Investec Bank (Mauritius) Limited
Annual Financial Statements 2010

Out of the Ordinary®

Investec
Bank Mauritius

Investec Bank (Mauritius) Limited in perspective

Investec Bank (Mauritius) Limited in perspective | ONE

Who we are

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

The bank employs a team of 52 local and expatriate staff and has an efficient and profitable business, operating in compliance with regulatory standards and banking practices both in Mauritius and in South Africa.

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

The bank's specialised services in cross border transactions are complimented by dedicated personal service, competitive rates and distinctive products. Mauritius offers a convenient time zone, with no exchange controls or withholding taxes for non-residents.

What we do

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

The bank offers the following services:

Specialised finance and lending

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

The bank also offers exclusive residential and commercial property finance to non-residents focusing on South Africa and it is actively involved in financing Integrated Resort Schemes (IRS) and Real Estate Schemes (RES) and villa acquisitions in Mauritius.

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

Treasury and deposit products

A range of treasury and deposit products in the major foreign currencies includes call and fixed term deposit accounts, high yield access accounts (seven-day notice), base plus accounts (fixed deposit for a minimum of one year), combo accounts (dual currency), zero coupon deposits as well as foreign exchange and hedging.

The bank offers a secure online banking facility that allows deposit account holders to view account balances, transaction history and monthly statements.

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

Trust and fiduciary

Investec Trust (Mauritius) Limited, a wholly owned subsidiary of Investec Bank (Mauritius) Limited, facilitates in structuring, managing and protecting assets. It offers a full range of trust and administration services, allowing clients to take advantage of competitive costs and the extensive double taxation treaty network that Mauritius has with various countries.

Who we are

The Investec group (comprising Investec plc and Investec Limited) is an international, specialist bank and asset manager that provides a diverse range of financial products and services to a select client base.

Founded as a leasing company in Johannesburg in 1974, the Investec group acquired a banking licence in 1980 and was listed on the JSE Limited South Africa in 1986.

In July 2002, the Investec group implemented a Dual Listed Companies (DLC) structure with linked companies listed in London and Johannesburg. A year later, the Group concluded a significant empowerment transaction in which empowerment partners collectively acquired a 25.1% stake in the issued share capital of Investec Limited.

Since inception, the Investec group has expanded through a combination of substantial organic growth and a series of strategic acquisitions. Today, it has an efficient integrated international business platform, offering all its core activities in the UK and Southern Africa and select activities in Australia.

What we do

The Investec group is organised as a network comprising six business divisions: Asset Management, Private Wealth, Property Activities, Private Banking, Investment Banking and Capital Markets. Its head office provides certain group-wide integrating functions and is also responsible for its central funding and the Trade Finance business.

Values

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

Distinctive **Performance**

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

Dedicated Partnership

Client Focus

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

Cast-iron **Integrity**

- Moral strength
- Risk consciousness
- Highest ethical standards

Mission statement

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

Philosophies

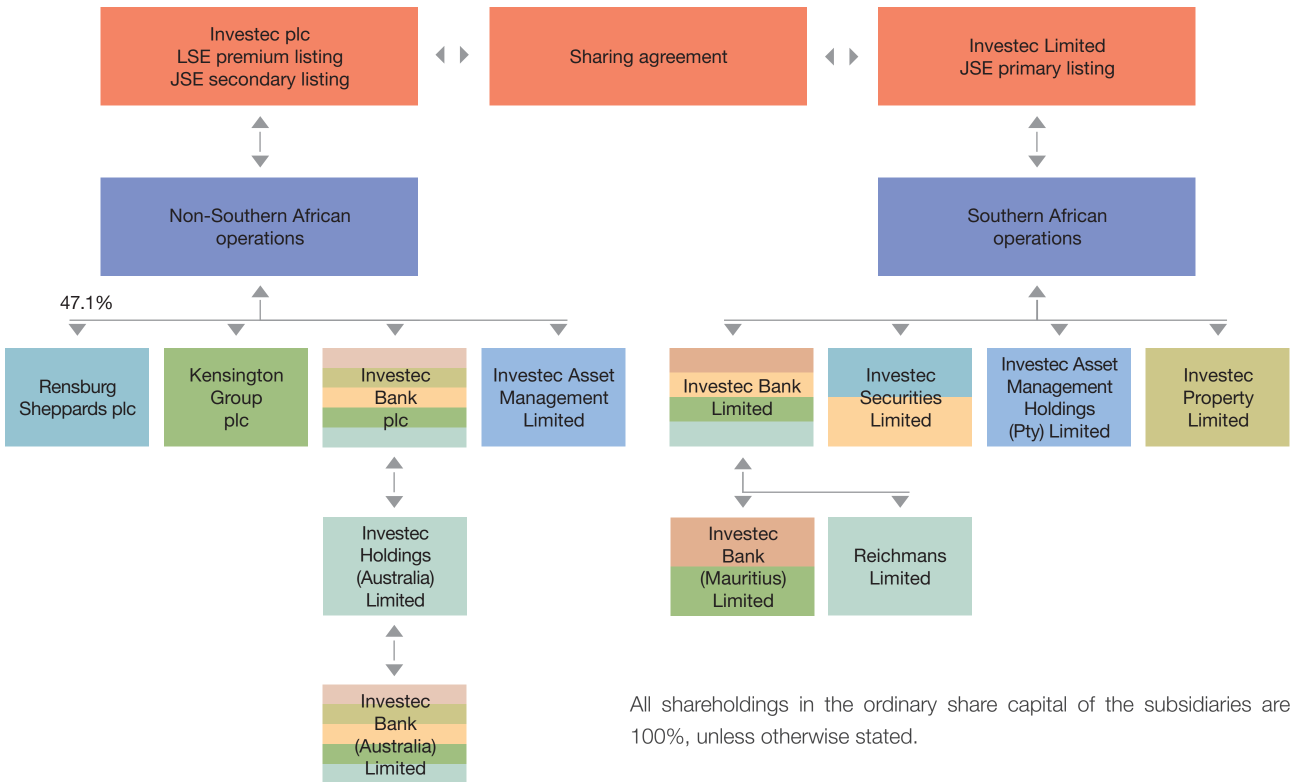
- Single organisation
- Meritocracy
- Focused businesses
- Differentiated, yet integrated
- Material employee ownership
- Creating an environment that stimulates extraordinary performance

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

During July 2002 Investec group Limited (since renamed Investec Limited), implemented a Dual Listed Companies (DLC) structure and listed its offshore business on the London Stock Exchange. A circular on the establishment of our DLC structure was issued on 20 June 2002 and is available on our website.

In terms of the DLC structure Investec Limited is the controlling company of the businesses in Southern Africa and Mauritius and Investec plc is the controlling company of the majority of the non-Southern African businesses. Investec Limited is listed on the JSE Limited South Africa and Investec plc is listed on the London Stock Exchange. Investec Bank (Mauritius) Limited (referred to in this report as the bank) is a subsidiary of Investec Bank Limited.

Our DLC structure and main operating subsidiaries as at 31 March 2010



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

Key: activities conducted

- Asset Management
- Private Wealth
- Property Activities
- Private Banking
- Investment Banking
- Capital Markets
- Other Activities

Salient features of the DLC structure

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

Management discussion and analysis

Management discussion and analysis | **TWO**

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Business and strategic overview

The past 12 months have been characterised by weak but improving global economic and financial conditions with stronger signs of recovery in the first quarter of 2010. However, the outlook remains uncertain following the sovereign debt crisis emerging in Europe. Investec Bank (Mauritius) Limited's functional currency was converted from South African Rand to United States Dollars to better reflect its operating environment. This will eliminate much of the foreign exchange volatility the bank was exposed to as a result of the mismatch between its functional currency (United States Dollars) and its share capital (South African Rands). Management has continued its initiative to strengthen the bank's capital base and liquidity with a ratio of cash holdings to customer deposits reaching 76.2% at year end.

An overview of the bank's performance

Salient financial features

For the year to 31 March USD'000	2010	2009	2008
Net interest income	37 152	45 560	43 974
Net fee and commission income	2 868	4	2 202
Net mark to market movements	(12 131)	(40 974)	6 715
Total operating income	92 950	24 303	40 356
Impairment losses	(2 308)	(13 469)	(13 276)
Net operating income	90 642	10 834	27 080
Total operating expenses	(7 652)	(6 432)	(7 428)
Profit for the year	81 745	3 860	18 644
Total assets	1 087 428	915 119	1 194 514
Total shareholders' equity	228 926	150 431	139 218

Net interest income decreased by 18.5% to USD37.2 million in 2010 from USD45.6 million in 2009 due to a decrease in lending activity.

Net fee and commission income increased from USD4 000 in 2009 to USD2.9 million in 2010.

A net mark to market loss of USD12.1 million on the bank's investment portfolio comprised of:

- USD19.3 million loss on structured credit investments;
- USD8.2 million gain on the listed equity investment portfolio; and
- USD1.0 million loss on the unlisted equity investment portfolio.

Impairment losses decreased to USD2.3 million (2009: USD13.5 million) and primarily related to an impairment loss of USD2.2 million on an associate company.

Net operating income increased to USD90.6 million (2009: USD10.8 million). Included in the current year's income is USD47.0 million relating to the change in the bank's functional currency.

Review by financial priority areas

The bank focuses on a number of financial priority areas as indicated below.

Key ratios (%)

For the year to 31 March	2010*	2010	2009	2008
Net interest margin	4.0	4.0	4.8	4.5
Productivity ratio	16.6	8.2	26.5	18.4
Return on average equity	18.3	43.1	2.7	13.4
Return on average assets	3.7	8.7	0.4	1.8
Cash to customer deposits	76.2	76.2	34.4	17.9
Capital adequacy ratio	35.4	35.4	23.7	14.0
Tier 1 ratio	34.6	34.6	22.9	13.3

**Figures excluding gain on functional currency.*

The gain resulting from the change in functional currency had the effect of significantly improving the return on average equity and return on average assets ratios to 43.1% (2009: 2.7%) and 8.7% (2009: 0.4%) respectively. Likewise the productivity ratio, which is the ratio of non-interest expense to net interest income and other income, decreased to 8.2% from 26.5% in 2009. The net interest margin declined from 4.8% to 4.0% primarily due to the bank's policy of holding large cash balances in order to remain extremely liquid over the past year. The cash to customer deposits ratio increased to 76.2% in 2010 from 34.4% in 2009. The bank's productivity ratio and return on equity were greatly improved even after stripping out the gains on functional currency primarily to a much improved performance on its investment portfolio and reduced provisions for bad debts.

Out of the USD81.7 million profit for the year, a dividend of USD3.6 million was paid and the balance of USD78.1 million was transferred to reserves and retained earnings resulting in an increase in the capital base. Risk weighted assets remained stable at USD659.1 million (2009: USD656.3 million). As a result the capital adequacy ratio increased to 35.4% from 23.7% in 2009. The capital base is made up of mainly Tier 1 Capital representing 97.8% of the total capital.

Interest income and related assets

For the year to 31 March USD'000	2010 Interest income	2010 Related assets	2009 Interest income	2009 Related assets	2008 Interest income	2008 Related assets
Due from banks	407	366 057	999	148 630	6 281	69 676
Loans and advances to customers	35 810	511 458	49 916	461 137	51 090	824 782
Held-to-maturity financial assets	777	16 097	2 360	22 670	2 926	35 274
Amount due from group companies	9 140	95 250	13 515	208 259	13 804	148 497
Financial assets designated at fair value through profit or loss (debt securities)	5 472	18 923	8 280	26 569	10 196	54 577
Total	51 606	1 007 785	75 070	867 266	84 297	1 132 806

Interest expense and related liabilities

For the year to 31 March USD'000	2010 Interest expense	2010 Related liabilities	2009 Interest expense	2009 Related liabilities	2008 Interest expense	2008 Related liabilities
Deposits by banks	736	79 906	3 082	105 747	5 492	100 656
Repurchase agreements	–	–	30	898	139	1 497
Due to customers	4 924	488 145	10 777	439 739	17 125	396 444
Debt securities in issue	497	–	1 269	2 190	1 371	2 554
Amount due to group companies	8 297	253 989	14 352	183 463	16 196	496 795
Total	14 454	822 040	29 510	732 037	40 323	997 946

Operating expenses

For the year to 31 March USD'000	2010	2009	2008
Personnel expenses	(4 038)	(3 865)	(3 729)
Depreciation of equipment	(144)	(94)	(102)
Other operating expenses	(3 470)	(2 473)	(3 597)
Total	(7 652)	(6 432)	(7 428)

Total operating expenses increased to USD7.7 million (2009: USD6.4 million) mainly due to the change of premises, higher IT and personnel costs incurred in 2010.

Basel II

Being a subsidiary of Investec Bank Limited, which is regulated by the South African Reserve Bank (SARB), the bank implemented The Basel II Standardised Approach for credit and operational risk from 1 January 2008 in order to fulfill SARB reporting requirements. As from 1 January 2009, the bank has been reporting to the Bank of Mauritius in accordance with Basel II under The Standardised Approach for credit and operational risk.

The bank optimises the use of its capital through a rigorous risk-based approach to performance and risk management. Capital is managed closely for return and risk from the inception of a transaction. This approach ensures that the linkage of risk to targeted capital levels is entrenched in the bank's deal facilitation culture. This results in a capital management process driven by capital adequacy goals, which are closely monitored by strategic capital plans.

Risk management

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 - Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 - Presentation of Financial Statements (IAS 1) are included within this section of the annual report (pages 12 to 55) with further disclosures provided within the financial statements section (pages 66 to 124). All sections, paragraphs, tables and graphs on which an audit opinion is expressed are marked as audited.

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Philosophy and approach

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

Risk Management's objectives

The bank's Risk Management's objectives are to:

- Be the custodian of its risk management culture
- To ensure the business operates within the board stated appetite
- Set, approve and monitor adherence to risk parameters and limits across the group and ensure they are implemented and adhered to consistently
- Aggregate and monitor its exposure across risk classes
- Co-ordinate risk management activities across the organisation
- Give the board reasonable assurance that the risks the bank is exposed to are identified and, to the best extent possible, managed and controlled
- Run appropriate risk committees, as mandated by the board.

Executive summary of the year in review from a risk perspective

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

- Intimate involvement of senior management ensuring stringent management of risk, liquidity and capital,
- Strong risk and capital management culture embedded into its day-to-day activities and values. The bank seeks to achieve an appropriate balance between risk and reward in its business taking cognisance of all stakeholders' interests.
- Credit and counterparty exposures to a select target market; its risk appetite continues to favour lower risk, income-based lending, with credit risk taken over a short to medium term. Exposure is taken against defined target clients displaying a profile of good character, sound financial strength and integrity, a core competency and a sound track record in the activity funded. The credit loss ratio has decreased to 0.02% of core loans and advances.
- Limited exposure to rated and unrated structured credit investments; representing less than 2% of total assets.
- A low leverage ratio of approximately 5 times.
- A high level of readily available, high quality liquid assets. The bank continues to maintain a low reliance on interbank wholesale funding to fund core lending asset growth.
- Healthy capital ratios; the bank has always held capital in excess of regulatory requirements and it intends to perpetuate this philosophy. The bank continued to strengthen its capital base during the period.
- A high level of recurring income which continues to support sustainability of operating profit.

The global financial market crisis and weakened global economies have resulted in increasing risk levels and have impacted the markets in which the bank operates on a number of fronts over the past two years. The bank's overall risk management philosophies, practices and frameworks have remained largely unchanged, and has held the bank in good stead. Maintaining credit quality, strictly managing risk and liquidity and continuing to grow the capital base remain core strategic imperatives.

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An overview of key risks

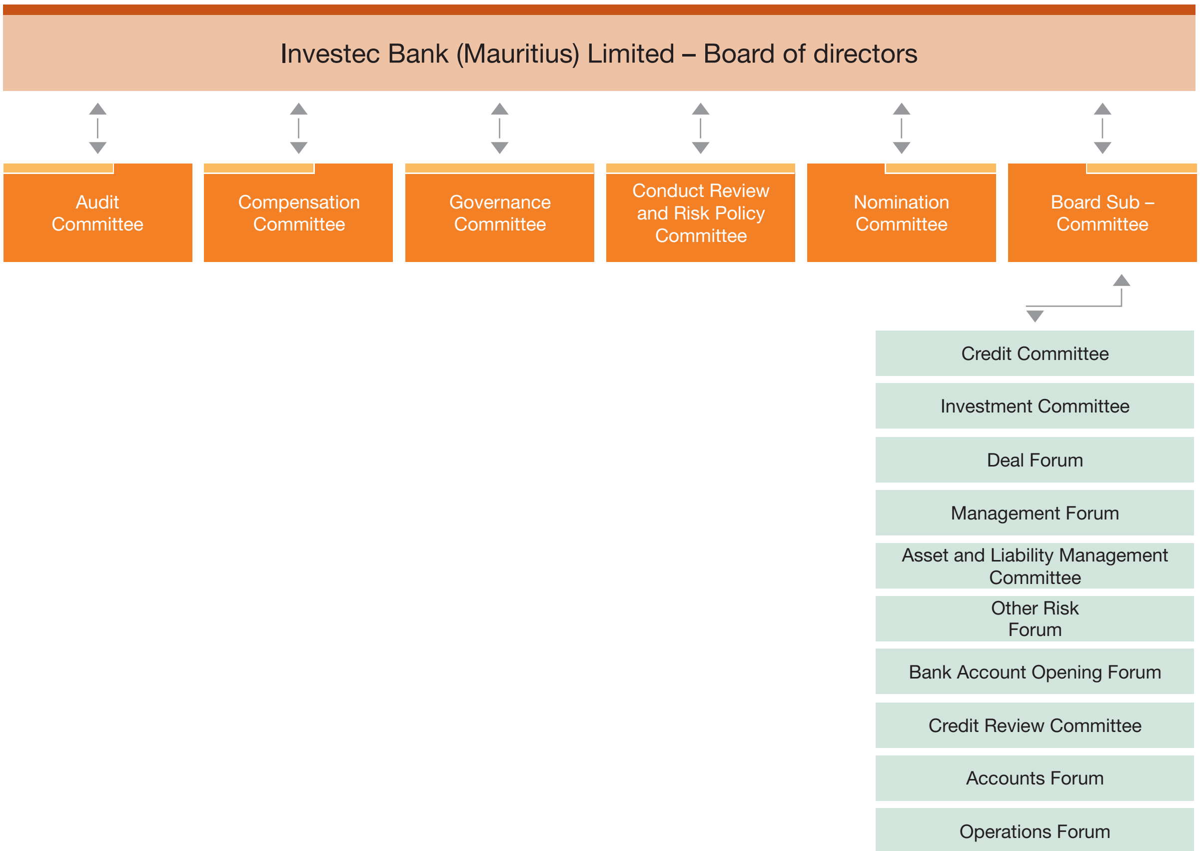
In the ordinary course of business the bank faces a number of risks that could affect its business operations. These risks are summarised briefly in the table below. The sections that follow provide information on a number of these risk areas.

Key risks	Reference
Credit and counterparty risk expose the bank to losses caused by financial or other problems experienced by its clients	See pages 16 to 38
Liquidity risk may impair the bank's ability to fund its operations	See pages 43 to 46
Net interest earnings and net asset value may be adversely affected by interest rate risk	See pages 40 to 46
Market, business and general economic conditions and fluctuations could adversely affect its businesses in a number of ways	See pages 39 and 40
The bank may be unable to recruit, retain and motivate key personnel	See Our Business Responsibility website
Employee misconduct could cause harm that is difficult to detect	See pages 46 to 50
Operational risk may disrupt its business or result in regulatory action	See pages 46 to 50
The bank is exposed to non-traded currency risk, where fluctuations in exchange rates against United States Dollars, could have an impact on its financial results	See pages 40 to 41
The bank may be vulnerable to the failure of its systems and breaches of its security systems	See pages 46 to 50
The bank may have insufficient capital in the future and may be unable to secure additional financing when it is required	See pages 51 to 55
The financial services industry in which the bank operates is intensely competitive	See pages 3 to 6
Legal and regulatory risks are substantial in its businesses	See page 50
Reputational, strategic and business risk	See page 50

Additional risks and uncertainties not presently known to the bank or that are currently deemed immaterial may in the future also impair its business operations. Its business, financial condition or results of operations could be adversely affected by any of these risk factors.

Risk and governance framework

The bank's risk and governance framework can be depicted as follows:



Board committees

Board Sub-Committee

This committee comprises of three members, including the Chief Executive Officer. The committee meets as and when required and assumes the roles and responsibilities of the board.

Audit Committee

This committee examines and reviews the findings of all internal and external audits conducted at the bank by the bank's duly appointed internal and external auditors in order to ensure that there are adequate internal controls to safeguard its assets and integrity. The committee comprises of three members who are independent external directors. The Chairman of the Board, the Chief Executive Officer, the Global Head of Market risk, the Head of Banking, the Head of Operations, the Compliance officer, the Group Head of Internal Audit, the Group Compliance Officer and the external auditors are invited to attend Audit Committee meetings. The committee held two meetings during the year under review.

Compensation Committee

This committee comprises of two members, with the Chief Executive Officer and the Head of group HR being invitees. The committee reviews the salaries and bonuses of employees and senior management based on key performance indicators. The committee met once during the year under review.

Conduct Review and Risk Policy Committee

This committee comprises of three members, two of which are independent external directors. The committee monitors and reviews all related party transactions and ensures that market terms and conditions are applied to all related party transactions. The committee met four times during the year under review and noted no violations in terms of the Guideline on Related Party Transactions issued by the Bank of Mauritius.

Governance Committee

This committee comprises of the Chairman and one independent external director of the board. The committee is responsible for ensuring that the board receives all relevant information to assist the board in making its decisions. The committee provides a link between the board and management in governance matters. The committee may be asked to appraise the performance of the board as a whole as well as its committees.

Nomination Committee

This committee comprises of the Chairman and one independent external director. The committee is responsible for identifying and nominating candidates for the approval of the board to fill board vacancies, as and when required.

Management committees and forums

The day-to-day running of the bank's business is delegated to management. Issues are debated widely and decisions are taken in a transparent manner by the following committees and forums:

Asset and Liability Management Committee

This committee comprises of the Chief Executive Officer, the Head of Banking, the Head of Treasury, other invited staff and representatives from Group Risk Management. The committee meets monthly to oversee the bank's liquidity risk, interest rate risk and foreign exchange risk management. The committee oversees the bank's policy for managing its balance sheet based on a detailed analysis of risk and return and managing those risks in relation to earnings and capital.

Credit Committee

This committee comprises of the Chief Executive Officer, the Head of Operations and the external directors. The committee meets as and when required to review and approve credit proposals.

Credit Review Committee

This committee comprises of a non-executive director, the Compliance Officer and the Head of Operations. The committee meets monthly to review the lending portfolio of the bank in accordance with its review procedures.

Investment Committee

This committee comprises of three members, including the Chief Executive Officer. The committee is responsible for the management of the investment portfolio. The committee reviews the performance of the investment portfolio at least once every quarter. It also reviews all new investment proposals and makes their determination known to the Credit Committee for administration purposes.

Management Forum

This forum comprises of the Chief Executive Officer, the Head of Banking, the Head of Operations and the heads of other departments. The forum meets both formally and informally, to discuss various issues relating to the efficient and effective running of the bank.

Accounts Forum

This forum comprises of the Chief Executive Officer, the Head of Banking, the Head of Finance and a number of staff from the Finance division. The forum meets monthly to discuss and review accounting and financial issues.

Operations Forum

This forum comprises of the Head of Operations, the Head of Treasury and a number of staff within the operations. The forum meets both formally and informally to address the operational issues of the bank.

Deal Forum

This forum comprises of the Chief Executive Officer, the Head of Operations, the Head of Banking and the deal consultants. The forum meets on an ad hoc basis to discuss special deal structures and potential new deals.

Bank Account Opening Forum

This forum comprises of the Head of Customer Relations, members of the customer relations team, the Compliance Officer and the Anti-Money Laundering Officer. The forum is responsible for enforcing the Anti-money Laundering policy of the bank.

Other Risks Forum

This forum comprises of the Chief Executive Officer, the Head of Banking and the Head of Operations. All other risks, which are not covered by the above committees or forums, are dealt with in the Other Risks Forum. This forum mainly deals with strategic risk, reputational risk, country risk and any other risks.

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Credit and counterparty risk management

Credit and counterparty risk management description Audited

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

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

- Lending transactions, giving rise to a direct exposure. The risk is created that an obligor will be unable or unwilling to repay capital and/or interest on advances and loans granted to it. This category includes bank placements, where the bank has placed funds with other financial institutions.
- Issuer risk on financial instruments where payments due from the issuer of a financial instrument will not be received.
- Trading transactions, giving rise to settlement and replacement risk (collectively counterparty risk).
  - Settlement risk is the risk that the settlement of a transaction does not take place as expected, with one party effecting required settlements as they fall due but not receiving settlements to which they are entitled
  - Replacement risk is the risk following default by the original counterparty resulting in the contract holder having to enter into a replacement contract with a second counterparty in order to finalise the transaction.

Credit and counterparty risk can manifest as country risk as a result of the geopolitical and transfer risk associated with exposures arising from transactions with borrowers who are resident in a particular foreign country, or dependent on that country's economy.

Credit and counterparty risk may also arise in other ways and it is the role of the various independent credit committees, assisted by Credit Risk Management, to identify situations falling outside these definitions where credit risk may also be present.

Credit and counterparty risk governance structure Audited

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

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

- Arrears management and regular arrears reporting ensures that individual positions and any potential trends are dealt with in a timely manner
- The bank's Management Committee and the Credit Review Committe, which review the management of distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision
- The bank's Investment Committee, which reviews and manages exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements.

Whilst the bank does not have a separate country risk committee, the Investec group Credit Committees will consider, analyse, and assess the appropriate limits to be recorded when required, to extend the loans to foreign jurisdictions. When applications are submitted to the Investec group Credit Committee, consideration of the country risk element forms part of the sanctioning process. The Investec group Credit Committee has the power to recommend an appropriate country credit limit where undertaking a particular transaction could exceed the approved country limit. The Investec group Credit Committee is responsible for approving country limits.

Credit and counterparty risk appetite

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

The bank's assessment of its clients includes consideration of their character and integrity, core competencies, track record and financial strength. A strong emphasis is placed on income and cash flow streams generated by the clients, third party income or cash flow streams derived from lease or rental agreements in support of property related transactions. In this manner, the bank seeks comfort in mitigating its risk by thoroughly assessing the ability of its borrowers to meet their payment obligations. Furthermore the bank has very little appetite for unsecured debt and ensure that good quality collateral is provided in support of obligations (refer to pages 37 and 38 for further information).

Target clients include high net worth individuals, certain professionally qualified individuals, high income earning individuals, corporate, parastatals, government, institutions and banks. Corporates must have scale, relevance, experienced management, able board members and strong earnings/cash flow. Direct exposures to cyclical industries and start-up ventures tend to be avoided.

The bank typically originates loans with the intent of holding these assets to maturity, and thereby developing a "hands on" and longstanding relationship with its clients.

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

Management and measurement of credit and counterparty risk Audited

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

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

Regular reporting of credit and counterparty risk exposures is made to management, the executives and the board. The board regularly reviews and approves the appetite for credit and counterparty risk, which is documented in risk appetite statements and policy documents.

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

The bank completes scenario tests on its loan portfolio with regards to the capital held. These tests stress the existing portfolio to allow the bank to identify underlying risks and manage them accordingly. These stresses include (but are not limited to) residential and commercial property prices, foreign exchange rates, default rates, impairments and capital usage. The credit risk stress tests also play an integral part in the bank's capital planning process.

A large proportion of the portfolio is not rated by external rating agencies. As a result the bank mainly places reliance upon internal considerations of counterparties and borrowers, and use ratings prepared externally where available for support. Within the credit approval process all available internal and external ratings are included in the assessment of the client quality.

Fitch, Standard and Poor's and Moody's have been approved as eligible external credit assessment institutions (ECAIs) for the purposes of determining external credit ratings with the following elections:

- In relation to sovereigns, Fitch has been selected by Investec as the primary ECAI, with Standard & Poors or Moodys being used as support where a Fitch rating is not available
- In relation to banks and securities firms, Fitch has been selected by Investec as the primary ECAI, with Standard & Poors being used as support where a Fitch rating is not available
- In relation to corporates, and small to medium enterprises, both Standard & Poors and Moody's are considered to be eligible ECAIs. Where the assessments of these two ECAIs differ, the more conservative rating will be applied
- Where there are three or more credit ratings with different risk weightings, the credit ratings corresponding to the two lowest ratings should be referred to and the higher of those two ratings should be applied.

Concentration of risk policies

The bank has adopted and complies with the Bank of Mauritius Guideline on Credit Concentration Limits. The bank ensures that it does not grant credit to a single customer and its related parties which exceed the regulatory limit stipulated in the guideline, i.e. the bank which is a subsidiary of a foreign bank must have no credit exposure to any single customer which exceeds 50% of the bank's capital base or credit exposure to any group of closely related customers which exceeds 75% of the bank's capital base.

As at 31 March 2010, there were only four customers or group of closely related customers to whom the bank granted facilities for amount aggregating more than 15% of its capital base. These large exposures aggregating to USD 279.7 million (2009: USD 205 million) were 120% (2009: 132%) of the total capital base and which were below the regulatory limit of 1200%.

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Related party transactions, policies and practices

The bank adheres to the Bank of Mauritius Guideline on Related Party Transactions issued in January 2009. All transactions with a related party are carried out on terms and conditions that are at least as favourable to the bank as the market terms and conditions.

The board has set up a Conduct Review and Risk Policy Committee (CRRPC) which consists of three non-executive directors. The CRRPC meets at least once every quarter and reviews all transactions initiated in the quarter under review. After each meeting the matters reviewed by the CRRPC are reported to the board of directors. The bank reports on the proceedings of the CRRPC during the year to the Bank of Mauritius on a yearly basis.

For the year to 31 March	2010	2009	2008
On and off-balance sheet exposure (USD'million)	67.8	66.1	82.4
On and off-balance sheet exposure to total assets (%)	6.3	7.3	6.9
Proportion of credit exposure (all investments) that has become non performing as a result of negative mark to market adjustments (%)	3.9	9.6	–
Amount of credit exposure to six related parties with the highest exposures (USD'million)	57.7	63.9	71.5
Amount of credit exposure to six related parties with highest exposures as a percentage of Tier 1 capital (%)	25.3	42.5	51.7

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

Asset quality analysis - credit risk classification and provisioning policy Audited

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

Specific impairments

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

Portfolio impairments

The portfolio impairments takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring a specific impairment, and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment is then reviewed by management to ensure alignment with the bank's overall policy. Portfolio impairments are conducted in accordance with the Bank of Mauritius guidelines on 'Credit Impairment Measurement and Income Recognition'.

Financial guarantees and unutilised commitments are assessed and provisions are made in a similar manner as for loans.

The information provided below reflects the guidelines and definitions that have been applied in assessing the asset quality of credit exposures (see page 30). The impairment definitions and guidelines are consistent with IFRS. IFRS differs from the requirements laid out in the "International Convergence of Capital Measurement and Capital Standards" Basel II framework. IFRS focuses on the concept of incurred loss, whereas Basel II centers on the concept of expected loss. The reconciling differences are primarily due to the fact that IFRS impairments only reflect a decrease in the value of assets with credit risk where a "loss trigger event" has occurred, and only that portion of the expected loss which has actually been incurred at the reporting date. A loss trigger event is an event which exhibits a high correlation to the crystallisation of loss.

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

2

<table>
<tr><th>Regulatory and economic capital classification</th><th>IFRS impairment treatment</th><th>Arrears, default and recoveries classification category</th><th>Description</th></tr>
<tr><td rowspan="3">Assets in default</td><td rowspan="3">Specific impairments are evaluated on a case-by-case basis where objective evidence of impairment has arisen. In determining specific impairments, the following factors are considered:
• Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business
• Likely dividend or amount recoverable on liquidation or bankruptcy
• Nature and extent of claims by other creditors
• Amount and timing of expected cash flows
• Realisable value of security held (or other credit mitigants)
• Ability of the client to make payments in the foreign currency, for foreign currency denominated accounts.</td><td>Sub-standard</td><td>The counterparty is placed in sub-standard when the credit exposure reflects an underlying, well defined weakness that may lead to probable loss if not corrected.
• The risk that such credit exposure may become an impaired asset is probable;
• The bank is relying, to a large extent, on available collateral; or
• The primary sources of repayment are insufficient to service the remaining contractual principal and interest amounts, and the bank has to rely on secondary sources for repayment. These secondary sources may include collateral, the sale of a fixed asset, refinancing and further capital.

Credit exposures overdue for more than 90 days will at a minimum be included in "Sub-standard" (or a lower quality category).</td></tr>
<tr><td>Doubtful</td><td>• The counterparty is placed in doubtful when the credit exposure is considered to be impaired but not yet considered a final loss due to some pending factors such as a merger, new financing or capital injection which may strengthen the quality of the relevant exposure.</td></tr>
<tr><td>Loss</td><td>• A counterparty is placed in the loss category when the credit exposure is considered to be uncollectible once all efforts, such as realisation of collateral and institution of legal proceedings, have been exhausted; or
• Assets in this category are expected to be written off in the short-term since the likelihood of future economic benefits resulting from such assets is remote.</td></tr>
</table>

2

Credit risk mitigation Audited

Collateral is assessed with reference to the sustainability of value and the likelihood of realisation. Acceptable collateral generally exhibits characteristics that allow for it to be held physically and appropriately valued.

The bulk of collateral taken by the bank, which makes up a substantial portion of on balance sheet assets, is commercial and residential real estate. Commercial real estate generally takes the form of good quality property often underpinned by strong third party leases. Residential property is also generally of a high quality and based in desirable locations. In the year under review, as a result of the global economic slowdown, downward pressure on the value of commercial and residential real estate continued in the first half of the financial year 2010 with low/static growth in the latter part of the financial year. Residential and commercial property valuations will continue to form part of our increased focus on collateral assessment.

It is the bank's policy to obtain a formal valuation, performed by an approved valuer of every commercial property offered as collateral for a lending facility before advancing funds under the credit facility and to revalue all commercial properties held as collateral on a regular basis, at the discretion of the Credit Committee. Residential properties are valued by a combination of Computer Aided Valuation (CAV) and approved valuers, if applicable.

The majority of credit mitigation within the treasury activities is in the form of netting (primarily International Swap Dealers Association, Global Master Securities Lending Agreement and International Securities Master Agreement) and margining agreements (primarily through Credit Support Agreements).

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

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

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

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

For this reason there will be instances where credit and counterparty exposures are displayed on a net basis in these financial statements but reported on a gross basis to regulators. An analysis of collateral is provided on pages 37 and 38.

Credit and counterparty risk year in review

The financial year in review has seen a combination of trends and factors impacting on the credit quality and assessment of credit and counterparty risk:

- The impact of the global financial crisis on the current domestic economic cycle
- Continuation of a conservative lending approach with some relaxation towards the end of the first quarter of 2010
- Reduced discretionary spending, even in a lower interest rate environment
- Early signs of the global economy emerging out of recession in first quarter of 2010
- Increased interbank activity reflecting the reversal of the previous year's liquidity constraints
- Market volatility continued on the main stock exchanges
- The property market remains under pressure with low or static growth across the residential and commercial property markets.

The bank is conscious of the effect of the slowdown of growth in the property market (both global and local) and the impact on its portfolio secured by property. The high net worth and/or stable income streams of its target market clients provides a level of protection from decreases in property values. Over the past few years as property values increased, many clients built an effective equity buffer, resulting in lower average loan to value ratios which have reduced potential losses on depreciation of values.

Loans and advances secured by share portfolios are monitored frequently. Most of these counterparties remain within credit approved loan to value or cover ratios and are performing on current debt obligations.

For assets written during the current year there has been strict adherence to lower loan to value lending and increased pricing requirements, although there have been some downward pressures towards the end of the first quarter of 2010.

Credit quality on gross core loans and advances improved throughout the year under review.

Gross core loans and advances increased by 7.9% to USD532.3 million. Default loans (net of impairments) as a percentage of core loans and advances decreased from 0.8% to 0.49%. The credit loss ratio has decreased from 0.95% to 0.02%. A lot of emphasis has been placed on the strengthening of recoveries and administrative areas and increased involvement from executive and senior management to deal with potential problematic loans and working on the best outcome/solution for the bank and its clients.

Credit and counterparty risk information

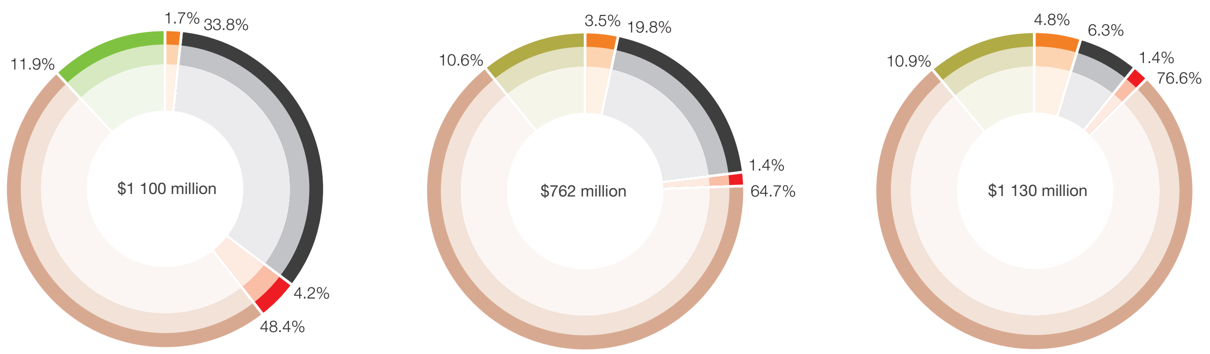
Pages 16 to 23 describe where and how credit and counterparty risk exists in the bank's operations. The tables that follow provide an analysis of the bank's credit and counterparty exposures.

An analysis of gross credit and counterparty exposures

USD'000	31 March 2010	31 March 2009	31 March 2008	2010 vs 2009 % change	Average*	2009 vs 2008 % change	Average*
On-balance sheet exposures	969 713	681 183	1 006 044	42.4	830 211	(32.3)	843 616
Unrated credit instruments arising from securitisation/principal finance activities	18 923	26 569	54 577	(28.7)	27 508	(51.3)	40 573
Bank placements	371 907	151 122	70 895	146.1	261 515	113.2	111 009
Trading exposures (positive fair value excluding potential future exposures)	46 450	10 371	15 576	347.9	28 411	(33.4)	12 974
Other credit exposures	140	–	–	100.0	70	–	–
Gross core loans and advances to customers	532 293	493 121	864 996	7.9	512 707	(43.0)	679 059
Off-balance sheet exposures	130 718	81 313	123 539	60.8	106 016	(34.2)	102 427
Guarantees	35 592	40 650	58 711	(12.4)	38 121	(30.8)	49 681
Contingent liabilities, committed facilities and other	95 126	40 663	64 828	133.9	67 895	(37.3)	52 746
Total gross credit and counterparty exposures pre collateral or other credit enhancements	1 100 431	762 496	1 129 583	44.3	936 227	(32.5)	946 043

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

An analysis of gross credit and counterparty exposures

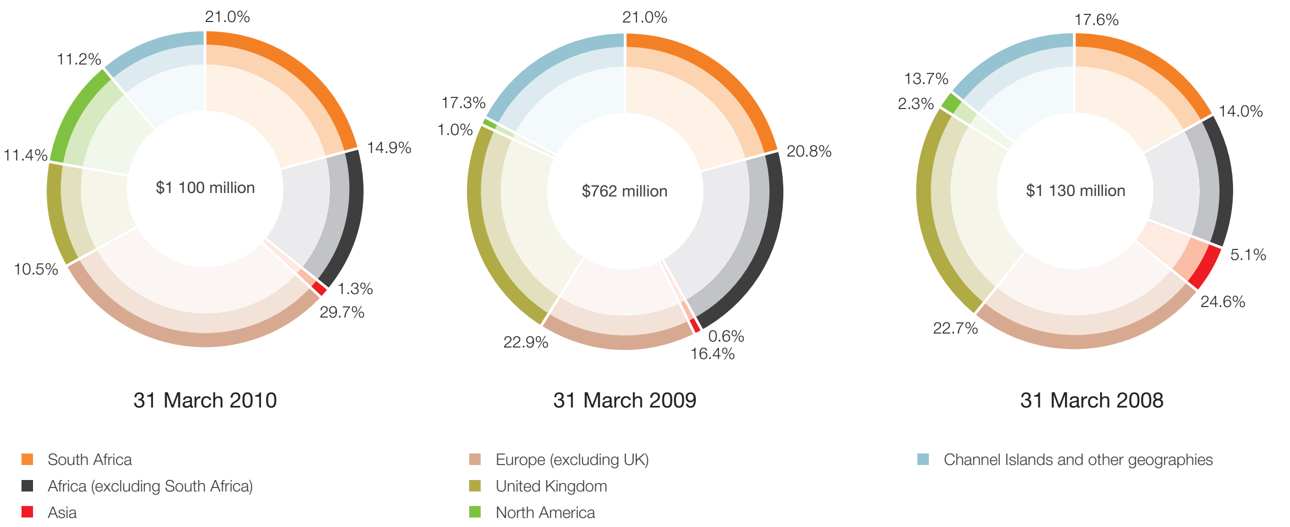


31 March 2010 | 31 March 2009 | 31 March 2008

- Unrated credit instruments
- Bank placements
- Trading exposures
- Gross core loans and advances to customers
- Off-balance sheet exposures

An analysis of gross credit and counterparty exposure by geography

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client and counterparty as of 31 March 2010 was USD83 million (2009: USD53 million and 2008: USD47 million)



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

The table below indicates in which class of asset (on the face of the statement of financial position) the bank's on-balance sheet credit and counterparty exposures are reflected. Not all assets included in the balance sheet bear credit and counterparty risk.

USD'000	Unrated credit instuments	Bank placements	Trading exposures (positive fair value excluding potential future exposures)
As at 31 March 2010			
Cash and balances at central banks	–	5 850	–
Due from banks	–	366 057	–
Investment and trading securities	18 923	–	–
Derivative financial instruments	–	–	46 450
Loans and advances to customers	–	–	–
Deferred tax assets	–	–	–
Other assets	–	–	–
Investments in associates	–	–	–
Equipment	–	–	–
Amount due from holding bank and group companies	–	–	–
Investments in subsidiaries	–	–	–
Total	18 923	371 907	46 450
As at 31 March 2009			
Cash and balances at central banks	–	2 492	–
Due from banks	–	148 630	–
Investment and trading securities	26 569	–	–
Derivative financial instruments	–	–	10 371
Loans and advances to customers	–	–	–
Deferred tax assets	–	–	–
Other assets	–	–	–
Investments in associates	–	–	–
Equipment	–	–	–
Amount due from holding bank and group companies	–	–	–
Investments in subsidiaries	–	–	–
Total	26 569	151 122	10 371
As at 31 March 2008			
Cash and balances at central banks	–	1 219	–
Due from banks	–	69 676	–
Investment and trading securities	54 577	–	–
Derivative financial instruments	–	–	15 576
Loans and advances to customers	–	–	–
Deferred tax assets	–	–	–
Other assets	–	–	–
Investments in associates	–	–	–
Equipment	–	–	–
Amount due from holding bank and group companies	–	–	–
Investments in subsidiaries	–	–	–
Total	54 577	70 895	15 576

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

Other credit exposures	Gross core loans and advances to customers	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposures	Note Reference	Total balance sheet
–	–	5 850	1		5 851
–	–	366 057	–		366 057
–	16 097	35 020	5 004	1	40 024
–	–	46 450	16 503	1	62 953
–	516 196	516 196	(4 738)	2	511 458
–	–	–	162		162
140	–	140	840		980
–	–	–	4 000		4 000
–	–	–	678		678
–	–	–	95 250		95 250
–	–	–	15		15
140	532 293	969 713	117 715		1 087 428
	–	2 492	–		2 492
	–	148 630	–		148 630
	27 410	53 979	10 326	1	64 305
	–	10 371	15 957	1	26 328
	465 711	465 711	(4 574)	2	461 137
	–	–	326		326
	–	–	1 190		1 190
	–	–	2 184		2 184
	–	–	230		230
	–	–	208 259		208 259
	–	–	38		38
–	493 121	681 183	233 936		915 119
	–	1 219	2		1 221
	–	69 676	–		69 676
	35 274	89 851	33 135	1	122 986
	–	15 576	–		15 576
	829 722	829 722	(4 940)	2	824 782
	–	–	202		202
	–	–	1 133		1 133
	–	–	10 155		10 155
	–	–	242		242
	–	–	148 497		148 497
	–	–	44		44
–	864 996	1 006 044	188 470		1 194 514

Detailed analysis of gross credit and counterparty exposures by industry

USD'000	Professional	Agriculture	Construction
As at 31 March 2010			
On-balance sheet exposures	55 614	9 272	102 439
Unrated credit instruments arising from securitisation/principal finance activities	–	–	–
Bank placements	–	–	–
Trading exposures (positive fair value excluding potential future exposures)	–	–	–
Other credit exposures	140	–	–
Gross core loans and advances to customers	55 474	9 272	102 439
Off-balance sheet exposures	6 245	22 000	41 349
Guarantees	2 763	–	12 434
Committed facilities	3 482	22 000	28 915
Total gross credit and counterparty exposures pre collateral or other credit enhancements	61 859	31 272	143 788
As at 31 March 2009			
On-balance sheet exposures	56 312	33 803	81 982
Unrated credit instruments arising from securitisation/principal finance activities	–	–	–
Bank placements	–	–	–
Trading exposures (positive fair value excluding potential future exposures)	–	–	–
Gross core loans and advances to customers	56 312	33 803	81 982
Off-balance sheet exposures	29 466	–	86
Guarantees	27 959	–	–
Committed facilities	1 507	–	86
Total gross credit and counterparty exposures pre collateral or other credit enhancements	85 778	33 803	82 068
As at 31 March 2008			
On-balance sheet exposures	30 980	14 338	157 840
Unrated credit instruments arising from securitisation/principal finance activities	–	–	–
Bank placements	–	–	–
Trading exposures (positive fair value excluding potential future exposures)	–	–	–
Gross core loans and advances to customers	30 980	14 338	157 840
Off-balance sheet exposures	17 370	–	–
Guarantees	9 990	–	–
Committed facilities	7 380	–	–
Total gross credit and counterparty exposures pre collateral or other credit enhancements	48 350	14 338	157 840

Personal	Global business licence holders	Finance and business services	Traders	Manufacturing	Transport	Other entities	Total
162	63 521	556 451	346	90 132	48 605	43 171	969 713
–	–	18 923	–	–	–	–	18 923
–	–	371 907	–	–	–	–	371 907
–	–	46 450	–	–	–	–	46 450
–	–	–	–	–	–	–	140
162	63 521	119 171	346	90 132	48 605	43 171	532 293
–	15 010	34 521	–	1 373	–	10 220	130 718
–	–	20 395	–	–	–	–	35 592
–	15 010	14 126	–	1 373	–	10 220	95 126
162	78 531	590 972	346	91 505	48 605	53 391	1 100 431
123	66 409	284 267	1 113	18 213	87 001	51 960	681 183
–	–	26 569	–	–	–	–	26 569
–	–	151 122	–	–	–	–	151 122
–	–	10 371	–	–	–	–	10 371
123	66 409	96 205	1 113	18 213	87 001	51 960	493 121
–	1 355	38 545	–	1 432	110	10 319	81 313
–	–	12 691	–	–	–	–	40 650
–	1 355	25 854	–	1 432	110	10 319	40 663
123	67 764	322 812	1 113	19 645	87 111	62 279	762 496
3 014	59 602	291 564	55 113	74 716	173 574	145 303	1 006 044
–	–	54 577	–	–	–	–	54 577
–	–	70 895	–	–	–	–	70 895
–	–	15 576	–	–	–	–	15 576
3 014	59 602	150 516	55 113	74 716	173 574	145 303	864 996
–	–	38 810	–	3 163	3 815	60 381	123 539
–	–	27 596	–	3 163	–	17 962	58 711
–	–	11 214	–	–	3 815	42 419	64 828
3 014	59 602	330 374	55 113	77 879	177 389	205 684	1 129 583

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Summary analysis of gross credit and counterparty exposure by Industry

USD'000	Gross core loans and advances			Other credit and counterparty exposures			Total		
	31 March 2010	31 March 2009	31 March 2008	31 March 2010	31 March 2009	31 March 2008	31 March 2010	31 March 2009	31 March 2008
Professional	55 474	56 312	30 980	6 385	29 466	17 370	61 859	85 778	48 350
Agriculture	9 272	33 803	14 338	22 000	–	–	31 272	33 803	14 338
Construction	102 439	81 982	157 840	41 349	86	–	143 788	82 068	157 840
Personal	162	123	3 014	–	–	–	162	123	3 014
Global business licence holders	63 521	66 409	59 602	15 010	1 355	–	78 531	67 764	59 602
Finance and business services	119 171	96 205	150 516	471 801	226 607	179 858	590 972	322 812	330 374
Traders	346	1 113	55 113	–	–	–	346	1 113	55 113
Manufacturing	90 132	18 213	74 716	1 373	1 432	3 163	91 505	19 645	77 879
Transport	48 605	87 001	173 574	–	110	3 815	48 605	87 111	177 389
Other entities	43 171	51 960	145 303	10 220	10 319	60 381	53 391	62 279	205 684
Total	532 293	493 121	864 996	568 138	269 375	264 587	1 100 431	762 496	1 129 583

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

The tables that follow provide information with respect to the asset quality of the bank's core loans and advances to customers. An overview of developments during the financial year is provided on pages 22 and 23.

USD'000	31 March 2010	31 March 2009	31 March 2008
Gross core loans and advances to customers	532 293	493 121	864 996
Total impairments	(4 738)	(9 314)	(4 940)
Portfolio impairments	(4 524)	(4 487)	(4 886)
Specific impairments	(214)	(4 827)	(54)
Net core loans and advances to customers	527 555	483 807	860 056
Average gross core loans and advances to customers	512 707	679 059	686 140
Current loans and advances to customers	504 500	432 407	843 795
Total gross non-current loans and advances to customers	27 793	60 714	21 201
Past due loans and advances to customers (1 – 60 days)	18 297	41 319	20 845
Special mention loans and advances to customers	2 187	6 197	127
Default loans and advances to customers	7 309	13 198	229
Gross core loans and advances to customers	532 293	493 121	864 996
Total gross non-current core loans and advances to customers	27 793	60 714	21 201
Gross core loans and advances to customers that are past due but not impaired	25 933	49 936	20 972
Gross core loans and advances to customers that are impaired	1 860	10 778	229
Total income statement charge for impairments on core loans and advances	(125)	(6 484)	(13 276)
Gross default loans and advances to customers	7 309	13 198	229
Specific impairments	(214)	(4 827)	(54)
Portfolio impairments	(4 524)	(4 487)	(4 886)
Defaults net of impairments	2 571	3 884	(4 711)
Collateral and other credit enhancements	20 780	16 119	177
Net default loans and advances to customers (limited to zero)	–	–	–
Ratios:			
Specific impairments as a % of gross core loans and advances to customers	0.04%	0.98%	0.01%
Portfolio impairments as a % of gross core loans and advances to customers	0.85%	0.91%	0.59%
Total impairments as a % of gross core loans and advances to customers	0.89%	1.89%	0.60%
Specific impairments as a % of gross default loans	2.93%	36.57%	23.58%
Gross defaults as a % of gross core loans and advances to customers	1.37%	2.68%	0.03%
Defaults (net of impairments) as a % of net core loans and advances to customers	0.49%	0.80%	0.02%
Net defaults as a % of gross core loans and advances to customers	–	–	–
Credit loss ratio (i.e income statement impairment charge on loans as a % of average loans and advances)	0.02%	0.95%	1.93%

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An age analysis of gross non-current core loans and advances to customers

USD'000	31 March 2010	31 March 2009	31 March 2008
Default loans that are current			
1 – 60 days	19 105	43 594	20 845
61 – 90 days	2 187	5 232	127
91 – 180 days	6 134	9 936	177
181 – 365 days	367	1 952	52
Total gross non-current loans and advances to customers (actual capital exposure)	27 793	60 714	21 201
Default loans that are current			
1 – 60 days	1 148	1 300	556
61 – 90 days	77	33	14
91 – 180 days	201	34	13
181 – 365 days	14	223	50
Total gross non-current loans and advances to customers (actual amount in arrears)	1 440	1 590	633

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

USD'000	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	Total
As at 31 March 2010					
Gross core loans and advances to customers that are past due but not impaired					
Total capital exposure	19 105	2 187	4 274	367	25 933
Amount in arrears	1 148	77	129	14	1 368
Gross core loans and advances to customers that are impaired					
Total capital exposure	–	–	1 860	–	1 860
Amount in arrears	–	–	72	–	72
As at 31 March 2009					
Gross core loans and advances to customers that are past due but not impaired					
Total capital exposure	42 452	5 232	300	1 952	49 936
Amount in arrears	1 300	33	34	223	1 590
Gross core loans and advances to customers that are impaired					
Total capital exposure	1 142	–	9 636	–	10 778
Amount in arrears	–	–	–	–	–
As at 31 March 2008					
Gross core loans and advances to customers that are past due but not impaired					
Total capital exposure	20 845	127	–	–	20 972
Amount in arrears	556	14	–	–	570
Gross core loans and advances to customers that are impaired					
Total capital exposure	–	–	177	52	229
Amount in arrears	–	–	13	50	63

Of the total aggregate amount of gross past due but not impaired loans and advances to customers, the fair value of collateral that the bank held against the loans as at 31 March 2010 was USD158 million (2009: USD70 million and 2008: USD33 million).

An age analysis of gross non-current core loans and advances to customers as at 31 March 2010 (based on total capital exposure)

USD'000	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	Total
Past due (1 – 60 days)	18 297	–	–	–	18 297
Special mention	–	2 187	–	–	2 187
Special mention (61 – 90 days and item well secured)	–	2 187	–	–	2 187
Default	808	–	6 134	367	7 309
Sub-standard	808	–	4 728	367	5 903
Doubtful	–	–	1 406	–	1 406
Total	19 105	2 187	6 134	367	27 793

An age analysis of gross non-current core loans and advances to customers as at 31 March 2010 (based on actual amount in arrears)

USD'000	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	Total
Past due (1 – 60 days)	1 148	–	–	–	1 148
Special mention	–	77	–	–	77
Special mention (61 – 90 days and item well secured)	–	77	–	–	77
Default	–	–	201	14	215
Sub-standard	–	–	143	14	157
Doubtful	–	–	58	–	58
Total	1 148	77	201	14	1 440

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An age analysis of gross non-current core loans and advances to customers as at 31 March 2009 (based on total capital exposure)

USD'000	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	Total
Past due (1 – 60 days)	41 319	–	–	–	41 319
Special mention	965	5 232	–	–	6 197
Special mention (1 – 60 days)	965	–	–	–	965
Special mention (61 – 90 days and item well secured)	–	5 232	–	–	5 232
Default	1 310	–	9 936	1 952	13 198
Sub-standard	1 310	–	9 936	1 952	13 198
Total	43 594	5 232	9 936	1 952	60 714

An age analysis of gross non-current core loans and advances to customers as at 31 March 2009 (based on actual amount in arrears)

USD'000	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	Total
Past due (1 – 60 days)	1 238	–	–	–	1 238
Special mention	54	33	–	–	87
Special mention (1 – 60 days)	54	–	–	–	54
Special mention (61 – 90 days and item well secured)	–	33	–	–	33
Default	8	–	34	223	265
Sub-standard	8	–	34	223	265
Total	1 300	33	34	223	1 590

An age analysis of gross non-current core loans and advances to customers as at 31 March 2008 (based on total capital exposure)

USD'000	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	Total
Past due (1 – 60 days)	20 845	–	–	–	20 845
Special mention	–	127	–	–	127
Special mention (61 – 90 days and item well secured)	–	127	–	–	127
Default	–	–	177	52	229
Sub-standard	–	–	177	–	177
Doubtful	–	–	–	52	52
Total	20 845	127	177	52	21 201

An age analysis of gross non-current core loans and advances to customers as at 31 March 2008 (based on actual amount in arrears)

USD'000	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	Total
Past due (1 – 60 days)	556	–	–	–	556
Special mention	–	14	–	–	14
Special mention (61 – 90 days and item well secured)	–	14	–	–	14
Default	–	–	13	50	63
Sub-standard	–	–	13	–	13
Doubtful	–	–	–	50	50
Total	556	14	13	50	633

An analysis of core loans and advances to customers

USD'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
As at 31 March 2010								
Current core loans and advances	504 500	–	–	504 500	–	(4 401)	500 099	–
Past due (1 – 60 days)	–	18 297	–	18 297	–	(94)	18 203	1 148
Special mention	–	2 187	–	2 187	–	–	2 187	77
Special mention (61 – 90 days and item well secured)	–	2 187	–	2 187	–	–	2 187	77
Default	–	5 449	1 860	7 309	(214)	(29)	7 066	215
Sub-standard	–	5 449	454	5 903	(22)	(29)	5 852	157
Doubtful	–	–	1 406	1 406	(192)	–	1 214	58
Total	504 500	25 933	1 860	532 293	(214)	(4 524)	527 555	1 440
As at 31 March 2009								
Current core loans and advances	432 407	–	–	432 407	–	(3 933)	428 474	–
Past due (1 – 60 days)		41 319	–	41 319	–	(376)	40 943	1 238
Special mention	–	6 197	–	6 197	–	(57)	6 140	87
Special mention (1 – 60 days)	–	965	–	965	–	(9)	956	54
Special mention (61 – 90 days and item well secured)	–	5 232	–	5 232	–	(48)	5 184	33
Default	–	2 420	10 778	13 198	(4 827)	(121)	8 250	265
Sub-standard	–	2 420	10 778	13 198	(4 827)	(121)	8 250	265
Total	432 407	49 936	10 778	493 121	(4 827)	(4 487)	483 807	1 590
As at 31 March 2008								
Current core loans and advances	843 795	–	–	843 795	–	(4 766)	839 029	–
Past due (1 – 60 days)		20 845	–	20 845	–	(118)	20 727	556
Special mention	–	127	–	127	–	(1)	126	14
Special mention (61 – 90 days and item well secured)	–	127	–	127	–	(1)	126	14
Default	–	–	229	229	(54)	(1)	174	63
Sub-standard	–	–	177	177	(2)	(1)	174	13
Doubtful	–	–	52	52	(52)	–	–	50
Total	843 795	20 972	229	864 996	(54)	(4 886)	860 056	633

2

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

USD'000	Current core loans and advances	Past due (1 – 60 days)	Special mention (1 – 60 days)
As at 31 March 2010			
Professional	44 259	6 442	–
Agriculture	9 272	–	–
Construction	101 150	775	–
Personal	162	–	–
Global business licence holders	55 855	3 939	–
Finance and business services	118 689	–	–
Traders	346	–	–
Manufacturing	90 132	–	–
Transport	48 605	–	–
Other entities	36 030	7 141	–
Total gross core loans and advances to customers	504 500	18 297	–
As at 31 March 2009			
Professional	53 112	1 080	–
Agriculture	33 803	–	–
Construction	42 204	37 357	–
Personal	123	–	–
Global business licence holders	61 870	284	–
Finance and business services	94 995	245	965
Traders	1 113	–	–
Manufacturing	8 578	–	–
Transport	84 649	2 352	–
Other entities	51 960	–	–
Total gross core loans and advances to customers	432 407	41 319	965
As at 31 March 2008			
Professional	29 533	1 218	–
Agriculture	14 338	–	–
Construction	139 998	17 715	–
Personal	3 014	–	–
Global business licence holders	59 602	–	–
Finance and business services	148 604	1 912	–
Traders	55 113	–	–
Manufacturing	74 716	–	–
Transport	173 574	–	–
Other entities	145 303	–	–
Total gross core loans and advances to customers	843 795	20 845	–

Special mention (61 – 90 days and item well secured)	Sub-standard	Doubtful	Total gross core loans and advances to customers	Portfolio impairments	Specific impairments	Total impairments
1 191	2 176	1 406	55 474	(450)	(214)	(664)
–	–	–	9 272	(24)	–	(24)
514	–	–	102 439	(830)	–	(830)
–	–	–	162	(1)	–	(1)
–	3 727	–	63 521	(515)	–	(515)
482	–	–	119 171	(1 306)	–	(1 306)
–	–	–	346	(3)	–	(3)
–	–	–	90 132	(730)	–	(730)
–	–	–	48 605	(394)	–	(394)
–	–	–	43 171	(270)	–	(270)
2 187	5 903	1 406	532 293	(4 524)	(214)	(4 738)
978	1 143	–	56 312	(512)	(87)	(599)
–	–	–	33 803	(308)	–	(308)
–	2 420	–	81 982	(746)	–	(746)
–	–	–	123	(1)	–	(1)
4 255	–	–	66 409	(604)	–	(604)
–	–	–	96 205	(875)	–	(875)
–	–	–	1 113	(10)	–	(10)
–	9 635	–	18 213	(166)	(4 740)	(4 906)
–	–	–	87 001	(792)	–	(792)
–	–	–	51 960	(473)	–	(473)
5 232	13 198	–	493 121	(4 487)	(4 827)	(9 314)
–	177	52	30 980	(175)	(54)	(229)
–	–	–	14 338	(81)	–	(81)
127	–	–	157 840	(892)	–	(892)
–	–	–	3 014	(17)	–	(17)
–	–	–	59 602	(337)	–	(337)
–	–	–	150 516	(850)	–	(850)
–	–	–	55 113	(311)	–	(311)
–	–	–	74 716	(422)	–	(422)
–	–	–	173 574	(980)	–	(980)
–	–	–	145 303	(821)	–	(821)
127	177	52	864 996	(4 886)	(54)	(4 940)

2

Summary analysis of gross core loans and advances to customers by counterparty type

USD'000	31 March 2010	31 March 2009	31 March 2008
Professional	55 474	56 312	30 980
Agriculture	9 272	33 803	14 338
Construction	102 439	81 982	157 840
Personal	162	123	3 014
Global business licence holders	63 521	66 409	59 602
Finance and business services	119 171	96 205	150 516
Traders	346	1 113	55 113
Manufacturing	90 132	18 213	74 716
Transport	48 605	87 001	173 574
Other entities	43 171	51 960	145 303
Total gross core loans and advances to customers	532 293	493 121	864 996

Collateral

The following disclosure is made with respect to Basel II requirements and definitions.

As at 31 March 2010 USD'000	Collateral held against		
	Gross core loans and advances	Other credit and counterparty exposures*	Total
Eligible financial collateral	424 861	11 522	436 383
Listed shares	406 319	–	406 319
Cash	15 520	11 522	27 042
Debt securities issued by sovereigns	3 022	–	3 022
Mortgage bonds	1 415 046	–	1 415 046
Residential mortgages	178 681	–	178 681
Residential development	14 212	–	14 212
Commercial property development	92 465	–	92 465
Commercial property investments	1 129 688	–	1 129 688
Other collateral	405 834	–	405 834
Unlisted shares	63 711	–	63 711
Bonds other than mortgage bonds	257 675	–	257 675
Guarantees	57 082	–	57 082
Other	27 366	–	27 366
Total collateral	2 245 741	11 522	2 257 263
Suretyships	6 236	–	6 236
Collateral including suretyships	2 251 977	11 522	2 263 499

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

Collateral (continued)

The following disclosure is made with respect to Basel II requirements and definitions.

As at 31 March 2009 USD'000	Collateral held against Gross core loans and advances	 Other credit and counterparty exposures*	Total
Eligible financial collateral	178 150	14 630	192 780
Listed shares	147 877	–	147 877
Cash	23 990	14 630	38 620
Debt securities issued by sovereigns	6 283	–	6 283
Mortgage bonds	460 664	–	460 664
Residential mortgages	137 117	–	137 117
Residential development	8 650	–	8 650
Commercial property development	121 007	–	121 007
Commercial property investments	193 890	–	193 890
Other collateral	405 951	7 784	413 735
Unlisted shares	64 126	–	64 126
Bonds other than mortgage bonds	255 821	–	255 821
Guarantees	4 294	–	4 294
Credit derivatives	46 898	–	46 898
Other	34 812	7 784	42 596
Total collateral	1 044 765	22 414	1 067 179
Suretyships	4 207	–	4 207
Collateral including suretyships	1 048 972	22 414	1 071 386

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

2

2

Equity and investment risk in the banking book

The bank is exposed to equity and investment risk which may arise from the various investments it has made in listed and unlisted companies. Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy.

The bank's Investment Committee manages the investment portfolio. The committee reviews the performance of the investment portfolio at least once every quarter. It also reviews all new investment proposals and makes their determination known to the Credit Committee for administration purposes.

The table below provides an analysis of gains / (losses) recorded with respect to these investments.

For the year to 31 March USD'000	Gains/losses Unrealised	Gains/losses Realised	Dividends, net interest and other	Total
2010				
Unlisted investments	(1 041)	–	–	(1 041)
Listed equities	2 745	5 420	–	8 165
Embedded derivatives	16 522	–	–	16 522
Total	18 226	5 420	–	23 646
2009				
Unlisted investments	(14 012)	–	231	(13 781)
Listed equities	(2 643)	24	(869)	(3 488)
Embedded derivatives	2 496	–	–	2 496
Total	(14 159)	24	(638)	(14 773)
2008				
Unlisted investments	937	–	195	1 132
Listed equities	560	–	(208)	352
Embedded derivatives	(17 063)	–	–	(17 063)
Total	(15 566)	–	(13)	(15 579)

Unrealised revaluation gains are included in Tier 1 capital.

Summary of investments held and stress testing analyses

The balance sheet value of investments is indicated in the table below.

USD'000	On balance sheet value of investments 31 March 2010	Valuation change stress test* 31 March 2010	On balance sheet value of investments 31 March 2009	Valuation change stress test* 31 March 2009	On balance sheet value of investments 31 March 2008	Valuation change stress test* 31 March 2008
Unlisted investments	4 314	647	8 658	1 299	21 518	3 228
Listed equities	690	172	6 408	1 602	10 943	2 736
Other embedded derivatives	29 180	10 213	8 022	2 807	6 445	6 445
Total	34 184	11 032	23 088	5 708	38 906	12 409

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

Stress test values applied

Unlisted investments	15%
Listed equities	25%
Warrants, profit shares and other embedded derivatives	35%

Capital requirements

In terms of Basel II capital requirements, unlisted and listed equities within the banking book are represented under the category of "Equity risk" and investment properties, profit shares and embedded derivatives are considered in the calculation of capital required for credit risk.

Traded market risk management

Traded market risk description Audited

Traded market risk is a measure of potential change in the value of a portfolio of instruments as a result of changes in the financial environment (resulting in changes in underlying market risk factors such as interest rates, equity markets, bond markets, commodity markets, exchange rates and volatilities) between now and a future point in time.

The Treasury team collates all relevant information daily. The Asset and Liability Management Committee (ALCO) discusses the bank's exposure to various market risks and ensures compliance with market risk limits set by the board. Appropriate data is also submitted to Investec group Risk Management for consolidation purposes and to facilitate the understanding and management of the overall market risk to which the Investec group is exposed.

The bank enters into various derivatives contracts to mitigate market risk. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments and measured on a credit equivalent basis.

Balance sheet risk management

Balance sheet risk description

Balance sheet risk management encompasses the independent monitoring and prudential management of the financial risks relating to its asset and liability portfolios, comprising market liquidity, funding, concentration and non-trading interest rate risks on balance sheet.

Balance sheet risk mitigation

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

2

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

An active presence is maintained in professional markets and the bank manages the wholesale money market capacity for its jurisdiction, supported by efforts in relationship management with corporate and institutional clients. Important factors in assuring the stability of unsecured funding are competitive rates, the maintenance of depositors' confidence and the bank's reputation.

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

Non-trading interest rate risk description Audited

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

Sources of banking-related risk exposures include potential adverse effect of volatility and changes in interest rate levels, the shape of the yield curves, basis risk spreads, and optionality inherent in certain products. These affect the interest rate margin realised between lending income and borrowing costs, when applied to its rate sensitive asset and liability portfolios, which has a direct effect on future net interest income and the economic value of equity. The mix of interest rate repricing characteristics is influenced by the underlying financial needs of customers.

Management and measurement of non-trading interest rate risk Audited

Non-trading interest rate risk in the banking book is a normal part of banking and arises from the provision of retail and wholesale (non-trading) banking products and services. The bank is exposed to repricing risk due to timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and derivative positions. Additionally the bank is exposed to yield curve and basis risk, due to the difference in repricing characteristics of two floating-rate indices. The bank is not materially exposed to optionality risk, as contract breakage penalties on fixed-rate advances specifically cover this risk.

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

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

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

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

Interest rate sensitivity gap Audited

The tables below show the bank's non-trading interest rate mismatch. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

As at 31 March USD'million	Not > 3 months	> 3 months but < 6 months	> 6 months but < 1 year	> 1 year but < 5 years	> 5 years	Non-rate	Total non trading
2010							
Cash and short-term funds – banks	366	–	–	–	–	–	366
Investment/trading assets	16	6	–	–	–	69	91
Advances	407	35	49	16	4	–	511
Other assets						2	2
Assets	**789**	**41**	**49**	**16**	**4**	**71**	**970**
Deposits – banks	(80)	–	–	–	–	–	(80)
Deposits – non-banks	(398)	(47)	(23)	(16)	(4)	–	(488)
Investment/trading liabilities	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	(9)	(9)
Liabilities	**(478)**	**(47)**	**(23)**	**(16)**	**(4)**	**(9)**	**(577)**
Intercompany loans	(98)	(28)	(47)	(9)	–	23	(159)
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**(229)**	**(229)**
Balance sheet	**213**	**(34)**	**(21)**	**(9)**	**–**	**(144)**	**5**
Off-balance sheet	(42)	36	7	(4)	(2)	–	(5)
Repricing gap	**171**	**2**	**(14)**	**(13)**	**(2)**	**(144)**	**–**
Cumulative repricing gap	171	172	158	145	143	(1)	–
2009							
Cash and short-term funds – banks	149	–	–	–	–	–	149
Investment/trading assets	1	–	–	–	–	90	91
Advances	441	12	2	6	–	–	461
Other assets	–	–	–	–	–	3	3
Assets	**591**	**12**	**2**	**6**	**–**	**93**	**704**
Deposits – banks	(106)	–	–	–	–	–	(106)
Deposits – non-banks	(398)	(13)	(11)	(12)	(5)	(1)	(440)
Investment/trading liabilities	–	–	–	–	–	(22)	(22)
Other liabilities	(1)	–	–	–	–	(8)	(9)
Liabilities	**(505)**	**(13)**	**(11)**	**(12)**	**(5)**	**(31)**	**(577)**
Intercompany loans	6	19	–	–	–	–	25
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**(150)**	**(150)**
Balance sheet	**92**	**18**	**(9)**	**(6)**	**(5)**	**(88)**	**2**
Off-balance sheet	4	(13)	(4)	4	–	7	(2)
Repricing gap	**96**	**5**	**(13)**	**(2)**	**(5)**	**(81)**	**–**
Cumulative repricing gap	96	101	88	86	81	–	

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

2

Economic value sensitivity Audited

As discussed above the bank's preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. The tables below reflect the bank's economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention i.e. the numbers represent the change in the bank's net asset value should such a hypothetical scenario arise. The effect of the change in net asset value is on the income statement only – there is no effect on other comprehensive income.

As at 31 March	Sensitivity to the following interest rates (expressed in original currencies)					
'million	ZAR	GBP	USD	EUR	AUD	All (USD)
2010						
200bp Down	(13.83)	0.01	2.01	0.20	0.38	0.75
200bp Up	13.73	0.00	(2.25)	(0.22)	(0.38)	(1.03)
2009						
200bp Down	21.40	0.50	(0.70)	2.10	-	1.70
200bp Up	(21.40)	(0.50)	0.70	(2.10)	-	(1.70)

Liquidity risk description Audited

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

Liquidity risk is further broken down into:

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

Sources of liquidity risk include unforeseen withdrawals of deposits, restricted access to new funding with appropriate maturity and interest rate characteristics, inability to liquidate a marketable asset in a timely manner with minimal risk of capital loss, unpredicted customer non-payment of loan obligations and a sudden increased demand for loans in the absence of corresponding funding in-flows of appropriate maturity.

Management and measurement of liquidity risk Audited

Cohesive liquidity management is vital for protecting the bank's depositors, preserving market confidence, safeguarding the bank's reputation and ensuring sustainable growth with established funding sources. Through active liquidity management, the bank seeks to preserve stable, reliable and cost-effective sources of funding. To accomplish this, management uses a variety of liquidity risk measures that consider market conditions, prevailing interest rates, projected balance sheet growth, and future funding and liquidity needs, whilst taking the desired nature and profile of liabilities into account.

The bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the bank maintains a statutory deposit with the Bank of Mauritius equal to 4.5% of resident customer deposits and loans. The liquidity position is assessed and managed under a variety of scenarios giving due consideration to stress factors relating to both the market in general and specifically to the bank. Liquidity risk is calculated by the contractual maturity cash flow mismatch between assets and liabilities.

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

- Preparation of cash flow projections (assets and liabilities) and funding requirements corresponding to the forecasted cash flow mismatch, which are translated into short-term and long-term funding strategies.
- Maintaining an appropriate mix of term funding.
- Management of concentration risk, being undue reliance on any single counterparty or counterparty group, sector, market, product, instrument, currency and tenor.
- Monitoring and reporting of cash flow measurement and projections, for the key periods for liquidity management, against the risk limits set.

- Performing assumptions-based scenario analysis to assess potential cash flows at risk.
- Maintenance of liquidity contingency plans and the identification of alternative sources of funds in the market. This is to ensure that cash flow estimates and commitments can be met in the event of general market disruption or adverse business and economic scenarios, while minimising detrimental long-term implications for the business.

Liquidity mismatch Audited

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

With respect to the contractual liquidity mismatch:

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

With respect to the behavioural liquidity mismatch:

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

2

Contractual liquidity

As at 31 March USD'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
2010								
Cash and short-term funds – banks	196	128	–	–	42	–	–	366
Investment/trading assets*	26	–	–	–	–	45	20	91
Advances	1	3	19	38	143	231	76	511
Other assets	–	–	–	2	–	–	–	2
Assets	223	131	19	40	185	276	96	970
Deposits – banks	–	–	–	–	–	(80)	–	(80)
Deposits – non-banks	(105)	(267)	(24)	(47)	(23)	(18)	(4)	(488)
Investment/trading liabilities	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	(9)	–	–	–	(9)
Liabilities	(105)	(267)	(24)	(56)	(23)	(98)	(4)	(577)
Intercompany loans	(12)	(16)	(6)	(30)	(56)	(4)	(35)	(159)
Shareholders' funds							(229)	(229)
Balance sheet	106	(152)	(11)	(46)	106	174	(172)	5
Off-balance sheet	(1)	–	1	–	(3)	(1)	(1)	(5)
Contractual liquidity gap	105	(152)	(10)	(46)	103	173	(173)	–
Cumulative liquidity gap	105	(48)	(58)	(104)	–	173	–	
2009								
Cash and short-term funds – banks	74	75	–	–	–	–	–	149
Investment/trading assets**	42	–	–	–	–	24	25	91
Advances	(2)	6	136	18	32	189	82	461
Other assets	–	–	–	3	–	–	–	3
Assets	114	81	136	21	32	213	107	704
Deposits – banks	(4)	(12)	–	(10)	–	(80)	–	(106)
Deposits – non-banks	(148)	(14)	(234)	(12)	(11)	(16)	(5)	(440)
Investment/trading liabilities	–	–	(1)	(15)	–	(4)	(2)	(22)
Other liabilities	–	–	–	(9)	–	–	–	(9)
Liabilities	(152)	(26)	(235)	(46)	(11)	(100)	(7)	(577)
Intercompany loans	111	(16)	(6)	18	(12)	(35)	(35)	25
Shareholders' funds	–	–	–	–	–	–	(150)	(150)
Balance sheet	73	39	(105)	(7)	9	78	(85)	2
Off-balance sheet	(1)	(1)	–	(9)	(2)	(1)	12	(2)
Contractual liquidity gap	72	38	(105)	(16)	7	77	(73)	–
Cumulative liquidity gap	72	110	5	(11)	(4)	73	–	–

Contractual liquidity adjustments (as discussed on page 44)

USD'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
At 31 March 2010								
Investments/trading assets*	(26)	–	–	–	17	–	9	–
At 31 March 2009								
Investments/trading assets**	(49)	–	–	–	49	–	–	–

Behavioural liquidity (as discussed on page 44)

USD'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
At 31 March 2010								
Behavioural liquidity gap	163	158	(4)	(13)	18	90	(412)	–
Cumulative	163	321	318	304	322	412	–	
At 31 March 2009								
Behavioural liquidity gap	78	96	110	32	6	80	(402)	–
Cumulative	78	174	284	316	322	402	–	

Operational risk management

Operational risk description

Operational risk is defined as the risk of loss or earnings volatility arising from inadequate or failed internal processes, people and systems, or from external events.

The board of directors and the bank's management recognises operational risk as a significant risk category, and strive to manage this within acceptable levels through the promotion of appropriate and relevant sound operational risk management practices.

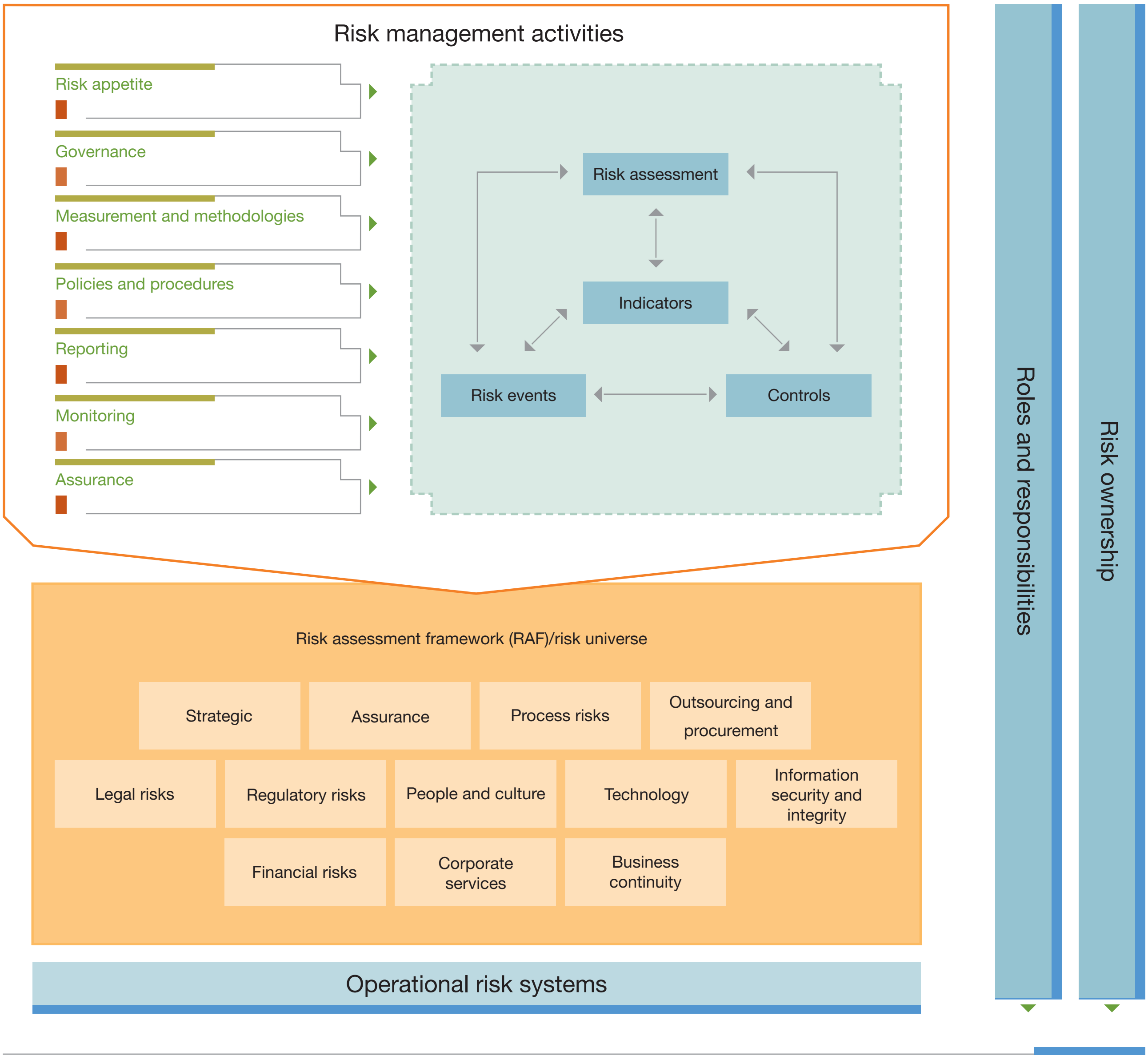
The bank has adopted The Standardised Approach to calculate the regulatory operational risk capital requirement in accordance with the Bank of Mauritius Guideline on Operational Risk Management and Capital Adequacy Determination.

Operational risk management framework

The operational risk management framework sets out a structured and consistent approach for implementing a systematic process to manage operational risk.

An operational risk system is used for the recording, identification, assessment, measurement and monitoring of operational risks. This system allows for the recording and linking of risk assessments, risk events and risk indicators where appropriate, enabling a comprehensive view, analysis and reporting of the bank's operational risk profile.

The following diagram provides an overview of the operational risk management framework



Operational risk governance structure

An independent specialist Investec group Operational Risk Management function together with the bank's Embedded Risk Manager (ERM) is responsible for establishing the framework for operational risk management, and promotes consistent and sound operational risk management policies and practices at the bank. This is in line with regulatory and stakeholder expectations.

Management and the ERM are responsible for the interaction and relationship with the various Regulators of the bank in relation to operational risk.

2

Board

The board of directors and the Audit Committee approves, monitors and reviews the operational risk framework, policies and practices of the bank.

Senior Management

The board of directors through senior management is responsible for implementing appropriate operational risk mitigation and control practices to prevent, detect and minimise the impact of significant operational risks should these materialise.

Senior management is responsible for:

- Establishing sound governance practices,
- Implementing the operational risk management framework, practices and policies,
- Promoting sound risk management practices consistent with group practices,
- Establishing a capacity and capability to manage operational risk,
- Ensuring awareness and understanding of the operational risk environment and expectations.

Embedded Risk Manager

The bank has appointed and mandated an ERM to establish, implement and maintain sound operational risk management practices in line with group operational risk management practices. The ERM is the liaison and communication link with group Operational Risk Management.

Risk appetite

The Operational Risk Appetite policy sets out the operational risk exposure that the bank is willing to accept or retain, and the required action for mitigation and escalation of operational risk exposures.

Measurement and methodologies

Operational risk identification and risk assessments

The risk assessment process is central to the operational risk management process. A qualitative risk assessment is conducted using an identified universe of operational risks contained in the Risk Assessment Framework (RAF).

The RAF is organised into risk areas and relevant associated detailed risks. A controlled operational risk exposure is determined based on an assessment of the consequence, likelihood of occurrence and the effectiveness of the relevant controls.

Surveys and publications from reliable sources are monitored and compared to the RAF to confirm relevance and completeness, and to identify emerging issues.

The assessment of risks and controls is conducted at business unit level and is subject to treatment and escalation in terms of the Operational Risk Appetite Policy, which sets out the operational risk exposure that the bank is willing to accept or retain.

Risk assessments are reviewed regularly based on the internal and external events and changes in the business environment.

Risks are assessed and considered before implementation of new products in line with the relevant policies and procedures.

Key operational risks

The following risks have been identified, through a combination of a top down and bottom up process, as key operational risks for the bank:

Area	Key operational risks	Key considerations
People	Talent	• Inability to attract and retain suitable skills and resources
Processes	Business practices	• Unsuitable products and services • Conflicts of interest
	Data or model risk	• Inaccurate and unreliable data and models
	Legal	• Inappropriate documentation and legal advice
	Regulatory compliance	• Non-adherence to laws, regulations and industry codes
	Settlement and execution	• Inadequate settlement / payment processes and systems
	Unauthorised transaction execution	• Trading outside of mandate or approved limits
Systems	Business continuity	• Unavailability of systems and processes • Inability to continue operations
	Privacy and confidentiality	• Loss of information and data assets
	Technology	• Inappropriate and unreliable technology skills and resources
External	Financial crime	• Theft or misappropriation of the financial assets of the company
	Outsourcing	• Inadequate monitoring and management of third party outsourcing relationships

The ERM together with the bank's management considered these risks and appropriate measures have been taken to mitigate and manage the exposure to these risks within acceptable levels.

Operational risk measurement

Each key operational risk has been subjected to a scenario analysis process. Various plausible, extreme, infrequent scenarios were developed and documented for each material operational risk. Scenario information was sourced from an evaluation of the external business environment, internal business considerations, internal and external event data, and controlled operational risk exposures.

The data collected through the scenario process was evaluated using a Monte Carlo simulation technique. This provided a measure of the exposure arising from the key risks and was used to determine internal operational risk capital requirements.

The operational risk capital measurement process improves awareness of operational risk and the control environment.

Operational risk events

Internal risk events are recorded in the operational risk system. Causal analysis are performed and actions are identified to mitigate and minimise losses and improve controls. Processes are in place for the monitoring and escalation of recorded events.

Operational risk indicators

The bank tracks and reports appropriate risk indicators in order to monitor and control their operational risk exposures. These are reviewed regularly to ensure that they are relevant.

Policies and practices

The bank has adopted policies and practices to ensure that operational risk is managed in an appropriate manner.

Reporting

Operational Risk Management reporting is essential to ensure that the bank's risk exposures are understood at all levels throughout the bank and the Investec group, and that resources are focused on appropriate areas.

The ERM reports to senior management on a monthly basis and submits information that allows for the relevant review of the bank's operational risk profile and for the escalation of any issues or potential failures.

Reports detailing the operational risk profile of the bank are submitted to Investec group Operational Risk Management on a monthly basis, and the bank's Audit Committee as appropriate.

The Chief Executive Officer submits a comprehensive written report to the board of directors on a quarterly basis.

Monitoring

The individual components of the Operational Risk Management Framework (risk assessments, risk events, indicators, scenario analysis etc.) are monitored on an ongoing basis by both Investec group Operational Risk Management and the ERM.

Assurance

Operational risk practices are subject to reviews by Internal Audit as well as onsite reviews by the bank's Regulators.

Developments

Supervisory interaction

Regular engagement with the SARB as well as regular interaction with Investec group Operational Risk around Standardised Approach practices enables the bank to be informed of developments and thus advance operational risk management practices.

Areas of focus include:

- Embedding more sophisticated operational risk practices.
- Business continuity capability: rigorous and ongoing simulations and readiness evaluation.
- Financial crime: initiatives to improve understanding, awareness and internal processes are in place to minimise losses and recover assets and, where appropriate, to report suspicious transactions to the relevant authorities. Developments in this area are monitored through participation in the industry fora.
- Privacy and confidentiality: ongoing focus on ensuring the confidentiality, availability and integrity of our information by identifying and reducing the risks to our information assets and systems.
- Continued attention to practices and controls relating to execution, delivery and process risks

Embedding the bank's operational risk management practices remains an ongoing activity. The framework and practices are continuously monitored and developed to ensure that they remain relevant, appropriate, adequate and in line with leading industry practices and regulatory requirements.

Insurance

The bank maintains adequate insurance to cover key insurable risks. The bank maintains insurance cover both locally in Mauritius and also relies on the insurance cover managed by Investec group.

Reputational risk

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

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

The board of directors and management are aware of the impact of practices that may result in a breakdown of trust and confidence in the organisation. The bank's policies and practices are regularly reinforced through transparent communication, accurate reporting, continuous group culture and values assessment, internal audit and regulatory compliance review, and risk management practices.

Legal risk management

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

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

Capital management and allocation

Philosophy and approach

As a consequence of the global financial crisis over the past two years, capital adequacy standards for banks globally have been raised. The bank has always held capital in excess of regulatory requirements and it intends to perpetuate this philosophy to ensure that it continues to remain well capitalised. Accordingly, the bank targets a minimum capital adequacy ratio of 13% to 17%.

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

The bank's internal (economic) capital framework is designed to manage and achieve this balance. The internal capital framework is tied to Investec group-wide disciplines surrounding:

- Risk identification, review and assessment
- Capital allocation and structuring
- Investment decision making and pricing
- Risk management, especially as it relates to the selection of deals, markets, and investment opportunities
- Performance measurement
- Risk-based incentive compensation.

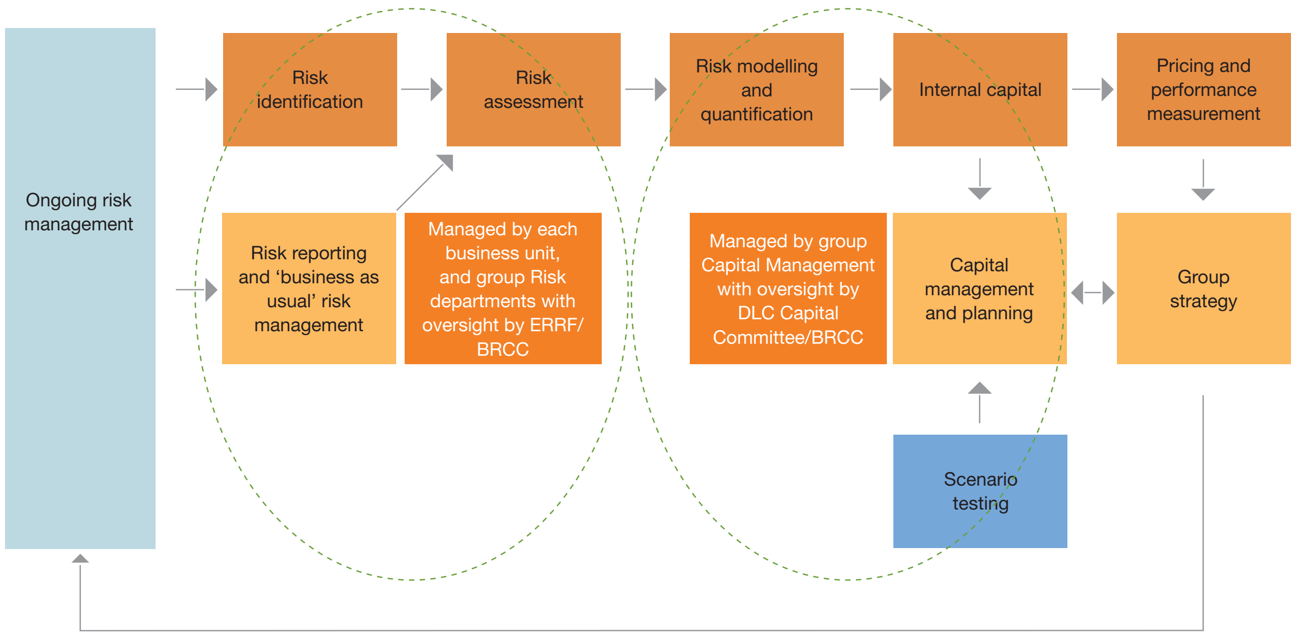
Consequently the objectives of the internal capital framework are to:

- Ensure that all identified risks are, where appropriate, incorporated into risk based pricing
- Maintain sufficient capital to satisfy the board's risk appetite across all risks faced by the bank
- Provide protection to depositors against losses arising from risks inherent in the business
- Provide sufficient capital surplus to ensure that the bank is able to retain its going concern basis under relatively severe operating conditions and support growth in assets
- Maintain sufficient capital to meet regulatory requirements
- Support the bank's growth strategy
- Allow the exploration of acquisition opportunities where such opportunities are consistent with the bank's strategy and risk appetite
- Facilitate pricing that is commensurate with the risk being taken
- Allocate capital according to the greatest expected marginal risk based return, and track performance on this basis
- Reward performance taking into account the relative levels of risk adopted.

The framework has been approved by the board and is managed by the DLC Capital Committee, which is responsible for oversight of the management of capital on a regulatory and an internal basis.

In order to achieve these objectives, the bank adheres to the following approach to the integration of risk and capital management.

The (simplified) integration of risk and capital management



Risk assessment and identification

The bank reviews the business annually to map its universe of key risks, which are ultimately reviewed and agreed by the Investec group Board Risk and Capital Committee (BRCC) following an extensive process of engagement with the bank's senior management. Key risks are then debated and agreed at senior management level and ultimately by BRCC. Assessment of the materiality of risks is directly linked to the bank's stated risk appetite and risk management policies covering all key risks.

Internal capital

Internal capital requirements are quantified by analysis of the potential impact of key risks to a degree consistent with the bank's risk appetite.

Internal capital requirements are supported by the board approved risk assessment process described above. Assessments for all risks are based on analysis of internal data, management expertise and judgment and external benchmarking.

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

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

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

Pricing and performance measurement

Internal capital is fully integrated into many key operational processes, including:

- Determining transactional risk based returns on capital
- Establishing break even pricing
- Optimising capital allocation
- Comparing risk based performance across business areas
- Forming a basis for the determination of Economic Value Added at a transactional level, and hence the basis for discretionary variable remuneration.

The use of internal capital means that all transactions are considered in the context of the impact on the allocation of the bank's capital resources, and hence on the basis of their contribution to return on risk adjusted capital. This is to ensure that expected returns are sufficient after taking recognition of the inherent risk generated for a given transaction. This approach allows the bank to embed risk and capital discipline at the level of deal initiation. This compels a wider population (beyond the formal governance committees) to understand the capital implications of business activity and ensure that risk is priced appropriately.

Capital disclosures in terms of Basel II

The tables that follow provide information as required in terms of Basel II.

Capital structure

Summary information on the terms and conditions of the main features of all capital instruments is provided in the financial statements.

USD'000	31 March 2010	31 March 2009	31 March 2008
Regulatory capital			
Tier 1			
Share capital	56 478	56 478	34 634
Retained income	143 520	78 030	89 441
Statutory reserves	28 355	16 093	15 514
Other reserves	–	(342)	(1 188)
Total Tier 1	228 353	150 259	138 401
Less: deductions	(7)	(19)	(22)
	228 346	150 240	138 379
Tier 2			
General banking reserve	573	172	817
Portfolio provisions	4 524	4 487	4 885
Redeemable preference shares	–	438	1 021
Total Tier 2	5 097	5 097	6 723
Less: deductions	(7)	(19)	(22)
	5 090	5 078	6 701
Total capital	233 436	155 318	145 080
Capital requirements	65 914	65 632	103 690
Credit risk – prescribed standardised exposure classes	57 020	55 210	92 888
Corporates	30 696	28 193	40 091
Secured on real estate property	11 985	13 962	17 016
Short term claims on institutions and corporates	7 836	9 736	30 963
Retail	504	30	273
Institutions	5 830	2 751	4 168
Other exposure classes	169	538	377
Equity risk – standardised approach	2 822	4 382	4 262
Listed equities	69	641	1 094
Unlisted equities	2 753	3 741	3 168
Aggregate net open foreign exchange position	98	–	–
Operational risk - standardised approach	5 974	6 040	6 540

2

Capital adequacy

USD'000	31 March 2010	31 March 2009	31 March 2008
Primary capital (Tier 1)	228 353	150 259	138 401
Less: deductions	(7)	(19)	(22)
	228 346	150 240	138 379
Tier 2 capital	5 097	5 097	6 723
Less: deductions	(7)	(19)	(22)
	5 090	5 078	6 701
Total capital	233 436	155 318	145 080
Risk weighted assets (banking and trading)	659 138	656 315	1 036 902
Credit risk – prescribed standardised exposure classes	570 200	552 099	928 883
Corporates	306 965	281 928	400 908
Secured on real estate property	119 846	139 617	170 157
Short term claims on institutions and corporates	78 360	97 357	309 630
Retail	5 038	298	2 728
Institutions	58 304	27 513	41 684
Other exposure classes	1 687	5 386	3 776
Equity risk – standardised approach	28 217	43 819	42 617
Listed equities	690	6 408	10 943
Unlisted equities	27 527	37 411	31 674
Aggregate net open foreign exchange position	979	–	–
Operational risk - standardised approach	59 742	60 397	65 402
Capital adequacy ratio	35.4%	23.7%	14.0%
Tier 1 ratio	34.6%	22.9%	13.3%
Capital adequacy ratio – pre operational risk	38.9%	26.1%	14.9%
Tier 1 ratio – pre operational risk	38.1%	25.2%	14.2%

Corporate governance

A number of committees and forums identify and manage risk. These committees and forums operate together with Investec group Risk Management and are mandated by the board.

While the board provides leadership based on an ethical foundation, and oversees the overall process and structure of corporate governance, the bank and its employees are responsible for acting in accordance with sound corporate governance practices.

In formulating its governance framework, the bank applies recognised corporate governance practices pragmatically so as to:

- Build and sustain an ethical corporate culture in the company
- Identify and mitigate significant risks, including reputational risk
- Exercise effective review and monitoring of its activities
- Promote informed and sound decision making
- Enable effectiveness, efficiency, responsibility and accountability
- Enhance the capital markets and other stakeholders' perception of the bank
- Facilitate legal and regulatory compliance
- Secure trust and confidence of all stakeholders
- Protect its brand and reputation
- Ensure sustainable business practices, including social and environmental activities
- Disclose the necessary information to enable all stakeholders to make a meaningful analysis of the financial position and actions
- Respond appropriately to changes in market conditions and the business environment
- Remain at the forefront of international corporate governance practices.

The values and philosophies of the bank are the framework against which behaviour and practices are measured inorder to assess the characteristics of good governance. These values require that directors and employees behave with integrity, displaying consistent and uncompromising moral strength and conduct in order to promote and maintain trust.

Sound corporate governance is implicit in the bank's values, culture, processes, functions and organisational structure. Structures are designed to ensure that the values remain embedded in all businesses and processes. The bank continually refines these structures and a written Statement of Values serves as its Code of Ethics.

Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

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

In undertaking this responsibility, the directors are supported by an ongoing process for identifying, evaluating and managing the significant risks that the bank faces in preparing the financial and other information contained in this annual report. This process was in place for the year under review and up to the date of approval of the annual report and financial statements. The process is implemented by management and independently monitored for effectiveness by the Audit, Risk and other sub-committees of the board.

The significant risks that the bank faces include risks flowing from the instability in the global financial market and recent economic environment that could affect the bank's businesses, earnings and financial condition.

The bank's financial statements are prepared on a going concern basis, taking into consideration:

- The group's strategy and prevailing market conditions and business environment
- Corporate governance practices
- Accounting policies adopted
- Desire to provide relevant and clear disclosures
- Nature and complexity of the business
- Risks the bank assumes, and its management and mitigation
- Key business and control processes in operation
- Operation of board committee support structures
- Operational soundness
- Credit rating and access to capital
- Needs of all its stakeholders.

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

Board of directors

Four board meetings were held during the year and all five directors were in attendance at each meeting.

The board is accountable for the performance and affairs of the bank. It provides entrepreneurial leadership for the bank within a framework of prudent and effective controls which allows risks to be assessed and managed. Specifically, the board is responsible for the adoption of strategic plans, monitoring of operational performance and management, ensuring an effective risk management strategy, compliance with applicable legislation, upholding corporate governance standards and succession.

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

The board has defined the limits of delegated authority. It is responsible for assessing and managing risk policies and philosophies, ensuring appropriate internal controls, overseeing major capital expenditure and approving the introduction of new products and services.

In fulfilling its responsibilities, the board is supported by management in implementing the plans and strategies approved by the board. The board monitors and evaluates management's progress on an ongoing basis.

Furthermore, directly or through its sub-committees, the board:

- Assesses the quantitative and qualitative aspects of the bank's performance through a comprehensive system of financial and non-financial monitoring involving an annual budget process, detailed monthly reporting, regular review of forecasts and regular management strategic and operational updates
- Approves annual budgets, capital plans, projections and business plans
- Monitors compliance with relevant laws, regulations and codes of business practice
- Monitors communication with all stakeholders and disclosures made to ensure transparent and effective communication with stakeholders
- Identifies and monitors key risk areas and key performance indicators
- Reviews processes and procedures to ensure the effectiveness of the internal systems of control
- Ensures the bank adopts sustainable business practices, including its social and environmental activities
- Assisted by the Audit Committee, ensures the appropriate information technology (IT) governance processes are in place, the implementation of which management are responsible for, and ensuring that the process is aligned to the performance and sustainability objectives of the board
- Monitors and evaluates significant IT investments and expenditure
- Ensures information assets are managed effectively
- Ensures the appropriate risk governance processes, including IT, are in place including continual risk monitoring by management, determines the levels of risk tolerance and that risk assessments are performed on a continual basis

- Ensures the integrity of the company's annual report, which includes sustainability reporting
- Ensures the induction of, and ongoing training and development of, directors
- Evaluates the performance of senior management and considers succession planning.

The board seeks to exercise leadership, integrity and judgement in pursuit of strategic goals and objectives, to achieve long-term sustainable growth and prosperity.

The majority of the board members are non-executive directors. The board of the bank comprises five members; three directors are independent external directors while one director is employed full time by the Investec group. Three of the directors are resident in Mauritius. Four board meetings were held during the financial year under review.

2

Management and succession planning

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

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

Internal control

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The Investec group's Board Risk and Capital Committee and the Audit Committee assist the board in this regard. The board recognises its responsibility for the overall risk and control framework and for reviewing its effectiveness.

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

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

Internal financial controls

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

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

External audit

Ernst & Young are the bank's external auditors. The independence of the external auditors is reviewed by the Audit Committee each year. The Audit Committee meets with the external auditors to review the scope of the external audit, budgets, the extent of non-audit services rendered and all other audit matters.

The external auditors are invited to attend Audit Committee meetings and have access to the Chairman of the Audit Committee.

Regulation and supervision

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

Values and code of conduct

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

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

Human resources and remuneration policy

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

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

Internal audit

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

A representative of Group's Internal Audit reports at each Audit Committee meeting and has a direct reporting line to the Chairman of the Audit Committee. He operates independently of executive management but has access to the Chief Executive Officer and the Chairman of the Audit Committee.

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

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

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

Compliance

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

The Compliance function ensures that the bank continuously complies with existing and emerging regulation impacting on its operations. The bank recognises its responsibility to conduct business in accordance with the laws and regulations of the country and areas in which it operates. The Compliance function is supported by Group Compliance and the Compliance Officer of the bank.

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

The bank's Compliance Officer reports to the Chief Executive Officer, as well as to the Group head of Compliance and the Audit Committee. The bank's Compliance Officer provides regular training to ensure that all employees are familiar with their regulatory obligations. The bank's Compliance Officer also provides advice on regulatory issues. The bank's Compliance Officer works closely with business and operational units to ensure consistent management of compliance risk.

Our Business Responsibilities (OBR)

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 Mauritian Rupee book profit of the preceding financial year to Government approved CSR projects.

The bank has successfully met its CSR obligations and provided funding towards the following projects:

- Tranquebar Rangers Volley Ball Club under the focal area of sports development – the Club operates from the Women's centre located at the Guy Rozemont Government School in Tranquebar (being a disadvantage area in the Port Louis region of the island). The Club has done exceptionally well this year and the bank will be supporting them on an ongoing basis.
- Mauritius Wildlife Foundation (MWF) under the focal area of conservation education - the bank has financed an education pack as part of an awareness programme on nature conservation targeted at the Mauritian school children (mainly from underprivileged areas). The programme includes outings to Ile aux Aigrettes to form part of the curriculum-linked topic work. Ile aux Aigrettes is an islet in the Southern region of the island which is being managed by MWF as a nature restoration project including awareness and education activities.

The bank has already participated in the financing of a wind farms in both Australia and in the USA and intends, where possible, to continue its involvement in financing green initiatives.

In terms of the bank's non-financial green endeavours, it continues to reduce the size of its overall environmental footprint in terms of water, paper, energy and waste usage. A number of initiatives have been rolled out internally at the bank in order to reduce, re-use and recycle.

Signed on behalf of the board

David M Lawrence Chairman	Pierre de Chasteigner du Mée Director	Craig C McKenzie Chief Executive Officer

23 June 2010

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Statement of management's responsibility for financial reporting

The financial statements in this annual report have been prepared by management, which is responsible for their integrity, consistency, objectivity and reliability. International Financial Reporting Standards of the International Accounting Standards Board as well as the requirements of the Banking Act 2004 and the guidelines issued thereunder have been applied and management has exercised its judgement and made best estimates where deemed necessary.

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

The bank's board of directors, acting in part through the Audit Committee and Conduct Review and Risk Policy Committee, which comprise independent directors, oversees management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

The bank's internal auditor, who has full and free access to the Audit Committee, conducts a well-designed program of internal audits in coordination with the bank's external auditors. 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, Ernst & Young, have full and free access to the board of directors and its committees to discuss the audit and matters arising therefrom, such as their observations on the fairness of financial reporting and the adequacy of internal controls.

David M Lawrence
Chairman

Pierre de Chasteigner du Mée
Director

Craig C McKenzie
Chief Executive Officer

23 June 2010

Secretary's report

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

Prithiviraj Jeewooth
Secretary

23 June 2010

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

Report on the financial statements

We have audited the financial statements of Investec Bank (Mauritius) Limited (the bank) on pages 66 to 124 which comprise the statement of financial position as at 31 March 2010 and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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 Mauritian Companies Act 2001 and Banking Act 2004. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 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 auditor's 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.

Opinion

In our opinion, the financial statements on pages 66 to 124 give a true and fair view of the financial position of the bank as of 31 March 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001.

Other matter

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

Report on other legal and regulatory requirements

Companies Act 2001

We have no relationship with or interests in the bank other than in our capacity as auditors, tax advisors and dealings with the bank in the ordinary course of business.

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 2004

In our opinion, the financial statements have been prepared on a consistent basis and are complete, fair and properly drawn up and comply with the Banking Act 2004 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.

Ernst & Young

Andre Lai Wan Loong, A.C.A

Ebene
Mauritius

23 June 2010

Income statement

For the year to 31 March USD'000	Notes	2010	2009	2008
Interest income	3	51 606	75 070	84 297
Interest expense	4	(14 454)	(29 510)	(40 323)
Net interest income		37 152	45 560	43 974
Fee and commission income	5	4 658	2 342	2 618
Fee and commission expense	5	(1 790)	(2 338)	(416)
Net fee and commission income		2 868	4	2 202
Net trading income/(loss)	6	65 006	16 577	(12 535)
Net (loss)/gain on financial instruments designated at fair value through profit or loss	7	(12 131)	(40 974)	6 715
Other income	8	55	3 136	–
Total operating income		92 950	24 303	40 356
Impairment loss on held-to-maturity financial assets	9	(1 184)	(5 204)	–
Impairment reversals/(losses) on loans and advances	10	1 060	(1 280)	(13 276)
Impairment loss on investment in an associate	11	(2 184)	(6 985)	–
Net operating income		90 642	10 834	27 080
Personnel expenses	12	(4 038)	(3 865)	(3 729)
Depreciation of equipment	24	(144)	(94)	(102)
Other operating expenses	13	(3 470)	(2 473)	(3 597)
Total operating expenses		(7 652)	(6 432)	(7 428)
Profit before income tax		82 990	4 402	19 652
Income tax expense	14	(1 245)	(542)	(1 008)
Profit for the year		81 745	3 860	18 644
Analysed as follows:				
Transfer to statutory reserve		12 262	579	2 796
Transfer to retained earnings		69 483	3 281	15 848
Profit attributable to equity holder of the bank		81 745	3 860	18 644
		USD	USD	USD
Earnings per share (basic and diluted)	15	1.45	0.01	0.07

Statement of comprehensive income

For the year to 31 March USD'000	2010	2009	2008
Profit for the year	81 745	3 860	18 644
Other comprehensive income/(loss):			
Fair value movements on available for sale assets	342	677	(1 312)
Exchange difference resulting from the use of a presentation currency other than the functional currency on:			
– Stated capital	–	(3 156)	(4 185)
– Available for sale reserve	–	169	(14)
– Foreign currency translation reserve	–	2 050	(1 127)
– General banking reserve	–	(113)	(82)
– Retained earnings	–	(17 274)	(11 633)
	–	(18 324)	(17 041)
Total other comprehensive income/(loss)	342	(17 647)	(18 353)
Total comprehensive income for the year	82 087	(13 787)	291
Attributable to:			
Equity holder of the bank	82 087	(13 787)	291

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Statement of financial position

As at 31 March USD'000	Notes	2010	2009	2008
Assets				
Cash and balances with central bank	17	5 851	2 492	1 221
Due from banks	18	366 057	148 630	69 676
Derivative financial instruments	19	62 953	26 328	15 576
Investment securities	20	40 024	64 305	122 986
Amount due from holding bank	37	48 837	92 000	83 116
Amount due from group companies	37	46 413	116 259	65 381
Loans and advances to customers	21	511 458	461 137	824 782
Investment in associates	22	4 000	2 184	10 155
Investment in subsidiaries	23	15	38	44
Equipment	24	678	230	242
Deferred tax assets	14	162	326	202
Other assets	25	980	1 190	1 133
Total assets		1 087 428	915 119	1 194 514
Liabilities				
Deposits by banks	26	79 906	105 747	100 656
Securities sold under repurchase agreement with bank		–	898	1 497
Derivative financial instruments	19	27 173	22 182	39 752
Amount due to holding bank	37	219 543	134 394	410 184
Amount due to group companies	37	34 446	49 069	86 611
Due to customers	27	488 145	439 739	396 444
Debt securities in issue	28	–	2 190	2 554
Current tax liabilities	14	980	1 235	836
Other liabilities	29	8 309	9 234	16 762
Total liabilities		858 502	764 688	1 055 296
Equity				
Stated capital	31	56 478	56 478	34 634
Available-for-sale reserve	32	–	(342)	(1 188)
Foreign currency translation reserve	32	–	(255)	(2 305)
Other reserves	32	28 928	16 265	16 331
Retained earnings		143 520	78 285	91 746
Total equity		228 926	150 431	139 218
Total liabilities and equity		1 087 428	915 119	1 194 514

David M Lawrence
Chairman

Pierre de Chasteigner du Mée
Director

Craig C McKenzie
Chief Executive Officer

23 June 2010

Statement of changes in equity

USD'000	Stated capital	Available-for-sale reserve	Foreign currency translation reserve	General banking reserve	Statutory reserve	Retained earnings	Total
At 1 April 2007	38 819	138	(1 178)	761	12 718	87 669	138 927
Movement in reserves 1 April 2007 – 31 March 2008							
Total comprehensive income							
Profit for the year	–	–	–	–	–	18 644	18 644
Other comprehensive loss	(4 185)	(1 326)	(1 127)	(82)	–	(11 633)	(18 353)
Total comprehensive income for the year	(4 185)	(1 326)	(1 127)	(82)	–	7 011	291
Transfer to statutory reserve	–	–	–	–	2 796	(2 796)	–
Appropriations to other reserves	–	–	–	138	–	(138)	–
At 31 March 2008	34 634	(1 188)	(2 305)	817	15 514	91 746	139 218
At 1 April 2008	34 634	(1 188)	(2 305)	817	15 514	91 746	139 218
Movement in reserves 1 April 2008 – 31 March 2009							
Total comprehensive income							
Profit for the year	–	–	–	–	–	3 860	3 860
Other comprehensive loss	(3 156)	846	2 050	(113)	–	(17 274)	(17 647)
Total comprehensive income for the year	(3 156)	846	2 050	(113)	–	(13 414)	(13 787)
Transfer to statutory reserve	–	–	–	–	579	(579)	–
Appropriations to other reserves	–	–	–	(532)	–	532	–
Issue of ordinary shares	25 000	–	–	–	–	–	25 000
At 31 March 2009	56 478	(342)	(255)	172	16 093	78 285	150 431
At 1 April 2009	56 478	(342)	(255)	172	16 093	78 285	150 431
Movement in reserves 1 April 2009 – 31 March 2010							
Total comprehensive income							
Profit for the year	–	–	–	–	–	81 745	81 745
Other comprehensive income	–	342	255	–	–	(255)	342
Total comprehensive income for the year	–	342	255	–	–	81 490	82 087
Transfer to statutory reserve	–	–	–	–	12 262	(12 262)	–
Appropriations to other reserves	–	–	–	401	–	(401)	–
Ordinary dividends	–	–	–	–	–	(3 592)	(3 592)
At 31 March 2010	56 478	–	–	573	28 355	143 520	228 926

Cash flow statement

For the year to 31 March USD'000	Notes	2010	2009	2008
Operating activities				
Profit before tax		82 990	4 402	19 652
Adjustments for:				
Change in operating assets	34	273 636	155 530	(412 802)
Change in operating liabilities	34	(126 004)	(128 244)	397 175
Non-cash item included in profit before tax	34	(99 406)	36 017	9 712
Income tax paid		(1 594)	(141)	(1 435)
Net cash flows from operating activities		129 622	67 564	12 302
Investing activities				
Purchase of investment securities		(4 000)	(2 245)	(3 015)
Proceeds on disposal of investment securities		13 050	122	4 881
Purchase of equipment	24	(592)	(125)	(178)
Proceeds on disposal of equipment		14	18	–
Net cash flows from/(used in) investing activities		8 472	(2 230)	1 688
Financing activities				
Issue of ordinary shares		–	25 000	–
Dividend paid		(3 592)	–	–
Net cash flows (used in)/ from financing activities		(3 592)	25 000	–
Net increase in cash and cash equivalents		134 502	90 334	13 990
Cash and cash equivalents at beginning of the year		151 122	70 897	63 782
Effect of exchange rate changes on cash and cash equivalents		44 259	(10 109)	(6 875)
Cash and cash equivalents at end of the year	34	329 883	151 122	70 897

1. Corporate information

Investec Bank (Mauritius) Limited (the bank) is a public company incorporated and domiciled in the Republic of Mauritius on 20 April 1990. The bank's principal activity is the provision of banking facilities. Its registered office was situated on the 7th Floor, Harbour Front Building, President John Kennedy Street, Port Louis, Mauritius up to 1 November 2009. As from 2 November 2009, the registered office of the bank is Office 660, 6th floor, Dias Pier Building, Le Caudan Waterfront, Port Louis, Mauritius.

The financial statements for the year ended 31 March 2010 were authorised for issue in accordance with a resolution of the directors on 23 June 2010.

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for available for sale investments, derivative financial instruments and financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value. All values are rounded to the nearest USD thousand except where otherwise indicated.

Statement of compliance

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

The bank does not prepare consolidated financial statements since it satisfies the criteria for exemption under IAS 27 paragraph 10. The bank is wholly owned by Investec Bank Limited which prepares consolidated financial statements that comply with International Financial Reporting Standards. Investec Bank Limited is incorporated in the Republic of South Africa and its registered office, where the consolidated financial statements are obtainable, is in Sandton.

Presentation of information

Some disclosures under IFRS 7 - Financial Instruments: Disclosures and IAS 1 - Presentation of Financial Statements, relating to the nature and extent of risks, have been, included in the Risk management report on pages 12 to 55 in sections marked as audited.

2.2 Significant accounting judgements and estimates

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement 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 33 to the financial statements.

Impairment losses on loans and advances

The bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, 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 bank makes 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 and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio, concentrations of risks and economic data.

Impairment of financial assets – Held-to-maturity

The bank reviews its debt securities classified as held-to-maturity assets at each reporting date to assess whether they are impaired. They require similar judgement as applied to the individual impairment assessment of loans and advances above.

In performing the annual impairment assessment, management has considered it necessary to impair a financial asset – held-to-maturity by 50% of the outstanding balance at year-end. The impairment loss on financial assets – held-to-maturity is disclosed in more detail in note 20.

Impairment of investment in associate

The bank reviews its investment in associates at each reporting date to assess whether they are impaired. They require similar judgement as applied to the individual impairment assessment of loans and advances above.

In performing the annual impairment assessment, management has considered it necessary to impair an investment in associate based on its financial performance. The impairment of investment in associate is detailed in note 22.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Going concern

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

2.3 Change in accounting policies

The accounting policies adopted are consistent with those used in the previous financial year except that the bank has adopted the following standards and interpretations. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the bank.

Change in functional currency

Prior to the year ended 31 March 2009, the bank's functional currency was the South African Rand (ZAR) but the financial statements were presented in United States Dollars (USD). Following changes to major underlying transactions, events and conditions, a strategic decision was taken by the board of directors whereby the bank changed its functional currency from ZAR to USD as from 1 April 2009. Thus, as from 1 April 2009, the bank's functional and presentation currency is the USD.

IFRS 8 – Operating Segments

IFRS 8 was issued in November 2006, which replaced IAS 14 – Segment Reporting, and is effective for annual periods beginning on or after 1 January 2009. The standard requires disclosure of information about the bank's operating segments on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. Adoption of this standard did not have any impact on the bank's financial position or performance and the disclosures are shown in note 39.

IFRS 7 – Improving Disclosures about Financial Instruments, an amendment to IFRS 7

The bank has applied the improvement that requires enhanced disclosures about financial instruments. The amended standard requires additional disclosure about fair value measurement and liquidity risk.

IAS 1 – Presentation of Financial Statements (revised)

Adoption of this standard has resulted in the reformatting of the statement of total recognised gains and losses into a statement of comprehensive income.

These changes have had no impact on the recognition and measurement policies applied by the bank.

2.4 Summary of significant accounting policies

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

(a) Foreign currency translation

Prior to the year ended 31 March 2009, the bank's functional currency was considered to be the South African Rand and the financial statements were presented United States Dollars in accordance with the requirements of the Bank of Mauritius. As from 1 April 2009, the bank has changed its functional currency to USD. The presentation currency remains the USD.

Transactions and balances

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All differences are taken to 'Net trading income or loss' in the income statement.

(b) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

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

(ii) Initial recognition of financial instruments

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

(iii) Derivatives recorded at fair value through profit or loss

The bank uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, total return swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held-for-trading are included in 'Net trading income or loss'.

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

(iv) Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net trading income or loss'. Interest and dividend income or expense is recorded in 'Net trading income or loss' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and short positions and customer loans which have been acquired principally for the purpose of selling or repurchasing in the near term.

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

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

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

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net loss or gain on financial instruments designated at fair value through profit or loss'. Relevant interest earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while any dividend income is recorded in 'Other income' when the right to the payment has been established.

Included in this classification are loans and advances to customers which are economically hedged by credit derivatives and do not qualify for hedge accounting, as well as notes issued which are managed on a fair value basis.

(vi) 'Day 1'profit

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

(vii) Available for sale financial assets

Available for sale financial assets include debt securities. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised as other comprehensive income in the 'Available for sale reserve' until the investment is derecognised. When the investment is disposed of, the cumulative gain or loss previously recognised in as other comprehensive income is recognised in the income statement in 'Other operating income'. Where the bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis.

Interest earned whilst holding available for sale financial assets is reported as interest income using the EIR. The losses arising from impairment of such assets are recognised in the income statement and removed from the 'available for sale reserve'.

(viii) Held-to-maturity financial assets

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

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

(ix) Due from banks and loans and advances to customers

'Due from banks' and 'Loans and advances to customers', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

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

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognised in the income statement in 'Impairment losses on loans and advances'.

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

(x) Debt securities in issue

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

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

An analysis of the banks issued debt is disclosed in note 28 to the financial statements.

(xi) Reclassification of financial assets

Effective from 1 July 2008, the bank may reclassify, in certain circumstances, non-derivative financial assets out of the 'Held-for-trading' category and into the 'Available for sale', 'Loans and receivables', or 'Held-to-maturity' categories. From this date it may also reclassify, in certain circumstances, financial instruments out of the 'Available for sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The bank may reclassify a non-derivative trading asset out of the 'Held-for-trading' category and into the 'Loans and receivables' category if it meets the definition of loans and receivables and the bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

For a financial asset reclassified out of the 'Available for sale' category, any previous gain or loss on that asset that has been recognised as comprehensive income is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in other comprehensive income is recycled to the income statement.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

(c) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the bank's continuing involvement is the amount of the transferred asset that the bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) Financial liabilities

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

(d) Repurchase agreements

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

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the bank reclassifies those securities in its statement of financial position to 'Financial assets held-for-trading pledged as collateral' or to 'Financial investments available for sale pledged as collateral', as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Cash collateral on securities borrowed and reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

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

(e) Securities lending and borrowing

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

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

3

(f) Determination of fair value

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

(g) Impairment of financial assets

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

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

(i) Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available for sale financial assets

For available for sale financial assets, the bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available for sale, the bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(iii) Renegotiated loans

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

(h) Offsetting financial instruments

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

(i) Recognition of income and expenses

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

(i) Interest and similar income and expenses

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

However, for a reclassified financial asset for which the bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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

(ii) Fee and commission income

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

Fee income earned from services that are provided over a certain period of time.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and raising fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(iii) Dividend income

Revenue is recognised when the bank's right to receive the payment is established.

(iv) Net trading income or loss

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'Held-for-trading'. This includes any ineffectiveness recorded in hedging transactions.

(j) Cash and cash equivalents

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

For the purpose of the cash flow statement, cash and cash equivalents are shown net of overdrafts.

(k) Investment in associates

An associate is an entity in which the bank has significant influence and which is neither a subsidiary nor a joint venture. Investment in associates is accounted for at cost. The bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the bank calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount in the income statement.

(l) Equipment

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

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

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

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

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

(m) Impairment of non-financial assets

The bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

(n) Financial guarantees

In the ordinary course of business, the bank gives financial guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in liability relating to financial guarantees is taken to the income statement in 'Impairment loss'. The premium received is recognised in the income statement in 'Fees and commission income' on a straight-line basis over the life of the guarantee.

(o) Pension benefits

Defined contribution pension plan

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

(p) Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

(q) Taxes

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

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

(iii) Value added tax

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

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

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

(r) Dividends on ordinary shares

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

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

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(s) Equity reserves

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

- 'Available for sale reserve' which comprises changes in fair value of available-for-sale assets;
- 'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- 'Statutory reserve' which represents 15% of the net profit transferred in accordance with the Banking Act 2004; and
- 'General banking reserve' which comprises amounts set aside for general banking risks.

(t) Segment reporting

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

Segment B

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

Segment A

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

(u) Standards and interpretations not yet effective

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the bank. These standards and interpretations have not been applied in these financial statements. The bank intends to comply with these standards from the effective dates.

New standards

IFRS 9 – Financial Instruments (applicable for reporting periods beginning on or after 1 January 2013)

The International Accounting Standards Board (IASB) has issued IFRS 9 – Financial Instruments, which is the first step in its project to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets. The IASB expanded IFRS 9 during 2010 to add new requirements for the classification and measurement of financial liabilities and impairments of financial assets. Future amendments will address the derecognition of financial instruments and hedge accounting. The implementation of the standard is expected to have a material impact on the bank. The bank is currently evaluating the impact of the adoption of the current requirements of the standard. The standard is effective for the bank for the year commencing 1 April 2014.

Revised IFRS 3 – Business Combinations and Consequential Amendments to IAS 27 – Consolidated and Separate Financial Statements (applicable for financial years beginning on or after 1 July 2009)

The main changes to the standard that affects the bank's current policies is that acquisition related costs are expensed in the income statement in the periods in which the costs are incurred and the services received, except for costs related to the issue of debt (recognised as part of the effective interest rate) and the cost of issue of equity (recognised directly in shareholders' equity). Currently the bank recognises acquisition costs as part of the purchase consideration. The standard will be effective for the bank for the year commencing 1 April 2010.

IAS 24 – Related Parties (applicable for financial years beginning on or after 1 January 2011)

The amended standard requires commitments, as well as the nature of the relationship between related parties to be identified and disclosed. The amended standard gives clarity to the related party definition and other terms in the standard.

The standard will be effective for the bank for the year commencing 1 April 2011.

Amendments to IAS 32 – Classification of Rights Issues (applicable for financial years beginning on or after 1 February 2010)

The amendment states that rights, options and warrants – otherwise meeting the definition of equity instruments in IAS 32.11– issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer is made pro rata to all existing owners of the same class of the entity's own non-derivative equity instruments.

The amendment is effective for the bank for the annual periods commencing on or after 1 April 2010 and is not expected to have a significant impact on the bank.

Other

There were numerous updates issued, which are considered by the IASB to be non-urgent but important. None of these updates will results in a change to the accounting policies of the bank.

The following standards or interpretations have been issued or amended which are deemed to have no impact on the group financial statements but have not been formally adopted by the bank:

- IFRS 5 – Discontinued Operations
- IFRS 2 – Group Cash Settled Share Based Transactions
- IAS 17 – Leases
- IAS 38 – Intangible Assets
- IAS 18 – Revenue
- IAS 36 – Impairment of Assets
- IAS 39 – Financial Instruments Recognition and Measurement
- IFRIC 9 – Reassessment of Embedded Deriavatives
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 – Distribution of Non-Cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers

For the year to 31 March USD'000	2010	2009	2008
3. Interest income			
Due from banks	407	999	6 281
Loan and advances to customers	35 810	49 916	51 090
Held-to-maturity financial assets	777	2 360	2 926
Interest income from group companies	9 140	13 515	13 804
Financial assets designated at fair value through profit or loss	5 472	8 280	10 196
	51 606	75 070	84 297

For the year to 31 March USD'000	2010	2009	2008
4. Interest expense			
Deposits by banks	736	3 082	5 492
Repurchase agreements	–	30	139
Due to customers	4 924	10 777	17 125
Debt securities in issue	497	1 269	1 371
Interest expense to group companies	8 297	14 352	16 196
	14 454	29 510	40 323

For the year to 31 March USD'000	2010	2009	2008
5. Net fee and commission income			
Fee and commission income			
Portfolio and other management fees	–	–	307
Credit related fees and commissions	4 091	2 285	824
Brokerage fees received	311	55	766
Other fees received	256	2	721
Total fee and commission income	4 658	2 342	2 618
Fee and commission expense			
Brokerage fees paid	(13)	(14)	(389)
Portfolio and other management fees	(1 710)	(1 910)	–
Other fees paid	(67)	(414)	(27)
Total fee and commission expense	(1 790)	(2 338)	(416)
Net fee and commission income	2 868	4	2 202

For the year to 31 March USD'000	2010	2009	2008
6. Net trading income/(loss)			
Changes in fair value of derivative financial instruments	16 002	15 417	(6 584)
Foreign exchange gain/(loss)	2 015	1 160	(5 953)
Foreign exchange gain realised on change in functional currency	46 989	–	–
Other	–	–	2
	65 006	16 577	(12 535)

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

For the year to 31 March USD'000	2010	2009	2008
7. Net (loss)/gain on financial instruments designated at fair value through profit or loss			
The fair value gains and losses arise on:			
Debt securities	(19 255)	(23 234)	(715)
Equities	7 124	(17 740)	7 430
	(12 131)	(40 974)	6 715

For the year to 31 March USD'000	2010	2009	2008
8. Other income			
Profit on disposal of a loan	–	3 136	–
Profit on disposal of equipment	14	–	–
Profit on disposal of a subsidiary	41	–	–
	55	3 136	–

For the year to 31 March USD'000	2010	2009	2008
9. Impairment loss on held-to-maturity financial assets			
Movement in allowance for credit impairment loss	–	(5 204)	–
Debt written off	(1 184)	–	–
	(1 184)	(5 204)	–

For the year to 31 March USD'000	2010	2009	2008
10. Impairment reversals/(losses) on loans and advances			
Movement in allowance for credit impairment income/(loss)	1 060	(415)	(353)
Debts written off	–	(865)	(12 923)
	1 060	(1 280)	(13 276)

All the above arose on entities outside Mauritius.

For the year to 31 March USD'000	2010	2009	2008
11. Impairment loss on investment in an associate			
Movement in allowance for impairment loss	(2 184)	(6 985)	–
	(2 184)	(6 985)	–

For the year to 31 March USD'000	2010	2009	2008
12. Personnel expenses			
Wages and salaries	3 659	3 746	3 515
Pension costs - Defined contribution plan	64	48	42
Other benefits	315	71	172
	4 038	3 865	3 729

For the year to 31 March USD'000	2010	2009	2008
13. Other operating expenses			
Advertising and marketing	8	22	45
Administrative expenses	3 334	2 305	3 231
Professional fees	128	146	119
Other	–	–	202
	3 470	2 473	3 597

For the year to 31 March USD'000	2010	2009	2008
14. Taxation			
Balance sheet			
Income tax liability:			
Current year	1 614	660	836
Prior year	51	675	–
Tax paid under Advance Payment Scheme	(685)	(100)	–
	980	1 235	836
Income statement			
The components of income tax expense for the years ended 31 March 2010, 2009 and 2008 are:			
Current income tax	1 614	660	836
Corporate social responsibility	65	–	–
Adjustment in respect of current income tax of prior years	(696)	–	65
Deferred tax			
Relating to origination and reversal of temporary differences	164	(124)	14
Exchange difference	98	6	93
Income tax expense reported in the income statement	1 245	542	1 008
Reconciliation of the total tax charge			
A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 March 2008, 2009 and 2010 is as follows:			
Accounting profit before tax	82 990	4 402	19 652
At statutory income tax rate of 15% (2009 and 2008: 15%)	12 449	660	2 948
Foreign tax credit	(9 959)	(528)	(2 358)
Special levy	728	55	117
Income not subject to tax	(2 246)	(472)	(26)
Non deductible expenses	273	827	327
Income tax expense reported in the income statement	1 245	542	1 008
Effective income tax rate	2%	12%	5%

The corporate tax rate of the bank is 15%. The bank benefits from a presumed foreign tax credit of 80% on its local tax payable in so far as it relates to income earned from non-residents.

Tax paid under Advance Payment Scheme

The Finance Act 2007 introduced an Advance Payment System (APS) whereby companies having a turnover of 100 million Mauritian Rupee or more are required to file a quarterly corporate tax return as from 1 July 2008. With the introduction of APS, a transitional rule was introduced to alleviate the cash flow impact so that the total tax liability for the income year ended 30 June 2008 could be settled in three equal installments.

14. Taxation (continued)

Corporate social responsibility

Corporate social responsibility (CSR) was legislated by the Government of Mauritius in July 2009. In terms of the legislation, the bank is required to allocate 2% of its Mauritian Rupee book profit of the preceding financial year to government approved CSR projects.

For the year to 31 March USD'000	2010			2009			2008		
	Deferred tax asset	Deferred tax liability	Income statement	Deferred tax asset	Deferred tax liability	Income statement	Deferred tax asset	Deferred tax liability	Income statement
The movement on deferred income tax account is as follows:									
Provisions for credit impairment	142	–	(173)	315	–	125	190	–	(7)
Other temporary differences:						–			–
– Accelerated tax depreciation	4	–	4	–	–	1	–	(1)	–
– Deferred fees income	16	–	5	11	–	(2)	13	–	(7)
	162	–	(164)	326	–	124	203	(1)	(14)

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For the year to 31 March USD'000	2010	2009	2008
15. Earnings per share			
Basic earnings per share is calculated by dividing the profit for the year attributable to the ordinary equity holder of the bank by the weighted average number of ordinary shares outstanding during the year.			
The following table shows the income and share data used in the basic earnings per share calculation:			
Profit for the year	81 745	3 860	18 644
Weighted average number of ordinary shares ('000)	56 478	359 570	281 630
Earnings per share (basic and diluted) - USD	1.45	0.01	0.07
The number of shares decreased following a shareholder's resolution to change the denomination of the stated capital from South African Rands (ZAR) to United State Dollars (USD). For more details see note 31.			

For the year to 31 March USD'000	2010	2009	2008
16. Dividend paid and proposed			
Declared and paid during the year			
Equity dividends on ordinary shares:			
Final dividends for 2010: USD 0.06 per share (2009 and 2008: Nil)	3 592	–	–

For the year to 31 March USD'000	2010	2009	2008
17. Cash and balances with central bank			
Cash in hand	1	–	1
Current account with the central bank	5 850	2 492	1 220
	5 851	2 492	1 221

For the year to 31 March USD'000	2010	2009	2008
18. Due from banks			
Placements with other banks (note 39)	324 032	148 630	69 676
Loans and advances	42 025	–	–
	366 057	148 630	69 676

19. Derivative financial instruments (continued)

The table shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

At 31 March USD'000	2010			2009			2008		
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Derivatives held-for-trading									
Interest rate swaps	4 458	(1 570)	137 846	3 703	(4 608)	105 495	914	(2 556)	127 989
Currency swaps	2 253	(3 447)	17 723	5 629	(13 183)	71 097	1 416	(17 907)	82 666
Forward foreign exchange contracts	780	(7 418)	176 954	7	(2 255)	58 028	1 780	(12 358)	227 779
Equity derivative - Options	26 279	(14 738)	192 307	8 927	(1 757)	9 458	–	(6 927)	11 031
Embedded derivative - Equity kickers	29 180	–	–	8 022	–	–	6 445	–	–
Credit default swaps	–	–	–	37	–	46 898	8	(4)	289 303
Total return swap	–	–	–	–	(379)	–	–	–	–
Credit link note	3	–	5 004	3	–	5 007	5 013	–	5 000
	62 953	(27 173)	529 834	26 328	(22 182)	295 983	15 576	(39 752)	743 768

As of 31 March 2010, the bank has positions in the following types of derivatives:

Forwards

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

Swaps

Swaps are contractual agreements between two parties to exchange streams of payment over time based on specified notional amounts in relation to movements in interest rate, foreign currency rate or equity index. In the case of a credit default swap, it is the streams of payment with respect to defined credit events based on specified notional amounts. Collateral given in respect of total return swap amounted to Nil (2009: USD 15.3 million and 2008: Nil) and credit default swap amounted to Nil (2009: USD 46.9 million and 2008: USD 289.3 million).

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative financial instruments held or issued for trading purposes

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

As part of its asset and liability management, the bank uses derivatives for hedging purposes in order to reduce its exposure to credit and market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transactions.

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At 31 March USD'000	2010	2009	2008
20. Investment securities			
Financial assets designated at fair value through profit or loss (note (a))	23 927	41 635	87 038
Held-to-maturity financial assets (note (b))	16 097	22 670	35 274
Promissory notes	–	–	674
	40 024	64 305	122 986
(a) Financial assets designated at fair value through profit or loss			
Government debt securities	248	1 189	3 034
Other debt securities	18 675	25 380	51 543
Quoted equities	690	6 408	10 943
Unquoted equities	4 314	8 658	21 518
	23 927	41 635	87 038
(b) Held-to-maturity financial assets			
Gross amount	16 097	27 410	35 274
Less: allowance for impairment losses	–	(4 740)	–
	16 097	22 670	35 274
(i) Allowance for impairment losses			
A reconciliation of the allowance for impairment losses for held-to-maturity financial assets is as follows:			
At 1 April	(4 740)	–	–
Charge for the year (note 9)	–	(5 204)	–
Amount written off	4 740	–	–
Exchange difference	–	464	–
At 31 March	–	(4 740)	–

Following a restructuring of a held-to-maturity financial asset, the impairment of USD 4.7 million estimated by management in the last financial year, was written off during the current financial year as the counterparty, located in the UK and engaged in the construction sector, was experiencing cash flow pressures. The impairment was determined based on the expected cash flows from the new assets.

At 31 March USD'000	2010	2009	2008
21. Loans and advances to customers			
Personal	2 248	1 730	1 855
Business	85 859	102 909	85 034
Entities outside Mauritius	428 089	361 072	742 833
Gross loans and advances	516 196	465 711	829 722
Less: allowance for impairment losses	(4 738)	(4 574)	(4 940)
	511 458	461 137	824 782

21. Loans and advances to customers (continued)

Impairment allowance for loans and advances to customers

(a) A reconciliation of the allowance for impairment losses for loans and advances by class is as follows:

USD'000	Personal	Business	Entities outside Mauritius	Total
At 1 April 2009	14	783	3 777	4 574
Provisions reversed during the year (note 10)	(1)	(168)	(891)	(1 060)
Amount written off	–	–	–	–
Exchange difference	4	218	1 002	1 224
At 31 March 2010	17	833	3 888	4 738
Individual impairment	–	–	214	214
Collective impairment	17	833	3 674	4 524
	17	833	3 888	4 738
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–	5 587	5 587
At 1 April 2008	15	643	4 282	4 940
Charge for the year (note 10)	1	249	165	415
Amount written off	–	–	(49)	(49)
Exchange difference	(2)	(109)	(621)	(732)
At 31 March 2009	14	783	3 777	4 574
Individual impairment	–	–	87	87
Collective impairment	14	783	3 690	4 487
	14	783	3 777	4 574
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–	55	55
At 1 April 2007	3	896	4 934	5 833
Charge for the year (note 10)	14	(179)	518	353
Amount written off	–	–	(574)	(574)
Exchange difference	(2)	(74)	(596)	(672)
At 31 March 2008	15	643	4 282	4 940
Individual impairment	–	–	55	55
Collective impairment	15	643	4 227	4 885
	15	643	4 282	4 940
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–	3 604	3 604

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21. Loans and advances to customers (continued)

Impairment allowance for loans and advances to customers

(b) The following is a reconciliation of the individual and collective allowances for impairment losses on loans and advances:

USD'000	Individual impairment	Collective impairment	Total
At 1 April 2009	87	4 487	4 574
Charge for the year (note 10)	95	(1 155)	(1 060)
Exchange difference	32	1 192	1 224
At 31 March 2010	214	4 524	4 738
At 1 April 2007	55	4 885	4 940
Charge for the year (note 10)	96	319	415
Amount written off	(49)	–	(49)
Exchange difference	(15)	(717)	(732)
At 31 March 2009	87	4 487	4 574
At 1 April 2007	856	4 977	5 833
Charge for the year (note 10)	(154)	507	353
Amount written off	(574)	–	(574)
Exchange difference	(73)	(599)	(672)
At 31 March 2008	55	4 885	4 940

The fair value of collateral that the bank holds relating to loans individually determined to be impaired at 31 March 2010 is USD 2.2 million (2009: USD 1.7million and 2008: Nil).

22. Investment in associates

USD'000	2010	2009	2008
Cost			
At 1 April	2 184	10 155	11 382
Additions	4 000	–	1
Impairment loss (note 11)	(2 184)	(6 985)	–
Exchange difference	–	(986)	(1 228)
At 31 March	4 000	2 184	10 155

(a) The principal associates are as follows:

	Country of incoporation	% holding		
Global Ethanol Holdings Limited	Australia	23.9%	24.7%	25.0%
Dolphin Coast Marina Estate Limited	Mauritius	34.5%	40.0%	40.0%

(b) The bank does not prepare consolidated financial statements and hence does not account for the results of the above associates under the equity method since it satisfies the criteria for exemptions under IAS 27 paragraph 10. The bank is wholly owned by Investec Bank Limited which prepares consolidated financial statements that comply with International Financial Reporting Standards. Investec Bank Limited is incorporated in South Africa and its registered office, where consolidated financial statements are obtainable, is 100 Graystone Drive, Sandown Sandton, South Africa. Investment in associates are accounted for at cost net of any impairment.

22. Investment in associates (continued)

The following table illustrates the summarised financial information of the bank's investment in the above associates.

At 31 March USD'000	2010	2009	2008
Share of associates' balance sheets:			
Assets	52 582	65 480	86 428
Liabilities	(46 982)	(47 957)	(57 479)
Net assets	5 600	17 523	28 949
Share of associates' revenue and profit/(loss):			
Revenue	70 199	60 452	58 742
(Loss)/profit	(12 535)	(3 889)	4 945

(c) Following adverse movement in commodities prices, Global Ethanol Holding Limited, in which the group has 75.9% interest, impaired all of its goodwill mainly relating to its 60% owned subsidiary Global Ethanol LLC in 2009. As no major improvements were noted this year, the investment held by the bank in the associate was fully impaired by an amount of USD 2 million (2009: USD 7 million and 2008: Nil). The recoverable amount, determined at group level, was based on expected cash flows and key assumptions within the calculation included discount rates, growth rates in revenue and related expenditure.

23. Investment subsidiaries

USD'000	2010	2009	2008
Cost			
At 1 April	38	44	49
Disposal of a subsidiary	(25)	–	–
Foreign exchange	2	(6)	(5)
At 31 March	15	38	44

The subsidiary companies are as follows:

	Class of shares	Country of incorporation	Nominal value			% holdings		
			2010	2009	2008	2010	2009	2008
Investec Management Services (Mauritius) Limited	Ordinary	Mauritius	–	38	38	–	100%	100%
Investec Trust (Mauritius) Limited	Ordinary	Mauritius	16	16	16	100%	100%	100%

The bank does not prepare consolidated financial statements since it satisfies the criteria for exemptions under IAS 27 paragraph 10. The bank is wholly owned by Investec Bank Limited which prepares consolidated financial statements that comply with International Financial Reporting Standards. Investec Bank Limited is incorporated in South Africa and its registered office, where consolidated financial statements are obtainable, is 100 Graystone Drive, Sandown Sandton, South Africa. Investment in subsidiaries are accounted for at cost.

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USD'000	Computer equipment	Furniture and fittings	Office equipment	Motor vehicles	Total
24. Equipment					
Cost					
At 1 April 2009	144	67	111	274	596
Additions	45	298	227	22	592
Disposal	(37)	(14)	(75)	(52)	(178)
At 31 March 2010	152	351	263	244	1 010
Depreciation					
At 1 April 2009	105	32	77	152	366
Charge for the year	41	25	36	42	144
Disposal adjustment	(37)	(14)	(75)	(52)	(178)
At 31 March 2010	109	43	38	142	332
Net book values					
At 31 March 2010	43	308	225	102	678
Cost					
At 1 April 2008	164	78	113	304	659
Additions	19	–	17	89	125
Disposal	(23)	–	(3)	(75)	(101)
Exchange difference	(16)	(11)	(16)	(44)	(87)
At 31 March 2009	144	67	111	274	596
Depreciation					
At 1 April 2008	95	31	79	212	417
Charge for the year	37	6	12	39	94
Disposal adjustment	(20)	–	(2)	(71)	(93)
Exchange difference	(7)	(5)	(12)	(28)	(52)
At 31 March 2009	105	32	77	152	366
Net book values					
At 31 March 2009	39	35	34	122	230
Cost					
At 1 April 2007	178	67	115	227	587
Additions	41	19	17	101	178
Disposal	(27)	–	(6)	0	(33)
Exchange difference	(28)	(8)	(13)	(24)	(73)
At 31 March 2008	164	78	113	304	659
Depreciation					
At 1 April 2007	106	28	85	197	416
Charge for the year	42	8	11	41	102
Disposal adjustment	(27)	–	(6)	–	(33)
Exchange difference	(26)	(5)	(11)	(26)	(68)
At 31 March 2008	95	31	79	212	417
Net book values					
At 31 March 2008	69	47	34	92	242

At 31 March USD'000	2010	2009	2008
25. Other assets			
Accrued income	912	1 016	871
Prepayments	31	–	23
Other receivables	37	174	239
	980	1 190	1 133

At 31 March USD'000	2010	2009	2008
26. Deposits by banks			
Term deposits from other banks			
– Bank in Mauritius	–	15 851	19 563
– Banks abroad	79 906	89 896	81 093
	79 906	105 747	100 656

For the year to 31 March USD'000	2010	2009	2008
27. Due to customers			
Personal			
– Current accounts	24 911	24 694	21 198
– Term deposits	11 912	16 538	29 140
Business			
– Current accounts	66 262	109 958	237 926
– Term deposits	385 060	288 549	108 180
	488 145	439 739	396 444

For the year to 31 March USD'000	Carrying value		
	2010	2009	2008
28. Debt securities in issue			
Subordinated notes			
Nil (2008 and 2007: 2,076,621) compulsorily redeemable cumulative non-participating preference shares with par value preference shares of ZAR 0.01	–	3	3
Share premium			
Nil (2008 and 2007: 2,076,621) compulsorily redeemable cumulative non-participating preference shares with par value preference shares of ZAR 9.99	–	2 187	2 551
	–	2 190	2 554

For the year to 31 March USD'000	2010	2009	2008
29. Other liabilities			
Interest payable	–	6 688	6 418
Accounts payable and sundry creditors	8 309	2 546	9 520
Financial guarantees	–	–	824
	8 309	9 234	16 762

30. Retirement benefit costs

Defined contribution plan

The assets of the plan are held separately from those of the bank in a fund under the control of trustees. Where employees leave the plan prior to vesting fully in the contributions, the contributions payable by the bank are reduced by the amount of forfeited contributions. The total cost charged to income of USD 66 208 (2009: USD 47 673 and 2008: USD 41 305) represents contributions payable to these plans by the bank at rates specified in the rules of the plan.

At 31 March USD'000	2010 Number of shares	2010 Amount	2009 Number of shares	2009 Amount	2008 Number of shares	2008 Amount
31. Stated capital						
Ordinary shares	56 478 463	56 478	535 630 446	56 478	281 630 446	34 634

On 8 December 2009, following a shareholder's resolution, the bank changed its functional currency and the denomination of its issued share capital from the South African Rand (ZAR) to the United States Dollar (USD) and it was resolved that these changes would take effect as from 1 April 2009. Thus, as from 1 April 2009, the stated capital was divided into 56 478 463 ordinary shares at no par value. Relevant approvals have been obtained from the Companies Division of the Registrar of Companies, the Bank of Mauritius (BOM) and the South African Reserve Bank (SARB).

USD'000	Number of shares	Amount		Number of shares	Amount
32. Reserves					
At 1 April 2007	138	(1 178)	761	12 718	12 439
Foreign currency translation	(14)	(1 127)	(82)	–	(1 223)
Fair value movement on available-for-sale assets	(1 312)	–	–	–	(1 312)
Appropriations to other reserves	–	–	138	2 796	2 934
At 31 March 2008	(1 188)	(2 305)	817	15 514	12 838
At 1 April 2008	(1 188)	(2 305)	817	15 514	12 838
Foreign currency translation	169	2 050	(113)	–	2 106
Fair value movement on available-for-sale assets	677	–	–	–	677
Appropriations to other reserves	–	–	(532)	579	47
At 31 March 2009	(342)	(255)	172	16 093	15 668
At 1 April 2009	(342)	(255)	172	16 093	15 668
Foreign currency translation	–	255	–	–	255
Fair value movement on available-for-sale assets	342	–	–	–	342
Transfer to statutory reserve	–	–	–	12 262	12 262
Appropriations to other reserves	–	–	401	–	401
At 31 March 2010	–	–	573	28 355	28 928

Available for sale reserve

This reserve comprised of fair value losses recognised on available for sale assets.

Foreign currency translation reserve

The reserve comprised of all foreign exchange differences arising from the translation of the income statement from its functional currency to its reporting currency in prior years. Following the change in functional currency as at 1 April 2009, this reserve was realised.

General banking reserve

This reserve comprises amounts set aside for general banking risks, including future losses and other unforseeable risks. It also includes provision made to meet other regulatory provision requirements.

Statutory reserve

This reserve represents transfers from retained earnings in accordance with the Banking Act 2004. A sum equal to not less than 15% of the profit for the year is transferred each year until the balance is equal to the amount paid as stated capital.

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33. Fair value of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

USD'000	Fair value classification	2010 Carrying value	2010 Fair value
Financial assets			
Cash and balances with central bank	Loans and receivables	5 851	5 851
Due from banks	Loans and receivables	366 057	366 057
Derivative financial instruments	Held-for-trading	62 953	62 953
Held-to-maturity financial assets	Held-to-maturity	16 097	16 097
Financial assets designated at fair value through profit or loss	Assets at fair value through profit or loss	23 927	23 927
Promissory notes	Loans and receivables	–	–
Amount due from holding bank	Loans and receivables	48 837	48 843
Amount due from group companies	Loans and receivables	46 413	46 413
Loans and advances to customers	Loans and receivables	511 458	513 710
Other receivables	Loans and receivables	949	949
		1 082 542	1 084 800
Financial liabilities			
Deposits by banks	Liabilities at amortised cost	79 906	79 906
Securities sold under repurchase agreement with bank	Liabilities at amortised cost	–	–
Derivative financial instruments	Held-for-trading	27 173	27 173
Amount due to holding bank	Loans and receivables	219 543	219 547
Amount due to group companies	Loans and receivables	34 446	34 446
Due to customers	Liabilities at amortised cost	488 145	487 394
Debt securities in issue	Liabilities at amortised cost	–	–
Other liabilities	Liabilities at amortised cost	8 309	8 309
		857 522	856 775

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
	2 492	2 492	1 221	1 221
	148 630	148 630	69 676	69 676
	26 328	26 328	15 576	15 576
	22 670	22 670	35 274	35 274
	41 635	41 635	87 038	87 038
	–	–	674	674
	92 000	92 000	83 116	83 116
	116 259	116 259	65 181	65 181
	461 137	461 258	824 782	826 088
	1 190	1 190	1 110	1 110
	912 341	912 462	1 182 538	1 184 954
	105 747	105 747	100 656	100 656
	898	898	1 497	1 497
	22 182	22 182	39 752	39 752
	134 394	134 394	410 184	410 184
	49 069	49 069	86 611	86 611
	439 739	438 979	396 444	396 057
	2 190	2 016	2 554	1 297
	9 234	9 234	16 762	16 762
	763 453	762 519	1 054 460	1 052 816

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33. Fair value of financial instruments (continued)

Financial instruments recorded at fair value

Determination of fair value and fair value hierarchy

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 March	2010			
USD'000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	–	–	62 953	62 953
Financial assets designated at fair value through profit or loss	690	18 923	4 314	23 927
Total unrecognised change in unrealised fair value	690	18 923	67 267	86 880
Financial liabilities				
Derivative financial instruments	–	–	27 173	27 173
	–	–	27 173	27 173

Certain financial instruments are recorded at fair value using valuation techniques as current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against the prices of actual market transactions and using the bank's best estimate of the most appropriate model inputs.

	2009				2008			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	–	–	26 328	26 328	–	–	15 576	15 576
	6 408	26 569	8 658	41 635	10 943	54 577	21 518	87 038
	6 408	26 569	34 986	67 963	10 943	54 577	37 094	102 614
	–	–	22 182	22 182	–	–	39 752	39 752
	–	–	22 182	22 182	–	–	39 752	39 752

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For the year to 31 March USD'000	2010	2009	2008
34. Additional cash flow information			
Cash and cash equivalents			
Cash in hand (note 17)	1	–	1
Current account with the central bank (note 17)	5 850	2 492	1 220
Due from banks (note 18)	324 032	148 630	69 676
	329 883	151 122	70 897
Change in operating assets			
Investment securities	20 776	(2 910)	(12 851)
Derivative financial instruments	34 554	(8 298)	(5 633)
Loans and advances to banks (note 18)	(42 025)	–	–
Loans and advances to customers	85 791	247 894	(382 441)
Movements in amount due from holding bank	70 099	(20 736)	(6 919)
Movements in amount due from other group companies	103 884	(60 201)	(5 485)
Other assets	557	(219)	527
	273 636	155 530	(412 802)
Change in operating liabilities			
Due to customers	(80 339)	99 824	132 825
Debt securities in issue	(2 831)	–	–
Securities sold under repurchase agreement	(1 162)	(386)	(608)
Deposits from banks	(56 800)	19 444	4 324
Movements in amount due to holding bank	45 802	(217 302)	267 301
Movements in amount due to other group companies	(28 989)	(25 192)	(28 784)
Other operating liabilities	(1 685)	(4 632)	22 117
	(126 004)	(128 244)	397 175
Non-cash items included in profit before tax			
Depreciation of equipment (note 24)	144	94	102
Unrealised (gains)/losses on investment securities and derivatives	(52 799)	24 397	(6 747)
Translation difference	(49 004)	1 204	(4 398)
Profit on disposal of equipment	(14)	(11)	–
Profit on disposal of a subsidiary	(41)	–	–
Profit on disposal of a loan	–	(3 136)	–
Impairment reversals on loans and advances	(1 060)	1 280	20 755
Impairment loss on held-to-maturity financial assets	1 184	5 204	–
Impairment loss on investment in an associate	2 184	6 985	–
	(99 406)	36 017	9 712

35. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

At 31 March USD'000	Less than 12 months	Over 12 months	Total
2010			
Assets			
Current account with central bank	5 851	–	5 851
Due from banks	366 057	–	366 057
Derivative financial instruments	15 231	47 722	62 953
Financial assets designated at fair value through profit or loss	113	23 814	23 927
Held-to-maturity financial assets	–	16 097	16 097
Amount due from holding bank	48 750	87	48 837
Amount due from group companies	3 982	42 431	46 413
Loans and advances to customers	244 928	266 530	511 458
Investment in associates	4 000	–	4 000
Investment in subsidiaries	15	–	15
Equipment	678	–	678
Deferred tax assets	162	–	162
Other assets	980	–	980
Total	690 747	396 681	1 087 428
Liabilities			
Deposits by banks	–	79 906	79 906
Derivative financial instruments	7 541	19 632	27 173
Amount due to holding bank	170 702	48 841	219 543
Amount due to group companies	16 079	18 367	34 446
Due to customers	466 151	21 994	488 145
Current tax liabilities	980	–	980
Other liabilities	8 309	–	8 309
Total	669 762	188 740	858 502
Net	20 985	207 941	228 926

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35. Maturity analysis of assets and liabilities (continued)

At 31 March USD'000	Less than 12 months	Over 12 months	Total
2009			
Assets			
Current account with central bank	2 492	–	2 492
Due from banks	148 630	–	148 630
Derivative financial instruments	12 877	13 451	26 328
Financial assets designated at fair value through profit or loss	–	41 635	41 635
Held-to-maturity financial assets	–	22 670	22 670
Amount due from holding bank	91 928	72	92 000
Amount due from group companies	116 259	–	116 259
Loans and advances to customers	194 949	266 188	461 137
Investment in associates	–	2 184	2 184
Investment in subsidiaries	–	38	38
Equipment	–	230	230
Deferred tax assets	–	326	326
Other assets	1 092	98	1 190
Total	568 227	346 892	915 119
Liabilities			
Deposits by banks	25 896	79 851	105 747
Securities sold under repurchase agreement with bank	898	–	898
Derivative financial instruments	16 373	5 809	22 182
Amount due to holding bank	85 218	49 176	134 394
Amount due to group companies	24 485	24 584	49 069
Due to customers	418 225	21 514	439 739
Debt securities in issue	2 190	–	2 190
Current tax liabilities	1 235	–	1 235
Other liabilities	9 234	–	9 234
Total	583 754	180 934	764 688
Net	(15 527)	165 958	150 431

35. Maturity analysis of assets and liabilities (continued)

At 31 March USD'000	Less than 12 months	Over 12 months	Total
2008			
Assets			
Current account with central bank	1 221	–	1 221
Due from banks	69 676	–	69 676
Derivative financial instruments	2 160	13 416	15 576
Financial assets designated at fair value through profit or loss	–	87 038	87 038
Promissory notes	674	–	674
Held-to-maturity financial assets	–	35 274	35 274
Amount due from holding bank	74 101	9 015	83 116
Amount due from group companies	56 228	9 153	65 381
Loans and advances to customers	426 848	397 934	824 782
Investment in associates	–	10 155	10 155
Investment in subsidiaries	–	44	44
Equipment	–	242	242
Deferred tax assets	–	202	202
Other assets	168	965	1 133
Total	631 076	563 438	1 194 514
Liabilities			
Deposits by banks	20 616	80 040	100 656
Securities sold under repurchase agreement with bank	–	1 497	1 497
Derivative financial instruments	6 792	32 960	39 752
Amount due to holding bank	345 654	64 530	410 184
Amount due to group companies	30 219	56 392	86 611
Due to customers	387 113	9 331	396 444
Debt securities in issue	–	2 554	2 554
Current tax liabilities	836	–	836
Other liabilities	15 939	823	16 762
Total	807 169	248 127	1 055 296
Net	(176 093)	315 311	139 218

36. Contingent liabilities and commitments

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though the obligations may not be recognised on the reporting date they do contain credit risk and are therefore part of the overall risk of the bank. The table below sets out such contingent liabilities and commitments.

At 31 March USD'000	2010	2009	2008
Contingent liabilities			
Financial guarantees	35 592	40 650	58 711
Commitments			
Undrawn commitments to lend	95 126	40 663	64 828
Total contingent liabilities	130 718	81 313	123 539

Financial guarantees

Guarantees commit the bank to make payments on behalf of customers in the event of a specific act, generally related to default of loans.

Undrawn commitments to lend

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The bank monitors the term to maturity of credit commitments because longer-term committtments generally have a greater degree of credit risk than shorter-term commitments.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The bank has an establised protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the year end, the bank had no legal claims remaining outstanding.

37. Related party disclosures

For the year to 31 March USD'000	2010	2009	2008
Compensation of key management personnel of the bank			
Short-term employee benefits	1 610	1 632	2 300
Other benefits	315	71	172
	1 925	1 703	2 472
Transactions with key management personnel of the bank			
The bank enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.			
The following table provides the total amount of transactions, which have been entered into with the related parties for the relevant financial year:			
Loans and advances to key management personnel	39	5	2 663
Deposits from key management personnel	862	802	48

Transactions with other related parties

In addition to transactions with key management, the bank enters into transactions with its holding company, associates and fellow subsidiaries of the group as follows:

For the year to 31 March USD'000	Holding company	Associates	Fellow subsidiaries	Total
2010				
Interest income	4 347	–	4 839	9 186
Interest expense	7 782	–	425	8 207
Amount due from	48 837	22 926	23 487	95 250
Amount due to	219 543	–	34 446	253 989
Financial guarantees received from	5 157	–	–	5 157
Financial guarantees issued to	10 905	–	–	10 905
Other income	–	–	41	41
Fees expense	669	–	464	1 133
2009				
Interest income	8 312	–	5 203	13 515
Interest expense	12 450	–	1 902	14 352
Amount due from	92 000	21 000	95 259	208 259
Amount due to	134 394	–	49 069	183 463
Financial guarantees received from	8 435	–	–	7 533
Financial guarantees issued to	7 533	–	–	3 136
Other income	–	–	3 136	3 136
Fees expense	397	–	1 924	2 321
2008				
Interest income	9 394	–	4 410	13 804
Interest expense	10 596	–	5 600	16 196
Amount due from	83 116	24 996	40 385	148 497
Amount due to	410 184	–	86 611	496 795
Financial guarantees received from	3 587	–	–	3 587
Financial guarantees issued to	10 727	–	21 895	32 622
Other income	880	–	193	1 073

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37. Related party disclosures (continued)

For the year to 31 March USD'000	2010	2009	2008
This is disclosed on the statement of financial position as follows:			
Amount due from holding bank	48 837	92 000	83 116
Amount due from subsidiaries and other group companies	46 413	116 259	65 381
	95 250	208 259	148 497
Amount due to holding bank	219 543	134 394	410 184
Amount due to subsidiaries and other group companies	34 446	49 069	86 611
	253 989	183 463	496 795

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties is at normal commercial rates. Outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 March 2010, the bank has not made any provision for doubtful debts relating to amounts owed by related parties (2009 and 2008: Nil).

38. Holding companies

The immediate holding company is Investec Bank Limited, and ultimate holding is Investec Limited, both incorporated in the Republic of South Africa.

39. Segmental analysis - Business analysis

For management purposes, the bank is organised into three operating segments based on products and services as follows:

Private Client Activities - Individual customers' deposit and consumer loans, and fund transfer facilities

Capital Markets - Treasury function

Investment Strategies – Investment banking services and finance.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

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Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following table presents income and profit and certain asset and liability information regarding the bank's operating segments.

USD'000	Private Client Activities	Capital Markets	Investment Strategies	Total
Business analysis for the year to 31 March 2010				
Interest income	16 751	14 293	20 562	51 606
Interest expense	(10 239)	3 517	(7 732)	(14 454)
Net interest income	6 512	17 810	12 830	37 152
Fee and commission income	775	3 883	–	4 658
Fee and commission expense	(476)	(272)	(1 042)	(1 790)
Net fee and commission income	299	3 611	(1 042)	2 868
Net trading income/(loss)	(346)	1 170	64 182	65 006
Net gain/(loss) on financial instruments designated at fair value through profit or loss	–	(7 538)	(4 593)	(12 131)
Other income	–	–	55	55
Total operating income	6 465	15 053	71 432	92 950
Impairment losses on held-to-maturity financial assets	–	–	(1 184)	(1 184)
Impairment reversal/loss on loans and advances	503	159	398	1 060
Impairment loss on investment in an associate	–	–	(2 184)	(2 184)
Net operating income	6 968	15 212	68 462	90 642
Personnel expenses	–	–	(4 038)	(4 038)
Depreciation of equipment	–	–	(144)	(144)
Other operating expenses	(2 013)	(4 372)	2 915	(3 470)
Total operating expenses	(2 013)	(4 372)	(1 267)	(7 652)
Profit before income tax	4 955	10 840	67 195	82 990
Cost to income ratio	31.1%	29.0%	1.8%	8.2%
Total assets	199 090	740 818	147 520	1 087 428
Total liabilities	(193 204)	(185 901)	(479 397)	(858 502)

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39. Segmental analysis - Business analysis (continued)

USD'000	Private Client Activities	Capital Markets	Investment Strategies	Total
Business analysis for the year to 31 March 2009				
Interest income	22 942	21 841	30 287	75 070
Interest expense	(16 315)	(494)	(12 701)	(29 510)
Net interest income	6 627	21 347	17 586	45 560
Fee and commission income	496	1 256	590	2 342
Fee and commission expense	(34)	(185)	(2 119)	(2 338)
Net fee and commission income/(expense)	462	1 071	(1 529)	4
Net trading income/(loss)	118	(145)	16 604	16 577
Net gain/(loss) on financial instruments designated at fair value through profit or loss	–	(11 065)	(29 909)	(40 974)
Other income	–	–	3 136	3 136
Total operating income	7 207	11 208	5 888	24 303
Impairment losses on held-to-maturity financial assets	–	–	(5 204)	(5 204)
Impairment reversal/loss on loans and advances	(109)	(128)	(1 043)	(1 280)
Impairment loss on investment in an associate			(6 985)	(6 985)
Net operating income	7 098	11 080	(7 344)	10 834
Personnel expenses	–	–	(3 865)	(3 865)
Depreciation of equipment	–	–	(94)	(94)
Other operating expenses	(1 684)	(3 604)	2 815	(2 473)
Total operating expenses	(1 684)	(3 604)	(1 144)	(6 432)
Profit before income tax	5 414	7 476	(8 488)	4 402
Cost to income ratio	23.4%	32.2%	19.4%	26.5%
Total assets	233 940	555 179	126 000	915 119
Total liabilities	(228 750)	(518 390)	(17 548)	(764 688)

39. Segmental analysis - Business analysis (continued)

USD'000	Private Client Activities	Capital Markets	Investment Strategies	Total
Business analysis for the year to 31 March 2008				
Interest income	18 853	36 389	29 055	84 297
Interest expense	(14 733)	(11 993)	(13 597)	(40 323)
Net interest income	4 120	24 396	15 458	43 974
Fee and commission income	115	2 492	11	2 618
Fee and commission expense	(139)	(151)	(126)	(416)
Net fee and commission income	(24)	2 341	(115)	2 202
Net trading income/(loss)	148	449	(13 132)	(12 535)
Net gain/(loss) on financial instruments designated at fair value through profit or loss	–	(2 946)	9 661	6 715
Total operating income	4 244	24 240	11 872	40 356
Impairment losses on loans and advances	(618)	(12 658)	–	(13 276)
Net operating income	3 626	11 582	11 872	27 080
Personnel expenses	–	–	(102)	(102)
Depreciation of equipment	–	–	(3 729)	(3 729)
Other operating expenses	(100)	(102)	(3 395)	(3 597)
Total operating expenses	(100)	(102)	(7 226)	(7 428)
Profit before income tax	3 526	11 480	4 646	19 652
Cost to income ratio	2.4%	0.4%	60.9%	18.4%
Total assets	273 266	708 493	212 755	1 194 514
Total liabilities	(271 152)	(719 422)	(64 722)	(1 055 296)

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40. Segmental reporting

At 31 March USD'000	Notes	Segment A 2010	2009	2008
Statement of financial position				
Cash and balances with central bank		5 851	2 492	1 221
Due from banks		195	82	903
Derivative financial instruments		–	–	–
Investment securities	I	–	–	597
Amount due from holding bank	II (a)	–	–	–
Amount due from group companies	III (a)	–	3 640	2 200
Loans and advances to customers	IV (a)	24 587	38 029	27 287
Investment in associates		4 000	–	–
Investment in subsidiaries		15	38	44
Equipment		678	230	242
Deferred tax assets		162	326	202
Other assets	V	260	82	127
		35 748	44 919	32 823
Liabilities and equity				
Deposits by banks	VI	–	–	19 564
Securities sold under repurchase agreement with bank		–	–	–
Derivative financial instruments		–	–	–
Amount due to holding bank	II (b)	–	–	–
Amount due to group companies	III (b)	1 013	160	132
Due to customers	VII	85 131	18 000	6 212
Debt securities in issue		–	–	–
Current tax liabilities		980	1 235	836
Other liabilities	VIII	3 493	1 668	1 783
		90 617	21 063	28 527
Equity				
Issued share capital				
Available-for-sale reserve				
Foreign currency translation reserve				
Other reserves				
Retained earnings				
Total equity				
Total liabilities and equity				

Segment B			Total		
2010	2009	2008	2010	2009	2008
–	–	–	5 851	2 492	1 221
365 862	148 548	68 773	366 057	148 630	69 676
62 953	26 328	15 576	62 953	26 328	15 576
40 024	64 305	122 389	40 024	64 305	122 986
48 837	92 000	83 116	48 837	92 000	83 116
46 413	112 619	63 181	46 413	116 259	65 381
486 871	423 108	797 495	511 458	461 137	824 782
–	2 184	10 155	4 000	2 184	10 155
–	–	–	15	38	44
–	–	–	678	230	242
–	–	–	162	326	202
720	1 108	1 006	980	1 190	1 133
1 051 680	870 200	1 161 691	1 087 428	915 119	1 194 514
79 906	105 747	81 092	79 906	105 747	100 656
–	898	1 497	–	898	1 497
27 173	22 182	39 752	27 173	22 182	39 752
219 543	134 394	410 184	219 543	134 394	410 184
33 433	48 909	86 479	34 446	49 069	86 611
403 014	421 739	390 232	488 145	439 739	396 444
–	2 190	2 554	–	2 190	2 554
–	–	–	980	1 235	836
4 816	7 566	14 979	8 309	9 234	16 762
767 884	743 625	1 026 769	858 502	764 688	1 055 296
			56 478	56 478	34 634
			–	(342)	(1 188)
			–	(255)	(2 305)
			28 928	16 265	16 331
			143 520	78 285	91 746
			228 926	150 431	139 218
			1 087 428	915 119	1 194 514

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40. Segmental reporting (continued)

At 31 March	Segment A		
USD'000	2010	2009	2008
Income statements			
Interest income	4 841	6 835	2 789
Interest expense	(2 927)	(3 428)	(632)
Net interest income	1 914	3 407	2 157
Fee and commission income	–	125	21
Fee and commission expense	–	–	–
Net fee and commission income	–	125	21
Net trading income/(loss)	–	–	–
Net (loss)/gain on financial instruments designated at fair value through profit or loss	–	–	–
Other income	–	–	–
Total operating income	1 914	3 532	2 178
Impairment losses on held-to-maturity financial assets	–	–	–
Impairment losses on loans and advances	–	–	(208)
Impairment loss on investment in an associate	–	–	–
Net operating income	1 914	3 532	1 970
Personnel expenses	–	–	–
Depreciation of equipment	(144)	(94)	(102)
Other operating expenses	–	–	–
Total operating expenses	(144)	(94)	(102)
Profit before income tax	1 770	3 438	1 868
Income tax expense	(1 245)	(542)	(1 008)
Profit for the year	525	2 896	860

	Segment B			Total		
	2010	2009	2008	2010	2009	2008
	46 765	68 235	81 508	51 606	75 070	84 297
	(11 527)	(26 082)	(39 691)	(14 454)	(29 510)	(40 323)
	35 238	42 153	41 817	37 152	45 560	43 974
	4 658	2 217	2 597	4 658	2 342	2 618
	(1 790)	(2 338)	(416)	(1 790)	(2 338)	(416)
	2 868	(121)	2 181	2 868	4	2 202
	65 006	16 577	(12 535)	65 006	16 577	(12 535)
	(12 131)	(40 974)	6 715	(12 131)	(40 974)	6 715
	55	3 136	–	55	3 136	–
	91 036	20 771	38 178	92 950	24 303	40 356
	(1 184)	(5 204)	–	(1 184)	(5 204)	–
	1 060	(1 280)	(13 068)	1 060	(1 280)	(13 276)
	(2 184)	(6 985)	–	(2 184)	(6 985)	–
	88 728	7 302	25 110	90 642	10 834	27 080
	(4 038)	(3 865)	(3 729)	(4 038)	(3 865)	(3 729)
	–	–	–	(144)	(94)	(102)
	(3 470)	(2 473)	(3 597)	(3 470)	(2 473)	(3 597)
	(7 508)	(6 338)	(7 326)	(7 652)	(6 432)	(7 428)
	81 220	964	17 784	82 990	4 402	19 652
	–	–	–	(1 245)	(542)	(1 008)
	81 220	964	17 784	81 745	3 860	18 644

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40. Segmental reporting (continued)

At 31 March	Segment A		
USD'000	2010	2009	2008
I. Investment securities			
Financial assets designated at fair value through profit or loss			
– Government and government guaranteed debt securities	–	–	–
– Other debt securities	–	–	–
– Quoted equities	–	–	–
– Unquoted equities	–	–	597
Held-to-maturity financial assets	–	–	–
Promissory notes	–	–	–
	–	–	597
II. Amounts due from/to holding bank			
Remaining term to maturity			
(a) Amount due from holding bank			
Within 3 months			
Over 3 to 6 months			
Over 6 to 12 months			
Over 1 to 5 years			
(b) Amount due to holding bank			
Within 3 months			
Over 3 to 6 months			
Over 6 to 12 months			
Over 1 to 5 years			
Over 5 years			
III. Amount due from/to subsidiaries and other group companies			
Remaining term to maturity			
(a) Amount due from subsidiaries and other group companies			
Within 3 months	–	–	–
Over 3 to 6 months	–	–	–
Over 6 to 12 months	–	–	–
Over 1 to 5 years	–	3 640	2 200
	–	3 640	2 200
(b) Amount due to subsidiaries and other group companies			
Within 3 months	1 013	160	132
Over 6 to 12 months	–	–	–
Over 1 to 5 years	–	–	–
Over 5 years	–	–	–
	1 013	160	132

Segment B			Total		
2010	2009	2008	2010	2009	2008
248	1 189	3 034	248	1 189	3 034
18 675	25 380	51 543	18 675	25 380	51 543
690	6 408	10 943	690	6 408	10 943
4 314	8 658	20 921	4 314	8 658	21 518
16 097	22 670	35 274	16 097	22 670	35 274
–	–	674	–	–	674
40 024	64 305	122 389	40 024	64 305	122 986
48 750	91 929	74 101	48 750	91 929	74 101
–	–	–	–	–	–
–	–	9 015	–	–	9 015
87	71	–	87	71	–
48 837	92 000	83 116	48 837	92 000	83 116
90 947	79 089	307 811	90 947	79 089	307 811
24 255	–	–	24 255	–	–
55 919	–	37 843	55 919	–	37 843
13 752	–	29 046	13 752	–	29 046
34 670	55 305	35 484	34 670	55 305	35 484
219 543	134 394	410 184	219 543	134 394	410 184
3 983	79 683	50 222	3 983	79 683	50 222
–	15 575	–	–	15 575	–
–	–	3 806	–	–	3 806
42 430	17 361	9 153	42 430	21 001	11 353
46 413	112 619	63 181	46 413	116 259	65 381
8 888	8 481	12 656	9 901	8 641	12 788
6 178	–	5 731	6 178	–	5 731
18 367	40 428	56 156	18 367	40 428	56 156
–	–	11 936	–	–	11 936
33 433	48 909	86 479	34 446	49 069	86 611

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40. Segmental reporting (continued)

At 31 March	Segment A		
USD'000	2010	2009	2008
IV. Loans and advances to customers			
(a) Remaining term to maturity			
Within 3 months	5 279	8 166	96
Over 3 to 6 months	201	310	–
Over 6 to 12 months	1 879	2 907	49
Over 1 to 5 years	4 161	6 436	11 728
Over 5 years	13 067	20 210	15 414
	24 587	38 029	27 287
(b) Credit concentration of risk by industry sectors			
Credit exposures to any one customer exceeding 15% of capital base, classified by industry sectors			
Construction			
Financial and business services			
Transport			
Information communication and technology			
Media, entertainment and recreational activities			
Manufacturing			
(c) Allowance for credit impairment losses	Portfolio provision		
At 1 April	231	270	287
Loans written off out of allowance	–	–	–
(Release of)/provision for credit losses for the year	(40)	–	(17)
Differences due to foreign currency translation	68	(39)	–
At 31 March	259	231	270
(d) Allowance for credit losses by sector			
	Gross amount of loans	Non–performing loans	
Agriculture	2 984	–	
Manufacturing	90 132	–	
Tourism	22 837	–	
Transport	48 605	–	
Construction	102 439	–	
Financial and business services	119 171		
Traders	346	–	
Personal	162	–	
Professional	55 474	3 430	
Global Business License Holders (GBL)	63 521	3 712	
Other entities	10 525	–	
	516 196	7 142	

Segment B			Total		
2010	2009	2008	2010	2009	2008
2 288	98 386	306 672	7 567	98 406	306 768
30 582	64 438	6 339	30 783	64 438	6 339
128 035	32 101	113 708	129 914	32 104	113 757
200 232	179 149	263 088	204 393	183 826	274 816
125 734	79 610	107 689	138 801	82 363	123 103
486 871	453 684	797 496	511 458	461 137	824 783
55 516	43 356	78 867	55 516	43 356	78 867
141 337	91 416	35 736	141 337	91 416	35 736
–	26 217	24 391	–	26 217	24 391
–		18 981	–	–	18 981
–	24 921	–	–	24 921	–
82 817	–	–	82 817	–	–
279 670	185 910	157 975	279 670	185 910	157 975
	Portfolio provision				
4 255	4 614	4 690	4 577	4 940	5 833
–	–	–	–	(49)	(574)
(1 115)	319	524	(1 060)	415	353
1 125	(678)	(600)	1 224	(732)	(672)
4 265	4 255	4 614	4 738	4 574	4 940
Specific provision	Portfolio provision				
–	24		24	250	116
–	730		730	83	160
–	200		200	–	–
–	394		394	838	994
–	830		830	790	1 279
–	1 306		1 306	927	1 111
–	3		3	11	11
–	1		1	1	24
214	450		664	629	306
–	515		515	640	483
–	71		71	405	456
214	4 524		4 738	4 574	4 940

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40. Segmental reporting (continued)

At 31 March USD'000	Gross amount of loans	Non performing loans	Specific provision	Portfolio provision	Total 2010	Total 2009	Total 2008
Analysed by segments:							
Segment A							
Agriculture	2 436	–	–	20	20	243	98
Tourism	10 292	–	–	90	90	–	–
Transport	–	–	–	–	–	3	4
Construction	2 593	–	–	23	23	12	16
Financial and Business Services	5 588	–	–	106	106	22	137
Personal	162	–	–	1	1	1	5
Professional	2 086	–	–	19	19	15	11
Other entities	–	–	–	–	–	68	–
	23 157	–	–	259	259	364	271
Segment B							
Agriculture	549	–	–	4	4	6	18
Manufacturing	90 132	–	–	730	730	83	160
Tourism	12 545	–	–	110	110	–	–
Transport	48 605	–	–	394	394	836	989
Construction	99 846	–	–	807	807	779	1 263
Financial and business services	113 583	–	–	1 200	1 200	906	974
Traders	346	–	–	3	3	11	11
Personal	–	–	–	–	–	–	20
Professional	53 388	3 430	214	431	645	614	294
Global Business License holders (GBL)	63 521	3 712	–	515	515	640	483
Other entities	10 524	–	–	71	71	335	457
	493 039	7 142	214	4 265	4 479	4 210	4 669
	516 196	7 142	214	4 524	4 738	4 574	4 940

At 31 March USD'000	Segment A 2010	Segment A 2009	Segment A 2008
V. Other assets			
Accrued fee income	260	–	–
Prepayments	–	–	23
Other receivables	–	82	104
	260	82	127
VI. Due to banks			
Bank in Mauritius and banks abroad			
Remaining term to maturity			
Within 3 months	–	–	19 564
Over 6 to 12 months	–	–	–
Over 1 to 5 years	–	–	–
	–	–	19 564

Segment B			Total		
2010	2009	2008	2010	2009	2008
652	1 016	871	912	1 016	871
31	–	–	31	–	23
37	92	135	37	174	239
720	1 108	1 006	980	1 190	1 133
79 906	15 145	1 052	79 906	15 145	20 616
–	10 564	–	–	10 564	–
–	80 038	80 040	–	80 038	80 040
79 906	105 747	81 092	79 906	105 747	100 656

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40. Segmental reporting (continued)

At 31 March		Segment A	
USD'000	2010	2009	2008
VII. Due to customers			
Demand	6 271	3 575	3 541
Term deposits with remaining term to maturity			
Within 3 months	808	776	–
Over 3 to 6 months	47 287	63	–
Over 6 to 12 months	17 313	299	–
Over 1 to 5 years	13 452	13 287	2 345
Over 5 years	–	–	326
	85 131	18 000	6 212
VIII. Other liabilities			
Interests payable	–	–	–
Amounts payable and sundry creditors	3 493	1 668	1 783
Financial guarantees	–	–	–
	3 493	1 668	1 783
IX. Contingent liabilities			
To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though the obligations may not be recognised on the balance sheet they do contain credit risk and are therefore part of the over			
Financial guarantees	3 330	3 453	–
Commitments			
– Irrevocable unutilised facilities	32 744	127	–
	36 074	3 580	–

Guarantees commit the bank to make payments on behalf of customers in the event of a specific act.

Commitments to extend credit represent contractual commitments to make loans and revolving credits.

Segment B			Total		
2010	2009	2008	2010	2009	2008
84 902	131 077	255 553	91 173	134 652	259 094
301 534	164 501	105 796	302 343	165 277	105 796
1 303	87 821	2 223	48 589	87 884	2 223
6 733	18 669	19 970	24 046	18 968	19 970
4 292	14 592	1 906	17 744	27 879	4 251
4 250	5 079	4 784	4 250	5 079	5 110
403 014	421 739	390 232	488 145	439 739	396 444
–	6 688	6 418	–	6 688	6 418
4 816	878	7 737	8 309	2 546	9 520
–	–	824	–	–	824
4 816	7 566	14 979	8 309	9 234	16 762
32 262	37 197	58 711	35 592	40 650	58 711
62 382	40 536	64 828	95 126	40 663	64 828
94 644	77 733	123 539	130 718	81 313	123 539

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40. Segmental reporting (continued)

At 31 March	Segment A		
USD'000	2010	2009	2008
Cash flow statement			
Operating activities	6 271	3 575	3 541
Profit before tax	1 770	3 438	1 868
Adjustments for:			
Change in operating assets	13 264	10 809	753
Change in operating liabilities	69 809	(7 464)	1 732
Non-cash item included in profit before tax	130	83	102
Income tax paid	(1 594)	(141)	(1 435)
Net cash flows from operating activities	83 379	6 725	3 020
Investing activities			
Purchase of investment securities	(4 000)	–	(610)
Proceeds on disposal of investment securities	66	–	–
Purchase of equipment	(592)	(125)	(178)
Proceeds on disposal of equipment	14	18	–
Net cash flows (used in)/from investing activities	(4 512)	(107)	(788)
Financing activities			
Issue of ordinary shares	–	–	–
Dividend paid	–	–	–
Net cash flows (used in)/from financing activities	–	–	–
Net increase in cash and cash equivalents	78 867	6 618	2 232
Cash and cash equivalents at beginning of the year	2 574	2 124	1 205
Effect of exchange rate changes on cash and cash equivalents	(75 394)	(6 168)	(1 313)
Cash and cash equivalents at end of the year	6 047	2 574	2 124

	Segment B			Total		
	2010	2009	2008	2010	2009	2008
	84 902	131 077	255 553	91 173	134 652	259 094
	81 220	964	17 784	82 990	4 402	19 652
	260 372	144 721	(413 555)	273 636	155 530	(412 802)
	(195 813)	(120 780)	395 443	(126 004)	(128 244)	397 175
	(99 536)	35 933	9 610	(99 406)	36 017	9 712
	–	–	–	(1 594)	(141)	(1 435)
	46 243	60 839	9 282	129 622	67 564	12 302
	–					
	–	(2 245)	(2 405)	(4 000)	(2 245)	(3 015)
	12 984	122	4 881	13 050	122	4 881
	–	–	–	(592)	(125)	(178)
	–	–	–	14	18	–
	12 984	(2 123)	2 476	8 472	(2 230)	1 688
	–	25 000	–	–	25 000	–
	(3 592)	–	–	(3 592)	–	–
	(3 592)	25 000	–	(3 592)	25 000	–
	55 635	83 716	11 758	134 502	90 334	13 990
	148 548	68 773	62 577	151 122	70 897	63 782
	119 653	(3 941)	(5 562)	44 259	(10 109)	(6 875)
	323 836	148 548	68 773	329 883	151 122	70 897

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CA (SA)

Craig C McKenzie (49)
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Chief Executive Officer

Pierre de Chasteigner du Mée (57)
ACEA FBIM FMAAT

Angelique Anne Desvaux De Marigny (34)
LLB, Barrister-at-Law
Maitrise en Droit (Université de Paris I-Panthéon-Sorbonne)

Board committees

Board Sub-Committee
David M Lawrence (Chairman)
Pierre de Chasteigner du Mée
Craig C McKenzie

Audit Committee
Peter RS Thomas (Chairman)
Angelique Anne Desvaux De Marigny
Pierre de Chasteigner du Mée

In attendance
David M Lawrence (Board Chairman)
Mark Trollip (Global head of Market Risk)
Craig C McKenzie (Chief Executive Officer)
Head of Operations
Head of Banking
Internal Audit and Compliance Officer
Group head of Internal Audit
Group Compliance Officer
External Auditors

Compensation Committee
David M Lawrence (Chairman)
Peter RS Thomas

In attendance
Craig C McKenzie
Tracey Rowe

Conduct Review and Risk Policy Committee
David M Lawrence (Chairman)
Pierre de Chasteigner du Mée
Peter RS Thomas

In attendance
Craig C McKenzie

Governance Committee
David M Lawrence (Chairman)
Peter RS Thomas

Nomination Committee
David M Lawrence (Chairman)
Pierre de Chasteigner du Mée

Notes

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