ANNUAL REPORT 2012

Investec Bank (Mauritius) Limited
annual financial statements

2012

Out of the Ordinary®

Investec

Specialist Bank and
Asset Manager

Corporate information

Investec Bank (Mauritius) Limited

Secretary and registered office

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Directorate

David M Lawrence (60)
BA (Econ) (Hons) MCom
Chairman

Peter RS Thomas (67)
CA(SA)

Craig C McKenzie (51)
BSc MSc (Agric Economics) CFA
Chief executive officer (CEO)

Pierre de Chasteigner du Mée (58)
ACEA FBIM FMAAT

Angelique Anne Desvaux De Marigny (36)
LLB, Barrister-at-Law
Maitrise en Droit Privé (Université de Paris I-Panthéon-Sorbonne)

Board committees

Board sub-committee

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

Audit committee

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

In attendance
Mark Trollip (global head of market risk)
Craig C McKenzie (CEO)
Lara Ann Vaudin (COO)
Internal audit and compliance officer
Group head of internal audit
Group compliance officer
External auditors

Compensation and nomination committee

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

In attendance
Craig C McKenzie (CEO)
Lara Ann Vaudin (COO)

Conduct review and risk policy committee

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

In attendance
Craig C McKenzie (CEO)

Governance committee

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

Investment committee

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

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Investec Bank (Mauritius) Limited
in perspective

Investec in perspective

Who we are

Investec (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, we acquired a banking licence in 1980 and were listed on the JSE Limited South Africa in 1986.

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

Since inception, we have expanded through a combination of substantial organic growth and a series of strategic acquisitions. Today, we have an efficient integrated international business platform, offering all our core activities in the UK and South Africa, and select activities in Australia.

Mission statement

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

What we do

We are an international specialist bank and asset manager that provides a diverse range of financial products and services to a niche client base in three principal markets, the UK, South Africa and Australia as well as certain other countries. Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity namely, Asset Management, Wealth & Investment and Specialist Banking.

Our strategic goals and objectives are based on the aspiration to be recognised as a distinctive specialist bank and asset manager. This distinction is embodied in our entrepreneurial culture, which is balanced by a strong risk management discipline, client-centric approach and ability to be nimble, flexible and innovative. We do not seek to be all things to all people and aim to build well-defined, value-added businesses focused on serving the needs of select market niches where we can compete effectively.

Values

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

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

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

Cast-iron integrity
- Moral strength
- Risk consciousness
- Highest ethical standards

Philosophies

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

Overview of Investec Bank (Mauritius) Limited

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

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

What we do

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

The bank offers the following services:

Specialised finance and lending

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

The bank also offers residential and commercial property finance and is actively involved in financing commercial property developments as well as integrated resort schemes (IRS), real estate schemes (RES) 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 transactional banking facility that allows deposit account holders to transact online, view account balances, transaction history and monthly statements. This offering is currently being extended to provide an online solution for users to open accounts and execute foreign currency dealings.

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.

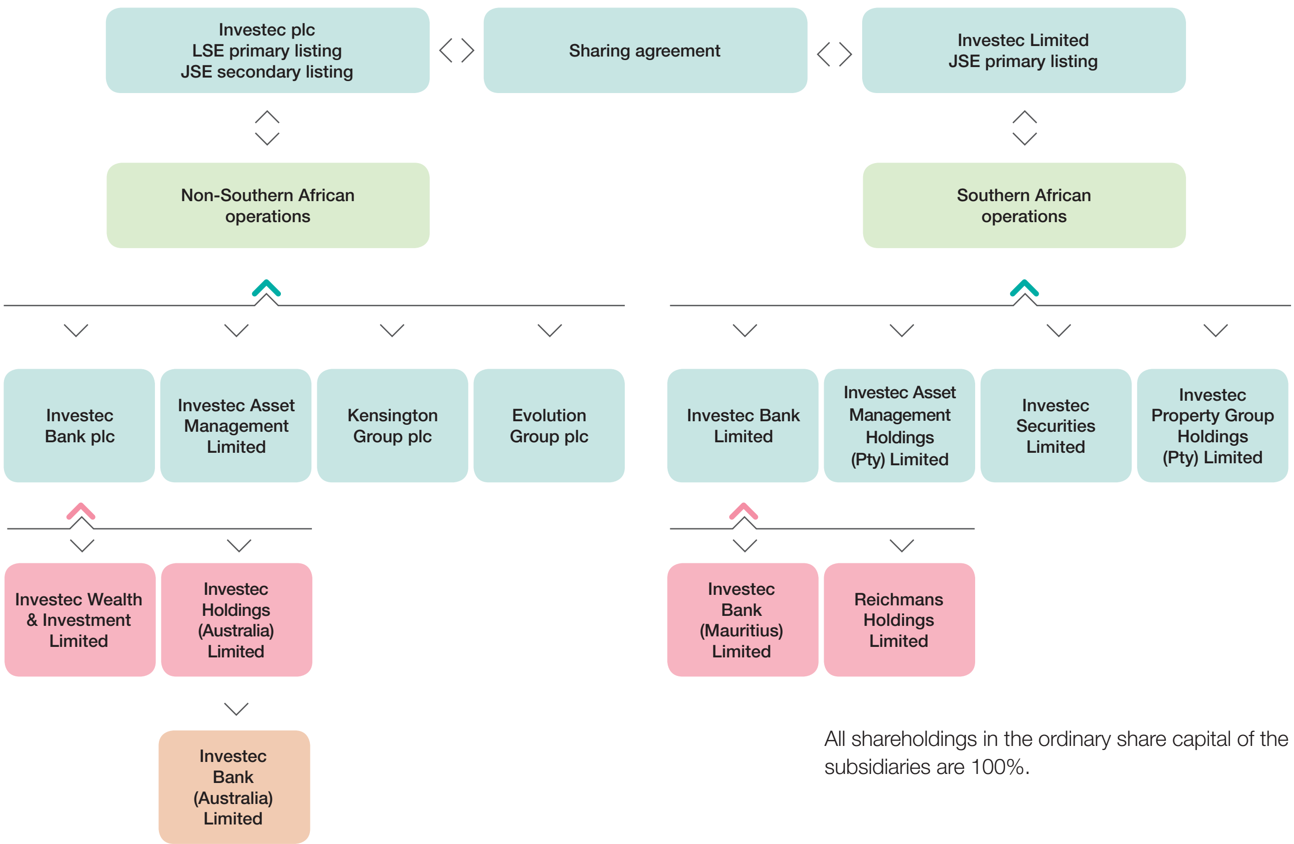
Overview of Investec's and Investec Bank (Mauritius) Limited's organisational structure

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

Our DLC structure and main operating subsidiaries as at 31 March 2012



All shareholdings in the ordinary share capital of the subsidiaries are 100%.

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.

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

Management discussion and analysis

Management discussion and analysis

Business and strategic overview

The global economy continued to remain subdued as a result of weaknesses in the mainstream economies, unrest in the Middle East and the pursuance of austerity measures across several European countries. The outlook for 2013 is uncertain with no clear signs of recovery in developed economies and slowing growth in China and India. The bank will continue to remain vigilant whilst capturing opportunities that present themselves as a result of continued restructuring of the global banking industry and significant fiscal and sovereign debt issues in many Eurozone countries.

An overview of the bank's performance

Salient financial features

For the year to 31 March USD'000	2012	2011	2010
Income statement			
Net interest income	34 115	34 708	37 152
Net fee and commission income	1 704	1 925	2 868
Net mark to market movements	15 687	16 402	(12 131)
Total operating income	45 700	44 848	92 950
Impairment losses	(9 403)	(12 979)	(2 308)
Net operating income	36 297	31 869	90 642
Total operating expenses	(10 077)	(9 206)	(7 652)
Profit for the year	25 590	21 187	81 745
Balance sheet			
Loans and advances to customers	724 764	558 736	511 458
Total assets	1 160 902	830 748	1 087 428
Total shareholders' equity	271 112	250 113	228 926

Net Interest income decreased by 1.7% from USD34.7 million to USD34.1 million. However significant asset growth, with loans and advances increasing by 29.7%, was realised towards year end which will result in increased net interest and operating income going forward.

Net fee and commission income decreased by 11.5% to USD1.7 million mainly due to an increase in fee expense.

A positive mark to market gain of USD15.7 million on the bank's investment portfolio was made up as follows:

- USD5.2 million (2011: USD11.0 million) gain on structured credit investments
- USD10.5 million (2011: USD5.4 million) gain on listed and unlisted equity investments.

Impairment losses amounted to USD9.4 million (2011: USD13.0 million) and comprised:

- A loss on disposal of loans of USD5.7 million
- A movement in the required allowance for credit impairments of USD2.3 million
- A loss of USD1.4 million on an asset classified as held for sale.

Profit for the year increased by 20.8% to USD25.6 million from USD21.2 million last year.

Our current strategic focus is to…

- Build low capital intensive revenue
- Tightly manage costs while still investing for the future
- Maintain appropriate levels of capital and liquidity
- Continue the path of implementing our single bank strategy to create additional operational efficiencies and better service our clients
- Capture trade and investment opportunities between developed and emerging economies.

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 %	2012	2011	2010*	2010
Net interest margin**	3.7	3.6	4.0	4.0
Productivity ratio	22.0	20.5	16.6	8.2
Return on average equity	9.8	8.8	18.3	43.1
Return on average assets**	2.7	2.2	3.7	8.7
Cash to customer deposits	56.5	36.5	76.2	76.2
Capital adequacy ratio	28.6	40.2	35.4	35.4
Tier 1 ratio	27.6	39.2	34.6	34.6

* *Figures excluding gain on functional currency.*

** *Figures based on average earning assets.*

Net interest margin remained stable at 3.7% (2011: 3.6%).

The productivity ratio, which is the ratio of non-interest expense to net interest income and other income, increased to 22.0% in 2012 from 20.5% in 2011 mainly due to an increase in operating expenses.

The return on average equity increased to 9.8% (2011: 8.8%) due to an increase in net profit reported for the year.

The return on average assets increased to 2.7% in 2012 (2011: 2.2%) as a result of an increase in net profit for the year.

The cash to customer deposits ratio increased to 56.5% from 36.5% in 2011 due to an increase in cash holdings.

The capital adequacy ratio decreased to 28.6% (2011: 40.2%) due to an increase in risk weighted assets resulting from growth. The bank has significant excess capital compared with the minimum regulatory requirement of 10%. The capital base is mainly made up of tier 1 capital representing 96.4% of the capital base. The bank has a long-term capital adequacy ratio target of 13% – 15%

The bank has a target return on assets of 2.5% and a target return on equity of 13.5%. The return on equity was not achieved due to excess capital on hand. Management is of the view that excess capital will be profitably employed going forward as quality assets and transactions present themselves as a result of deleveraging amongst competitive banks.

Interest income and related assets

For the year to 31 March USD'000	2012		2011		2010	
	Interest income	Related assets	Interest income	Related assets	Interest income	Related assets
Due from banks	1 003	221 030	1 347	129 458	407	366 057
Loans and advances to customers	32 872	724 764	35 230	558 736	35 810	511 458
Held-to-maturity financial assets	3 954	125 218	421	–	777	16 097
Amount due from group companies	656	16 597	1 263	49 840	9 140	95 250
Financial assets designated at fair value through profit or loss	4 727	6 786	8 355	15 757	5 452	15 875
Financial assets – loans and receivable	579	3 212	566	3 223	20	3 048
Total	43 791	1 097 607	47 182	757 014	51 606	1 007 785

Interest expense and related liabilities

For the year to 31 March USD'000	2012 Interest expense	2012 Related liabilities	2011 Interest expense	2011 Related liabilities	2010 Interest expense	2010 Related liabilities
Deposits by banks	269	2 039	639	80 058	736	79 906
Due to customers	4 361	397 730	4 094	372 685	4 924	488 145
Debt securities in issue	3 459	219 904	–	–	497	–
Amount due to group companies	1 587	251 107	7 741	106 601	8 297	253 989
Total	9 676	870 780	12 474	559 344	14 454	822 040

Operating expenses

For the year to 31 March USD'000	2012	2011	2010
Personnel expenses	4 759	4 554	4 038
Depreciation of equipment	127	133	144
Other operating expenses	5 191	4 519	3 470
Total	10 077	9 206	7 652

Total operating expenses increased to USD10.1 million (2011: USD9.2 million) mainly associated with the implementation of the bank's transactional online banking system.

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 9 to 48) with further disclosures provided within the financial statements section (pages 58 to 121). All sections, paragraphs, tables and graphs on which an audit opinion is expressed are marked as audited.

Philosophy and approach

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

Risk management's objectives

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

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

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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 by 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; the bank's risk appetite continues to favour lower risk, income-based lending, with credit risk taken over a short to medium term. Exposure is taken against defined target clients displaying a profile of good character, sound financial strength and integrity, a core competency and a sound track record in the activity funded. The credit loss ratio amounted to 1.2% of core loans and advances
- Limited exposure to rated and unrated structured credit investments; representing less than 1% of total assets
- A low leverage ratio of approximately 4.3 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 and increased its net tangible asset value 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 operated on a number of fronts over the past three years. The bank's overall risk management philosophies, practices and frameworks have remained largely unchanged, and have stood the bank in good stead. Maintaining credit quality, strictly managing risk and liquidity and continuing to grow the capital base remain core strategic imperatives.

An overview of key risks

In the ordinary course of business the bank faces a number of risks that could affect its business operations. These risks are summarised 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 exposes us to losses caused by financial or other problems experienced by our clients	See pages 12 to 33
Liquidity risk may impair our ability to fund our operations	See pages 38 to 40
Net interest earnings and net asset value may be adversely affected by interest rate risk	See pages 35 to 37
Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways	See pages 33 to 34
The bank may be unable to recruit, retain and motivate key personnel	See the Investec group's 2012 annual report
Employee misconduct could cause harm that is difficult to detect	See pages 41 to 43
Operational risk may disrupt our business or result in regulatory action	See pages 41 to 43
The bank is exposed to non-traded currency risk, where fluctuations in exchange rates against the US Dollar could have an impact on our financial results	See page 41
The bank may be vulnerable to the failure of our systems and breaches of our security systems	See pages 41 to 43
The bank may have insufficient capital in the future and may be unable to secure additional financing when it is required	See pages 46 to 48
The financial services industry in which we operate is intensely competitive	See pages 3 to 5
Legal and regulatory risks are substantial in our businesses	See page 44
Reputational, strategic and business risk	See pages 43 to 44

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:

Investec Bank (Mauritius) Limited – board of directors

Board sub-committee	Audit committee	Compensation and nomination committee	Governance committee	Conduct review and risk policy committee	Investment committee

Board committees

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

Board sub-committee

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

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 external auditors and the group internal auditors respectively, in order to ensure that there are adequate internal controls to safeguard its assets and integrity. The committee comprises three members who are independent external directors. In addition to the chief executive officer, the global head of market risk, the chief operating officer, the compliance officer, the group head of internal audit, the group compliance officer and the external auditors are invitees. Two audit committee meetings were held during the year under review.

Compensation and nomination committee

This committee comprises three members, with the chief executive officer, chief operating officer and the head of group HR being invitees. The committee reviews the salaries and bonuses of employees and senior management based on key performance indicators. The committee is also responsible for identifying and nominating candidates for the approval of the board to fill board vacancies, as and when required. The committee met four times during the year under review.

Governance committee

This committee comprises the chairman and two independent external directors 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 and may be asked to appraise the performance of the board as a whole as well as its committees.

Conduct review and risk policy committee

This committee comprises three members, two of which are independent external directors. The committee monitors and reviews all related party transactions and ensures that market-based terms and conditions are applied to all related party transactions. The committee met five times during the year under review and noted no breaches of the guideline on related party transactions issued by the Bank of Mauritius.

Group Risk Management objectives are to:

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

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The bank's credit committee manages, measures and mitigates credit and counterparty risk.

Investment committee

This committee comprises the chairman of the board, the chief executive officer and one independent external director. The committee is responsible for the review and management of the bank's investment portfolio and the review of new investment proposals. It makes its determination known to the credit committee. The investment committee meets on a monthly basis in order to conduct its affairs.

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 various management committees and forums.

Credit and counterparty risk management

Credit and counterparty risk 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. In terms of our definition, settlement debtors receivable in the short-term (i.e. less than three days) are excluded from credit and counterparty risk due to market guaranteed settlement mechanisms.
  - 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.

In April 2010, the Bank of Mauritius issued a guideline on country risk management which became effective in October 2010. The bank's board has approved and adopted a country and sovereign risk policy in order to ensure the bank's compliance with the above-mentioned guideline.

In terms of the policy, for the purpose of country and sovereign risk classification and the setting of corresponding limits, the bank's credit committee shall choose the country from which the cash flow shall emanate in order to service the bank's debt.

For country and sovereign risk provisioning purposes, the bank's credit committee shall choose the stronger rated country between the country from which the cash flow shall emanate in order to service the debt and the country where the bank will look to perfect its security in the first instance.

As at 31 March 2012, the bank has provided an amount of USD1.6 million in respect of country risk which is included in tier 2 capital as part of 'General Banking Reserves and Portfolio Provisions'.

Credit and counterparty risk governance structure 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 operations committee and management committee review the management of distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision
- The bank's investment committee reviews and manages exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements
- The bank's credit review committee reviews all credit exposures on an annual basis.

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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 ensures that good quality collateral is provided in support of obligations (refer to pages 32 and 33 for further information).

Target clients include high net worth individuals, high income earning individuals, corporates, state owned enterprises 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 our clients.

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

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 bank's target market
- A quantitative and qualitative assessment of the creditworthiness of the bank's 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.

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 regard 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 uses ratings prepared externally where available for support. Within the credit approval process all available internal and external ratings are included in the assessment of the client quality.

Fitch, 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 exceeds 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 2012, there were only four customers or group of closely related customers to whom the bank granted facilities for amounts aggregating more than 15% of its capital base. These large exposures aggregating to USD195.1 million (2011: USD210.3 million, 2010: USD279.7 million) were 70.2% (2011: 82%, 2010: 120%) of the total capital base and were below the regulatory limit of 1 200%.

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 conduct review and risk policy committee (CRRPC), which consists of three non-executive directors, 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	2012	2011	2010
On- and off-balance sheet credit exposure (USD'million)	33.0	62.4	67.8
On- and off-balance sheet credit exposure to all customers (%)	2.9	7.6	6.3
Proportion of credit exposure that has become non-performing as a result of negative mark to market adjustments (%)	4.2	16.8	3.9
Amount of credit exposure to six related parties with the highest exposure (USD'million)	32.9	59.2	57.7
Amount of credit exposure to six related parties with the highest exposure to tier 1 capital (%)	12.3	23.8	25.3

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 dividend 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 impairment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses 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 25). 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' of the Basel II framework. IFRS focuses on the concept of incurred loss, whereas Basel II centres 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 homogeneous portfolio, a portfolio impairment is required which recognises asset impairments that have not been individually identified. The portfolio impairment takes into account past events and does not cover impairments to exposures arising out of uncertain future events. By definition, this impairment is only calculated for credit exposures which are managed on a portfolio basis and only for assets where a loss trigger event has occurred.	Past due	An account is considered to be past due when it is greater than zero and less than or equal to 60 days past due the contractual/credit agreed payment due date. Management however is not concerned and there is confidence in the counterparty's ability to repay the past due obligations.
		Special mention	The counterparty is placed in special mention when that counterparty is considered to be experiencing difficulties that may threaten the counterparty's ability to fulfil 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.

<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>

Credit risk mitigation Audited

Acceptable collateral generally exhibits characteristics that allow for it to be easily identified 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. 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 of every property offered as collateral for a lending facility before advancing funds under the credit facility and to revalue all properties held as collateral on a regular basis, at the discretion of the credit committee. Properties are valued by a combination of computer aided valuation (CAV) and approved valuers, if applicable.

The majority of credit mitigation within our 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
- 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 denominated in the same currency and have identical maturities
- Exposures subject to set-off are risk-managed on a net basis; and
- 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 32 and 33.

Credit and counterparty risk year in review

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

- The existing debt burden on consumers
- Continuation of inflationary pressures as a result of oil and utility price increases
- Increased investment by corporates during the fourth quarter of 2011
- Low to moderate infrastructure spending by government
- The European sovereign debt crisis and contagion fears
- Less market volatility, although the European debt crisis contributed to market volatility towards the end of the third quarter of 2011
- The property market remains under pressure with low growth across the residential property market and moderate growth across the commercial property market.

Collateral is assessed with reference to the sustainability of value and the likelihood of realisation.

We are conscious of the effect of the low or static growth in the property market and the impact on our portfolio secured by property. The high net worth and/or stable income streams of our target market clients provides a level of protection from decreases in property values. Before the start of the global financial crisis, 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 adherence to lower loan to value lending and a continuation of downward pricing pressures.

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

Gross core loans and advances increased by 29.8% to USD732.1 million. Default loans (net of impairments) as a percentage of core loans and advances remained stable at 0.00%. The credit loss ratio has increased from 0.07 % to 1.2%.

Credit and counterparty risk information

Pages 12 to 24 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

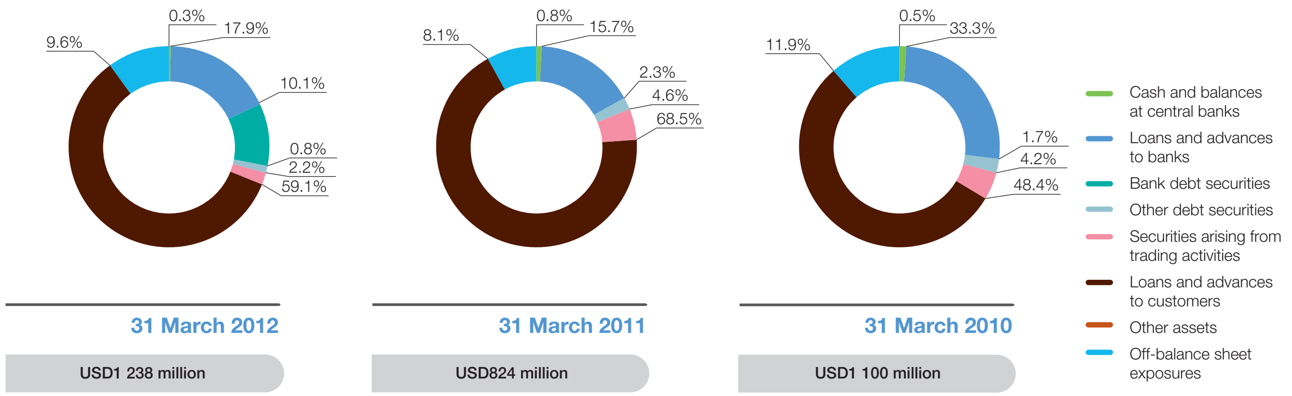
Credit and counterparty exposures increased by 50% to USD1.238 billion.

Audited For the year to 31 March USD'000	2012	2011	2010	% change 2012 vs 2011	Average* 2012 vs 2011	% change 2012 vs 2011	Average* 2011 vs 2010
On-balance sheet exposures							
Cash and balances at central banks	3 820	6 750	5 850	(43.4%)	5 285	15.4%	6 300
Loans and advances to banks	221 030	129 458	366 057	70.7%	175 244	(64.6%)	247 757
Bank debt securities	125 218	–	–	100.0%	62 609	–	–
Other debt securities	9 998	18 980	18 923	(47.3%)	14 489	0.3%	18 952
Securities arising from trading activities	27 038	37 990	46 450	(28.8%)	32 514	(18.2%)	42 220
Loans and advances to customers	732 142	563 929	532 293	29.8%	648 036	5.9%	548 111
Other assets	–	–	140	–	–	(100.0%)	70
Total on-balance sheet credit and counterparty exposures	1 119 246	757 107	969 713	47.8%	938 178	(22%)	863 410
Guarantees^	27 543	5 419	35 592	>100.0%	16 481	(84.8%)	20 506
Committed facilities	91 359	61 380	95 126	48.8%	76 370	(35.5%)	78 253
Off-balance sheet exposures	118 902	66 799	130 718	78.0%	92 851	(48.9%)	98 759
Total gross credit and counterparty exposures pre collateral or other credit enhancements	1 238 148	823 906	1 100 431	50.3%	1 031 027	(25.1%)	962 169

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

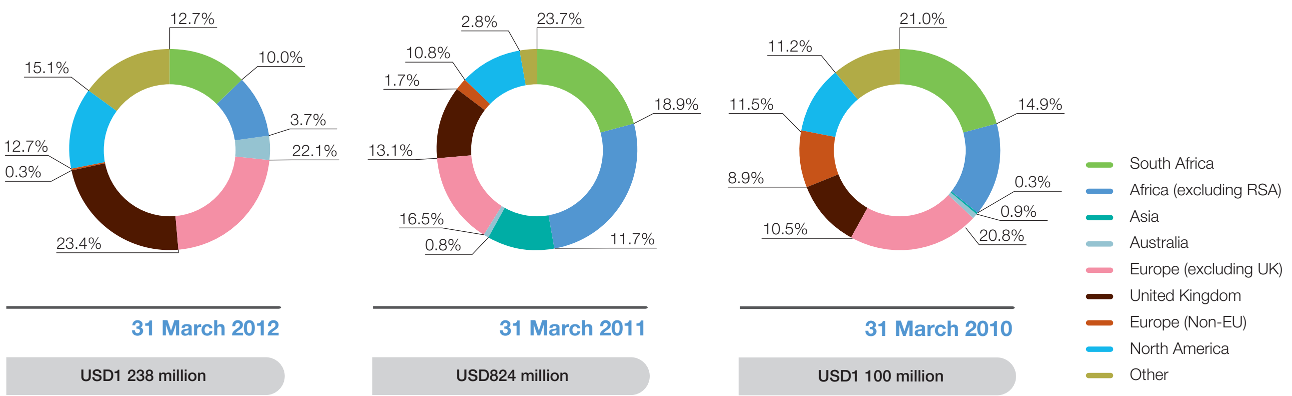
^ *Excludes guarantees provided to clients which are backed/secured by cash deposit with the bank.*

An analysis of gross credit and counterparty exposures



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 2012 was USD75.4 million (2011: USD62 million and 2010: USD83 million).

An analysis of gross credit and counterparty exposures by geography



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

The tables below indicate 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.

Audited USD'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
As at 31 March 2012				
Cash and balances at central banks	3 820	3		3 823
Loans and advances to banks	221 030	–		221 030
Bank debt securities	125 218	–		125 218
Other debt securities	9 998	–		9 998
Securities arising from trading activities	27 038	1 799		28 837
Loans and advances to customers	732 142	(7 378)	1	724 764
Other assets	–	6 988		6 988
Investment portfolio	–	17 982	2	17 982
Interest in associated undertakings	–	4 915		4 915
Deferred taxation assets	–	250		250
Property and equipment	–	482		482
Intangible assets	–	3		3
Intergroup	–	16 597		16 597
Investment in subsidiary companies	–	15		15
Total on-balance sheet exposures	1 119 246	41 656		1 160 902
As at 31 March 2011				
Cash and balances at central banks	6 750	2		6 752
Loans and advances to banks	129 458	–		129 458
Bank debt securities	–	–		–
Other debt securities	18 980	–		18 980
Securities arising from trading activities	37 990	910		38 900
Loans and advances to customers	563 929	(5 193)	1	558 736
Other assets	–	589		589
Investment portfolio	–	8 740	2	8 740
Interest in associated undertakings	–	4 915		4 915
Deferred taxation assets	–	78		78
Property and equipment	–	537		537
Intangible assets	–	13 208		13 208
Intergroup	–	49 840		49 840
Investment in subsidiary companies	–	15		15
Total on-balance sheet exposures	757 107	73 641		830 748

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

Audited USD'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
As at 31 March 2010				
Cash and balances at central banks	5 850	1		5 851
Loans and advances to banks	366 057	–		366 057
Bank debt securities	–	–		–
Other debt securities	18 923	–		18 923
Securities arising from trading activities	46 450	16 503		62 953
Loans and advances to customers	516 196	(4 738)	1	511 458
Other assets	140	840		980
Investment portfolio	16 097	5 004	2	21 101
Interest in associated undertakings	–	4 000		4 000
Deferred taxation assets	–	162		162
Property and equipment	–	678		678
Intergroup	–	95 250		95 250
Investment in subsidiary companies	–	15		15
Total on-balance sheet exposures	969 713	117 715		1 087 428

1. *Largely relates to impairments.*
2. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 33 and 34.*

2

2

Detailed analysis of gross credit and counterparty exposures by industry

Audited USD'000	Professional	Agriculture	Construction	Personal	Global business licence holders	Finance and business services
As at 31 March 2012						
Other debt securities	–	–	–	–	–	9 998
Bank debt securities	–	–	–	–	–	125 218
Bank placements	–	–	–	–	–	224 850
Securities arising from trading activities	–	–	–	–	–	27 038
Loans and advances to customers	38 840	726	353 640	222	30 366	58 332
On-balance sheet exposures	38 840	726	353 640	222	30 366	445 436
Guarantees	5 418	–	20 823	–	134	–
Committed facilities	235	–	23 857	–	22 299	9 205
Off-balance sheet exposures	5 653	–	44 680	–	22 433	9 205
Total gross credit and counterparty exposures pre collateral or other credit enhancements	44 493	726	398 320	222	52 799	454 641
As at 31 March 2011						
Other debt securities	–	–	–	–	–	18 980
Bank placements	–	–	–	–	–	136 208
Securities arising from trading activities	–	–	–	–	–	37 990
Loans and advances to customers	52 761	1 906	123 234	170	83 224	152 894
On-balance sheet exposures	52 761	1 906	123 234	170	83 224	346 072
Guarantees	1 326	–	1 628	–	–	2 465
Committed facilities	678	–	1 515	–	24 000	9 246
Off-balance sheet exposures	2 004	–	3 143	–	24 000	11 711
Total gross credit and counterparty exposures pre collateral or other credit enhancements	54 765	1 906	126 377	170	107 224	357 783
As at 31 March 2010						
Other debt securities	–	–	–	–	–	18 923
Bank placements	–	–	–	–	–	371 907
Securities arising from trading activities	–	–	–	–	–	46 450
Other credit exposures	140	–	–	–	–	–
Loans and advances to customers	55 474	9 272	102 439	162	63 521	119 171
Total on-balance sheet exposures	55 614	9 272	102 439	162	63 521	556 451
Guarantees	2 763	–	12 434	–	–	20 395
Committed facilities	3 482	22 000	28 915	–	15 010	14 126
Total off-balance sheet exposures	6 245	22 000	41 349	–	15 010	34 521
Total gross credit and counterparty exposures pre collateral or other credit enhancements	61 859	31 272	143 788	162	78 531	590 972

	Traders	Manu-facturing	Transport	Tourism	Infra-structure	Information, communi-cation and technology	Media, entertainment and recreational	Other entities	Total
	–	–	–	–	–	–	–	–	9 998
	–	–	–	–	–	–	–	–	125 218
	–	–	–	–	–	–	–	–	224 850
	–	–	–	–	–	–	–	–	27 038
	40 617	103 499	31 817	29 055	9 288	21 991	7 500	6 249	732 142
	40 617	103 499	31 817	29 055	9 288	21 991	7 500	6 249	1 119 246
	–	–	–	1 168	–	–	–	–	27 543
	–	5 133	–	2 260	2 387	16 519	4 797	4 667	91 359
	–	5 133	–	3 428	2 387	16 519	4 797	4 667	118 901
	40 617	108 632	31 817	32 483	11 675	38 510	12 297	10 916	1 238 148
	–	–	–	–	–	–	–	–	18 980
	–	–	–	–	–	–	–	–	136 208
	–	–	–	–	–	–	–	–	37 990
	13 179	33 607	54 890	25 825	5 441	–	16 722	76	563 929
	13 179	33 607	54 890	25 825	5 441	–	16 722	76	757 107
	–	–	–	–	–	–	–	–	5 419
	2 396	–	–	7 499	–	–	4 814	11 232	61 380
	2 396	–	–	7 499	–	–	4 814	11 232	66 799
	15 575	33 607	54 890	33 324	5 441	–	21 536	11 308	823 906
	–	–	–	–	–	–	–	–	18 923
	–	–	–	–	–	–	–	–	371 907
	–		–	–	–	–	–	–	46 450
	–	–	–	–	–	–	–	–	140
	346	90 132	48 605	–	–	–	–	43 171	532 293
	346	90 132	48 605	–	–	–	–	43 171	969 713
	–	–	–	–	–	–	–	–	35 592
	–	1 373	–	–	–	–	–	10 220	95 126
	–	1 373	–	–	–	–	–	10 220	130 718
	346	91 505	48 605	–	–	–	–	53 391	1 100 431

Summary analysis of gross credit and counterparty exposure by industry

USD'000	Loans and advances to customers			Other credit and counterparty exposures			Total		
	31 March 2012	31 March 2011	31 March 2010	31 March 2012	31 March 2011	31 March 2010	31 March 2012	31 March 2011	31 March 2010
Professional	38 840	52 761	55 474	5 653	2 004	6 385	44 493	54 765	61 859
Agriculture	726	1 906	9 272	–	–	22 000	726	1 906	31 272
Construction	353 640	123 234	102 439	44 680	3 143	41 349	398 320	126 377	143 788
Personal	222	170	162	–	–	–	222	170	162
Global business licence holders	30 366	83 224	63 521	22 433	24 000	15 010	52 799	107 224	78 531
Finance and business services	58 332	152 894	119 171	396 309	204 888	471 801	454 641	357 783	590 972
Traders	40 617	13 179	346	–	2 396	–	40 617	15 575	346
Manufacturing	103 499	33 607	90 132	5 133	–	1 373	108 632	33 607	91 505
Transport	31 817	54 890	48 605	–	–	–	31 817	54 890	48 605
Tourism	29 055	25 825	–	3 428	7 500	–	32 483	33 324	–
Infrastructure	9 288	5 441	–	2 387	–	–	11 675	5 441	–
Information, communication and technology	21 991	–	–	16 519	–	–	38 510	–	–
Media, entertainment and recreational	7 500	16 722	–	4 797	4 814	–	12 297	21 536	–
Other entities	6 249	76	43 171	4 667	11 231	10 220	10 916	11 308	53 391
Total	732 142	563 929	532 293	506 006	259 976	568 138	1 238 148	823 906	1 100 431

Asset quality and impairments

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

The tables that follow provide information with respect to the asset quality of the bank's core loans and advances to customers. An overview of development during the financial year is provided on page 17.

Audited USD'000	31 March 2012	31 March 2011	31 March 2010
Gross core loans and advances to customers	732 142	563 929	532 293
Total impairments	(7 378)	(5 117)	(4 738)
Portfolio impairments	(7 158)	(4 893)	(4 524)
Specific impairments	(220)	(224)	(214)
Net core loans and advances to customers	724 764	558 812	527 555
Average gross core loans and advances to customers	648 036	548 111	512 707
Current loans and advances to customers	705 769	556 051	504 500
Past due loans and advances to customers (1 – 60 days)	24 153	2 761	18 297
Special mention loans and advances to customers	196	–	2 187
Default loans and advances to customers	2 024	5 117	7 309
Gross core loans and advances to customers	732 142	563 929	532 293
Current loans and advances to customers	705 769	556 051	504 500
Gross core loans and advances to customers that are past due but not impaired	24 956	6 304	25 933
Gross core loans and advances to customers that are impaired	1 417	1 574	1 860
Gross core loans and advances to customers	732 142	563 929	532 293
Total income statement charge for impairments on loans and advances	7 970	(364)	(125)
Gross default loans and advances to customers	2 024	5 117	7 309
Specific impairments	(220)	(224)	(214)
Portfolio impairments	(7 158)	(4 893)	(4 524)
Defaults net of impairments	(5 354)	–	2 571
Collateral and other credit enhancements	2 716	9 406	20 780
Net default loans and advances to customers (limited to zero)	–	–	–
Ratios:			
Total impairments as a % of gross core loans and advances to customers	(1.01%)	(0.91%)	(0.89%)
Total impairments as a % of gross default loans	>100.0%	(7.11%)	(1.71%)
Gross defaults as a % of gross core loans and advances to customers	0.28%	0.91%	1.37%
Defaults (net of impairments) as a % of net core loans and advances to customers	(0.74%)	–	0.49%
Net defaults as a % of gross core loans and advances to customers	–	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross loans and advances)	1.23%	(0.07%)	(0.02%)

2

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

USD'000	31 March 2012	31 March 2011	31 March 2010
Default loans that are current			
1 – 60 days	25 213	3 895	19 105
61 – 90 days	196	–	2 187
91 – 180 days	160	2 928	6 134
181 – 365 days	447	127	367
>365 days	357	928	–
Past due and default core loans and advances to customers (actual capital exposure)	26 373	7 878	27 793
1 – 60 days	982	228	1 148
61 – 90 days	11	–	77
91 – 180 days	17	158	201
181 – 365 days	117	28	14
>365 days	93	272	–
Past due and default core loans and advances to customers (actual amount in arrears)	1 220	687	1 440

A further age analysis of past due and default core loans and advances to customers

USD'000	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
As at 31 March 2012						
Gross core loans and advances to customers that are past due but not impaired						
Total capital exposure	24 153	196	160	447	–	24 956
Amount in arrears	976	11	17	117	–	1 121
Gross core loans and advances to customers that are impaired						
Total capital exposure	1 060	–	–	–	357	1 417
Amount in arrears	6	–	–	–	93	99
As at 31 March 2011						
Gross core loans and advances to customers that are past due but not impaired						
Total capital exposure	3 895	–	1 679	127	603	6 304
Amount in arrears	228	–	101	28	229	586
Gross core loans and advances to customers that are impaired						
Total capital exposure	–	–	1 249	–	325	1 574
Amount in arrears	–	–	57	–	43	100
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

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 2012 was USD85.1 million (2011: USD17 million and 2010: USD158 million).

An age analysis of past due and default core loans and advances to customers as at 31 March 2012 (based on total capital exposure)

USD'000	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	24 153	–	–	–	–	24 153
Special mention	–	196	–	–	–	196
Special mention (1 – 90 days)	–	–	–	–	–	–
Special mention (61 – 90 days and item well secured)	–	196	–	–	–	196
Default	1 060	–	160	447	357	2 024
Sub-standard	–	–	160	447	–	607
Doubtful	1 060	–	–	–	357	1 417
Total	25 213	196	160	447	357	26 373

An age analysis of past due and default core loans and advances to customers as at 31 March 2012 (based on actual amount in arrears)

USD'000	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	976	–	–	–	–	976
Special mention	–	11	–	–	–	11
Special mention (1 – 90 days)	–	–	–	–	–	–
Special mention (61 – 90 days and item well secured)		11				11
Default	6	–	17	117	93	233
Sub-standard	–	–	17	117	–	134
Doubtful	6	–	–	–	93	99
Total	982	11	17	117	93	1 220

An age analysis of past due and default core loans and advances to customers as at 31 March 2011 (based on total capital exposure)

USD'000	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	2 761	–	–	–	–	2 761
Special mention	–	–	–	–	–	–
Special mention (1 – 90 days)	–	–	–	–	–	–
Special mention (61 – 90 days and item well secured)	–	–	–	–	–	–
Default	1 134	–	2 928	127	928	5 117
Sub-standard	1 134	–	1 679	127	603	3 543
Doubtful	–	–	1 249	–	325	1 574
Total	3 895	–	2 928	127	928	7 878

An age analysis of past due and default core loans and advances to customers as at 31 March 2011 (based on actual amount in arrears)

USD'000	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	208	–	–	–	–	208
Special mention	–	–	–	–	–	–
Special mention (1 – 90 days)	–	–	–	–	–	–
Special mention (61 – 90 days and item well secured)	–	–	–	–	–	–
Default	20	–	158	28	272	478
Sub-standard	20	–	101	28	229	378
Doubtful	–	–	57	–	43	100
Total	228	–	158	28	272	686

An age analysis of past due and default 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	>365 days	Total
Past due (1 – 60 days)	18 297	–	–	–	–	18 297
Special mention	–	2 187	–	–	–	2 187
Special mention (1 – 90 days)	–	–	–	–	–	–
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 past due and default 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	>365 days	Total
Past due (1 – 60 days)	1 148	–	–	–	–	1 148
Special mention	–	77	–	–	–	77
Special mention (1 – 90 days)	–	–	–	–	–	–
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

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 impair-ments	Portfolio impair-ments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
As at 31 March 2012								
Current core loans and advances	705 769	–	–	705 769	–	(6 961)	698 808	–
Past due (1 – 60 days)	–	24 153	–	24 153	–	(197)	23 956	976
Special mention	–	196	–	196	–	–	196	11
Special mention (61 – 90 days and item well secured)	–	196	–	196	–	–	196	11
Default	–	607	1 417	2 024	(220)	–	1 804	233
Sub-standard	–	607	–	607	–	–	607	134
Doubtful	–	–	1 417	1 417	(220)	–	1 197	99
Total	705 769	24 956	1 417	732 142	(220)	(7 158)	724 764	1 220
As at 31 March 2011								
Current core loans and advances	556 051	–	–	556 051	–	(4 872)	551 179	–
Past due (1 – 60 days)	–	2 761	–	2 761	–	(21)	2 740	208
Special mention	–	–	–	–	–	–	–	–
Special mention (61 – 90 days and item well secured)	–	–	–	–	–	–	–	–
Default	–	3 543	1 574	5 117	(224)	–	4 893	478
Sub-standard	–	3 543	–	3 543	–	–	3 543	378
Doubtful	–	–	1 574	1 574	(224)	–	1 350	100
Total	556 051	6 304	1 574	563 929	(224)	(4 893)	558 812	686
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

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 (61 – 90 days and item well secured)
As at 31 March 2012			
Professional	37 106	121	196
Agriculture	726	–	–
Construction	353 369	–	–
Personal	222	–	–
Global business licence holders	24 314	6 051	–
Financial and business services	57 997	–	–
Traders	40 617	–	–
Manufacturing	103 499	–	–
Transport	29 825	1 993	–
Tourism	13 066	15 988	–
Infrastructure	9 288	–	–
Information, communication and technology	21 991	–	–
Media, entertainment and recreational	7 500	–	–
Other entities	6 249	–	–
Total gross core loans and advances to customers	705 769	24 153	196
As at 31 March 2011			
Professional	49 955	128	–
Agriculture	1 906	–	–
Construction	121 325	139	–
Personal	170	–	–
Global business licence holders	81 039	1 929	–
Financial and business services	151 916	565	–
Traders	13 179	–	–
Manufacturing	33 607	–	–
Transport	54 890	–	–
Tourism	25 825	–	–
Infrastructure	5 441	–	–
Media, entertainment and recreational	16 722	–	–
Other entities	76	–	–
Total gross core loans and advances to customers	556 051	2 761	–
As at 31 March 2010			
Professional	44 259	6 442	1 191
Agriculture	9 272	–	–
Construction	101 150	775	514
Personal	162	–	–
Global business licence holders	55 855	3 939	–
Financial and business services	118 689	–	482
Traders	346	–	–
Manufacturing	90 132	–	–
Transport	48 605	–	–
Tourism	15 696	7 141	–
Infrastructure	10 525	–	–
Other entities	9 809	–	–
Total gross core loans and advances to customers	504 500	18 297	2 187

Sub-standard	Doubtful	Total gross core loans and advances to customers	Portfolio impairments	Specific impairments	Total impairments
–	1 417	38 840	(380)	(220)	(600)
–	–	726	(7)	–	(7)
271	–	353 640	(3 457)	–	(3 457)
–	–	222	(2)	–	(2)
–	–	30 365	(297)	–	(297)
336	–	58 333	(570)	–	(570)
–	–	40 617	(397)	–	(397)
–	–	103 499	(1 012)	–	(1 012)
–	–	31 818	(311)	–	(311)
–	–	29 054	(284)	–	(284)
–	–	9 288	(91)	–	(91)
–	–	21 991	(215)	–	(215)
–	–	7 500	(73)	–	(73)
–	–	6 249	(62)	–	(62)
607	1 417	732 142	(7 158)	(220)	(7 378)
1 103	1 574	52 761	(458)	(224)	(682)
–	–	1 906	(17)	–	(17)
1 770	–	123 234	(1 069)	–	(1 069)
–	–	170	(1)	–	(1)
256	–	83 224	(722)	–	(722)
414	–	152 894	(1 327)	–	(1 327)
–	–	13 179	(114)	–	(114)
–	–	33 607	(292)	–	(292)
–	–	54 890	(476)	–	(476)
–	–	25 825	(224)	–	(224)
–	–	5 441	(47)	–	(47)
–	–	16 722	(146)	–	(146)
–	–	76	–	–	–
3 543	1 574	563 929	(4 893)	(224)	(5 117)
2 176	1 406	55 474	(450)	(214)	(664)
–	–	9 272	(24)	–	(24)
–	–	102 439	(830)	–	(830)
–	–	162	(1)	–	(1)
3 727	–	63 521	(515)	–	(515)
–	–	119 171	(1 306)	–	(1 306)
–	–	346	(3)	–	(3)
–	–	90 132	(730)	–	(730)
–	–	48 605	(394)	–	(394)
–	–	22 837	(144)	–	(144)
–	–	10 525	(66)	–	(66)
–	–	9 809	(61)	–	(61)
5 903	1 406	532 293	(4 524)	(214)	(4 738)

2

Collateral

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

USD'000	Collateral held against: Gross core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
As at 31 March 2012			
Eligible financial collateral	18 523	7 167	25 690
Listed shares	–	–	–
Cash	18 523	7 167	25 690
Debt securities issued by sovereigns	–	–	–
Mortgage bonds	862 988	1 980	864 968
Residential mortgages	154 385	–	154 385
Residential development	–	–	–
Commercial property developments	708 603	1 980	710 583
Other collateral	1 749 559	28 054	1 777 613
Unlisted shares	1 473 693	–	1 473 693
Bonds other than mortgage bonds	218 795	–	218 795
Guarantees	19 364	8 254	27 618
Other	37 707	19 800	57 507
Total collateral	2 631 070	37 201	2 668 271
As at 31 March 2011			
Eligible financial collateral	443 067	2 593	445 660
Listed shares	402 979	–	402 979
Cash	27 195	2 593	29 788
Debt securities issued by sovereigns	12 893	–	12 893
Mortgage bonds	609 210	2 243	611 453
Residential mortgages	163 687	–	163 687
Residential development	117 124	2 243	119 367
Commercial property developments	328 399	–	328 399
Other collateral	712 420	609	713 029
Unlisted shares	422 657	–	422 657
Bonds other than mortgage bonds	230 545	–	230 545
Guarantees	29 278	609	29 887
Other	29 940	–	29 940
Total collateral	1 764 697	5 445	1 770 142

* *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.*

USD'000	Collateral held against Gross core loans and advances	Collateral held against Other credit and counterparty exposures*	Total
As at 31 March 2010			
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 developments	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

* *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.*

Equity and investment risk in the banking book

The bank is exposed to equity and investment risk which may arise from the various investments it has made in listed and unlisted companies.

The credit committee reviews all new investment proposals and makes its recommendations known to the investment committee, being a board sub-committee. The investment committee reviews all new investment proposals and makes its determinations known to the group investment committee which will sanction the investments. The investment committee is empowered to sell securities as and when deemed appropriate.

The bank's investment committee manages the investment portfolio. The committee reviews the performance of the investment portfolio at least once a month and reports its findings to the board every quarter.

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

USD'000	Gains/ (losses) unrealised	Gains/ (losses) realised	Dividends, net interest and other	Total
For the year ended 31 March 2012				
Unlisted investments	10 198	–	–	10 198
Listed equities	(247)	555	–	308
Embedded derivatives	1 369	–	–	1 369
Total	11 320	555	–	11 875
For the year ended 31 March 2011				
Unlisted investments	3 765	69	–	3 834
Listed equities	(13)	7	–	(6)
Embedded derivatives	2 874	–	–	2 874
Total	6 626	76	–	6 702
For the year ended 31 March 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

Unrealised revaluation gains are included in tier 1 capital.

2

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 2012	Valuation change stress test* 31 March 2012	On-balance sheet value of investments 31 March 2011	Valuation change stress test* 31 March 2011	On-balance sheet value of investments 31 March 2010	Valuation change stress test* 31 March 2010
Unlisted investments	17 606	2 641	8 079	1 212	4 314	647
Listed equities	376	94	661	165	690	172
Other embedded derivatives	24 769	8 669	32 053	11 219	29 180	10 213
Total	42 751	11 404	40 793	12 596	34 184	11 032

* *In order to assess its 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%

Stress testing summary

Based on the information as at 31 March 2012, as reflected above, the bank could have a USD11.4 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario'). This would not cause the bank to report a loss but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which the bank operates being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is high.

Capital requirements

In terms of Basel 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 bank's treasury team collates all relevant market 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.

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 maintain 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.

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

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

Non-trading interest rate risk description Audited

Non-trading interest rate risk, otherwise known as interest rate risk in the banking book (IRRBB), 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 our customers.

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

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

Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon. The aim is to protect and enhance net interest income and economic value in accordance with the board approved risk appetite. The standard tools that are used to measure the sensitivity of earnings to changes in interest rates are the repricing gap which provides a basic representation of the balance sheet structure and allows for the detection of interest rate risk by concentration of repricing, net interest income sensitivity which measures the change in accruals expected over the specified horizon in response to a shift in the yield curve, and economic value sensitivity and stress-testing to macroeconomic movement or changes which 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 scenarios incorporating movements in the yield curve level and shape by geography taking global trends into account.

This combination of measures provides senior management (and 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 closely monitors net interest margins by entering into a number of interest rate swaps to protect it against changes in interest rates.

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.

2

2

Interest rate sensitivity gap Audited

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

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
At 31 March 2012							
Cash and short-term funds – banks	225	–	–	–	–	–	225
Investment/trading assets	13	–	3	–	111	56	183
Advances	669	6	9	41	–	–	725
Other assets	–	–	–	–	–	7	7
Assets	907	6	12	41	111	63	1 140
Deposits – banks	(2)	–	–	–	–	–	(2)
Deposits – non-banks	(324)	(12)	(26)	(36)	–	–	(398)
Investment/trading liabilities	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	(14)	(14)
Liabilities	(326)	(12)	(26)	(36)	–	(14)	(414)
Intercompany loans	(336)	(5)	(2)	–	(111)	–	(454)
Shareholders' funds	–	–	–	–	–	(271)	(271)
Balance sheet	245	(11)	(16)	5	–	(222)	1
Off-balance sheet	(7)	(1)	(7)	14	–	–	(1)
Repricing gap	238	(12)	(23)	19	–	(222)	–
Cumulative repricing gap	238	226	203	222	222	–	
At 31 March 2011							
Cash and short-term funds – banks	58	71	–	–	–	–	129
Investment/trading assets	21	–	12	–	–	52	85
Advances	533	4	3	15	4	–	559
Other assets	–	–	–	–	–	1	1
Assets	612	75	15	15	4	53	774
Deposits – banks	(80)	–	–	–	–	–	(80)
Deposits – non-banks	(335)	(3)	(29)	(5)	(1)	–	(373)
Investment/trading liabilities	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	(8)	(8)
Liabilities	(415)	(3)	(29)	(5)	(1)	(8)	(461)
Intercompany loans	(52)	(5)	–	–	–	–	(57)
Shareholders' funds	–	–	–	–	–	(250)	(250)
Balance sheet	145	67	(14)	10	3	(205)	6
Off-balance sheet	9	(1)	(3)	(11)	–	–	(6)
Repricing gap	154	66	(17)	(1)	3	(205)	–
Cumulative repricing gap	154	220	203	202	205	–	

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
At 31 March 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	173	159	146	144	–	

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

Economic value sensitivity Audited

As discussed above our preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. The tables below reflect our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention i.e. the numbers represent the change in our 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.

	Sensitivity to the following interest rates (expressed in original currencies)					
'000	ZAR	GBP	USD	EUR	AUD	All (USD)
At 31 March 2012						
200bp down	(1.18)	0.03	3.09	0.57	0.01	3.77
200bp up	1.26	(0.03)	(4.81)	(0.42)	(0.01)	(5.27)
At 31 March 2011						
200bp down	(0.75)	(0.02)	1.58	0.33	(0.10)	1.78
200bp up	0.82	0.05	(2.02)	(0.30)	0.10	(2.13)
At 31 March 2010						
200bp down	(13.83)	0.01	2.01	0.20	0.38	0.75
200bp up	13.73	–	(2.25)	(0.22)	(0.38)	(1.03)

Liquidity risk description Audited

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

Liquidity risk is further broken down into:

- Funding liquidity: which relates to the risk that the bank will be unable to meet current and/or future cash flow or collateral requirements 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.

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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 inflows of appropriate maturity.

Management and measurement of liquidity risk Audited

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

The bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the bank maintains a statutory deposit with the Bank of Mauritius equal to 7.0% 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
- Daily 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 follow show the bank's liquidity mismatch.

With respect to the contractual liquidity mismatch:

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

With respect to the behavioural liquidity mismatch:

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

Contractual liquidity

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 2012								
Cash and short-term funds – banks	192	–	–	13	20	–	–	225
Investment/trading assets*	–	–	–	–	–	6	177	183
Advances	3	4	30	58	57	526	47	725
Other assets	–	–	–	7	–	–	–	7
Assets	195	4	30	78	77	532	224	1 140
Deposits – banks	–	(2)	–	–	–	–	–	(2)
Deposits – non-banks	(172)	(101)	(52)	(12)	(25)	(36)	–	(398)
Investment/trading liabilities	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	(10)	–	(4)	–	(14)
Liabilities	(172)	(103)	(52)	(22)	(25)	(40)	–	(414)
Intercompany loans	(18)	(67)	(2)	(1)	(112)	(35)	(219)	(454)
Shareholders' funds	–	–	–	–	–	–	(271)	(271)
Balance sheet	5	(166)	(24)	55	(60)	457	(266)	1
Off-balance sheet	–	–	–	–	–	(1)	–	(1)
Contractual liquidity gap	5	(166)	(24)	55	(60)	456	(266)	–
Cumulative liquidity gap	5	(161)	(185)	(130)	(190)	266	–	–
At 31 March 2011								
Cash and short-term funds – banks	41	–	18	70	–	–	–	129
Investment/trading assets*	27	–	–	–	–	–	58	85
Advances	–	11	179	24	62	213	70	559
Other assets	–	–	–	1	–	–	–	1
Assets	68	11	197	95	62	213	128	774
Deposits – banks	–	–	–	(80)	–	–	–	(80)
Deposits – non-banks	(118)	(210)	(6)	(3)	(30)	(5)	(1)	(373)
Investment/trading liabilities	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	(8)	–	–	–	(8)
Liabilities	(118)	(210)	(6)	(91)	(30)	(5)	(1)	(461)
Intercompany loans	19	(47)	(2)	12	3	(42)	–	(57)
Shareholders' funds	–	–	–	–	–	–	(250)	(250)
Balance sheet	(31)	(246)	189	16	35	166	(123)	6
Off-balance sheet	–	(4)	–	–	–	(2)	–	(6)
Contractual liquidity gap	(31)	(250)	189	16	35	164	(123)	–
Cumulative liquidity gap	(31)	(281)	(92)	(76)	(41)	123	–	

* *Refer to note on page 40.*

Contractual liquidity (continued)

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								
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	–	

* *Refer to note below.*

Note: Contractual liquidity adjustment (as discussed in page 38)

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 2012								
*Investments/trading assets	–	–	–	–	–	–	–	–
At 31 March 2011								
*Investments/trading assets	(7)	–	–	–	–	–	7	–
At 31 March 2010								
*Investments/trading assets	(26)	–	–	–	17	–	9	–

Behavioural liquidity (as discussed on page 38)

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 2012								
Behavioural liquidity gap	147	(32)	(17)	(6)	(46)	375	(421)	–
Cumulative	147	115	98	92	46	421	–	
At 31 March 2011								
Behavioural liquidity gap	63	(16)	67	15	22	172	(323)	–
Cumulative	63	47	114	129	151	323	–	
At 31 March 2010								
Behavioural liquidity gap	163	158	(4)	(13)	18	90	(412)	–
Cumulative	163	321	317	304	322	412	–	

Foreign exchange risk

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

The bank has not disclosed a sensitivity analysis, showing how profit or loss and equity would have been affected by changes in exchange rates, as the year-end exposure is unrepresentative of the exposure during the year.

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

Open position USD'000	EUR	GBP	JPY	MUR	Other currencies	Aggregate net open foreign exchange position
At 31 March 2012						
Long/(short) position	1 383	2 435	–	891	(356)	4 709
At 31 March 2011						
Long/(short) position	(1 527)	19	(1)	769	(4 917)	(6 445)
At 31 March 2010						
Long/(short) position	5 307	1 381	1	979	4 016	11 684

Operational risk management

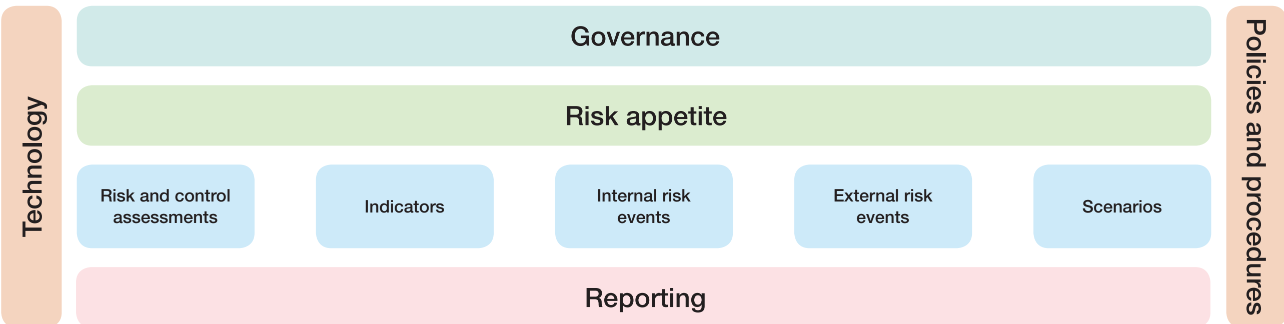
Operational risk is defined as the risk of loss or earnings volatility arising from inadequate or failed internal processes, people and systems, or from external events. Loss is not limited to financial consequences, but may affect business objectives, customer service and regulatory responsibilities.

We recognise that this is a significant risk inherent in the operations of a bank and therefore endeavour to manage exposures and events, through the promotion of sound operational risk management practices, to an acceptable level taking the cost and benefits of mitigation into account.

We have adopted the standardised approach to calculate the regulatory operational risk capital requirement.

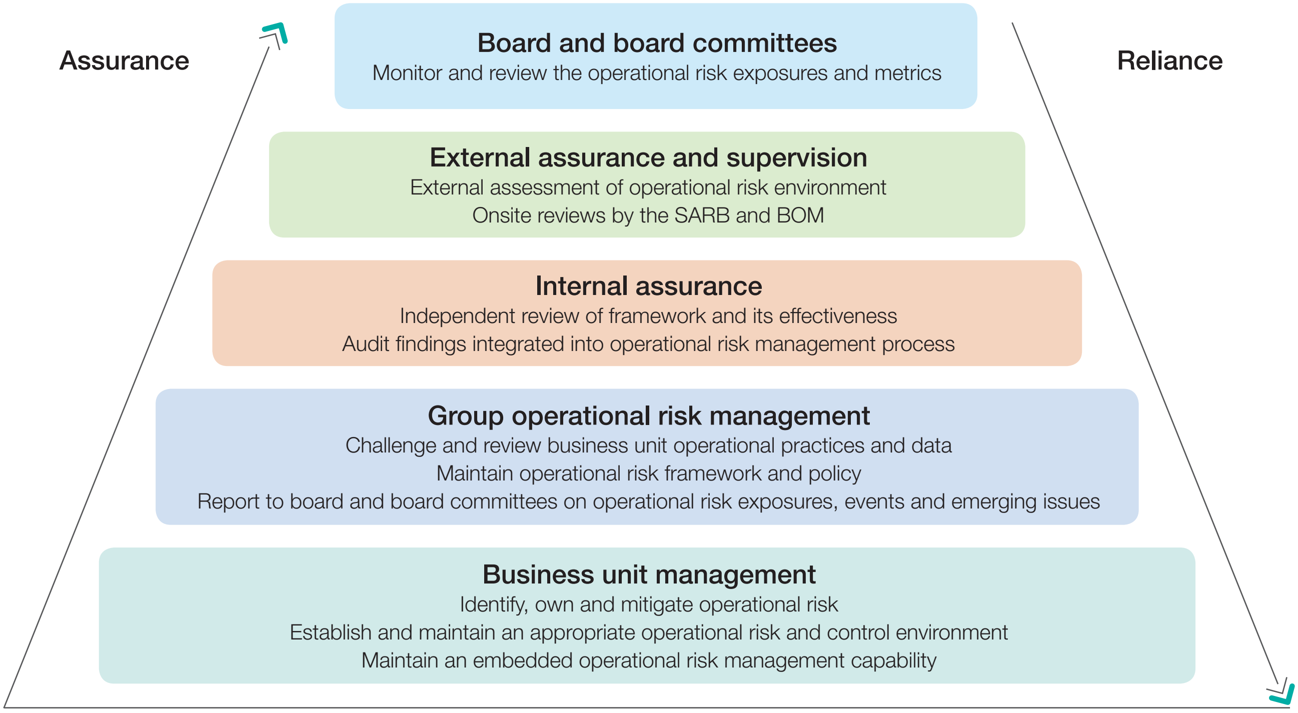
Operational risk management framework

The objective of the framework is to set out a structured and efficient approach to manage operational risk and thereby improve business performance and comply with regulatory requirements.



Governance

The governance structure adopted by the operational risk management function operates in terms of a level of defence model and provides combined assurance as described below:



At a group level policies and practices have been established by group Operational Risk Management to ensure that operational risk is managed in an appropriate and consistent manner.

Operational risk at the bank is managed by an embedded risk manager (ERM). Significant risk exposures and events are subject to action and escalation by the ERM in terms of the Operational Risk Appetite policy. This policy sets out the operational risk exposure that the group is willing to accept or retain.

Operational risk practices

The following practices are key to the management of operational risk as described below:

Practice	Activity
Risk and control assessment	• Qualitative assessment to identify key risks and controls • Allows for improvement of ineffective controls and risk management decisions through an enhanced understanding of the operational risk profile.
Risk indicators	• Monitoring of risk exposures • Assists in predictive capability through provision of early warning signs.
Internal risk events	• An incident, event or loss resulting from failed processes, people and systems or external events • A causal analysis is performed to link event and consequence to risks and controls • Enables business to identify and correct control weakness.
External risk events	• Collected from elected public sources and analysed in a similar manner to internal risk events • Analysis allows for improvement of the control environment through the awareness of possible risks.
Scenarios	• Extreme, unexpected but plausible loss events not yet experienced for which the financial and non-financial impacts are evaluated • Used to measure the exposure arising from key risks, which is considered in determining internal operational risk capital requirements.

Practice	Activity
Reporting	• Group operational risk management reports to the board, BRCC and audit committee on a regular basis • Purpose is to ensure that risk exposures are understood at all levels throughout the group and key risks are appropriately escalated and managed on a timely basis.
Technology	• An infrastructure supports practices through capture, assessment and linking of operational risks and related data.

The practices which form part of the operational risk management framework, as described above, are monitored on an ongoing basis by group Operational Risk Management and the bank's ERM. These components are integrated to inform each other, enabling more efficient monitoring of operational risk data integrity, compliance with the policies and practices, and the operational risk profile across the group.

Key operational risk considerations

The following risks, which may result in reduction of earnings and/or loss of value should they materialise, are a key focus of the group and the bank.

Financial crime

Financial crime is the risk of loss due to, but not limited to, fraud, forgery, theft and corruption. It also includes the execution of trades which have not been appropriately authorised. It is identified, assessed, monitored and measured to ensure that the risk of loss is understood, managed and mitigated.

Financial crime is mitigated as follows:

- Ensuring that appropriate action is taken in respect of fraudulent activities
- Identifying criminal acts against the group and the bank and investigating and recovering losses
- Engaging with external specialists and industry forums
- Ensuring that effective identity security procedures are in place.

Senior management is responsible for implementing appropriate financial crime risk mitigation and control practices. Group Forensic Risk Management provides and maintains the framework, policies, practices and monitoring to promote sound risk management practices and provide investigative support.

Regulatory and compliance risk

Regulatory and compliance risk relates to the failure to comply with applicable laws, regulation or codes.

It has become increasingly significant due to the extent and complexity of laws and regulations with which the bank is expected to comply. group Compliance and group Legal in collaboration with the bank's legal and compliance officer assist in the management of this risk through the identification and adherence to legal and regulatory requirements to which the bank is or will become subject.

Information security risk

Information security continues to remain a key area of focus. The bank ensures that information security risk is appropriately mitigated within a rapidly changing technology and threat landscape. The ERM, together with the bank's embedded information security officer focuses on ensuring the confidentiality, integrity and availability of information.

Process management risk

This risk of loss arises due to failed process management. Losses in this area are continually mitigated through careful consideration of control effectiveness.

Reputational risk

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

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

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The legal team seeks to ensure that any agreement which the bank enters into provides the bank with appropriate rights and remedies.

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 engages external legal counsel.

Capital management and allocation

Philosophy and approach

Over recent years, capital adequacy standards for banks globally have been raised as part of attempts to increase stability and resilience of the global banking sector. The bank has always held capital in excess of regulatory requirements and it intends to perpetuate this philosophy to ensure that it continues to remain well capitalised. Accordingly, the bank targets a minimum capital adequacy ratio of 13%.

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

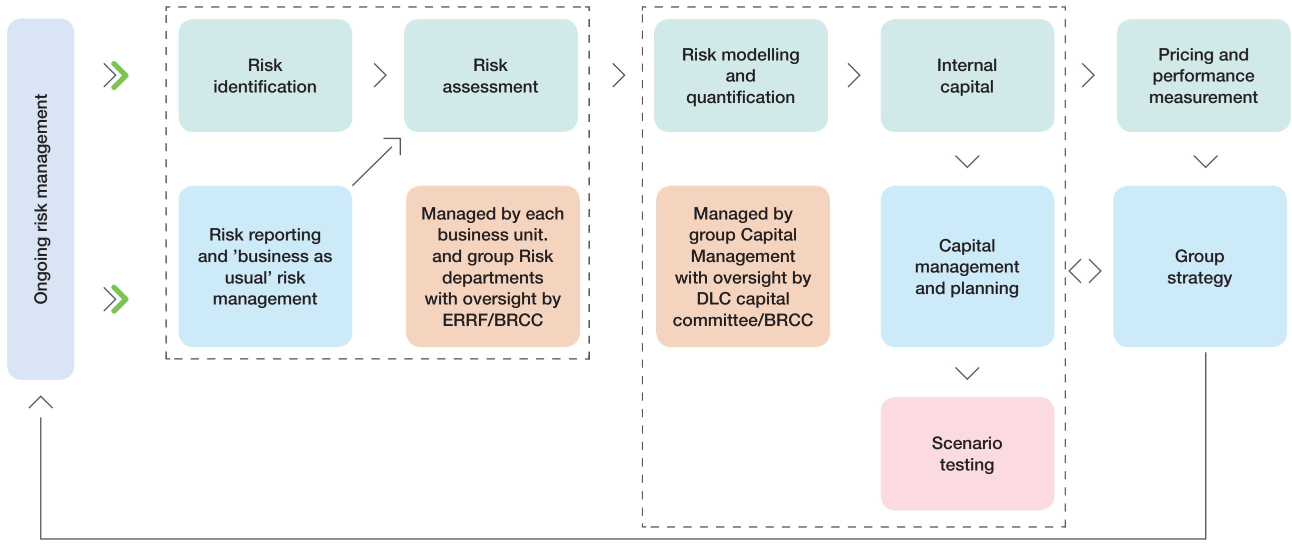
The bank's internal capital framework approved by the board is based on processes and is used to provide a risk-based approach to capital allocation, performance and structuring of our balance sheet.

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

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

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

The (simplified) integration of risk and capital management



Risk assessment and identification

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

Risk reporting

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

- Credit and counterparty risk
- Traded market risk
- Equity risk in the banking book
- Balance sheet liquidity and non-trading interest rate risk
- Legal risk
- Operational risk.

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

Risk modelling and quantification (internal capital)

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

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

- Credit and counterparty risk, including:
  - Underlying counterparty risk
  - Concentration risk
  - Securitisation risk

- 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.

Capital management, planning and scenario testing

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

Stressing the business plans through the capital planning process is an important tool by which the board can gain insight to potential sources of vulnerability of the capital sufficiency of the bank through market, economic or internal events. As such, we stress the capital plans based on conditions most likely to place us under duress. The conditions themselves are agreed by the DLC capital committee after consultation with relevant internal and external experts and research. Such plans are used by the bank's management to formulate balance sheet strategy and agree management actions, trigger points and influence determination of our risk appetite.

In particular, our capital plans are designed to allow senior management and the board to review:

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

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

Pricing and performance measurement

The use of internal capital means that all transactions are considered in the context of the impact on the allocation of our capital resources, and hence on the basis of their contribution to return on risk-adjusted internal capital. This is to ensure that expected returns are sufficient after taking recognition of the inherent risk generated for a given transaction. This approach allows us to embed risk and capital discipline at the level of deal initiation. Using expectations of risk-based returns as the basis for pricing and deal acceptance ensures that risk management retains a key role in ensuring that the portfolio is appropriately managed for that risk.

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

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

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 2012	31 March 2011	31 March 2010
Regulatory capital			
Tier 1			
Share capital	56 478	56 478	56 478
Retained income	176 378	160 265	143 520
Statutory reserves	35 371	31 533	28 355
Total tier 1	268 227	248 276	228 353
Less: deductions	(7)	(7)	(7)
	268 220	248 269	228 346
Tier 2			
General banking reserve	2 885	1 838	573
Portfolio provisions	7 158	4 893	4 524
Total tier 2	10 043	6 731	5 097
Less: deductions	(7)	(7)	(7)
	10 036	6 724	5 090
Total capital	278 256	254 993	233 436
Capital requirements	97 315	63 377	65 914
Credit risk – prescribed standardised exposure classes	86 992	54 358	57 020
Corporates	35 682	32 847	30 696
Secured on real estate property	36 501	14 255	11 985
Short-term claims on institutions and corporates	4 374	1 780	7 836
Retail	17	22	504
Institutions	9 842	5 333	5 830
Other exposure classes	576	121	169
Equity risk – standardised approach	3 290	3 262	2 822
Listed equities	38	66	69
Unlisted equities	3 252	3 196	2 753
Aggregate net open foreign exchange position	471	645	98
Operational risk – standardised approach	6 562	5 112	5 974

2

Capital adequacy

USD'000	31 March 2012	31 March 2011	31 March 2010
Primary capital (tier 1)	268 227	248 276	228 353
less: deductions	(7)	(7)	(7)
	268 220	248 269	228 346
Tier 2 capital	10 043	6 731	5 097
less: deductions	(7)	(7)	(7)
	10 036	6 724	5 090
Total capital	278 256	254 993	233 436
Risk-weighted assets (banking and trading)	973 135	633 772	659 138
Credit risk – prescribed standardised exposure classes	869 916	543 581	570 200
Corporates	356 820	328 470	306 965
Secured on real estate property	365 008	142 554	119 846
Short-term claims on institutions and corporates	43 736	17 801	78 360
Retail	168	221	5 038
Institutions	98 419	53 325	58 304
Other exposure classes	5 765	1 210	1 687
Equity risk – standardised approach	32 895	32 622	28 217
Listed equities	376	661	690
Unlisted equities	32 519	31 961	27 527
Aggregate net open foreign exchange position	4 709	6 445	979
Operational risk – standardised approach	65 615	51 124	59 742
Capital adequacy ratio	28.6%	40.2%	35.4%
Tier 1 ratio	27.6%	39.2%	34.6%
Capital adequacy ratio – pre operational risk	30.7%	43.8%	38.9%
Tier 1 ratio – pre operational risk	29.6%	42.6%	38.1%

Corporate governance report

The Code of Corporate Governance

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

Directors' statement of compliance

The directors confirm that the bank has complied in all material respects with the principles of the Code.

Overview

A number of board sub-committees, management 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.

The values and philosophies of the bank are the framework against which behaviour and practices are measured in order 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.

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.

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.

2

Board of directors

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

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

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

Certain matters are specifically reserved for the board. To achieve its objectives, the board may delegate certain of its duties and functions to various board committees, bank forums or the CEO, without abdicating its own responsibilities:

- The board has formally defined and documented by way of terms of reference the authority it has delegated to the various board committees and bank forums
- In fulfilling its responsibilities, the board is supported by management in implementing the plans and strategies approved by the board.

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
- Ensures there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders and monitors communication with all stakeholders and disclosures made to ensure transparent and effective communication
- Identifies and monitors key risk areas and key performance indicators
- Reviews processes and procedures to ensure the effectiveness of its internal systems of control
- Ensures the bank adopts sustainable business practices, including social and environmental activities
- Assisted by the audit committee, ensures appropriate IT governance processes are in place for the implementation of which management is responsible, 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 integrated 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.

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

The majority of the board members are non-executive directors. The board comprises five members; the bank's chief executive officer, three independent external directors and one director employed by the Investec group. Three of the directors are residents of Mauritius. A brief profile of each director is included below.

Name	Age at 31 March 2012	Qualifications	Current directorships	Investec committee membership	Brief biography
David M Lawrence (chairman)	60	BA(Econ) (Hons) MCom	Investec Trust (Mauritius) Limited, Investec Bank Limited, various Investec companies and various other unlisted companies	1, 3, 4, 5, 6	Currently the deputy chairman of Investec Bank Limited and chairman of the board of directors of the bank. Former chairman and managing director of Citibank (South Africa), and managing director of FirstCorp Bank Limited.
Peter RS Thomas	67	CA(SA)	Investec plc, Investec Limited, Investec Bank Limited, various Investec companies, JCI Limited and various unlisted companies	2, 3 ,4, 5	Peter was the former managing director of The Unisec Group Limited. Currently chairman of the audit committee of the bank.
Pierre de Chasteigner du Mée	58	ACEA FBIM FMAAT	P.O.L.I.C.Y Limited, Union & P.O.L.I.C.Y Investment Co Limited and various private companies	1, 2, 3, 4, 5, 6	Pierre is the estate general manager of Constance La Gaieté Co. Limited, a major property owner and sugarcane producer in Mauritius. Previously group financial controller of The Constance group of companies and executive director of Constance Hotels Services Limited. He is a stockbroker on the stock exchange of Mauritius, a licensed company secretary and a member of the Chartered Management Institute (England). Also a member of the National Pension Fund board (NPF), National Savings Fund technical committee (NSF) and of the NPF/NSF Investment committee that manages the national pension scheme of the Republic of Mauritius.

1. *Board sub-committee.*
2. *Audit committee.*
3. *Compensation and nomination committee.*
4. *Conduct review and risk policy committee.*
5. *Governance committee.*
6. *Investment committee.*

Name	Age at 31 March 2012	Qualifications	Current directorships	Investec committee membership	Brief biography
Angelique Anne Desvaux De Marigny	36	LLB, Barrister-at-Law Maitrise en Droit Privé (Université de Paris I-Panthéon-Sorbonne)	None	2	Angélique is a barrister-at-law, who was admitted to the Mauritian Bar in 2001. She graduated from King's College London and Université de Paris I (Panthéon-Sorbonne) with a LLB (first class honours) and a Maîtrise en Droit Privé (Droit des Affaires) and completed her vocational training at the Inns of Courts School of Law, London . She initially practised as a litigation counsel for the first six years of her career as a tenant of De Spéville Sauzier Desvaux Chambers before joining the CIEL group as Head of Legal Affairs. In 2009, she returned to private practice in the same Chambers and has since then been involved in advising and litigation in various fields. She has a marked interest in commercial and private international law matters.
Craig C Mckenzie	51	BSc MSc (Agric Economics) CFA	Investec Trust (Mauritius) Limited, various unlisted companies	1, 6	Chief executive officer with 24 years of banking experience.

1. *Board sub-committee.*
2. *Audit committee.*
3. *Compensation and nomination committee.*
4. *Conduct review and risk policy committee.*
5. *Governance committee.*
6. *Investment committee.*

The terms of reference of the board committees are set on pages 11 and 12.

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

Members	Number of meetings held during the year	Number of meetings attended during the year
David M Lawrence	4	4
Craig C McKenzie	4	4
Pierre de Chasteigner du Mée	4	4
Angelique Anne Desvaux De Marigny	4	4
Peter RS Thomas	4	4

Directors' interest and dealings in shares

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

Directors' emoluments

The bank has only one shareholder who has consented to the non-disclosure of the directors' emoluments as per the resolution referred under the section 'other statutory disclosures'.

Directors' service contracts and terms of employment

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

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

Directors' and officers' liability insurance

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

Donations

Any donations provided by the bank are made as part of the bank's corporate social and business responsibility.

Dividend policy

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

Executive management

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

Craig C McKenzie – chief executive officer
Craig C McKenzie joined Investec Bank (Mauritius) Limited in 2000 as chief executive officer. He has more than 24 years' banking experience and holds Bachelor and Master of Science degrees in agricultural economics from the University of Natal (South Africa). He is also a chartered financial analyst (CFA) charterholder.

Lara Ann Vaudin- chief operating officer
Lara Ann Vaudin qualified as an attorney-at-law in Johannesburg, South Africa in 1996. She holds a BA LLB from the University of the Witwatersrand and an LLM (corporate law) from the University of South Africa. She joined the bank in 2005 as the bank's legal adviser and is currently the chief operating officer of the bank.

Other statutory disclosures

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

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.

The legal team seeks to ensure that any agreement which the bank enters into provides the bank with appropriate rights and remedies.

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

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

2

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

Values and code of conduct

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

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

Related party transactions

Refer to note 35 to the financial statements.

Risk management

Refer to pages 9 to 46.

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 from group 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 behaviour, 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; provides advice on regulatory issues; and works closely with business and operational units to ensure consistent management of compliance risk.

Sustainability

The bank believes in making a positive contribution to the society and the environment in which it operates.

The bank's corporate social investment (CSI) strategy is to focus on projects and initiatives in the following areas:

- Education
- Environment
- Sports development.

30% of the CSI budget will be spent in each of the areas above and 10% of the budget will be allocated to discretionary philanthropic donations, which may fall out of the focus areas, but allow small but meaningful donations to worthwhile causes.

Corporate social responsibility (CSR) was legislated by the Government of Mauritius in July 2008. In terms of the legislation, all Mauritian companies are required to allocate 2% of their chargeable income to CSR approved NGOs or projects. Although 'segment B profits', or offshore income derived by the bank, is legally exempt from this requirement, the bank has chosen to contribute an additional 0.5% of this income to CSI.

In line with the government's focus on poverty alleviation, the bank's CSI projects are directed at communities or beneficiaries that are financially disadvantaged. Our approach is to ensure long-term sustainability. This means making multifaceted interventions in selected communities and may include building operational skills and organisational capacity.

The bank actively encourages staff to contribute and participate in its CSI programme.

The criteria for assessing projects are:

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

2

The natural heritage of Mauritius is a critical resource to the country and needs to be respected and protected.

Projects supported

Education

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

The bank has supported the Guy Rozemont government school in Tranquebar for the past three years.

We have worked with them on a number of projects, namely:

- A remedial education programme for children preparing to write their CPE exams
- Upgrading the children's play ground areas by
  - Providing playground equipment
  - Landscaping the gardens
  - Constructing a covered shelter
  - Providing tables and benches.
- TIPA (Terrain for Interactive Pedagogy through Arts): is an NGO that runs an educational programme at the Guy Rozemont school, whose aim is to raise pupils' self esteem and develop life skills through art and drama. It also develops teachers' skills and organises an annual art festival at the school
- Mothers' club: The purpose of this club is to provide a forum for parental participation in education. The club also uses this forum as an opportunity to upgrade and enhance the mothers' skills.

Environment

The natural heritage of Mauritius is a critical resource to the country and needs to be respected and protected.

The bank supports the Mauritian Wildlife Foundation's 'Learning with Nature' education project at L'iles aux Aigrettes that teaches children about the flora and fauna of Mauritius. Educational books and materials have been developed, and are given to school children who visited the island and participated in the tour. 4 900 children and teaches visited the island in 2011 as part of the learning with nature programme.

We are currently working with the Protection of Animal Welfare Society (PAWS) to develop and implement its education programme focusing on the health and welfare of companion animals. This three-year programme has seen the development of training material and educators.

We have also sponsored the printing of a children's educational book on animal welfare, *Bouledamour*.

Two members of staff were instrumental in opening the PAWS refuge at the Vale in the North of the island. They raised finance and enlisted the support of the community. An old house was converted into an animal refuge that now has a full-time vet who operates a clinic providing subsidised treatments and sterilisations. It also takes in distressed and abandoned animals and actively seeks to find them loving homes.

Sport development

Access to sport should be available to all. Apart from the importance of physical exercise, sport also teaches children discipline, perseverance, teamwork, and develops self esteem.

The bank supports the following sport development projects:

- Tranquebar Black Rangers Women's Volley Ball Club
- Sailing Pour Tous
- SSR Cricket Grounds Trust
- Jeux des Iles and African Optimist Championships.

Tranquebar Black Rangers Women's Volley Ball Club

We have sponsored the Black Rangers Women's Volley Ball Club for the past three years. The club is based at the Tranquebar Women's centre and has a membership of 45 made up of a strong first team and a junior development team.

The Tranquebar Black Rangers are the champions of the Mauritius Volley Ball League and also won silver at the 2011 Coupe des Club de L'Ocean Indien in Madagascar.

Sailing Pour Tous

The bank supports Sailing Pour Tous school, which is managed by world renowned French sailors Herve and Sophie Laurent. They bring extensive sailing experience and knowledge to Mauritius, having run similar schools for children in France.

This project makes sailing accessible to underprivileged children in Port Louis and surrounding areas. It offers free sailing lessons to any child who would like to learn how to sail between the ages of seven and 16. Optimists are provided for the younger children and Lasers are provided at a later stage for older children. Initially the school will prepare young sailors to compete at a national level and over time at the international level. Apart from learning nautical skills, the children participating in this sailing school also benefit from teamwork, discipline and responsibility. Gaining knowledge of the sea and sailing skills could assist participants in finding employment in marine activities in the future.

Environmental footprint

In terms of the bank's environmental footprint, we measure our use of energy, paper and water. We continue to work towards reducing our overall energy and resource usage.

Shareholder diary

Financial year	31 March
Unaudited quarterly report	within 45 days from the quarters ending June, September and December
Audited financial statements	within three months from March 2012
AGM	June 2012

Signed on behalf of the board

David M Lawrence Chairman	Pierre de Chasteigner du Mée Director	Craig C McKenzie Chief executive officer

19 June 2012

2

Annual financial statements

Directors' statement

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 programme of internal audits in coordination with the bank's external auditors. In addition, the bank's compliance function maintains policies, procedures and programmes directed at ensuring compliance with regulatory requirements

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

The bank's external auditors, 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

19 June 2012

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

19 June 2012

Independent auditors' report to the member 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 62 to 121 which comprise the statement of financial position as at 31 March 2012, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 Companies Act 2001 and the Banking Act 2004, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls 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 62 to 121 give a true and fair view of the financial position of the bank at 31 March 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act 2001.

Other matter

This report, including the opinion, has been prepared for and only for the bank's shareholder, 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 other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Report on other legal and regulatory requirements

Companies Act 2001

We have no relationship with or interests in the bank other than in our capacities as auditors and tax advisers and in 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 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.

Financial Reporting Act 2004

The directors are responsible for preparing the corporate governance report and making the disclosures required by section 8.4 of the Code of Corporate Governance of Mauritius (the Code). Our responsibility is to report on these disclosures. In our opinion, the disclosures in the corporate governance report are consistent with the requirements of the Code.

Ernst & Young
Ebène
Mauritius

Andre Lai Wan Loong
ACA

19 June 2012

Income statement

For the year to 31 March USD'000	Notes	2012	2011	2010
Interest income	3	43 791	47 182	51 606
Interest expense	3	(9 676)	(12 474)	(14 454)
Net interest income		34 115	34 708	37 152
Fee and commission income	4	2 758	2 808	4 658
Fee and commission expense	4	(1 054)	(883)	(1 790)
Net fee and commission income		1 704	1 925	2 868
Net trading (loss)/income	5	(5 825)	(7 945)	65 006
Net gain/(loss) on financial instruments designated at fair value through profit or loss	6	15 687	16 402	(12 131)
Net other operating income/(loss)	7	19	(242)	55
Total operating income		45 700	44 848	92 950
Impairment loss on held-to-maturity financial assets	8	–	–	(1 184)
Impairment (losses)/reversals on loans and advances	9	(7 970)	(364)	1 060
Impairment loss on investment in an associate	20	–	–	(2 184)
Impairment loss on non-current asset held-for-sale	16	(1 433)	(12 615)	–
Net operating income		36 297	31 869	90 642
Personnel expenses	10	(4 759)	(4 554)	(4 038)
Depreciation of equipment	22	(127)	(133)	(144)
Other operating expenses	11	(5 191)	(4 519)	(3 470)
Total operating expenses		(10 077)	(9 206)	(7 652)
Profit before tax		26 220	22 663	82 990
Income tax expense	12	(630)	(1 476)	(1 245)
Profit for the year		25 590	21 187	81 745
Analysed as follows:				
Transfer to statutory reserve		3 838	3 178	12 262
Transfer to retained earnings		21 752	18 009	69 483
Profit attributable to equity holder of the bank		25 590	21 187	81 745

Statement of comprehensive income

For the year to 31 March USD'000	2012	2011	2010
Profit for the year	25 590	21 187	81 745
Other comprehensive income			
– Fair value movements on available-for-sale assets	–	–	342
Total other comprehensive income	–	–	342
Total comprehensive income for the year	25 590	21 187	82 087
Attributable to:			
Equity holder of the bank	25 590	21 187	82 087

Statement of financial position

At 31 March USD'000	Notes	2012	2011	2010
Assets				
Cash and balances with central bank	14	3 823	6 752	5 851
Due from banks	15	221 030	129 458	366 057
Non-current asset held-for-sale	16	–	13 208	–
Derivative financial instruments	17	28 837	38 900	62 953
Investment securities	18	153 198	27 720	40 024
Amount due from holding bank	35	13 530	24 991	48 837
Amount due from group companies	35	3 067	24 849	46 413
Loans and advances to customers	19	724 764	558 736	511 458
Investment in associates	20	4 915	4 915	4 000
Investment in subsidiary	21	15	15	15
Equipment	22	485	537	678
Deferred tax assets	12	250	78	162
Other assets	23	6 988	589	980
Total assets		1 160 902	830 748	1 087 428
Liabilities				
Deposits by banks	24	2 039	80 058	79 906
Derivative financial instruments	17	5 265	12 449	27 173
Amount due to holding bank	35	240 460	86 001	219 543
Amount due to group companies	35	10 647	20 600	34 446
Due to customers	25	397 730	372 685	488 145
Debt securities in issue	26	219 904	–	–
Current tax liabilities	12	20	495	980
Other liabilities	27	13 725	8 347	8 309
Total liabilities		889 790	580 635	858 502
Equity				
Stated capital	29	56 478	56 478	56 478
Other reserves	30	38 256	33 370	28 928
Retained earnings		176 378	160 265	143 520
Total equity		271 112	250 113	228 926
Total liabilities and equity		1 160 902	830 748	1 087 428

David M Lawrence
Chairman
Board of directors

Pierre de Chasteigner du Mée
Director

Craig C McKenzie
Chief executive officer

19 June 2012

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 2011	56 478	–	–	1 837	31 533	160 265	250 113
Movement in reserves 1 April 2011 – 31 March 2012							
Total comprehensive income							
Profit for the year	–	–	–	–	–	25 590	25 590
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	25 590	25 590
Appropriations to other reserves	–	–	–	1 048	3 838	(4 886)	–
Ordinary dividend paid	–	–	–	–	–	(4 591)	(4 591)
At 31 March 2012	56 478	–	–	2 885	35 371	176 378	271 112
At 1 April 2010	56 478	–	–	573	28 355	143 520	228 926
Movement in reserves 1 April 2010 – 31 March 2011							
Total comprehensive income							
Profit for the year	–	–	–	–	–	21 187	21 187
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	21 187	21 187
Appropriations to other reserves	–	–	–	1 264	3 178	(4 442)	–
At 31 March 2011	56 478	–	–	1 837	31 533	160 265	250 113
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/(loss)	–	342	255	–	–	(255)	342
Total comprehensive income for the year	–	342	255	–	–	81 490	82 087
Appropriations to other reserves	–	–	–	401	12 262	(12 663)	–
Ordinary dividends	–	–	–	–	–	(3 592)	(3 592)
At 31 March 2010	56 478	–	–	573	28 355	143 520	228 926

Statement of cash flows

For the year to 31 March USD'000	Notes	2012	2011	2010
Operating activities				
Profit before tax		26 220	22 663	82 990
Adjustments for:				
Change in operating assets	32	(282 128)	31 946	273 636
Change in operating liabilities	32	96 910	(262 750)	(126 004)
Non-cash item included in profit before tax	32	(2 403)	4 744	(99 406)
Income tax paid		(1 277)	(1 868)	(1 594)
Net cash flows (used in)/generated from operating activities		(162 678)	(205 265)	129 622
Investing activities				
Acquisition of investment in associate		–	(915)	(4 000)
Proceeds on disposal of investment securities		14 550	12 454	13 050
Purchase of equipment	22	(80)	(65)	(592)
Proceeds on disposal of equipment		23	118	14
Net cash flows generated from investing activities		14 493	11 592	8 472
Financing activities				
Dividend paid		(4 591)	–	(3 592)
Issue of preference shares		221 365	–	–
Net cash flows generated from/(used in) financing activities		216 774	–	(3 592)
Net increase/(decrease) in cash and cash equivalents		68 589	(193 673)	134 502
Cash and cash equivalents at beginning of the year		136 210	329 883	151 122
Effect of exchange rate changes on cash and cash equivalents		–	–	44 259
Cash and cash equivalents at end of the year	32	204 799	136 210	329 883

Notes to the annual financial statements

1. Corporate information

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

The financial statements for the year ended 31 March 2012 were authorised for issue in accordance with a resolution of the directors on 19 June 2012.

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 at 100 Grayston Drive, Sandown Sandton, South Africa.

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 9 to 46 in sections marked as audited.

Going concern

The bank's management has made an assessment of the bank's ability to continue as a going concern and is satisfied that the bank has the resources to continue in business for the foreseeable future. Furthermore, 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.

2.2 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 are not available, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives. Further details in respect of the fair valuation of financial instruments are included in note 31 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.

2. Accounting policies (continued)

2.2 Significant accounting judgements and estimates (continued)

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.

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.

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.

2.3 Change in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the bank:

- IFRS 7 Financial Instruments: Disclosures (amendment)

  The IASB issued an amendment to IFRS 7 on 7 October 2010. The amendment provides enhanced disclosures regarding 'Transferred financial assets that are derecognised in their entirety' and 'Transferred assets that are not derecognised in their entirety'. The effective date is for annual periods beginning on or after 1 July 2011, but the bank has adopted the amendment early.

- IAS 24 Related Party Disclosures (amendment)

  The amendment to IAS 24 is twofold. The amendment clarified the definition of a related party, however, without changing the fundamental approach to related party disclosures. It emphasises a symmetrical view on related party relationships and clarifies how a person or key management personnel impacts related party relationships of an entity. The amendment is effective for financial years beginning on or after 1 January 2011. While the adoption of the amendment did not have any current impact on the financial position or performance or disclosures of the bank, as all required information is currently being appropriately captured and disclosed, it is relevant to the application of the bank's accounting policy in identifying future potential related party relationships.

Improvements to IFRSs

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the bank:

- IFRS 1 First-time Adoption of International Reporting Standards (Amendment)
- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Unreplaced and voluntarily replaced share-based payment awards)
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments: Presentation (amendment)
- IAS 34 Interim Financial Statements
- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)
- IFRIC 14 Prepayments of Minimum Funding Requirement (amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

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.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies

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

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 (USD) 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.

Financial instruments – initial recognition and subsequent measurement

Date of recognition

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

Initial 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.

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 and forward foreign exchange contracts. Derivatives are recorded at fair value and are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income or loss'.

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

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

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

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

Financial assets and financial liabilities at fair value through profit or loss are recorded in the 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 equities and debt securities.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

'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.

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 held-to-maturity financial assets'.

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.

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 (held-for-trading) 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-for-sale; or
- Those for which the bank may not recover substantially all of its initial investment, other than because of credit deterioration which is accounted for at fair value through profit and loss.

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).

Debt securities in issue

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

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 to deliver either 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 bank's issued debt is disclosed in note 26 to the financial statements.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

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.

Derecognition of financial assets and financial liabilities

Financial assets

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

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.

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.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Repurchase agreements (continued)

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 repledge 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'.

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 statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'Net trading income or loss'.

Determination of fair value

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

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

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

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:

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.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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.

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.

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 statement of financial position.

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. Revenue is measured at the fair value of consideration received or receivable.

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.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

Interest and similar income and expenses (continued)

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.

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.

Dividend income

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

Net trading income or loss

Results arising from trading activities include all gains and losses from changes in fair value.

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.

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.

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.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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 in the period in which they are identified.

Contingent liabilities

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

Pension benefits

Defined contribution pension plan

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

Provisions

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

Taxes

Current tax

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

Deferred tax

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

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

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

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Taxes (continued)

Deferred tax (continued)

- 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
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

Value added tax

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

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- 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 statement of financial position.

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.

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.

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
- ‘General banking reserve’ which comprises amounts set aside for general banking risks including country risk.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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 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, the liability side and asset side.

Segment A and B figures have been restated for the financial year 2011 and 2010 as GBL companies which are residents but form part of segment B had been incorrectly classified in segment A.

Standards issued but not yet effective

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

IFRS 1 First-time Adoption of International Financial Reporting Standards

The IASB has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. When an entity's date of transition to IFRS is on, or after, the date its functional currency ceases to be subject to severe hyperinflation (the functional currency normalisation date), the entity may elect to measure all assets and liabilities held before the functional currency's normalisation date, that were subject to severe hyperinflation, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. The amendment also removes the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. In the amended standard these dates coincide with the date of transition to IFRS. The amendment becomes effective for annual periods beginning on or after 1 July 2011.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address impairment and hedge accounting and expect to complete the project in 2012. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the bank's financial assets. The bank is currently assessing the impact of adopting IFRS 9. However, as the impact of adoption depends on the assets held by the bank at the date of adoption, it is not practical to quantify the effect.

IFRS 10 Consolidated Financial Statements

The amendment becomes effective for annual periods beginning on or after 1 January 2013. It replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of IFRS 10 is expected to have no impact on the financial statements of the bank.

IFRS 11 Joint Arrangements

The amendment becomes effective for annual periods beginning on or after 1 January 2013. It replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. The adoption of IFRS 11 is expected to have no impact on the financial statements of the bank.

2.4 Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 12 Disclosure of Involvement with Other Entities

The amendment becomes effective for annual periods beginning on or after 1 January 2013. It includes all the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the bank concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the bank to reach a different conclusion regarding consolidation. The nature of the bank's investment banking business means it could be involved in various transactions with structured entities that it may or may not have helped to design.

IFRS 13 Fair Value Measurement

The amendment becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements. In the past the bank has used various methodologies to measure fair value based on the guidance within the requisite standard and/or industry practice for the type of financial or non-financial item. This standard will require the bank to review its fair value measurement policies across all asset and liability classes. However, it is not practical to quantify the effect of this review on the financial statements.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Further, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012. The bank does not hold any investment property and therefore does not expect this change to have any impact.

IAS 19 Employee Benefits – Amendments

The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e. the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013.

The adoption of these amendments will require the bank to recognise:

- A service cost and a net interest income or expense in profit or loss and
- The remeasurements of the pension assets and liabilities, i.e. actuarial gains and losses in the other comprehensive income.

The effect of the above will be to replace the expected return on plan assets in the income statement with a return determined using the discount rate used to discount the defined benefit obligation.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The bank does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32.

The amendment becomes effective for annual periods beginning on or after 1 January 2013. These amendments are applied retrospectively in accordance with IAS 8. They do not refer to the ability to adopt early. However, if an entity chooses to early adopt IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32, it also must make the disclosure required by IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7.

IAS 32 Offsetting Financial Assets and Financial liabilities – Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off'. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. IAS 32 paragraph 42(a) requires that 'a financial asset and a financial liability shall be offset when, and only when, an entity currently has a legally enforceable right to set off the recognised amounts'. The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion.

These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments are applied retrospectively, in accordance with IAS 8. Early application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosure required by IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The amendment becomes effective for annual periods beginning on or after 1 January 2013. The interpretation applies to stripping costs incurred during the production phase of a surface mine and requires such costs to be capitalised as part of an asset (the 'stripping activity asset') if certain criteria are met.

The stripping activity asset is to be depreciated on a unit of production basis unless another method is more appropriate.

For the year ended 31 March USD'000	2012	2011	2010
3. Interest income/(expense)			
Interest income			
Due from banks	1 003	1 347	407
Loan and advances to customers	32 872	35 230	35 810
Interest income from group companies	656	1 263	9 140
Financial assets – loans and receivable	579	566	20
Financial assets – held-to-maturity	3 954	421	777
	39 064	38 827	46 154
Financial assets designated at fair value through profit or loss	4 727	8 355	5 452
	43 791	47 182	51 606
Interest expense			
Deposits by banks	(269)	(639)	(736)
Due to customers	(4 361)	(4 094)	(4 924)
Debt securities in issue	(3 459)	–	(497)
Interest expense to group companies	(1 587)	(7 741)	(8 297)
	(9 676)	(12 474)	(14 454)

For the year ended 31 March USD'000	2012	2011	2010
4. Fee and commission income/(expense)			
Fee and commission income			
Credit-related fees and commissions	1 082	1 132	4 091
Brokerage fees received	1 606	1 580	311
Other fees received	70	96	256
	2 758	2 808	4 658
Fee and commission expense			
Brokerage fees paid	(2)	(26)	(13)
Portfolio and other management fees	(975)	(840)	(1 710)
Other fees paid	(77)	(17)	(67)
	(1 054)	(883)	(1 790)

For the year ended 31 March USD'000	2012	2011	2010
5. Net trading (loss)/income			
Changes in fair value of derivative financial instruments	(5 233)	(8 079)	16 002
Foreign exchange (loss)/gain	(592)	134	2 015
Other	–	–	46 989
	(5 825)	(7 945)	65 006

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

For the year ended 31 March USD'000	2012	2011	2010
6. Net gain/(loss) on financial instruments designated at fair value through profit or loss			
The fair value gains and losses arise on:			
Debt securities			
– Realised gain	5 113	1 709	–
– Unrealised gain	68	9 369	(19 255)
Equities			
– Realised gain	555	76	5 420
– Unrealised gain	9 951	5 248	1 704
	15 687	16 402	(12 131)

For the year ended 31 March USD'000	2012	2011	2010
7. Other operating income/(loss)			
Other operating income			
Profit on disposal of equipment	19	44	14
Profit on disposal of a subsidiary	–	–	41
	19	44	55
Other operating loss			
Risk-event loss	–	(286)	–
	–	(286)	–
Net other operating income/(loss)	19	(242)	55

For the year ended 31 March USD'000	2012	2011	2010
8. Impairment loss on held-to-maturity financial assets			
Debt written off	–	–	(1 184)
	–	–	(1 184)

For the year ended 31 March USD'000	2012	2011	2010
9. Impairment (losses)/reversals on loans and advances			
Movement in allowance for credit impairment (note 19)	(2 286)	(364)	1 060
Loss on disposal of loans and advances	(5 684)	–	–
	(7 970)	(364)	1 060

For the year ended 31 March USD'000	2012	2011	2010
10. Personnel expenses			
Wages and salaries	(4 108)	(4 023)	(3 659)
Pension costs – Defined contribution plan	(77)	(68)	(64)
Other benefits	(574)	(463)	(315)
	(4 759)	(4 554)	(4 038)

For the year ended 31 March USD'000	2012	2011	2010
11. Other operating expenses			
Administrative expenses	(4 906)	(4 276)	(3 334)
Advertising and marketing	(71)	(3)	(8)
Audit fees	(135)	(125)	(85)
Non-audit fees	(24)	(89)	(15)
Professional fees	(55)	(26)	(28)
	(5 191)	(4 519)	(3 470)

For the year ended 31 March USD'000	2012	2011	2010
12. Taxation			
Statement of position			
Income tax liability:			
Current year	794	1 129	1 614
Prior year	–	254	51
Tax paid under Advance Payment Scheme	(774)	(888)	(685)
	20	495	980
Income statement			
The components of income tax expense for the years ended 31 March 2012, 2011 and 2010 are:			
Current income tax	794	1 129	1 614
Corporate social responsibility	48	65	65
Adjustment in respect of current income tax of prior years	(40)	254	(696)
Deferred tax			
– Relating to origination and reversal of temporary differences	(71)	84	164
– Reversal of charge	(101)	–	–
Exchange difference	–	(56)	98
Income tax expense reported in the income statement	630	1 476	1 245
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 2012, 2011 and 2010 is as follows:			
Profit before tax	26 220	22 663	82 990
At statutory income tax rate of 15% (2011 and 2010: 15%)	3 933	3 399	12 449
Foreign tax credit	(3 038)	(2 302)	(9 959)
Special levy	1 226	1 145	728
Income not subject to tax	(2 291)	(1 249)	(2 246)
Non-deductible expenses	608	483	273
Deferred tax			
– Reversal of charge	(101)	–	–
Exchange difference	293	–	–
Income tax expense reported in the income statement	630	1 476	1 245
Effective income tax rate	2%	7%	2%

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 segment B activities.

For the year ended 31 March USD'000	2012 Deferred tax asset	2012 Deferred tax liability	2012 Income statement
12. Taxation (continued)			
Deferred tax			
The deferred tax included in the statement of financial position and changes recorded in the income tax expense are as follows:			
The movement on deferred income tax account is as follows:			
Provisions for credit impairment	230	–	71
Other temporary differences:			
– Accelerated tax depreciation	–	(1)	(5)
– Deferred fees income	21	–	5
Special levy	–	–	48
Corporate social responsibility	–	–	53
	251	(1)	172

For the year ended 31 March USD'000	2012	2011	2010
13. Dividend paid and proposed			
Declared and paid during the year			
Equity dividends on ordinary shares:			
Final dividends for 2012: USD0.08 per share (2011: nil and 2010: USD0.06)	(4 591)	–	(3 592)

At 31 March USD'000	2012	2011	2010
14. Cash and balances with central bank			
Cash in hand (note 32)	3	2	1
Current account with the central bank (note 32)			
– Restricted balance	3 551	6 631	5 824
– Unrestricted balance	269	119	26
	3 823	6 752	5 851

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

	2011			2010		
	Deferred tax asset	Deferred tax liability	Income statement	Deferred tax asset	Deferred tax liability	Income statement
	159	–	17	142	–	(173)
	4	–	–	4	–	4
	16	–	–	16	–	5
	–	(48)	(48)	–	–	–
	–	(53)	(53)	–	–	–
	179	(101)	(84)	162	–	(164)

At 31 March USD'000	2012	2011	2010
15. Due from banks			
Placements with other banks (note 32)	200 976	129 458	324 032
Loans and advances	20 054	–	42 025
	221 030	129 458	366 057

At 31 March USD'000	2012	2011	2010
16. Non-current asset held-for-sale			
Cost			
At 1 April	13 208	–	–
Transfer from amount due from other group companies	–	25 823	–
Disposal	(11 775)	–	–
Impairment loss non-current asset held-for-sale	(1 433)	(12 615)	–
At 31 March	–	13 208	–

During the year ended 31 March 2012 Global Ethanol Holdings Limited, an associate company, repaid the loan notes with the proceeds from the sale of its interest in Green Plains Renewable Energy Inc. The asset formed part of the Investment Strategies segment.

17. Derivative financial instruments

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	2012 Assets	 Liabilities	 Notional amount
Interest rate swaps	1 975	(1 720)	78 947
Currency swaps	996	(2 080)	10 344
Forward foreign exchange contracts	1 094	(1 465)	397 802
Equity derivative – Options	–	–	–
Equity derivative – Equity kickers	24 769	–	–
Credit default swaps	–	–	12 552
Credit link note	3	–	5 003
	28 837	(5 265)	504 648

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.

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 case of credit default swaps, it is the streams of payment with respect to defined credit events based on specified notional amounts. Collateral given in respect of the credit default swaps amounted to USD13.3 million (2011: USD25 million and 2010: USD19.5 million).

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser to either 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.

Equity derivatives – equity kickers

The equity derivative is measured at fair value through profit and loss using quoted market price as observable input.

2011			2010		
Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
1 548	(1 547)	66 653	4 458	(1 570)	137 846
1 883	(3 768)	13 955	2 253	(3 447)	17 723
240	(3 961)	292 823	780	(7 418)	176 954
3 173	(3 173)	4 408	26 279	(14 738)	192 307
32 053	–	–	29 180	–	–
–	–	25 936	–	–	25 936
3	–	5 005	3	–	5 004
38 900	(12 449)	408 780	62 953	(27 173)	555 770

At 31 March USD'000	2012	2011	2010
18. Investment securities			
Financial assets designated at fair value through profit or loss (note (a))	24 768	24 497	20 879
Financial assets – loans and receivable	3 212	3 223	3 048
Financial assets – held-to-maturity (note (b))	125 218	–	16 097
	153 198	27 720	40 024
At year end, loans and receivables were neither past due nor impaired.			
(a) Financial assets designated at fair value through profit or loss			
Debt securities	6 786	15 757	15 875
Quoted equities	376	661	690
Unquoted equities	17 606	8 079	4 314
	24 768	24 497	20 879
(b) Financial assets – held-to-maturity			
Gross amount	125 218	–	16 097
Less: allowance for impairment losses	–	–	–
	125 218	–	16 097
Held-to-maturity financial assets consist of investment in bonds maturing in 2018 and 2019 for amounts of USD19.9 million and USD105.3 million respectively.			
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	–	–	–
Amount written off	–	–	4 740
At 31 March	–	–	–

At 31 March USD'000	2012	2011	2010
19. Loans and advances to customers			
Personal	996	1 143	2 248
Business	57 408	108 897	85 859
Entities outside Mauritius	673 738	453 813	428 089
Gross loans and advances	732 142	563 853	516 196
Less: allowance for impairment losses	(7 378)	(5 117)	(4 738)
	724 764	558 736	511 458

Impairment allowance for loans and advances to customers

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 2011	9	926	4 182	5 117
Provisions (reversed)/charged during the year (note 9)	(1)	(463)	2 750	2 286
Exchange difference	–	–	(25)	(25)
At 31 March 2012	8	463	6 907	7 378
Individual impairment	–	–	220	220
Collective impairment	8	463	6 687	7 158
	8	463	6 907	7 378
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–	1 417	1 417
At 1 April 2010	17	833	3 888	4 738
Provisions (reversed)/charged during the year (note 9)	(8)	93	279	364
Exchange difference	–	–	15	15
At 31 March 2011	9	926	4 182	5 117
Individual impairment	–	–	224	224
Collective impairment	9	926	3 958	4 893
	9	926	4 182	5 117
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	–	1 573	1 573
At 1 April 2009	14	783	3 777	4 574
Provisions reversed during the year (note 9)	(1)	(168)	(891)	(1 060)
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

USD'000	Individual impairment	Collective impairment	Total
19. Loans and advances to customers (continued)			
Impairment allowance for loans and advances to customers (continued)			
The following is a reconciliation of the individual and collective allowances for impairment losses on loans and advances:			
At 1 April 2011	224	4 893	5 117
Charge for the year (note 9)	21	2 265	2 286
Exchange difference	(25)	–	(25)
At 31 March 2012	220	7 158	7 378
At 1 April 2010	214	4 524	4 738
Charge for the year (note 9)	(5)	369	364
Exchange difference	15	–	15
At 31 March 2011	224	4 893	5 117
At 1 April 2009	87	4 487	4 574
Charge for the year (note 9)	95	(1 155)	(1 060)
Exchange difference	32	1 192	1 224
At 31 March 2010	214	4 524	4 738

The fair value of collaterals that the bank holds relating to loans individually determined to be impaired at 31 March 2012 is USD1.12 million (2011: USD1.4 million and 2010: USD2.2 million).

At 31 March USD'000	2012	2011	2010
20. Investment in associates			
Cost			
At 1 April,	4 915	4 000	2 184
Additions	–	915	4 000
Impairment loss	–	–	(2 184)
At 31 March	4 915	4 915	4 000

(a) The principal associates are as follows:

	Country of incorporation	% holding		
Global Ethanol Holdings Limited	Australia	–	23.94%	23.94%
Dolphin Coast Marina Estate Limited	Mauritius	34.54%	34.54%	34.54%

(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 Grayston Drive, Sandown, Sandton, South Africa. Investments in associates are accounted for at cost net of any impairment.

At 31 March USD'000	2012	2011	2010
20. Investment in associates (continued)			
The following table illustrates the summarised financial information of the bank's investment in the above associates.			
Share of associates' balance sheets:			
Assets	9 043	7 385	52 582
Liabilities	(3 990)	(1 979)	(46 982)
Net assets	5 053	5 406	5 600
Share of associates' revenue and profit/(loss):			
Revenue	1 441	495	70 199
(Loss)/profit	(122)	365	(12 535)

The shares in Global Ethanol Holdings Limited have been disposed of for USD1.

At 31 March USD'000	2012	2011	2010
21. Investment in subsidiary			
Cost			
At April 1	15	15	38
Disposal of a subsidiary	–	–	(25)
Foreign exchange difference	–	–	2
At March 31	15	15	15

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 Grayston Drive, Sandown, Sandton, South Africa. Investments in subsidiaries are accounted for at cost.

At 31 March USD'000	Computer equipment	Furniture and fittings	Office equipment	Motor vehicles	Total
## 22. Equipment					
Cost					
At 1 April 2011	155	366	278	68	867
Additions	5	8	34	33	80
Disposal	–	–	–	(14)	(14)
At 31 March 2012	160	374	312	87	933
Accumulated depreciation					
At 1 April 2011	110	77	84	59	330
Charge for the year	27	37	60	3	127
Disposal adjustment	–	–	–	(9)	(9)
At 31 March 2012	137	114	144	53	448
Net book values					
At 31 March 2012	23	260	168	34	485
Cost					
At 1 April 2010	152	351	263	244	1 010
Additions	28	15	22	–	65
Disposal	(25)	–	(7)	(176)	(208)
At 31 March 2011	155	366	278	68	867
Accumulated depreciation					
At 1 April 2010	109	43	38	142	332
Charge for the year	24	34	52	23	133
Disposal adjustment	(23)	–	(6)	(106)	(135)
At 31 March 2011	110	77	84	59	330
Net book values					
At 31 March 2011	45	289	194	9	537
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
Accumulated 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

At 31 March USD'000	2012	2011	2010
23. Other assets			
Accrued income	1 064	462	912
Prepayments	43	–	31
Other receivables	5 881	127	37
	6 988	589	980

Other receivables consist mainly of exit fees on loans and advances to customers which are deferred over the term of the loan.

At 31 March USD'000	2012	2011	2010
24. Deposits by banks			
Term deposits from other banks			
– Banks in Mauritius	2 039	35	–
– Banks abroad	–	80 023	79 906
	2 039	80 058	79 906

At 31 March USD'000	2012	2011	2010
25. Due to customers			
Personal			
– Current accounts	19 344	25 936	24 911
– Term deposits	44 973	16 106	11 912
Business			
– Current accounts	152 117	92 169	66 262
– Term deposits	181 296	238 474	385 060
	397 730	372 685	488 145

At 31 March USD'000	Carrying value	Carrying value	Carrying value
26. Debt securities in issue			
Redeemable cumulative non-participating preference shares of nominal value USD147 525 000 and EUR52 700 000 at nil par value (2011 and 2010: nil)	219 904	–	–
	219 904	–	–

The 10-year redeemable preference shares bear interest as follows:

Class A1	3-month USD Libor+1.35%
Class A2	Fixed rate 3.394% up to 25 November 2019 thereafter 3-month USD Libor+1.35%
Class A3	Fixed rate 3.075% up to 31 March 2018 thereafter 3-month USD Libor+1.35%
Class B1	Fixed rate 3.99% up to 29 October 2019 thereafter 3-month Euribor+1.35%
Class B2	Fixed rate 3.962% up to 30 September 2019 thereafter 3-month Euribor+1.35%
Class B3	3-month Euribor+1.63%

At 31 March USD'000	2012	2011	2010
27. Other liabilities			
Accounts payable and sundry creditors	9 470	8 347	8 309
Deferred income	4 255	–	–
	13 725	8 347	8 309

28. 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 USD76 658 (2011: USD68 230 and 2010: USD64 208) represents contributions payable to these plans by the bank at rates specified in the rules of the plan.

The defined contribution made in respect of key management personnel amounts to USD44 729.

At 31 March	2012		2011		2010	
	Number of shares	Amount USD'000	Number of shares	Amount USD'000	Number of shares	Amount USD'000
29. Stated capital						
Ordinary shares	56 478 463	56 478	56 478 463	56 478	56 478 463	56 478

At 31 March USD'000	Available-for-sale reserve	Foreign currency translation reserve	General banking reserve	Statutory reserve	Total
30 Reserves					
At 1 April 2011	–	–	1 837	31 533	33 370
Appropriations to other reserves	–	–	1 048	3 838	4 886
At 31 March 2012	–	–	2 885	35 371	38 256
At 1 April 2010	–	–	573	28 355	28 928
Appropriations to other reserves	–	–	1 264	3 178	4 442
At 31 March 2011	–	–	1 837	31 533	33 370
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
Appropriations to other reserves	–	–	401	12 262	12 663
At 31 March 2010	–	–	573	28 355	28 928

Available-for-sale reserve

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

Foreign currency translation reserve

The reserve comprised all foreign exchange difference 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.

30. Reserves (continued)

General banking reserve

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

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.

31. 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.

		2012		2011		2010	
At 31 March USD'000	Fair value classification	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets							
Cash and balances with central bank	Loans and receivables	3 823	3 823	6 752	6 752	5 851	5 851
Due from banks	Loans and receivables	221 030	221 030	129 458	129 458	366 057	366 057
Non-current asset held-for-sale	Non-current asset held-for-sale	–	–	13 208	13 208	–	–
Derivative financial instruments	Held-for-trading	28 837	28 837	38 900	38 900	62 953	62 953
Investment securities	Held-to-maturity	125 218	126 190	–	–	16 097	16 097
Investment securities	Loans and receivables	3 212	3 212	3 223	3 223	3 048	3 048
Investment securities	Assets at fair value through profit and loss	24 768	24 768	24 997	24 497	20 879	20 879
Amount due from holding bank	Loans and receivables	13 530	13 530	24 991	24 994	48 837	48 843
Amount due from group companies	Loans and receivables	3 067	3 067	24 849	24 849	46 413	46 413
Loans and advances to customers	Loans and receivables	724 764	731 770	558 736	559 280	511 458	513 710
Other assets	Loans and receivables	6 945	6 945	589	589	949	949
		1 155 194	1 163 172	825 204	825 751	1 082 541	1 084 800
Financial liabilities							
Deposits by banks	Liabilities at amortised cost	2 039	2 039	80 058	80 058	79 906	79 906
Derivative financial instruments	Held-for-trading	5 265	5 265	12 449	12 449	27 173	27 173
Amount due to holding bank	Liabilities at amortised cost	240 460	240 460	86 001	86 080	219 543	219 547
Amount due to group companies	Liabilities at amortised cost	10 647	10 647	20 600	20 600	34 446	34 446
Due to customers	Liabilities at amortised cost	397 730	397 600	372 685	372 482	488 145	487 394
Debt securities in issue	Liabilities at amortised cost	219 904	220 131	–	–	–	–
Other liabilities	Liabilities at amortised cost	13 725	13 725	8 347	8 347	8 309	8 309
		889 770	889 867	580 140	580 016	857 522	856 775

31. Fair value of financial instruments (continued)

Financial instruments for which fair value approximates carrying value

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

Fixed rate financial instruments

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

Investment securities held-to-maturity

The fair value of held-to-maturity investments is based on the quoted prices obtained from the relevant exchange.

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.

At 31 March USD'000	2012			
	Level 1	Level 2	Level 3	Total
31. Fair value of financial instruments (continued)				
The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:				
Financial assets				
Derivative financial instruments	–	28 837	–	28 837
Financial assets designated at fair value through profit or loss	376	16 196	8 196	24 768
Total unrecognised change in unrealised fair value	376	45 033	8 196	53 605
Financial liabilities				
Derivative financial instruments	–	5 265	–	5 265
Total unrecognised change in unrealised fair value	–	5 265	–	5 265

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.

Movements in level 3 financial instruments measured at fair value

The level of the fair value hierarchy of financial instruments is determined at the beginning of each reporting period and reassessed as and when required. The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets and liabilities which are recorded at fair value:

For the year ended 31 March USD'000	2012	2011	2010
Opening balance	16 493	16 235	26 569
Total gains/(losses)	5 899	11 433	(19 255)
Acquisitions	721	–	–
Disposals	(14 784)	(12 454)	–
Exchange difference	(133)	1 279	8 921
Closing balance	8 196	16 493	16 235

The gain in respect of level 3 financial instruments included in profit and loss relating to instruments held at the end of the reporting period amounts to USD1.3 million.

At 31 March USD'000	2012	2011	2010
32. Additional cash flow information			
Cash and cash equivalents			
Cash in hand (note 14)	3	2	1
Current account with the central bank (note 14)	3 820	6 750	5 850
Placements with other banks (note 15)	200 976	129 458	324 032
	204 799	136 210	329 883

	2011				2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	–	38 900	–	38 900	–	62 953	–	62 953
	661	7 345	16 493	24 497	690	3 954	16 235	20 879
	661	46 245	16 493	63 397	690	66 907	16 235	83 832
	–	12 449	–	12 449	–	27 173	–	27 173
	–	12 449	–	12 449	–	27 173	–	27 173

At 31 March USD'000	2012	2011	2010
32. Additional cash flow information (continued)			
Change in operating assets			
Investment securities	(124 342)	8 125	20 776
Non-current asset held-for-sale	11 775	(25 823)	–
Derivative financial instruments	(2 354)	1 251	34 554
Loans and advances to banks (note 15)	(20 054)	42 025	(42 025)
Loans and advances to customers	(173 998)	(39 514)	85 791
Movements in amount due from holding bank	11 461	23 845	70 099
Movements in amount due from other group companies	21 782	21 563	103 884
Other assets	(6 398)	474	557
	(282 128)	31 946	273 636
Change in operating liabilities			
Due to customers	25 045	(115 460)	(80 339)
Debt securities in issue	–	–	(2 831)
Securities sold under repurchase agreement	–	–	(1 162)
Deposits from banks	(78 019)	152	(56 800)
Movements in amount due to holding bank	154 459	(133 541)	45 802
Movements in amount due to other group companies	(9 953)	(13 846)	(28 989)
Other operating liabilities	5 378	(55)	(1 685)
	96 910	(262 750)	(126 004)
Non-cash items included in profit before tax			
Depreciation of equipment (note 22)	127	133	144
Gains on investment securities and derivatives	(10 454)	(8 324)	(52 799)
Exchange difference	–	–	(49 004)
Profit on disposal of equipment	(19)	(44)	(14)
Profit on disposal of a subsidiary	–	–	(41)
Interest on preference shares	(1 460)	–	–
Impairment loss/(reversals) on loans and advances	7 970	364	(1 060)
Impairment loss on held-to-maturity financial assets	–	–	1 184
Impairment loss on investment in an associate	–	–	2 184
Impairment loss on non-current asset held-for-sale	1 433	12 615	–
	(2 403)	4 744	(99 406)

31 March 2012 USD'000	Less than 12 months	Over 12 months	Total
33. 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.			
Assets			
Cash and current account with central bank	272	3 551	3 823
Due from banks	221 030	–	221 030
Derivative financial instruments	1 093	27 744	28 837
Financial assets designated at fair value through profit or loss	–	24 768	24 768
Financial assets at amortised cost	–	3 212	3 212
Held-to-maturity financial assets	–	125 218	125 218
Amount due from holding bank	13 530	–	13 530
Amount due from group companies	3 067	–	3 067
Loans and advances to customers	96 510	628 254	724 764
Investment in associates	–	4 915	4 915
Investment in subsidiaries	–	15	15
Equipment	–	485	485
Deferred tax assets	–	250	250
Other assets	2 507	4 481	6 988
Total	338 009	822 893	1 160 902
Liabilities			
Deposits by banks	2 039	–	2 039
Derivative financial instruments	1 492	3 773	5 265
Amount due to holding bank	205 340	35 119	240 459
Amount due to group companies	10 547	100	10 647
Due to customers	360 730	37 000	397 730
Debt securities in issue	–	219 904	219 904
Current tax liabilities	20	–	20
Other liabilities	9 473	4 253	13 726
Total	589 641	300 149	889 790
Net	(251 632)	522 744	271 112

33. Maturity analysis of assets and liabilities (continued)

31 March 2011 USD'000	Less than 12 months	Over 12 months	Total
Assets			
Cash and current account with central bank	121	6 631	6 752
Due from banks	129 458	–	129 458
Non-current asset held-for-sale	13 208	–	13 208
Derivative financial instruments	35 466	3 434	38 900
Financial assets designated at fair value through profit or loss	5 246	22 474	27 720
Amount due from holding bank	24 991	–	24 991
Amount due from group companies	24 849	–	24 849
Loans and advances to customers	228 231	330 505	558 736
Investment in associates	–	4 915	4 915
Investment in subsidiaries	–	15	15
Equipment	–	537	537
Deferred tax assets	–	78	78
Other assets	589	–	589
Total	462 159	368 589	830 748
Liabilities			
Deposits by banks	80 058	–	80 058
Derivative financial instruments	7 134	5 315	12 449
Amount due to holding bank	45 902	40 099	86 001
Amount due to group companies	14 304	6 296	20 600
Due to customers	367 183	5 502	372 685
Current tax liabilities	495	–	495
Other liabilities	8 347	–	8 347
Total	523 423	57 212	580 635
Net	(61 264)	311 377	250 113

31 March 2010 USD'000	Less than 12 months	Over 12 months	Total
33. Maturity analysis of assets and liabilities (continued)			
Assets			
Cash and current account with central bank	27	5 824	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	680 068	407 360	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	10 306	218 620	228 926

At 31 March USD'000	2012	2011	2010
34. 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.			
Contingent liabilities			
Guarantees	34 710	8 013	35 592
Commitments			
Undrawn commitments to lend	91 359	61 380	95 126
Total contingent liabilities	126 069	69 393	130 718

Guarantees

Guarantees commit the bank to make payments on behalf of customers on the occurrence or non-occurrence of a specific, uncertain future event.

Undrawn commitments to lend

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

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

Legal claims

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

For the year ended 31 March USD'000	2012	2011	2010
35. Related party disclosures			
Compensation of key management personnel of the bank			
Short-term employee benefits	1 645	1 621	1 610
Other benefits	574	463	315
	2 219	2 084	1 925
The non-executive directors do not receive pension entitlements from the bank.			
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 market-related rates.			
The following table provides the total amount of transactions, which has been entered into with the related parties for the relevant financial year:			
Loans and advances to key management personnel	60	16	39
Deposits from key management personnel	1 262	289	862

Transactions with other related parties

In addition to transactions with key management, the bank enters into transactions with its holding company, associates, fellow subsidiaries of the group as well as the Pension Fund and the CSR Fund.

Significant influence relates to companies where directors of the bank and/or the holding company have power to participate in the operating decisions.

The corporate social responsibility fund: see page 55 of the MDA.

31 March 2012 USD'000	Holding bank	Associates	Subsidiaries and fellow subsidiaries	Significant influence	Pension Fund	Corporate Social Responsi-bility Fund	Total
35. Related party disclosures (continued)							
Income statement							
Interest income	441	–	215	–	–	–	656
Interest expense	(4 584)	–	(463)	–	–	–	(5 047)
Fees expense	(309)	–	(666)	–	–	–	(975)
Contribution	–	–	–	–	(77)	(114)	(191)
Statement of financial position							
Assets							
Derivative assets	1 579	–	220	–	–	–	1 799
Investment securities	–	–	–	23 741	–	–	23 741
Investment in associate	–	4 915	–	–	–	–	4 915
Investment in subsidiary	–	–	15	–	–	–	15
Amount due from holding bank and group companies	13 530	–	3 067	–	–	–	16 597
Loans and advances	–	–	–	1 479	–	–	1 479
Liabilities							
Derivative liabilities	(5 071)	–	(190)	–	–	–	(5 261)
Amount due to holding bank and group companies	(240 460)	–	(10 647)	–	–	–	(251 107)
Deposits	–	–	–	(1 138)	–	(38)	(1 176)
Debt securities in issue	(219 904)	–	–	–	–	–	(219 904)
Off-balance sheet							
Guarantees received from	(13 355)	–	–	–	–	–	(13 355)

31 March 2011 USD'000	Holding bank	Associates	Subsidiaries and fellow subsidiaries	Significant influence	Pension Fund	Corporate Social Responsi-bility Fund	Total
35. Related party disclosures (continued)							
Income statement							
Interest income	1 054	–	209	–	–	–	1 263
Interest expense	(7 550)	–	(191)	–	–	–	(7 741)
Fees expense	(473)	–	(367)	–	–	–	(840)
Impairment on investment asset classified as held-for-sale	–	(12 615)	–	–	–	–	(12 615)
Contribution	–	–	–	–	(68)	(65)	(133)
Statement of financial position							
Asset							
Asset classified as held-for-sale	–	13 208	–	–	–	–	13 208
Derivative assets	879	–	29	–	–	–	908
Investment securities	–	–	–	18 968	–	–	18 968
Investment in associate	–	4 915	–	–	–	–	4 915
Investment in subsidiary	–	–	15	–	–	–	15
Amount due from holding bank and group companies	24 991	–	24 849	–	–	–	49 840
Loans and advances	–	–	–	3 224	–	–	3 224
Liabilities							
Derivative liabilities	(8 675)	–	(3 774)	–	–	–	(12 449)
Amount due to holding bank and group companies	(86 001)	–	(20 600)	–	–	–	(106 601)
Deposits	–	–	–	(14)	–	(2)	(16)
Off-balance sheet							
Guarantees received from	(1 614)	–	(1)	–	–	–	(1 615)

31 March 2010 USD'000	Holding bank	Associates	Subsidiaries and fellow subsidiaries	Significant influence	Pension Fund	Corporate Social Responsi-bility Fund	Total
35. Related party disclosures (continued)							
Income statement							
Interest income	4 347	–	4 793	–	–	–	9 140
Interest expense	(8 369)	–	(425)	–	–	–	(8 794)
Fees expense	(669)	–	(464)	–	–	–	(1 133)
Other income	–	–	41	–	–	–	41
Impairment on investment in associate	–	(2 184)	–	–	–	–	(2 184)
Contribution	–	–	–	–	(64)	(44)	(108)
Statement of financial position							
Asset							
Derivative assets	3 554	–	12 949	–	–	–	16 503
Investment securities	–	–	–	17 759	–	–	17 759
Investment in associate	–	4 000	–	–	–	–	4 000
Investment in subsidiary	–	–	15	–	–	–	15
Amount due from holding bank and group companies	48 837	22 926	23 487	–	–	–	95 250
Loans and advances	–	–	–	7 011	–	–	7 011
Liabilities					–	–	
Derivative liabilities	(26 908)	–	(265)	–			(27 173)
Amount due to holding bank and group companies	(219 543)	–	(34 446)	–	–	–	(253 989)
Deposits	–	–	–	(11)	–	(44)	(55)
Off balance sheet							
Guarantees issued to	10 905	–	–	–	–	–	10 905
Guarantees received from	(5 157)	–	–	–	–	–	(5 157)

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 except for loans and advances where security is given. For the year ended 31 March 2012, the bank has made a USD1.4 million impairment loss relating to amounts owed by related parties (2011: USD12 615 000 and 2010: USD2184 000).

The maturity of the transactions with related parties range from one day to seven years.

36. Holding companies

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

37. Liquidity analysis of financial liabilities based on undiscounted cash flows

At 31 March 2012 USD'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Deposits by banks	–	2 039	–	–	–	–	–	2 039
Derivative financial instruments	–	1 239	232	–	21	3 765	8	5 265
Amount due to holding bank	554	93 229	–	–	113 381	36 697	–	243 861
Amount due to group companies	7 617	–	876	2 065	–	104	–	10 662
Due to customers	171 462	100 669	51 599	11 958	25 145	38 160	–	398 993
Debt securities in issue	–	–	1 386	1 795	3 107	30 726	233 014	270 028
Other liabilities	–	–	9 473	–	–	4 253	–	13 726
	179 633	197 176	63 566	15 818	141 654	113 705	233 022	944 574

The balances in the above table will not agree directly to the balances in the statement of financial position as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments.

38. Segmental analysis – Business analysis

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

- Private Clients – Individual and corporate customers' loans
- Corporate Clients – Treasury function and corporate customers' loans
- Investment Strategies – Investment banking services and finance.

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

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

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

At 31 March 2012 USD'000	Private clients	Corporate clients	Investment strategies	Inter-divisional adjustment	Total
38. **Segmental analysis – Business analysis** (continued)					
Interest income	15 375	45 515	4 250	(21 349)	43 791
Interest expense	(9 171)	(20 994)	(860)	21 349	(9 676)
Net interest income	6 204	24 521	3 390	–	34 115
Fee and commission income	475	2 208	75	–	2 758
Fee and commission expense	(190)	(371)	(493)	–	(1 054)
Net fee and commission income/(expense)	285	1 837	(418)	–	1 704
Net trading (loss)/income	(20)	(3 931)	(1 874)	–	(5 825)
Net gain on financial instruments designated at fair value through profit or loss	–	2 022	13 665	–	15 687
Net other operating income	–	–	19	–	19
Total operating income	6 469	24 449	14 782	–	45 700
Impairment (losses)/reversals on loans and advances	(7 841)	(414)	285	–	(7 970)
Impairment loss on asset classified as held-for-sale	–	–	(1 433)	–	(1 433)
Net operating (loss)/income	(1 372)	24 035	13 634	–	36 297
Personnel expenses	(1 214)	(2 665)	(880)	–	(4 759)
Depreciation of equipment	–	–	(127)	–	(127)
Other operating expenses	(1 398)	(2 975)	(818)	–	(5 191)
Total operating expenses	(2 612)	(5 640)	(1 825)	–	(10 077)
(Loss)/profit before income tax	(3 984)	18 395	11 809	–	26 220
Cost to income ratio	40.4%	23.1%	12.3%	–	22.0%
Total assets	418 714	681 072	282 156	(221 041)	1 160 902
Total liabilities	(422 405)	(661 851)	(26 576)	221 041	(889 790)

At 31 March 2011 USD'000	Private clients	Corporate clients	Investment strategies	Inter-divisional adjustment	Total
38. Segmental analysis – Business analysis (continued)					
Interest income	13 590	47 228	12 963	(26 599)	47 182
Interest expense	(8 679)	(25 420)	(4 974)	26 599	(12 474)
Net interest income	4 911	21 808	7 989	–	34 708
Fee and commission income	434	2 281	93	–	2 808
Fee and commission expense	(268)	(407)	(208)	–	(883)
Net fee and commission income	166	1 874	(115)	–	1 925
Net trading loss	(273)	(1 070)	(6 602)	–	(7 945)
Net gain on financial instruments designated at fair value through profit or loss	–	1 244	15 158	–	16 402
Net other operating (loss)/income	–	(286)	44	–	(242)
Total operating income	4 804	23 570	16 474		44 848
Impairment reversals/(losses) on loans and advances	187	(469)	(82)	–	(364)
Impairment loss on asset classified as held-for-sale	–	–	(12 615)	–	(12 615)
Net operating income/(loss)	4 991	23 101	3 777	–	31 869
Personnel expenses	(1 161)	(2 550)	(843)	–	(4 554)
Depreciation of equipment	–	–	(133)	–	(133)
Other operating expenses	(1 273)	(2 614)	(632)	–	(4 519)
Total operating expenses	(2 434)	(5 164)	(1 608)	–	(9 206)
Profit before tax	2 557	17 937	2 169	–	22 663
Cost to income ratio	50.7%	21.9%	9.8%	–	20.5%
Total assets	198 355	899 195	243 263	(510 065)	830 748
Total liabilities	(195 583)	(881 001)	(14 117)	510 065	(580 635)

At 31 March 2010 USD'000	Private clients	Corporate clients	Investment strategies	Inter-divisional adjustment	Total
38. Segmental analysis – Business analysis (continued)					
Interest income	16 751	50 977	20 562	(36 684)	51 606
Interest expense	(10 239)	(33 167)	(7 732)	36 684	(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/(expense)	299	3 611	(1 042)	–	2 868
Net trading (loss)/income	(346)	1 170	64 182	–	65 006
Net loss on financial instruments designated at fair value through profit or loss	–	(7 538)	(4 593)	–	(12 131)
Net other operating 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 losses 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	(1 030)	(2 261)	(747)	–	(4 038)
Depreciation of equipment	–	–	(144)	–	(144)
Other operating expenses	(983)	(2 111)	(376)	–	(3 470)
Total operating expenses	(2 013)	(4 372)	(1 267)	–	(7 652)
Profit before 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	1 267 134	147 520	(526 316)	1 087 428
Total liabilities	(193 204)	(712 216)	(479 397)	526 316	(858 502)

As at 31 March USD'000	Notes	Segment A		
		2012	2011	2010
39. Segmental reporting				
Statement of financial position				
Cash and balances with central bank		3 823	6 752	5 851
Due from banks		394	204	195
Non-current asset held-for-sale		–	–	–
Derivative financial instruments		–	–	–
Investment securities	I	–	–	–
Amount due from holding bank	II (a)	–	–	–
Amount due from group companies	III (a)	–	–	–
Loans and advances to customers	IV (a)	27 838	26 307	21 148
Investment in associates		4 915	4 915	4 000
Investment in subsidiary		15	15	15
Equipment		485	537	678
Deferred tax assets		250	78	162
Other assets	V	156	112	260
		37 876	38 920	32 309
Liabilities and equity				
Deposits by banks	VI	2 039	35	–
Derivative financial instruments		–	–	–
Amount due to holding bank	II (b)	–	–	–
Amount due to group companies	III (b)	1 199	1 080	1 013
Due to customers	VII	36 773	29 769	85 131
Debt securities in issue		–	–	–
Current tax liabilities		20	495	980
Other liabilities	VIII	59	71	3 493
		40 090	31 450	90 617
Equity				
Stated capital				
Other reserves				
Retained earnings				
Total equity				
Total liabilities and equity				

Loans and advances to customers have been restated for the financial year 2010 as GBL companies, which are residents but form part of segment B, have been incorrectly included in segment A.

Segment B			Total		
2012	2011	2010	2012	2011	2010
–	–	–	3 823	6 752	5 851
220 636	129 254	365 862	221 030	129 458	366 057
–	13 208	–	–	13 208	–
28 837	38 900	62 953	28 837	38 900	62 953
153 198	27 720	40 024	153 198	27 720	40 024
13 530	24 991	48 837	13 530	24 991	48 837
3 067	24 849	46 413	3 067	24 849	46 413
696 926	532 429	490 310	724 764	558 736	511 458
–	–	–	4 915	4 915	4 000
–	–	–	15	15	15
–	–	–	485	537	678
–	–	–	250	78	162
6 832	477	720	6 988	589	980
1 123 026	791 828	1 054 399	1 160 902	830 748	1 087 428
–	80 023	79 906	2 039	80 058	79 906
5 265	12 449	27 173	5 265	12 449	27 173
240 460	86 001	219 543	240 460	86 001	219 543
9 448	19 520	33 433	10 647	20 600	34 446
360 958	342 916	403 014	397 730	372 685	488 145
219 904	–	–	219 904	–	–
–	–	–	20	495	980
13 666	8 276	4 816	13 725	8 347	8 309
849 701	549 185	767 885	889 791	580 635	858 502
			56 478	56 478	56 478
			38 256	33 370	28 928
			176 378	160 265	143 520
			271 112	250 113	228 926
			1 160 903	830 749	1 087 428

For the year to 31 March USD'000	Segment A		
	2012	2011	2010
39. Segmental reporting (continued)			
Income statement			
Interest income	1 629	1 490	706
Interest expense	(1 703)	(2 255)	(2 048)
Net interest income	(74)	(765)	(1 343)
Fee and commission income	383	3	47
Fee and commission expense	–	–	(16)
Net fee and commission income	383	3	31
Net trading (loss)/income	–	–	–
Net gain/(loss) on financial instruments designated at fair value through profit or loss	–	–	–
Net other operating income/(loss)	19	–	–
Total operating income	328	(762)	(1 312)
Impairment losses on held-to-maturity financial assets	–	–	–
Impairment (reversals)/losses on loans and advances	(102)	(31)	(124)
Impairment loss on investment in an associate	–	–	–
Impairment loss on asset classified as held-for-sale	–	–	–
Net operating income	226	(793)	(1 436)
Personnel expenses	(30)	–	–
Depreciation of equipment	(1)	–	–
Other operating expenses	(31)	–	–
Total operating expenses	(62)	–	–
Profit before tax	164	(793)	(1 436)
Income tax expense	(630)	(1 476)	(1 245)
Profit for the year	(466)	(2 269)	(2 681)

Segment B			Total		
2012	2011	2010	2012	2011	2010
42 162	45 692	50 900	43 791	47 182	51 606
(7 973)	(10 219)	(12 406)	(9 676)	(12 474)	(14 454)
34 189	35 473	38 494	34 115	34 708	37 152
2 375	2 805	4 611	2 758	2 808	4 658
(1 054)	(883)	(1 775)	(1 054)	(883)	(1 790)
1 321	1 922	2 836	1 704	1 925	2 868
(5 825)	(7 945)	65 006	(5 825)	(7 945)	65 006
15 687	16 402	(12 131)	15 687	16 402	(12 131)
–	(242)	55	19	(242)	55
45 372	45 609	94 261	45 700	44 848	92 950
–	–	(1 184)	–	–	(1 184)
(7 868)	(332)	1 184	(7 970)	(364)	1 060
–	–	(2 184)	–	–	(2 184)
(1 433)	(12 615)	–	(1 433)	(12 615)	–
36 071	32 662	92 076	36 297	31 869	90 642
(4 729)	(4 554)	(4 038)	(4 759)	(4 554)	(4 038)
(126)	(133)	(144)	(127)	(133)	(144)
(5 160)	(4 519)	(3 470)	(5 191)	(4 519)	(3 470)
(10 015)	(9 206)	(7 652)	(10 077)	(9 206)	(7 652)
26 056	23 456	84 424	26 220	22 663	82 990
–	–	–	(630)	(1 476)	(1 245)
26 056	23 456	84 424	25 590	21 187	81 745

At 31 March USD'000	Segment A		
	2012	2011	2010
39. Segmental reporting (continued)			
I Investment securities			
Financial assets designated at fair value through profit or loss			
– Government-related debt securities	–	–	–
– Other debt securities	–	–	–
– Quoted equities	–	–	–
– Unquoted equities	–	–	–
Held-to-maturity financial assets	–	–	–
	–	–	–
II Amounts due from/to holding bank			
Remaining term to maturity			
(a) Amount due from holding bank			
Within 3 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	–	–	–
	–	–	–
(b) Amount due to subsidiaries and other group companies			
Within 3 months	1 199	1 080	1 013
Over 6 to 12 months	–	–	–
Over 1 to 5 years	–	–	–
Over 1 to 5 years	–	–	–
	1 199	1 080	1 013

Segment B			Total		
2012	2011	2010	2012	2011	2010
–	248	248	–	248	248
9 998	18 732	18 675	9 998	18 732	18 675
376	661	690	376	661	690
17 606	8 079	4 314	17 606	8 079	4 314
125 218	–	16 097	125 218	–	16 097
153 198	27 720	40 024	153 198	27 720	40 024
13 530	24 931	48 750	13 530	24 931	48 750
–	60	–	–	60	–
–	–	87	–	–	87
13 530	24 991	48 837	13 530	24 991	48 837
93 587	45 842	90 947	93 587	45 842	90 947
–	–	24 255	–	–	24 255
111 753	60	55 919	111 753	60	55 919
35 120	40 099	13 752	35 120	40 099	13 752
–	–	34 670	–	–	34 670
240 460	86 001	219 543	240 460	86 001	219 543
3 067	3 823	3 983	3 067	3 823	3 983
–	14 498	–	–	14 498	–
–	6 528	–	–	6 528	–
–	–	42 430	–	–	42 430
3 067	24 849	46 413	3 067	24 849	46 413
7 291	9 265	8 888	8 490	10 345	9 901
2 057	3 959	6 178	2 057	3 959	6 178
–	–	18 367	–	–	18 367
100	6 296	–	100	6 296	–
9 448	19 520	33 433	10 647	20 600	34 446

At 31 March USD'000	Segment A		
	2012	2011	2010
39. Segmental reporting (continued)			
IV Loans and advances to customers			
(a) Remaining term to maturity			
Within 3 months	–	426	1 840
Over 3 to 6 months	4 598	7 580	201
Over 6 to 12 months	–	–	1 879
Over 1 to 5 years	5 876	–	4 161
Over 5 years	17 364	18 562	13 067
	27 838	26 568	21 148
(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	–	–	–
	–	–	–

For the year to 31 March USD'000	Segment B Specific provision		
	2012	2011	2010
(c) Allowance for credit impairment losses			
At 1 April,	224	214	88
Loans written off out of allowance	–	–	–
(Release of)/provision for credit losses for the year	(4)	(5)	95
Differences due to foreign currency translation	–	15	31
At 31 March	220	224	214

	Segment B			Total		
	2012	2011	2010	2012	2011	2010
	14 392	174 387	5 277	14 392	174 813	7 567
	43 199	5 923	30 582	47 797	13 503	30 783
	34 321	39 915	128 035	34 321	39 915	129 914
	518 729	8 127	200 232	524 605	8 127	204 393
	86 285	303 816	125 734	103 649	322 378	138 801
	696 926	532 168	490 310	724 764	558 736	511 458
	149 545	61 786	55 516	149 545	61 786	55 516
	–	106 460	141 337	–	106 460	141 337
	–	–	–	–	–	–
	–	42 100	–	–	42 100	–
	–	–	–	–	–	–
	45 551	–	82 817	45 551	–	82 817
	195 096	210 346	279 670	195 096	210 346	279 670

	Segment A Portfolio provision			Segment B Portfolio provision			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
	247	259	231	4 646	4 265	4 255	5 117	4 738	4 574
	–	–	–	–	–	–	–	–	–
	28	(12)	(40)	2 262	381	(1 115)	2 286	364	(1 060)
	–	–	68	(25)	–	1 125	(25)	15	1 224
	275	247	259	6 883	4 646	4 265	7 378	5 117	4 738

At 31 March USD'000	Gross amount of loans	Non-performing loans
39. Segmental reporting (continued)		
(d) Allowance for credit losses by sector		
Agriculture	726	–
Manufacturing	103 499	–
Tourism	29 055	–
Transport	31 817	–
Construction	353 640	271
Information, communication and technology	21 991	–
Financial and business services	58 333	336
Traders	40 617	–
Personal	222	–
Professional	38 840	1 417
Global Business Licence holders (GBL)	30 366	–
Media, entertainment and recreational activities	7 500	–
Infrastructure	9 288	–
Other entities	6 248	–
	732 142	2 024
Analysed by segments:		
Segment A		
Agriculture	504	–
Tourism	15 988	–
Construction	10 376	–
Financial and business services	288	–
Personal	193	–
Professional	803	–
	28 152	–
Segment B		
Agriculture	222	–
Manufacturing	103 499	–
Tourism	13 066	–
Transport	31 817	–
Construction	343 264	271
Information, communication and technology	21 991	–
Financial and business services	58 045	336
Traders	40 617	–
Personal	30	–
Professional	38 038	1 417
Global Business Licence holders (GBL)	30 366	–
Media, entertainment and recreational activities	7 500	–
Infrastructure	9 288	–
Other entities	6 249	–
	703 990	2 024
	732 142	2 024

	Specific provision	Portfolio provision	Total		
			2012	2011	2010
	–	7	7	17	24
	–	1 012	1 012	305	730
	–	284	284	234	200
	–	311	311	498	394
	–	3 458	3 458	1 118	830
		215	215	–	–
	–	570	570	1 399	1 306
	–	397	397	120	3
	–	2	2	2	1
	220	380	600	479	664
	–	297	297	743	515
	–	73	73	152	–
	–	91	91	50	–
	–	61	61	–	71
	220	7 158	7 378	5 117	4 738
	–	5	5	14	20
	–	156	156	99	90
	–	101	101	108	23
	–	3	3	16	106
	–	2	2	2	1
	–	8	8	9	19
	–	275	275	248	259
	–	2	2	3	4
	–	1 012	1 012	305	730
	–	128	128	135	110
	–	311	311	498	394
	–	3 356	3 356	1 010	807
	–	215	215	–	–
	–	568	568	1 383	1 200
	–	397	397	120	3
	–	215	215	–	–
	220	372	592	470	645
	–	297	297	743	515
	–	73	73	152	–
	–	91	91	50	–
	–	61	61	–	71
	220	6 883	7 103	4 869	4 479
	220	7 158	7 378	5 117	4 738

At 31 March USD'000	Segment A 2012	2011	2010
39. Segmental reporting (continued)			
V Other assets			
Accrued fee income	–	–	260
Prepayments	–	–	–
Other receivables	156	112	–
	156	112	260
VI Bank in Mauritius and banks abroad			
Remaining term to maturity			
Within 3 months	2 039	35	–
Over 3 to 6 months	–	–	–
	2 039	35	–
VII Due to customers			
Demand	12 768	73 766	6 271
Term deposits with remaining term to maturity			
Within 3 months	1 970	17 611	808
Over 3 to 6 months	637	915	47 287
Over 6 to 12 months	1 046	16 347	17 313
Over 1 to 5 years	20 351	–	13 452
Over 5 years	–	–	–
	36 772	108 639	85 131
VIII Other liabilities			
Amounts payable and sundry creditors	59	71	3 493
	59	71	3 493
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 overall risk of the bank.			
Guarantees	25 269	137	3 330
Commitments			
– Irrevocable unutilised facilities	2 536	31 742	32 744
	27 805	31 879	36 074

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

	Segment B			Total		
	2012	2011	2010	2012	2011	2010
	1 064	462	652	1 064	462	912
	43	–	31	43	–	31
	5 725	15	37	5 881	127	37
	6 832	477	720	6 988	589	980
	–	–	79 906	2 039	35	79 906
	–	80 023	–	–	80 023	–
	–	80 023	79 906	2 039	80 058	79 906
	159 415	44 340	84 902	172 183	118 106	91 173
	151 137	198 412	301 534	153 107	216 023	302 342
	11 290	1 858	1 303	11 927	2 773	48 590
	24 029	13 934	6 733	25 075	30 281	24 046
	15 087	4 898	4 292	35 438	4 898	17 744
	–	604	4 250	–	604	4 250
	360 958	264 046	403 014	397 730	372 685	488 145
	9 411	8 276	4 816	9 470	8 347	8 309
	9 411	8 276	4 816	9 470	8 347	8 309
	9 441	7 876	32 262	34 710	8 013	35 592
	88 823	29 638	62 382	91 359	61 380	95 126
	98 264	37 514	94 644	126 069	69 393	130 718

For the year to 31 March USD'000	Segment A		
	2012	2011	2010
39. Segmental reporting (continued)			
Cash flow statement			
Operating activities			
Profit before tax	164	2 646	1 770
Adjustments for:			
Change in operating assets	(1 574)	(1 573)	13 264
Change in operating liabilities	9 116	(58 683)	69 809
Non-cash item included in profit before tax	(9 976)	61 914	130
Income tax paid	(1 277)	(1 868)	(1 594)
Net cash flows from operating activities			
Net cash flows (used in)/from operating activities	(3 347)	2 436	83 379
Investing activities			
Purchase of investment in associate	–	(915)	(4 000)
Proceeds on disposal of investment securities	–	–	66
Purchase of equipment	(80)	(65)	(592)
Proceeds on disposal of equipment	23	118	14
Net cash flows (used in)/from investing activities	(57)	(862)	(4 512)
Financing activities			
Dividend paid	–	–	–
Issue of preference shares			
Net cash flows (used in)/from financing activities	–	–	–
Net (decrease)/increase in cash and cash equivalents	(3 404)	1 574	78 867
Cash and cash equivalents at beginning of the year	7 621	6 047	2 574
Effect of exchange rate changes on cash and cash equivalents	–	–	(75 394)
Cash and cash equivalents at end of the year	4 217	7 621	6 047

	Segment B			Total		
	2012	2011	2010	2012	2011	2010
	26 056	20 017	81 220	26 220	22 663	82 990
	(280 554)	33 519	260 372	(282 128)	31 946	273 636
	87 794	(204 067)	(195 813)	96 910	(262 750)	(126 004)
	7 373	(57 170)	(99 536)	(2 403)	4 744	(99 406)
	–	–	–	(1 277)	(1 868)	(1 594)
	(159 331)	(207 701)	46 243	(162 678)	(205 265)	129 622
	–	–	–	–	(915)	(4 000)
	14 550	12 454	12 984	14 550	12 454	13 050
	–	–	–	(80)	(65)	(592)
	–	–	–	23	118	14
	14 550	12 454	12 984	14 493	11 592	8 472
	(4 591)	–	(3 592)	(4 591)	–	(3 592)
	221 365	–	–	221 365	–	–
	216 774	–	(3 592)	216 774	–	(3 592)
	71 993	(195 247)	55 635	68 589	(193 673)	134 502
	128 589	323 836	148 548	136 210	329 883	151 122
	–	–	119 653	–	–	44 259
	200 582	128 589	323 836	204 799	136 210	329 883

Notes

Notes

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