


BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	31 December 2008	31 December 2007	31 December 2006
		Rs	Rs	Rs
ASSETS				
Cash and cash equivalents	5	372,266,782	119,820,095	141,213,079
Trading assets	6	678,954,777	249,674,375	631,899,564
Investment securities	7	561,579,708	1,483,097,035	1,582,423,073
Loans and advances to customers	8	5,075,879,416	4,228,584,549	3,497,517,220
Property, plant and equipment	9	213,789,317	163,037,885	170,006,947
Investment property	10	72,000,000	62,000,000	62,000,000
Other assets	11	368,955,113	350,451,850	299,623,368
Total assets		7,343,425,113	6,656,665,789	6,384,683,251
LIABILITIES				
Deposits from customers	12	6,331,000,682	5,866,599,656	5,549,506,575
Other borrowed funds	13	95,000,000	-	152,815,000
Current tax liabilities	29	1,718,539	1,641,335	-
Deferred tax liability	29	151,742	151,742	151,742
Other liabilities	14	309,149,401	259,077,888	201,508,278
Total liabilities		6,737,020,364	6,127,470,621	5,903,981,595
Shareholders' equity				
Share capital	15	383,962,400	383,962,400	383,962,400
Statutory Reserve	16	33,550,679	22,476,709	15,202,682
Retained earnings	17	127,365,918	73,279,341	39,441,828
General Banking Reserve	18	51,546,388	42,880,468	35,498,496
Revaluation reserves	19	9,979,364	6,596,250	6,596,250
Total equity		606,404,749	529,195,168	480,701,656
Total liabilities and equity		7,343,425,113	6,656,665,789	6,384,683,251
CONTINGENT LIABILITIES AND COMMITMENTS				
Letters of credit, guarantees, acceptances, endorsements and other obligations on account of customers	20	620,061,019	455,644,101	499,069,783
Credit commitments	21	344,063,365	224,267,062	547,954,139

Approved by the Board of Directors on 26th March 2009 and signed on its behalf by



Dr D. Bundhun
Chairman



Mr G. Moteea
Director



Mr R. K. Beeharry
Chief Executive Officer

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	31 December 2008	31 December 2007	31 December 2006
		Rs	Rs	Rs
Interest income		697,900,626	653,295,516	524,888,810
Interest expense		(468,532,357)	(474,183,064)	(370,129,733)
Net interest income	22	229,368,269	179,112,452	154,759,077
Net fee and commission income	23	39,464,015	32,737,307	36,280,194
Net trading income	24	44,443,632	45,500,486	32,052,805
Other income	25	15,183,683	4,555,161	1,604,710
		59,627,315	50,055,647	33,657,515
Operating income		328,459,599	261,905,406	224,696,786
Net impairment loss on financial assets	8 & 26	(19,297,047)	(7,129,879)	(20,588,386)
Personnel expenses	27	(89,011,848)	(70,544,314)	(56,006,209)
Operating lease expenses		(17,194,220)	(16,596,970)	(15,559,641)
Depreciation	9	(31,741,375)	(28,958,517)	(29,842,282)
Other expenses	28	(95,670,103)	(88,540,879)	(67,590,069)
Profit before income tax		75,545,006	50,134,847	35,110,199
Income tax expense	29	(1,718,539)	(1,641,335)	-
Profit for the year	30	73,826,467	48,493,512	35,110,199
Transfer to Statutory Reserve	16	(11,073,970)	(7,274,027)	(5,266,530)
Transfer to General Banking Reserve	18	(8,665,920)	(7,381,972)	(9,401,530)
Profit attributable to shareholders		54,086,577	33,837,513	20,442,139
Earnings per share	31	14.09	8.81	5.32

Approved by the Board of Directors on **26th March 2009** and signed on its behalf by



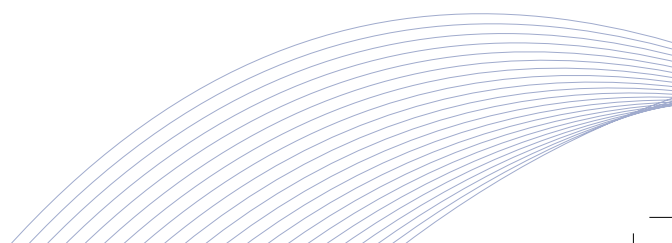
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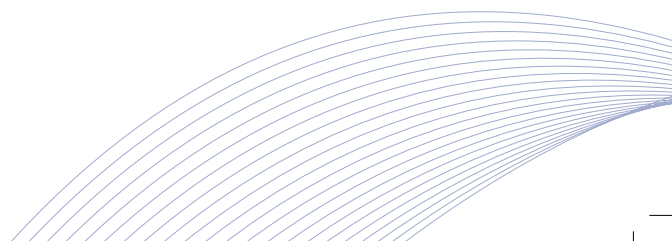
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

	Share Capital	Statutory Reserve	General Banking Reserve	Revaluation Reserves	Retained Earnings	Total
	Rs	Rs	Rs	Rs	Rs	Rs
At 01 January 2006	383,962,400	9,936,152	26,096,966	3,456,250	18,999,689	442,451,457
Profit for the year	-	-	-	-	35,110,199	35,110,199
Surplus on revaluation	-	-	-	3,140,000	-	3,140,000
Transfers for the year	-	5,266,530	9,401,530	-	(14,668,060)	-
At 31 December 2006	383,962,400	15,202,682	35,498,496	6,596,250	39,441,828	480,701,656
At 01 January 2007	383,962,400	15,202,682	35,498,496	6,596,250	39,441,828	480,701,656
Profit for the year	-	-	-	-	48,493,512	48,493,512
Transfers for the year	-	7,274,027	7,381,972	-	(14,655,999)	-
At 31 December 2007	383,962,400	22,476,709	42,880,468	6,596,250	73,279,341	529,195,168
At 01 January 2008	383,962,400	22,476,709	42,880,468	6,596,250	73,279,341	529,195,168
Profit for the year	-	-	-	-	73,826,467	73,826,467
Surplus on revaluation	-	-	-	3,383,114	-	3,383,114
Transfers for the year	-	11,073,970	8,665,920	-	(19,739,890)	-
At 31 December 2008	383,962,400	33,550,679	51,546,388	9,979,364	127,365,918	606,404,749

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	31 December 2008	31 December 2007	31 December 2006
		Rs	Rs	Rs
Cash flows from operating activities				
Profit for the year before taxation		75,545,006	50,134,847	35,110,199
Adjustments for:				
Impairment on non-financial assets		19,297,047	7,129,879	20,588,386
Depreciation		31,741,375	28,958,517	29,842,282
Loss on disposal of property, plant and equipment		-	-	(336,707)
Fair valuation of investment property		(10,000,000)	-	-
		116,583,428	86,223,243	85,204,160
Changes in operating assets and liabilities				
(Increase)/decrease in trading asset		(429,280,402)	382,225,189	(155,858,860)
Accrued interest receivable and payable (net)		39,541,091	44,485,074	56,770,223
Increase in loan and advances to customers		(866,591,914)	(738,197,208)	(940,153,021)
Increase in deposit from customers		464,401,026	317,093,081	1,033,367,461
(Increase)/decrease in other assets		(37,788,948)	(73,647,182)	34,224,152
Increase in other liabilities		29,816,107	35,973,626	16,730,282
Tax paid		(1,641,335)	-	-
Net cash (used in)/generated from operating activities		(684,960,947)	54,155,823	130,284,397
Cash flows from investing activities				
Securities		629,924,726	109,363,421	87,960,608
Placements		291,592,601	(10,107,773)	(229,692,518)
Land, building and equipment		(79,109,693)	(21,989,455)	(12,354,200)
Net cash generated from/(used in) investing activities		824,407,634	77,266,193	(154,086,110)
Net increase/(decrease) in cash and cash equivalents		157,446,687	131,422,016	(23,801,713)
Cash and cash equivalents at start of the year		119,820,095	(11,601,921)	12,199,792
Cash and cash equivalents at end of the year	32	277,266,782	119,820,095	(11,601,921)

The notes on pages 33 to 70 form an integral part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. GENERAL INFORMATION

New Co-operative Bank Ltd, the 'Bank', was incorporated as a public company on 01 October 2001 and the name was changed to 'Mauritius Post and Cooperative Bank Ltd' on 22 April 2003. The Bank is engaged in the provision of commercial banking services. The financial statements are presented in Mauritian Rupee (MUR or Rs).

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Bank's accounting policies that would affect the amounts reported for the current or prior years.

The Bank has adopted IFRS 7, Financial Instruments Disclosures: which is effective for annual reporting periods beginning on or after 01 January 2007 and the consequential amendments to IAS 1, Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding financial instruments.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 1 and IAS 27	Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (Revised 2008)
IFRS 2	Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations
IFRS 3	Business Combinations (Revised 2008)
IFRS 8	Operating Segments
IAS 1	Presentation of Financial Statements (Revised 2008)
IAS 23	Borrowing Costs (Amendment)
IAS 27	Consolidated and Separate Financial Statements (Revised 2008)
IAS 32 and IAS 1	Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
IAS 39 and IFRS 7	Amendment to IAS 39 Financial Instruments: Recognition and Measurement and Financial Instruments: Disclosures: Reclassification of Financial Assets
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19-The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the Bank's financial performance and financial position. The Bank will apply IAS 1 Revised, Presentation of Financial Statements, as from 01 January 2009.

3. ACCOUNTING POLICIES

The financial statements are prepared in accordance with and comply with the International Financial Reporting Standards (IFRS).

The principal accounting policies adopted in the preparation of these financial statements are set out below. The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make certain assumptions and estimates that affect the reported amounts of assets and liabilities, revenues and expenses and contingent liabilities. Actual amounts could in certain cases differ from those assumptions and estimates. Changes are taken into account with income statement effect if new information comes to light.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

ACCOUNTING POLICIES (Contd)

Basis of preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of investment property, investment securities, freehold land and buildings and other assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, cash and balances with the Central Bank and other banks, net of borrowings from banks in Mauritius.

Financial assets

The Bank classifies its financial assets in the following categories: financial assets held for trading, held-to-maturity investments, available-for-sale investments and loans and receivables. Management determines the classification of its investments at initial recognition.

(a) Financial assets held for trading

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Held for trading financial assets comprise mainly of treasury bills.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale. Held-to-maturity investments comprise of government stocks, treasury notes and deposits with financial institutions.

(c) Available-for-sale investments

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

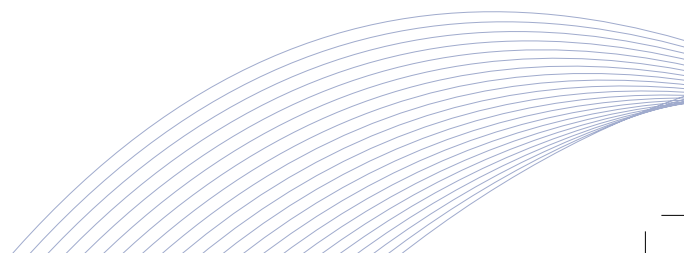
(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than: (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading; (b) those that the Bank upon initial recognition designates as available-for-sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Regular way purchases and sales of held for trading financial assets, held-to-maturity investments and available-for-sale investments are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets held for trading. Held for trading financial assets are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all the risks and rewards of ownership.

Held for trading financial assets and available-for-sale investments are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method. Gains and losses arising from changes on the fair value of available-for-sale investments are recognised directly in equity until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is transferred to the income statement.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

ACCOUNTING POLICIES (Contd)

Provision for impairment losses

(i) Loans and advances are stated net of provisions for impairment losses. An allowance for credit losses is established if there is objective evidence that the Bank will be unable to collect all amounts due according to the original contractual terms of the loan agreement.

(ii) Provisions for impairment losses are made up of specific provision, portfolio provision and general provision

(a) specific provision: specific provisions are made on all impaired loans and advances and the amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate of the loans.

(b) portfolio provision: loans that have not been individually assessed for impairment, will be assessed on a 'portfolio' basis. 'Portfolio' loans are classified into groups of similar credit risk characteristics and the provision for each group is determined after taking into account factors such as past loan loss experience, and current economic and other relevant conditions, including known adverse economic conditions likely to affect the sectoral financial performance. In line with the Bank of Mauritius Guideline, the portfolio provision is not less than 1 percent of the entire 'portfolio'. The provision is calculated after offsetting any collateral of liquid assets in the 'portfolio'. The portfolio provision is not applied to credits extended directly to the Government of Mauritius or to public sector enterprises backed by Government of Mauritius guarantees.

(c) general provision: a general provision is designed to cover potential losses that are not captured in the provisions for individually assessed loans and 'portfolio' loans and is treated under equity as a General Banking Reserve. Such reserve is not distributable.

(iii) Provisions for impairment losses in respect of on-balance sheet items are deducted from the asset concerned whereas any provision for credit losses with regard to off-balance sheet items is treated under other liabilities in the balance sheet.

(iv) All impaired loans are reviewed and analysed at each balance sheet date. A provision for impairment is reversed only when the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the loan agreement.

(v) A write off is made when all or part of a loan is deemed uncollectible. Write-offs are charged against previously established provisions for credit allowances and subsequent recoveries, in part or in full of amounts previously written-off, and are credited to charge for doubtful debts in the income statement.

(vi) In compliance with the Bank of Mauritius Guideline on Credit Impairment Measurement and Income Recognition, when a borrower misses a contractual instalment on interest or principal, his loan is designated for an assessment of the degree of impairment and this assessment must be completed within 60 days of the first indication of impairment. Other additional sources of evidence of impairment include:

- funds obtained under the loan agreement were not used for the purpose for which they were loaned;
- the project financed by the loan has become non-viable;
- the borrower is about to default and the Bank advances its funds to meet its current payment obligations;
- the customer is exceeding the approved overdraft limit;
- the underlying collateral had lost value significantly;
- there is a loss of confidence in the borrower's integrity; or
- the borrower belongs to a group of companies which had credits outstanding from the Bank or other financial institutions and one or more members of the group have defaulted.

(vii) Agricultural credits

Payments of principal and interest on agricultural credits are aligned with the timing of the harvest. Instalments on loans and advances are payable so as to coincide with proceeds received, which are receivable after the end of the harvest season. Agricultural credits are treated as impaired only if payment is not received three months after the end of the harvest season.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

ACCOUNTING POLICIES (Contd)

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Placements

Placements are measured at cost which is a reflection of their fair values.

Deposits

Deposits are measured at cost, which is a reflection of their fair values.

Property, plant and equipment

Property, plant and equipment includes bank occupied properties, investment property, software, IT and communication, other machines and equipment and motor vehicles, and are stated at cost less accumulated depreciation and any accumulated impairment losses, except freehold land and buildings and investment property which are shown at fair value. Bank occupied property is defined as property held for use in the supply of services or for administrative purposes whereas investment property is defined as property held to earn rentals and/or for capital appreciation. Investment property is stated at fair value under the fair value model.

Software development costs are capitalised when they meet certain criteria relating to identifiability, probability that future economic benefits will flow to the enterprise, and the development costs can be measured reliably. Costs associated with the maintenance of existing computer software are expensed as incurred.

Equipment which is acquired and not yet installed at the balance sheet date is treated as capital work in progress.

Depreciation is calculated, with the exception of land and investment property, on the straight line method to write off the cost of assets to their residual values over their estimated useful lives as follows:

Freehold buildings	2%
Computer and office equipment	10% - 25%
Computer software	10% - 25%
Furniture and fittings	20%
Motor vehicles	20%

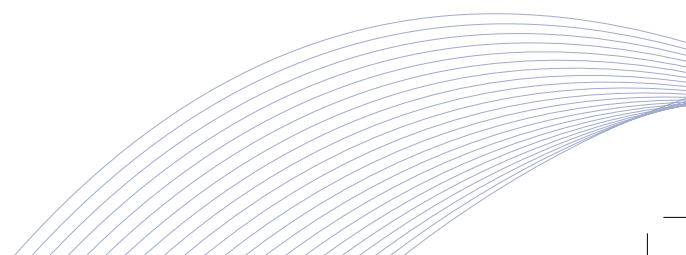
Where the carrying amount of an asset is greater than its estimated recoverable amount, it is immediately written down to its recoverable amount. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts, and are taken into account in determining operating profit.

Acceptances

Acceptances comprise the commitment of the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from customers. Acceptances are accounted for as off balance sheet items and are disclosed as contingent liabilities.

Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis. Once a financial asset has been written down as a result of an impairment, interest income is recognised on the recoverable amount using the rate of interest to discount the future cash flows when determining the impairment loss. All previously accrued but uncollected interest is reversed against income in the accounting year in which the credit becomes non-performing.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

ACCOUNTING POLICIES (Contd)

Fees and commissions

Fees and commissions are recognised on an accrual basis, when the service has been provided, unless collectibility is in doubt.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in Mauritian Rupees (MUR or Rs), which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are recorded at the exchange rate prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rates. Exchange differences, arising on the settlement of transactions at rates different from those at the dates of the transactions, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in the income statement.

Inventories

All consumables and accessories are expensed in the year in which they have been purchased.

Income tax

Income tax payable on profit is recognised as an expense, based on the applicable tax law, in the period in which taxable profits arise.

Deferred income taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax.

The principal temporary differences arise from depreciation, tax losses carried forward and provisions. A deferred tax asset is recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Retirement and other benefits

(i) Pension and retirement scheme

The Bank contributes to a defined contribution plan for its employees, whereby it pays contributions to a privately administered pension insurance plan. Once the contributions have been paid, the Bank has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and are included in administrative expenses.

The retirement benefits in respect of Labour Act provisions are recognised when disbursed.

(ii) State plan

Contributions to the National Pension Scheme are expensed to the income statement in the period in which they fall due.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

ACCOUNTING POLICIES (Contd)

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. At the time of the effective payment, the provision is deducted from the corresponding expenses.

All known risks at balance sheet date are reviewed in detail and provision is made where necessary.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Assets leased out under operating leases are included in the balance sheet as investment property. Rental income is recognised on a straight line basis over the lease term.

Segment reporting

The Bank's business is organised under two segments, namely Segment A and Segment B. Segment B relates to the banking business that gives rise to "foreign sourced income". All other banking businesses are classified under Segment A. The management reporting systems and policies determine the revenues and expenses directly attributable to each segment. Common charges/expenses are allocated on the basis of income ratio. For the three years ended 31 December 2008, information on Segment B was not significant in relation to the entire business of the Bank and was consequently not disclosed. (see note 37)

Guarantees

In the normal course of business, the Bank issues various forms of guarantees to support its customers. These guarantees are kept off-balance sheet unless a provision is needed to cover probable losses. These guarantees are disclosed as contingent liabilities.

Foreclosed property

Foreclosed property represents property acquired through auction at the Master's Bar further to the defaults of clients. Foreclosed property is defined as property held for resale and recorded in "Other Assets". Realised loss/gain on disposal of foreclosed property is taken to the income statement. No depreciation is charged on foreclosed property.

Off-balance sheet arrangements

In the normal course of business, the Bank enters into arrangements that, under IFRS, are not recognised on the balance sheet and do not affect the income statement. These types of arrangements are kept off balance sheet as long as the Bank does not incur an obligation from them or become entitled to an asset itself. As soon as an obligation is incurred, it is recognised on the balance sheet, with the resulting loss recorded in the income statement.

Impairment of assets

At each balance sheet date the Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. When an indication of impairment loss exists, the carrying amount of the asset is assessed and written down to its recoverable amount.

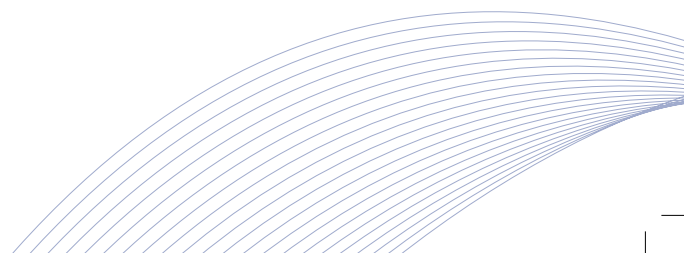
Equity

Share capital is determined using the nominal value of shares that have been issued.

Revenue reserves include all current and prior period results as disclosed in the income statement.

Revaluation reserves comprise of the unrealised gains arising out on the revaluation of property, plant and equipment.

Other reserves represent statutory and non-statutory reserves.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

ACCOUNTING POLICIES (Contd)

Related parties

The Bank considers related parties as key management personnel, directors and members.

Comparatives

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

4. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Conduct Review and Risk Committee under policies approved by the Board of Directors. The Risk Management Forum identifies, evaluates and hedges financial risks in close co-operation with the Bank operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risks are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate and other price risk.

4.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and guarantees.

4.1.1 Credit risk measurement

Credit risk is the possibility of losses associated with changes in the credit profile of borrowers or counterparties. These losses, associated with changes in portfolio value, could arise due to default or due to deterioration in credit quality.

- Default risk : obligor fails to service debt obligations
- Recovery risk : recovery post default is uncertain
- Spread risk : credit quality of obligor changes leading to a fall in the value of the loan
- Concentration risk : over exposure to an individual obligor, group or industry
- Correlation risk : concentration based on common risk factors between different borrowers, industries or sectors which may lead to simultaneous default.

The Bank's revised credit policy deals with credit concentration limits, exposure limits, diversification strategy, and the Bank's risk based pricing of loans and advances based on its credit risk appetite and the size of its capital.

In line with the Bank of Mauritius guidelines on credit risk, the Bank has adopted the standardised measurement of credit risk. In this regard, the tasks under the credit risk unit are as under, amongst others:

- Segmentation of the credit portfolio (in terms of risk but not size);
- Model Requirements (for risk assessments);
- Data requirements;
- Credit risk reporting requirements for regulatory / control and decision-making purposes at various levels;
- Policy requirements for credit risk (credit process & practices, monitoring & portfolio management etc.);
- Align risk strategy & business strategy.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4. FINANCIAL RISK MANAGEMENT(contd)

4.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, and to industries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by industry sector are set out in the credit policy. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Fixed charges over land and buildings; and
- Floating charges over business assets such as premises, inventories and accounts receivable.

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

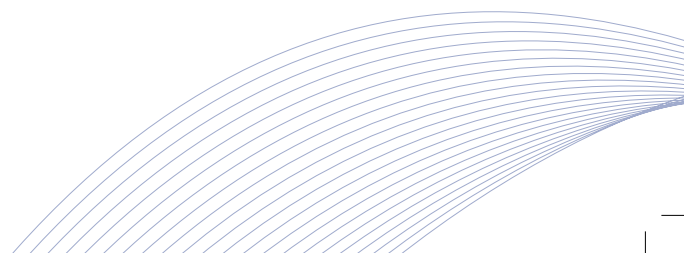
Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit 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.

4.1.3 Impairment and provisioning policies

In line with the Bank of Mauritius Guideline on Credit Impairment and Income Recognition, the Bank has its Credit Impairment and Income Recognition Policy, where the impairment and provisioning policies are defined. The Bank assesses at each balance sheet date whether there is objective evidence that loans and advances are impaired. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (eg equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets on a 12-day basis at a minimum. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4. FINANCIAL RISK MANAGEMENT (contd)

(including re-confirmation of its enforceability) and the anticipated receipts for that individual account. Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

4.1.4 Maximum exposure to credit risk before collateral held

Credit risk exposures relating to on-balance sheet assets are as follows:

	Maximum exposure		
	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Cash and cash equivalents	372,266,782	119,820,095	300,940,016
Trading assets	678,954,777	249,674,375	631,899,564
Investment securities	561,579,708	1,483,097,035	1,582,423,073
Loans and advances to customers	5,075,879,416	4,228,584,549	3,497,517,220
	6,688,680,683	6,081,176,054	6,012,779,873

Credit risk exposures relating to off-balance sheet items are as follows:

	Maximum exposure		
	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Letters of credit, guarantees, acceptances, endorsements, and other obligations on account of customers	620,061,019	455,644,101	499,069,783
Credit commitments	344,063,365	224,267,062	547,954,139

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2008, 2007 and 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from its loans and advances portfolio as:

- 73% of the loans and advances portfolio is backed by collaterals;
- 91% of the loans and advances portfolio is considered to be neither past due nor impaired; and
- Of the Rs 179 million loans and advances assessed on an individual basis, only Rs 79 million is considered impaired.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4. FINANCIAL RISK MANAGEMENT(contd)

4.1.5 Loans and advances

Loans and advances are summarised as follows:

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Neither past due nor impaired	4,674,841,721	3,745,266,959	3,046,711,115
Past due but not impaired	300,212,952	377,256,226	420,977,383
Individually impaired	179,584,094	165,523,668	82,161,147
Gross amount	5,154,638,767	4,288,046,853	3,549,849,645
Less: Allowance for credit impairment	(78,759,351)	(59,462,304)	(52,332,425)
Net amount	5,075,879,416	4,228,584,549	3,497,517,220

At 31 December 2008, the total impairment provision for loans and advances is Rs 78,759,351 of which Rs 60,372,212 represents the individually impaired loans and the remaining amount of Rs 18,387,139 represents the portfolio provision. Further information on the allowance for credit impairment on loans and advances are provided in Note 8.

The credit quality of the portfolio of loans and advances that were neither past due nor impaired is assessed by reference to the internal rating system adopted by the Bank.

(a) Loans and advances past due but not impaired

The gross amount of loans and advances that were past due but not impaired were as follows:

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Past due up to 90 days	167,668,199	274,244,599	167,200,700
Past due 90-180 days	78,126,971	60,368,964	217,604,981
Past due more than 180 days	54,417,782	42,642,663	36,171,702
	300,212,952	377,256,226	420,977,383

The loans and advances past due but not impaired for the year ended 31 December 2008 are collateralised by the value of assets to the extent of Rs 653,034,881.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4. FINANCIAL RISK MANAGEMENT(contd)

(b) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collaterals held is Rs 179,584,094 (2007: Rs 165,523,668 and 2006: Rs 82,161,147).

The gross amount of individually impaired loans and advances along with the fair value of related collaterals held by the Bank as security, are as follows:

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Individually impaired loans	179,584,094	165,523,668	82,161,147
Fair value of collaterals	232,881,753	411,939,362	219,822,437

(c) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled Rs 70,060,264 (2007: Rs 161,990,312) for the year under review.

4.1.6 Repossessed collaterals

The Bank obtained assets by taking possession of collaterals held as security and the carrying amount of repossessed collaterals is as follows:

Nature of assets	31 December 2008	31 December 2007
	Rs	Rs
Residential property	3,650,000	1,300,000
Land	1,600,000	580,000
Vehicles	-	1,000,000

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed assets are classified in the balance sheet within other assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4.1.7 Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Bank's main credit exposure for loans and advances at their gross amounts, as categorised by the industry sectors.

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Agriculture and Fishing	348,334,858	309,153,968	432,839,246
Manufacturing	289,907,918	187,874,092	94,105,765
Tourism	507,358,024	444,948,378	183,995,555
Transport	153,361,880	138,469,940	129,781,256
Construction	1,773,112,448	1,378,186,536	1,145,537,624
Financial and Business Services	185,732,926	142,237,704	196,858,005
Traders	633,428,906	555,695,231	598,647,972
New Economy	55,196,687	49,760,964	60,626,938
Personal	467,280,178	323,998,748	274,687,373
Education	155,813,850	141,579,840	109,624,561
Professional	20,166,811	20,556,740	17,392,682
Others	564,944,281	595,584,712	305,752,668
	5,154,638,767	4,288,046,853	3,549,849,645

4.1.8 Market Risk

Market risk is the risk of loss resulting from adverse movements in the value of financial instruments. It encompasses exposure to interest rates, foreign exchange rates, equity prices and commodity prices. Sound market risk management practices include the measurement and monitoring of market risk as well as the communication and enforcement of risk limits throughout the Bank's trading businesses.

Market risk is monitored consistently and reported to the Bank's Asset and Liability Committee (ALCO). Movements of major currencies, trends and forecasts are analysed in the ALCO. Matching of Bank's Assets and Liabilities is closely monitored by using gap analysis. Limits and authorisation/approval levels are set in the Bank's Liquidity, Interest Rate and Foreign Exchange Risk Policy. Procedures are strictly followed and adhered to. The latest update of the Foreign Exchange Risk Policy was done in December 2008.

4.2.1 Foreign exchange risk management

Foreign exchange risk is the risk that the Bank's earnings and economic value will be adversely affected with the movements in the foreign exchange rate. The Bank is exposed to this risk in both the spot and forward foreign exchange markets. Spot foreign exchange risk arises when the total present value of assets in a particular currency does not equal the present value of liabilities in that currency. Forward foreign exchange risk arises when for a given currency, the maturity profile of forward purchases differs from the maturity profile of forward sales.

The Bank monitors its foreign exchange risk exposure based on limits set in the Bank's Foreign Exchange Risk Policy. Authorisation limits are clearly indicated in this policy. Foreign exchange exposures are reported to the Bank of Mauritius as per the guidelines. ALCO is the main forum in which foreign exchange and treasury matters are discussed and analysed.

The Bank's reporting currency is the Mauritian Rupee (MUR) but it has assets, liabilities, income and expenses in other currencies. The table below summarises the Bank's exposure to the foreign exchange rate risk at 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4.2.1 Foreign exchange risk management (Contd)

	MUR Rs'000	EURO Rs'000 equivalent	USD Rs'000 equivalent	GBP Rs'000 equivalent	OTHER Rs'000 equivalent	TOTAL Rs'000 equivalent
At 31 December 2008						
Assets						
Cash and balances with Central Bank	402,703	24,159	21,125	4,856	8,305	461,148
Balances with other banks, placements and interbank loans	-	94,067	204,387	84,238	9,614	392,306
Investment securities, and other investments:						
- Held for trading	678,955	-	-	-	-	678,955
- Held-to-maturity	339,016	-	-	-	-	339,016
Loans and advances to customers	5,052,046	6,548	96,045	-	-	5,154,639
Property, plant and equipment	285,789	-	-	-	-	285,789
Other assets, including tax assets	105,147	1,183	2,136	1,852	13	110,331
Total assets	6,863,656	125,957	323,693	90,946	17,932	7,422,184
Less allowance for credit impairment	(78,759)	-	-	-	-	(78,759)
	6,784,897	125,957	323,693	90,946	17,932	7,343,425
Liabilities						
Deposits from customers	5,796,186	118,425	315,815	89,290	11,284	6,331,000
Other borrowed funds	95,000	-	-	-	-	95,000
Other liabilities, including tax liabilities	308,156	802	852	1,074	136	311,020
Total liabilities	6,199,342	119,227	316,667	90,364	11,420	6,737,020
Net assets	585,555	6,730	7,026	582	6,512	606,405
Shareholders' equity	(606,405)	-	-	-	-	(606,405)
Net on-balance sheet position	(20,850)	6,730	7,026	582	6,512	-
Credit commitments						
At 31 December 2007						
Total assets						344,063
Total liabilities						6,656,666
Net on-balance sheet position						6,127,471
Credit commitments						529,195
At 31 December 2006						224,267
Total assets						6,384,683
Total liabilities						5,903,981
Net on-balance sheet position						480,702
Credit commitments						547,954

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4.2.2 Interest rate risk management

Interest rate risk results from mismatches between asset and liability positions which are subject to unfavourable movements in interest rates with potentially adverse impact on margins, net interest income and economic value of a bank's assets, liabilities and shareholders' value. Interest rate risk may be measured using methods which include sensitivity analysis and simulation modelling. The Bank has its Interest Rate Risk Policy in which risks limits are laid down. Scenario analysis is worked out based on possible changes in interest rates and their impact on net interest income and margin is analysed and discussed in Bank's Asset and Liability Management Committee.

The table below summarises the Bank's exposure to interest rate risk at 31 December.

At 31 December 2008	Floating Rs'000	Up to 1 month Rs'000	1 – 3 months Rs'000	3 – 6 months Rs'000	6 – 12 months Rs'000	1 – 3 years Rs'000	Over 3 years Rs'000	Non-interest sensitive Rs'000	Total Rs'000
Assets									
Cash and balances with Central Bank	-	-	-	-	-	-	-	461,148	461,148
Balances with banks in Mauritius	-	169,743	-	-	-	-	-	-	169,743
Investment securities:									
- Held-to-maturity and placements	-	144,998	66,741	26,594	64,230	259,016	-	-	561,579
- Held for trading	-	164,587	113,612	14,002	386,754	-	-	-	678,955
Loans and advances to customers	4,952,300	66,758	-	13,924	-	4,642	17,269	99,746	5,154,639
Property, plant and equipment and investment property	-	-	-	-	-	-	-	285,789	285,789
Other assets	-	-	-	-	-	-	-	110,331	110,331
	4,952,300	546,086	180,353	54,520	450,984	263,658	17,269	957,014	7,422,184
Less:									
Allowance for credit impairment	-	-	-	-	-	-	-	(78,759)	(78,759)
Total assets	4,952,300	546,086	180,353	54,520	450,984	263,658	17,269	878,255	7,343,425

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4.2.2 Interest rate risk management (Contd)

Liabilities and Shareholders' equity

At 31 December 2008	Floating Rs'000	Up to 1 month Rs'000	1 – 3 months Rs'000	3 – 6 months Rs'000	6 – 12 months Rs'000	1 – 3 years Rs'000	Over 3years Rs'000	Non- interest sensitive Rs'000	Total Rs'000
Deposits from customers	4,816,122	181,806	234,660	113,786	393,763	113,604	279,274	197,985	6,331,000
Borrowings	-	95,000	-	-	-	-	-	-	95,000
Other liabilities	-	-	-	-	-	-	-	311,020	311,020
Shareholders' equity	-	-	-	-	-	-	-	606,405	606,405
Total liabilities and equity	4,816,122	276,806	234,660	113,786	393,763	113,604	279,274	1,115,410	7,343,425
Net on-balance sheet interest sensitivity gap	136,237	269,279	(54,307)	(59,266)	57,221	150,054	(262,005)	(237,213)	-
At 31 December 2007									
Total assets	4,214,935	595,352	187,436	42,001	645,628	231,945	59,266	680,103	6,656,666
Total liabilities and equity	3,966,643	134,330	378,764	509,830	236,101	117,148	347,468	966,382	6,656,666
Net on-balance sheet interest sensitivity gap	248,292	461,022	(191,328)	(467,829)	409,527	114,797	(288,202)	(286,279)	-
At 31 December 2006									
Total assets	3,501,689	441,752	130,977	438,886	380,754	788,242	101,838	600,545	6,384,683
Total liabilities and equity	3,943,243	434,269	616,796	295,292	95,099	75,649	116,725	807,610	6,384,683
Net on-balance sheet interest sensitivity gap	(441,554)	7,483	(485,819)	143,594	285,655	712,593	(14,887)	(207,065)	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4.2.2 Interest rate risk management (Contd)

Average interest by major currencies for monetary financial instruments is.

	EURO	USD	GBP	MUR
	%	%	%	%
At 31 December 2008				
Assets				
Cash and balances with Central Bank	n/a	n/a	n/a	n/a
Balances with banks in Mauritius	n/a	n/a	n/a	n/a
Balances with banks abroad	0.65	0.50	0.95	n/a
Investment securities:				
- Held-to-maturity	n/a	n/a	n/a	8.87
- Held for trading	n/a	n/a	n/a	7.96
Loans and advances to customers	5.22	5.21	n/a	12.42
Other investments	n/a	3.87	n/a	9.89
Liabilities				
Deposits	3.24	3.08	4.35	8.58
Balances with banks in Mauritius and other financial institutions	n/a	6.54	n/a	6.68
Borrowings from Central Bank	n/a	n/a	n/a	n/a
At 31 December 2007				
Assets				
Cash and balances with Central Bank	n/a	n/a	n/a	n/a
Balances with banks in Mauritius	n/a	n/a	n/a	n/a
Balances with banks abroad	3.05	3.75	5.65	n/a
Investment securities:				
- Held-to-maturity	n/a	n/a	n/a	9.34
- Held for trading	n/a	n/a	n/a	9.26
- Available-for-sale	n/a	n/a	n/a	n/a
Loans and advances to customers	6.54	6.50	n/a	13.22
Other investments	n/a	4.89	n/a	9.26
Liabilities				
Deposits	2.02	2.65	4.18	9.19
Balances with banks in Mauritius and other financial institutions	n/a	n/a	n/a	n/a
Borrowings from Central Bank	n/a	n/a	n/a	n/a

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4.2.2 Interest rate risk management (Contd)

	EURO	USD	GBP	MUR
	%	%	%	%
At 31 December 2006				
Assets				
Cash and balances with Central Bank	n/a	n/a	n/a	n/a
Balances with banks in Mauritius	0.75	n/a	4.30	n/a
Balances with banks abroad	2.21	4.37	4.66	n/a
Investment securities:				
- Held-to-maturity	n/a	n/a	n/a	8.63
- Held for trading	n/a	n/a	n/a	8.28
- Available-for-sale	n/a	n/a	n/a	n/a
Loans and advances to customers	4.26	7.64	n/a	11.61
	6.44	9.60	n/a	13.84
Liabilities				
Deposits				
Balances with banks in Mauritius and other financial institutions	3.06	4.82	4.50	9.86

4.3 Liquidity risk management

Liquidity risk is defined within the Bank's policy framework as 'the risk that, at any time, the Bank does not have sufficient realisable financial assets to meet its financial obligations as they fall due'. The management of liquidity risk in the Bank is undertaken under the guideline on Liquidity Management issued by the Bank of Mauritius.

The liquidity policy of the Bank is to ensure that it:

- can meet its financial obligations as they fall due in the normal course of business; and
- maintains an adequate stock of highly liquid assets to enable it to meet unexpected funding needs at short notice.

The Bank's liquidity policy requires establishment and maintenance of three lines of defence:

- Cashflow management where the Bank creates a continuously maturing stream of assets and liabilities;
- Maintenance of a liquid assets portfolio; and
- Maintenance of a diversified liability base.

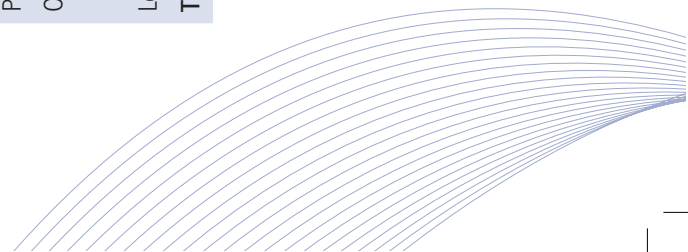
The Treasury Unit manages the day-to-day cash flow management and the overall liquidity is under the close supervision of the Bank's Asset and Liability Committee.

The table below analyses the Bank's assets and liabilities into relevant maturity groupings based on the remaining year at balance sheet date to the contractual maturity date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4.3 Liquidity risk management (Contid)

At 31 December 2008	Sight	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 3 years	Over 3 years	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Assets								
Cash and balances with Central Bank	461,148	-	-	-	-	-	-	461,148
Balances with banks in Mauritius	169,743	-	-	-	-	-	-	169,743
Investment securities:								
- Held-to-maturity and placements	-	144,998	66,741	26,594	64,230	259,016	-	561,579
- Held for trading	-	164,587	113,612	14,002	386,754	-	-	678,955
Loans and advances to customers	-	1,158,008	95,456	324,871	220,601	567,272	2,788,431	5,154,639
Property, plant and equipment and investment property	-	-	-	-	-	-	285,789	285,789
Other assets	-	-	-	-	-	-	110,331	110,331
	630,891	1,467,593	275,809	365,467	671,585	826,288	3,184,551	7,422,184
Less: Allowance for credit impairment	-	-	-	-	-	-	(78,759)	(78,759)
Total assets	630,891	1,467,593	275,809	365,467	671,585	826,288	3,105,792	7,343,425



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4.3 Liquidity risk management (Contid)

	Sight	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 3 years	Over 3 years	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
At 31 December 2008								
Liabilities								
Deposits	34,646	401,138	679,660	487,945	998,282	1,159,700	2,569,629	6,331,000
Borrowings from banks in Mauritius	-	95,000	-	-	-	-	-	95,000
Other liabilities	-	-	-	-	-	-	311,020	311,020
Shareholders' equity	-	-	-	-	-	-	606,405	606,405
Total liabilities and equity	34,646	496,138	679,660	487,945	998,282	1,159,700	3,487,054	7,343,425
Net on-balance sheet liquidity gap	596,246	971,454	(403,851)	(122,478)	(326,697)	(333,412)	(381,262)	-
At 31 December 2007								
Total assets	347,644	1,215,809	285,485	356,897	903,560	714,042	2,892,691	6,716,128
Total liabilities and equity	28,405	452,626	506,503	724,623	583,601	1,205,753	3,155,155	6,656,666
Less:	319,239	763,183	(221,018)	(367,726)	319,959	(491,711)	(262,464)	59,462
Allowance for credit losses	-	-	-	-	-	-	(59,462)	(59,462)
Net on-balance sheet liquidity gap	319,239	763,183	(221,018)	(367,726)	319,959	(491,711)	(321,926)	-
At 31 December 2006								
Total assets	300,941	797,285	245,238	674,460	636,455	1,142,757	2,639,879	6,437,015
Total liabilities and equity	90,533	503,211	643,993	682,023	553,033	1,424,695	2,487,195	6,384,683
Less:	210,408	294,074	(398,755)	(7,563)	83,422	(281,938)	152,684	52,332
Allowance for credit losses	-	-	-	-	-	-	(52,332)	(52,332)
Net on-balance sheet liquidity gap	210,408	294,074	(398,755)	(7,563)	83,422	(281,938)	100,352	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4. FINANCIAL RISK MANAGEMENT (Contd)

4.3 Liquidity risk management (Contd)

At 31 December 2008, off-balance sheet financial facilities have contractual maturity dates not exceeding three years.

4.4 Fair value of financial assets and liabilities

(i) Financial instruments measured at fair value using a valuation technique

Financial assets held for trading have been measured at fair value in these financial statements. The total amount of the change in fair value using a valuation technique that was recognised in the income statement during the year under review was Rs 239,683 (2007: Rs 388,839).

(ii) Financial instruments not measured at fair value

Apart from financial assets held for trading, the other financial instruments are measured as described in the accounting policies associated to them.

4.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:

- To comply with the capital requirements set by the Central Bank;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

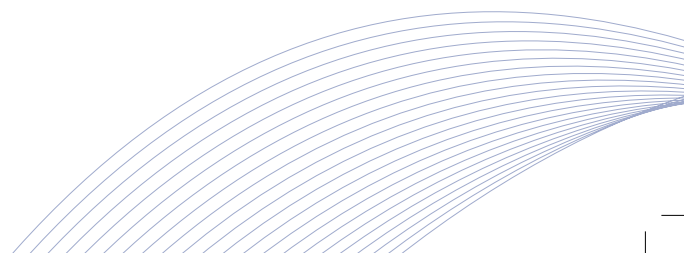
Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee as implemented by the Central Bank, for supervisory purposes. The required information is filed with the Central Bank on a quarterly basis.

The Central Bank requires each bank to maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Capital Adequacy Ratio') at or above a minimum of 10%. The Bank's regulatory capital is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2006, 2007 and 2008. During those three years, the Bank complied with all of the externally imposed capital requirements to which it is subject.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

4.5 CAPITAL MANAGEMENT (CONTD))

	31 December 2008	31 December 2007	31 December 2006
	Rs'000	Rs'000	Rs'000
Tier 1 Capital			
Paid up capital	383,962	383,962	383,962
Statutory Reserve	29,152	19,400	9,936
General Banking Reserve	49,766	37,661	26,097
Other disclosed free reserves	104,223	61,066	19,000
Total qualifying Tier 1 Capital	567,103	502,089	438,995
Tier 2 Capital			
Revaluation reserves	4,947	4,947	2,592
Total qualifying Tier 2 Capital	4,947	4,947	2,592
Total regulatory capital (Rs)	572,050	507,036	441,587
Risk Weighted Assets (Rs)	5,339,197	4,603,805	3,942,814
Capital Adequacy Ratio (%)	10.71	11.01	11.20

5. CASH AND CASH EQUIVALENTS

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Cash in hand	153,575,371	85,537,750	121,247,472
Balances with other banks in Mauritius	169,742,876	10,973,432	19,965,607
Unrestricted balances with the Central Bank	48,948,535	23,308,913	-
	372,266,782	119,820,095	141,213,079

6. TRADING ASSETS

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Held for trading securities:			
Treasury bills	678,954,777	249,674,375	631,899,864

7. INVESTMENT SECURITIES

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Held-to-maturity investment securities (See note (a) below)	561,579,708	1,483,097,035	1,582,352,683
Available-for-sale investment securities (See note (b) below)	-	-	70,390
	561,579,708	1,483,097,035	1,582,423,073

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

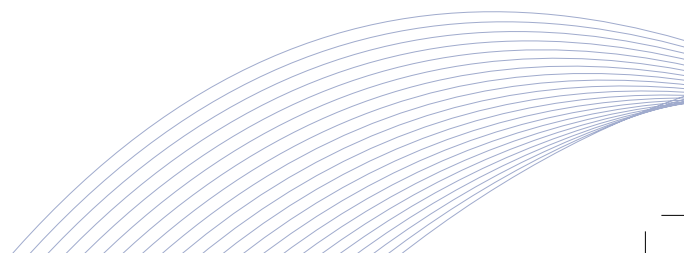
7. INVESTMENT SECURITIES (Contd)

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
(a) Held-to-maturity investment securities			
Government stocks	234,878,623	235,437,051	265,934,300
Treasury notes	29,137,530	495,703,828	467,300,000
Deposit-taking financial institutions	75,000,000	237,800,000	345,070,000
Placements with banks	222,563,555	514,156,156	504,048,383
	<u>561,579,708</u>	<u>1,483,097,035</u>	<u>1,582,352,683</u>
(b) Available-for-sale investment securities			
Equity investment	-	-	70,390

8. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Retail customers	467,280,179	323,998,749	274,687,373
Corporate customers	4,687,358,588	3,964,048,104	3,275,162,272
	<u>5,154,638,767</u>	<u>4,288,046,853</u>	<u>3,549,849,645</u>
Less: allowance for credit impairment	(78,759,351)	(59,462,304)	(52,332,425)
	<u>5,075,879,416</u>	<u>4,228,584,549</u>	<u>3,497,517,220</u>

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
(a) Remaining term to maturity			
- Within 3 months	1,253,463,796	747,284,364	489,761,412
- Over 3 and up to 6 months	324,870,657	314,904,007	235,589,719
- Over 6 and up to 12 months	220,601,391	257,931,120	255,893,584
- Over 1 and up to 3 years	567,272,029	482,097,236	355,697,987
- Over 3 and up to 5 years	801,392,401	659,963,915	765,864,666
- Over 5 years	1,987,038,493	1,825,866,211	1,447,042,277
	<u>5,154,638,767</u>	<u>4,288,046,853</u>	<u>3,549,849,645</u>
Less: allowance for credit impairment	(78,759,351)	(59,462,304)	(52,332,425)
	<u>5,075,879,416</u>	<u>4,228,584,549</u>	<u>3,497,517,220</u>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

8. LOANS AND ADVANCES TO CUSTOMERS (Contd)

(b) Credit concentration of risk by industry sectors

Total credit facilities, including guarantees, acceptances and other similar commitments extended by the Bank to any one customer or group of closely-related customers for amounts aggregating more than 15% of its capital base, classified by industry sectors.

Name of sector	31 December 2008	31 December 2007	31 December 2006
	Rs'000	Rs'000	Rs'000
Agriculture and Fishing	-	-	351,003
Manufacturing	146,980	93,984	-
Tourism	275,783	266,055	-
Construction	268,554	128,290	-
Financial and Business Services	100,000	38,971	145,303
Traders	280,244	283,834	244,326
Personal	-	-	318,240
Education	-	-	-
Professional	52,030	20,043	-
Others (Infrastructure, Public non-financial)	458,975	476,953	39,911
	1,582,566	1,308,130	1,098,783

(c) Allowance for credit impairment

	Specific allowances for impairment	Portfolio allowance and general provision for impairment	Total
	Rs	Rs	Rs
Balance at 01 January 2006	8,563,918	23,180,121	31,744,039
Provision for credit impairment for the year (See note (c) (i) and (ii) below)	4,809,188	15,779,198	20,588,386
Balance at 31 December 2006	13,373,106	38,959,319	52,332,425
Provision for credit impairment for the year (See note (c) (i) and (ii) below)	(660,858)	7,790,737	7,129,879
Balance at 31 December 2007	12,712,248	46,750,056	59,462,304
Provision for credit impairment for the year (See note (c) (i) and (ii) below)	5,674,891	13,622,156	19,297,047
At 31 December 2008	18,387,139	60,372,212	78,759,351

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

8. LOANS AND ADVANCES TO CUSTOMERS (Contd)

(i) Portfolio provision

A Portfolio provision of 1.25% (2007: 1.2%) has been made on loans and advances after offsetting any collateral of liquid assets in the portfolio.

(ii) Specific allowances for impairment

When principal and interest are overdue by 60 days, loans are classified as non-performing. Allowances are provided for non-performing loans to reflect their net estimated recoverable amount.

(iii) Allowance for credit impairment by industry sectors

	Gross amount of loans	Impaired loans	Specific allowances for credit impairment	Portfolio allowances for credit impairment	Total allowances for credit impairment 2008	Total allowances for credit impairment 2007	Total allowances for credit impairment 2006
	Rs	Rs	Rs	Rs	Rs	Rs	Rs
Agriculture and Fishing	348,334,858	4,137,555	409,842	4,328,566	4,738,408	4,147,087	5,629,193
Manufacturing	289,907,918	6,221,084	475,297	2,719,940	3,195,237	2,273,470	1,127,060
Tourism	507,358,024	517,846	-	6,303,690	6,303,690	5,213,872	3,454,240
Transport	153,361,880	7,888,236	134,009	1,768,118	1,902,127	1,746,616	1,658,382
Construction	1,773,112,448	39,858,439	2,964,419	21,436,430	24,400,849	18,436,648	15,024,542
Financial and Business Services	185,732,926	65,146,046	-	2,321,662	2,321,662	2,055,866	3,132,540
Traders	633,428,906	18,098,221	1,306,593	7,828,568	9,135,161	9,407,103	10,878,655
New Economy	55,196,687	-	-	211,040	211,040	56,671	120,089
Personal	467,280,178	26,707,653	9,482,292	5,528,306	15,010,598	7,807,946	5,928,500
Education	155,813,850	5,005,317	1,652,144	1,919,401	3,571,545	2,326,403	2,390,370
Professional	20,166,811	-	-	252,085	252,085	242,511	206,324
Others	564,944,281	6,003,697	1,962,543	5,754,406	7,716,949	5,748,111	2,782,530
	5,154,638,767	179,584,094	18,387,139	60,372,212	78,759,351	59,462,304	52,332,425

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

9. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Computer software	Computer and office equipment	Furniture and fittings	Motor vehicles	Total
	Rs	Rs	Rs	Rs	Rs	Rs
Cost/Valuation						
At 01 January 2006	41,000,000	67,719,003	81,521,764	37,199,004	1,805,000	229,244,771
Additions during the year	-	5,408,050	1,491,737	170,670	5,710,700	12,781,157
Reclassification	-	-	464,459	(464,459)	-	-
Revaluation surplus	3,000,000	-	-	-	-	3,000,000
Disposal during the year	-	-	-	-	(1,805,000)	(1,805,000)
At 31 December 2006	44,000,000	73,127,053	83,477,960	36,905,215	5,710,700	243,220,928
At 01 January 2007	44,000,000	73,127,053	83,477,960	36,905,215	5,710,700	243,220,928
Additions during the year	-	12,496,631	9,150,859	341,965	-	21,989,455
At 31 December 2007	44,000,000	85,623,684	92,628,819	37,247,180	5,710,700	265,210,383
At 01 January 2008	44,000,000	85,623,684	92,628,819	37,247,180	5,710,700	265,210,383
Additions during the year	871,500	47,506,216	22,942,091	7,789,886	-	79,109,693
Revaluation surplus	3,128,500	-	-	-	-	3,128,500
At 31 December 2008	48,000,000	133,129,900	115,570,910	45,037,066	5,710,700	347,448,576
Accumulated Depreciation						
At 01 January 2006	30,000	16,506,873	16,815,551	10,399,941	1,474,084	45,226,449
Reclassification	-	-	98,365	(98,365)	-	-
Charge for the year	110,000	8,215,389	13,076,869	7,360,965	1,079,059	29,842,282
Revaluation adjustment	(140,000)	-	-	-	-	(140,000)
Disposal adjustment	-	-	-	-	(1,714,750)	(1,714,750)
At 31 December 2006	-	24,722,262	29,990,785	17,662,541	838,393	73,213,981
At 01 January 2007	-	24,722,262	29,990,785	17,662,541	838,393	73,213,981
Charge for the year	128,669	6,930,980	13,451,745	7,304,983	1,142,140	28,958,517
At 31 December 2007	128,669	31,653,242	43,442,530	24,967,524	1,980,533	102,172,498

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

9. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Computer software	Computer and office equipment	Furniture and fittings	Motorvehicles	Total
	Rs	Rs	Rs	Rs	Rs	Rs
Accumulated Depreciation (Contd)						
At 01 January 2008	128,669	31,653,242	43,442,530	24,967,524	1,980,533	102,172,498
Charge for the year	125,945	8,603,761	14,260,662	7,608,867	1,142,140	31,741,375
Revaluation adjustment	(254,614)	-	-	-	-	(254,614)
At 31 December 2008	-	40,257,003	57,703,192	32,576,391	3,122,673	133,659,259
Net Book Values						
At 31 December 2008	48,000,000	92,872,897	57,867,718	12,460,675	2,588,027	213,789,317
At 31 December 2007	43,871,331	53,970,442	49,186,289	12,279,656	3,730,167	163,037,885
At 31 December 2006	44,000,000	48,404,791	53,487,175	19,242,674	4,872,307	170,006,947

The Bank's freehold land and buildings were revalued by Mr P. G. Bruno Dumazel, Property Development Consultant, on 31 December 2008. The valuation was based on market conditions prevailing at that time. If the freehold land and buildings were stated on the historical cost basis, the net book values would be as follows:

2008
Rs
37,543,750
(390,000)
37,153,750

Cost

Accumulated depreciation

At 31 December

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

10. INVESTMENT PROPERTY

	Rs
Value at 31 December 2008	72,000,000
Value at 31 December 2007	62,000,000
Value at 31 December 2006	62,000,000

The investment property was revalued by Mr P. G. Bruno Dumazel, Property Development Consultant on 30 December 2008. The value of the investment property amounted to Rs 72,000,000 based on market conditions prevailing at that time.

11. OTHER ASSETS

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Mandatory balances with Central Bank	258,624,424	227,824,163	159,727,837
Balances due in clearing	39,720,302	36,962,731	32,258,878
Accrued interest receivable	59,413,393	78,699,078	101,588,168
Capital work in progress	224,250	-	456,673
Project costs	-	-	928,740
Other debtors	10,972,744	6,965,878	4,663,072
	368,955,113	350,451,850	299,623,368

12. DEPOSITS

Retail, corporate and Government	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
(a) Demand	198,043,529	176,315,359	125,247,007
Savings	3,033,264,314	2,442,927,631	2,021,898,644
Time deposits	3,099,692,839	3,247,356,666	3,402,360,924
	6,331,000,682	5,866,599,656	5,549,506,575
(b) Time deposits with remaining term to maturity:			
- Within 3 months	804,066,927	728,390,358	1,126,296,070
- Over 3 and up to 6 months	317,120,165	582,837,292	605,898,574
- Over 6 and up to 12 months	827,456,384	441,815,226	437,335,766
- Over 1 and up to 3 years	704,309,823	839,313,672	690,782,022
- Over 3 and up to 5 years	436,629,540	481,221,934	468,697,152
- Over 5 years	10,110,000	173,778,184	73,351,340
	3,099,692,839	3,247,356,666	3,402,360,924

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

13. OTHER BORROWED FUNDS

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Borrowings from banks in Mauritius	95,000,000	-	152,815,000

14. OTHER LIABILITIES

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Accrued interest payable	193,827,430	171,853,485	150,257,501
Other payables	115,321,971	87,224,403	51,250,777
	<u>309,149,401</u>	<u>259,077,888</u>	<u>201,508,278</u>

15. SHARE CAPITAL

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
<i>Issued, Subscribed and Paid up</i>			
At start and end of year	<u>383,962,400</u>	<u>383,962,400</u>	<u>383,962,400</u>
	Number	Number	Number
Number of shares of Rs 100 each:			
Issued, subscribed and paid up	<u>3,839,624</u>	<u>3,839,624</u>	<u>3,839,624</u>

16. STATUTORY RESERVE

Pursuant to the provision of the Banking Act 2004, a sum equal to no less than 15% of the profit after taxation is transferred to a Statutory Reserve Account, until the balance in that reserve account is equal to the Bank's paid up capital. This reserve is not distributable.

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Balance at 01 January	22,476,709	15,202,682	9,936,152
Transfer for the year	11,073,970	7,274,027	5,266,530
Balance at 31 December	<u>33,550,679</u>	<u>22,476,709</u>	<u>15,202,682</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

17. RETAINED EARNINGS

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
At 01 January	73,279,341	39,441,828	18,999,689
Profit for the year	73,826,467	48,493,512	35,110,199
Transfers for the year	(19,739,890)	(14,655,999)	(14,668,060)
Net income available to shareholders	54,086,577	33,837,513	20,442,139
At 31 December	127,365,918	73,279,341	39,441,828

18. GENERAL BANKING RESERVE

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
At 01 January	42,880,468	35,498,496	26,096,966
Transfer from retained earnings	8,665,920	7,381,972	9,401,530
At 31 December	51,546,388	42,880,468	35,498,496

19. REVALUATION RESERVES

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
At 01 January	6,596,250	6,596,250	3,456,250
Surplus on revaluation of freehold land and buildings	3,383,114	-	3,140,000
At 31 December	9,979,364	6,596,250	6,596,250

20. CONTINGENT LIABILITIES

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Acceptances on account of customers	16,958,505	11,102,798	7,151,299
Guarantees on account of customers	503,494,400	308,983,259	253,411,588
Letters of credit and other obligations on account of customers	36,518,594	28,986,004	24,708,498
Treasury bills on account of customers	800,000	24,200,000	7,600,000
Outward bills for collection	41,596,398	43,595,598	31,791,854
Other contingent items	20,693,122	38,776,442	174,406,544
	620,061,019	455,644,101	499,069,783

The Bank has been granted a primary dealer licence by the Bank of Mauritius with effect from 16 May 2005. At the balance sheet date, the Bank held treasury bills for a total nominal amount of Rs 800,000 (2007: Rs 24,200,000, 2006: Rs 7,600,000) for secondary market customers.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

21. COMMITMENTS

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Loans and other facilities			
Undrawn credit facilities	344,063,365	224,267,062	547,954,139

22. NET INTEREST INCOME

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
INTEREST INCOME			
Loans and advances	576,036,488	492,130,146	369,784,855
Securities:			
- Treasury bills	33,609,367	31,539,907	27,967,628
- Government stocks	21,079,072	22,093,584	37,261,663
- Treasury notes	20,261,124	41,034,695	25,161,892
Placements with deposit-taking institutions	31,268,429	56,703,716	58,002,969
Others:			
Trade finance	15,407,408	9,312,535	6,365,146
Interest on balances with correspondent banks	238,738	480,933	344,657
Total interest income	697,900,626	653,295,516	524,888,810
INTEREST EXPENSE			
Deposits from customers	466,554,964	469,798,163	366,192,027
Other borrowed funds	1,826,566	4,298,717	3,821,780
Others	150,827	86,184	115,926
Total interest expense	468,532,357	474,183,064	370,129,733
Net interest income	229,368,269	179,112,452	154,759,077

23. NET FEE AND COMMISSION INCOME

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Guarantees	3,899,839	3,065,443	3,789,090
Insurances and pensions	1,733,492	1,468,292	1,893,422
Commission on loans and advances	12,713,338	12,028,924	18,221,998
Commission on savings	9,602,159	5,251,897	5,916,070
Commission on trade finance	10,446,312	8,485,094	5,237,088
Others	1,068,875	2,437,657	1,222,526
	39,464,015	32,737,307	36,280,194

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

24. NET TRADING INCOME

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Foreign exchange transactions	44,443,632	45,500,486	32,052,805

25. OTHER OPERATING INCOME

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Surplus on revaluation of investment property	10,000,000	-	-
Profit/(loss) on revaluation of investment securities	239,683	(388,839)	(3,352,290)
Rental income	4,944,000	4,944,000	4,957,000
	15,183,683	4,555,161	1,604,710

26. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Loans and advances to customers	19,297,047	7,129,879	20,588,386

27. PERSONNEL EXPENSES

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Salaries	70,378,347	56,234,448	45,245,882
Compulsory social security contributions	2,422,244	1,825,142	1,691,314
Contribution to defined contribution plan	2,526,341	1,561,333	1,487,450
Other personnel expenses	13,684,916	10,923,391	7,581,563
	89,011,848	70,544,314	56,006,209

28. OTHER EXPENSES

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Business promotion and marketing expenses	7,334,484	5,075,081	5,838,287
Travel expenses	3,060,826	3,260,447	1,323,303
Office operating expenses	14,296,279	13,355,650	12,093,840
Stationeries	4,742,920	3,121,459	2,816,734
General administration expense	9,057,402	7,840,004	12,181,873
Professional fees	10,154,041	3,765,449	3,091,530
Insurances	2,113,812	2,038,438	1,929,571
Repairs and maintenance	23,523,728	24,219,982	16,652,150
Utilities	13,633,381	11,135,237	10,215,661
Bad debts written off	7,753,230	14,729,132	1,447,120
	95,670,103	88,540,879	67,590,069

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

29. INCOME TAX EXPENSE

(a) Income tax

(i) The Bank is licensed by the Bank of Mauritius to carry out its banking business into two segments, Segment A and Segment B. By virtue of these segments, the applicable tax rates were as follows: Segment A – 22.5% and Segment B – 3% up to the year of assessment 2007-2008. With effect from 01 July 2008, the Bank is liable to income tax at a flat rate of 15%. At 31 December 2008, the Bank had no income tax liability as a result of tax losses of Rs 27,004,572 carried forward (2007: tax losses of Rs 87,656,479).

(ii) The Bank is subject to a "special levy" and this levy is calculated at 1.7% of book profit plus 0.5% of operating income derived during the preceding year. The levy for the first year of application i.e. year of assessment 2007/2008 is only 30% of the formula. No levy is payable if the Bank makes a loss or if its book profit is less than 5% of its operating income.

(iii) The Bank is also subject to the Alternative Minimum Tax (AMT), which applies where a company's "normal tax payable" is less than 7.5% of its book profit. It is not applicable where a company is exempt from tax or where 10% of any dividend declared does not exceed the "normal tax payable". At 31 December 2008, the AMT does not apply to the Bank since there is no taxable profit and no dividend is to be declared.

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Income tax on adjusted profit for the year	-	-	-
Special Levy	1,718,539	1,641,335	-
Deferred tax liability (see note (b) below)	-	-	-
	1,718,539	1,641,335	-

(b) Deferred taxation

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
At 01 January	151,742	151,742	151,742
Movement during the year	-	-	-
At 31 December	151,742	151,742	151,742

The tax losses at 31 December 2008 of Rs 27,004,572 (31 December 2007: Rs 87,656,479) will be used against future taxable income and the deferred tax effect on these losses has not been recognised in these financial statements. The amount of Rs 151,742 represents a provision for deferred tax liability made in prior periods and which the directors consider not appropriate to reverse.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(c) Income tax reconciliation

The tax charge on the Bank's profit differs from the theoretical amount that would arise using the basic tax rate of the Bank as follows:

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Profit before taxation	75,545,006	50,134,847	35,110,199
Tax at 15% (2007: 22.5%)	11,331,751	7,520,227	8,777,550
Income not subject to tax (2006: 25%)	(1,535,952)	-	-
Expenses incurred in the production of exempt income	-	-	-
Provision for credit impairment	2,894,557	1,069,482	5,147,097
Accelerated capital allowances	(3,835,492)	(838,464)	(2,186,670)
Expenses not deductible for tax purposes	242,923	4,417	364,368
Other items	-	-	32,278
Tax losses carried forward	(9,097,787)	(7,755,662)	(12,134,623)
Special Levy payable	1,718,539	1,641,335	-
Tax charge	1,718,539	1,641,335	-

30. PROFIT FOR THE YEAR

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Profit for the year is arrived at after charging:			
Depreciation	31,741,375	28,958,517	29,842,282
Directors' emoluments (See note (a) below)	2,000,800	1,931,500	1,406,885
Auditors fees			
- Audit services	1,265,000	1,265,000	1,035,000
- Fees for other services	3,064,750	-	-
Staff costs (See note (b) below)	89,011,848	70,544,314	56,006,209
Operating lease rentals on property	17,194,220	16,596,970	15,559,641
and crediting:			
Rental income	4,944,000	4,944,000	4,957,000
(a) Directors' emoluments:			
- Non-executive directors	2,000,800	1,931,500	1,406,885
(b) Analysis of staff costs:			
Salaries, wages, gratuity and other benefits	70,378,347	56,234,448	45,245,882
Social security costs and other contributions	16,107,160	12,748,533	9,272,877
Post employment benefits: defined contribution plans	2,526,341	1,561,333	1,487,450
	89,011,848	70,544,314	56,006,209
Number of employees at year end	254	225	185

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

31. EARNINGS PER SHARE

The calculation of earnings per share is based on the net income Rs 54,086,577 (2007: Rs 33,837,513, and 2006: Rs 20,442,139) and on 3,839,624 ordinary shares in issue for the three years ended 31 December 2008

32. CASH AND CASH EQUIVALENTS FOR CASH FLOW PURPOSES

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
ASSETS			
Cash and balances with Central Bank	48,948,535	23,308,913	-
Cash in hand	153,575,371	85,537,750	121,247,472
Balances with other banks and interbank loans	169,742,876	10,973,432	19,965,607
	372,266,782	119,820,095	141,213,079
LIABILITIES			
Borrowings from banks in Mauritius	(95,000,000)	-	(152,815,000)
	277,266,782	119,820,095	(11,601,921)

At 31 December 2008, the minimum average cash balance to be maintained by the Bank as per the Banking Act 2004 amounted to Rs 251,889,075 (2007: Rs 227,824,163 and 2006: Rs 215,636,951). These funds are not available for the Bank's daily business.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

33. RELATED PARTY TRANSACTIONS

	Directors and key management personnel	Entities in which directors and key management personnel have significant interest	Entities holding at least 10% interest in the Bank
	Rs	Rs	Rs
Loans and advances			
Balance at 31 December 2008	17,644,392	9,071,901	322,882,109
Balance at 31 December 2007	7,458,595	6,895,741	249,167,804
Balance at 31 December 2006	7,493,701	1,750,865	114,559,067
Deposits			
Balance at 31 December 2008	780,136	18,647,075	236,646,545
Balance at 31 December 2007	679,494	4,754,675	123,322,165
Balance at 31 December 2006	557,174	415,797	188,265
Interest income			
Year ended 31 December 2008			
Loans and advances	546,601	848,618	25,275,646
Year ended 31 December 2007			
Loans and advances	394,941	1,536,296	16,855,548
Year ended 31 December 2006			
Loans and advances	250,182	210,380	15,053,774
Interest expense			
Year ended 31 December 2008			
Deposits	38,873	2,472,762	5,367,841
Year ended 31 December 2007			
Deposits	29,983	89,837	426,247
Year ended 31 December 2006			
Deposits	47,458	19,538	-
Management compensation			
Year ended 31 December 2008	10,965,785	-	-
Year ended 31 December 2007	9,131,806	-	-
Year ended 31 December 2006	5,487,884	-	-

The loans and advances with key management personnel are contracted at the Bank's preferential rates as available to all staff members.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

34. POST BALANCE SHEET EVENTS

There has been no material post balance sheet event which would require disclosure or adjustment to the financial statements for the year ended 31 December 2008.

35. ASSETS PLEDGED

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Mauritius Development Loan Stocks	40,000,000	-	-
Government of Mauritius Treasury Notes	30,000,000	-	-
Treasury bills	-	175,000,000	50,000,000

These investment securities have been pledged in favour of the Bank of Mauritius as collaterals under Overnight Facility.

36. OTHER COMMITMENTS

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
(a) Capital Commitments			
Approved and contracted for	-	4,789,387	2,585,408
Approved and not contracted for	-	-	-
(b) Operating Lease Commitments			
(i) Bank as a lessee			
Minimum lease payments under operating leases recognised in income statement for the year	17,194,220	16,596,970	15,559,641
At the balance sheet date, the Bank had outstanding commitments under non-cancellable operating leases, which fall due as follows:			
Within 1 year	16,788,340	14,707,903	15,751,131
After 1 year and before 5 years	49,820,043	19,332,926	24,842,515
After 5 years	-	4,508,938	6,042,100
	66,608,383	38,549,767	46,635,746

Operating lease payments represent rentals payable for office space. Leases are negotiated for an average of 5 years and rentals are fixed for an average of 5 years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(ii) Bank as a lessor

Property rental income earned during the year was Rs 4,944,000 (2007: Rs 4,944,000). Properties held for rental have a committed tenant for the next 5 years.

At the balance sheet date, the Bank had contracted with tenants for the following future minimum lease payments:

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Within one year	4,944,000	4,944,000	4,944,000
After 1 year and before 5 years	19,364,000	-	6,180,000
	<u>24,308,000</u>	<u>4,944,000</u>	<u>11,124,000</u>

37. SEGMENTAL INFORMATION

The Bank's assets and interest income on Segment B in relation to total assets and total interest income was as follows:

	Assets	Interest income
	Rs	Rs
At 31 December 2008		
Segment B	438,405,793	19,808,253
Total (segment A and B)	<u>7,343,410,878</u>	<u>697,900,626</u>
Percentage of total	<u>6.0%</u>	<u>2.8%</u>
At 31 December 2007		
Segment B	551,681,336	22,823,410
Total (segment A and B)	<u>6,656,665,499</u>	<u>653,295,516</u>
Percentage of total	<u>8.3%</u>	<u>3.5%</u>
At 31 December 2006		
Segment B	563,531,730	20,873,111
Total (segment A and B)	<u>6,384,683,251</u>	<u>524,888,810</u>
Percentage of total	<u>8.8%</u>	<u>4.0%</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

38. LITIGATIONS

At 31 December 2008, the Bank had no material litigation claim outstanding, pending or threatened against it, which could have a material adverse effect on its financial position or financial performance.

39. FINANCIAL SUMMARY

	31 December 2008	31 December 2007	31 December 2006
	Rs	Rs	Rs
Issued share capital	383,962,400	383,962,400	383,962,400
Statutory Reserve	33,550,679	22,476,709	15,202,682
Retained earnings	127,365,918	73,279,341	39,441,828
General Banking Reserve	51,546,388	42,880,468	35,498,496
Profit before taxation	75,545,006	50,134,847	35,110,199
Profit after taxation	73,826,467	48,493,512	35,110,199
Dividends	-	-	-

