000
2013			
Accelerated capital allowances	54	-	54
Allowance for loan losses	16,989	-	16,989
	17,043	-	17,043
2012			
Accelerated capital allowances	36	-	36
Allowance for loan losses	18,355	-	18,355
Other	2,048	-	2,048
	20,439	-	20,439
2011			
Accelerated capital allowances	-	(13)	(13)
Allowance for loan losses	3,921	-	3,921
Other	78	-	78
	3,999	(13)	3,986

(iii) Current tax liabilities

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Current tax liabilities	12,405	15,972	21,646	12,265	15,972	21,646
Segment A						
Current tax liabilities				9,466	13,086	18,572
Segment B						
Current tax liabilities				2,799	2,886	3,074

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

18. Cash and cash equivalents

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash in hand	118,480	96,127	83,083	81,512	87,828	76,079
Foreign currency notes and coins	29,336	23,437	20,655	23,537	20,858	15,519
Unrestricted balances with central banks	588,394	683,775	502,624	509,955	523,476	502,624
Money market placements	749,517	992,786	-	749,517	992,786	-
Balances with banks abroad	531,842	494,763	1,909,499	532,703	555,711	1,873,135
	2,017,569	2,290,888	2,515,861	1,897,224	2,180,659	2,467,357
Segment A						
Cash in hand				81,512	87,828	76,079
Foreign currency notes and coins				23,537	20,858	15,519
Unrestricted balances with central banks				509,955	523,476	502,624
				615,004	632,162	594,222
Segment B						
Money market placements				749,517	992,786	-
Balances with banks abroad				532,703	555,711	1,873,135
				1,282,220	1,548,497	1,873,135

19. Loans and advances to banks

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Loans and advances to banks						
- in Mauritius	-	100,000	-	-	100,000	-
- outside Mauritius	229,900	1,553,246	2,816,033	189,583	1,553,246	2,816,033
	229,900	1,653,246	2,816,033	189,583	1,653,246	2,816,033
Remaining term to maturity						
Up to 3 months	69,900	1,098,622	899,789	29,583	1,098,622	899,789
Over 3 months and up to 6 months	-	394,624	392,852	-	394,624	392,852
Over 6 months and up to 12 months	160,000	160,000	849,121	160,000	160,000	849,121
Over 1 year and up to 5 years	-	-	674,271	-	-	674,271
	229,900	1,653,246	2,816,033	189,583	1,653,246	2,816,033

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

19. Loans and advances to banks (continued)

	Bank		
	2013	2012	2011
	Rs 000	Rs 000	Rs 000
Segment A			
Loans and advances to banks in Mauritius (Up to 3 months)	-	100,000	-
Segment B			
Loans and advances to banks			
- outside Mauritius	189,583	1,553,246	2,816,033
Remaining term to maturity			
Up to 3 months	29,583	998,622	899,789
Over 3 months and up to 6 months	-	394,624	392,852
Over 6 months and up to 12 months	160,000	160,000	849,121
Over 1 year and up to 5 years	-	-	674,271
	189,583	1,553,246	2,816,033

20. Loans and advances to customers

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Retail customers						
Mortgages	1,574,916	1,406,790	1,322,335	1,574,886	1,406,753	1,322,335
Other retail loans	1,271,356	1,296,536	1,820,199	1,248,270	1,285,052	1,818,389
Corporate customers	6,856,604	5,519,810	4,754,484	6,849,988	5,512,132	4,748,549
Entities outside Mauritius	5,060,118	5,628,864	5,708,674	5,059,766	5,628,445	5,708,700
Other	187,951	2,350,716	19,611	168,343	2,337,752	19,611
	14,950,945	16,202,716	13,625,303	14,901,253	16,170,134	13,617,584
Less allowance for impairment	(1,486,640)	(1,487,797)	(521,360)	(1,482,848)	(1,485,520)	(520,238)
	13,464,305	14,714,919	13,103,943	13,418,405	14,684,614	13,097,346
Remaining term to maturity						
Up to 3 months	6,613,325	6,838,214	3,028,895	6,574,569	6,814,318	3,023,284
Over 3 months and up to 6 months	729,730	442,865	293,062	729,711	442,865	293,062
Over 6 months and up to 12 months	212,503	342,887	725,700	210,299	341,544	725,700
Over 1 year and up to 5 years	4,700,237	5,644,965	4,937,912	4,691,523	5,637,622	4,935,804
Over 5 years	2,695,150	2,933,785	4,639,734	2,695,151	2,933,785	4,639,734
	14,950,945	16,202,716	13,625,303	14,901,253	16,170,134	13,617,584

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

20. Loans and advances to customers (continued)

(a) Remaining term to maturity

	Bank		
	2013	2012	2011
	Rs 000	Rs 000	Rs 000
Segment A			
Retail customers			
Mortgages	1,425,630	1,224,320	1,155,574
Other retail loans	925,173	1,016,356	1,183,203
Corporate customers	5,852,189	2,838,478	4,338,219
Other	168,343	2,337,752	19,611
	8,371,335	7,416,906	6,696,607
Less allowance for impairment	(927,477)	(929,783)	(415,574)
	7,443,858	6,487,123	6,281,033
Up to 3 months	3,701,237	3,281,492	1,677,849
Over 3 months and up to 6 months	460,746	442,789	268,681
Over 6 months and up to 12 months	59,281	16,226	246,923
Over 1 year and up to 5 years	1,613,133	1,376,432	1,289,679
Over 5 years	2,536,937	2,299,967	3,213,475
	8,371,334	7,416,906	6,696,607
Segment B			
Retail customers			
Mortgages	149,256	182,433	166,761
Other retail loans	323,097	268,696	635,186
Corporate customers	997,799	2,673,654	410,330
Entities outside Mauritius	5,059,766	5,628,445	5,708,700
	6,529,918	8,753,228	6,920,977
Less allowance for impairment	(555,371)	(555,737)	(104,664)
	5,974,547	8,197,491	6,816,313
Up to 3 months	2,873,332	3,532,826	1,345,435
Over 3 months and up to 6 months	268,965	76	24,381
Over 6 months and up to 12 months	151,018	325,318	478,777
Over 1 year and up to 5 years	3,078,390	4,261,190	3,646,125
Over 5 years	158,214	633,818	1,426,259
	6,529,919	8,753,228	6,920,977

20. Loans and advances to customers (continued)

(b) Credit concentration of risk by industry sectors

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Agriculture and fishing	538,318	465,538	132,366	537,549	465,538	132,366
Manufacturing	2,423,898	2,765,548	1,963,753	2,411,884	2,763,307	1,959,031
Tourism	1,401,242	1,485,247	1,346,401	1,401,186	1,478,278	1,346,401
Transport	743,894	794,931	444,074	736,097	794,931	443,950
Construction	3,002,690	2,922,693	2,165,977	3,001,212	2,922,695	2,165,977
Financial and business services	905,596	996,222	1,314,973	905,524	996,220	1,314,973
Traders	3,733,151	2,748,137	3,305,699	3,724,624	2,736,585	3,304,691
Personal	327,319	310,677	941,220	324,792	308,081	939,361
Professional	333,421	332,651	23,982	317,068	323,726	23,982
Global Business Licence holders	480,940	1,840,078	386,737	480,940	1,840,078	386,737
Others	1,060,476	1,540,994	1,600,121	1,060,377	1,540,695	1,600,115
	14,950,945	16,202,716	13,625,303	14,901,253	16,170,134	13,617,584
Segment A						
Agriculture and fishing				386,599	312,363	132,366
Manufacturing				857,058	736,562	876,314
Tourism				899,169	960,430	841,808
Transport				124,388	119,415	124,188
Construction				2,560,622	2,366,777	1,680,607
Financial and business services				330,266	385,149	524,639
Traders				2,488,534	1,328,034	1,407,104
Personal				299,633	284,927	229,501
Professional				65,570	78,183	23,982
Others				359,495	845,066	856,098
				8,371,334	7,416,906	6,696,607
Segment B						
Agriculture and fishing				150,950	153,175	-
Manufacturing				1,554,826	2,026,745	1,082,717
Tourism				502,017	517,848	504,593
Transport				611,709	675,516	319,762
Construction				440,590	555,918	485,370
Financial and business services				575,258	611,071	790,334
Traders				1,236,090	1,408,551	1,897,587
Personal				25,159	23,154	709,860
Professional				251,498	245,543	-
Global Business Licence holders				480,940	1,840,078	386,737
Others				700,882	695,629	744,017
				6,529,919	8,753,228	6,920,977

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Banque des Mascareignes Ltée
Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

20. Loans and advances to customers (continued)

(c) Allowance for credit impairment

Group	Specific allowance for impairment	Collective/ portfolio allowances and general provisions for impairment	Low-interest rate loans impairment	Total
	Rs 000	Rs 000	Rs 000	Rs 000
At 1 January 2011	183,972	122,261	1,917	308,150
Impairment charge for the year	228,893	(6,970)	(703)	221,220
Loans written off	(8,010)	-	-	(8,010)
At 31 December 2011	404,855	115,291	1,214	521,360
Impairment charge for the year	1,022,793	(8,799)	-	1,013,994
Loans written off	(47,557)	-	-	(47,557)
At 31 December 2012	1,380,091	106,492	1,214	1,487,797
Impairment charge for the year	12,773	(18,686)	(1,214)	(7,127)
Loans written off	5,970	-	-	5,970
At 31 December 2013	1,398,834	87,806	-	1,486,640

Bank				
At 1 January 2011	183,972	122,261	1,917	308,150
Impairment charge for the year	227,677	(6,970)	(703)	220,004
Loans written off	(7,916)	-	-	(7,916)
At 31 December 2011	403,733	115,291	1,214	520,238
Impairment charge for the year	1,021,644	(8,799)	-	1,012,845
Loans written off	(47,563)	-	-	(47,563)
At 31 December 2012	1,377,814	106,492	1,214	1,485,520
Impairment charge for the year	11,268	(18,686)	(1,214)	(8,632)
Loans written off	5,960	-	-	5,960
At 31 December 2013	1,395,042	87,806	-	1,482,848

Banque des Mascareignes Ltée

Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

20. Loans and advances to customers (continued)

(c) Allowance for credit impairment (continued)

Bank	Specific allowance for impairment	Collective/ portfolio allowances and general provisions for impairment	Low-interest rate loans impairment	Total
Segment A	Rs 000	Rs 000	Rs 000	Rs 000
At 1 January 2011	183,858	66,409	1,917	252,184
Impairment charge for the year	179,843	(7,833)	(703)	171,307
Loans written off	(7,916)	-	-	(7,916)
At 31 December 2011	355,785	58,576	1,214	415,575
Impairment charge for the year	505,579	90	-	505,669
Loans written off	8,539	-	-	8,539
At 31 December 2012	869,903	58,666	1,214	929,783
Impairment charge for the year	(31,489)	(14,623)	(1,214)	(47,326)
Loans written off	5,960	-	-	5,960
At 31 December 2013	844,374	44,043	-	888,417

Segment B	Specific allowance for impairment	Collective/ portfolio allowances and general provisions for impairment	Low-interest rate loans impairment	Total
At 1 January 2011		114	55,852	55,966
Impairment charge for the year		-	-	-
Loans written off		47,834	863	48,697
At 31 December 2011		47,948	56,715	104,663
Impairment charge for the year		516,065	(8,889)	507,176
Loans written off		(56,102)	-	(56,102)
At 31 December 2012		507,911	47,826	555,737
Impairment charge for the year		42,756	(4,063)	38,693
Loans written off		-	-	-
At 31 December 2013		550,667	43,763	594,430

Banque des Mascareignes Ltée

Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

20. Loans and advances to customers (continued)

(d) Allowance for credit impairment by industry sectors

Group	2013					2012	2011
	Gross amount of loans	Impaired loans	Specific allowances for credit impairment	Collective/ portfolio allowances and general provisions for impairment	Total allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Group - Total							
Agriculture and Fishing	538,318	381	381	1,979	2,360	4,447	1,704
Manufacturing	2,423,898	625,506	179,866	3,411	183,277	225,478	136,745
Tourism	1,401,242	36,597	31,355	11,775	43,130	39,138	67,532
Transport	743,894	5,624	5,623	7,305	12,928	10,963	12,627
Construction	3,002,690	702,383	424,598	17,643	442,241	419,409	111,315
Financial and Business Services	905,596	3	-	9,351	9,351	13,557	1,321
Traders	3,733,151	443,050	346,814	15,639	362,453	356,319	62,557
Personal	327,319	72,231	51,512	5,953	57,465	54,407	74,253
Professional	333,421	310,555	300,138	71	300,209	291,412	644
Global Business Licence holders	480,940	23,901	23,897	4,548	28,445	25,117	13,468
Others	1,060,476	45,396	34,649	10,131	44,781	47,550	39,194
	14,950,945	2,265,627	1,398,833	87,806	1,486,640	1,487,797	521,360
Bank							
Bank - Total							
Agriculture and Fishing	537,549	381	381	1,979	2,360	4,447	1,704
Manufacturing	2,411,884	624,896	179,593	3,411	183,004	225,209	136,745
Tourism	1,401,186	36,597	31,355	11,775	43,131	39,138	67,532
Transport	736,097	5,624	5,623	7,305	12,928	10,963	12,627
Construction	3,001,212	702,383	424,598	17,643	442,241	419,409	111,315
Financial and Business Services	905,524	3	-	9,351	9,351	13,557	1,321
Traders	3,724,624	442,333	346,097	15,639	361,735	356,252	61,435
Personal	324,792	72,196	51,477	5,953	57,430	52,466	74,253
Professional	317,068	307,075	297,371	71	297,442	291,412	644
Global Business Licence holders	480,940	23,901	23,897	4,548	28,445	25,117	13,468
Others	1,060,377	45,396	34,649	10,131	44,780	47,550	39,194
	14,901,253	2,260,785	1,395,041	87,806	1,482,847	1,485,520	520,238

Banque des Mascareignes Ltée

Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

20. Loans and advances to customers (continued)

(d) Allowance for credit impairment by industry sectors (continued)

	2013					2012	2011
	Gross amount of loans	Impaired loans	Specific allowances for credit impairment	Collective/ portfolio allowances and general provisions for impairment	Total allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Segment A							
Agriculture and Fishing	386,599	381	381	470	851	3,490	1,704
Manufacturing	857,058	327,773	159,969	2,234	162,203	217,383	125,842
Tourism	899,169	36,597	31,355	6,756	38,111	35,902	25,847
Transport	124,388	5,624	5,623	1,187	6,810	6,742	9,233
Construction	2,560,622	689,184	411,399	13,669	425,068	403,840	108,369
Financial and Business Services	330,266	3	-	3,303	3,303	3,805	1,321
Traders	2,488,534	207,668	111,433	5,623	117,056	122,579	43,588
Personal	299,633	64,370	43,657	5,779	49,436	45,057	65,966
Professional	65,570	55,587	45,908	71	45,979	45,869	644
Others	359,495	45,396	34,649	4,951	39,600	45,116	33,060
	8,371,334	1,432,583	844,374	44,043	888,417	929,783	415,574
Segment B							
Agriculture and Fishing	150,950	-	-	1,510	1,510	957	-
Manufacturing	1,554,827	297,123	19,623	1,177	20,800	7,826	10,903
Tourism	502,017	-	-	5,020	5,020	3,236	41,685
Transport	611,709	-	-	6,117	6,117	4,221	3,394
Construction	440,590	13,199	13,199	3,972	17,172	15,569	2,946
Financial and business services	575,258	-	-	6,048	6,048	9,752	-
Traders	1,236,090	234,665	234,665	10,014	244,678	233,673	17,847
Personal	25,158	7,825	7,821	172	7,993	7,409	8,286
Professional	251,498	251,488	251,463	-	251,464	245,543	-
Global Business Licence holders	480,940	23,902	23,896	2,724	26,620	25,117	13,468
Others	700,882	-	-	7,009	7,009	2,434	6,135
	6,529,919	828,202	550,667	43,763	594,431	555,737	104,664

Banque des Mascareignes Ltée

Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

21. Investment securities

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Available for sale investment securities	1,852,046	1,353,654	1,470,907	1,738,107	1,318,196	1,457,753
Investment securities at fair value through profit and loss	32,087	252,250	167,555	32,087	252,250	167,555
	1,884,133	1,605,904	1,638,462	1,770,194	1,570,446	1,625,308
Available for sale investment securities						
Government of Mauritius bonds	328,577	440,323	129,404	328,577	440,323	129,404
Treasury Bills / Notes issued by Government of Mauritius	1,150,230	913,331	1,331,874	1,036,291	877,873	1,318,720
Bank of Mauritius Bills	373,239	-	9,629	373,239	-	9,629
	1,852,046	1,353,654	1,470,907	1,738,107	1,318,196	1,457,753
Segment A						
Available for sale investment security						
Government of Mauritius bonds				328,577	440,323	129,404
Treasury Bills / Notes issued by Government of Mauritius				1,036,291	877,873	1,318,720
Bank of Mauritius Bills				373,239	-	9,629
Investment securities at fair value through profit and loss				32,087	252,250	167,555
				1,770,194	1,570,446	1,625,308

Available-for-sale investments are denominated in MUR for the bank and in MGA for its subsidiary. Debt securities have fixed coupon rates, with rates ranging from 2% to 12% and maturities ranging from January 2011 to March 2015.

None of the available-for-sale financial assets are either past due or impaired.

22. Investment in subsidiary

	2013	2012	2011
Bank	Rs 000	Rs 000	Rs 000
Investment in subsidiary as at 31 December	170,386	106,072	106,072

Details of investments held by the Bank are as follows:

Name of Investee Company	Country of incorporation	Business Activity	Type of share held	% holding	Cost Rs 000
BM Madagascar	Madagascar	Banking	Ordinary share	71.65%	170, 386

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

23. Property and equipment

Group	Improvement to leasehold property Rs 000	Computer equipment Rs 000	Office equipment Rs 000	Furniture, fixtures & fittings Rs 000	Motor vehicles Rs 000	Total Rs 000
Cost						
Balance at 01 January 2011	70,238	51,369	12,890	18,810	10,629	163,936
On acquisition of subsidiary	315	332	441	-	1,193	2,281
Additions	18,783	18,560	3,597	1,085	6,971	48,996
Reclassifications	-	-	1,169	-	-	1,169
Disposals	-	-	-	-	(3,408)	(3,408)
Scrapped assets	(721)	(362)	(662)	(189)	-	(1,934)
Balance at 31 December 2011	88,615	69,899	17,435	19,706	15,385	211,040
Balance at 01 January 2012	88,615	69,899	17,435	19,706	15,385	211,040
Additions	5,179	6,968	1,633	868	4,259	18,907
Disposals	-	(411)	-	-	(3,355)	(3,766)
Scrapped assets	(2,700)	-	-	(697)	-	(3,397)
Balance at 31 December 2012	91,094	76,456	19,068	19,877	16,289	222,784
Balance at 1 January 2013	91,094	76,456	19,068	19,877	16,289	222,784
Additions	7,388	5,705	383	43	-	13,519
Foreign currency translation	(494)	431	(574)	776	32	171
Balance at 31 December 2013	97,988	82,592	18,877	20,696	16,321	236,474
Accumulated depreciation and impairment losses						
Balance at 01 January 2011	33,795	31,866	8,849	11,407	4,313	90,230
On acquisition of subsidiary	70	90	113	-	301	574
Depreciation for the year	15,061	12,098	2,225	2,616	3,809	35,809
Reclassification	-	-	207	-	-	207
Disposals	-	-	-	-	(2,302)	(2,302)
Scrapped assets	(2,425)	(173)	(362)	(168)	-	(3,128)
Balance at 31 December 2011	46,501	43,881	11,032	13,855	6,121	121,390
Balance at 01 January 2012	46,501	43,881	11,032	13,855	6,121	121,390
Depreciation for the year	12,400	16,000	2,908	2,085	4,810	38,203
Disposals	-	(411)	-	-	(480)	(891)
Scrapped assets	(2,700)	(2,006)	-	(697)	-	(5,403)
Balance at 31 December 2012	56,201	57,464	13,940	15,243	10,451	153,299
Balance at 01 January 2013	56,201	57,464	13,940	15,243	10,451	153,299
Depreciation for the year	12,695	12,842	2,652	2,138	4,138	34,465
Foreign currency translation	(1,268)	839	(287)	704	12	-
Balance at 31 December 2013	67,628	71,145	16,305	18,085	14,601	187,764
Net book value						
Balance at 31 December 2011	42,114	26,018	6,403	5,851	9,264	89,650
Balance at 31 December 2012	34,893	18,992	5,128	4,634	5,838	69,485
Balance at 31 December 2013	30,360	11,447	2,572	2,611	1,720	48,710

Banque des Mascareignes Ltée

Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

23. Property and equipment (continued)

Bank	Improvement to leasehold property Rs 000	Computer equipment Rs 000	Office equipment Rs 000	Furniture, fixtures & fittings Rs 000	Motor vehicles Rs 000	Total Rs 000
Cost						
Balance at 01 January 2011	70,238	51,369	12,890	18,810	10,629	163,936
Additions	4,870	6,917	370	41	6,971	19,169
Disposals	-	-	-	-	(3,409)	(3,409)
Scrapped assets	(1,732)	-	(218)	(189)	-	(2,139)
Balance at 31 December 2011	73,376	58,286	13,042	18,662	14,191	177,557
Balance at 01 January 2012	73,376	58,286	13,042	18,662	14,191	177,557
Additions	4,838	6,258	1,103	868	4,259	17,326
Disposals	-	(411)	-	-	(3,355)	(3,766)
Scrapped assets	(2,700)	-	-	-	-	(2,700)
Balance at 31 December 2012	75,514	64,133	14,145	19,530	15,095	188,417
Balance at 01 January 2013	75,514	64,133	14,145	19,530	15,095	188,417
Additions	7,232	5,689	554	-	-	13,475
Balance at 31 December 2013	82,746	69,822	14,699	19,530	15,095	201,892
Accumulated depreciation and impairment losses						
Balance at 01 January 2011	33,795	31,866	8,849	11,407	4,313	90,230
Depreciation for the year	11,720	9,417	1,607	2,418	3,572	28,734
Disposals	-	-	-	-	(2,302)	(2,302)
Scrapped assets	(2,326)	-	(201)	(168)	-	(2,695)
Balance at 31 December 2011	43,189	41,283	10,255	13,657	5,583	113,967
Balance at 01 January 2012	43,189	41,283	10,255	13,657	5,583	113,967
Depreciation for the year	9,054	10,542	1,531	1,703	4,560	27,390
Disposals	-	(411)	-	-	(480)	(891)
Scrapped assets	(2,700)	-	-	-	-	(2,700)
Balance at 31 December 2012	49,543	51,414	11,786	15,360	9,663	137,766
Balance at 01 January 2013	49,543	51,414	11,786	15,360	9,663	137,766
Depreciation for the year	9,354	8,588	1,374	1,761	3,925	25,002
Balance at 31 December 2013	58,897	60,002	13,160	17,121	13,588	162,768

23. Property and equipment (continued)

Bank	Improvement to leasehold property Rs 000	Computer equipment Rs 000	Office equipment Rs 000	Furniture, fixtures & fittings Rs 000	Motor vehicles Rs 000	Total Rs 000
Net book value						
Balance at 31 December 2011	30,187	17,003	2,787	5,005	8,608	63,590
Balance at 31 December 2012	25,971	12,719	2,359	4,170	5,432	50,651
Balance at 31 December 2013	23,849	9,820	1,539	2,409	1,507	39,124
Net book value at end of year 2013 by segments						
Segment A	21,232	9,273	1,333	2,291	1,456	35,585
Segment B	2,617	547	206	118	51	3,539
	23,849	9,820	1,539	2,409	1,507	39,124
Net book value at end of year 2012 by segments						
Segment A	23,119	12,694	2,065	3,996	5,092	46,966
Segment B	2,852	25	294	174	340	3,685
	25,971	12,719	2,359	4,170	5,432	50,651
Net book value at end of year 2011 by segments						
Segment A	26,871	16,686	2,446	4,874	7,920	58,797
Segment B	3,316	317	341	131	688	4,793
	30,187	17,003	2,787	5,005	8,608	63,590

24. Intangible assets and goodwill

(a) Reconciliation of carrying amounts

	Group			Bank		
	2013 Rs 000	2012 Rs 000	2011 Rs 000	2013 Rs 000	2012 Rs 000	2011 Rs 000
Cost						
Balance at 01 January	89,484	87,443	83,422	79,690	78,811	83,422
On acquisition of subsidiary	-	-	23	-	-	-
Additions	636	879	9,112	636	879	480
Write-off	-	-	(5,114)	-	-	(5,091)
Balance at 31 December	90,120	88,322	87,443	80,326	79,690	78,811
Accumulated depreciation and impairment losses						
Balance at 01 January	80,336	74,024	67,674	76,774	72,793	67,658
Amortisation for the year	4,024	5,153	10,907	1,661	3,981	9,672
Write-off	-	-	(4,557)	-	-	(4,537)
Balance at 31 December	84,360	79,177	74,024	78,435	76,774	72,793
Carrying amounts						
Balance at 31 December	5,760	9,145	13,419	1,891	2,916	6,018
Net book value at end of year by segments						
Segment A	1,767	2,798	5,960	1,767	2,798	5,958
Segment B	3,993	6,347	7,459	124	118	60
	5,760	9,145	13,419	1,891	2,916	6,018

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

24. Intangible assets and goodwill (continued)

(b) Impairment testing for CGUs containing goodwill

	Group		
	2013	2012	2011
Balance at 1 January	75,707	73,816	73,816
Foreign exchange translation	-	1,891	-
Balance at 31 December	75,707	75,707	73,816

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs (operating divisions) as follows.

No impairment losses on goodwill were recognised during 2013 (2012: nil).

Management has assessed the value of the investment in BM Madagascar at 31 December 2013 and based on assumptions used, the goodwill of Rs 76m at 31 December 2013 was judged reasonable.

Budgeted profit before taxes, depreciation and amortisation was based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past years and the estimated growth for the next five years.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions would not cause the recoverable amount to decline below the carrying amount.

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

25. Other assets

Summary

	Group			Bank		
	2013	2012	2011	2013	2012	2011
Accounts receivable and prepayments	12,232	75,306	18,229	10,942	71,894	78,532
Accrued interest receivable	41,358	62,995	90,212	41,299	62,987	90,198
Mandatory deposits with central banks	546,838	490,214	456,687	546,838	490,214	456,687
Balances due in clearing	20,789	12,391	74	2,753	7,377	74
Other	74,590	79,091	74,883	74,976	78,931	73,698
	695,807	719,997	640,085	676,808	711,403	699,189
Segment A						
Accounts receivable and prepayments				9,215	69,321	74,644
Accrued interest receivable				30,712	29,337	47,756
Mandatory deposits with central banks				546,838	490,214	456,687
Balances due in clearing				2,753	7,377	74
Other				30,008	65,694	35,653
				619,526	661,943	614,814
Segment B						
Accounts receivable and prepayments				1,727	2,573	3,888
Accrued interest receivable				10,587	33,650	42,442
Other				44,968	13,237	38,045
				57,282	49,460	84,375

26. Deposits from banks

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Term Deposits	1,130,101	1,286,670	-	1,130,101	1,286,670	-
Segment B						
Term Deposits				1,130,101	1,286,670	-

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

27. Deposits from customers

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Retail customers						
Current accounts	1,852,717	1,658,343	1,521,752	1,790,266	1,624,191	1,509,551
Savings accounts	1,549,790	1,267,923	1,145,712	1,514,156	1,233,631	1,143,807
Time deposits with remaining term to maturity						
Up to 3 months	416,015	485,755	550,304	414,268	485,755	550,304
Over 3 months and up to 6 months	226,622	265,730	198,793	226,622	265,731	198,793
Over 6 months and up to 12 months	533,397	488,858	624,622	531,878	488,858	623,312
Over 1 year and up to 5 years	776,704	640,602	531,134	776,436	640,427	531,135
Over 5 years	22,598	50,915	29,189	22,598	50,378	28,926
Corporate customers						
Current accounts	2,588,236	1,997,162	2,774,197	2,505,820	1,960,297	2,740,877
Savings accounts	700,951	718,335	434,345	599,701	647,331	434,345
Time deposits with remaining term to maturity						
Up to 3 months	1,353,793	4,527,476	2,760,119	1,373,589	4,527,475	2,769,303
Over 3 months and up to 6 months	446,020	270,429	219,089	446,020	270,429	217,779
Over 6 months and up to 12 months	109,829	587,672	636,861	109,829	582,139	635,551
Over 1 year and up to 5 years	61,655	352,424	409,317	61,655	352,424	409,322
	10,638,327	13,311,624	11,835,434	10,372,838	13,129,066	11,793,005

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

27. Deposits from customers (continued)

	Bank		
	2013	2012	2011
Segment A	Rs 000	Rs 000	Rs 000
Retail customers			
current accounts	1,223,492	1,142,683	1,001,383
savings accounts	1,222,985	672,456	1,069,228
Time deposit with remaining term to maturity			
Up to 3 months	297,453	339,172	390,338
Over 3 months and up to 6 months	183,305	192,340	136,147
Over 6 months and up to 12 months	377,245	372,074	539,143
Over 1 year and up to 5 years	535,929	497,279	388,926
Over 5 years	14,555	23,264	25,990
Corporate customers			
current accounts	356,649	379,992	771,617
savings accounts	594,260	644,567	429,068
Time deposit with remaining termto maturity			
Up to 3 months	1,234,752	1,228,330	1,207,378
Over 3 months and up to 6 months	443,570	266,220	118,247
Over 6 months and up to 12 months	35,938	504,651	320,971
Over 1 year and up to 5 years	56,494	352,324	333,042
	6,576,627	6,615,352	6,731,478
Segment B			
Retail customers			
current accounts	566,774	481,508	508,168
savings accounts	291,171	561,175	74,579
Time deposit with remaining term to maturity			
Up to 3 months	116,815	146,583	159,966
Over 3 months and up to 6 months	43,317	73,391	62,646
Over 6 months and up to 12 months	154,633	116,784	84,169
Over 1 year and up to 5 years	240,507	143,148	142,209
Over 5 years	8,043	27,114	2,936
Corporate customers			
current accounts	2,149,171	1,580,305	1,969,260
savings accounts	5,441	2,764	5,277
Time deposit with remaining term to maturity			
Up to 3 months	138,837	3,299,145	1,561,925
Over 3 months and up to 6 months	2,450	4,209	99,532
Over 6 months and up to 12 months	73,891	77,488	314,580
Over 1 year and up to 5 years	5,161	100	76,280
	3,796,211	6,513,714	5,061,527

28. Borrowed funds

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Borrowed funds	4,192,960	4,215,105	6,646,846	4,149,802	4,215,105	6,647,225
Segment A						
Borrowings from financial institutions				100,000	200,000	-
Segment B						
Borrowings from banks abroad				4,001,931	4,015,105	6,647,225
Borrowings from financial institutions				47,871	-	-
				4,149,802	4,215,105	6,647,225
Remaining term to maturity						
Up to 3 months	4,061,868	4,015,105	3,430,970	4,018,710	4,015,105	3,431,349
Over 3 months and up to 6 months	31,092	-	888,533	31,092	-	888,533
Over 6 months and up to 12 months	100,000	100,000	192,825	100,000	100,000	192,825
Over 1 year and up to 5 years	-	100,000	2,089,413	-	100,000	2,089,413
Over 5 years	-	-	45,105	-	-	45,105
	4,192,960	4,215,105	6,646,846	4,149,802	4,215,105	6,647,225

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

29. Subordinated liabilities

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Subordinated notes issued	619,283	621,200	501,093	619,283	621,200	501,093

The terms and conditions of the subordinated notes and redeemable preference shares issued are as follows:

	Group			Bank		
	2013	2012	2011	2013	2012	2011
Remaining term to maturity	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Less than 3 years	215,960	127,460	103,110	215,960	127,460	103,110
More than 3 years but less than 5 years	122,183	149,930	104,028	122,183	149,930	104,028
Over 5 years	281,140	343,810	293,955	281,140	343,810	293,955
	619,283	621,200	501,093	619,283	621,200	501,093

Segment B			
Remaining term to maturity			
Less than 3 years	215,960	127,460	103,110
More than 3 years but less than 5 years	122,183	149,930	104,028
Over 5 years	281,140	343,810	293,955
	619,283	621,200	501,093

The above liabilities would, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2013 and 2012.

These subordinated liabilities are payable to the holding company between September 2014 and February 2021. However, they can be repaid before their due dates with the prior approval of the Bank of Mauritius under certain conditions. They carry interest rates between (0.31% + 0.5% margin) and 10.5%.

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

30. Provisions

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs000	Rs 000	Rs 000	Rs000	Rs 000
Opening balance	26,577	18,577	22,951	20,785	16,655	22,951
Provisions made during the year	79,065	59,666	52,223	59,681	38,660	38,676
Provisions reversed during the year	(74,906)	(51,666)	(56,597)	(55,768)	(34,530)	(44,972)
Balance at end	30,736	26,577	18,577	24,698	20,785	16,655

31. Other liabilities

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Recognised liability for defined benefit obligations	9,107	4,491	3,251	9,107	4,491	3,251
Derivative financial instruments (Forward contracts)	2,999	220	207	2,999	220	207
Creditors and accruals	148,742	195,056	180,927	140,266	187,023	189,628
Accrued interest payable	94,199	81,379	148,421	93,684	81,185	148,230
Other	127,536	322,374	191,021	110,132	254,647	187,833
	382,583	603,520	523,827	356,188	527,566	529,149
Segment A						
Recognised liability for defined benefit obligations				9,107	4,491	3,251
Derivative financial instruments (Forward contracts)				2,977	220	207
Creditors and accruals				78,578	52,365	179,548
Accrued interest payable				70,043	56,983	126,298
Other				15,601	12,745	15,875
				176,306	126,804	325,179
Segment B						
Derivative financial instruments (Forward contracts)				22	-	-
Creditors and accruals				61,688	134,658	10,080
Accrued interest payable				23,641	24,202	21,932
Other				94,531	241,902	171,958
				179,882	400,762	203,970

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

32. Share Capital

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Issued capital						
At 1 January,	1,499,016	838,734	838,734	1,499,016	838,734	838,734
Issue of shares	250,000	660,282	-	250,000	660,282	-
At 31 December,	1,749,016	1,499,016	838,734	1,749,016	1,499,016	838,734
Number of shares						
At 1 January,	1,931,614	1,080,782	1,080,782	1,931,614	1,080,782	1,080,782
Issue of shares	322,146	850,832	-	322,146	850,832	-
At 31 December,	2,253,760	1,931,614	1,080,782	2,253,760	1,931,614	1,080,782

33. Reserves

Nature and purpose of reserves

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

Fair value reserve

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

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

34. Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values.

Group	Held for trading Rs 000	Loans and receivables Rs 000	Available -for-sale Rs 000	Fair value through profit or loss Rs 000	Other amortised cost Rs 000	Carrying amount Rs 000	Fair value Rs 000
31 December 2013						Total	Total
Assets							
Cash and cash equivalents	-	2,017,569	-	-	-	2,017,569	2,017,569
Loans and advances to customers	-	13,464,305	-	-	-	13,464,305	13,464,305
Loans and advances to banks	-	229,900	-	-	-	229,900	229,900
Investment securities	-	-	1,852,046	32,087	-	1,884,133	1,884,133
	-	15,711,774	1,852,046	32,087	-	17,595,907	17,595,907
Liabilities							
Deposits from banks	-	-	-	-	1,130,101	1,130,101	1,130,101
Deposits from customers	-	-	-	-	10,638,327	10,638,327	10,638,327
Borrowed funds	-	-	-	-	4,192,960	4,192,960	4,192,960
Subordinated liabilities	-	-	-	-	619,283	619,283	619,283
	-	-	-	-	16,580,671	16,580,671	16,580,671
31 December 2012							
Assets							
Cash and cash equivalents	-	2,290,888	-	-	-	2,290,888	2,290,888
Loans and advances to customers	-	14,714,919	-	-	-	14,714,919	14,714,919
Loans and advances to banks	-	1,653,246	-	-	-	1,653,246	1,653,246
Investment securities	-	-	1,353,654	252,250	-	1,605,904	1,605,904
	-	18,659,053	1,353,654	252,250	-	20,264,957	20,264,957
Liabilities							
Deposits from banks	-	-	-	-	1,286,670	1,286,670	1,286,670
Deposits from customers	-	-	-	-	13,311,624	13,311,624	13,311,624
Borrowed funds	-	-	-	-	4,215,105	4,215,105	4,215,105
Subordinated liabilities	-	-	-	-	621,200	621,200	621,200
	-	-	-	-	19,434,599	19,434,599	19,434,599

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

34. Financial assets and liabilities (continued)

Accounting classifications and fair values (continued)

Group (continued)	Held for trading Rs 000	Loans and receivables Rs 000	Available -for-sale Rs 000	Fair value through profit or loss Rs 000	Other amortised cost Rs 000	Carrying amount Rs 000	Fair value Rs 000
31 December 2011						Total	Total
Assets							
Cash and cash equivalents	-	2,515,861	-	-	-	2,515,861	2,515,861
Loans and advances to customers	-	13,103,943	-	-	-	13,103,943	13,103,943
Loans and advances to banks	-	2,816,033	-	-	-	2,816,033	2,816,033
Investment securities	-	-	1,470,907	167,555	-	1,638,462	1,638,462
	-	18,435,837	1,470,907	167,555	-	20,074,299	20,074,299
Liabilities							
Deposits from customers	-	-	-	-	11,835,434	11,835,434	11,835,434
Borrowed funds	-	-	-	-	6,646,846	6,646,846	6,646,846
Subordinated liabilities	-	-	-	-	501,093	501,093	501,093
	-	-	-	-	18,983,373	18,983,373	18,983,373
Bank							
31 December 2013							
Assets							
Cash and cash equivalents	-	1,897,224	-	-	-	1,897,224	1,897,224
Loans and advances to customers	-	13,418,405	-	-	-	13,418,405	13,418,405
Loans and advances to banks	-	189,583	-	-	-	189,583	189,583
Investment securities	-	-	1,738,107	32,087	-	1,770,194	1,770,194
	-	15,505,212	1,738,107	32,087	-	17,275,406	17,275,406
Liabilities							
Deposits from Banks	-	-	-	-	1,130,101	1,130,101	1,130,101
Deposits from customers	-	-	-	-	10,372,838	10,372,838	10,372,838
Borrowed funds	-	-	-	-	4,149,802	4,149,802	4,149,802
Subordinated liabilities	-	-	-	-	619,283	619,283	619,283
	-	-	-	-	16,272,024	16,272,024	16,272,024

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

34. Financial assets and liabilities (continued)

Accounting classifications and fair values (continued)

Bank (continued)	Held for trading Rs 000	Loans and receivables Rs 000	Available-for-sale Rs 000	Fair value through profit or loss Rs 000	Other amortised cost Rs 000	Carrying amount Rs 000	Fair value Rs 000
31 December 2012							
Assets							
Cash and cash equivalents	-	2,180,659	-	-	-	2,180,659	2,180,659
Loans and advances to customers	-	14,684,614	-	-	-	14,684,614	14,684,614
Loans and advances to banks	-	1,653,246	-	-	-	1,653,246	1,653,246
Investment securities	-	-	1,318,196	252,250	-	1,570,446	1,570,446
	-	18,518,519	1,318,196	252,250	-	20,088,965	20,088,965
Liabilities							
Deposits from Banks	-	-	-	-	1,286,670	1,286,670	1,286,670
Deposits from customers	-	-	-	-	13,129,066	13,129,066	13,129,066
Borrowed funds	-	-	-	-	4,215,105	4,215,105	4,215,105
Subordinated liabilities	-	-	-	-	621,200	621,200	621,200
	-	-	-	-	19,252,041	19,252,041	19,252,041
31 December 2011							
Assets							
Cash and cash equivalents	-	2,467,357	-	-	-	2,467,357	2,467,357
Loans and advances to customers	-	13,097,346	-	-	-	13,097,346	13,097,346
Loans and advances to banks	-	2,816,033	-	-	-	2,816,033	2,816,033
Investment securities	-	-	1,457,753	167,555	-	1,625,308	1,625,308
	-	18,380,736	1,457,753	167,555	-	20,006,044	20,006,044
Liabilities							
Deposits from customers	-	-	-	-	11,793,005	11,793,005	11,793,005
Borrowed funds	-	-	-	-	6,647,225	6,647,225	6,647,225
Subordinated liabilities	-	-	-	-	501,093	501,093	501,093
	-	-	-	-	18,941,323	18,941,323	18,941,323

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Notes to and forming part of the consolidated and separate financial statements
For the year ended 31 December 2013 (continued)

35. Contingencies

(a) Commitments

	Group 2013 Rs 000	Group 2012 Rs 000	Group 2011 Rs 000	Bank 2013 Rs 000	Bank 2012 Rs 000	Bank 2011 Rs 000
Undrawn credit facilities	949,188	713,401	1,161,988	947,815	712,410	1,161,988
Segment A						
Undrawn credit facilities				946,752	702,827	756,300
Segment B						
Undrawn credit facilities				1,063	9,583	405,688

(b) Pledged assets

	Group 2013 Rs 000	Group 2012 Rs 000	Group 2011 Rs 000	Bank 2013 Rs 000	Bank 2012 Rs 000	Bank 2011 Rs 000
Government bonds (Segment A)	150,000	150,000	125,000	150,000	150,000	125,000

(c) Contingent liabilities

	Group 2013 Rs 000	Group 2012 Rs 000	Group 2011 Rs 000	Bank 2013 Rs 000	Bank 2012 Rs 000	Bank 2011 Rs 000
Acceptances on account of customers	42,028	248,664	249,735	42,028	248,664	249,735
Guarantees on account of customers	1,434,876	1,357,131	1,762,205	1,433,102	1,357,131	1,762,205
Letters of credit and other obligations on account of customers	185,583	639,606	481,185	185,583	638,643	481,185
Foreign exchange contracts	604,867	253,844	35,336	594,055	253,844	35,336
Other contingent items	41,007	7,515	45,280	39,910	7,515	45,280
	2,308,361	2,506,760	2,573,741	2,294,678	2,505,797	2,573,741

35. Contingencies (continued)

(c) Contingent liabilities (continued)

	Bank		
	2013	2012	2011
	Rs 000	Rs 000	Rs 000
Segment A			
Acceptances on account of customers	7,414	25,976	48,382
Guarantees on account of customers	1,171,606	1,259,526	1,457,319
Letters of credit and other obligations on account of customers	15,756	35,915	29,049
Foreign exchange contracts	184,620	35,555	-
Other contingent items	5,241	7,329	4,208
	1,384,637	1,364,301	1,538,958
Segment B			
Acceptances on account of customers	34,614	222,688	201,353
Guarantees on account of customers	261,496	97,605	304,886
Letters of credit and other obligations on account of customers	169,827	602,728	452,136
Foreign exchange contracts	409,435	218,289	35,336
Other contingent items	34,669	186	41,072
	910,041	1,141,496	1,034,783

36. Related parties

Group companies relate to other companies within Groupe BPCE.

Borrowings have maturity dates ranging from 1 month to 93 months with fixed interest rates, with the exception of one borrowing of maturity of 12 months, where the interest rates vary with the Euribor.

Balances to the holding company have maturity dates ranging at call to 8 years and the interest rates are fixed and one with a maturity of 13 years, has an interest rate which varies with the PLR.

Subordinated debts have maturity dates ranging from 4 years to 7 years and the interest rates vary with the Libor 3 months/Euribor 3 months rate.

The balances with the holding companies and group companies are not secured.

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36. Related parties (continued)

Related party transactions were carried out at least under market terms and conditions with the exception of facilities to key management personnel who benefitted from preferential rates as applicable to staff.

None of the credit facilities to related parties were non-performing.

Related party transactions have been disclosed according to the provisions of the Guideline on Related Party Transactions issued by the Bank of Mauritius.

		Group			Bank		
		2013	2012	2011	2013	2012	2011
	Nature of relationship	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Placements with banks	Group companies	749,517	966,596	1,569,899	749,517	966,596	1,569,899
Loans and advances	Holding company	160,000	603,815	526,971	160,000	603,815	526,971
	Group companies	-	-	2,860	-	-	2,860
	Key management personnel	22,882	7,800	7,970	22,882	7,800	7,970
Deposits	Holding company	513,230	61,270	-	513,230	61,270	-
	Group companies	573,610	1,225,400	-	573,610	1,225,400	-
	Subsidiary	-	-	-	43,261	-	-
	Key management personnel	12,079	11,124	24,881	12,079	11,124	24,881
Balances due to	Holding company	8,182	23,019	18,959	8,182	23,019	18,959
	Group companies	240	319	30,489	240	319	30,489
Borrowed funds	Holding company	31,091	30,356	28,597	31,091	30,356	28,597
	Group companies	3,970,840	3,938,010	6,573,523	3,970,840	3,938,010	6,573,523
Subordinated liabilities	Holding company	619,283	621,200	501,093	619,283	621,200	501,093
Amounts due to	Holding company	404	1,034	3,383	404	1,034	3,383
Interest income	Holding company	42,198	35,950	57,587	42,198	35,950	57,587
	Group companies	7,633	258	910	7,633	258	910
	Key management personnel	1,954	1,195	630	1,954	1,195	630

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36. Related parties (continued)

		Group			Bank		
		2013	2012	2011	2013	2012	2011
	Nature of relationship	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Interest expense	Holding company	37,425	24,113	68,947	37,425	24,113	68,947
	Group companies	-	87,082	4,962	-	87,082	4,962
	Key management personnel	711	634	415	711	634	415
Fee and commission expense	Holding company	-	3,200	3,504	-	3,200	3,504
Expenses	Holding company	21,986	11,701	10,489	21,986	11,701	10,489

(a) Parent and ultimate controlling party

The immediate holding company and ultimate holding company are BPCE IOM and BPCE respectively, both companies incorporated in France.

(b) Transactions with key management personnel

(i) Key management personnel compensation

Key management personnel compensation comprised the following.

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Short-term employee benefits	63,591	49,828	57,975	63,591	49,828	57,975
Post-employment benefits	10,959	10,068	6,732	10,959	10,068	6,732
	74,550	59,896	64,707	74,550	59,896	64,707

2013: Management Committee - 19 staff
2012: Management Committee - 16 staff
2011: Management Committee - 10 staff

Compensation of the Group's key management personnel includes salaries, non-cash benefits and contributions to the post-employment defined benefit plans. Executive officers also participate in the Group's share option programme.

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37. Financial risk review

This note presents information about the Group's and Bank's exposure to financial risks and management of capital. The Group's and Bank's objectives, policies and processes for measuring and managing risk, and the Group's and Bank's management of capital.

(a) Exposure to financial risks

The Group and the Bank have exposure to the following risks from financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

The Group's and the Bank's Board of Directors have overall responsibility for the establishment and oversight of the Group's and Bank's risk management framework. The Board of Directors has established the Group and the Bank Asset and Liability Management committee (ALM), which is responsible for developing and monitoring the Group and the Bank risk management policies

The Group's and the Bank's risk management policies are established to identify and analyse the risks faced by the Group and the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's and Bank's activities. The Group and the Bank, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group and the Bank Audit Committee oversee how management monitors compliance with the Group's and the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group and the Bank. The Group and the Bank Audit Committee are assisted in their oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group and the Bank Audit Committee.

(i) Credit Risk

Credit risk is the risk of financial loss to the Group and the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's and Bank's loans and advances to customers and other banks. For risk management reporting purposes the Group and the Bank consider and consolidate all elements of credit risk exposure.

37. Financial risk review (continued)

(a) Exposure to financial risks (continued)

(i) Credit Risk (continued)

The Board of Directors has delegated responsibility for the oversight of credit risk to its Group and the Bank Credit Committee. A separate Group and the Bank Credit department, reporting to the Group and the Bank Credit Committee, is responsible for management of the Group's and Bank's credit risk, including:

• Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

• Establishing the authorization structure for the approval and renewal of credit facilities. Each credit application require approval by Bank Credit, Head of Bank Credit, Bank Credit Committee or the Board of Directors as appropriate.

• Reviewing and assessing credit risk. Group and Bank Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

• Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances).

• Developing and maintaining the Group's and the Bank's risk gradings in order to categorise exposures according to the degree of risk financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by Bank Risk.

• Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Group Credit who may require appropriate corrective action to be taken.

• Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group and the Bank in the management of credit risk.

37. Financial risk review (continued)

(a) Exposure to financial risks (continued)

(i) Credit Risk (continued)

Each business unit is required to implement the Group and the Bank credit policies and procedures, with credit approval authorities delegated from the Group and the Bank Credit Committee. Heads of each business unit report on all credit related matters to local management and the Group and the Bank Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and the Group and the Bank Credit processes are undertaken by Internal Audit.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group and the Bank determine that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s).

Past due but not impaired loan

Loans and securities where contractual interest or principal payments are past due but the Group and the Bank believe that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Write-off policy

The Group and the Bank write off a loan/security balance (and any related allowances for impairment losses) when the Bank Credit committee determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

The Group and the Bank holds collateral against loans and advances to customers in the form of mortgage on property, deposit and securities under lien and charge on plant and machinery, letter of comfort and assignment of life policy. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans to banks, placements and investment securities, and no such collateral was held as at year end.

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37. Financial risk review (continued)

Credit quality analysis

Grading

The table below sets out information about the credit quality of loans and advances.

	Loans and advances to customers				Loans and advances to banks			
	Group		Bank		Group		Bank	
	2013	2012	2013	2012	2013	2012	2013	2012
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Maximum exposure to credit risk								
At amortised cost								
Grade 1-4	4,968,117	6,594,584	4,958,420	6,585,518	229,900	1,653,246	189,583	1,653,246
Grade 5-6	5,332,316	5,528,038	5,324,547	5,520,896	-	-	-	-
Grade 7-9	2,379,533	1,874,564	2,363,041	1,858,638	-	-	-	-
Grade X (impaired)	2,258,211	1,937,229	2,254,466	1,934,952	-	-	-	-
No credit grading	12,768	268,301	779	270,130	-	-	-	-
Total gross amount	14,950,945	16,202,716	14,901,253	16,170,134	229,900	1,653,246	189,583	1,653,246
Allowance for impairment (individual and collective)	(1,486,640)	(1,487,797)	(1,482,848)	(1,485,520)				
Net carrying amount	13,464,305	14,714,919	13,418,405	14,684,614	229,900	1,653,246	189,583	1,653,246
Off balance sheet								
Grade 1-4	1,132,987	1,142,112	1,132,939	1,142,112	-	-	-	-
Grade 5-6	771,020	284,634	768,970	284,634	-	-	-	-
Grade 7-9	624,779	969,433	624,738	969,433	-	-	-	-
Grade X (impaired)	43,443	60,060	43,443	60,060	-	-	-	-
No credit grading	1,710	505,844	622	505,844	-	-	-	-
Total exposure	2,573,939	2,962,083	2,570,712	2,962,083	-	-	-	-

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37. Financial risk review (continued)

Credit quality analysis (continued)

	Loans and advances to customers				Loans and advances to banks			
	Group		Bank		Group		Bank	
	2013	2012	2013	2012	2013	2012	2013	2012
Off balance sheet	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Loans with renegotiated terms								
Gross carrying amount	690,357	80,935	690,357	80,935	-	-	-	-
Impaired amount	121,809	27,670	121,809	27,670	-	-	-	-
Allowance for impairment	121,809	27,670	121,809	27,670	-	-	-	-
Net carrying amount	568,548	53,265	568,548	53,265	-	-	-	-
Neither past due nor impaired								
Grade 1-4	4,851,587	6,593,584	4,842,159	6,585,518	229,900	229,900	189,583	1,653,246
Grade 5-6	5,012,771	5,527,970	5,005,001	5,520,896	-	-	-	-
Grade 7-9	2,346,030	1,680,548	2,329,639	1,667,762	-	-	-	-
No credit grading	12,175	271,959	185	270,130	-	-	-	-
Total neither past due nor impaired	12,222,563	14,074,061	12,176,984	14,044,306	229,900	229,900	189,583	1,653,246
Past due but not impaired								
due up to 30 days	461,607	181,627	461,607	181,078	-	-	-	-
31-90 days	6,369	9,798	6,369	9,798	-	-	-	-
91-180 days	1,858	-	1,757	-	-	-	-	-
180 days+	337	-	168	-	-	-	-	-
Total past due but not impaired	470,171	191,425	469,901	190,876	-	-	-	-
Individually impaired								
Total	2,259,509	1,937,229	2,254,407	1,934,952	-	-	-	-
Allowance for impairment								
Individual	1,400,092	1,377,812	1,395,041	1,377,812	-	-	-	-
Collective	87,847	107,706	87,847	107,706	-	-	-	-
Total allowance for impairment	1,487,939	1,485,518	1,482,888	1,485,518	-	-	-	-

37. Financial risk review (continued)

Concentrations of credit risk

The group monitors concentrations of credit risk by sector, and by geographic location. An analysis of concentrations of credit risk from loans and advances is shown below.

Sector wise distribution

	Loans and advances to customers		Loans and advances to banks	
		2013		2013
In MUR 000	Group	Bank	Group	Bank
	Rs 000	Rs 000	Rs 000	Rs 000
Amount committed/guaranteed				
Concentration by sector				
Traders	3,364,084	3,348,536	-	-
Construction	2,562,884	2,558,972	-	-
Manufacturing	2,226,614	2,214,541	-	-
Tourism	1,358,111	1,358,053	-	-
Financial and Business Services	896,543	896,469	229,900	189,583
Transport	731,222	723,169	-	-
Agriculture & Fishing	535,977	535,189	-	-
Global Business Licence Holders 1	371,332	371,332	-	-
Infrastructure	346,166	346,166	-	-
Information Communication and Technology	304,296	303,875	-	-
Other Customers	286,455	286,455	-	-
Personal	224,682	222,127	-	-
Freeport Enterprise Certificate Holders	90,572	90,572	-	-
Global Business Licence Holders	81,163	81,163	-	-
Professional	67,304	64,886	-	-
Education	15,655	15,655	-	-
Media, Entertainment and Recreational Activities	1,245	1,245	-	-
Health Development Certificate Holders	-	-	-	-
Human Resource Development Certificate Holder	-	-	-	-
Total	13,464,305	13,418,405	229,900	189,583

37. Financial risk review (continued)

Country wise distribution

	Loans and advances to customers		Loans and advances to banks	
	2013		2013	
In MUR 000	Group	Bank	Group	Bank
	Rs 000	Rs 000	Rs 000	Rs 000
Concentration by country				
Mauritius	7,496,819	7,495,847	-	-
India	2,423,522	2,423,522	29,583	29,583
Madagascar	247,328	202,400	40,317	-
France	506,037	506,037	160,000	160,000
United Kingdom	560,482	560,482	-	-
Austria	343,842	343,842	-	-
South Africa	279,286	279,286	-	-
Luxembourg	273,943	273,943	-	-
Maldives	270,014	270,014	-	-
Global Business - Mauritius	182,775	182,775	-	-
Seychelles	181,007	181,007	-	-
Singapore	149,441	149,441	-	-
Isle of Man	144,770	144,770	-	-
Caiman Island	143,906	143,906	-	-
Switzeland	115,189	115,189	-	-
Hong Kong	60,923	60,923	-	-
Reunion Island	44,843	44,843	-	-
Ivory Coast	21,818	21,818	-	-
Australia	12,651	12,651	-	-
Tunisia	5,431	5,431	-	-
Sri Lanka	273	273	-	-
Belgium	2	2	-	-
British Virgin Island	2	2	-	-
Others	1	1	-	-
Total amount	13,464,305	13,418,405	229,900	189,583

Concentration by location for loans and advances, and for lending commitments and financial guarantees, is based on the customer's country of domicile. Concentration by location for investment securities is based on the country of domicile of the issuer of the security.

37. Financial risk review (continued)

Liquidity Risk

Maturity analysis for financial assets and financial liabilities

Liquidity risk arises in the general funding of the Group's and the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Group and the Bank strive to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group and the Bank continually assess liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group's and the Bank's strategy. In addition the Group and the Bank hold a portfolio of liquid assets as part of their liquidity risk management strategies.

The tables below set out the remaining contractual maturities of the Groups and Banks's financials assets and financials liabilities.

Group	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-maturity	Total
2013	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets								
Cash and Cash equivalents	1,633,366	-	-	55,147	-	223,908	105,148	2,017,569
Loans and advances to banks	8,710	61,190	-	-	-	160,000	-	229,900
Loans and advances to customers	2,204,442	4408,883	729,730	212,503	2,350,119	5,045,268	-	14,950,945
Investment securities	53,180	497,809	119,659	53,300	738,000	322,185	-	1,884,133
Other investment	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	695,807	695,807
	3,899,698	4,967,882	849,389	320,950	3,088,119	5,751,361	800,955	19,778,354
Less allowances for credit impairment	-	-	-	-	-	-	-	(1,486,640)
Total assets	-	-	-	-	-	-	-	18,291,714
Liabilities								
Deposits from banks	815,130	194,211	60,380	60,380	-	-	-	1,130,101
Deposits from customers	2,820,500	5,641,001	672,642	643,226	419,180	441,778	-	10,638,327
Borrowed funds	2,698,440	1,363,428	31,092	100,000	-	-	-	4,192,960
Subordinated liabilities	-	-	-	105,665	110,295	403,323	-	619,283
Other liabilities	-	-	-	-	-	-	413,320	413,320
Total liabilities	6,334,070	7,198,640	764,114	909,271	529,475	845,101	413,319	16,993,991
Net on-balance sheet position	(2,434,372)	(2,230,758)	85,275	(488,321)	2,558,644	4,906,260	387,636	2,784,364
Less allowances for credit impairment								(1,486,640)
Credit commitments	-	-	-	-	-	-	-	1,297,724

37. Financial risk review (continued)

Liquidity Risk (continued)

Bank	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-maturity	Total
2013	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets								
Cash and Cash equivalents	1,555,889	-	-	55,147	-	181,140	105,048	1,897,224
Loans and advances to banks	8,710	20,873	-	-	-	60,000	-	89,583
Loans and advances to customers	2,191,523	4,383,046	729,711	210,299	2,345,762	5,040,912	-	14,901,253
Investment securities	-	437,050	119,659	153,300	738,000	322,185	-	1,770,194
Other investment	-	-	-	-	-	-	170,386	170,386
Other assets	-	-	-	-	-	-	676,808	676,808
	3,756,122	4,840,969	849,370	418,746	3,083,762	5,604,237	952,242	19,505,448
Less allowances for credit impairment	-	-	-	-	-	-	-	(1,482,848)
Total assets	-	-	-	-	-	-	-	18,022,600
Liabilities								
Deposits from banks	815,130	194,211	60,380	60,380	-	-	-	1,130,101
Deposits from customers	7,005,895	1,191,905	672,642	641,707	419,046	441,643	-	10,372,838
Borrowed funds	1,339,570	2,679,140	31,092	100,000	-	-	-	4,149,802
Subordinated liabilities	-	-	-	105,665	110,295	403,323	-	619,283
Other liabilities	-	-	-	-	-	-	380,886	380,886
Total liabilities	9,160,595	4,065,256	764,114	907,752	529,341	844,966	380,886	16,652,909
Net on-balance sheet position	(5,404,473)	775,713	85,256	(489,006)	2,554,422	4,859,271	571,356	2,952,539
Less allowances for credit impairment								(1,482,848)
Credit commitments	-	-	-	-	-	-	-	1,469,691

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37. Financial risk review (continued)

Market Risk

Market risk is the risk that changes in market prices, such as interest rates, and foreign exchange rates will affect the Group's and the Bank's income or the value of their holdings of financial instruments. The objective of the Group's and the Bank's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Group's and the Bank's solvency while optimising the return on risk.

The Group and the Bank separate their exposure to market risks between trading and non-trading portfolios.

Trading portfolios are mainly held by the Treasury unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

With the exception of translation risk arising on the Group's and the Bank's net investments in their foreign operations, all foreign exchange positions within the Group and the Bank are monitored by the Treasury Unit. Accordingly, the foreign exchange positions are treated as part of the Group's and the Bank's trading portfolios for risk management purposes.

Overall authority for market risk is vested in the Group and the Bank Asset and Liability Committee (ALM) which sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Group and the Bank Market Risk Committee is responsible for the development of detailed risk management policies (subject to review and approval by ALM) and for the day-to-day review of their implementation.

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of because financial instruments of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALM is the monitoring body for compliance with these limits. A summary of the Group's and the Bank's interest rate gap position is summarised below:

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37. Financial risk review (continued)

Exposure to interest rate risk (continued)

Group	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-interest bearing	Total
2013	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets								
Cash and Cash equivalents	1,633,365	181,140	-	55,147	-	42,768	105,148	2,017,568
Loans and advances to banks	8,710	61,190	-	-	-	160,000	-	229,900
Loans and advances to customers	2,204,442	4,408,883	729,730	212,503	2,350,119	5,045,268	-	14,950,945
Investment securities	53,180	497,809	119,659	153,300	738,000	322,185	-	1,884,133
	3,899,697	5,149,022	849,389	420,950	3,088,119	5,570,221	105,148	19,082,546
Less allowances for credit impairment	-	-	-	-	-	-	-	(1,486,640)
Total assets	-	-	-	-	-	-		17,595,906
Liabilities								
Deposits from banks	815,130	194,211	60,380	60,380	-	-	-	1,130,101
Deposits from customers	2,820,500	5,641,001	672,642	643,226	419,180	441,778	-	10,638,327
Borrowed funds	2,698,440	1,363,428	31,092	100,000	-	-	-	4,192,960
Subordinated liabilities	-	459,283	-	-	-	160,000	-	619283
Total liabilities	6,334,070	7,657,923	764,114	803,606	419,180	601,778	-	16,580,671
Net on-balance sheet position	(2,434,373)	(2,508,901)	85,275	(382,656)	2,668,939	4,968,443	105,148	2,501,875
Less allowances for credit impairment								(1,482,888)
Credit commitments	-	-	-	-	-	-	-	1,018,987

37. Financial risk review (continued)

Exposure to interest rate risk (continued)

Bank 2013	Up to 1 month Rs 000	1-3 months Rs 000	3-6 months Rs 000	6-12 months Rs 000	1-3 years Rs 000	Over 3 years Rs 000	Non-interest bearing Rs 000	Total Rs 000
Assets								
Cash and Cash equivalents	1,555,889	181,140	-	55,147	-	-	105,048	1,897,224
Loans and advances to banks	8,710	20,873	-	160,000	-	-	-	189,583
Loans and advances to customers	8,474,190	2,766,238	623,890	422,899	1,781,733	832,304	-	14,901,253
Investment securities	-	437,050	119,659	153,300	738,000	322,185	-	1,770,194
Other investment	-	-	-	-	-	-	170,386	170,386
	10,038,789	3,405,301	743,549	791,346	2,519,733	1,154,489	275,434	18,928,641
Less allowances for credit impairment	-	-	-	-	-	-	-	(1,482,848)
Total assets	-	-	-	-	-	-	-	17,445,793
Liabilities								
Deposits from banks	815,130	194,211	60,380	60,380	-	-	-	1,130,101
Deposits from customers	9,990,579	113,350	59,018	192,402	16,758	730	-	10,372,837
Borrowed funds	2,698,440	1,320,270	31,091	100,000	-	-	-	4,149,802
Subordinated liabilities	-	459,283	-	-	-	160,000	-	619,283
Other liabilities	-	-	-	-	-	-	380,886	380,886
Total liabilities	13,504,149	2,087,114	150,489	352,782	16,758	160,730	380,886	16,652,909
Net on-balance sheet position	(3,465,361)	1,318,186	593,060	438,565	2,502,974	993,758	(105,452)	2,275,731
Less allowances for credit impairment								(1,482,848)
Credit commitments	-	-	-	-	-	-	-	792,883

37. Financial risk review (continued)

Sensitivity analysis

The Group and the Bank use Gap Analysis to measure the vulnerability of interest rate movements. The Group and the Bank assess the impact of various interest rate movements on net interest income over a 12 months period assuming static position.

If interest rate increases or decreases by 1% with all other variables held constant, profit after tax and equity of the Group and the Bank would increase or decrease as follows:

	Group			Bank		
	2013 Rs 000	2012 Rs 000	2011 Rs 000	2013 Rs 000	2012 Rs 000	2011 Rs 000
Effect on profit/equity	23,967	22,095	15,205	23,812	22,138	14,931

Exposure to currency risk

The Group and the Bank are exposed to currency risk through transactions in foreign currencies. The Group's and the Bank's main operations are in US Dollar, Pound Sterling, Euro and the Japanese Yen. As the currency in which the Group and the Bank present their consolidated financial statements is the Mauritian Rupee, the Group's and the Bank's financial statements are affected by movements in the exchange rates between these currencies and the Mauritian Rupee. The Group's and the Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the profit or loss. These expenses comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Group and the Bank. The Group and the Bank finance a significant proportion of its monetary assets in foreign currencies with borrowings in same currencies to mitigate its currency risk. These exposures were as follows:

37. Financial risk review (continued)

Currency risk

Group	MRU	USD	GBP	EUR	OTHER	TOTAL
2013	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets						
Cash and Cash equivalents	540,461	809,838	78,748	360,724	227,798	2,017,569
Loans and advances to banks	160,000	4,148	-	25,435	40,317	229,900
Loans and advances to customers	6,100,335	5,054,362	21,935	3,522,136	252,178	14,950,946
Investment securities	1,770,194	-	-	-	113,939	1,884,133
Other investment	-	-	-	-	-	-
	8,570,990	5,868,348	100,683	3,908,295	634,232	19,082,548
Less allowances for credit impairment	-	-	-	-	-	1,486,640
Total assets	-	-	-	-	-	17,595,908
Liabilities						
Deposits from banks	-	1,086,840	-	43,261	-	1,130,101
Deposits from customers	6,448,446	1,787,394	103,660	1,869,220	429,607	10,638,327
Borrowed funds	100,000	2,868,050	-	1,029,829	195,080	4,192,959
Subordinated liabilities	160,000	332,845	-	126,438	-	619,283
Other liabilities	382,909	-	-	-	30,410	413,320
Total liabilities	7,091,355	6,075,129	103,660	3,068,748	655,097	16,993,989
Net on-balance sheet position	1,479,634	206,780	2,977	839,547	20,865	2,088,558
Less allowances for credit impairment	-	-	-	-	-	1,486,640
Credit commitments	-	-	-	-	-	601,918

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37. Financial risk review (continued)

Currency risk (continued)

Bank	MRU	USD	GBP	EUR	OTHER	TOTAL
2013	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Assets						
Cash and Cash equivalents	540,461	808,261	78,748	356,502	113,252	1,897,224
Loans and advances to banks	160,000	4,148		25,435		189,583
Loans and advances to customers	6,100,335	5,054,318	21,935	3,522,134	202,532	14,901,253
Investment securities	1,770,194	-	-	-	-	1,770,194
Other investment	170,386	-	-	-	-	170,386
Other assets	676,808	-	-	-	-	676,808
	9,418,184	5,866,727	100,683	3,904,071	315,784	19,605,448
Less allowances for credit impairment	-	-	-	-	-	1,482,848
Total assets	-	-	-	-	-	18,122,600
Liabilities						
Deposits from banks	-	1,086,840	-	43,261	-	1,130,101
Deposits from customers	6,448,446	1,770,713	103,660	1,883,187	166,831	10,372,837
Borrowed funds	100,000	2,868,050	-	986,671	195,080	4,149,802
Subordinated liabilities	160,000	332,845	-	126,438	-	619,283
Other liabilities	380,886	-	-	-	-	380,886
Total liabilities	7,089,332	6,058,448	103,660	3,039,557	361,911	16,652,909
Net on-balance sheet position	2,328,851	191,721	2,977	864,513	46,128	2,952,539
Less allowances for credit impairment	-	-	-	-	-	1,482,848
Credit commitments	-	-	-	-	-	1,469,691

37. Financial risk review (continued)

Sensitivity analysis

Currency risk arises from open positions. Fluctuations of the Mauritian rupee by 1% against all foreign currencies would result in a gain or loss to the statement of comprehensive income as shown below. The analysis does not take the currency positions that are denominated in the functional currencies of relevant operations because they do not create any foreign currency exposures. Also, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not represent the exposure during the year.

	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Effect of +/- 1% change	20,888	24,322	17,100	29,525	24,695	17,383

(b) Capital Management

Regulatory capital

The Group's lead regulator, Bank of Mauritius, sets and monitors capital requirements for the Group and the Bank, which is 10% of the total risk-weighted assets of the bank. The capital requirements are based on the Basel II framework. The Group has been granted approval by the local regulator to adopt the Standardized approaches to credit and market risk management and Simple Indicator approach for operational risk management.

The Group's regulatory capital comprises of Tier 1 Capital and Tier 2 Capital. Tier 1 capital which is also known as the Core capital comprises of Paid Up capital, Statutory Reserve, Retained Earnings, Minority Interests. Deductions in the Tier 1 capital are made for goodwill, other intangible assets and deferred tax. Tier 2 Capital which is also known as the Supplementary Capital is made up of General Banking Reserve, Portfolio Provision and Term Subordinated Debt.

Various limits are applied to elements of the capital base. For example, the qualifying Tier 2 capital cannot exceed Tier 1 capital; and qualifying term subordinated loan capital may not exceed 50% of Tier 1 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

37. Financial risk review (continued)

(b) Capital Management (continued)

Regulatory capital (continued)

Banking operations are categorized as either trading book or non-trading book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognized in the statement of financial position. Basel II maintains a risk-weighted asset requirement in respect of operational risk.

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Capital allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on the regulatory capital, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by the Asset and Liability Management Committee (ALCO).

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

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37. Financial risk review (continued)

(b) Capital Management (continued)

Capital allocation (continued)

The Group's regulatory capital position under Basel II at 31 December 2013 was as follows.

BASEL II	Group			Bank		
	2013	2012	2011	2013	2012	2011
	Rs M	Rs M	Rs M	Rs M	Rs M	Rs M
TIER 1 CAPITAL						
Paid up or assigned capital	1,749	1,499	839	1,749	1,499	839
Statutory reserve	83	83	83	83	83	83
Other disclosed free reserves, including undistributed balance in income statement	(340)	(433)	392	(246)	(357)	446
Current year's retained profits						
Minority interests	16	7	16	-	-	-
Deduct:						
Goodwill	(76)	(76)	(74)			
Investment in subsidiary				(85)	(53)	(53)
Other Intangible assets	(6)	(9)	(13)	(2)	(3)	(6)
Deferred Tax	(161)	(158)	(65)	(159)	(156)	(64)
Total Tier 1 Capital	1,266	913	1,178	1,341	1,013	1,245
TIER 2 CAPITAL						
General Banking Reserve	117	135	144	117	135	144
Portfolio Provision						
Subordinated debts	406	457	415	406	475	415
Deduct:						
Investment in Subsidiary	-	-	-	(85)	(53)	(53)
Total Tier 2 Capital	523	592	559	438	557	506
TOTAL CAPITAL BASE	1,789	1,505	1,737	1,778	1,570	1,751

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37. Financial risk review (continued)

Fair values of financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fiar value hieararchy. It does not include fair value information for financial assets and financial liabties not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2013

Group

	Fair Value			
	Level 1	Level 2	Level 3	Carrying amount
	Rs 000	Rs 000	Rs 000	Rs 000
Assets				
Cash and cash equivalents	-	2,017,569	-	2,017,569
Loans and advances to banks	-	229,900	-	229,900
Loans and advances to customers	-	13,464,305	-	13,464,305
Investment securities	-	1,884,133	-	1,884,133
Liabilities				
Deposits from banks	-	1,130,101	-	1,130,101
Deposits from customers	-	10,638,327	-	10,638,327
Borrowed funds	-	4,192,960	-	4,192,960
Subordinated liabilities	-	619,283	-	619,283

Bank

	Fair Value			
	Level 1	Level 2	Level 3	Carrying amount
	Rs000	Rs 000	Rs 000	Rs 000
Assets				
Cash and cash equivalents	-	1,897,224	-	1,897,224
Loans and advances to banks	-	189,583	-	189,583
Loans and advances to customers	-	13,418,405	-	13,418,405
Investment securities	-	1,770,194	-	1,770,194
Investment in subsidiary		170,386		170,386
Liabilities				
Deposits from banks	-	1,130,101	-	1,130,101
Deposits from customers	-	10,372,838	-	10,372,838
Borrowed funds	-	4,149,802	-	4,149,802
Subordinated liabilities	-	619,283	-	619,283

37. Financial risk review (continued)

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(a) Valuation models
The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

• Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
• Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

• Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

38. Ultimate holding company

The immediate and ultimate holding company are BPCE International et Outremer and BPCE respectively, both incorporated in France.

39. Subsequent events

There were no material events after the reporting date.