Banque des Mascareignes Ltée

Consolidated and Separate Financial Statements

For the year ended 31 December 2014

Contents

CORPORATE INFORMATION

Chief Executive Officer:	**Mr Phillippe Wattecamps**
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Auditors:	**KPMG** KPMG Centre 31 CyberCity, Ebène Republic of Mauritius

MANAGEMENT DISCUSSION AND ANALYSIS

I. Financial Highlights

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
Income Statement (Rs' million)						
Net Interest Income	**464**	419	478	**450**	412	474
Revenue	**670**	602	67	**649**	584	668
Profit before Tax	**48**	107	(779)	**65**	134	(748)
Profit for the year	**64**	85	(723)	**82**	111	(693)
Statement of Financial Position (Rs' million)						
Total Assets	**20,998**	18,583	21,297	**20,820**	18,322	21,115
Total Loans (Net)	**16,253**	13,930	16,452	**16,172**	13,844	16,422
Total Deposits	**15,136**	11,768	14,598	**14,877**	11,503	14,416
Shareholders' Fund	**1,699**	1,577	1,216	**1,761**	1,657	1,300
Risk Weighted Assets	**17,098**	15,144	14,559	**16,071**	14,720	16,269
Performance Ratios (%)						
Return on average assets	**0.4**	0.4	(3.4)	**0.5**	0.6	(3.3)
Return on average equity	**4.3**	6.1	(54.5)	**5.2**	7.5	(50.6)
Non-Interest income/Revenue	**30.8**	30.5	29.3	**30.7**	29.5	29.0
Loans to deposits ratio	**107.4**	116.4	112.1	**108.7**	118.3	113.3
Cost to income ratio	**77.4**	83.7	65.2	**74.3**	78.9	60.3
Asset Quality (%)						
Non-performing loan ratio	**14.6**	15.2	12.0	**14.6**	15.2	12.0
Provision Coverage ratio	**57.5**	61.7	71.2	**57.5**	61.7	71.2

MANAGEMENT DISCUSSION AND ANALYSIS

I. Financial Highlights (continued)

Performance against objectives for the Bank

Objectives for FY 2014	Performance in FY 2014	Objectives for FY 2015
Return on average equity (ROE) In view of the current economic and competitive environment, ROE is expected to be above 8%.	With results being dampened by the difficult operating environment and a rise in impairment charges, ROE stood at 5.2% for the year under review.	In view of the current economic and competitive environment, ROE is targeted to be above 6%.
Return on average assets (ROA) ROA is expected to be at 1.1% in 2014.	ROA stood at 0.5% for the year ended 31 December 2014.	ROA is expected to be above the current level.
Revenue Revenue is expected to increase by approximately Rs 130 million.	Net interest income amounted to Rs 450 million for the financial year 2014, depicting a growth of 9.2% over last year. Revenue has increased by 10% compared to last year.	In spite of low yields on treasury bills, net interest income is anticipated to grow by more than 10% for the year. Other revenue is expected to increase at least by 15%.
Operating expenses Operating expenses is expected to increase by around 5%.	Operating expenses were kept under control with a slight growth of 4.7% compared to last year.	With the implementation of various projects, including the migration of the core banking system, operating expenses are expected to surge by 10% next year.
Cost to income ratio Cost to income ratio is expected to be below the level of 70% in 2014.	Cost to income ratio improved from 78.9% to reach 74.3% for the year ended 31 December 2014.	Cost to income ratio should drop below the level of 70% in 2015.
Loans and advances growth A growth is expected in the loans and advances book in financial year 2014.	Amidst the challenging operating environment, the loans and advances recorded a satisfactory growth of 16.8% to reach Rs 16.2 billion.	Growth of 14% in loans and advances book is forecasted for the year.
Deposits growth The deposits base is expected to witness a slight growth in the financial year 2014.	Total deposits grew by 29.3% during the year under review to reach Rs 14.9 billion.	Deposits growth is expected to be around 14% in financial year 2015.
Asset quality The objective is to bring NPL ratio at below current level (FY 2013: NPL/Gross loan was 16.6% and Specific provision/NPL was 61.7%).	NPL/Gross loan decreased to 14.6% in 2014. Provision coverage fell to 57.5%.	NPL and provision coverage ratio are expected to improve.
Capital management Capital Adequacy Ratio is expected to be maintained above 11%.	Capital Adequacy Ratio stood at 10.96%.	Capital Adequacy Ratio is expected to be maintained above 11%.

MANAGEMENT DISCUSSION AND ANALYSIS

II. Review of the Operating Environment

International Economic Outlook

In late 2014, expectations were rising that perhaps the depression would subside, especially in the euro area and that finally, after seven years of economic and financial turmoil, the world would be back on a steady growth path. However, latest available evidence portrays a world economy that remains plagued by enduring disturbances and volatilities at various echelons. The bad news started to flow in from countries of the Eurozone, with Greece admitting that its budget deficit was twice as big as had previously been reported and Germany facing stiff challenges to stay out of recession. The spectre of deflation is looming on the euro area. Elsewhere, the situation in the United States and the UK appears less gloomy. Annual growth in the UK is expected to be close to 3% over the 2015-2016 period and the unemployment rate is projected to be 5.5% in 2016. This is in stark contrast with Continental Europe where the unemployment rate is not expected to fall below double digits, where it had been since 2012, until 2016.

In its World Economic Outlook report published in October 2014, the International Monetary Fund (IMF) is of the view that global growth is projected to "rebound to an annual rate of about 3.7% in the second half of 2014 and into 2015". The United States is expected to experience the strongest rebound in growth. These forecasts are slightly weaker as compared with the IMF's July 2014 issue.

In the January 2015 edition of its 'Global Economic Prospects' report, the World Bank highlighted the following: "The world economy is still struggling to gain momentum as many high-income countries continue to grapple with the legacies of the global financial crisis. The key features of the lacklustre global recovery have been accommodative monetary policies, falling commodity prices, and weak trade. These are expected to persist, although financial conditions are projected to tighten gradually. Risks to this fragile recovery are significant and tilted to the downside. Financial market volatility, compounded by the risk of a sudden deterioration in liquidity conditions, could sharply raise developing countries' borrowing costs, an unwelcome development after several years of heavy capital market issuance in developing countries. Intensifying geopolitical tensions, bouts of volatility in commodity markets, or financial stress in a major emerging market could lead to a reassessment of risk assets."

This bleak global economic outlook has also been confirmed by the pronouncement of the IMF Managing Director who highlighted that "... global growth is still too low, too brittle, and too lopsided".

The international context has turned out to be increasingly unstable in recent months, thereby amplifying uncertainty levels for Mauritian enterprises and the authorities in general. Looking specifically to the main export markets of Mauritius, the emphasis can be laid on the euro area with an inflation rate of -0.2% in December 2014 and increased fears of a possible prolonged drop in consumer prices and the occurrence of a deflationary spiral that threatens to hinder growth. The relative weakness of the euro represents a source of concern for the Mauritian economy as it threatens to impair the country's external competitiveness, hamper the external demand for our exports, and markedly eat up the margins of our exporters, whilst curtailing their price bargaining power vis-à-vis customers in euro area markets. Such dynamics would dampen revenue generation and, thus, reduce the latitude for enterprises to increase production levels through investment and, subsequently, contribute to job creation. On the other hand, the global oil benchmark dropped below USD 50 a barrel. Although volatile oil prices have increased volatility of the world market, the Mauritian economy would, ceteris paribus, benefit from the commodity's soft short to medium term outlook. In particular, the ensuing contained evolution of the consumer price index should underpin household real disposable income and consumption, in the process positively impacting the country's economic growth and the average living standard of the population. Domestic enterprises would benefit from lower input costs, thereby finding themselves in a better position to enhance their value added and financial performance. Moreover, although the Central Government would register shortfalls in its revenue in relation to excise duty and value added tax on the basis of an expected lower import bill for petroleum products, public finances would stand to benefit from the direct impact on the financial performance of the State Trading Corporation.

Mauritian Economic Environment

Statistics Mauritius has forecasted a real growth rate of GDP at basic prices in 2014 of 3.5%. Using GDP at market prices as per international standards for national accounts data computation, the economic growth is estimated for 2014 at 3.2%. This is slightly lower than the growth rates forecasted in early 2014 mainly due to:

- the slow evolution of investment levels, with national investment plunging below the psychological threshold of 20% of GDP last year for the first time in 2 decades; and

- mixed sectoral performances, spanning from notable growth in the financial intermediation, information and communication and tourism sectors, as well as modest progress of the export-oriented manufacturing industry and the agricultural sector to a downtrend trend in the construction industry.

MANAGEMENT DISCUSSION AND ANALYSIS

II. Review of the Operating Environment (Continued)

Mauritian Economic Environment (continued)

Fundamentally, in spite of gradual headway achieved in terms of the scale and depth of its economic diversification and international openness amongst others, the performance of the Mauritian economy has, in the recent past, been impacted by its inherent limitations. These relate to the following:

(i) the extensiveness and quality of public infrastructure levels in respect of areas such as energy, water, road network, seaport and telecommunications;

(ii) the functioning of labour markets in tune with socio-economic exigencies; and

(iii) some other relatively underperforming areas of the business facilitation framework in response to the underlying competitiveness necessities of businesses.

Notwithstanding the resolutions of the forthcoming National Budget, the growth rate of real GDP at market prices is expected to stand at 3.8% for 2015. This outlook factors in dynamics associated with

(i) the still soft global economic landscape, especially in view of worsening euro area concerns;

(ii) tumbling world oil prices;

(iii) enduring domestic productivity and competitiveness hindering imbalances; and

(iv) a subdued outlook for national investment, despite factoring in a relative upturn in private investment.

Preliminary indications for the forthcoming budget suggest a reprioritisation of intended resource mobilisation in favour of the prompt initiation of projects to tackle inter alia the water, energy and road dossiers. The country's long-term potential growth rate is being presently estimated to stand within the 4.0% - 4.2% range. This highlights the need to implement adequate remedial policy measures to materially uplift real GDP from the sticky sub-par growth outcomes of recent years as well as to facilitate the fulfilment of national socio-economic imperatives.

From a sectoral standpoint, it is expected that the country's real GDP growth for 2015 will be supported by further favourable prospects for the financial and business services industry as well as the information and communication technology and seafood sectors. Specifically,

- the financial intermediation sector should continue to benefit from sound fundamentals and market diversification endeavours by operators, notwithstanding industry uncertainty and investor jitteriness in anticipation of the renegotiation of the India-Mauritius Double Taxation Avoidance Agreement.

- the seafood hub should record an appreciable growth in 2015 with increased market access and capacity-building investments and newly implemented increases in European tariff quotas.

- the performance of the tourism industry and ancillary related activities should remain on delicate grounds in 2015 on account of intensified competitive pressures emanating from competitor destinations in the region; and dampened private expenditure in some of the key source markets in the euro area.

- the construction sector is expected to post a relative upturn in 2015, albeit from a much-weakened base.

- the agricultural sector is poised to continue to evolve at a tempered pace this year, mainly due to a reorientation of the productive activities of the sugar industry.

Macro-Economic Indicators

	Unit	2011	2012	2013	2014*	2015**
GDP growth at market prices	%	3.9	3.2	3.2	3.5	3.8
CPI inflation	%	6.5	3.9	3.5	3.2	2.0
Unemployment rate	%	7.8	8.0	8.0	7.8	7.8
Budget Deficit as % of GDP	%	3.2	1.8	3.5	3.2	--

* estimates
** forecasts

MANAGEMENT DISCUSSION AND ANALYSIS

II. Review of the Operating Environment (Continued)

Inflation

During 2014, the consumer price index evolved at a tempered pace, thus bringing a decrease in headline inflation which stood at 3.2% as at December 2014. In particular, in spite of facing up to the relative weakness of the rupee against the US dollar during the second half of the year, inflation has, mainly, benefited from the drop in telecommunication costs and, importantly, the persistent decline in international oil prices. As the situation stands and after taking into account the impact of recent upward adjustments in household income levels, the generally subdued outlook for commodity prices in the context of the delicate economic context is set to remain a key determinant in a further slide in the headline inflation rate.

Unemployment

Net employment creation in the country remained in a challenging zone last year. Indeed, the nationwide unemployment is estimated at a relatively high rate of 7.8% for 2014, with related trends continuing to warrant attention, namely that

- around 46% of the unemployed were aged below 25 years, which corresponds to an unemployment rate of more than 25%;
- the overall unemployment rate for women attained 11.4%, with the indicator standing at 33.1% for the 16-24 age Group; and
- the activity rate of the country's population lingered at a rate of around 60%, with the corresponding ratio for women being at 45%.

The unemployment rate is expected to stay unchanged in 2015, even though a relatively better outcome could be realised should extensive policy measures be promptly adopted to curtail labour market inadequacies and boost employment creation avenues across economic sectors, age Groups and gender.

Banking sector and monetary developments

Using the Financial Soundness Indicators (FSI) as a tool to assess the health of the banking sector, the IMF concluded in its Article IV 2014 Report that "the Mauritian banking system is healthy at the aggregate level" with a capital adequacy ratio slightly above the regulatory minimum of 10%. The overall liquidity ratio increased from 17% to 20% between end-2012 and June 2013 but the IMF notes that this has not fully recovered to the pre-crisis level (2008 and 2009). The analysis also demonstrates that the decrease in liquidity was caused mainly by the global business (Segment B) sector while the onshore (Segment A) sector managed to maintain its liquidity ratio.

<u>Excess liquidity in the financial system</u>

For several years, the financial system has remained plagued with excess liquidity. It is feared that this problem of excess liquidity may have been undermining the monetary policy transmission mechanism, thus thwarting the effectiveness of monetary policy. As at December 2014, the excess liquidity on the market exceeded Rs 7 billion.

In late 2014, the Bank of Mauritius and the Ministry of Finance and Economic Development (MoFED) have taken a number of measures to curtail the problem, namely:

- Adoption of a formal inflation-targeting approach;
- Issuance of Savings Bond at rates much higher than prevailing savings deposit rates - targeted towards individual investors; and
- Hiking of the fortnightly average CRR from 8% to 9% as well as the daily minimum CRR from 5.5% to 6.5%.

The Bank of Mauritius has, during the last financial year, kept unchanged the Key Repo Rate (KRR) at the various representations of the Monetary Policy Committee (MPC). The last meeting of the MPC was held on 28 October 2014 (KRR of 4.65%).

MANAGEMENT DISCUSSION AND ANALYSIS

III. Financial Review

Introduction

The Bank has, again, faced up to a challenging operating environment during the last financial year. Indeed, while the demand for credit on the domestic front remained hampered by the slow-moving private investment trends and sector-level difficulties persisted, the high liquidity situation continued to prevail, thus impacting yields on treasury securities and fuelling competitive pressures. In addition, with the increased competition in the international syndication market, the Bank experienced a more than proportionate increase in prepayment on its International Banking portfolio, which also impacted the average yields on new deals.

Nevertheless, uplifted by its business diversification strategies, the underlying revenue growth remained appreciable, as testified by operating income expanding by 11.1%. Furthermore, with the growth in operating expenses being contained, operating profit before provisions grew by around 35%.

Yet, the net profit declined by 26.2% during 2014 to reach Rs 82 million. Fundamentally, the Bank's profitability was significantly hampered by another significant rise in impairment charges which increased to Rs 101 million against a recovery in 2013.

Business Segments Review

Corporate Banking

During the year under review, Corporate Banking segment continued building strong client relationships and strengthening capabilities to deliver a superior client service.

The challenge during the year 2014 was to maintain margins and volumes within the Bank's risk appetite in a market where competition intensified. Advances grew by 19% during the financial year 2014. Deposits in Corporate segment experienced a growth of 29% with a balanced mix in rupee deposits and foreign currency deposits.

During the past year, major clients in hospitality, property development and construction sectors were taken on board and Corporate Banking segment has among its clients most of the Top 100 Companies in Mauritius contributing to a diversified assets book. Looking ahead, this segment is aiming to further improve performance through better penetration of Top 100 Companies and expansion of the customer base to include the 300 / 500 Top Corporates.

Retail Banking

Although tough market conditions continue to prevail, retail loans showed a growth of 20%, on the back of an enhanced value proposition. Deposits also grew by 15%, mainly driven by savings and current account.

Whilst the operating environment is likely to remain delicate, the ongoing drive to reinforce the value proposition and improve service quality should sustain the increase in average retail loans.

Global Business Banking

Leveraging on the image and reputation of Mauritius as an International Financial Centre par excellence, the Global Business Desk continued its business expansion during the year under review by diversifying its products, resulting in a sustained increase of 61% in the balances of Segment B deposits.

The future strategy of the Global Business continues to be on reinforcing its positioning on the regional and the international front, with a specific focus on BPCE Group network and customers.

International Banking

The Bank further developed and nurtured its business relationships with key Lead Mandated Arrangers on the syndication market. As such, in spite of some major unexpected prepayments, the Segment B loan book increased by 18%.

Going forward, it is expected that this growth will be sustained and improved by further developing synergies with BPCE Group companies.

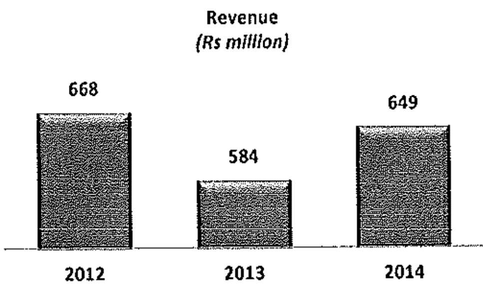
MANAGEMENT DISCUSSION AND ANALYSIS

III. Financial Review (continued)

Revenue

Revenue amounted to Rs 649 million or an increase of 11% compared to last year. Net interest income represents 69% of total operating income.

In Mur'000	2014	2013	2012
Net Interest Income	449 870	411 848	474 021
Net Fee and Commission Income	111 801	97 965	105 710
Net Trading Income	76 746	61 804	77 074
Other Operating Income	10 907	12 817	10 733
Revenue	**649 324**	**584 434**	**667 538**



Net interest income

Against the backdrop of the restrained growth in the overall loan portfolio in line with the difficult economic environment and the squeezing of margins on account of excess liquidity conditions and heightened competitive pressures, net interest income for the Bank stood at a satisfactory level.

For the year ended 31 December 2014, net interest income amounted to Rs 450 million, representing a rise of 9% compared to last year. This rise can be explained by the continuous effort of the Bank to reduce its cost of funds and the diversification of its loan portfolio across segments as well as across products.

Non-interest income

The Bank's performance in the area of non-interest income was satisfactory with Rs 112 million being achieved for the year 2014, representing a growth rate of 14%. The main driver include fees and commission income on transactional banking services.

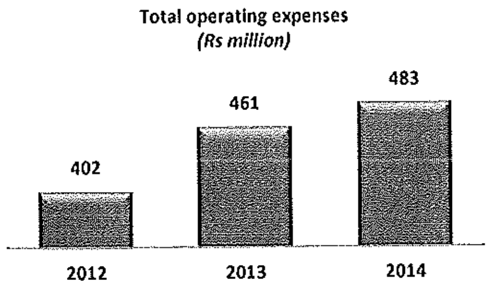
The foreign exchange business handled by the Bank has shown satisfactory growth. Despite operating in exceptionally challenging times and decreasing yield environment, the Bank's net trading income amounted to Rs 77 million, representing an increase of 24% as compared to last year's corresponding period. Furthermore the Bank registered a remarkable growth of 25% in its foreign exchange turnover compared to last year.

MANAGEMENT DISCUSSION AND ANALYSIS

III. Financial Review (continued)

Total operating expenses

In line with diligent cost management and operational efficiency gains achieved, growth in operating costs was contained to 5% to reach Rs 483 million for the period under review.



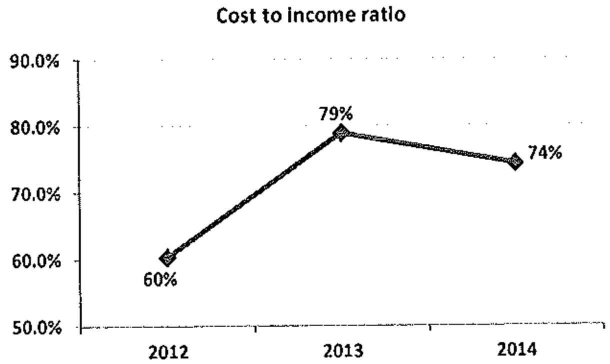
To accompany its continued development process, the Bank focused on improving staff benefits such as training and development, recruitment of high calibre professionals to strengthen its workforce as well as retention of high quality staff. As such, personnel expenses rose by 7.4% to reach the level of Rs 262 million compared to last year for the same period, reflecting the Bank's continued investment in human capital.

The Bank continued to manage expenses tightly in the face of continued economic uncertainty. Consequently, other operating expenses witnessed a slight increase of 1.7% compared to the year ended 31 December 2013.

Depreciation amounted to Rs 26 million, or a decrease of 3%, compared to last year.

Cost to income ratio

With the growth in revenue coupled by efficient cost control management, the cost to income ratio went down from 79% to 74%, as compared to last year.



Net impairment loss on financial assets

Allowance for credit impairment includes movements in both specific and portfolio provisioning. The specific impairment charges stood at Rs 101 million for the year ended December 2014. It is worth noting that an amount of Rs 14 million has been booked for the year ended 2014, representing portfolio provisions as per the Macro Prudential Policy (MPP) requirements issued by the Bank of Mauritius in 2014, whereby additional provisions should be booked on a phased manner in 2014 and 2015 on sectors such as tourism, housing and construction.

MANAGEMENT DISCUSSION AND ANALYSIS

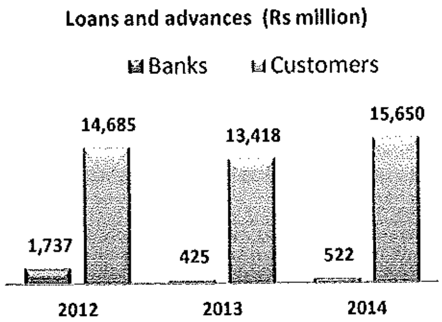
III. Financial Review (continued)

Loans and advances

Amidst the challenging operating environment, the loans and advances portfolio of the Bank posted a satisfactory growth of 16.8% to reach the level of Rs 16.2 billion as at 31 December 2014.

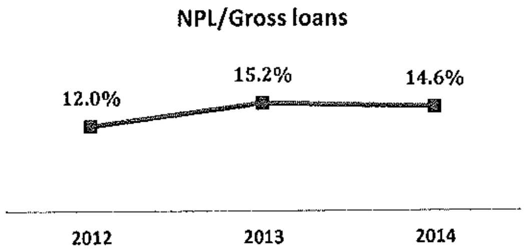
The loans and advances to banks portfolio increased by Rs 96.3 million from 31 December 2013 to reach Rs 522 million as at end of December 2014.

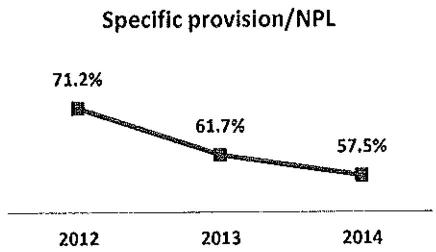
Customers' loans and advances grew to Rs 2.2 billion at December 2014 or an increase of 16.6% compared to December 2014.



Asset quality

Nonperforming loans increased by 11% to reach the level of Rs 2.5 billion as at end of December 2014. The cover ratio of NPLs by specific provisions decreased from 61.7% to 57.5% as compared to the last corresponding period. The ratio of Nonperforming loans on gross advances witnessed a decrease to reach 14.6% as at 31 December 2014.





Investment in securities

Investment in securities witnessed a growth of 12% to stand at Rs 2 billion as at 31 December 2014. Investment in securities represents 25.5% of total deposits in MUR as at end of December 2014, showing a comfortable situation in case of liquidity crisis. It is worthwhile noting that the yields on Treasury Securities have been negatively impacted with the continued high liquidity situation prevailing in the banking industry.

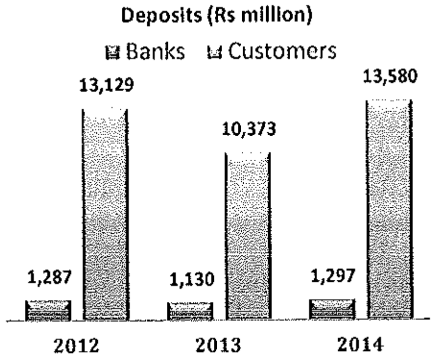
MANAGEMENT DISCUSSION AND ANALYSIS

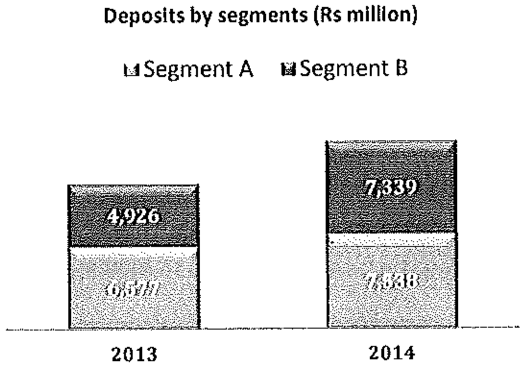
III. Financial Review (continued)

Deposits and borrowings

Deposits

The deposits base of the Bank witnessed an increase of 29% compared to last year to reach MUR 14.9 billion as at end of December 2014. The growth was mainly driven by deposits from Segment B customers witnessing an increase of 59% compared to last year. The deposits book consists of MUR 1.3 billion of deposits in foreign currency from banks, and MUR 13.6 billion of deposits from customers.





Borrowed funds

Borrowed funds consisting mainly of interbank intra Group borrowings decreased by 23% compared to December 2013 to reach MUR 3.2 billion as at December 2014. Borrowed funds are mainly in foreign currency.

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

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report

Introduction

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

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

- governance committees; and
- governance documents.

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

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

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

Risk Governance Structure

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

Risk Management Framework

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

Risk Management Structure

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

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

The Board Committees with oversight on Risk Management are:

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

The Management Committees with oversight on Risk Management are:

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

Enterprise-wide Risk Policy

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

A. Credit Risk

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

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

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

Credit Risk Management

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

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

Credit Risk Management Process

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

Credit Origination

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

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

Credit Evaluation

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

- Risk Rating of the underlying prospective borrower. The Bank has implemented the BPCE IOM's Grading Model, the Outil de Notation International [ONI] for the risk grading of corporate clients. With respect to retail clients, an internally developed scorecard is used.

- Evaluation of the credit request taking into consideration the quantitative and qualitative information on the counterparty and analysing the inherent risks. The evaluation exercise also look at the resulting risks, after mitigating factors, for example security taking.

- Assessing the Risk/Return relationship, through the use of an internally developed « ROE model ».

- Reviewing and analysing compliance with limits as set by the Bank and / or regulators.

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

A. Credit Risk (continued)

Credit Approval

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

Credit Risk Control and Monitoring

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

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

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

Impairment and Provisioning

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

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

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

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

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

Key indicators (Group)	**2014**	2013
Gross loans and advances (Rs million)	**17.8**	15.4
Non-performing loans ratio	**14.6%**	15.2%
Provision coverage ratio	**57.5%**	61.8%

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

A. Credit Risk (continued)

Credit Risk Concentration

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

The Bank of Mauritius Guidelines on Credit Concentration (revised December 2011) restricts the granting of credit facilities to non-financial institutions and other related parties, to:

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

In aggregate, any individual exposure of 15% above the Bank's capital base shall not exceed 600% of its capital base.

Large Credit Exposure

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

As at 31 December 2014, the concentration ratio of large exposures above 15% before applicable set off was 388%, well within the regulatory limit of 600%. After set off, the aggregate exposure under large exposure was 376%.

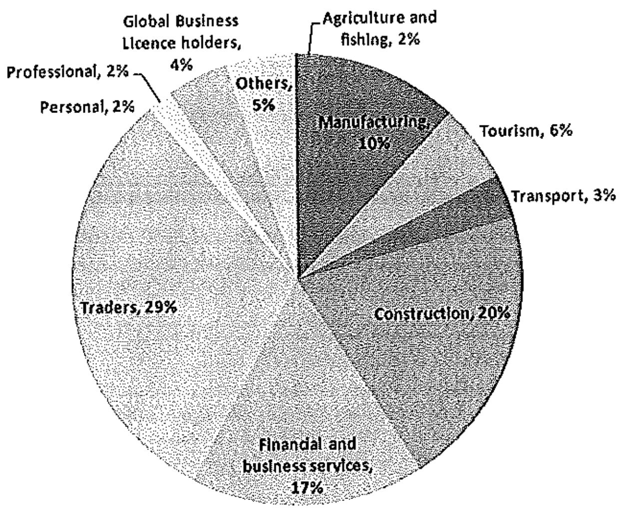
Sectorwise Distribution of Risks

The Bank of Mauritius has implemented concentration limits in respect of the sectoral exposure of Segment A activities, effective 1st July 2014, as follows:

Fund-based exposures (Segment A activities)	% of credit to the private sector (Segment A)	
	Limit	Exposure
- Tourism sector	25%	7%
- Personal sector	15%	3%
- Commercial, residential and land parcelling sector *(Classified under Construction)*	15%	10%

As at 31 December 2014, the above sectoral limits were applicable and the Bank complied with the limits as per details above. In early 2015, the Bank of Mauritius has removed the sectoral limits.

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



MANAGEMENT DISCUSSION AND ANALYSIS

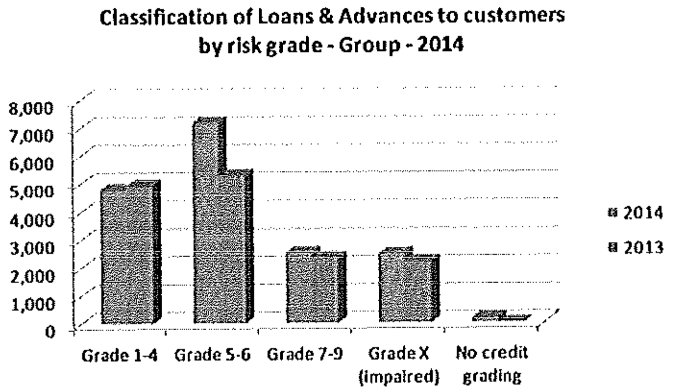
IV. Risk Management Report (Continued)

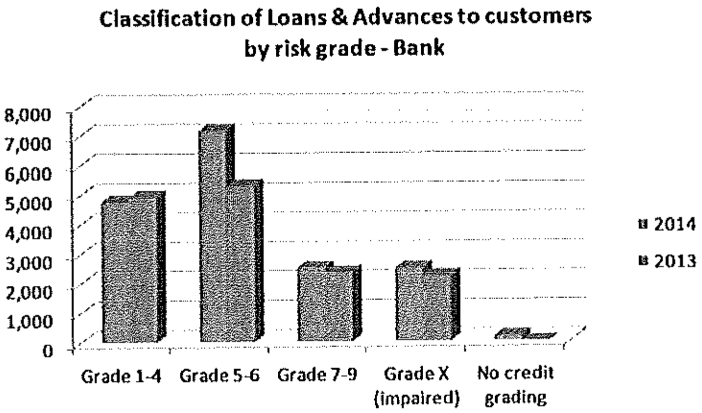
A. Credit Risk (continued)

Credit Quality

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

- For the Corporate customers (Domestic and International customers), the Bank uses the BPCE's rating model ONI (Outil de Notation International). The model uses qualitative as well as quantitative information to rate counterparties, with a rating scale of 1 to 9. The lowest risk is rated 1 and highest risk 9. All impaired counterparties are rates X.





Credit Risk Mitigation

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

A. Credit Risk (continued)

Credit Risk Mitigation (continued)

The main types of collateral taken are:

- mortgage bonds over residential, commercial and industrial properties;
- cession of book debts;
- charge over plant and equipment and other assets; and
- guarantees and pledge over financial instruments such as debt securities, equities and bank deposits.

Credit Risk – Focus 2015

The Group and the Bank will continue to apply appropriate and responsible lending criteria to ensure prudent lending practices in line with anticipated economic conditions and risk appetite. Focus will continue to be placed on standardising credit risk methodologies and processes across the Group, and on enhancing stress-testing practices.

B. Country Risk

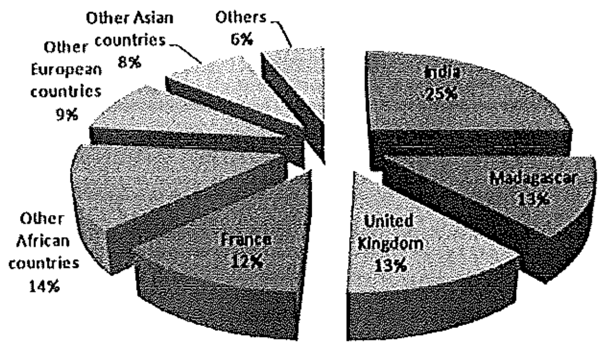
Country risk, also referred to as cross-border transfer risk, is the uncertainty that a client or counterparty, including the relevant sovereign, will be able to fulfil its obligations to the Group due to political or economic conditions in the host country. There are no regulatory capital requirements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

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

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

- political and commercial risk insurance;
- co-financing with multilateral institutions; and
- structures to mitigate transferability and convertibility risk such as collection, collateral and margining deposits outside the jurisdiction in question.

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



MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

B. Country Risk (continued)

Country Risk - Focus areas for 2015

Country risk appetite and the mitigation of country specific risks will be proactively managed in response to the challenging global economic and political risk environment.

C. Market Risk

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

The Group's key market risks are:

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

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

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

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

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

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

Foreign Currency Risk

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

The currency risk is managed according to existing regulations and guidelines of the regulators. It takes into account naturally offsetting risk positions and manages the residual risk through limit setting. The Group does ordinarily hold open exposures of any significance with respect to the banking book. As per the Bank of Mauritius Guideline on Foreign Currency Exposure, overall currency exposure may not exceed 15% of Tier 1 Capital and single currency limit is set at 10% of Tier 1 Capital. As per the BPCE Group's policy, overall currency exposure may not exceed USD 3 million, which is equivalent to circa 7.5% of the Bank's Tier 1 capital.

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

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

C. Market Risk (continued)

Foreign Currency Risk (continued)

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

The Bank's net open, either overbought/oversold, position against the Rupee has been no more than 15% of Tier I capital, throughout the financial year ended 31 December 2014, which is in compliance with the Bank of Mauritius requirements.

The sensitivity analysis shows that a 1% unilateral change in the exchange rate of the major currencies would result in an impact of Rs 6.8 million and Rs 1.5 million for the Group's and the Bank's profit respectively.

Interest Rate Risk

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

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

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

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

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

The sensitivity analysis shows that a 1% unilateral change in the interest rate would result in an impact between Rs 16 million and Rs 22 million on the Bank's profit.

Market Risk - Focus areas for 2015

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

D. Liquidity Risk

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

E. Liquidity Risk (continued)

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

The Group's liquidity risk management framework differentiates between:

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

<u>Structural liquidity mismatch</u>

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

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

<u>Funding strategy</u>

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

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

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

<u>Contingency funding plans</u>

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

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

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

<u>Liquidity buffer</u>

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

Liquidity Risk - Focus areas for 2015

Specific focus areas include ensuring the Group is adequately positioned for the Basel III liquidity phase-in requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

E. Operational Risk

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

- legal risk;
- compliance risk;
- environmental and social risk;
- business continuity management (BCM);
- technology risk management;
- information risk management;
- financial crime control; and
- occupational health and safety.

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

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

E. Operational Risk (continued)

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

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

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

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

- Annual Gross Income: Rs 649 million
- Average Gross Income over 3 years: Rs 634 million
- Capital Charge for Operational Risk: Rs 95 million

Operational risk subtypes

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

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

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

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

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

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

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

- Risks over which the Group does not have control but which have potential to impact on our operations and those of the Group's clients.

- Risks over which the Group has direct control. These include our immediate direct impact, such as our waste management and the use of energy and water; as well as our broader impact, including risks that occur as a result of our lending or financial services activities.

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

E. Operational Risk (continued)

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

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

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

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

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

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

Operational Risk – Focus 2015

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

- Supporting increased innovation and the use of new technology in the banking industry to provide solutions to customers.
- Compliance with increased scope of monitoring and reporting required by regulators.
- Ensuring robust control over balance sheet substantiation and other key financial controls.
- The 2015 compliance focus areas will be driven by supervisory expectations, international best practice and legislative developments impacting the financial services sector. Training and awareness initiatives will continue to be undertaken to ensure that staff members are aware of their regulatory responsibilities relating to relevant legislation.

In addition to managing the risks arising in the ordinary course of business, the Group has identified the key potential operational risk threats for 2015, which will be addressed within the risk management framework, namely financial crime, cyber security, technology risks, internal controls and regulatory risks.

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

F. Capital Management

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

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

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

Basel III

Basel III is a new global regulatory standard on bank capital adequacy and liquidity agreed by the members of the Basel Committee on Banking Supervision in December 2010. Basel III strengthens bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage. It proposes many newer capital, leverage and liquidity standards to strengthen the regulation, supervision and risk management of the banking sector. The capital standards and new capital buffers will require banks to hold more capital and higher quality of capital than under current Basel II rules. The new leverage and liquidity ratios introduce a non-risk based measure to supplement the risk based minimum capital requirements and measures to ensure that adequate funding is maintained in case of crisis. As per the recommendations, banks are expected to be compliant by 1st January 2018.

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

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

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

Objectives of Basel III

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

F. Capital Management (continued)

Implementation of new capital requirements under Basel III

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

	Jul-14	2015	2016	2017	2018	2019	2020
				(All dates are as of 1 January)			
Minimum CET 1 CAR	5.50%	6.00%	6.50%	6.50%	6.50%	6.50%	6.50%
Capital Conservation Buffer				0.63%	1.25%	1.875%	2.50%
Minimum CET 1 CAR plus Capital Conservation Buffer	5.50%	6.00%	6.50%	7.13%	7.75%	8.38%	9.00%
Phase in of deductions from CET 1		50.00%	50.00%	60%	80%	100%	100%
Minimum Tier 1 CAR	6.50%	7.50%	8.00%	8.00%	8.00%	8.00%	8.00%
Minimum Total CAR	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Minimum Total CAR Plus Capital Conservation Buffer	10.00%	10.00%	10.00%	10.63%	11.25%	11.875%	12.50%
Capital instruments that no longer qualify as AT1 capital or Tier 2 capital	Phased out over 10 year horizon beginning 1 July 2014						

Capital Structure

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

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

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

As at 31 December 2014, the Bank's and Group's capital instruments comprised of only

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

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

F. Capital Management (continued)

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

BASEL III	GROUP		BANK	
	2014	2013	2014	2013
	Rs M	Rs M	Rs M	Rs M
Tier 1 Capital				
Paid up or assigned capital *(note 32)*	1,749	1,749	1,749	1,749
Statutory reserve	83	83	83	83
Other disclosed free reserves, including undistributed balance in income statement	(269)	(340)	(162)	(246)
Current year's retained profits				
Minority interests	15	16		
Deduct:				
Goodwill *(note 24)*	(76)	(76)		
Investment in Subsidiary *(note 22)*			(96)	(85)
Other Intangible assets *(note 24)*	(9)	(5)	(8)	(2)
Deferred Tax *(note 17)*	(173)	(161)	(170)	(159)
CET 1 Capital	**1,320**	**1,266**	**1,396**	**1,340**
Additional Tier 1 Capital	-	-	-	-
Total Tier 1 Capital	**1,320**	**1,266**	**1,396**	**1,340**
Tier 2 Capital				
Portfolio Provision *(note 20)*	130	117	130	117
Subordinated debts *(note 29)*	418	406	418	406
Deduct:				
Investment in Subsidiary *(note 22)*	-	-	(96)	(85)
Total Tier 2 Capital	**548**	**523**	**452**	**438**
Total Capital Base	**1,868**	**1,789**	**1,848**	**1,778**
Risk weighted assets for:				
On-balance sheet assets	14,244	13,130	13,974	12,726
Off-balance sheet exposures	1,125	984	1,121	981
Operational risk	982	1,005	951	988
Aggregate net open foreign exchange position	25	25	25	25
Total assets held in Trading book	-	-	-	-
TOTAL RISK WEIGHTED ASSETS	**16,376**	**15,144**	**16,071**	**14,720**
CET 1 Ratio (%)	**8.06%**	**8.36%**	**8.69%**	**9.10%**
Tier 1 Ratio (%)	**8.06%**	**8.36%**	**8.69%**	**9.10%**
Total Capital Adequacy Ratio (%)	**11.41%**	**11.81%**	**11.50%**	**12.08%**

Limits and minima applicable

As per the Bank of Mauritius Guideline of Eligible Capital for the implementation of Basel III, the following limits and minima are applicable, as from July 2014:

- A minimum Core Equity Tier 1 ratio of 5.5%;
- A minimum Tier 1 ratio of 6.5%; and
- A Minimum Capital Adequacy Ratio of 10%.

As at 31 December 2014, the Group and the Bank has complied with all the limits and minimum requirements of the Bank of Mauritius guidelines. The Group and the Bank is well positioned to meet the phase in requirements as per the guidelines.

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

F. Capital Management (continued)

Risk Weighted Assets for Credit Risk

		GROUP		BANK	
		2014		2014	
Risk Weighted On-Balance Sheet Assets	*Risk Weight*	**Exposures after CRM**	**Risk Weighted Assets**	**Exposures after CRM**	**Risk Weighted Assets**
	%	MUR M			
Cash items	*0 - 20*	158	-	129	-
Claims on Sovereigns	*0 - 150*	1,947	50	1,914	-
Claims on Central banks	*0*	1,786	107	1,715	-
Claims on Multilateral development banks	*0 - 150*	285	142	285	142
Claims on banks	*20 - 150*	2,640	476	2,617	465
Claims on non-central government public sector entities	*0 - 150*	426	426	426	426
Claims on corporates	*20 - 150*	8,489	8,497	8,474	8,474
Claims included in the regulatory retail portfolio	*75*	169	127	168	126
Claims secured by residential property	*35-100*	2,015	1,677	2,015	1,677
Claims secured by commercial real estate	*100*	631	715	631	715
Past due claims	*50-150*	994	1,417	994	1,417
Other assets	*100*	610	610	532	532
Total Risk Weighted On-Balance Sheet Assets		**20,150**	**14,244**	**19,900**	**13,974**

Risk Weighted Off-Balance Sheet Assets	*Credit Conversion Factor*	*Risk Weight*	**Exposures after CRM**	**Risk Weighted Assets**	**Exposures after CRM**	**Risk Weighted Assets**
Transaction-related contingent items	*50*	*0-100*	841	420	835	418
Trade-related contingencies	*20*	*0-100*	282	56	282	56
Other commitments	*20*	*0-100*	1,681	635	1,678	633
Foreign exchange contracts	*2*	*100*	688	14	688	14
Total Risk Weighted Off-Balance Sheet Assets			**3,492**	**1,125**	**3,483**	**1,121**

Total Risk Weighted On & Off Balance Sheet Assets	**23,642**	**15,369**	**23,383**	**15,095**

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Risk Management Report (Continued)

F. Capital Management (continued)

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

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

V. Compliance Report

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

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

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

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

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

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

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

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

- conducting independent investigations for suspicious cases and ensuring that appropriate actions and decisions are taken as well as assisting investigative authorities in conducting investigations;
- implementation of FATCA (Foreign Account Tax Compliance Act);
- by preparing Action Plan document, modifying Account Opening Forms and providing training to Sales staff;
- assisting the Bank of Mauritius, Financial Services Commission and external auditors during their audit;
- providing support on new projects of the Bank;
- preparing and circulating to staff of the Bank, action points and summary of changes in existing Legislations and Guidelines and new Legislations and Guidelines. On a quarterly basis the regulatory changes are also reported to the Control Committee, Compliance Committee, Risk Management Committee and Board Audit Committee;
- assisting other departments in setting up and preparing Policies and Procedures;

MANAGEMENT DISCUSSION AND ANALYSIS

V. Compliance Report (continued)

- actively participating in Compliance meetings held at the Bank of Mauritius and Mauritius Bankers Association level; and
- compliance workshops are organised for Senior Management and Relationship Managers to discuss compliance issues and update them about recent regulatory developments.

Compliance - Focus areas for 2015

The 2015 compliance focus areas will be driven by supervisory expectations, international best practice and legislative developments impacting the financial services sector.

VI. Internal audit function and internal control

The Bank has adopted a three-layer control system:

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

Governance framework

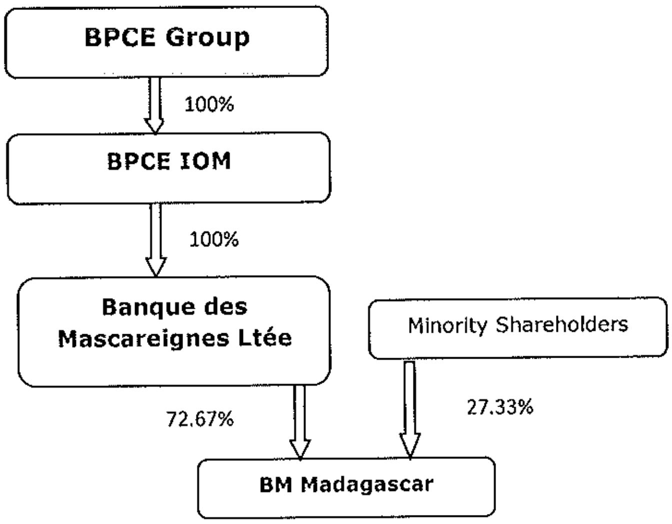
The Group / Bank operate within a clearly defined governance framework. Through this framework, the board balances its role of providing risk oversight and strategic counsel with ensuring adherence to regulatory requirements and risk tolerance. The governance framework provides for delegation of authority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

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

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

Governance structure

The shareholding and Group structure is as follows:



The Governance Framework is as follows:

- Board of Directors
- Board Committees, namely:
  - Audit Committee
  - Risk Management Committee
  - Conduct Review Committee
  - Corporate Governance Committee
  - Remuneration and Nomination Committee

CORPORATE GOVERNANCE REPORT

Governance structure (Continued)

The Governance Framework is as follows: (Continued)

- Management Committees, namely
    - Senior Management Committee (Comité Direction Général)
    - Executive Management Committee (Comité Exécutif)
    - Business Development Committee
    - Finance and Tariff Committee
    - Assets & Liabilities Management Committee
    - Treasury Committee
    - Credit Committee
    - Non-Performing Loans review and Provisioning Committee
    - Arrears Committee
    - Watchlist Committee
    - Compliance Committee
    - Internal Control Committee (Comité de Cohérence et Conformité)
    - Risk Committee
    - Organisation and Information Systems Committee

Board of Directors

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

In line with banking regulations, the board decides on the Group's corporate governance and risk management objectives for the year ahead. The relevant governance and risk committees monitor performance against governance and risk objectives, respectively, and reports are submitted to the board. Effective 2015, self-assessment will be conducted annually to establish whether the Group has achieved these objectives.

The board's terms of reference are set out in a written charter – the Charte de Governance. The mandate is reviewed at least annually and complies with the provisions of the Companies Act and Banking Act, as well as the company's constitution. It sets out processes for the:

- composition of the board;
- term of office;
- reporting responsibilities;
- rules of engagement; and
- matters reserved for board decision.

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

- provide effective leadership based on an ethical foundation;
- approve the strategy and ensures that the Group's objectives take into account the need to align its strategy and risk profile, together with the performance levels and sustainability concerns of stakeholders;
- review the corporate governance and risk and capital management processes and ensures that there is an effective risk management process and internal control system;
- delegate relevant authority to the Chief Executive and monitors their performance;
- determine the terms of reference and procedures of all board committees, reviews the board's and committees' performance annually, and reviews their reports and minutes;
- ensure that the Audit Committee is effective and independent;
- ensure that an adequate budget and planning process exists, measures performance against budgets and plans, and approves annual budgets; and
- consider and approve the annual financial statements and the annual report, results, dividend announcements and notice to shareholders;

CORPORATE GOVERNANCE REPORT

Board of Directors (continued)

The board's key terms of reference are set out below: (Continued)

- approve significant acquisitions, mergers, takeovers, divestments of operating companies, equity investments and new strategic alliances.

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

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

The Board members are:

- <u>Non-Executive Directors</u>
  Philippe Garsuault (Chairperson)
  Alain Merlot
  Bernard Fremont

- <u>Independent and Non-Executive Directors</u>
  Yvan De La Porte Du Theil

- <u>Executive Directors</u>
  Philippe Wattecamps (as from 01 October 2014)
  Matthieu Dabout
  ** Huy Hoang Dang, Executive Director resigned effective 01 October 2014*

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

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

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

The Audit Committee

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

- review the interim and annual financial statements, summarised financial information, dividend declaration and all financial information and recommends them to the board for approval;
- evaluate the adequacy and effectiveness of the accounting policies and all proposed changes in accounting policies and practices;
- review the basis for determination as a going concern;
- review the effectiveness of financial management, including the management of financial risks, the quality of internal accounting control systems and reports produced, including financial reporting risks and internal financial controls;
- review the impact of new financial systems, tax and litigation matters on financial reporting;
- review and approves the Group external audit plan;
- assess the independence and effectiveness of the external auditors on an annual basis;
- oversee the appointment of external auditors, their terms of engagement and fees;

CORPORATE GOVERNANCE REPORT

The Audit Committee (continued)

- review significant differences of opinion between external auditors and management;
- review the external auditors' management reports concerning deviations from and weaknesses in accounting and operational controls, and ensures that management takes appropriate action to satisfactorily resolve issues;
- review, approve and monitor the internal audit plan and charter;
- consider and review the internal auditors' significant findings and management's response;
- evaluate annually the role, independence and effectiveness of the internal audit function in the overall context of the Group's risk management system;
- monitor the maintenance of proper and adequate accounting records and the overall financial and operational environment;
- review reports and activities of the financial crime control unit to ensure the mitigation and control of fraud and related risks;
- review, approve and monitor the compliance plan; and
- monitor compliance with the Companies Act, Banking Act and all other applicable legislations and guidelines.

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

Members of the Audit Committee are:

- Alain Merlot (Chairperson);
- Bernard Fremont; and
- Yvan de la Porte du Theil

Risk Management Committee

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

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

CORPORATE GOVERNANCE REPORT

Risk Management Committee (continued)

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

Members of the Risk Management Committee are:

- Alain Merlot (Chairperson) ;
- Bernard Fremont ;
- Yvan de la Porte du Theil ; and
- Philippe Wattecamps.

Conduct Review Committee

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

- approve the policies and procedures as required by the Guideline on Corporate Governance;
- review the Bank's transactions with related parties in line with the Conduct Review Policy, ensuring that the latter is in compliance with all reporting and/or approval procedures of the Bank of Mauritius;
- review and approve all credit facility with relates parties; and
- ensure that transactions which could materially affect the financial stability of the Bank are identified at source and reviews all related party transactions when said dealings are above 2% of Tier 1 Capital.

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

- Alain Merlot (Chairperson);
- Bernard Fremont; and
- Yvan de la Porte du Theil.

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

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

Corporate Governance Committee

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

- deal with all Corporate Governance issues and makes recommendation to the Board accordingly;
- ensure that the Bank complies with the Code of Corporate Governance and Corporate Governance Guidelines issued by the Bank of Mauritius;
- ensure that disclosures are made in the annual financial statements in compliance with the disclosure provisions in accordance with the best international practice;
- ensure effective communication between stakeholders; and
- review the annual Corporate Social Responsibility policies and related budgets.

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

- Yvan de la Porte du Theil (Chairperson);
- Bernard Fremont; and
- Alain Merlot.

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

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

CORPORATE GOVERNANCE REPORT

Nomination and Remuneration Committee

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

The responsibilities of the Nomination and Remuneration Committee include:

- ascertaining whether the potential directors, chief executive and senior officers are fit and proper persons, have the required skills and expertise, and are free from material conflicts of interest, and ensuring that an induction programme is provided to new directors;

- reviewing the Board structure, size and composition (including balance between independent/ non-executive/executive) and the composition of Board Committees;

- reviewing, for submission to the Board, remunerations for directors and executives/senior officers as well as proposals of promotion to the General Management; and

- reviewing the succession plan of senior executives and the list of talents.

The members of the Nomination and Remuneration Committee are:

- Philippe Garsuault(Chairperson);
- Alain Merlot; and
- Yvan de la Porte du Theil

The Committee meets at least once a year.

Management Committees

- **The Senior Management Committee** is composed of the Chief Executive Officer, the Deputy Chief Executive Officer, the Executive Vice President of Finance & Operations and the Executive Vice President of Corporate and International Banking. The Senior Management Committee meets on a weekly basis and considers all matters relating to the Bank's strategy as well as day to day running of the Bank.

- **The Executive Management Committee** under the chairmanship of the Chief Executive Officer comprises of the Deputy Chief Executive Officer, the Executive Vice President of Finance & Operations, the Executive Vice President of Corporate & International Banking, and all Heads of Departments, including the Head of Compliance and Audit. The committee meets on a monthly basis and is responsible for the day-to-day management of the Bank, including risk issues, business development, compliance and IT related issues.

- **The Business Development Committee** is 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 the review of segmental, commercial and financial results against targets and to decide on marketing strategies.

- **The Assets and Liabilities Management Committee** is chaired by 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. The Committee is overseen by the ALM team of the parent company, BPCE-IOM. The committee 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.

CORPORATE GOVERNANCE REPORT

Management Committees (continued)

- **Finance and Tariff 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 Finance Director, the Director of Risks, the Head of Treasury and Head of Business Units. The Committee

  - Reviews performance against budgets and approves operational strategies to the Bank's and Group's medium to long term plan;
  - Reviews market intelligence reports and competitor reviews; and
  - Approves changes in pricing, tariffs and charges as well as marketing campaigns.

  The Committee meets on a monthly basis.

- **The Credit Committee**, chaired by the Chief Executive Officer, meets at least twice weekly and comprises of the Deputy Chief Executive Officer, the Executive Vice President-Finance and Operations, the Executive Vice President-Corporate and International Banking and the Director of Risks. Heads of Business units and the credit underwriting team attend the meeting. The committee reviews and recommends and / or approves credit requests within its delegated authority. All requests outside its delegated authority are forwarded for a decision to BPCE IOM and / or BPCE Credit Committees.

- **The Non-Performing Loan review and provisioning on Bad & Doubtful debts committee** reviews the status on all non-performing loans and approves the level of specific provisions to be provided for each impaired credit. It also assesses and agrees on the recovery strategy of impaired credits. The Committee meets on a monthly basis and is chaired by the Chief Executive Officer. The committee comprises of the Deputy Chief Executive Officer, the 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.

- **The Arrears Committee** (Comité des dépassements et impayés) meets on a monthly basis and is an integral part of the risk monitoring system. This committee monitors excesses (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 agreed for implementation. The Committee is chaired by the Chief Executive Officer and the other members 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 segment.

- **The Watch list Committee** is chaired by the Chief Executive Officer. The responsibilities of the committee is to monitor all exposures, as defined by the Watchlist Policy. This policy adopts a risk based approach to the monitoring of exposures. The Committee meets on a quarterly basis and reports to BPCE IOM Watchlist Committee. The members 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 members of the Risk Control and Monitoring unit, the Manager of Underwriting, the Head of Internal Audit, and the Head of Business segments attend the meetings.

- **The Compliance Committee** is chaired by the 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 internal Audit and the Money Laundering Reporting Officer (MLRO) and all Heads of Departments. The Compliance Committee drives the compliance policy of the Bank and monitors its implementation. The main role of Compliance Committee is to ensure consistency and efficiency of most internal controls within the Bank. The Compliance Committee takes decisions and provides guidance for the solving of major problems relating to internal controls so as to ensure better coordination, effectiveness and efficiency in the activities of the Bank, thereby mitigating intrinsic risks arising from the banking activities. The Committee meets on a monthly basis.

- **The Internal Control committee** is chaired by 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, the Director of Risks, the Head of internal Audit, the Head of the Information Security System, the Director of Quality & Projects, the Head of the Risks, the Head of Accounting Review and other members who have responsibility for the efficiency and effectiveness of controls in their respective fields. The committee looks at all aspects relating to internal control and non-compliance issues identified in the internal controls system of the Bank so that adequate remedial actions can be taken in a timely manner. The Committee meets on a quarterly basis.

Management Committees (continued)

- **The Risk Management Committee** is chaired by the Chief Executive Officer and the other members 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, the Manager of Underwriting and other management team attend the committee. The primary function of the Risk Management Committee is to monitor the risks of the bank against approved risk appetite, limits and regulatory guidance. The Committee meets on a quarterly basis.
- **The Organisation and Information System Committee** is composed of the Chief Executive Officer, the Deputy Chief Executive Officer, the 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 Information System and Organisation, the Head of Human Resources, the Head of Compliance, the Head of Information System Security and Heads of Departments. 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.
- **The Treasury Committee**, comprising of the Senior Management, meets on a weekly basis, to review the structural liquidity positions (MUR and Foreign Currency). It also provide guidance on deposit rates as well as daily business strategies to improve the Net Interest Income as well as Foreign Exchange Income.

Board of Directors – Composition and Profile of Directors

Board of Directors

Non-Executive Directors
- Philippe Garsuault (Chairperson)
- Alain Merlot
- Bernard Fremont

Independent and Non-Executive Directors
- Yvan De La Porte Du Theil

Executive Directors
- Philippe Wattecamps (as from 01 October 2014)
- Matthieu Dabout

  * *Huy Hoang Dang, Executive Director resigned effective 01 October 2014*

Committees of the Board

Audit Committee
- Alain Merlot (Chairperson)
- Bernard Fremont
- Yvan de la Porte du Theil

Conduct Review Committee
- Alain Merlot (Chairperson)
- Bernard Fremont
- Yvan de la Porte du Theil

Risk Management Committee
- Alain Merlot (Chairperson)
- Bernard Fremont
- Yvan de la Porte du Theil
- Philippe Wattecamps

Corporate Governance Committee
- Yvan de la Porte du Theil (Chairperson)
- Alain Merlot
- Bernard Fremont

Nomination and Remuneration Committee
- Philippe Garsuault (Chairperson)
- Alain Merlot
- Yvan de la Porte du Theil

CORPORATE GOVERNANCE REPORT

General Management

Senior Management Committee (Comité de Direction Général)

- Philippe Wattecamps Chief Executive Officer
- Matthieu Dabout Deputy Chief Executive Officer
- Sunil Ramgobin* Executive Vice President – Corporate and International Banking
- Christophe Descos Executive Vice President – Finance and Retail Operations

** resigned on 31st December 2014*

Executive Committee

- Hocine Benkhaled	Director – Retail Banking
- Franck Bernard	Director – Risk and Compliance
- Marie Noelle Chan How	Head – Global Business Banking
- Matthieu Dabout	Deputy Chief Executive Officer
- Chaya Devi Dawonauth	Chief Financial Officer
- Christophe Descos	Executive Vice President – Finance and Retail Banking
- Avinash Jahajeeah	Head – International Banking
- Bertrand Lalanne	Director – Information System and Organisation
- Ingrid Letimier	Director – Marketing and Business Development
- Patrice Modeley	Director – Operations
- Varuna Ramlagun	Director – Human Resources
- Sachidanand Ramnarayen	Head – Internal Audit
- Sunil Ramgobin*	Executive Vice President – Corporate and International Banking
- Alain Thomas	Head – Treasury
- Philippe Wattecamps	Chief Executive Officer
- Laura Wong	Deputy Director – Compliance and Internal Control

Directors' profile

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

Philippe Garsuault (Chairperson)

Philippe Garsuault, appointed to the Board of the Bank on the 21st of February 2012, is the Chief Executive Officer of BPCE International et Outre-mer (BPCE IOM). He is also the

- Chairperson and Member of the Board of directors of 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; and

- Management Director of Natixis Pramexrus SARL.

Alain Merlot

Alain Merlot, appointed to the Board of the Bank on the 30th of March 2012, is the Deputy Chief Executive Officer of BPCE IOM. He is also

- Member of the Board of Directors of Banque de la Reunion, Banque Malgache de l'Océan Indien, Ingepar and Océorane; and

- 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.

CORPORATE GOVERNANCE REPORT

Directors' profile (continued)

Bernard Fremont

Bernard Fremont, appointed to the Board of the Bank, on the 23rd of July 2012, is the Chief Executive Officer of Banque de la Réunion. He is also

- Member of the Board of Directors of Banque Malgache de l'Océan Indien; and
- 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.

Yvan De La Porte Du Theil

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

Philippe Wattecamps

Philippe Wattecamps, appointed to the Board of the Bank in October 2014, is the Chief Executive Officer of the Bank. He is also Director of BM Madagascar, Banque des Antilles Francaises, Pramex International Banca and Carige.

Matthieu Dabout

Matthieu DABOUT, appointed on the 23th of March 2012 is the Deputy Chief Executive Officer and member of the Board of Directors of Banque des Mascareignes Ltée. He is also Member of the Board of directors of BM Madagascar.

Profile of the Management Team

Philippe Wattecamps - Chief Executive Officer

Philippe holds a Masters in Law from Rennes University. Philippe has been working for 27 years in the banking sector. Before joining Banque des Mascareignes, Philippe held the post of Deputy Chief Executive Officer of BPCE International et Outre Mer. He also worked at Banque Tuniso-Kowetienne as Deputy Chief Executive Officer and at Banque Populaire de l'Ouest, where he was last in charge of Business Development and Credit Underwriting.

Matthieu Dabout - Deputy Chief Executive Officer

Matthieu holds a diploma of EDHEC Business School. 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.

Christophe Descos - Executive Vice President, Finance and Retail Banking

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. Christophe held several positions in BPCE Group 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 he joined AEW Europe – a Natixis subsidiary as 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.

Hocine Benkhaled -Director - Retail Banking

Hocine holds a « Maîtrise en Economie Internationale » from the University of Pantheon-Sorbonne, Paris. Hocine joined the BPCE Group 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.

CORPORATE GOVERNANCE REPORT

Profile of the Management Team (continued)

Frank Bernard – Director, Risk and Compliance

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

Marie Noelle Chan How – Head, Global Business Banking

Marie Noelle holds a Master in Investment Banking from the City University of London. Marie Noelle has some 15 years of experience in the banking industry, mainly in the Global Business Banking at Barclays Bank and Standard Bank. Previously, Marie Noelle has also worked for audit/consultancy firms in the corporate finance division.

Chaya Devi Dawonauth - Chief Financial Officer

Chaya holds a Master in Financial Economics from the University of London. Chaya has some 15 years of experience in the banking sector, having worked in various fields including Credit, Risk, Compliance and Strategy. She has worked for the Bank of Mauritius, Standard Bank (Mauritius) Ltd and State Bank of Mauritius, before joining Banque des Mascareignes Ltée in 2011.

Avinash Jahajeeah - Head of International Banking

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

Bertrand Lalanne – Director, Information System and Organisation

Bertrand holds a Docteur/Ingenieur en Informatique from the University of Valenciennes. Bertrand has over 30 years of experience in the information systems and organisation fields with a specialisation in the finance sector. He has been involved in the Finance sector as Project Manager, Head of Information Systems and Head of Organisation for more than 24 years. Bertrand joined Groupe BPCE in 2007.

Ingrid Letimier – Director, Marketing and Business Development

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

Patrice Modeley – Director, Operations

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

Varuna Ramlagun – Director, Human Resources

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

Sachidanand Ramnarayen – Head, Internal Audit

Sachidanand started his career in an external audit firm where he worked 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 Ltée in July 2008 as Head of Internal Audit.

CORPORATE GOVERNANCE REPORT

Profile of the Management Team (continued)

Alain Thomas - Head, 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 Ltée in 2008.

Laura Wong - Deputy Director - Compliance and Internal Control

Laura holds a "Maîtrise en Sciences Economiques" from the University of Pantheon-Sorbonne, Paris Intercontinentale. Laura has 8 years of experience in the banking sector, having worked for "Banque Nationale de Paris". Laura joined Banque des Mascareignes in 2011 as "Responsable de Service Production Crédits" and was recently appointed as "Directeur Adjoint Conformité et Contrôle Permanent."

Board and Committee Attendance

			Board Committees				
		Board of Directors	Audit Committee	Risk Management Committee	Conduct Review Committee	Corporate Governance Committee	Remuneration and Nomination Committee
Member of meetings held during 2014		6	5	4	4	1	1
Executive	Phillippe Wattecamps*	2	N/a	N/a	N/a	N/a	N/a
	Huy Hoang Dang **	3	N/a	N/a	N/a	N/a	N/a
	Matthieu Dabout	5	N/a	N/a	N/a	N/a	N/a
Non Executive	Phillippe Garsuault	4	N/a	N/a	N/a	N/a	0
	Alain Merlot	5	5	5	5	1	1
	Bernard Fremont	6	4	4	4	1	N/a
Independent	Yvan De La Porte Du Theil	6	5	5	5	1	1

** appointed in October 2014*
*** resigned in October 2014*

Role and responsibilities of the Chief Executive Officer

The Chief Executive Officer, with the active involvement and overview of the board, is responsible for the strategic direction of the Bank and must, therefore, take the initiative of setting the vision and long and short-term goals. He must ensure that an appropriate strategic planning process is in place and take the lead in coming up with a proposed strategic plan, including the objectives to be achieved. The board will examine the plan and provide an objective assessment thereof.

In addition, the conduct of business is entrusted to the Chief Executive Officer, which has the responsibility to operate within the risk appetites and policies set by the Board while adhering to regulatory requirements. To this end, various committees involving the Bank's senior officers are in place to support the Chief Executive Officer to deliberate on key issues for informed decision making.

Remuneration of Directors

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

Remuneration paid to the Directors is as follows:

Rs 000	**2014**	2013	2012
Executive Directors			
Phillippe Wattecamps	**4,665**	-	-
Huy Hoang Dang	**8,696**	11,406	9,561
Matthieu Dabout	**9,625**	9,691	7,069
Non-Executive Directors			
Philippe Garsuault	**-**	-	-
Alain Merlot	**-**	-	-
Yvan De La Porte du Theil	**497**	497	-
Bernard Fremont	**-**	-	-

CORPORATE GOVERNANCE REPORT

Material clauses of the Bank's constitution

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

- The duration of the Company is unlimited.
- The Company is a private company limited by shares.
- Pre-emptive rights – Future issue of shares that rank to voting or distribution rights, or both, shall be offered to the holder of shares already issued in a manner which would, if the offer were accepted, maintain the relative voting and distribution rights of 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.

Integrated Sustainability Reporting

Statement of Recruitment and Remuneration Philosophy

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

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

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

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

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

Ethics and organisational integrity

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

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

Shareholders' agreement

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

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

Significant contracts

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

CORPORATE GOVERNANCE REPORT

Management agreements

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

Environment

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

Health and safety

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

Social issues

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

Donation

No donation was made during the year period review.

Political contributions

No political contribution was made during the period under review.

Going concern

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

Dividend policy

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

External auditors' fees payable

Rs 000	2014	2013	2012
Audit fees payable to KPMG	**2,730**	2,866	2,385

Related party transactions policies and practices

The Bank of Mauritius Guideline on Related Party Transactions, as revised in September 2012, is articulated around three main elements, namely:

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

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

CORPORATE GOVERNANCE REPORT

Related party transactions policies and practices (continued)

Related party transactions include:

- loans, finance leases and service agreements;
- giving a guarantee on behalf of a related party;
- making an investment in any securities of a related party;
- deposits and placements; and
- professional service contracts.

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

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

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

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

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

Note 36 to the Financial Statements sets out on- and off- balance sheet exposures to related parties as at 31 December 2014.

STATEMENT OF COMPLIANCE

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

Name of Public Interest Entity: Banque des Mascareignes Ltée

Reporting Period: 31 December 2014

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

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

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

....
Alain Merlot

....
Philippe Wattecamps

25 MAR 2015

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	**Alain MERLOT**	**Philippe WATTECAMPS**
Chairperson	***Chairperson, Audit Committee***	***Chief Executive Officer***

25 MAR 2015

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 2014, all such returns as are required of the Company under the Companies Act 2001.

....

Feerdaus BUNDHUN

Date 25 MAR 2015

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

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 statements of financial position at 31 December 2014 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 52 to 120.

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 amounts and 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.

KPMG

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF BANQUE DES MASCAREIGNES LTÉE (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 2014 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

John Chung, BSc FCA
Licensed by FRC

Date: 25 MAR 2015

Banque Des Mascareignes Ltée

Consolidated and separate statements of profit or loss and other comprehensive income
For the year ended 31 December 2014

		Group			Bank		
		2014	2013	2012	**2014**	2013	2012
	Note	**Rs 000**	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Interest income		**816,955**	825,517	902,081	**797,604**	812,664	892,704
Interest expense		**(353,286)**	(406,689)	(423,604)	**(347,734)**	(400,816)	(418,683)
Net interest income	9	**463,669**	418,828	478,477	**449,870**	411,848	474,021
Fee and commission income		**153,479**	143,277	147,362	**136,441**	130,126	139,607
Fee and commission expense		**(33,825)**	(32,303)	(34,111)	**(24,640)**	(32,161)	(33,897)
Net fee and commission income	10	**119,654**	110,974	113,251	**111,801**	97,965	105,710
Net trading income	11	**85,648**	69,068	80,345	**76,746**	61,804	77,074
Net income from other financial instruments at fair value through profit or loss	12	**(8)**	(414)	(655)	**(8)**	(414)	(655)
Other revenue	13	**967**	3,957	5,600	**10,915**	13,231	11,388
		206,261	183,585	198,541	**199,454**	172,586	193,517
Revenue		**669,930**	602,413	677,018	**649,324**	584,434	667,538
Personnel expenses	14	**(267,644)**	(249,747)	(210,740)	**(261,972)**	(243,992)	(205,737)
Operating lease expenses	15	**(45,315)**	(42,066)	(37,580)	**(40,269)**	(36,754)	(34,188)
Depreciation and amortization		**(32,880)**	(38,489)	(43,356)	**(25,820)**	(26,663)	(31,371)
Other expenses	16	**(172,947)**	(173,765)	(149,977)	**(154,538)**	(153,512)	(130,990)
		(518,786)	(504,067)	(441,653)	**(482,599)**	(460,921)	(402,286)
Operating profit		**151,144**	98,346	235,365	**166,725**	123,513	265,252
Net impairment loss on financial assets	20(c)	**(103,495)**	8,650	(1,013,994)	**(101,316)**	10,148	(1,012,845)
Profit / (Loss) before tax		**47,649**	106,996	(778,629)	**65,409**	133,661	(747,593)
Income tax (expense) / credit	17(i)	**16,460**	(21,715)	55,207	**16,607**	(22,453)	54,983
Profit / (Loss)		**64,109**	85,281	(723,422)	**82,016**	111,208	(692,610)
Other comprehensive income							
Items that are or may be reclassified to profit or loss							
Foreign currency translation differences for foreign operations		**34,371**	11,408	(25,023)	**1,961**	-	-
Net change in fair value of available for sale financial assets		**18,145**	(3,797)	5,737	**18,145**	(3,797)	5,737
Actuarial (Losses) / Gain		**1,689**	-	-	**1,689**	-	-
Other comprehensive income		**54,205**	7,611	(19,286)	**21,795**	(3,797)	5,737
Total comprehensive income		**118,314**	92,892	(742,708)	**103,811**	107,411	(686,873)
Profit / (Loss) attributable to :							
Equity holders		**69,053**	93,058	(714,428)			
Non-controlling interests		**(4,944)**	(7,777)	(8,994)			
Profit / (Loss)		**64,109**	85,281	(723,422)			
Total comprehensive income attributable to:							
Equity holders		**123,258**	100,669	(733,714)			
Non-controlling interest		**(4,944)**	(7,777)	(8,994)			
Total comprehensive income		**118,314**	92,892	(742,708)			

The notes on pages 58 to 120 form an integral part of these consolidated and separate financial statements.

Banque Des Mascareignes Ltée

Consolidated and separate statements of financial position
As at 31 December 2014

	Note	Group 2014 Rs 000	Group 2013 Rs 000	Group 2012 Rs 000	Bank 2014 Rs 000	Bank 2013 Rs 000	Bank 2012 Rs 000
ASSETS							
Cash and cash equivalents	18	**1,578,864**	1,781,282	2,207,078	**1,440,115**	1,660,937	2,096,849
Loans and advances to banks	19	**522,184**	466,187	1,737,056	**522,184**	425,870	1,737,056
Loans and advances to customers	20	**15,730,769**	13,464,305	14,714,919	**15,649,896**	13,418,405	14,684,614
Investment securities	21	**2,021,590**	1,884,133	1,605,904	**1,974,772**	1,770,194	1,570,446
Investment in subsidiary	22	**-**	-	-	**191,896**	170,386	106,072
Property and equipment	23	**43,703**	48,710	69,485	**39,253**	39,124	50,651
Goodwill and Intangible assets	24	**85,170**	81,467	84,855	**7,445**	1,891	2,916
Deferred tax assets	17 (ii)	**172,843**	161,312	157,805	**170,243**	158,502	155,888
Other assets	25	**843,107**	695,807	719,994	**824,461**	676,808	711,403
Total assets		**20,998,230**	18,583,203	21,297,096	**20,820,265**	18,322,117	21,115,895
LIABILITIES							
Deposits from banks	26	**1,297,035**	1,130,101	1,286,670	**1,297,035**	1,130,101	1,286,670
Deposits from customers	27	**13,838,847**	10,638,327	13,311,624	**13,579,948**	10,372,838	13,129,066
Borrowed funds	28	**3,193,220**	4,192,960	4,215,105	**3,193,220**	4,149,802	4,215,105
Subordinated liabilities	29	**509,408**	619,283	621,200	**509,408**	619,283	621,200
Provisions	30	**37,228**	30,736	26,577	**34,384**	24,698	20,785
Current tax liabilities	17 (iii)	**10,207**	12,405	15,972	**10,013**	12,265	15,972
Other liabilities	31	**413,533**	382,583	603,520	**435,504**	356,188	527,566
Total liabilities		**19,299,478**	17,006,395	20,080,668	**19,059,512**	16,665,175	19,816,364
Equity							
Share capital	32	**1,749,016**	1,749,016	1,499,016	**1,749,016**	1,749,016	1,499,016
Retained earnings		**(268,911)**	(339,653)	(432,711)	**(162,434)**	(246,139)	(357,347)
Reserves		**203,689**	151,173	143,562	**174,171**	154,065	157,862
Total equity attributable to the equity holders of the Bank		**1,683,794**	1,560,536	1,209,867	**1,760,753**	1,656,942	1,299,531
Non-controlling interests		**14,958**	16,272	6,561	**-**	-	-
Total equity		**1,698,752**	1,576,808	1,216,428	**1,760,753**	1,656,942	1,299,531
Total liabilities and equity		**20,998,230**	18,583,203	21,297,096	**20,820,265**	18,322,117	21,115,895

These financial statements were approved for issue by the Board of Directors on the 25th March 2015.

Philippe GARSUAULT	**Alain MERLOT**	**Philippe WATTECAMPS**
Chairperson	***Chairperson, Audit Committee***	***Chief Executive Officer***

The notes on pages 58 to 120 form an integral part of these consolidated and separate financial statements.

Banque Des Mascareignes Ltée

Consolidated statement of changes in equity
For the year ended 31 December 2014

Group	Share capital	Statutory reserve	General banking reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the Bank	Reserves							
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance at 01 January 2012	838,734	83,372	28,709	11,844	38,923	392,000	1,393,582	15,555	1,409,137
Total comprehensive income									
Loss for the year	-	-	-	-	-	(714,428)	(714,428)	(8,994)	(723,422)
Other comprehensive income for the year	-	-	-	5,737	(25,023)	-	(19,286)	-	(19,286)
Total comprehensive income for the year	-	-	-	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
Dividends to equity holders	-	-	-	-	-	(110,283)	(110,283)	-	(110,283)
Total contributions and distributions	660,282	-	-	-	-	(110,283)	549,999	-	549,999
Balance 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
Balance at 01 January 2013	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) for the year	-	-	-	-	-	93,058	93,058	(7,777)	85,281
Other comprehensive income / (loss) for the year	-	-	-	(3,797)	11,408	-	7,611	-	7,611
Total comprehensive income / (loss) for the year	-	-	-	(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 58 to 120 form an integral part of these consolidated and separate financial statements

Banque Des Mascareignes Ltée

Consolidated statement of changes in equity
For the year ended 31 December 2014 (continued)

Group	Share capital Rs 000	Statutory reserve Rs 000	General banking reserve Rs 000	Fair value reserve Rs 000	Foreign currency translation reserve Rs 000	Retained earnings Rs 000	Total Rs 000	Non-controlling interest Rs 000	Total equity Rs 000
	Attributable to equity holders of the Bank	Reserves							
Balance at 01 January 2014	1,749,016	83,372	28,709	13,784	25,308	(339,653)	1,560,536	16,272	1,576,808
Total comprehensive income									
Profit / (loss) for the year	-	-	-	-	-	**69,053**	**69,053**	**(4,944)**	**64,109**
Other comprehensive income for the year	-	-	-	**18,145**	**34,371**	**1,689**	**54,205**		**54,205**
Total comprehensive income / (loss) for the year	-	-	-	**18,145**	**34,371**	**70,742**	**123,258**	**(4,944)**	**118,314**
Transactions with owners of the Bank									
Issue of shares								**3,630**	**3,630**
Balance at 31 December 2014	**1,749,016**	**83,372**	**28,709**	**31,929**	**59,679**	**(268,911)**	**1,683,794**	**14,958**	**1,698,752**

The notes on pages 58 to 120 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 2014
Bank

	Share capital	Reserves				Retained earnings	Total
		Statutory reserve	General banking reserve	Fair value reserve	Foreign currency translation reserve		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance at 01 January 2012	838,734	83,372	28,709	11,844	28,200	445,546	1,436,405
Total comprehensive income							
Loss for the year	-	-	-	-	-	(692,610)	(692,610)
Other comprehensive income for the year	-	-	-	5,737	-	-	5,737
Total comprehensive income for the year	-	-	-	5,737	-	(692,610)	(686,873)
Transactions with owners of the Bank							
Issue of shares	660,282	-	-	-	-	-	660,282
Dividends to equity holders	-	-	-	-	-	(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
Balance at 01 January 2013	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 loss for the year	-	-	-	(3,797)	-	-	(3,797)
Total comprehensive income / (loss) for the year	-	-	-	(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
Balance at 31 December 2013	1,749,016	83,372	28,709	13,784	28,200	(246,139)	1,656,942
Balance at 01 January 2014	**1,749,016**	**83,372**	**28,709**	**13,784**	**28,200**	**(246,139)**	**1,656,942**
Total comprehensive income							
Profit for the year	-	-	-	-	-	**82,016**	**82,016**
Other comprehensive income for the year	-	-	-	**18,145**	**1,961**	**1,689**	**21,795**
Total comprehensive income for the year	-	-	-	**18,145**	**1,961**	**83,705**	**103,811**
At 31 December 2014	**1,749,016**	**83,372**	**28,709**	**31,929**	**30,161**	**(162,434)**	**1,760,753**

The notes on pages 58 to 120 form an integral part of these consolidated and separate financial statements.

Banque Des Mascareignes Ltée

Consolidated and separate statements of cash flows
For the year ended 31 December 2014

	Note	Group 2014 Rs 000	Group 2013 Rs 000	Group 2012 Rs 000	Bank 2014 Rs 000	Bank 2013 Rs 000	Bank 2012 Rs 000
Cash flows from operating activities							
Profit / (loss) before tax		**47,649**	106,996	(778,629)	**65,409**	133,661	(747,593)
Adjustments for:							
- Depreciation and amortisation		**32,880**	38,489	43,356	**25,820**	26,663	31,371
- Net impairment loss on financial assets		**103,495**	(8,650)	1,013,994	**101,316**	(10,148)	1,012,845
- Net income from financial instruments at fair value through profit and loss		**8**	414	655	**8**	414	655
- Profit on sale of equipment		-	-	339	-	-	339
		184,032	137,249	279,715	**192,553**	150,590	297,617
Changes in:							
- Loans and advances to banks		**(240,030)**	1,270,869	1,078,977	**(96,314)**	1,311,186	1,078,977
- Loans and advances to customers		**(2,266,463)**	1,251,771	(2,577,413)	**(2,260,245)**	1,268,881	(2,552,550)
- Other assets		**(147,300)**	24,190	(79,912)	**(180,429)**	34,595	(12,214)
- Deposits from banks		**166,934**	(156,569)	1,286,670	**166,934**	(156,569)	1,286,670
- Deposits from customers		**3,200,520**	(2,673,297)	1,476,190	**3,207,109**	(2,756,228)	1,336,061
- Other liabilities and provisions		**37,441**	(216,777)	87,693	**89,003**	(167,465)	2,547
		935,134	(362,564)	1,551,920	**1,118,611**	(315,010)	1,437,108
Income taxes paid		**(737)**	(24,402)	(43,326)	**(737)**	(24,403)	(43,326)
Net cash (used in)/ from operating activities		**934,397**	(386,966)	1,508,594	**1,117,874**	(339,413)	1,393,782
Cash flows from investing activities							
- Acquisition of investment securities		**(1,499,740)**	(2,103,621)	(1,447,873)	**(1,199,027)**	(1,567,291)	(1,378,758)
- Proceeds from sale of investment securities		**1,497,952**	1,865,274	1,463,849	**975,880**	1,317,064	1,391,473
- Acquisition of shares in subsidiary		-	-	-	**(19,549)**	-	-
- Acquisition of property and equipment		**(25,369)**	(13,900)	(18,907)	**(23,915)**	(13,475)	(17,326)
- Proceeds from sale of property and equipment		-	-	3,215	-	-	3,215
- Acquisition of intangible assets		**(7,672)**	(636)	(879)	**(7,589)**	(636)	(879)
Net cash used in investing activities		**(34,829)**	(252,883)	(595)	**(274,200)**	(264,338)	(2,275)
Cash flows from financing activities							
- Proceeds from issue of subordinated liabilities		**154,400**	-	100,000	**154,400**	-	100,000
- Repayment of subordinated liabilities		**(269,393)**	-	-	**(269,393)**	-	-
- Repayment of borrowed funds		**(999,740)**	(22,145)	(2,431,741)	**(956,582)**	(65,303)	(2,432,120)
- 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		**(1,114,733)**	231,709	(1,781,742)	**(1,071,575)**	184,697	(1,782,121)
Net decrease in cash and cash equivalents		**(215,165)**	(408,140)	(273,743)	**(227,901)**	(419,054)	(390,614)
Cash and cash equivalents at 01 January		**1,781,282**	2,207,078	2,515,861	**1,660,937**	2,096,849	2,467,357
Effect of exchange rate fluctuations on cash and cash equivalents held		**12,747**	(17,656)	(35,040)	**7,079**	(16,858)	20,106
Cash and cash equivalents at 31 December	*18*	**1,578,864**	1,781,282	2,207,078	**1,440,115**	1,660,937	2,096,849

The notes on pages 58 to 120 form an integral part of these consolidated and separate financial statements.

1. Reporting entity

Banque des Mascareignes Ltée (the 'Bank') is a private company incorporated on the 27th June 2003 and domiciled in Mauritius. The Bank holds a banking licence issued by the Bank of Mauritius on the 8th January 2004. The Bank changed its registered office from 8th Floor, One Cathedral Building, Jules Koenig Street, Port Louis to 9th Floor, Maeva Towers, Corner Silicon Avenue and Bank Street, CyberCity, Ebène, Mauritius, effective 01 January 2015.

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

2. Basis of accounting

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

They were authorised for issue by the Bank's board of directors on the 25th March 2015.

3. Functional and presentation currency

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

4. Use of judgements and estimates

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

(a) Judgements

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

Going concern

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

Determination of control over investees

Management applies its judgement to determine whether the control indicators set out in note 7(a)(iii) indicate that the Group controls an investee Company.

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

(i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

(ii) Exposure, or rights, to variable returns from its involvement with the investee; and

(iii) The ability to use its power over the investee to affect its returns.

(b) Assumptions and estimation uncertainties

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

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

4. Use of judgements and estimates (continued)

(b) Assumptions and estimation uncertainties (continued)

Critical accounting estimates and assumptions

The Group and the Bank make estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- *Fair value of financial instruments*

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

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

  Further details in respect of the fair valuation of financial instruments are included in Note 37 to the financial statements.

- *Employee benefits*

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

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

  Additional information is disclosed in Note 14.

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

- *Deferred tax*

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

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

  Additional information is disclosed in Note 17.

- *Goodwill*

  No impairment losses on goodwill were recognized during 2014 (2013: nil) as the recoverable amount for the Investment in subsidiary is covered by a Letter of Comfort from BPCE International et Outre-Mer.

  Additional information is disclosed in Note 24 (b).

- *Allowances for Impairment on loans and advances*

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

4. Use of judgements and estimates (continued)

(b) Assumptions and estimation uncertainties (continued)

- *Allowances for Impairment on loans and advances (continued)*

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

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

  The allowance for impairment on loans and advances is disclosed in more detail in Note 20.

5. Basis of measurement

The consolidated and separate financial statements have been prepared on a historical cost basis, except for available-for-sale investments, financial assets held-for-trading and derivative financial instruments, all of which have been measured at fair value.

6. Changes in accounting policies

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

The Group has adopted the following new standards and amendments to standards, with a date of initial application of 1 January 2014:

(a) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32).

(b) IFRIC 21 Levies.

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

(a) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

As a result of the amendments to IAS 32, the Group has changed its accounting policy for offsetting financial assets and financial liabilities. The amendments clarify when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement.

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

(b) IFRIC 21 Levies

As a result of IFRIC 21 Levies, the Group has changed its accounting policy on accounting for a liability to pay a levy that is a liability in the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

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

7. Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

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

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

(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 Group reassesses whether it has control if there are changes to one or more of the elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(iv) Loss of control

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

(v) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

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

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.

(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. 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.

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

7. Significant accounting policies (continued)

(e) Net trading income

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

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

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

(g) Leases

(i) Lease payments – lessee

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

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

(ii) Lease assets – lessee

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

Assets held 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.

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

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.

7. Significant accounting policies (continued)

(h) Income tax (continued)

(ii) Deferred tax (continued)

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

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

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

(iii) Tax exposures

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

(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;
- held to maturity;
- 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.

Financial liabilities

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

(iii) Derecognition

Financial assets

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

7. Significant accounting policies (continued)

(i) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

Financial assets (continued)

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.

(iv) Offsetting

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

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

(v) Amortised cost measurement

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

(vi) Fair value measurement

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

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

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

7. Significant accounting policies (continued)

(i) Financial assets and financial liabilities (continued)

(vi) Fair value measurement (continued)

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. 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.

(vii) Identification and measurement of impairment

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

Objective evidence that financial assets are impaired includes:

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

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

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

7. Significant accounting policies (continued)

(i) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

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

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

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

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

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial 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 Risk determines that there is no realistic prospect of recovery.

(viii) Designation at fair value through profit or loss

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

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

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

7. Significant accounting policies (continued)

(l) Investment securities (continued)

(iii) Available-for-sale (continued)

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

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

(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.

(n) Goodwill and Intangible assets

(i) Goodwill

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

7. Significant accounting policies (continued)

(n) Goodwill and Intangible assets (continued)

(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 deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

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

Impairment losses are recognised in profit or loss.

(p) Deposits, borrowed fund and subordinated liabilities

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

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

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

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

(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.

7. Significant accounting policies (continued)

(q) Provisions (continued)

(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 recognized as Off Balance Sheet liabilities and commitments respectively.

(s) Employee benefits

(i) Defined Benefit Plan

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

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

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

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

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

7. Significant accounting policies (continued)

(s) Employee benefits (continued)

(ii) Other long-term employee benefits

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

(iii) Short-term employee benefits

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

(t) Share Capital and Reserves

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

(u) Segment Reporting

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

8. New Standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2014; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

(a) IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on Financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

9. Net interest income

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Interest income						
Cash and cash equivalents	**4,723**	36,064	63,130	**2,734**	36,064	60,711
Loans and advances to banks	**23,402**	21,540	172,040	**22,034**	21,208	172,040
Loans and advances to customers	**709,520**	685,270	586,889	**697,638**	677,277	582,595
Investment securities	**76,420**	77,825	73,125	**72,308**	73,297	70,461
Other	**2,890**	4,818	6,897	**2,890**	4,818	6,897
Total interest income	**816,955**	825,517	902,081	**797,604**	812,664	892,704
Interest expense						
Deposits from banks	**(3,854)**	(27,822)	(7,365)	**(3,854)**	(27,822)	(7,365)
Deposits from customers	**(308,226)**	(338,102)	(306,132)	**(302,799)**	(332,500)	(301,773)
Borrowed funds	**(19,620)**	(18,677)	(96,055)	**(19,495)**	(18,406)	(95,493)
Subordinated liabilities	**(21,586)**	(22,088)	(14,052)	**(21,586)**	(22,088)	(14,052)
Total interest expense	**(353,286)**	(406,689)	(423,604)	**(347,734)**	(400,816)	(418,683)
Net interest income	**463,669**	418,828	478,477	**449,870**	411,848	474,021
Interest income relating to impaired financial assets	**14,725**	17,898	42,808	**14,725**	17,898	42,808

Segment A	Bank		
	2014	2013	2012
	Rs 000	Rs 000	Rs 000
Interest income			
Cash and cash equivalents	**467**	-	-
Loans and advances to banks	**-**	1,128	5,290
Loans and advances to customers	**511,619**	477,417	507,250
Investment securities	**72,308**	73,297	70,461
Other	**1,620**	2,012	2,156
Total interest income	**586,014**	553,854	585,157
Interest expense			
Deposits from customers	**(248,056)**	(265,167)	(227,043)
Borrowed funds	**(14,527)**	(13,840)	(15,431)
Total interest expense	**(262,583)**	(279,007)	(242,474)
Net interest income	**323,431**	274,847	342,683
Segment B			
Interest income			
Cash and cash equivalents	**2,267**	36,256	64,392
Loans and advances to banks	**22,034**	19,888	163,069
Loans and advances to customers	**186,019**	199,860	75,345
Other	**1,270**	2,806	4,741
Total interest income	**211,590**	258,810	307,547
Interest expense			
Deposits from banks	**(3,854)**	(27,822)	(7,365)
Deposits from customers	**(54,743)**	(67,333)	(74,730)
Borrowed funds	**(4,968)**	(4,566)	(80,062)
Subordinated liabilities	**(21,586)**	(22,088)	(14,052)
Total interest expense	**(85,151)**	(121,809)	(176,209)
Net interest income	**126,439**	137,001	131,338

10. Net fee and commission income

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Fee and commission income						
Customer and credit related fees	**153,479**	143,277	147,362	**136,441**	130,126	139,607
Fee and commission expense						
Interbank transaction fees	**(3,147)**	(2,465)	(6,365)	**(3,135)**	(2,440)	(6,356)
Other	**(30,678)**	(29,838)	(27,746)	**(21,505)**	(29,721)	(27,541)
Total fee and commission expense	**(33,825)**	(32,303)	(34,111)	**(24,640)**	(32,161)	(33,897)
Net fee and commission income	**119,654**	110,974	113,251	**111,801**	97,965	105,710

Segment A

	Bank		
	2014	2013	2012
	Rs 000	Rs 000	Rs 000
Fee and commission income			
Customer and credit related fees	**68,235**	58,686	68,352
Fee and commission expense			
Interbank transaction fees	**(1,623)**	(978)	(1,190)
Other	**(9,740)**	(17,063)	(22,738)
Total fee and commission expense	**(11,363)**	(18,041)	(23,928)
Net fee and commission income	**56,872**	40,645	44,424
Segment B			
Fee and commission income			
Customer and credit related fees	**68,206**	71,440	71,255
Fee and commission expense			
Interbank transaction fees	**(1,512)**	(1,462)	(5,166)
Other	**(11,765)**	(12,658)	(4,803)
Total fee and commission expense	**(13,277)**	(14,120)	(9,969)
Net fee and commission income	**54,929**	57,320	61,286

11. Net trading income

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Foreign Exchange	**85,648**	69,068	80,345	**76,746**	61,804	77,074
Segment A						
Foreign Exchange				**48,961**	35,556	55,920
Segment B						
Foreign Exchange				**27,785**	26,248	21,154

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

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Investment securities						
Government bonds/Treasury Bills (Segment A)	**(8)**	(414)	(655)	**(8)**	(414)	(655)

13. Other revenue

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Other Revenue	**967**	3,957	5,600	**10,915**	13,231	11,388
Segment A						
Other Revenue				**891**	3,231	3,866
Segment B						
Other Revenue				**10,024**	10,000	7,522

14. Personnel expenses

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Wages and salaries	**223,746**	208,401	181,728	**218,677**	203,455	177,315
Compulsory social security contributions	**6,319**	5,476	4,853	**5,723**	4,854	4,263
Contributions pension plan	**19,886**	30,086	25,361	**19,886**	30,086	25,361
Increase in liability for pension plans	**3,678**	625	1,198	**3,678**	625	1,198
Other	**14,015**	5,159	(2,400)	**14,008**	4,969	(2,400)
	267,644	249,747	210,740	**261,972**	243,992	205,737

Employee Benefit Liabilities

	Group and Bank		
	2014	2013	2012
	Rs 000	Rs 000	Rs 000
Reconciliation of present value of defined benefit obligation			
Balance at 1 January	**9,107**	4,491	3,649
Included in profit or loss			
Current Service Cost	**2,499**	1,010	811
Past Service Cost	**-**	(587)	-
Interest Expense	**1,179**	202	387
	3,678	625	1,198
Included in OCI			
Remeasurements loss (gain):			
- Actuarial loss (gain) arising from:			
- Demographic assumption	**(901)**	828	(356)
- experience adjustment	**(788)**	-	-
	(1,689)	828	(356)
Other			
Change in estimates	**(389)**	3,163	-
Benefit paid	**(829)**	-	-
	(1,218)	3,163	-
Balance at 31 December	**9,878**	9,107	4,491

14. Personnel expenses (continued)

Principal actuarial assumptions at the end of the year

	Group and Bank		
	2014	2013	2012
Discount rate	**7.50%**	7.50%	8.00%
Rate of salary increases	**6.00%**	6.00%	6.50%
Retirement Age	**65**	60	60

Sensitivity analysis on defined benefit obligation at end of period

	2014	2013
	Rs 000	Rs 000
Increase due to 1% increase in discount rate	**8,278**	10,372
Decrease due to a 1% decrease in discount rate	**11,904**	4,001

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

Future cash flows

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

Expected employer contribution for the next year Rs 2.8 million
Weighted average duration of the defined benefit obligation 28.5 years

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

Fund Investment

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

- 48% in Local Equity:
- 35% in Local Fixed Income;
- 11% in Foreign Equity;
- 8% in Cash & Cash Equivalents.

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

15. Operating leases

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Operating lease	**45,315**	42,066	37,580	**40,269**	36,754	34,188

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

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

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Less than one year	**37,807**	26,983	36,741	**34,061**	22,747	32,976
Between one and five years	**118,708**	23,013	20,653	**106,810**	20,213	18,477
More than five years	**112,523**	11,261	-	**112,027**	11,261	-
	269,038	61,257	57,394	**252,898**	54,221	51,453

16. Other expenses

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Software licensing and other IT costs	**22,648**	21,811	18,075	**22,148**	17,931	14,569
Professional fees	**3,091**	3,381	3,911	**2,730**	4,252	3,439
Other	**147,208**	148,573	127,991	**129,660**	131,329	112,982
	172,947	173,765	149,977	**154,538**	153,512	130,990

17. Income taxes

(i) Tax expense

(a) Amounts recognised in profit or loss

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Current tax expense	**(876)**	23,934	38,313	**(1,064)**	23,796	37,653
Deferred tax movement	**(15,584)**	(2,219)	(93,520)	**(15,543)**	(1,343)	(92,636)
Total income tax expense/(credit)	**(16,460)**	21,715	(55,207)	**(16,607)**	22,453	(54,983)
Segment A						
Current tax expense				**(4,524)**	19,160	32,674
Deferred tax movement				**(15,394)**	(4,740)	(77,381)
Income tax (credit) / tax expense				**(19,918)**	14,420	(44,707)
Segment B						
Current tax expense				**3,460**	4,636	4,979
Deferred tax movement				**(149)**	3,397	(15,255)
Income tax (credit) / expense				**3,311**	8,033	(10,276)
Total income (credit) / tax expense				**(16,607)**	22,453	(54,983)

(b) Reconciliation of income taxes

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
Profit/ (loss) before tax	**47,649**	106,996	(778,629)	**65,409**	133,661	(747,593)
Tax at statutory tax rate	**9,959**	14,716	(118,346)	**9,811**	20,049	(112,139)
Foreign tax credit	**(13,542)**	(17,164)	46,351	**(13,542)**	(17,164)	46,351
Non-deductible expenses	**136**	4,311	5,578	**137**	(145)	255
Corporate social responsibility	**1,121**	3,271	3,482	**1,121**	3,271	3,482
Special levy on banks	**6,838**	15,889	7,068	**6,838**	15,889	7,068
Changes in estimates relating to prior years	**(20,972)**	-	-	**(20,972)**	-	-
Other	**-**	692	660	**-**	553	-
Total income tax (expense) / credit	**(16,460)**	21,715	(55,207)	**(16,607)**	22,453	(54,983)
Segment A						
Profit/ (loss) before tax				**(47,447)**	(9,782)	(360,754)
Tax at statutory tax rate				**(7,117)**	(1,467)	(54,113)
Non-deductible expenses				**131**	(84)	167
Corporate social responsibility				**1,121**	3,271	3,482
Special levy on banks				**5,606**	15,889	5,757
Changes in estimates relating to prior years				**(19,659)**	-	-
Other				**-**	(3,189)	-
Total income tax expense				**(19,918)**	14,420	(44,707)

17. Income taxes (continued)

(i) Tax expense (continued)

(b) Reconciliation of income taxes (continued)

	Bank		
	2014	2013	2012
	Rs 000	Rs 000	Rs 000
Segment B			
Profit/ (loss) before tax	**112,856**	143,443	(386,839)
Tax at statutory tax rate	**16,928**	21,516	(58,026)
Foreign tax credit	**(13,542)**	(17,164)	46,351
Non-deductible expenses	**6**	(61)	88
Special levy on banks	**1,232**	-	1,311
Prior year adjustment	**(1,313)**	-	-
Other	**-**	3,742	-
Total income tax expense	**3,311**	8,033	(10,276)

Corporate Social Responsibility fund

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

Special levy

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

(ii) Movement in Deferred tax balances

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
At 01 January	**161,312**	157,805	65,291	**158,502**	155,888	64,265
(Charged)/Credited to equity	**(4,053)**	1,288	(1,006)	**(3,802)**	1,271	(1,013)
Charged to profit or loss	**15,584**	2,219	93,520	**15,543**	1,343	92,636
At 31 December	**172,843**	161,312	157,805	**170,243**	158,502	155,888
Deferred tax assets:						
Allowance for loan losses	**172,217**	153,350	156,542	**169,367**	154,620	156,542
Other	**3,834**	4,754	4,440	**4,084**	674	4,431
	176,051	158,104	160,982	**173,451**	155,294	160,973
Deferred tax liabilities:						
Accelerated capital allowances	**-**	3,208	(74)	**-**	3,208	(1,983)
Fair value gains	**(3,208)**	-	(3,103)	**(3,208)**	-	(3,102)
	(3,208)	3,208	(3,177)	**(3,208)**	3,208	(5,085)
Net deferred tax assets	**172,843**	161,312	157,805	**170,243**	158,502	155,888

17. Income taxes (continued)

(ii) Movement in Deferred tax balances (continued)

Bank

	Segment A Rs 000	Segment B Rs 000	Total Rs 000
2014			
Balance at 01 January	**141,459**	**17,043**	**158,502**
Property, Equipment and Software	**3,311**	**112**	**3,423**
Allowance for loan losses	**14,635**	**112**	**14,747**
Fair value gains	**(3,208)**	**-**	**(3,208)**
Other adjustments	**(3,144)**	**(77)**	**(3,221)**
Balance at 31 December	**153,053**	**17,190**	**170,243**
2013			
Balance at 01 January	135,449	20,439	155,888
Property, Equipment and Software	3,653	69	3,722
Allowance for loan losses	(3,106)	317	(2,789)
Fair value gains	-	-	-
Other adjustments	5,463	(3,782)	1,681
Balance at 31 December	141,459	17,043	158,502
2012			
Balance at 01 January	60,279	3,986	64,265
Property, Equipment and Software	1,484	49	1,533
Allowance for loan losses	75,809	14,434	90,243
Fair value gains	(2,123)	1,970	(153)
Other adjustments	-	-	-
Balance at 31 December	135,449	20,439	155,888

(iii) Current tax liabilities

	Group			Bank		
	2014 Rs 000	2013 Rs 000	2012 Rs 000	**2014 Rs 000**	2013 Rs 000	2012 Rs 000
Current tax liabilities	**10,207**	12,405	15,972	**10,013**	12,265	15,972
Segment A						
Current tax liabilities				**3,754**	9,466	13,086
Segment B						
Current tax liabilities				**6,259**	2,799	2,886

18. Cash and cash equivalents

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Cash in hand	**152,688**	118,480	96,127	**112,267**	81,512	87,828
Foreign currency notes and coins	**16,792**	29,336	23,437	**16,606**	23,537	20,858
Unrestricted balances with central banks	**1,013,412**	588,394	683,775	**914,462**	509,955	523,476
Money market placements	**231,056**	513,230	908,976	**231,056**	513,230	908,976
Balances with banks abroad	**164,916**	531,842	494,763	**165,724**	532,703	555,711
	1,578,864	1,781,282	2,207,078	**1,440,115**	1,660,937	2,096,849

Segment A			
Cash in hand	**112,267**	81,512	87,828
Foreign currency notes and coins	**16,606**	23,537	20,858
Unrestricted balances with central banks	**914,462**	509,955	523,476
Money market placements	**200,000**	-	-
	1,243,335	615,004	632,162

Segment B			
Money market placements	**31,056**	513,230	908,976
Balances with banks abroad	**165,724**	532,703	555,711
	196,780	1,045,933	1,464,687

19. Loans and advances to banks

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Loans and advances to banks						
- in Mauritius (Segment A)	-	-	100,000	-	-	100,000
- outside Mauritius (Segment B)	**522,184**	466,187	1,637,056	**522,184**	425,870	1,637,056
	522,184	466,187	1,737,056	**522,184**	425,870	1,737,056
<u>Remaining term to maturity</u>						
Up to 3 months	-	306,187	1,182,432	-	265,870	1,182,432
Over 3 months and up to 6 months	**115,470**	-	394,624	**115,470**	-	394,624
Over 6 months and up to 12 months	**216,904**	160,000	160,000	**216,904**	160,000	160,000
Over 1 year and up to 5 years	**189,810**	-	-	**189,810**	-	-
	522,184	466,187	1,737,056	**522,184**	425,870	1,737,056

20. Loans and advances to customers

(a) Remaining term to maturity

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Retail customers						
Mortgages	**2,152,153**	1,574,916	1,406,790	**2,149,498**	1,574,886	1,406,753
Other retail loans	**1,218,928**	1,280,545	1,304,528	**1,159,105**	1,257,458	1,293,044
Corporate customers	**9,279,466**	6,498,899	7,015,994	**9,274,328**	6,492,283	7,008,316
Entities outside Mauritius	**4,612,423**	5,576,977	6,462,440	**4,611,345**	5,576,625	6,462,021
Other	**17,782**	19,608	12,964	**-**	-	-
	17,280,752	14,950,945	16,202,716	**17,194,276**	14,901,252	16,170,134
Less allowance for impairment	**(1,549,983)**	(1,486,640)	(1,487,797)	**(1,544,380)**	(1,482,847)	(1,485,520)
	15,730,769	13,464,305	14,714,919	**15,649,896**	13,418,405	14,684,614
Remaining term to maturity						
Up to 3 months	**8,238,950**	6,613,325	6,838,214	**8,182,511**	6,574,569	6,814,318
Over 3 mths and up to 6 mths	**926,060**	729,730	442,865	**924,340**	729,711	442,865
Over 6 mths and up to 12 mths	**919,932**	212,503	342,887	**919,932**	210,299	341,544
Over 1 year and up to 5 years	**3,800,737**	4,700,237	5,644,965	**3,772,420**	4,691,523	5,637,622
Over 5 years	**3,395,073**	2,695,150	2,933,785	**3,395,073**	2,695,150	2,933,785
	17,280,752	14,950,945	16,202,716	**17,194,276**	14,901,252	16,170,134

	Bank		
	2014	2013	2012
	Rs 000	Rs 000	Rs 000
Segment A			
Retail customers			
Mortgages	**1,823,092**	1,425,630	1,224,320
Other retail loans	**894,491**	934,361	1,024,348
Corporate customers	**6,618,548**	6,011,343	5,168,238
Other	**-**	-	-
	9,336,131	8,371,334	7,416,906
Less allowance for impairment	**(996,896)**	(927,477)	(929,783)
	8,339,235	7,443,857	6,487,123
Remaining term to maturity			
Up to 3 months	**3,573,569**	3,701,237	3,281,492
Over 3 mths and up to 6 mths	**446,929**	460,746	442,789
Over 6 mths and up to 12 mths	**443,230**	59,281	16,226
Over 1 year and up to 5 years	**1,759,158**	1,613,133	1,376,432
Over 5 years	**3,113,245**	2,536,937	2,299,967
	9,336,131	8,371,334	7,416,906
Segment B			
Retail customers			
Mortgages	**326,406**	149,256	182,433
Other retail loans	**264,614**	323,097	268,696
Corporate customers	**2,655,780**	480,940	1,840,078
Entities outside Mauritius	**4,611,345**	5,576,625	6,462,021
	7,858,145	6,529,918	8,753,228
Less allowance for impairment	**(547,484)**	(555,370)	(555,737)
	7,310,661	5,974,548	8,197,491
Remaining term to maturity			
Up to 3 months	**4,608,942**	2,873,332	3,532,826
Over 3 mths and up to 6 mths	**477,411**	268,965	76
Over 6 mths and up to 12 mths	**476,702**	151,018	325,318
Over 1 year and up to 5 years	**2,013,262**	3,078,390	4,261,190
Over 5 years	**281,828**	158,213	633,818
	7,858,145	6,529,918	8,753,228

20. Loans and advances to customers (continued)

(b) Credit concentration of risk by industry sectors

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Agriculture and fishing	**317,708**	538,318	465,538	**317,708**	537,549	465,538
Manufacturing	**1,809,090**	2,423,898	2,765,548	**1,808,348**	2,411,884	2,763,307
Tourism	**987,036**	1,401,242	1,485,247	**982,502**	1,401,186	1,478,278
Transport	**566,071**	743,894	794,931	**552,458**	736,097	794,931
Construction	**3,616,071**	3,002,690	2,922,693	**3,615,055**	3,001,212	2,922,695
Financial and business services	**2,462,414**	905,596	996,222	**2,462,162**	905,524	996,220
Traders	**5,201,128**	3,733,151	2,748,137	**5,167,103**	3,724,624	2,736,585
Personal	**337,271**	327,319	310,677	**330,365**	324,792	308,081
Professional	**321,463**	333,421	332,651	**303,722**	317,068	323,726
Global Business Licence holders	**787,780**	480,940	1,840,078	**787,780**	480,940	1,840,078
Others	**874,720**	1,060,476	1,540,994	**867,073**	1,060,376	1,540,695
	17,280,752	14,950,945	16,202,716	**17,194,276**	14,901,252	16,170,134

	2014	2013	2012
Segment A			
Agriculture and fishing	**317,708**	386,599	312,363
Manufacturing	**795,355**	857,058	736,562
Tourism	**664,814**	899,169	960,430
Transport	**8,136**	124,388	119,415
Construction	**2,995,234**	2,560,622	2,366,777
Financial and business services	**1,909,858**	330,266	385,149
Traders	**1,878,827**	2,488,534	1,328,034
Personal	**299,254**	299,633	284,927
Professional	**70,221**	65,570	78,183
Others	**396,724**	359,495	845,066
	9,336,131	8,371,334	7,416,906
Segment B			
Agriculture and fishing	**-**	150,950	153,175
Manufacturing	**1,012,993**	1,554,826	2,026,745
Tourism	**317,688**	502,017	517,848
Transport	**544,322**	611,709	675,516
Construction	**619,821**	440,590	555,918
Financial and business services	**552,304**	575,258	611,071
Traders	**3,288,276**	1,236,090	1,408,551
Personal	**31,111**	25,159	23,154
Professional	**233,501**	251,498	245,543
Global Business Licence holders	**787,780**	480,940	1,840,078
Others	**470,349**	700,881	695,629
	7,858,145	6,529,918	8,753,228

20. Loans and advances to customers (continued)

(c) Allowance for impairment

Group

	Individual allowances for Impairment Rs 000	Collective allowances and general provisions for Impairment Rs 000	Low-interest rate loans impairment Rs 000	Total Rs 000
At 1 January 2012	404,855	115,291	1,214	521,360
Charge for the year	1,009,419	(8,799)	-	1,000,620
Effect of foreign currency movements	15,692	-	-	15,692
Write-offs	(49,875)	-	-	(49,875)
At 31 December 2012	1,380,091	106,492	1,214	1,487,797
Charge for the year	10,129	(18,686)	(1,214)	(9,771)
Effect of foreign currency movements	13,978	-	-	13,978
Write-offs	(5,364)	-	-	(5,364)
At 31 December 2013	**1,398,834**	**87,806**	-	**1,486,640**
Charge for the year	**90,046**	**13,625**	-	**103,671**
Effect of foreign currency movements	**(40,152)**	-	-	**(40,152)**
Write-offs	**(176)**	-	-	**(176)**
At 31 December 2014	**1,448,552**	**101,431**	-	**1,549,983**

Bank

	Individual allowances for Impairment Rs 000	Collective allowances and general provisions for Impairment Rs 000	Low-interest rate loans impairment Rs 000	Total Rs 000
At 1 January 2012	403,733	115,291	1,214	**520,238**
Charge for the year	1,008,270	(8,799)	-	**999,471**
Effect of foreign currency movements	15,686	-	-	**15,686**
Write-offs	(49,875)	-	-	**(49,875)**
At 31 December 2012	1,377,814	106,492	1,214	**1,485,520**
Charge for the year	8,631	(18,686)	(1,214)	**(11,269)**
Effect of foreign currency movements	13,950	-	-	**13,950**
Write-offs	(5,354)	-	-	**(5,354)**
At 31 December 2013	**1,395,041**	**87,806**	-	**1,482,847**
Charge for the year	**87,779**	**13,625**	-	**101,404**
Effect of foreign currency movements	**(39,783)**	-	-	**(39,783)**
Write-offs	**(88)**	-	-	**(88)**
At 31 December 2014	**1,442,949**	**101,431**	-	**1,544,380**

Net impairment loss on financial assets

	Group			Bank		
	2014 Rs 000	2013 Rs 000	2012 Rs 000	**2014 Rs 000**	2013 Rs 000	2012 Rs 000
Collective allowance and general provision for impairment	**(13,625)**	18,686	8,799	**(13,625)**	18,686	8,799
Individual provision for credit impairment	**(90,046)**	(10,953)	(1,007,596)	**(87,779)**	(9,455)	(1,006,447)
Bad debts written off / Recoveries	**176**	917	(15,197)	**88**	917	(15,197)
	(103,495)	8,650	(1,013,994)	**(101,316)**	10,148	(1,012,845)

20. Loans and advances to customers (continued)

(d) Allowance for credit impairment by industry sectors

Group	**2014**					2013	2012
Group – Total	**Gross amount of loans Rs 000**	**Impaired loans Rs 000**	**Specific allowances for credit impairment Rs 000**	**Collective /portfolio allowances and general provisions for impairment Rs 000**	**Total allowances for credit impairment Rs 000**	Total allowances for credit impairment Rs 000	Total allowances for credit impairment Rs 000
Agriculture and Fishing	317,708	384	383	3,186	3,569	2,360	4,447
Manufacturing	1,809,090	830,131	194,068	6,750	200,818	183,277	225,478
Tourism	987,036	31,286	31,270	6,655	37,925	43,130	39,138
Transport	566,071	6,146	6,013	1,503	7,516	12,928	10,963
Construction	3,616,071	713,770	398,207	33,725	431,932	442,241	419,409
Financial and Business Services	2,462,414	3,750	927	17,997	18,924	9,351	13,557
Traders	5,201,128	475,277	401,687	17,575	419,262	362,453	356,319
Personal	337,271	87,465	66,764	4,025	70,789	57,465	54,407
Professional	321,463	298,008	288,223	59	288,282	300,209	291,412
Global Business Licence holders	787,780	24,048	24,048	5,017	29,065	28,445	25,117
Others	874,720	47,152	36,962	4,939	41,901	44,781	47,550
	17,280,752	**2,517,417**	**1,448,552**	**101,431**	**1,549,983**	1,486,640	1,487,797

20. Loans and advances to customers (continued)

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

	2014					2013	2012
Bank – Total	**Gross amount of loans Rs 000**	**Impaired loans Rs 000**	**Specific allowances for credit impairment Rs 000**	**Collective/ portfolio allowances and general provisions for impairment Rs 000**	**Total Allowances for credit Impairment Rs 000**	Total allowances for credit impairment Rs 000	Total allowances for credit impairment Rs 000
Agriculture and Fishing	317,708	384	383	3,186	3,569	2,360	4,447
Manufacturing	1,808,348	829,886	193,823	6,750	200,573	183,004	225,209
Tourism	982,502	31,286	31,270	6,655	37,925	43,131	39,138
Transport	552,458	5,631	5,626	1,503	7,129	12,928	10,963
Construction	3,615,055	713,770	398,207	33,725	431,932	442,241	419,409
Financial and Business Services	2,462,162	3,750	927	17,997	18,924	9,351	13,557
Traders	5,167,103	474,117	400,757	17,575	418,332	361,735	356,252
Personal	330,365	87,443	66,743	4,025	70,768	57,430	52,466
Professional	303,722	293,852	284,203	59	284,262	297,442	291,412
Global Business Licence holders	787,780	24,048	24,048	5,017	29,065	28,445	25,117
Others	867,073	47,152	36,962	4,939	41,901	44,780	47,550
	17,194,276	2,511,319	1,442,949	101,431	1,544,380	1,482,847	1,485,520

20. Loans and advances to customers (continued)

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

Bank

	2014					2013	2012
	Gross amount of loans Rs 000	**Impaired loans Rs 000**	**Specific allowances for credit impairment Rs 000**	**Collective/ portfolio allowances and general provisions for impairment Rs 000**	**Total allowances for credit impairment Rs 000**	Total allowances for credit impairment Rs 000	Total allowances for credit impairment Rs 000
Segment A							
Agriculture and Fishing	**317,708**	**384**	**383**	**3,186**	**3,569**	851	3,490
Manufacturing	**795,355**	**388,053**	**160,923**	**4,035**	**164,958**	162,203	217,383
Tourism	**664,814**	**31,286**	**31,270**	**6,466**	**37,736**	38,111	35,902
Transport	**8,136**	**5,631**	**5,626**	**25**	**5,651**	6,810	6,742
Construction	**2,995,234**	**709,983**	**397,260**	**32,517**	**429,777**	425,068	403,840
Financial and Business Services	**1,909,858**	**3,750**	**927**	**16,163**	**17,090**	3,303	3,805
Traders	**1,878,827**	**256,236**	**182,876**	**14,527**	**197,403**	117,056	122,579
Personal	**299,254**	**66,438**	**45,756**	**3,978**	**49,734**	49,436	45,057
Professional	**70,221**	**60,351**	**50,726**	**59**	**50,785**	45,979	45,869
Others	**396,724**	**47,150**	**36,959**	**3,234**	**40,193**	39,600	45,116
	9,336,131	**1,569,262**	**912,706**	**84,190**	**996,896**	888,417	929,783
Segment B							
Agriculture and Fishing	**-**	**-**	**-**	**-**	**-**	1,510	957
Manufacturing	**1,012,993**	**441,833**	**32,900**	**2,715**	**35,615**	20,800	7,826
Tourism	**317,688**	**-**	**-**	**189**	**189**	5,020	3,236
Transport	**544,322**	**-**	**-**	**1,478**	**1,478**	6,117	4,221
Construction	**619,821**	**3,787**	**947**	**1,208**	**2,155**	17,172	15,569
Financial and business services	**552,304**	**-**	**-**	**1,834**	**1,834**	6,048	9,752
Traders	**3,288,276**	**217,881**	**217,881**	**3,048**	**220,929**	244,678	233,673
Personal	**31,111**	**21,005**	**20,987**	**47**	**21,034**	7,993	7,409
Professional	**233,501**	**233,501**	**233,477**	**-**	**233,477**	251,464	245,543
Global Business Licence holders	**787,780**	**24,048**	**24,048**	**5,017**	**29,065**	26,620	25,117
Others	**470,349**	**2**	**3**	**1,705**	**1,708**	7,009	2,434
	7,858,145	**942,057**	**530,243**	**17,241**	**547,484**	594,431	555,737

21. Investment securities

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Available-for-sale investment securities	**1,941,871**	1,852,046	1,353,654	**1,895,053**	1,738,107	1,318,196
Investment securities at fair value through profit and loss	**79,719**	32,087	252,250	**79,719**	32,087	252,250
	2,021,590	1,884,133	1,605,904	**1,974,772**	1,770,194	1,570,446
Available for sale investment securities						
Government of Mauritius bonds	**658,270**	328,577	440,323	**658,270**	328,577	440,323
Treasury Bills	**882,813**	1,150,230	913,331	**835,995**	1,036,291	877,873
Bank of Mauritius Bills	**400,788**	373,239	-	**400,788**	373,239	-
	1,941,871	1,852,046	1,353,654	**1,895,053**	1,738,107	1,318,196
Segment A						
Available for sale investment securities						
Government of Mauritius bonds				**658,270**	328,577	440,323
Treasury Bills				**835,995**	1,036,291	877,873
Bank of Mauritius Bills				**400,788**	373,239	-
Investment securities at fair value through profit and loss				**79,719**	32,087	252,250
				1,974,772	1,770,194	1,570,446

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

22. Investment in subsidiary

	2014	2013	2012
Bank	**Rs 000**	Rs 000	Rs 000
Investment in subsidiary as at 31 December (Level 3)	**191,896**	170,386	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 shares	72.41%	191, 896

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 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 01 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
Balance at 01 January 2014	**97,988**	**82,592**	**18,877**	**20,696**	**16,321**	**236,474**
Additions	**3,677**	**10,031**	**9,300**	**99**	**2,098**	**25,205**
Scrapped assets	**(5,878)**	**(240)**	**(480)**	**(2,736)**	**-**	**(9,334)**
Foreign currency translation	**(1,363)**	**(1,143)**	**(28)**	**(104)**	**(110)**	**(2,748)**
Balance at 31 December 2014	**94,424**	**91,240**	**27,669**	**17,955**	**18,309**	**249,597**
Accumulated depreciation and impairment losses						
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
Balance at 01 January 2014	**67,628**	**71,145**	**16,305**	**18,085**	**14,601**	**187,764**
Depreciation for the year	**14,895**	**8,537**	**2,021**	**1,707**	**1,996**	**29,156**
Scrapped assets	**(5,878)**	**(240)**	**(480)**		**-**	**(9,334)**
Foreign currency translation	**(684)**	**(944)**	**95**	**(82)**	**(77)**	**(1,692)**
Balance at 31 December 2014	**75,961**	**78,498**	**17,941**	**16,974**	**16,520**	**205,894**
Carrying amounts						
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
Balance at 31 December 2014	**18,463**	**12,742**	**9,728**	**981**	**1,789**	**43,703**

23. Property and equipment (continued)

	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
Bank						
Cost						
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
Balance at 01 January 2014	**82,746**	**69,822**	**14,699**	**19,530**	**15,095**	**201,892**
Additions	**3,677**	**9,973**	**8,866**	**99**	**1,299**	**23,914**
Scrapped assets	**(5,878)**	**(240)**	**(480)**	**(2,736)**	**-**	**(9,334)**
Balance at 31 December 2014	**80,545**	**79,555**	**23,085**	**16,893**	**16,394**	**216,472**
Accumulated depreciation and impairment losses						
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
Balance at 01 January 2014	**58,897**	**60,002**	**13,160**	**17,121**	**13,588**	**162,768**
Depreciation for the year	**12,316**	**7,115**	**1,176**	**1,556**	**1,622**	**23,785**
Scrapped assets	**(5,878)**	**(240)**	**(480)**	**(2,736)**	**-**	**(9,334)**
Balance at 31 December 2014	**65,335**	**66,877**	**13,856**	**15,941**	**15,210**	**177,219**
Carrying amounts						
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
Balance at 31 December 2014	**15,210**	**12,678**	**9,229**	**952**	**1,184**	**39,253**
2014						
Segment A	**13,545**	**11,764**	**8,178**	**932**	**1,123**	**35,542**
Segment B	**1,665**	**914**	**1,051**	**20**	**61**	**3,711**
	15,210	**12,678**	**9,229**	**952**	**1,184**	**39,253**
2013						
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
2012						
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

24. Intangible assets and goodwill

(a) Intangible assets

	Group			Bank		
	2014	**2013**	**2012**	**2014**	**2013**	**2012**
	Rs 000	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**
Cost						
Balance at 01 January	**90,120**	**89,484**	88,605	**80,326**	79,690	78,811
Additions	**7,672**	**636**	879	**7,589**	636	879
Write-off	**(220)**	**-**	-	**(220)**	-	-
Foreign currency translation	**1,647**	**-**	-	**-**	-	-
Balance at 31 December	**99,219**	**90,120**	89,484	**87,695**	80,326	79,690
Accumulated depreciation and impairment losses						
Balance at 01 January	**84,360**	80,336	75,183	**78,435**	76,774	72,793
Amortisation for the year	**3,724**	4,024	5,153	**2,035**	1,661	3,981
Write-off	**(220)**	-	-	**(220)**	-	-
Foreign currency translation	**1,892**	-	-	**-**	-	-
Balance at 31 December	**89,756**	84,360	80,336	**80,250**	78,435	76,774
Carrying amounts						
Balance at 31 December	**9,463**	5,760	9,148	**7,445**	1,891	2,916
Carrying amounts at end of year by segments						
Segment A				**6,675**	1,767	2,798
Segment B				**770**	124	118
				7,445	1,891	2,916

(b) Goodwill

	Group		
	2014	2013	2012
Balance at 1 January	**75,707**	75,707	73,816
Foreign exchange translation	**-**	-	1,891
Balance at 31 December	**75,707**	75,707	75,707

No impairment losses on goodwill were recognised during 2014 (2013: Nil).

25. Other assets

Summary

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
Accounts receivable and prepayments	**53,289**	54,871	75,306	**52,322**	53,581	132,528
Accrued interest receivable	**34,796**	41,358	62,995	**34,738**	41,299	62,987
Mandatory deposits with central banks	**711,497**	546,838	490,214	**711,497**	546,838	490,214
Balances due in clearing	**20,697**	20,789	12,391	**4,082**	2,753	7,377
Other	**22,828**	31,951	79,088	**21,822**	32,337	18,297
	843,107	695,807	719,994	**824,461**	676,808	711,403

Segment A	**2014**	2013	2012
Accounts receivable and prepayments	**16,479**	9,215	69,321
Accrued interest receivable	**28,319**	30,712	29,337
Mandatory deposits with central banks	**711,497**	546,838	490,214
Balances due in clearing	**4,082**	2,753	7,377
Other	**21,773**	30,008	65,694
	782,150	619,526	661,943

Segment B	**2014**	2013	2012
Accounts receivable and prepayments	**35,843**	44,366	63,207
Accrued interest receivable	**6,419**	10,587	33,650
Other	**49**	2,329	13,237
	42,311	57,282	49,460

26. Deposits from banks

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Term Deposits (Segment B)	**1,297,035**	1,130,101	1,286,670	**1,297,035**	1,130,101	1,286,670

27. Deposits from customers

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Retail customers						
Current accounts	**1,887,683**	1,852,717	1,658,343	**1,832,368**	1,790,266	1,624,191
Savings accounts	**1,820,206**	1,549,790	1,267,923	**1,719,307**	1,514,156	1,233,631
Time deposits with remaining term to maturity						
Up to 3 months	**445,292**	416,015	485,755	**445,292**	414,268	485,755
Over 3 months and up to 6 months	**357,438**	226,622	265,730	**356,398**	226,622	265,731
Over 6 months and up to 12 months	**622,680**	533,397	488,858	**619,835**	531,878	488,858
Over 1 year and up to 5 years	**905,605**	776,704	640,602	**905,360**	776,436	640,427
Over 5 years	**510**	22,598	50,915	**510**	22,598	50,378
Corporate customers						
Current accounts	**2,064,777**	2,588,236	1,997,162	**1,989,593**	2,505,820	1,960,297
Savings accounts	**503,601**	700,951	718,335	**503,358**	599,701	647,331
Time deposits with remaining term to maturity						
Up to 3 months	**3,942,386**	1,353,793	4,527,476	**3,941,652**	1,373,589	4,527,475
Over 3 months and up to 6 months	**712,466**	446,020	270,429	**712,099**	446,020	270,429
Over 6 months and up to 12 months	**298,503**	109,829	587,672	**276,476**	109,829	582,139
Over 1 year and up to 5 years	**277,700**	61,655	352,424	**277,700**	61,655	352,424
	13,838,847	10,638,327	13,311,624	**13,579,948**	10,372,838	13,129,066

	Bank		
	2014	2013	2012
	Rs 000	Rs 000	Rs 000
Segment A			
Retail customers			
Current accounts	**1,172,017**	1,223,492	1,142,683
Savings accounts	**1,272,527**	1,222,985	672,456
Time deposit with remaining term to maturity			
Up to 3 months	**319,294**	297,453	339,172
Over 3 months and up to 6 months	**257,101**	183,305	192,340
Over 6 months and up to 12 months	**406,528**	377,245	372,074
Over 1 year and up to 5 years	**572,735**	535,929	497,279
Over 5 years	**350**	14,555	23,264
Corporate customers			
Current accounts	**830,231**	356,649	379,992
Savings accounts	**490,509**	594,260	644,567
Time deposit with remaining term to maturity			
Up to 3 months	**1,251,717**	1,234,752	1,228,330
Over 3 months and up to 6 months	**478,240**	443,570	266,220
Over 6 months and up to 12 months	**213,753**	35,938	504,651
Over 1 year and up to 5 years	**272,640**	56,494	352,324
	7,537,642	6,576,627	6,615,352

27. Deposits from customers (continued)

	Bank		
	2014	**2013**	**2012**
Segment B	**Rs 000**	Rs 000	Rs 000
Retail customers			
Current accounts	**660,351**	566,774	481,508
Savings accounts	**446,780**	291,171	561,175
Time deposit with remaining term to maturity			
Up to 3 months	**125,998**	116,815	146,583
Over 3 months and up to 6 months	**99,297**	43,317	73,391
Over 6 months and up to 12 months	**213,307**	154,633	116,784
Over 1 year and up to 5 years	**332,625**	240,507	143,148
Over 5 years	**160**	8,043	27,114
Corporate customers			
Current accounts	**1,159,362**	2,149,171	1,580,305
Savings accounts	**12,849**	5,441	2,764
Time deposit with remaining term to maturity			
Up to 3 months	**2,689,935**	138,837	3,299,145
Over 3 months and up to 6 months	**233,859**	2,450	4,209
Over 6 months and up to 12 months	**62,723**	73,891	77,488
Over 1 year and up to 5 years	**5,060**	5,161	100
	6,042,306	3,796,211	6,513,714

28. Borrowed funds

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Borrowed funds	**3,193,220**	4,192,960	4,215,105	**3,193,220**	4,149,802	4,215,105
Remaining term to maturity						
Up to 3 months	**2,838,094**	4,061,868	4,015,105	**2,838,094**	4,018,710	4,015,105
Over 3 months and up to 6 months	**-**	31,092	-	**-**	31,092	-
Over 6 months and up to 12 months	**-**	100,000	100,000	**-**	100,000	100,000
Over 1 year and up to 5 years	**-**	-	100,000	**-**	-	100,000
Over 5 years	**355,126**	-	-	**355,126**	-	-
	3,193,220	4,192,960	4,215,105	**3,193,220**	4,149,802	4,215,105
Segment A						
Borrowings from financial institutions				**39,508**	147,871	200,000
Remaining term to maturity						
Up to 3 months				**-**	47,871	-
Over 6 months and up to 12 months				**-**	100,000	100,000
Over 1 year and up to 5 years				**-**	-	100,000
Over 5 years				**39,508**	-	-
				39,508	147,871	200,000
Segment B						
Borrowings from banks abroad				**3,153,712**	4,001,931	4,015,105
Remaining term to maturity						
Up to 3 months				**2,838,094**	3,970,839	4,015,105
Over 3 months and up to 6 months				**-**	31,092	-
Over 5 years				**315,618**	-	-
				3,153,712	4,001,931	4,015,105

29. Subordinated liabilities

	Group and Bank		
	2014	2013	2012
	Rs 000	Rs 000	Rs 000
Subordinated Debt	**509,408**	619,283	621,200
Remaining term to maturity			
Less than 3 years	**165,638**	215,960	127,460
More than 3 years but less than 5 years	**-**	122,183	149,930
Over 5 years	**343,770**	281,140	343,810
	509,408	619,283	621,200
Segment B			
Subordinated Debt	**509,408**	619,283	621,200

Subordinated Debt have been contracted from the holding company and qualifies as Tier 2 Capital in line with the Bank of Mauritius guidelines.

30. Provisions

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Opening balance	**30,736**	26,577	18,577	**24,698**	20,785	16,655
Provisions made during the year	**78,238**	79,065	59,666	**69,372**	59,681	38,660
Provisions reversed during the year	**(71,208)**	(74,906)	(51,666)	**(59,686)**	(55,768)	(34,530)
Foreign exchange translation	**(538)**	-	-	**-**	-	-
Closing balance	**37,228**	30,736	26,577	**34,384**	24,698	20,785
Segment A						
Opening balance				**18,803**	5,820	3,665
Provisions made during the year				**45,833**	36,613	15,680
Provisions reversed during the year				**(35,506)**	(23,630)	(13,525)
Closing balance				**29,130**	18,803	5,820
Segment B						
Opening balance				**5,895**	14,965	12,990
Provisions made during the year				**23,539**	23,068	22,980
Provisions reversed during the year				**(24,180)**	(32,138)	(21,005)
Closing balance				**5,254**	5,895	14,965

31. Other liabilities

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Recognised liability for defined benefit obligations	**9,878**	9,107	4,491	**9,878**	9,107	4,491
Derivative financial instruments	**1,969**	2,999	220	**1,969**	2,999	220
Creditors and accruals	**139,802**	148,742	195,056	**145,804**	140,266	187,023
Accrued interest payable	**105,072**	94,199	81,379	**104,577**	93,684	81,185
Other	**156,812**	127,536	322,374	**173,276**	110,132	254,647
	413,533	382,583	603,520	**435,504**	356,188	527,566
Segment A						
Recognised liability for defined benefit obligations				**9,878**	9,107	4,491
Derivative financial instruments				**1,907**	2,977	220
Creditors and accruals				**105,185**	78,578	52,365
Accrued interest payable				**84,723**	70,043	56,983
Other				**16,531**	15,601	12,745
				218,224	176,306	126,804
Segment B						
Derivative financial instruments (Forward contracts)				**62**	22	-
Creditors and accruals				**40,619**	61,688	134,658
Accrued interest payable				**19,854**	23,641	24,202
Other				**156,745**	94,531	241,902
				217,280	179,882	400,762

32. Share Capital

	Group and Bank		
	2014	2013	2012
	Rs 000	Rs 000	Rs 000
Issued capital			
At 1 January,	**1,749,016**	1,499,016	838,734
Issue of shares	-	250,000	660,282
At 31 December,	**1,749,016**	1,749,016	1,499,016
Number of shares			
At 1 January,	**2,253,760**	1,931,614	1,080,782
Issue of shares	-	322,146	850,832
At 31 December,	**2,253,760**	2,253,760	1,931,614

The issued capital comprises of ordinary shares at no par value.

33. Reserves

Nature and purpose of reserves

Foreign Currency Translation reserve

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

Fair value reserve

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

General Banking reserve

The amount of Rs 28.7 million arose as a result of a past amalgamation. The General Banking Reserve qualifies as Tier 1 Capital.

Statutory reserve

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

34. Financial assets and liabilities

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

Group	Loans and receivables	Available-for-sale	Fair value through profit or loss	Amortised cost	Carrying amount	Fair value
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
31 December 2014					Total	Total
Assets						
Cash and cash equivalents	1,578,864	-	-	-	1,578,864	1,578,864
Loans and advances to banks	522,184	-	-	-	522,184	522,184
Loans and advances to customers	15,730,769	-	-	-	15,730,769	15,730,769
Investment securities	-	1,941,871	79,719	-	2,021,590	2,021,590
Other assets	843,107	-	-	-	843,107	843,107
	18,674,924	1,941,871	79,719	-	20,696,514	20,696,514
Liabilities						
Deposits from banks	-	-	-	1,297,035	1,297,035	1,297,035
Deposits from customers	-	-	-	13,838,847	13,838,847	13,838,847
Borrowed funds	-	-	-	3,193,220	3,193,220	3,193,220
Subordinated liabilities	-	-	-	509,408	509,408	509,408
	-	-	-	18,838,510	18,838,510	18,838,510
31 December 2013						
Assets						
Cash and cash equivalents	1,781,282	-	-	-	1,781,282	1,781,282
Loans and advances to banks	466,187	-	-	-	466,187	466,187
Loans and advances to customers	13,464,305	-	-	-	13,464,305	13,464,305
Investment securities	-	1,852,046	32,087	-	1,884,133	1,884,133
Other assets	695,807	-	-	-	695,807	695,807
	16,407,581	1,852,046	32,087	-	18,291,714	18,291,714
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

34. Financial assets and liabilities (continued)

Group (continued)	Loans and receivables Rs 000	Available-for-sale Rs 000	Fair value through profit or loss Rs 000	Amortised cost Rs 000	Carrying amount Rs 000 Total	Fair value Rs 000 Total
31 December 2012						
Assets						
Cash and cash equivalents	2,207,078	-	-	-	2,207,078	2,207,078
Loans and advances to banks	1,737,056	-	-	-	1,737,056	1,737,056
Loans and advances to customers	14,714,919	-	-	-	14,714,919	14,714,919
Investment securities	-	1,353,654	252,250	-	1,605,904	1,605,904
Other assets	719,994	-	-	-	719,994	719,994
	19,379,047	1,353,654	252,250	-	20,984,951	20,984,951
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
Bank						
31 December 2014						
Assets						
Cash and cash equivalents	**1,440,115**	-	-	-	**1,440,115**	**1,440,115**
Loans and advances to banks	**522,184**	-	-	-	**522,184**	**522,184**
Loans and advances to customers	**15,649,896**	-	-	-	**15,649,896**	**15,649,896**
Investment securities	-	**1,895,053**	**79,719**	-	**1,974,772**	**1,974,772**
Other assets	**824,461**				**824,461**	**824,461**
	18,436,656	**1,895,053**	**79,719**	-	**20,411,428**	**20,411,428**
Liabilities						
Deposits from banks	-	-	-	**1,297,035**	**1,297,035**	**1,297,035**
Deposits from customers	-	-	-	**13,579,948**	**13,579,948**	**13,579,948**
Borrowed funds	-	-	-	**3,193,220**	**3,193,220**	**3,193,220**
Subordinated liabilities	-	-	-	**509,408**	**509,408**	**509,408**
	-	-	-	**18,579,611**	**18,579,611**	**18,579,611**

34. Financial assets and liabilities (continued)

Bank (continued)	Loans and receivables Rs 000	Available-for-sale Rs 000	Fair value through profit or loss Rs 000	Amortised cost Rs 000	Carrying amount Rs 000	Fair value Rs 000
31 December 2013					**Total**	**Total**
Assets						
Cash and cash equivalents	1,660,937	-	-	-	1,660,937	1,660,937
Loans and advances to customers	13,418,405	-	-	-	13,418,405	13,418,405
Loans and advances to banks	425,870	-	-	-	425,870	425,870
Investment securities	-	1,738,107	32,087	-	1,770,194	1,770,194
Other assets	676,808				676,808	676,808
	16,182,020	1,738,107	32,087	-	17,952,214	17,952,214
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
31 December 2012						
Assets						
Cash and cash equivalents	2,096,849	-	-	-	2,096,849	2,096,849
Loans and advances to customers	14,684,614	-	-	-	14,684,614	14,684,614
Loans and advances to banks	1,737,056	-	-	-	1,737,056	1,737,056
Investment securities	-	1,318,196	252,250	-	1,570,446	1,570,446
Other assets	711,403				711,403	711,403
	19,229,922	1,318,196	252,250	-	20,800,368	20,800,368
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

35. Contingencies

(a) Commitments

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Undrawn credit facilities	**1,825,062**	949,188	713,401	**1,821,035**	947,815	712,410
Segment A						
Undrawn credit facilities				**795,835**	946,752	702,827
Segment B						
Undrawn credit facilities				**1,025,201**	1,063	9,583

(b) Pledged assets

	Group and Bank		
	2014	2013	2012
	Rs 000	Rs 000	Rs 000
Government Bonds (Segment A)	**150,000**	150,000	150,000

(c) Contingent liabilities

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Acceptances on account of customers	**169,351**	42,028	248,664	**169,351**	42,028	248,664
Guarantees on account of customers	**1,011,553**	1,434,876	1,357,131	**1,004,004**	1,433,102	1,357,131
Letters of credit and other obligations on account of customers	**111,911**	185,583	639,606	**111,911**	185,583	638,643
Foreign exchange contracts	**568,764**	604,867	253,844	**568,764**	594,055	253,844
Other contingent items	**71,083**	41,007	7,515	**71,083**	39,910	7,515
	1,932,662	2,308,361	2,506,760	**1,925,113**	2,294,678	2,505,797
Segment A						
Acceptances on account of customers				**3,206**	7,414	25,976
Guarantees on account of customers				**600,884**	1,171,606	1,259,526
Letters of credit and other obligations on account of customers				**11,204**	15,756	35,915
Foreign exchange contracts				**321,768**	184,620	35,555
Other contingent items				**32,063**	5,241	7,329
				969,125	1,384,637	1,364,301
Segment B						
Acceptances on account of customers				**166,145**	34,614	222,688
Guarantees on account of customers				**403,120**	261,496	97,605
Letters of credit and other obligations on account of customers				**100,707**	169,827	602,728
Foreign exchange contracts				**246,996**	409,435	218,289
Other contingent items				**39,020**	34,669	186
				955,988	910,041	1,141,496

36. Related parties

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

	Nature of relationship	Group 2014 Rs 000	Group 2013 Rs 000	Group 2012 Rs 000	Bank 2014 Rs 000	Bank 2013 Rs 000	Bank 2012 Rs 000
Placements with banks	Group companies	**-**	749,517	966,596	**-**	749,517	966,596
Loans and advances	Holding company	**153,960**	160,000	603,815	**153,960**	160,000	603,815
	Group companies	**252,754**	-	-	**252,754**	-	-
	Key management personnel	**23,668**	22,882	7,800	**18,633**	22,882	7,800
Deposits	Holding company	**822,510**	513,230	61,270	**822,510**	513,230	61,270
	Group companies	**-**	573,610	1,225,400	**-**	573,610	1,225,400
	Subsidiary	**-**	43,261	-	**-**	43,261	-
	Key management personnel	**15,605**	12,079	11,124	**15,079**	12,079	11,124
Balances due to	Holding company	**12,265**	8,182	23,019	**12,265**	8,182	23,019
	Group companies	**722**	240	319	**722**	240	319
Borrowed funds	Holding company	**3,153,712**	4,001,931	3,968,366	**3,153,712**	4,001,931	3,968,366
Subordinated liabilities	Holding company	**509,408**	619,283	621,200	**509,408**	619,283	621,200
Amounts due to	Holding company	**4,601**	404	1,034	**4,601**	404	1,034
Interest income	Holding company	**16,520**	42,198	35,950	**16,520**	42,198	35,950
	Group companies	**2,719**	7,633	258	**2,719**	7,633	258
	Key management personnel	**1,290**	1,954	1,195	**1,244**	1,954	1,195
Interest expense	Holding company	**27,802**	37,425	24,113	**27,802**	37,425	24,113
	Group companies	**16,146**	-	87,082	**16,146**	-	87,082
	Key management personnel	**458**	711	634	**455**	711	634
Fee and commission	Holding company	**-**	-	3,200	**-**	-	3,200
Management Fee Paid	Holding company	**20,297**	21,986	11,701	**20,297**	21,986	11,701
Management Fee Received	Subsidiary	**-**	-	-	**10,000**	10,000	10,000

36. Related parties (continued)

Key management personnel compensation

Key management personnel compensation comprised the following.

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Short-term employee benefits	**70,511**	63,591	49,828	**68,777**	63,591	49,828
Post-employment benefits	**10,357**	10,959	10,068	**10,279**	10,959	10,068
	80,868	74,550	59,896	**79,056**	74,550	59,896

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

37. Financial risk review

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

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

(a) Risk Management framework and governance structure

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

The Group's and the Bank's approach to managing risk is set out in the various risk and compliance policies as approved by the Risk Management Committee. The policies generally have two components:

- governance committees;
- governance documents.

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

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

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

37. Financial risk review (continued)

(b) Credit Risk

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

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

The Group and the Bank manage credit risk through

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

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

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

Credit Portfolio Analysis – Credit Quality

	Loans and advances to customers			
In Rs 000	**Group**		**Bank**	
	2014	2013	**2014**	2013
Total neither past due nor impaired	**14,400,988**	12,222,563	**14,347,547**	12,176,984
Past due but not impaired				
due up to 30 days	**219,269**	461,607	**209,834**	461,607
31-90 days	**133,714**	6,369	**125,317**	6,369
91-180 days	**9,357**	1,858	**255**	1,757
180 days+	**-**	337	**3**	168
Total past due but not impaired	**362,240**	470,172	**355,409**	469,901
Individually impaired	**2,517,424**	2,265,627	**2,511,319**	2,260,785

	Investment securities			
In Rs 000	**Group**		**Bank**	
	2014	2013	**2014**	2013
Total neither past due nor impaired	**2,021,590**	1,884,113	**1,974,772**	1,770,194

37. Financial risk review (continued)

(b) *Credit Risk (continued)*

Credit Portfolio Analysis – Credit Quality (continued)

In Rs 000	Loans and advances to customers Group 2014	2013	Bank 2014	2013
Allowance for impairment				
Individual	**1,448,552**	1,398,334	**1,442,949**	1,395,041
Collective	**101,431**	87,806	**101,431**	87,806
Total allowance for impairment	**1,549,983**	1,486,640	**1,544,380**	1,482,847

Loans and advances with renegotiated terms

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

In Rs 000	Loans and advances to customers Group 2014	2013	Bank 2014	2013
Gross carrying amount	**397,914**	690,357	**397,914**	690,357
Of which Impaired amount	***373,207***	*121,809*	***373,207***	*121,809*
Allowance for impairment	**91,724**	121,809	**91,724**	121,809
Net carrying amount	**306,190**	568,548	**306,190**	568,548

Credit Portfolio Analysis – by Risk Grade

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

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

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

In Rs 000	Loans and advances to customers Group 2014	2013	Bank 2014	2013
Grade 1-4	**4,810,225**	4,968,117	**4,790,433**	4,958,420
Grade 5-6	**7,208,695**	5,332,316	**7,179,891**	5,324,547
Grade 7-9	**2,561,422**	2,379,533	**2,530,080**	2,363,041
Grade X (impaired)	**2,517,424**	2,258,211	**2,511,319**	2,254,466
No credit grading	**182,986**	12,768	**182,553**	778
Total gross amount	**17,280,752**	**14,950,945**	**17,194,276**	**14,901,252**
Allowance for impairment (individual and collective)	**(1,549,983)**	(1,486,640)	**(1,544,380)**	(1,482,847)
Net carrying amount	**15,730,769**	**13,464,305**	**15,649,896**	**13,418,405**
Off balance sheet				
Grade 1-4	**997,901**	1,132,987	**990,389**	1,132,939
Grade 5-6	**1,012,620**	771,020	**1,010,559**	768,970
Grade 7-9	**931,063**	624,779	**929,061**	624,738
Grade X (impaired)	**136,758**	43,443	**136,758**	43,443
No credit grading	**25,172**	1,711	**25,171**	622
Total exposure	**3,103,514**	**2,573,940**	**3,091,938**	**2,570,712**

37. Financial risk review (continued)

(b) Credit Risk (Continued)

Credit Portfolio Analysis – by Risk Grade (continued)

	Loans and advances to banks			
	Group		Bank	
In Rs 000	**2014**	2013	**2014**	2013
Outstanding Exposure				
Grade 1-4	**522,184**	229,900	**522,184**	189,583
Grade 5-6	-	-	-	-
Grade 7-9	-	-	-	-
Grade X (impaired)	-	-	-	-
No credit grading	-	-	-	-
Total gross amount	**522,184**	229,900	**522,184**	189,583
Allowance for impairment (individual and collective)				
Net carrying amount	**522,184**	229,900	**522,184**	189,583

Concentrations of credit risk

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

Large Exposures

The Group and the Bank adopts the definition of "Large exposures", as defined by the Bank of Mauritius Guidelines on Credit Concentration Risk. The table below shows the "Large exposures" as at 31st December 2014

Customer / Group of closely related customers	Total exposures after set offs (MMUR)	% of Bank's capital base
1	440	24%
2	367	20%
3	354	19%
4	435	23%
5	505	27%
6	491	26%
7	396	21%
8	451	24%
9	393	21%
10	412	22%
11	346	19%
12	316	17%
13	300	16%
14	285	15%
15	316	17%
16	330	18%
17	285	15%
18	316	17%
19	280	15%
Aggregate exposure of "Large Exposures"	**7,021**	**388%**

37. Financial risk review (continued)

(b) Credit Risk (Continued)

Sector wise distribution

	Loans and advances to customers			
	2014		2013	
In Rs 000	**Group**	**Bank**	**Group**	**Bank**
Agriculture & Fishing	**317,708**	**317,708**	538,318	537,549
Manufacturing	**1,809,090**	**1,808,348**	2,423,898	2,411,884
Tourism	**987,036**	**982,502**	1,401,242	1,401,186
Transport	**566,071**	**552,458**	743,894	736,097
Construction	**3,616,071**	**3,615,055**	3,002,690	3,001,212
Financial and Business Services	**2,462,414**	**2,462,162**	905,596	905,524
Traders	**5,201,128**	**5,167,103**	3,733,151	3,724,624
Personal	**337,271**	**330,365**	327,319	324,792
Professional	**321,463**	**303,722**	333,421	317,068
Global Business Licence Holders	**787,780**	**787,780**	480,940	480,940
Others	**874,720**	**867,073**	1,060,476	1,060,376
Total amount	**17,280,752**	**17,194,276**	**14,950,945**	**14,901,252**

Country wise distribution

	Loans and advances to customers			
	2014		2013	
In Rs 000	**Group**	**Bank**	**Group**	**Bank**
Australia	**12,935**	**12,935**	12,779	12,779
Austria	**97,294**	**97,294**	347,315	347,315
Belgium	**-**	**-**	19	19
Cayman Islands	**117,167**	**117,167**	145,359	145,359
France	**664,902**	**664,902**	511,046	511,046
Gabon	**52,331**	**52,331**	-	-
Germany	**-**	**-**	1	1
Hong Kong SAR of China	**237,263**	**237,263**	61,538	61,538
India	**1,357,216**	**1,357,216**	2,447,965	2,447,965
Isle of Man	**118,101**	**118,101**	146,233	146,233
Ivory Coast	**17,372**	**17,372**	22,036	22,036
Luxembourg	**192,450**	**192,450**	276,710	276,710
Madagascar	**696,727**	**611,709**	760,137	711,393
Maldives	**126,102**	**126,102**	272,741	272,741
Mauritius	**11,930,520**	**11,929,062**	8,580,819	8,579,870
Netherlands	**161,954**	**161,954**	-	-
Nigeria	**284,715**	**284,715**	-	-
Réunion	**85,661**	**85,661**	45,290	45,290
Seychelles	**209,887**	**209,887**	182,835	182,835
Singapore	**159,074**	**159,074**	150,950	150,950
South Africa	**72,984**	**72,984**	282,107	282,107
Sri Lanka	**129**	**129**	276	276
Switzerland	**18,070**	**18,070**	116,352	116,352
Tunisia	**-**	**-**	5,474	5,474
United Kingdom	**667,897**	**667,897**	582,964	582,964
Total amount	**17,280,752**	**17,194,276**	**14,950,945**	**14,901,252**

37. Financial risk review (continued)

(b) *Credit Risk (Continued)*

Country wise distribution (continued)

	Loans and advances to banks			
	2014		2013	
In Rs 000	**Group**	**Bank**	**Group**	**Bank**
Egypt	**115,470**	**115,470**	-	-
India	-	-	29,583	29,583
Madagascar	-	-	40,317	-
France	**406,714**	**406,714**	160,000	160,000
Total amount	**522,184**	**522,184**	229,900	189,583

Credit risk mitigation

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

The main types of collateral taken are:
- mortgage bonds over residential, commercial and industrial properties;
- cession of book debts;
- floating charge over plant and equipment and the assets of the company.

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

General and Portfolio Provisioning

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

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

In Rs 000	**Bank**
Gross Loans and advances to customers	**17,194,276**
Add Loans and advances to banks not qualified for exemption	**115,470**
Add Interest receivable	**32,899**
Add credit balances eligible for set off	**1,155**
Less Impaired loans	**2,511,319**
Less Loans secured by cash collateral	**164,102**
Less Loans secured by bank guarantees	**922,131**
Less Loans treated as claims on banks and exempted	**2,153,052**
Net adjusted loans and advances	**11,593,196**
1% General Provision	**115,932**
0.5% Macro Prudential Provision	**14,209**
Total General and Macro Prudential Provision	**130,141**

37. Financial risk review (continued)

(b) Credit Risk (Continued)

General and Portfolio Provisioning (Continued)

Balance Sheet General Provision	**101,431**
General Reserve	**28,709**
	130,140

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

(c) Liquidity Risk

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

The liquidity risk management framework differentiates between:

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

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

37. Financial risk review (continued)

Maturities (contractual) of 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
2014	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**
Assets								
Cash and Cash equivalents	1,578,864	-	-	-	-	-	-	1,578,864
Loans and advances to banks	-	-	-	115,470	216,904	189,810	-	522,184
Loans and advances to customers	5,182,866	3,063,388	924,347	919,932	2,792,425	4,397,794	-	17,280,752
Investment securities	145,855	122,400	145,830	-	1,303,705	303,800	-	2,021,590
Other assets	711,497	-	-	-	-	-	131,610	843,107
	7,619,082	3,185,788	1,070,177	1,035,402	4,313,034	4,891,404	131,610	22,246,497
Less allowances for credit impairment								(1,549,983)
Total assets								20,696,514
2014								
Liabilities								
Deposits from banks	1,012,320	-	-	-	284,715	-	-	1,297,035
Deposits from customers	9,887,899	776,046	1,069,537	896,311	873,491	335,563	-	13,838,847
Borrowed funds	2,838,094	-	-	-	-	355,126	-	3,193,220
Subordinated liabilities	-	-	-	-	165,638	343,770	-	509,408
Other liabilities	413,533	-	-	-	-	-	-	413,533
	14,151,847	776,046	1,069, 537	896,311	1,345,665	1,323,844	-	19,252,043
Equity								1,705,576
Total liabilities								20,957,619
Net Liquidity Gap	(6,532,765)	2,409,742	640	139,091	2,967,369	3,567,560	131,610	
Credit Commitments								*1,825,062*

37. Financial risk review (continued)

(c) Liquidity Risk (continued)

Bank	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-maturity	Total
2014	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**
Assets								
Cash and Cash equivalents	1,440,115	-	-	-	-	-	-	1,440,115
Loans and advances to banks	-	-	-	115,470	216,904	189,810		522,184
Loans and advances to customers	5,119,123	3,063,388	924,340	919,932	2,780,984	4,386,509	-	17,194,276
Investment securities	110,051	122,400	144,606		1,293,915	303,800		1,974,772
Other assets	711,497						112,963	1,041,404
	7,380,786	3,185,788	1,068,946	1,035,402	4,291,803	4,880,119	112,963	21,955,807
Less allowances for credit impairment								(1,544,380)
Total assets								20,411,427
Deposits from banks	1,012,320	-	-	-	284,715	-	-	1,297,035
Deposits from customers	9,656,013	775,557	1,068,497	896,311	848,252	335,318	-	13,579,948
Borrowed funds	2,838,094			-		355,126		3,193,220
Subordinated liabilities	-	-	-	-	165,638	343,770	-	509,408
Other liabilities	435,504	-	-	-	-	-	-	435,504
Total liabilities	13,941,931	775,557	1,068,497	896,311	1,298,605	1,034,214	-	19,015,115
Equity								1,767,577
Total liabilities								20,782,692
Net Liquidity Gap	(6,561,145)	2,410,231	449	139,091	2,993,198	3,845,905	112,963	
Credit Commitments	1,825,062							1,825,062
At 31 December 2013								
Total Assets	4,198,457	4,840,969	849,370	363,599	3,083,762	5,423,097	1,046,711	19,804,965
Total Liabilities	6,028,423	7,198,640	764,114	909,271	529,475	845,101	2,050,093	18,322,117
Net Liquidity Gap	(1,827,966)	(2,357,671)	85,256	(545,672)	2,554,287	4,577,996	(1,003,382)	1,482,848

37. Financial risk review (continued)

(d) Market Risk

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

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

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

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

Interest Rate Risk in the Trading Book

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

Interest Rate Risk in the Banking Book

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

- Repricing risk: timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities.

- Yield curve risk: shifts in the yield curve that have adverse effects on the income or underlying economic value.

- Basis risk: hedge price not moving in line with the price of the hedged position.

37. Financial risk review (continued)

(d) *Market Risk (continued)*

Exposure to interest rate risk

Group	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-interest bearing	Total
2014	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**
Assets								
Cash and Cash equivalents	1,409,384	-	-	-	-	-	169,480	1,578,864
Loans and advances to banks	343,770	-	115,470	62,944	-	-	-	522,184
Loans and advances to customers	10,400,486	3,022,656	1,098,022	559,581	1,268,925	931,082	-	17,280,752
Investment securities	145,855	122,400	145,830	-	1,303,705	303,800	-	2,021,590
Other Assets							843,107	843,107
	12,299,495	3,145,056	1,359,322	622,525	2,572,630	1,234,882	1,012,587	22,246,497
Less allowances for credit impairment								(1,549,983)
Total assets								20,696,514
Liabilities								
Deposits from banks	1,012,320	-	-	284,715	-	-	-	1,297,035
Deposits from customers	12,972,825	81,972	345,629	181,559	255,668	1,194	-	13,838,847
Borrowed funds	2,434,395	758,825	-	-	-	-	-	3,193,220
Subordinated liabilities	-	509,408	-	-	-	-	-	509,408
Other Liabilities	-	-	-	-	-	-	413,533	413,533
Total liabilities	16,419,540	1,350,205	345,629	466,274	255,668	1,194	413,533	19,252,043
Net on-balance sheet position	(4,120,045)	1,794,851	1,013,693	156,251	2,316,942	1,233,688	599,054	2,994,434
Less allowances for credit impairment								(1,549,983)
								1,444,451
Equity								1,698,752

37. **Financial risk review (continued)**

(d) ***Market Risk (continued)***

Exposure to interest rate risk (continued)

Bank	**Up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**Over 3 years**	**Non-interest bearing**	**Total**
2014	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**
Assets								
Cash and Cash equivalents	1,311,242	-	-	-	-	-	128,873	1,440,115
Loans and advances to banks	343,770	-	115,470	62,944	-	-	-	522,184
Loans and advances to customers	10,315,171	3,022,656	1,098,015	559,581	1,268,382	930,471	-	17,194,276
Investment securities	110,051	122,400	144,606	-	1,293,915	303,800	-	1,974,772
Other Assets	-	-	-	-	-	-	824,461	824,461
	12,080,234	3,145,056	1,358,091	622,525	2,562,297	1,234,271	953,334	21,955,808
Less allowances for credit impairment								(1,544,380)
Total assets								20,405,825
Liabilities								
Deposits from banks	1,012,320	-	-	284,715	-	-	-	1,297,035
Deposits from customers	12,740,033	81,238	344,589	157,471	255,668	949	-	13,580,948
Borrowed funds	2,434,395	758,825	-	-	-	-	-	3,193,220
Subordinated liabilities	-	509,408	-	-	-	-	-	509,408
Other Liabilities	-	-	-	-	-	-	479,901	479,901
Total liabilities	16,186,748	1,349,471	344,589	442,186	255,668	949	479,901	19,059,512
Net on-balance sheet position	(4,106,514)	1,795,585	1,013,502	180,339	2,306,629	1,233,322	473,433	2,896,296
Less allowances for credit impairment								(1,544,380)
								1,351,916
Equity								1,767,575
2013								
Net on-balance sheet position – Group	(2,434,373)	(2,508,901)	85,275	(382,656)	2,668,939	4,968,443	105,148	2,501,875
Net on-balance sheet position – Bank	(3,465,361)	1,318,186	593,060	438,565	2,502,974	993,758	(105,452)	2,275,731

37. Financial risk review (continued)

(d) *Market Risk (continued)*

Currency risk

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

Group 2014	MUR Rs 000	USD Rs 000	GBP Rs 000	EUR Rs 000	OTHER Rs 000	TOTAL Rs 000
Assets						
Cash and Cash equivalents	1,258,506	71,810	19,349	53,168	176,031	1,578,864
Loans and advances to banks	-	189,810	-	269,430	62,944	522,184
Loans and advances to customers	6,466,160	6,693,312	103,864	3,832,111	185,305	17,280,752
Investment securities	1,974,772	-	-	-	46,818	2,021,590
Other assets	745,657	36,842	4,110	37,851	18,647	843,107
	10,445,095	6,991,774	127,323	4,192,560	489,745	22,246,497
Less allowances for credit impairment						(1,549,983)
Total assets						20,696,514
Liabilities						
Deposits from banks	-	1,297,035	-	-	-	1,297,035
Deposits from customers	7,771,924	3,602,959	118,527	2,008,372	337,065	13,838,847
Borrowed funds	-	1,980,351	-	1,118,623	94,247	3,193,220
Subordinated liabilities	-	238,053	-	271,355	-	509,408
Other liabilities	380,843	-	-	-	32691	413,533
Total liabilities	8,152,766	7,118,397	118,527	3,398,350	464,003	19,252,043
Net on-balance sheet position	2,292,329	(126,623)	8,796	794,210	25,742	2,994,454
Less allowances for credit impairment						(1,549,983)
						1,444,471

37. Financial risk review (continued)

(d) *Market Risk (continued)*

Currency risk (continued)

Bank 2014	**MUR Rs 000**	**USD Rs 000**	**GBP Rs 000**	**EUR Rs 000**	**OTHER Rs 000**	**TOTAL Rs 000**
Assets						
Cash and Cash equivalents	1,283,056	71,810	19,349	29,249	36,651	1,440,115
Loans and advances to banks	-	189,810	-	269,430	62,944	522,184
Loans and advances to customers	6,466,655	6,693,312	103,864	3,832,109	98,336	17,194,276
Investment securities	1,974,772	-	-	-	-	1,974,772
Other assets	745,658	36,842	4,110	37,851	-	824,461
	10,470,141	6,991,774	127,323	4,168,639	197,931	21,955,808
Less allowances for credit impairment						(1,544,380)
Total assets						20,411,428
Liabilities						
Deposits from banks	-	1,297,035	-	-	-	1,297,035
Deposits from customers	7,746,592	3,602,959	118,527	1,984,763	127,107	13,579,948
Borrowed funds	-	1,980,351	-	1,118,623	94,247	3,193,220
Subordinated liabilities	-	351,939	-	271,355	-	623,294
Other liabilities	435,504		-	-		435,504
Total liabilities	8,182,096	7,232,284	118,527	3,374,741	221,354	19,129,002
Net on-balance sheet position	2,288,045	(240,510)	8,796	793,898	(23,423)	2,826,806
Less allowances for credit impairment						(1,544,380)
						1,282,426

Bank – 2013	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**	**Rs 000**
Total assets	9,418,183	5,866,727	100,683	3,904,071	315,784	19,605,448
Total liabilities	7,089,332	6,058,448	103,660	3,039,558	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
						1,469,691

37. Financial risk review (continued)

(d) *Market Risk (continued)*

Currency Risk (continued)

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

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs 000	Rs 000	Rs 000	**Rs 000**	Rs 000	Rs 000
Effect of +/- 1% change	**6,812**	6,298	6,298	**1,477**	6,698	7,596

(e) Capital Management

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

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

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

- A minimum Core Equity Tier 1 ratio of 5.5% ;
- A minimum Tier 1 ratio of 6.5%; and
- A Minimum Capital Adequacy Ratio of 10%.

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

Implementation of new capital requirements under Basel III

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

	July 2014	2015	2016	2017	2018	2019	2020
		(All dates are as of 1 January)					
Minimum CET 1 CAR	5.5 %	6.0 %	6.5 %	6.5 %	6.5 %	6.5 %	6.5 %
Capital Conservation Buffer				0.625 %	1.25 %	1.875 %	2.5 %
Minimum CET 1 CAR plus Capital Conservation Buffer	5.5 %	6.0%	6.5 %	7.125 %	7.75 %	8.375 %	9.0 %
Phase in of deductions from CET 1			50%50%	60%	80%	100%	100%
Minimum Tier 1 CAR	6.5 %	7.5 %	8.0 %	8.0 %	8.0 %	8.0%	8.0 %
Minimum Total CAR	10.0 %	10.0 %	10.0 %	10.0 %	10.0 %	10.0 %	10.0 %
Minimum Total CAR Plus Capital Conservation Buffer	10.0 %	10.0 %	10.0 %	10.625 %	11.25 %	11.875%	12.5 %
Capital instruments that no longer qualify as AT1 capital or Tier 2capital		Phased out over 10 year horizon beginning 1 July 2014					

37. Financial risk review (continued)

(e) Capital Management (continued)

Capital Structure

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

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

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

As at 31st December 2014, the Bank's and Group's capital instruments comprised of only

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

The Bank's CET 1, Tier 1 and Tier 2 capital are as per below :

BASEL III	GROUP		BANK	
	Dec-14	Dec-13	Dec-14	Dec-13
	Rs M	Rs M	Rs M	Rs M
Tier 1 Capital				
Paid up or assigned capital *(note 32)*	1,749	1,749	1,749	1,749
Statutory reserve	83	83	83	83
Other disclosed free reserves, including undistributed balance in income statement	(269)	(340)	(162)	(246)
Current year's retained profits				
Minority interests	15	16		
Deduct:				
Goodwill *(note 24)*	(76)	(76)		
Investment in Subsidiary *(note 22)*			(96)	(85)
Other Intangible assets *(note 24)*	(9)	(5)	(8)	(2)
Deferred Tax *(note 17)*	(173)	(161)	(170)	(159)
CET 1 Capital	**1,320**	**1,266**	**1,396**	**1,340**
Additional Tier 1 Capital	-	-	-	-
Total Tier 1 Capital	**1,320**	**1,266**	**1,396**	**1,340**
Tier 2 Capital				
Portfolio Provision *(note 20)*	130	117	130	117
Subordinated debts *(note 29)*	418	406	418	406
Deduct:				
Investment in Subsidiary *(note 22)*	-	-	(96)	(85)
Total Tier 2 Capital	**548**	**523**	**452**	**438**
Total Capital Base	**1,868**	**1,789**	**1,848**	**1,778**

37. Financial risk review (continued)

(e) Capital Management (continued)

Risk Weighted Assets for Credit Risk

The Bank has adopted the Standardised Approach for credit risk capital allocation.

Risk Weighted On-Balance Sheet Assets	Risk Weight	GROUP Exposures after CRM	GROUP Risk Weighted Assets	BANK Exposures after CRM	BANK Risk Weighted Assets
	%	Rs M			
Cash items	0 - 20	158	-	129	-
Claims on Sovereigns	0 - 150	1,947	50	1,914	-
Claims on Central banks	0	1,786	107	1,715	-
Claims on Multilateral development banks	0 - 150	285	142	285	142
Claims on banks	20 - 150	2,640	476	2,617	465
Claims on non-central government public sector entities	0 - 150	426	426	426	426
Claims on corporates	20 - 150	8,489	8,497	8,474	8,474
Claims included in the regulatory retail portfolio	75	169	127	168	126
Claims secured by residential property	35-100	2,015	1,677	2,015	1,677
Claims secured by commercial real estate	100	631	715	631	715
Past due claims	50-150	994	1,417	994	1,417
Other assets	100	610	610	532	532
Total Risk Weighted On-Balance Sheet Assets		**20,150**	**14,244**	**19,900**	**13,974**

Risk Weighted Off-Balance Sheet Assets	Credit Conversion Factor	Risk Weight	GROUP Exposures after CRM	GROUP Risk Weighted Assets	BANK Exposures after CRM	BANK Risk Weighted Assets
Transaction-related contingent items	50	0-100	841	420	835	418
Trade-related contingencies	20	0-100	282	56	282	56
Other commitments	20	0-100	1,681	635	1,678	633
Foreign exchange contracts	2	100	688	14	688	14
Total Risk Weighted Off-Balance Sheet Assets			**3,492**	**1,125**	**3,483**	**1,121**

	GROUP Exposures after CRM	GROUP Risk Weighted Assets	BANK Exposures after CRM	BANK Risk Weighted Assets
Total Risk Weighted On & Off Balance Sheet Assets	**23,642**	**15,369**	**23,383**	**15,095**

Risk Weighted Assets for Operational Risk

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

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

- Annual Gross Income: Rs 670 million
- Average Gross Income over 3 years: Rs 655 million
- Capital Charge for Operational Risk: Rs 98 million

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

- Annual Gross Income: Rs 649 million
- Average Gross Income over 3 years: Rs 634 million
- Capital Charge for Operational Risk: Rs 95 million

37. Financial risk review (continued)

(e) Capital Management (continued)

Risk Weighted Capital Adequacy Ratio

The regulatory Capital Adequacy Ratio is as follows:

	Group			Bank		
	2014	2013	2012	**2014**	2013	2012
	Rs M	Rs M	Rs M	**Rs M**	Rs M	Rs M
Core Equity Tier 1 Capital	**1,320**	1,266	913	**1,396**	1,340	1,013
Total Tier 1 Capital	**1,320**	1,266	913	**1,396**	1,340	1,013
Total Tier 2 Capital	**548**	523	592	**452**	438	557
Total Capital Base	**1,868**	**1,789**	**1,505**	**1,848**	**1,778**	**1,570**
Risk Weighted Assets	**16,376**	15,144	14,559	**16,071**	14,720	16,269
CET 1 Ratio	**8.06%**	**8.36%**	**6.27%**	**8.69%**	**9.10%**	**6.23%**
Tier 1 Ratio	**8.06%**	**8.36%**	**6.27%**	**8.69%**	**9.10%**	**6.23%**
Capital Adequacy Ratio	**11.41%**	11.81%	10.34%	**11.50%**	12.08%	9.65%

(f) Fair values of financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1.

As at the end of December 2014, there were no instruments included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on specific estimates. If all significant input required to fair value on instrument is observable, the instrument is included in level 2. If one or more significant inputs are not based on observable market data, the instrument is included in level 3.

Specific techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of foreign exchange contracts is determined using foreign exchange rates at the end of the reporting period, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determined fair value for the remaining financial instruments. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Bank for similar financial instruments.

As at end of December 2014, the Bank's investment in its subsidiary BM Madagascar has been classified as Level 3. Apart from the Investment in Subsidiary, all the Bank's and Group's financial instruments have been classified under Level 2.

38. Supplementary information as required by the Bank of Mauritius

The Bank of Mauritius requires the Bank to disclose its assets and liabilities, income and expenditure classified into segments A and B. Segment B activity is essentially directed to the provision of international financial services that give rise to 'foreign source income'. Segment A activity relates to all banking business other than Segment B activity. Expenditure incurred by the Bank but which is not directly attributable to its income derived from Mauritius or its foreign source income is apportioned in a fair and reasonable manner.

38. Supplementary information as required by Bank of Mauritius (continued)

Statements of profit or loss

Bank Rs'000	*Note*	**Segment A Rs 000**	**Segment B Rs 000**	**2014 Rs 000**	Segment A Rs 000	Segment B Rs 000	2013 Rs 000	Segment A Rs 000	Segment B Rs 000	2012 Rs 000
Interest income		**586,014**	**211,590**	**797,604**	553,854	258,810	812,664	585,157	307,547	892,704
Interest expense		**(262,583)**	**(85,151)**	**(347,734)**	(279,007)	(121,809)	(400,816)	(242,474)	(176,209)	(418,683)
Net interest income	*9*	**323,431**	**126,439**	**449,870**	274,847	137,001	411,848	342,683	131,338	474,021
Fee and commission income		**68,235**	**68,206**	**136,441**	58,686	71,440	130,126	68,352	71,255	139,607
Fee and commission expense		**(11,363)**	**(13,277)**	**(24,640)**	(18,041)	(14,120)	(32,161)	(23,928)	(9,969)	(33,897)
Net fee and commission income	*10*	**56,872**	**54,929**	**111,801**	40,645	57,320	97,965	44,424	61,286	105,710
Net trading income	*11*	**48,961**	**27,785**	**76,746**	35,556	26,248	61,804	55,920	21,154	77,074
Net income from other financial instruments at fair value through profit or loss	*12*	**(8)**	**-**	**(8)**	(414)	-	(414)	(655)	-	(655)
Other revenue	*13*	**891**	**10,024**	**10,915**	3,231	10,000	13,231	3,866	7,522	11,388
		106,716	**92,738**	**199,454**	79,018	93,568	172,586	103,555	89,962	193,517
Revenue		**430,147**	**219,177**	**649,324**	353,865	230,569	584,434	446,238	221,300	667,538
Personnel expenses	*14*	**(199,571)**	**(62,401)**	**(261,972)**	(186,416)	(57,576)	(243,992)	(157,188)	(48,549)	(205,737)
Operating lease expenses	*15*	**(35,466)**	**(4,803)**	**(40,269)**	(30,408)	(6,346)	(36,754)	(28,285)	(5,903)	(34,188)
Depreciation and amortization	*23 & 24*	**(22,074)**	**(3,746)**	**(25,820)**	(22,794)	(3,869)	(26,663)	(26,819)	(4,552)	(31,371)
Other expenses	*16*	**(122,919)**	**(31,619)**	**(154,538)**	(147,965)	(5,547)	(153,512)	(126,256)	(4,734)	(130,990)
		(380,030)	**(102,569)**	**(482,599)**	(387,582)	(73,336)	(460,921)	(338,547)	(63,736)	(402,286)
Operating profit		**50,117**	**116,608**	**166,725**	(33,717)	157,233	123,513	107,691	157,564	265,252
Net impairment loss on financial assets	20	**(97,564)**	**(3,752)**	**(101,316)**	21,614	(11,466)	10,148	(505,669)	(507,176)	(1,012,845)
Profit / (Loss) before tax		**(47,447)**	**112,856**	**65,409**	(12,103)	145,766	133,661	(397,978)	(349,612)	(747,593)
Income tax (Expense) / Credit	*17(i)*	**19,918**	**(3,311)**	**16,607**	(14,420)	(8,033)	(22,453)	44,707	10,276	54,983
Profit / (Loss)		**(27,529)**	**109,545**	**82,016**	(26,523)	137,733	111,208	(353,271)	(339,336)	(692,610)

38. Supplementary information as required by Bank of Mauritius (continued)

Statement of financial position as at 31 December 2014

	Note	Segment A Rs 000	Segment B Rs 000	2014 Rs 000	Segment A Rs 000	Segment B Rs 000	2013 Rs 000	Segment A Rs 000	Segment B Rs 000	2012 Rs 000
ASSETS										
Cash and cash equivalents	*18*	**1,243,335**	**196,780**	**1,440,115**	615,004	1,045,933	1,660,937	632,162	1,464,687	2,096,849
Loans and advances to banks	*19*	**-**	**522,184**	**522,184**	-	425,870	425,870	100,000	1,637,056	1,737,056
Loans and advances to customers	*20*	**8,339,235**	**7,310,661**	**15,649,896**	7,443,857	5,974,548	13,418,405	6,487,123	8,197,491	14,684,614
Investment securities	*21*	**1,974,772**	**-**	**1,974,772**	1,770,194	-	1,770,194	1,570,446	-	1,570,446
Investment in subsidiary	*22*	**-**	**191,896**	**191,896**	-	170,386	170,386	-	106,072	106,072
Property and equipment	*23*	**35,542**	**3,711**	**39,253**	35,585	3,539	39,124	46,966	3,685	50,651
Intangible assets	*24*	**6,675**	**770**	**7,445**	1,767	124	1,891	2,798	118	2,916
Deferred tax assets	*17 (ii)*	**153,052**	**17,191**	**170,243**	141,459	17,043	158,502	135,449	20,439	155,888
Other assets	*25*	**782,150**	**42,311**	**824,461**	619,526	57,282	676,808	661,943	49,460	711,403
Total assets		**12,534,761**	**8,285,504**	**20,820,265**	10,627,392	7,694,725	18,322,117	9,636,887	11,479,008	21,115,895
LIABILITIES										
Deposits from banks	*26*	**-**	**1,297,035**	**1,297,035**	-	1,130,101	1,130,101	-	1,286,670	1,286,670
Deposits from customers	*27*	**7,537,642**	**6,042,306**	**13,579,948**	6,576,627	3,796,211	10,372,838	6,615,352	6,513,714	13,129,066
Borrowed funds	*28*	**39,508**	**3,153,712**	**3,193,220**	147,871	4,001,931	4,149,802	200,000	4,015,105	4,215,105
Subordinated liabilities	*29*	**-**	**509,408**	**509,408**	-	619,283	619,283	-	621,200	621,200
Provisions	*30*	**29,130**	**5,254**	**34,384**	18,803	5,895	24,698	5,820	14,965	20,785
Current tax liabilities	*17 (iii)*	**3,754**	**6,259**	**10,013**	9,466	2,799	12,265	13,086	2,886	15,972
Other liabilities	*31*	**218,224**	**217,280**	**435,504**	176,306	179,882	356,188	126,804	400,762	527,566
Total liabilities		**7,828,258**	**11,231,254**	**19,059,512**	6,929,073	9,736,102	16,665,175	6,961,062	12,855,302	19,816,364
Equity										
Share capital	*32*			**1,749,016**			1,749,016			1,499,016
Retained earnings	*33*			**(162,434)**			(246,139)			(357,347)
Reserves	*33*			**174,171**			154,065			157,862
Total equity attributable to the equity holders of the Bank				**1,760,753**			1,656,942			1,299,531
Total liabilities and equity				**20,820,265**			18,322,117			21,115,895

39. Ultimate holding company

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

40. Subsequent events

There were no material events after the reporting date.