BANK ONE

ANNUAL REPORT 2010

WE BUILD... TEAMS

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WE BUILD... FUTURES

BANK ONE GRADUATES

At Bank One, we believe it is never too early to think of the future. Bank One Graduates is a stimulating Educational Loan that finances academic, professional or vocational studies, either full-time or part-time, locally, overseas or through correspondence. Two options are proposed for the repayment: up to ten years inclusive of moratorium on capital repayment or, quite simply, capital and interest repayment over ten years.

CORPORATE PROFILE

On the 22 February 2008, Bank One Limited ("Bank One" or the "Bank") (www.bankone.mu) was acquired by CIEL Investments Limited (one of the leading financial groups in Mauritius) and I&M Bank Limited (one of the leading banking institutions in Kenya) on a 50-50 shareholding basis. The new shareholders brought with them local and regional market presence and knowledge, domain expertise and financial strength to transform Bank One into a strong regional player.

Bank One focuses on customer needs and on building long-lasting relationships with its clients. It caters both for domestic and international markets, and provides financial solutions to all segments - Retail, Corporate as well as Private. These include transaction and deposit accounts, personal finance, trade finance, corporate finance and capital market services, and a host of other unique banking services.

Bank One operates with fourteen branches throughout the island, has a well-distributed network of ATMs and a fully-operational Internet Banking platform. It offers an international debit card as well as VISA credit cards. The Bank has a clientele base of over 39,000, serviced by a trained work-force, in a fully computerised on-line I.T. environment.

At Bank One, the client is first and foremost a partner. It is our constant endeavour to bring a sharper focus to the requirements of our clients and we always strive to leverage cutting-edge technology to provide the highest levels of service. Our clients bring to us their aspirations and goals, which we help them achieve by paying due attention to results. Our performance characteristics are defined by our work culture. We are proud to bring to our clients a unique mix of products and services.

OUR MISSION
To help our clients achieve economic success.

OUR VISION
To be amongst the leading domestic banks, known for its service excellence, and a regional player.

OUR CORE VALUES
- Customer Centricity
- Authenticity
- Team Work
- Perspicacity
- Competency
- Immediacy
- Tolerance

COMPANY DETAILS

COMPANY NAME:
BANK ONE LIMITED

BUSINESS NAME:
BANK ONE

REGISTERED OFFICE:
16, Sir William Newton Street, Port Louis, Mauritius
Telephone: (230) 202 9200
Fax: (230) 210 4712

SWIFT CODE:
FSCBMUMU

COMPANY NO:
40612

BUSINESS REGISTRATION NO:
C07040612

DATE OF INCORPORATION:
26 March 2002

COMPANY TYPE:
Private Company Limited by Shares

NATURE OF BUSINESS:
Banking

OTHER ACTIVITIES:
Insurance Agency:
Bank One is licensed with the Financial Services Commission to act as Insurance Agent for Anglo-Mauritius Assurance Society Limited, Albatross Insurance Company Limited and Mauritius Union Assurance Co Ltd.
Distribution of financial products:
Bank One is licensed under Section 14 of the Financial Services Act 2007 to distribute financial products.
Investment Adviser:
Bank One is licensed with the Financial Services Commission to provide investment advisory services.
Investment Dealer (Currency Derivatives Segment):
Bank One is licensed under section 29 of the Securities Act 2005 to act as Investment Dealer with respect to trades on the Currency Derivatives Segment of Global Board of Trade.
Foreign Investment Institution:
Bank One is registered as a Foreign Investment Institution with the Securities and Exchange Board of India, and is permitted to carry on investment activities in the Indian securities market.
Custodian Licence:
Bank One is licensed under section 100 of the Securities Act 2005 to act as Custodian.

EXTERNAL AUDITORS:
BDO & Co (formerly BDO De Chazal Du Mée)
10, Frères Felix de Valois Street,
Port Louis,
Mauritius

CORPORATE PROFILE

BOARD OF DIRECTORS

Chairman
Jean-Pierre Piat DALAIS (Non-Executive)

Members
Sarit Suresh Raja SHAH (Non-Executive)
Raj DUSSOYE (Executive)
Thierry HUGNIN (Non-Executive)
Arun Shankar MATHUR (Non-Executive)
Kim Foong (Roger) LEUNG SHIN CHEUNG (Independent)
Pratul Hemraj Dharamshi SHAH (Independent)
Paul Jason HAREL (Independent) (as from 01.01.11)
Jérôme DE CHASTEAUNEUF (Alternate Director
to Jean-Pierre Dalais)

Secretary To The Board
Kamini VENCADASMY

BOARD COMMITTEES

Audit Committee Members
Pratul Hemraj Dharamshi SHAH (Chairman)
Kim Foong (Roger) LEUNG SHIN CHEUNG
Jerome DE CHASTEAUNEUF (until 01.01.11)
Paul Jason HAREL (as from 01.01.11)
Secretary
Kamini VENCADASMY

Credit Committee Members
Arun Shankar MATHUR (Chairman)
Thierry HUGNIN
Kim Foong (Roger) LEUNG SHIN CHEUNG
Secretary
Kamini VENCADASMY

Risk Management Committee Members
Kim Foong (Roger) LEUNG SHIN CHEUNG (Chairman)
Pratul Hemraj Dharamshi SHAH
Arun Shankar MATHUR
Secretary
Kamini VENCADASMY

Administrative & Staff Compensation Committee Members
Arun Shankar MATHUR (Chairman)
Jean-Pierre Piat DALAIS
Thierry HUGNIN
Kim Foong (Roger) LEUNG SHIN CHEUNG
Secretary
Kamini VENCADASMY

Corporate Governance & Conduct Review Committee Members
Kim Foong (Roger) LEUNG SHIN CHEUNG (Chairman)
Pratul Hemraj Dharamshi SHAH
Paul Jason HAREL (as from 01.01.11)
Secretary
Kamini VENCADASMY

SENIOR MANAGEMENT

Chief Executive
Raj DUSSOYE

Deputy Chief Executive
Jessie Smiles ARIGALA

Chief Operating Officer
Dhinoo VEERASAWMY

Chief Financial Officer
Danny BALLUCK

Head of Corporate Banking
Vincent HARDY

Head of Private Banking & Wealth Management
Howard EVANS

Head of Retail Banking
Anne Marie KOO TON FAH

Head of International Banking
Rabindranath DABEE

Head of Credit Administration
Valerie DUVAL

Head of Treasury
Joel VILLENEUVE ANAUDIN

Treasury Advisor
R K GURUMURTHY

SENIOR OFFICERS

Internal Auditor
Neelesh Sawoky

Compliance Manager and Money Laundering Reporting Officer
Shekhar Gangapersad

BOARD OF DIRECTORS

1 JEAN-PIERRE DALAIS

2 SARIT SURESH RAJA SHAH

3 RAJ DUSSOYE

4 THIERRY HUGNIN

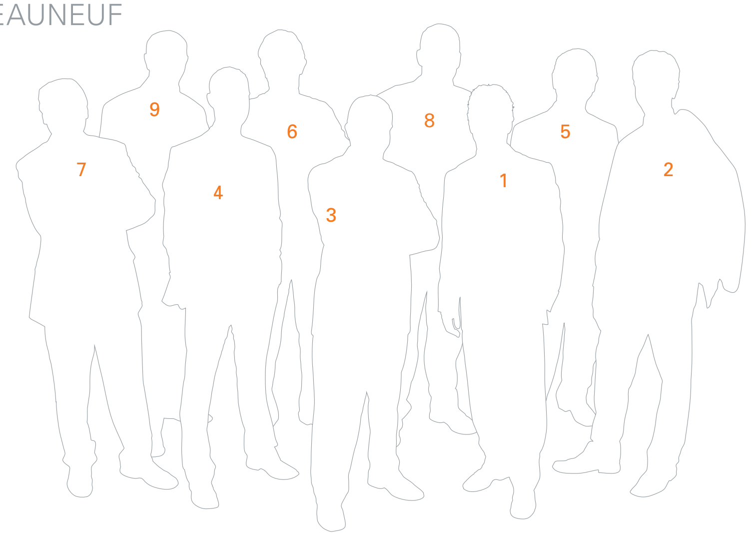
5 KIM FOONG (ROGER) LEUNG SHIN CHE

6 ARUN SHANKAR MATHUR

7 PRATUL HEMRAJ DHARAMSHI SHAH

8 JASON PAUL HAREL

9 JEROME DE CHASTEAUNEUF



DIRECTORS' PROFILES

JEAN-PIERRE DALAIS
Chairman & Non-Executive Director – Age 46

Mr. Jean-Pierre Dalais was appointed as Director of the Bank on the 22 February 2008 and as Chairman on the 2 March 2010 for a term of one year. He is also a member of the Board Administrative & Staff Compensation Committee.

Mr. Dalais holds an MBA from the International University of America. He started his career with Arthur Andersen, both in Mauritius and France, and joined the CIEL Group in the 1990s. He is the Chief Executive Officer of CIEL Investment Limited since 2001 and acts as director for several other companies, including such listed companies as detailed further in this Report.

SARIT SURESH RAJA SHAH
Non-Executive Director – Age 42

Mr. Sarit Shah was appointed as Director of the Bank on the 22 February 2008.

Mr. Shah holds a Masters Degree from City University London. He is the Executive Director of I&M Bank Limited and also serves on the board of several other companies registered in Kenya and Tanzania.

RAJ DUSSOYE
Director & Chief Executive Officer – Age 49

Mr. Raj Dussoye was appointed as Director and Chief Executive Officer of the Bank on the 22 February 2008.

Mr. Dussoye is an Associate of the Chartered Institute of Bankers (UK) and holds an MBA from Heriot-Watt University, Edinburgh, Scotland. He started his career in 1982 at the State Bank of Mauritius, where he had a broad-based experience. In July 2003, he was posted to India as CEO and Executive Vice-President of SBM, India. He left the State Bank of Mauritius in August 2007 to join CIEL Group. Appointed CEO of Bank One since February 2008, he is also the Vice-Chairman of the Mauritius Bankers Association.

THIERRY HUGNIN
Non-Executive Director – Age 45

Mr. Thierry Hugnin was appointed as Director of the Bank on the 22 February 2008. He is also a member of the Board Credit Committee and of the Board Administrative Committee.

Mr. Hugnin holds a Masters Degree in Business and Technology from Paris Dauphine University and is registered as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales ("ICEAW") after having successfully completed the ICEAW training programme in 1993. Mr. Hugnin worked in investment banking, public and private equity in London. He later joined Blakeney Management, a London-based investment boutique, focusing on Africa and the Middle East. Since 2004, he is the Chief Investment Officer and a director of CIEL Capital Limited, which is the Investment Manager of CIEL Investment Limited.

ARUN SHANKAR MATHUR
Non-Executive Director – Age 57

Mr. Arun Mathur was appointed as Director of the Bank on the 22 February 2008. He is the Chairman of the Board Administrative Committee and of the Board Credit Committee. He is also a member of the Board Risk Management Committee.

Mr. Mathur holds a B.Tech (Hons) degree and started his banking career in 1976 with the State Bank of India. He joined Grindlays Bank, India in 1982, and worked in their office in Nairobi, Kenya from 1990 to 1994. He then worked for several banks in Eastern Africa until he joined I&M Bank Limited in 2000 and was promoted to CEO in 2002.

KIM FOONG (ROGER) LEUNG SHIN CHEUNG
Independent Director – Age 64

Mr. Kim Foong (Roger) Leung Shin Cheung was appointed as Director of the Bank on the 22 February 2008. He is the Chairman of the Risk Management Committee and of the Corporate Governance & Conduct Review Committee. He is also a member of the Board Credit Committee, of the Audit Committee and of the Board Administrative & Staff Compensation Committee.

Mr. Leung is an Associate of the Chartered Institute of Bankers in UK and he is also a Fellow of the Mauritius Institute of Directors. He retired from Barclays Bank in September 2005 as Regional Corporate Director. He has been Trustee of the Barclays Employees Pension Fund and a Director of the Barclays Leasing Company (Mauritius) Limited. He presently works as Consultant in business restructuring and performance optimisation. He is a director of several other companies, including such listed companies as detailed further in this Report.

PRATUL HEMRAJ DHARAMSHI SHAH
Independent Director – Age 56

Mr. Pratul Shah was appointed as Director of the Bank on the 22 February 2008. He is also the Chairman of the Audit Committee, and a member of the Corporate Governance & Conduct Review Committee and of the Risk Management Committee.

Mr. Pratul Shah is a Fellow of the Association of Chartered Certified Accountants. He is also a member of the Institutes of Certified Public Accountant and Certified Public Secretary of Kenya and was a partner in PricewaterhouseCoopers, Kenya. He holds various directorships in diverse companies in East Africa, in the financial, manufacturing and services sector.

JASON PAUL HAREL
Independent Director (appointed as from 01.01.2011) – Age 39

Mr. Jason Harel was appointed as Director of the Bank effective from the 1 January 2011. He is also a member of the Audit Committee and of the Corporate Governance & Conduct Review Committee.

Mr. Harel is qualified as both a Chartered Accountant and Barrister at Law. He was a senior associate within the banking and finance department of Denton Wilde Sapte in London from 2000 to 2005, specialising in structured finance in addition to workouts. Prior to this, he completed his pupilage with the UK leading tax chambers, Gray's Inn Tax Chambers, and trained as a Chartered Accountant with Kingston Smith in London. Mr. Harel is a co-founder and partner of BLC Chambers which is ranked by both Global Chambers and International Financial Law Review as being a 1st tier business law practice in Mauritius. He is a director of other companies, including such listed company as detailed further in this Report.

JEROME DE CHASTEAUNEUF
Alternate Director to Mr. Jean-Pierre Dalais – Age 44

Mr. Jerome de Chasteauneuf was appointed as Alternate Director to Mr. Jean-Pierre Dalais on the 22 February 2008.

Mr. de Chasteauneuf is registered as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales ("ICEAW"). He joined the CIEL Group in 1993 as Project Financier and became Head of Finance in 2000. He is a director of several other companies, including such listed companies as detailed further in this Report.

WE BUILD... CONVENIENCE

Convenience is key to customer satisfaction; customers look for physical proximity of branches to their residence or place of work as well as the Bank being only a call or a click away. Bank One has fourteen branches in key towns and cities, some of them with ample parking space, a call centre to handle calls and answer queries as well as a sophisticated and safe Internet Banking platform for customers to deal with their accounts at anytime and from any place. The Bank has also recently started SMS top up for added convenience.

CHAIRMAN'S REPORT

WORLD ECONOMY

After having experienced its worst post-war recession in 2008, the world economic output still shrank by 0.6% in 2009, despite massive fiscal and monetary stimulus worldwide.

During 2010, world output recovered to a positive growth rate of 5%. The Euro Zone was marked by financial turbulence in May 2010 and during last quarter of 2010 coming from countries like Portugal, Ireland, Greece & Spain (PIGS). There were concerns that possible financial market spill over in the region could even lead to an explosion of the European Monetary Union. However, prompt policy actions managed to keep the financial turmoil and its real effects contained in the periphery of the Euro area, resulting in only a modest drag on the global economy. Euro area economic growth rate improved from - 4.1% in 2009 to +1.8% in 2010.

In the USA, the authorities implemented discretionary fiscal and monetary measures during 2009 and 2010 in response to the recent downturn. These included extension in unemployment benefits, extension of tax break, and quantitative easing amongst others. These measures averted a deeper US recession contributing about 2 percentage points to GDP growth in 2009 and another 1 percentage point in 2010, thus lifting U.S economic growth from -2.6 in 2009 to +2.8% in 2010.

Emerging economies, including India and China, continued their robust growth of 7.1 % in 2010, much higher than 2.6% registered in 2009. These were mainly driven by China's growth of 10.3% in 2010 (9.2% in 2009) and India's growth of 9.7 % in 2010. (5.7% in 2010).These economies were buoyed by well-entrenched private demand, still accommodative policy stances and resurgent capital inflows as Interest Rates continued to remain benign in advanced economies.

Global output is projected to expand at +4.4% in 2011 reflecting stronger than expected activity in second half of 2010 as well as new policy initiatives in the U.S that will boost activity this year. Overall, advanced economies are projected to grow by +2.5% in 2011 with Euro area declining from +1.8% in 2010 to +1.5% in 2011. Emerging and developing economies will see growth of +6.5% in 2011 (+7.1% in 2010) as symptoms of overheating start to slow down major economies like China and India. Growth in Sub-Saharan Africa will climb to 5.5 %, from 5.0 % in 2010, supported by domestic demand, expansion in public investment, social support programmes and continued monetary accommodation. Growing trade ties with Asia are also playing a role in the region's recovery, primarily through commodity markets.

MAURITIAN ECONOMY

During 2010, the Mauritian economy expanded by 4.2%, compared to 3.1% in 2009.

The major contributors to the GDP growth were, Real estate, Renting and Business activities +0.7%, Transport, Storage and Communications +0.5% and Financial Intermediation 0.5%; Manufacturing industries reported a growth of 2.2%. Activities of Export Oriented engaged in textile and fish processing grew by 4.1%, compared to a decline of 1.3% in 2009. Construction industry grew by 4.3%, lower than the 6.2% growth in 2009, mainly driven by projects in the public sector.

Hotels and Restaurants recovered satisfactorily from a decline of 5.9% in 2009 to a growth of 3.8% in 2010. Tourist arrivals for 2010 was at 935,000, an improvement of 7% on 2009 level and more or less to the same level as of 2008. Tourist earnings/spending remain a challenge as prices have had to be revisited in order to increase the number of arrivals amidst fierce competition from other destinations. The strengthening of the rupee persisting during 2010 also affected the industry's performance.

Financial Intermediation continued to post positive growth with a net improvement of 4.3%, compared to 3.8% in 2009. Contributors remain banking and insurance with 3.9% and 4.5% respectively. Transport, Storage and Communications grew by 5.5%, higher than the 4.7% registered in 2009.

The country's resilience through the financial crisis owes much to the prompt fiscal and monetary policy response and to a sound and well-regulated banking system

PERFORMANCE OF THE BANKING SECTOR

The Mauritius Banking System has been able to withstand the impact of the global economic meltdown. Banks' conservative business practices, their strong balance sheets and prompt policy responses (e.g. the Mauritius Approach) were major enablers in the process.

During the year ended December 2010, the performance of the banking sector improved substantially. The on-balance sheet assets of banks increased by Rs 106bn, or 14.1%, from Rs 751.3bn at end December 2009 to Rs 857.3bn at end December 2010, compared to a decline of 0.4% in the 12 months preceding.

The growth in the assets of banks was mainly driven by the mobilisation of additional deposits. In fact, during the year 2010, deposits rose by Rs 85bn, representing an increase of 15.3 %, from Rs 559bn to Rs 644bn.

The additional resources were mainly deployed towards granting of advances which expanded by Rs 22.8bn, or 5.5%, from Rs 413bn as at end- December 2009 to Rs 435.8bn a year later, compared to a negative growth of 2.4% in the preceding year.

As at end-March 2010, banks maintained an average capital adequacy ratio of 16.7% as compared to 17.0% a year earlier. This decrease was the result of a higher growth of 6.3% in the total risk weighted assets as opposed to a growth of 4.1% in the aggregate capital base.

CHAIRMAN'S REPORT

The ratio of non-performing advances to total advances improved marginally from 2.4 per cent at end-March 2009 to 2.3 per cent at end-March 2010 due to the increase in total advances.

The pre-tax return on average assets stood at 1.8 per cent at end-March 2010, as compared to 1.7 per cent achieved a year earlier.

The post-tax return on equity declined from 21.2 per cent to reach 20.0 per cent during the financial year ended 31 March 2010, mainly due to lower profits realised by banks.

BANK ONE – WE BUILD

After having dared to rise to the major challenges in the initial stages of the take over, Bank One continues to build – Brand Value, Trust, Loyalty, Confidence, and Proximity – with its clients, employees and other stakeholders. Key achievements during the year, have been:

- Launch of a Planters' Credit Card to alleviate cash flow difficulties of small sugar cane planters;
- Relocation of Rose Belle Branch in the Vieux Moulin Complex. The branch is a model of the new design adopted by the Bank, with warm colours, cosy interiors and plenty of parking spaces;
- Launching of "Nest" Home Loan, with tailor-made repayment plan especially for young married couples;
- Launch of new Teachers' Visa Credit Card catering for the specific needs of the teachers' community;
- Migration of Debit Card to Visa International Debit Card. Some 15,000 cards were successfully migrated to the new system through skillful Project Management and mobilization of nearly all retail staff members;
- Introduction of SMS Mobile Top Up, for more convenience for our clients;
- Approval of Foreign Institutional Investor (FI) Licence by Indian Authorities to Bank One for routing investments into India; and
- Enhancing capabilities for Private Banking and Wealth Management through high level recruitment.

Our efforts to position Bank One for long term sustainable growth yielded very encouraging results. Our brand gained more trust and our expanded portfolio of products and services helped us to increase our customer base both in Mauritius and overseas.

PERFORMANCE

Despite uncertain economic conditions, the Bank continued to grow. Total Assets increased by 32% to reach Rs 13.9bn in 2010. Deposit grew by Rs 3.1bn or 33% while advances progressed by Rs 2.2bn to reach Rs 8.3bn, representing a growth of 36%. The asset growth was mainly due to increase on segment B which went up 122%.

The Bank loan book remained resilient even in these difficult times. Impaired accounts decreased by 9%. Gross impaired loans ratio dropped from 8% to 5% while net impaired loan stayed at 2.4%.

The Bank achieved after tax profits of Rs 168M in 2010 against Rs 38M for 2009 – a significant achievement for the Bank after only less than 3 years of operations.

CAPITAL MANAGEMENT

The high speed growth of the Bank required additional support. The Bank was able to leverage its good performance and raise additional Rs 100M of subordinated debts to shore its Capital base.

The Bank continued to maintain Capital Adequacy ratio of above 11%, enabled by internal profits generation and additional Tier II Capital. The Bank's policy is to maintain a capital adequacy ratio of above 11% at all times. In order to fuel its growth plans, the Bank will raise further Tier II debts and more Core Capital as required, keeping in mind additional capital requirements under coming Basel III.

OUTLOOK FOR 2011

The global economy looks to have rebounded from the international financial crisis on the back of large scale fiscal monetary stimulus. However, this recovery is uneven and our key export markets are still under stress.

The Mauritian economy is expected to expand by 4.2% for 2011, the same level as for 2010, buoyed by infrastructure spending and the services sector.

Unemployment remains a challenge at 7.5% in 2010. Industries exposed to Euro Zone remain fragile and may impact to a large extent on the unemployment figure. Inflation represents another pressure, as recent months have experienced a surge in commodities prices.Headline and core inflation is persistently on the upside. Food inflation in certain emerging countries has crossed the double digit figure in Q4 2010 and indications are peaking towards a higher level in first semester 2011.

Against this backdrop, Bank One will continue to build for the future – enhancing brand value, deepening customer relationships and market knowledge, expanding distribution networks, introducing new products and continuing to move towards world class service quality to our customers.

The Bank will continue to increase its market share in key segments cautiously and capitalize on emerging opportunities to achieve long term growth for its stakeholders.

ACKNOWLEDGEMENT

We thank all our Team members led by the Management Team and the CEO for working together to earn more customers' business in a difficult economic environment. Indeed, the excellent performance during the year would not have been possible without the close collaboration and engagement of everyone in the Bank.

We thank our customers for giving more and more of their business to us and placing their trust in our Brand which, although quite new, is acknowledged as among the best in the banking community.

The Bank of Mauritius, as supervisor and guide, deserves a special mention, as they have always been available to listen and help steer our course of action. We are also thankful to our correspondent banks for their support.

I wish also to thank all my fellow Board members, who brought their wealth of experience and knowledge and provided valuable insights in all the various committees and meetings to further the mission of the Bank.

Thank you.

JEAN–PIERRE DALAIS
Chairman

16 March 2011

CORPORATE GOVERNANCE REPORT

STATEMENT ON CORPORATE GOVERNANCE

Corporate Governance is the process and structure used to direct and manage the business and affairs of a company with the objective of ensuring its safety and soundness and enhancing shareholder value. Effective Corporate Governance practices are essential to achieving and maintaining public trust and confidence in the banking system, which are critical to the proper functioning of the banking sector and economy as a whole.

The Board of Bank One is fully committed to attaining and maintaining the highest standards of Corporate Governance. This is ensured, through the following established practices:

Clear Demarcation of Responsibilities of the Board and Management
The Board has overall responsibility for the Bank, including approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, Corporate Governance and corporate values. It is also responsible for providing oversight of Senior Management.

The Senior Management ensures that the Bank's activities are consistent with the business strategy, risk tolerance and appetite, and policies approved by the Board, whilst adhering to the regulatory framework.

Organisation and Functioning of the Board
The role, responsibilities and procedures of the Board are clearly defined in a formal charter; a summary of same is provided further in this Report. The Board Charter, together with other organisational rules, by-laws and policies, are periodically reviewed by the Board.

Avoidance of Conflict of interest
The Board has adequate procedures to identify and manage potential conflicts of interest. Directors abstain from voting on any matter where there may be a conflict of interest or where a director's objectivity or ability to properly fulfill his duties to the Bank may be otherwise compromised.

The Bank also has proper procedures to identify related party transactions and ensure that these are on an arms-length basis.

Effective Internal Controls System and Risk Management Function
The Bank has an internal controls system and a risk management function with adequate authority, independence, resources and access to the Board. Risks are identified and monitored on an ongoing basis, and the Bank's risk management and internal control infrastructures are constantly being reviewed to keep pace with any changes to the Bank's risk profile (including its growth) and to the external risk landscape.

Senior Management and staff are also expected and encouraged to identify risk issues as opposed to relying only on the internal audit or risk management functions. This expectation is conveyed not only through the Bank's policies and procedures, but also through the "tone at the top" established by the Board and Senior Management.

Good Communication and Reporting Systems
The Bank's risk exposures and strategy are communicated frequently throughout the Bank, both horizontally across the organisation and vertically up the Management chain. This facilitates effective decision-making that fosters safe and sound banking and helps prevent decisions that may result in amplifying risk exposures.

Transparency
The Board ensures that timely and accurate disclosures are made in compliance with the applicable laws and regulations.

Compliance
The above disclosures are in compliance with the requirements of the Code of Corporate Governance of Mauritius and Mauritius Banking Association Code of Banking Practice.

Board of Directors
The Board has a unitary structure and functions independently of Management. The members of the Board possess established expertise and experience in banking, finance and commerce at both local and international levels.

The Board is composed of four Non-Executive directors, three Independent directors and one Executive director. Such composition responds to the current needs and the actual size of the Bank.

Directors are elected or re-elected at the Annual Meeting of the Shareholders. The existing Directors will stand for re-election at the Annual Meeting of the Shareholders to be held on the 16 March 2011.

Please refer to pages 8 to 11 for the list of directors and their profiles.

The Board Charter

The Board Charter sets out the roles and responsibilities of the Board, which are broadly to:

- Set the Bank's vision, mission and values;
- Determine the strategy and policy of the Bank and to achieve those objectives;
- Monitor and evaluate the implementation of strategies, policies and performance measurements;
- Exercise leadership, enterprise, integrity and judgment in directing the Bank;
- Identify and assess key risk areas of the business and ensure measures are taken to mitigate those risks;
- Ensure that effective internal controls systems are in place to safeguard the Bank's assets;
- Ensure compliance with all local laws and regulations, including risk management and Corporate Governance practices and disclosure requirements;
- Assess auditors' work both internal and external;
- Approve important capital investments of the Bank, including new products and services;
- Ensure that capital is fully optimised;
- Review and monitor investment in information technology and strategic assets and ensure that they are prioritised according to the Bank's strategy;
- Evaluate performance and review compensation of Senior Management and Directors;
- Ensure adequate succession planning;
- Ensure adoption of good Corporate Governance practices; and
- Ensure effective communication with Shareholders.

Given the current shareholding structure and size of the Bank, all matters relating to Board appointments and remuneration of directors are discussed at full Board level, which submits its recommendations to the Shareholders. However, no director will participate in discussions regarding his own package.

CHAIRMAN

The Chairman is not involved in the day-to-day running of the business and is not a full-time employee of the Bank. The main roles of the Chairman are to:

- Preside over meetings, encourage participation of directors in board matters and mediate differences of opinion;
- Participate in the nomination of directors to ensure that the Board has the right mix of competencies, skills, objectivity and expertise;
- Evaluate the performance of directors collectively and individually;
- Ensure adequate succession planning for the directors and management;
- Ensure that all relevant information on financial and operating matters are placed before the Board to enable directors to reach informed decisions;
- Ensure adoption of good corporate governance practices; and
- Maintain relations with the Shareholders of the Bank and ensure that information is clearly communicated to them through appropriate disclosure.

CHIEF EXECUTIVE OFFICER

The Chief Executive Officer also sits on the Board. His main responsibilities are to:

- Develop and recommend to the Board a long term strategy and vision for the Bank that would generate adequate Shareholder value;
- Develop and recommend to the Board annual business plans and budgets that support the long term strategy of the Bank;
- Provide to the Board all relevant financial and operating information to enable them to assess performance;
- Strive to achieve the Bank's financial and operating goals;
- Serve as the chief spokesman for the Bank on all operational issues, further to discussion with the Board on the division of responsibilities for communication with Shareholders and other stakeholders;
- Maintain a positive and ethical work climate that is conducive to attracting, retaining and nominating a diverse group of top-quality employees at all levels of the Bank; and
- Foster a corporate culture that promotes ethical practices, offers equal opportunities, encourages individual integrity and fulfils social responsibility objectives.

DEPUTY CHIEF EXECUTIVE OFFICER

The Deputy Chief Executive Officer, whilst not being a member of the Board, attends all Board Meetings. One of his main duties is to assist the CEO in ensuring that the Board is frequently and adequately apprised of the operations of the Bank through the presentation of relevant board papers.

BOARD COMMITTEES

The Board has set up 5 Committees, to which it has delegated some of its duties. The minutes of proceedings of the meetings of the Board Committees are tabled at Board Meetings.

Audit Committee

The main responsibilities of the Audit Committee are as follows:

- Set up and oversee the overall standard for financial reporting and internal controls within the Bank;
- Review and assess the quality of the work done by the professionals responsible for financial reporting and internal control;
- Make recommendation regarding the appointment of the external auditor; and
- Engage in discussions with external and internal auditors on the quality and acceptability of the control environment and reporting structures.

Board Risk Management Committee

The Board Risk Management Committee has the following main duties:

- Review the Bank's policy for the management of risks in the areas of Credit, Market, Interest, Liquidity, Operational and Technological;
- Review the Disaster Recovery and Business Continuity plans for the Bank;
- Review adequacy for insurance cover;
- Review the Bank's Impairment Measurement and Income Recognition policies and, where necessary, consider and recommend for approval to the Board changes in the level and in the adequacy of provision for NPA;
- Review the Credit Risk Policy paper submitted by the Credit Risk Committee, focusing on the delegation lending authority and sanctioning power;

CORPORATE GOVERNANCE REPORT

- Review/monitor various risk indicators and external developments, including legal and regulatory matters, which may have a significant impact on risk management, the reporting of emerging risks and the Bank's overall risk profile;
- Review/discuss business risks that can influence the financial statements;
- Review the Assets Liabilities Management Committee report;
- Review and approve new products and services;
- Determine the country and bank exposure/risk tolerance limits; and
- Review the Credit Policy and allied matters.

Board Credit Committee

The Board Credit Committee assists the Board in fulfilling its primary responsibilities by performing the following main functions:

- Review of the overall lending policy of the Bank;
- Deliberate and consider loan applications beyond the discretionary limits of the Management Credit Committee;
- Review lending by Management Credit Committee and Bank officers in exercise of the powers delegated;
- Review the Bank's Credit portfolio on an ongoing basis with a view to consider all issues that may materially impact on the present and future quality of the Bank's Credit Risk management;
- Ensure compliance with Guidelines issued by the Bank of Mauritius on Credit Risk Management;
- Conduct loan reviews independent of any person or committee responsible for sanctioning credit;
- Review all non-performing advances on a continuous basis and guide Management on recovery actions as appropriate; and
- Review and approve the Bank's panel of various professional firms.

Board Administrative & Staff Compensation Committee

The Board Administrative Committee has the following main responsibilities:

- Consider and decide upon matters under the Human Resources policy of the Bank to ensure/promote harmonious staff relations in the Bank at all times;
- To review and decide on staffing issues within the annual budget as approved by the Board with respect to the following key areas:
  - New recruitments at Executive level
  - Promotions;
  - Salary reward systems and incentives, except performance bonusto be approved by the Board;
  - Grievance Procedure
- Review and approve requests for purchase, acquisitions, disposals and write offs of Fixed Assets (capital expenditure or disposals) over and above the financial powers delegated to the Management team of the Bank;
- Review and approve requests for revenue expenditure including adhoc unbudgeted expenditure in excess of the financial powers delegated to the Management of the Bank; and
- Review and consider matters related to appointment of consultants, opening of bank accounts with other banks and financial institutions and granting of powers of attorney to Bank officials.

Corporate Governance & Conduct Review Committee

The main functions of the Corporate Governance & Conduct Review Committee are as follows:

- Establish policies and procedures to comply with the requirements of the guideline issued by the Bank of Mauritius on Related Party Transactions;
- Review and approve credit exposure to Related Parties;
- Advise the Board on all aspects of corporate governance and recommend the adoption of best practices for the Bank; and
- Monitor the implementation of the CSR programme in accordance with applicable guidelines.

BOARD AND COMMITTEE ATTENDANCE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

The following tables show the record of attendance at meetings of the Board and of its Committees for the financial year ended 31 December 2010:

Board Of Directors

Sittings	02.03.10	18.06.10	21.09.10	19.10.10	06.12.10
Directors					
Jean-Pierre Dalais (appointed as Chairman with effect from close of meeting dated 02.03.10)	•	•	•	•	•
Sarit Shah	•	•	•	•	•
Arun Mathur	•	•	•	•	•
Thierry Hugnin	•	•	•	•	•
Raj Dussoye	•	•	•	•	•
Pratul Shah	•	•	•	•	•
K.F. (Roger) Leung Shin Cheung	•	•	•	•	•

Note:
(i) Mr. Jason Harel was appointed as Director, effective from 01.01.11.
(ii) The DCEO and the Chief Financial Officer (CFO) are in attendance at Board Meetings.

Audit Committee

The Audit Committee met 4 times during the period under review:

Sittings	01.03.10	11.05.10	10.08.10	09.11.10
Members				
Pratul Shah (Chairman)	•	•	•	•
K.F. (Roger) Leung Shin Cheung	•	•	•	•
Jerome de Chasteauneuf	•	•	•	Excused

Note:
(i) Mr. Jason Harel was appointed as a member of the Audit Committee in replacement of Mr. Jerome de Chasteauneuf, effective from 01.01.11.
(ii) Mr. Jerome de Chasteauneuf has been appointed as advisor to the Audit Committee as from 01.01.11.
(iii) The CEO, DCEO, CFO, Internal Auditor, Compliance Manager and the External Auditors are in attendance at Audit Committee Meetings.

CORPORATE GOVERNANCE REPORT

Risk Management Committee

The Board Risk Management Committee met 4 times during the period under review:

Sittings	01.03.10	16.06.10	21.09.10	03.12.10
Members				
K.F. (Roger) Leung Shin Cheung (Chairman)	•	•	•	•
Pratul Shah	•	•	•	•
Arun Mathur	•	•	•	•

Note:
The CEO and the DCEO are in attendance at Board Risk Management Committee meetings.

Board Credit Committee

The Board Credit Committee met 11 times during the period under review:

Sittings	28.01.10	26.02.10	09.04.10	31.05.10	29.06.10	30.07.10	31.08.10	22.09.10	26.10.10	26.11.10	28.12.10
Members											
Arun Mathur (Chairman)	•	•	•	•	•	•	•	•	•	•	•
Thierry Hugnin	•	•	•	•	•	•	•	•	•	•	•
K.F. (Roger) Leung Shin Cheung	•	•	•	•	•	•	•	•	•	•	•

Note:
The CEO, DCEO and the Head of Credit Risk are in attendance at Board Credit Committee meetings.

Board Administrative & Staff Compensation Committee

The Board Administrative & Staff Compensation Committee met 4 times during the period under review:

Sittings	02.03.10	18.06.10	16.09.10	06.12.10
Members				
Arun Mathur (Chairman)	•	•	•	•
Jean-Pierre Dalais	•	•	•	•
Thierry Hugnin	•	•	•	•
K.F. (Roger) Leung Shin Cheung	•	•	•	•

Note:
The CEO and the DCEO are in attendance at Board Administrative & Staff Compensation Committee meetings. The CFO and HR Manager attend by invitation and for consultation only.

Board Corporate Governance & Conduct Review Committee

The Corporate Governance & Conduct Review Committee met 4 times during the period under review:

Sittings	01.03.10	16.06.10	21.09.10	03.12.10
Members				
K.F. (Roger) Leung Shin Cheung (Chairman)	•	•	•	•
Pratul Shah	•	•	•	•

Note:
(i) Mr. Jason Harel was appointed as a member of the Corporate Governance & Conduct Review Committee, effective from 01.01.11.
(ii) The CEO, DCEO and the Head of Credit Risk are in attendance at Corporate Governance & Conduct Review Committee meetings.

CORPORATE GOVERNANCE REPORT

DIRECTORSHIPS IN COMPANIES LISTED ON THE STOCK EXCHANGE OF MAURITIUS AS AT 31 DECEMBER 2010:

Jean-Pierre Dalais

Name of Listed Companies	Particulars of Directorships
CIEL Investment Limited	Director
Constance La Gaiete Limited	Alternate Director
Deep River Investment Limited	Director
Hotelest Ltd	Director
IPRO Growth Fund	Director
Phoenix Beverages Limited	Alternate Director
Sun Resorts Limited	Director
Swan Insurance Company Limited	Director

Thierry Hugnin

Name of Listed Companies	Particulars of Directorships
Sun Resorts Limited	Director

Kim Foong (Roger) Leung

Name of Listed Companies	Particulars of Directorships
Shell Mauritius Ltd	Director
The Mauritius Development Investment Trust Co. Ltd	Director

Jason Harel

Name of Listed Companies	Particulars of Directorships
Ireland Blyth Limited	Director

Jerome De Chasteauneuf

Name of Listed Companies	Particulars of Directorships
CIEL Textile Limited	Alternate Director
Constance Hotel Services Limited	Director
Harel Mallac Ltd	Director
IPRO Growth Fund	Director

DIRECTORS' INTERESTS IN SHARES

None of the Directors holds shares in the Bank's capital.

DIRECTORS' REMUNERATION

Remuneration and benefits received by the Directors during the financial year 2010 were as follows:

	Rs
Kim Foong (Roger) Leung Shin Cheung	994,592
Pratul Hemraj Dharamshi Shah	710,390

DIRECTORS' SERVICE CONTRACTS

Mr. Raj Dussoye has a service contract with the Bank expiring in August 2013. It contains no material clause for compensation on termination of contract.

SENIOR MANAGEMENT

1 RAJ DUSSOYE

2 JESSIE SMILES ARIGALA

3 DHINOO VEERASAWMY

4 DANNY BALLUCK

5 VINCENT HARDY

6 HOWARD EVANS

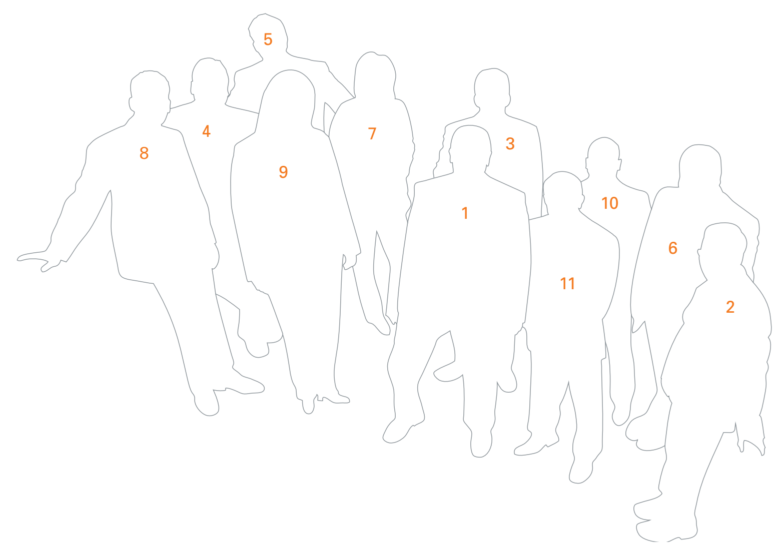
7 ANNE MARIE KOO TON FAH

8 RABINDRANATH DABEE

9 VALERIE DUVAL

10 JOEL ANAUDIN

11 R K GURUMURTHY



CORPORATE GOVERNANCE REPORT

SENIOR MANAGEMENT

The conduct of business is entrusted to the Management team of the Bank, which has the responsibility to operate within the strategic framework, risk appetites and policies set by the Board, whilst adhering to regulatory requirements. The Bank's Senior Management have set up various committees, namely the Management Executive Committee, the Management Credit Committee, the Management Operational Risk Committee, the Asset and Liability Committee, and the Special Asset Committee for oversight and monitoring of the various risk areas and to deliberate on key issues for informed decision-making.

SENIOR MANAGEMENT'S PROFILES

RAJ DUSSOYE
Chief Executive Officer

Please refer to Directors' Profiles.

JESSIE SMILES ARIGALA
Deputy Chief Executive Officer

Mr. J. Smiles Arigala holds a Masters Degree and has been in the banking sector for 30 years. He acquired truly global experience, having worked in India, Japan, Kenya, Tanzania and Mauritius. He started his career with the State Bank of India in India and has experience in all areas of banking, such as Treasury, International Banking, Corporate Banking, Retail Banking, Operations. He has 15 years experience at senior management. He was the CEO of Diamond Trust Bank Tanzania Ltd before joining the Bank in April 2008 as DCEO. He is also responsible for the overall risk management of the Bank.

DHINOO VEERASAWMY
Chief Operating Officer

Mr. Dhinoo Veerasawmy holds a Degree in Accounting & Management and an MBA from Poitiers University, France. Before joining the Bank as Chief Operating Officer in 2008, he was employed as Head of Operations with Edge Forex Ltd (Ciel Group) and had worked in various fields of banking for 20 years (17 years with BNP Paribas and 3 years with Standard Bank), including 10 years at senior management level.

DANNY BALLUCK
Chief Financial Officer

Mr. Danny Balluck is a Fellow member of the Association of Chartered Certified Accountants. He has more than 15 years of experience in finance, auditing, corporate finance and investment. He has worked in different sectors of the economy, including textile, financial services and tourism. Prior to joining Bank One, he was the CFO of Investment Professionals Limited (CIEL Group) an investment management services company.

VINCENT HARDY
Head of Corporate Banking

Mr. Vincent Hardy holds a Bachelor of Commerce from the University of South Africa, where he specialised in financial management. He worked with Investec Bank, a leading international specialist banking group, in the area of specialised finance and lending, where he played a significant role in new business development in the property division. He joined Bank One in October 2008 as Head of Corporate Banking.

HOWARD EVANS
Head of Private Banking & Wealth Management

Mr. Howard Evans holds a BA (Honours) Degree from the University of Salford. A former Officer in the British Army, he started his bank assurance career with HBOS in the UK. He has worked in the Corporate and International Wealth Management sectors in the UK and Southern Africa, with both LTSB and HSBC respectively, before joining Bank One in December 2010 as Head of Private Banking & Wealth Management.

ANNE MARIE KOO TON FAH
Head of Retail Banking

Mrs. Anne Marie Koo has a Diploma in Business Management and has been in the banking sector since 1982. She started her career with the State Bank of Mauritius and joined the South East Asian Bank Ltd in 1989. She left in March 2008 as Assistant Vice-President - Retail Sales and Services to join Bank One as Head of Retail Banking.

RABINDRANATH DABEE
Head of International Banking

Mr. Dabee is an Associate of the Chartered Institute of Bankers, London and holds an MBA from Leicester University. He has 25 years' banking experience in Retail, Corporate and International Business segments. He started his career at State Bank of Mauritius. He held the position of Portfolio Leader – Business Banking before joining the Bank as Senior Relationship Manager - International Banking in May 2008. He was promoted to Head of International Banking in January 2009.

VALERIE DUVAL
Head of Credit Administration

Mrs. Valerie Duval holds a Bachelor of Law Degree and was called to the Bar in 1995. Before joining Bank One, she held the function of Claims Manager at La Prudence Mauricienne Assurances and Swan Insurance Co Ltd, thereby acquiring strong experience of 13 years in the insurance sector. She joined the Bank in July 2008 as Head of Credit Administration and also acts as internal legal adviser on legal matters pertaining to the affairs of the Bank.

JOEL ANAUDIN
Head of Treasury

Mr. Joel Anaudin holds a BSc in Economics and Finance and a Masters with specialisation in International Market. He has work experience of nearly 15 years in Treasury Management, including 6 years with BNP Paribas.

Before joining Bank One in March 2008 as Head of Treasury, he worked as Head of Dealings at Edge Forex Ltd a subsidiary of the CIEL Group offering an extensive range of foreign exchange services and products mainly to large corporations operating in Mauritius.

RAMACHANDRA KRISHNAMURTHY GURUMURTHY
Treasury Advisor

Mr. Gurumurthy holds a Masters Degree in Commerce and is a rank holder in CAIIB. He has 17 years of experience in the treasury. Having started his career with the State Bank Group in India, he has worked in global financial centres in various organisations including India, Singapore and London. He commenced his foreign exchange dealing career in 1993 and his last assignment was as Head of Trading and ALM in ING Bank (India) before joining Bank One as Treasury Advisor in December 2010.

CORPORATE GOVERNANCE REPORT

Senior Management's Interests In Shares
None of the existing Senior Management officers holds shares in the Bank's capital.

RELATED PARTY TRANSACTIONS

The Bank is governed by the Guideline on Related Party Transactions issued by the Bank of Mauritius in January 2009.

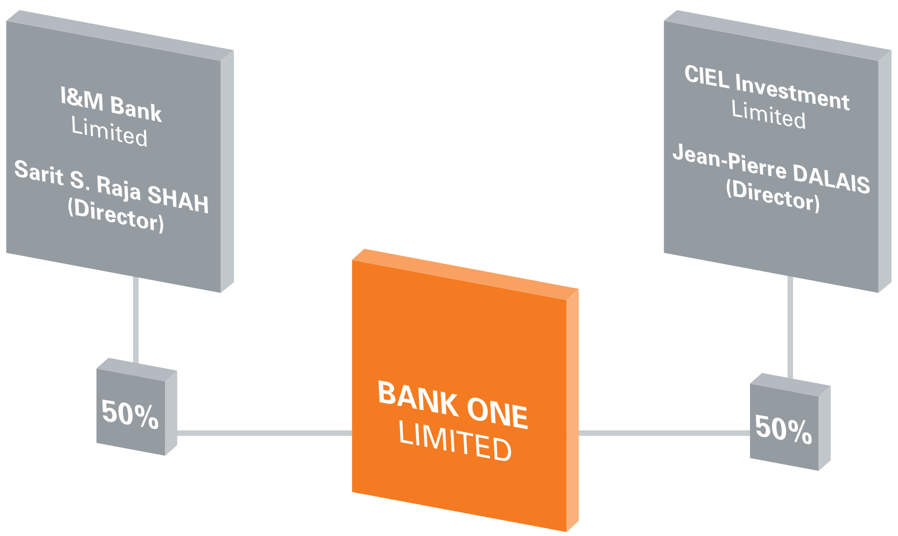
Related parties, whether body corporate or natural persons, fall into two main groups:
(i) those that are related to the Bank because of ownership interest; and
(ii) those that are related otherwise, such as directors and senior officers, who may also have some ownership interest in the Bank.

In line with the Guideline, the Board has adopted a policy which sets out the rules governing the identification of related parties, the terms and conditions applicable to transactions entered into with them, and reporting procedures to the Corporate Governance & Conduct Review Committee and to the Board. All related party transactions are reviewed at the level of the Corporate Governance & Conduct Review Committee, which ensures that market terms and conditions are applied to such transactions.

Please refer to note 32 of the Financial Statements for credit exposure to related parties as at 31 December 2010.

SHAREHOLDERS

The Holding Structure and Common Directors at each Level



Shareholding
As at 31 December 2010, the Bank's Stated Capital amounted to Rs 551,456,000, divided into 5,514,560 ordinary shares of no par value, held as follows:

Shareholder	Issued and fully paid Shares	Holding
CIEL Investment Limited of Ebene Skies, Rue de l'Institut, Ebene, Mauritius	2,757,280	50%
I&M Bank Limited of I&M Bank House, 2nd Ngong Avenue, Nairobi, Kenya	2,757,280	50%
Total Issued & Fully Paid Shares	5,514,560	

Allotments During The Period Under Review:
The following shares were issued and allotted during the financial year 2010:

Allottees	Date of Issue / Allotment	Class of Shares	No. of Shares	Amount Rs
CIEL Investment Limited	15.02.10	Ordinary	300,000	30,000,000
I&M Bank Limited	15.02.10	Ordinary	300,000	30,000,000

Note: The offer to subscribe to the above issue was made in November 2009.

Shares Transferred During The Period Under Review:
The following share transfer occurred in the financial year 2010:

Transferor	Transferee	Date of Registration of transfer	Class of Shares	No. of Shares
Minard Holdings Limited	I&M Bank Limited	10.05.10	Ordinary	461,263

Note: The procedures to transfer the above shares were initiated by the transferor in November 2009. Minard Holdings Limited is one of the largest shareholders of I&M Bank Limited.

CORPORATE GOVERNANCE REPORT

Shareholders' Profiles

CIEL INVESTMENT Limited
Ebene Skies, Rue de l'Institut, Ebene, Mauritius

CIEL Investment Limited (CIL) is part of the CIEL Group, which is one of the leading financial and business groups in Mauritius. It is an investment company holding interests in a number of companies operating in various sectors of the Mauritian economy, the main ones being involved in tourism and leisure, financial services and investment, property and construction and healthcare and sciences.

CIL is a public company and is listed on the Development and Enterprise Market of the Stock Exchange of Mauritius Limited. As at 31 March 2010, its stated capital was made up of 1,063,073,525 no par value ordinary shares worth Rs 1,918,355,000 (both figures including 159,461,029 treasury shares). On that same date, there were 1,911 shareholders.

At Group level, CIL registered a profit after tax of Rs 443M and the net asset value of the CIL Group amounted to Rs 4.9bn as at 31 March 2010.

I&M BANK Limited
I&M Bank House, 2nd Ngong Avenue, Nairobi, Kenya

I & M Bank Limited ("I&M Bank") is a privately owned bank that possesses a rich heritage in banking. With a network of 17 branches and 18 ATMs covering the four major financial centres in Kenya, and access to approximately 1,450 ATMs across the country as part of other networks, I & M Bank is a dominant player in the Kenyan market. The Bank offers a wide range of commercial banking and financial products and services, and prides itself on introducing innovative products and services based on the needs of its customers. In 2010, I&M became the first and only bank in East and Central Africa to be awarded a license for E-Commerce acquisition. This important step has been broadly perceived in the East Africa market as plugging the missing link for promoting E-commerce in the country.

I&M Bank is privileged to count amongst its shareholders two leading European AAA rated development financial institutions (DFIs), PROPARCO and DEG, which own approximately 20% of I&M Bank. A major portion of the remaining 80% shareholding in the Bank is held by a consortium of Kenyan investment companies. The Bank's strategic alliances with PROPARCO, DEG as well as IFC has allowed the Bank to benefit from technical assistance programmes that have ensured the Bank has state-of-the-art systems, policies, and procedures in the areas of Risk Management, Anti-Money Laundering, Environmental and Social Protection, and Positive Living. The Bank also has a wide spectrum of correspondent banks, including Barclays Bank PLC, BNP Paribas Fortis, Citibank NA, Deutsche Bank AG, HSBC, ICICI and JP Morgan Chase, to name a few.

I&M Bank is both an operating company providing commercial banking services in Kenya as well as a holding company for its investments in Mauritius and Tanzania. In 2010, I&M Bank extended its regional footprint into Tanzania through the acquisition of a bank, CF Union Bank Limited, recently re-named as I&M Bank (T) Ltd.

The Bank has an impressive track record for growth on several parameters, including, customer base, loans and deposits' portfolios, range of products and services, technological innovations, profits and returns to shareholders and, in recent years, its regional growth trajectory.

As at 31 December 2010, based on the unaudited, consolidated financial statements for I&M Bank, the customer advances portfolio stood at USD 619M, deposits amounted to USD 841M, while the profit before tax stood at USD 44M.

I&M Bank's total assets crossed the USD 1bn mark to close at USD 1,075M as against USD 600M in 2009, and its total Shareholders Equity stood at USD 164M as at 31 December 2010.

Guided by a strong sense of ethics, the Bank has established and maintains a reputation of a solid, clean, up-market Bank that provides quality banking services.

MATERIAL CLAUSES OF THE CONSTITUTION

A new constitution was adopted by the Shareholders on the 29 December 2010. The material clauses of the Bank's constitution include the following:

- Any change in the ownership of Shares in the capital of the Bank is subject to pre-emptive rights;
- The Board may, if authorised by the Shareholders, issue Shares that rank equally with or in priority to, or in subordination to the existing Shares with the requirement that the Shares be first offered to existing Shareholders;
- The Board shall consist of not less than 7 and not more than 10 Directors;
- Any Shareholder shall be entitled to appoint 1 Director for each 20% of the issued share capital held by it, and shall be entitled to remove such Directors by written notice to the Bank;
- The Shareholders may also, in addition to the Directors appointed pursuant to the above, appoint a minimum of 2 and a maximum of 4 Independent Directors;
- The Chief Executive Officer shall be appointed by the Board. He may also be appointed by the Board to act as Director. However, his appointment as Director shall cease automatically upon the termination of his office as Chief Executive Officer;
- The quorum for a Shareholders' meeting shall be 2 Shareholders, holding each not less than 35% of the voting rights; and
- The quorum for a Board meeting shall be 4 Directors, comprising of at least 1 Director nominated by each Shareholder holding at least 20% of the issued share capital of the Company.

ASPECTS OF SHAREHOLDERS' AGREEMENT AFFECTING GOVERNANCE

There shall be a Chairman, who shall preside at all meetings of the Board and at the meetings of the Shareholders and who shall be appointed from one of the Directors. Such appointment rotates between CIEL Investment Limited and I&M Bank Limited on an annual basis.

DIVIDEND POLICY

The Bank will distribute a reasonable part of its profits, to the extent permitted by law and the Bank of Mauritius Guidelines, and in accordance with sound financial principles, provided that its financial situation allows such distribution.

SHAREHOLDER RELATIONS AND COMMUNICATION

Shareholders are apprised of financial conditions of the Bank on a monthly basis. Any other corporate issues relevant to the Shareholders are immediately brought to their attention by the Company Secretary.

Shareholders are able to closely follow the affairs of the Bank on a quarterly basis through their representatives, being present at Board and Board Committee levels.

AUDITORS' FEES AND FEES FOR OTHER SERVICES

Auditors' fees and fees (inclusive of VAT) for other services paid to BDO & Co (formerly BDO De Chazal Du Mee) during the financial year 2010 were as follows:

	Rs
Audit fees	1,236,250
Quarterly high level review	172,500
Internal Control Review	258,750
Tax Advisory	86,250

THIRD PARTY AGREEMENTS

There are currently no third party agreements affecting the governance of the Bank by the Board.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Board has adopted a CSR Policy which sets out the framework for managing the Bank's CSR activities in line with prevailing legislation and the guidelines issued by the National CSR Committee.

With a view to create synergies, the Bank has decided to implement its CSR programme through an accredited Special Purpose Vehicle (SPV). In this regard, the Bank will be routing its CSR activities through "Fondation Nouveau Regard". A sum of Rs 549,961 would be paid as CSR contribution out of 2010's profits.

"Fondation Nouveau Regard" (FNR) is an accredited entity registered with the National CSR Committee. It was created in November 2004 by the CIEL Group with the objective of helping the underprivileged to recover their dignity and place in the Mauritian Community. Its sphere of actions includes socio-economic development, health, leisure and sports, environment, education and training.

INTEGRATED SUSTAINABILITY REPORTING

The Bank is committed to the highest standards of integrity and ethical conduct in dealing with all its stakeholders. Staff at all levels adhere to the Corporate Values and to the Code of Banking Practice, as well as to the Bank's Code of Ethics, newly adopted by the Board in December 2010.

The Bank is also committed to providing a healthy, safe and secure working environment and has put in place policies and practices that comply with existing regulatory guidelines and requirements.

FUNDING

No political or charitable donations were made during the period under review.

IMPORTANT EVENTS

- Financial year end: 31.12.10
- Annual Meeting of Shareholders: 16.03.11

KAMINI VENCADASMY, ACIS
Company Secretary

16 March 2011

Emma

WE BUILD... CONFIDENCE

The Mauritian woman of the current generation wishes to establish an identity of her own, showing that she is capable of fending for herself.

Emma is a 'one-of-a-kind' account for the modern, trendy successful professional woman, as well as for the sophisticated housewife. It enables today's women to enjoy hassle-free banking ser vices, but also helps them achieve economic independence, in full confidence.

COMPANY SECRETARY'S CERTIFICATE

In my capacity as Company Secretary, I hereby confirm that, to the best of my knowledge and belief, the Bank has filed with the Registrar of Companies, as at 31 December 2010, all such returns as are required under the Companies Act 2001.

KAMINI VENCADASMY, ACIS
Company Secretary

WE BUILD... SECURITY

Small sugar cane planters face huge cash flow problems during harvest season as well as in pre harvest. With the decline in sugar income, unavailability of labour as well as escalation in costs, planters face hardships in making ends meet. Bank One has launched the Planters' Card, a VISA credit card exclusively for planters, with credit linked to acreage and at exceptionally low interest.

MANAGEMENT DISCUSSION AND ANALYSIS

HIGHLIGHTS

Despite a challenging business climate and uncertain economic conditions, Bank One delivered a profit after tax of Rs 168M for the year ended 31 December 2010 against Rs 38M for 2009, representing a more than threefold increase. The return on equity in 2010 improved to 23% as against 7% in 2009.

This performance is all the more remarkable as it has been achieved during the sharpest, persisting volatile economic downturn the world has experienced in more than a quarter century.

Operating income of Rs 454M was generated, representing a progress of 65% compared to 2009. Net interest income improved substantially from Rs 133M to Rs 292M. This increase was driven by strong loan growth as well as better spreads in both Mauritian rupee and foreign currencies. While on the rupee side the Bank benefitted from the repricing of high cost fixed deposits in hyper liquid market, on the foreign currency side the Bank witnessed an increase in deposits and better deployment options.

Non Interest Income increased by Rs 20M or 14%. Contribution came mainly from fees and commission in line with the increase in business volumes. Treasury profit was down by 13% as domestic foreign exchange activity level was lower throughout the year. However the Bank has diversified into new income streams through other treasury instruments which have kept treasury profits at reasonable levels.

Non Interest expenses increased by 20% and this increase is predominantly due to the increase in HR costs to sustain the expansion in the Bank's business. The Bank has been consistently applying tight cost control at all levels while maintaining a good level of service to its clients. The cost to income ratio improved from a high level of 89% in 2009 to 64% in 2010.

During 2010, the Bank continued to grow and total assets increased by 32% to reach Rs 13.9bn, while the banking industry expanded by 14%.

Deposits grew by Rs 3.1bn or 33%, with a reported growth of 10% in Mauritian rupee and 85% in Foreign Currency. The Bank has not been aggressive in rupee deposit mobilization during the year under review due to excess liquidity in the market and limited deployment options.

As far as segment B is concerned, the Bank has been successful in attracting new deposits with an increase of 122%. New services like Internet Banking and Credit Cards have been major enablers in the process.

Total advances progressed by Rs 2.2bn to reach Rs 8.3bn, representing an increase of 36%. While foreign currency advances more than doubled at 114%, the rupee lending progressed at only 20% due to the slowdown in domestic business activities.

Impaired accounts decreased by 9% to close at Rs 427M. Notwithstanding economic crisis affecting several sectors of the economy, more particularly the tourism sector where some defaults were observed, the Bank loan book has remained quite resilient and has suffered negligible impact. Certain long outstanding and difficult accounts were recovered during the year through out of court settlement. The total Gross impaired ratio improved from 8% to 5% while the Net impaired ratio stayed at a reasonable 2.4%.

Bank One capital adequacy level was at a comfortable level of 11.37% as at 31 December 2010. The Bank raised additional Rs 100M of subordinated debt during the year to support the business growth. Bank One will continue to look for growth opportunities but will remain selective and cautious as far as deployment is concerned.

MAURITIAN ECONOMY

During the period under review, the Mauritian economy expanded by 4.2% compared to 3.1% in 2009. The major contributors to the GDP growth were Real Estate, Renting and Business activities +0.7%, Transport, Storage and Communications +0.5% and Financial Intermediation 0.5%

Manufacturing industries reported a growth of 2.2%, as a result of growth of 2.3% in Sugar Milling, 3.9% in Food Processing, 0.7% in Textile and 2.0% in other Manufacturing. Activities of Export Oriented engaged in textile and fish processing grew by 4.1%, compared to a decline of 1.3% in 2009.

The construction industry grew by 4.3%, lower than the 6.2% growth in 2009, mainly driven by projects in the public sector.

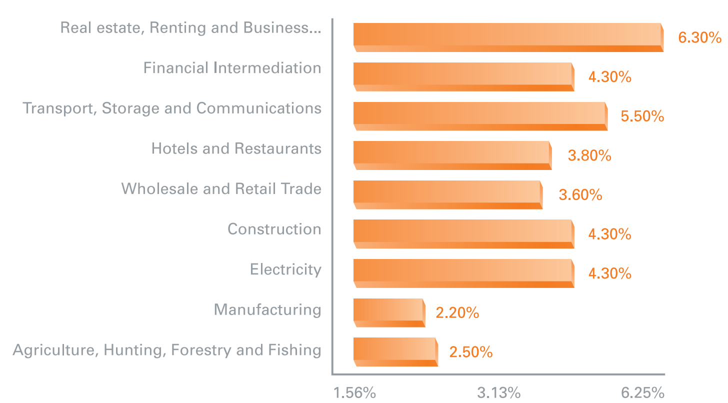
Hotels and Restaurants recovered satisfactorily from a decline of 5.9% to a growth of 3.8%. Tourist arrivals for 2010 was at 935k, an improvement of 7% on 2009 level and more or less the same level as 2008. Tourist earnings/spending remain a challenge as prices have had to be revisited in order to increase the number of arrivals amidst fierce competition from other destinations. The strengthening of the rupee persisting during 2010 also affected the industry's performance.

The Euro Zone, which is our main tourism market, is still under stress as sovereign debt crisis is not over yet. Diversification strategy, especially on emerging markets, has been set and results could be seen in the medium term if these strategies are implemented in a constructive and integrated manner with complementary measures such as flight availability, better infrastructure and enhanced security.

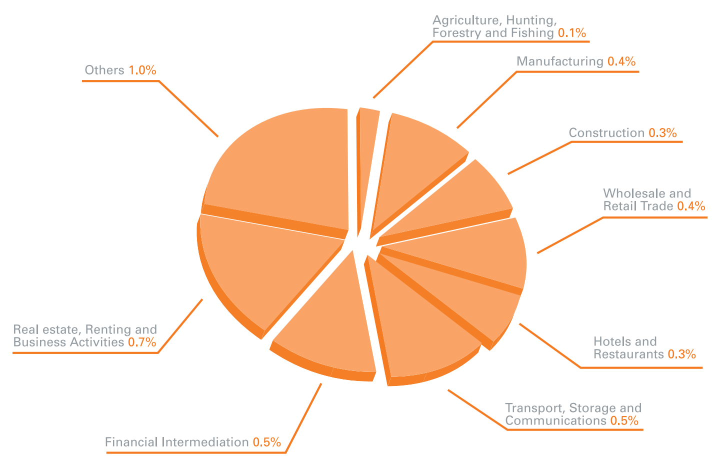
Financial Intermediation continued to post positive growth with a net improvement of 4.3% compared to 3.8% in 2009. Contributors remain Banking and Insurance with 3.9% and 4.5% respectively.

Transport, Storage and Communications grew by 5.5%, higher than the 4.7% registered in 2009.

GROSS DOMESTIC PRODUCT - SECTORAL REAL GROWTH RATES



CONTRIBUTION OF INDUSTRY GROUPS TO GDP GROWTH 2010



** Source Central Statistics Office*

BANKING INDUSTRY

The country's resilience through the financial crisis owes much to the sound economic policy and a well regulated banking system.

During 2010, the banking industry has demonstrated its resilience and reported a satisfactory growth of 3.9%, better as compared to 3.0% realized in 2009. The contribution of the Banking Sector to the country's GDP was, at 7%, slightly better than 2009.

The Asset base of the sector increased by 15% while total Deposit base increased by 13%, with 10% and 16% in rupee and foreign deposit respectively.

However there are still a few challenges ahead. Globally, the recovery in advanced countries still looks uncertain and trade and financing flows could be jeopardized by fiscal retrenchment in these countries.

OUTLOOK 2011

Based on latest statistics published by the Central Statistics Office, it is expected that the Mauritian economy would expand by 4.2% for 2011, the same level as for 2010.

Unemployment remains a concern, though it has been contained to some extent at 7.5% in 2010. Industries exposed to Euro Zone may suffer and impact to a large extent on the unemployment figure as deployment of the labour force in other sectors remains difficult, at least in the short term.

Inflation represents another pressure point as the global inflation cycle turns. Inflation has remained subdued in advanced economies as in Mauritius but recent months have experienced a surge in commodities prices and headline and core inflation has persistently surprised on the upside. Food inflation in certain emerging countries has crossed the double digit figure in Q4 2010 and indications are peaking towards a higher level in first semester 2011.

Although the world is on a recovery path from the global economic crisis, action is still needed to address key constraints in the international economy and financial system, including high unemployment and banking problems in advanced economies and risks of overheating in emerging markets.

On 11 March 2011, a huge earthquake hit the north of Japan and triggered a devastating tsunami. As a result, uncertainty increased on both the economic and political front. Global financial markets retreated and the impact of the catastrophe is yet to be fully assessed.

All in all, the outlook for 2011 for Mauritius is more of the same as 2010, continued growth based on global developments but certain key issues remain to be resolved, especially in our main export markets.

As we move forward, Bank One remains cautiously optimistic about the recovery of the domestic and global economies. We are building a strong platform for expansion and progress, and we look forward to working with our customers and to seizing the opportunities as and when they arise.

MANAGEMENT DISCUSSION AND ANALYSIS

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

	Year Ended Dec 10 Rs 000	Year Ended Dec 09 Rs 000	18 Month Period To Dec 08 Rs 000
Net Interest income	292,162	132,541	29,369
Net fee and commission income	94,555	63,430	23,620
Net trading income	57,416	65,788	49,588
Other operating income	10,278	13,259	675
Operating Income	**454,411**	**275,018**	**103,252**
Non Interest Expense	(291,469)	(243,404)	(247,906)
	162,943	31,614	(144,654)
Profit on sale and recovery of assets	59,322	-	30,190
	222,265	31,614	(114,464)
Allowance for credit Impairment	(26,421)	10,700	(29,048)
Profit before Tax	**195,844**	**42,314**	**(143,512)**
Income Tax Expense	(27,556)	(3,826)	22,708
Profit/(Loss) for the year/period	**168,288**	**38,488**	**(120,804)**

FINANCIAL HIGHLIGHTS

NET INTEREST INCOME

	Year Ended Dec 10 Rs 000	Year Ended Dec 09 Rs 000	18 Month Period To Dec 08 Rs 000
Interest Income			
Loans and Advances to customers and banks	609,774	495,160	337,654
Securities	75,200	91,843	239,971
Placements	23,428	20,292	16,092
Other	22,884	-	-
	731,286	607,295	593,717
Interest Expense			
Deposits from customers	422,010	464,404	562,720
Borrowings from Banks	402	1,633	1,463
Other	16,712	6,717	165
	439,124	472,754	564,348
Average Interest Earning Assets	8,516,904	7,154,319	4,509,379
Average Interest Bearing Liabilities	8,611,527	8,214,134	4,531,863
Interest Income/Average Interest Earning Assets	8.59%	8.49%	13.17%
Interest Expense/Average Interest Earning Liabilities	5.16%	5.78%	12.45%
Net Interest Income/Total Average Assets	2.43%	1.47%	0.59%
Core Revenue	444,133	253,759	665,036

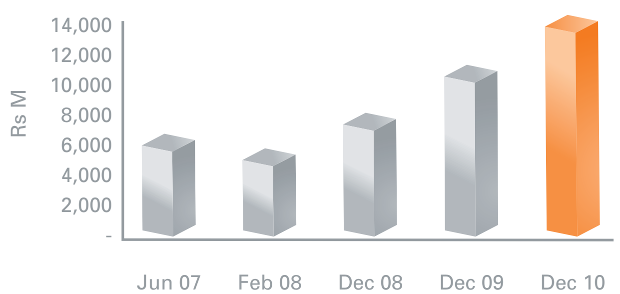
Net interest income improved substantially by Rs 159M or 120%, due principally to the growth in advances and placements and also on better spread realized on both rupee and foreign currency. While on the rupee front the Bank benefitted on the repricing of high cost fixed deposits, the foreign currency activities witnessed a significant pickup on the global markets, thus creating better lending opportunities.

The Bank continues to manage the Assets and Liabilities in a dynamic and efficient manner as reflected by the improvement in the Net Interest Income/Total Average Assets ratio from 147bps to 243bps.

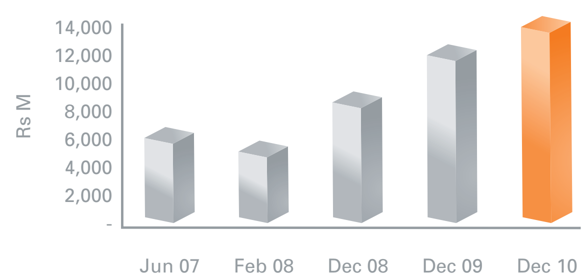
MANAGEMENT DISCUSSION AND ANALYSIS

	Jun 07 Rs M	Feb 08 Rs M	Dec 08 Rs M	Dec 09 Rs M	Dec 10 Rs M
Net Interest income	**46**		**29**	**132**	**292**
Non Interest income	**27**		**74**	**142**	**162**
Total Deposits	4,110	4,106	6,134	9,480	**12,599**
Gross Loans and Advances	2,048	1,864	4,769	6,171	**8,383**
Impaired Loans	685	674	535	470	**427**
Impaired Loans to Gross Loans	**33.46%**	**36.16%**	**11.21%**	**7.62%**	**5.09%**
Total Impairment for credit losses	415	417	437	402	**317**
Allowance for Impairment on individually assessed Loans	399	407	361	332	**232**
Allowance for Impairment on Loans assessed on portfolio basis	15	10	75	71	**85**
Net Impaired to Net Loans	17.52%	18.45%	4.01%	2.41%	**2.42%**
Total Assets	4,440	4,461	6,817	10,523	**13,948**
Cost to income ratio			**240.10%**	**88.50%**	**64.14%**

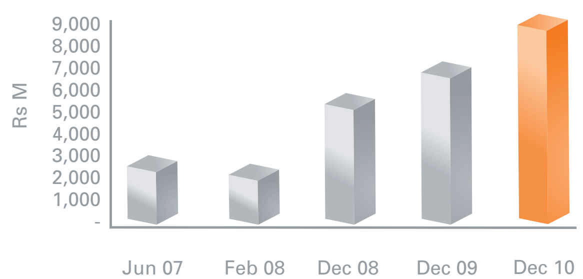
TOTAL DEPOSITS



TOTAL ASSETS

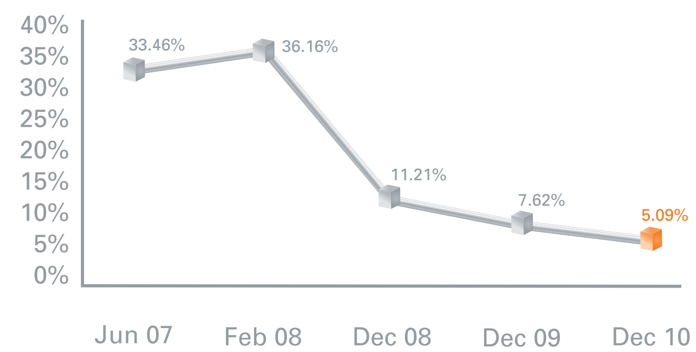


GROSS ADVANCES

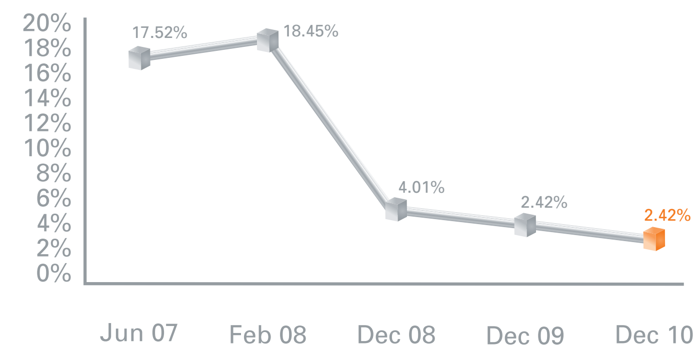


Gross Loans and Advances

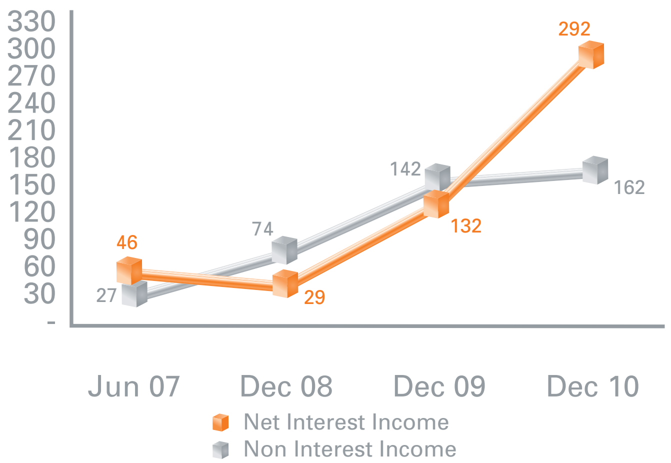
IMPAIRED TO GROSS LOANS



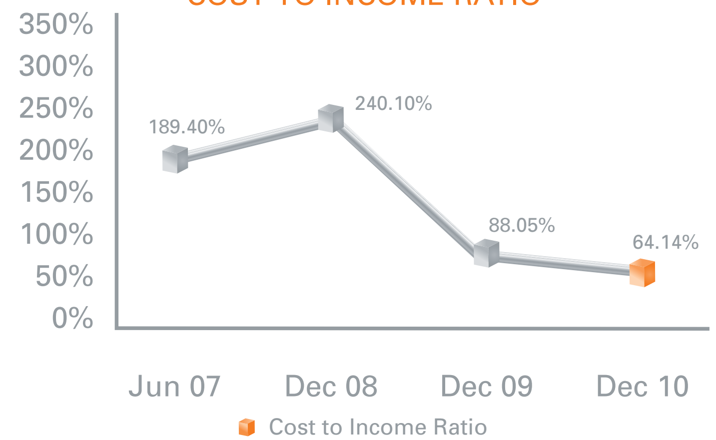
NET IMPAIRED TO NET LOANS



NET INTEREST AND NON INTEREST INCOME



COST TO INCOME RATIO



MANAGEMENT DISCUSSION AND ANALYSIS

NON INTEREST INCOME

	Year Ended	Year Ended	18 Months Ended
	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Net Fees and Commission	**94,555**	63,430	23,620
Net Trading Income	**57,416**	65,788	49,588
Other Operating Income	**10,278**	13,259	675
	162,249	142,477	73,883

Non Interest income increased by 14% compared to 2009, with a contribution of 58% in fees and commission. The year 2010 was marked with a significant decline in the Foreign Exchange business, principally on merchant deals as volumes dried up due to lower activities. This drop has however been compensated by the 50% increase in fees and commission on the back of new income streams.

NON INTEREST EXPENSES AND COST MANAGEMENT

	Year Ended	Year Ended	18 Months Ended
	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Personnel Expenses	**17 2,935**	144,646	125,636
Depreciation and Amortisation	**34,639**	30,422	35,456
Other Expenses	**83,894**	68,336	86,814
	2 91,469	243,404	247,906

Non Interest expenses increased by 20% in line with business volumes. This is attributable to a large extent to Human Resources with higher expenditure of Rs 28M, spent on recruitment, performance based compensation and training.

Other increase relates to system expenses with the implementation of new products and services like Internet Banking and Credit Cards.

The Bank continues to pursue its cost control and efficiency policy and has managed to reap the benefits as reflected in the improvement in the cost to income ratio from 89% to 64%.

Objectives 2010	Performance 2010	Objectives 2011
Return on Average Equity To exceed a ROE of 10%.	Despite a difficult and challenging year, the Bank managed to generate a return on equity of 15% excluding exceptional items.	We are targeting a return of 20%.
Return on Average Assets In line with the projected growth in total assets we expect the ROAA to improve to 1%.	ROAA (excl. exceptional item) increased from 0.43% to 0.9% and 1.4% while taking into account the exceptional item.	To achieve a ROAA of at least 1.0% excluding exceptional items.
Deposits Growth Increase of 23% in Segment A and 75% in Segment B.	Segment A deposits grew by 7%. The Bank did not push aggressively on deposit mobilization as there was an excess of liquidity in the domestic market and redeployment opportunities were limited. Segment B deposit increased by 122% as international financial markets activities picked up in 2010.	We expect the excess liquidity to extend into Q1 2011 and to improve as from Q2; hence we target a reasonable growth of 20% in Segment A. Segment B - 25% growth set but could be higher depending on the deployment opportunities.
Loan Book Total loan book to progress by at least 50% with an increase of 55% in Segment A and a 100% increase in Segment B as global markets return to normality.	An increase of 36% was noted in total advances as lending opportunities were not to expectations due to the economic slowdown. Segment A lending rose by 18% and Segment B by 93%.	Loan Book to grow at an overall growth of 20%; Segment A: With existing pipelines and new deals, expected growth is set to 15%. Segment B: Growth momentum started in 2010, propelled by emerging markets, will continue to create lending opportunities in 2011 and we project a growth of 40%.
Asset Quality To bring down the Gross Impaired Advances to 4%. We expect an increase in recovery for 2010 and also containment in the level of Non Performing Advances. Provision on Impaired Book to increase to 77%. Net impaired advances to net advances to be further reduced to 1%.	Gross Impaired ratio improved to close at 5%, Provision coverage closed at 74% The Net Impaired ratio was at a reasonable level of 2.4%.	The Bank will pursue its efforts in the recovery of Impaired Accounts and objective is to bring down Gross Impaired Advances to 3.5%. In the same line the target is to contain the level of Impairment while improving the coverage ratio to 90%. Net Impaired Ratio is set to improve from 2.4% to 1.5%.
Cost to Income Ratio Cost to Income Ratio is expected to improve with the increase in profit level to 75%.	Non Interest expenses have increased by 20% in line with the business growth despite which the Cost to Income ratio has been reduced from a level of 89% to 64%.	With improved efficiency, we expect an improvement in Cost to Income ratio to 55%.
Capital Management The Bank will continue to maintain its capital strength and will continue to enhance its capital base to sustain its growth. The objective for 2010 is to maintain Capital Adequacy ratio of 11%.	BIS capital adequacy ratio has been maintained above the 11% target and closed at 11.37%.	The Bank will continue to deploy capital in a disciplined manner based on its economic capital framework, assessing its aggregated risk taking in relation to our client needs and its financial resources. Objective is to continue to maintain the CAR above 11%.

MANAGEMENT DISCUSSION AND ANALYSIS

DISCUSSION BY LINE OF BUSINESS

RETAIL BANKING

Performance

A strong customer service, as well as the introduction of new products, has been the backbone for sustained growth in Retail Banking. Advances have grown by more than 44% over the year, moving from MUR1,021m to MUR1,472m. Bank One still believes that its branches and Branch Managers, supported by SME specialists, are the best way of reaching out to the SME segment, as this segment prefers to deal locally at the branch. The SME sector experienced a growth of 45% of its portfolio. The housing segment, another key growth area, has shown an equally satisfying growth of 53% of its portfolio. The number of credit cards issued has increased by more than 94% in 2010 leading to a substantial rise in balance outstanding.

Deposits have grown by MUR 372M from MUR 4,545M to MUR 4,917M as the Bank did not focus on deposit mobilization due to excess market liquidity conditions.

Product offering

In early 2010, the Bank launched the Planters' Credit Card, a unique card designed to alleviate cash flow difficulties of the small cane planters' community. The Bank has also partnered with the Primary School Teachers Cooperative Credit Union to launch the Teachers' Card, a credit card designed exclusively for teachers of the primary cycle. The card features competitive Interest Rates together with attractive discount facilities.

The NEST Home Loan, a flexible scheme targeted at young married couples offering a buffer against rate changes for the first two years as well as the possibility to repay the loan after one year, was also quite successful, despite competitors strongly pulling down rates due to excess liquidity.

The Bank will continue to research and study customer behaviour patterns and come up with innovative products to match clients' needs.

Focus on Service Quality

Service quality remains our key differentiating factor. After carrying out a customer care programme for all frontline staff in 2009, the Bank recruited a Service Quality Coordinator in 2010 to implement and coordinate a Service Quality programme throughout. An electronic customer feedback system has been implemented and is being rotated among branches for collecting customer feedback. Business processes are constantly reviewed to cut the cycle time as practically as possible. Service level agreements have been put in place internally for more efficient process handover. Service quality meetings, chaired by CEO or DCEO, are held regularly to address service issues and, process improvements as well as complaints.

Delivery Channels

The Rose Belle branch relocated to new premises in the Vieux Moulin Complex in February 2010. The new branch model, which has been rolled out of the Rose Hill Model, has been well adopted by customers who appreciate the fresh approach to branch banking. Branch relocation and renovation is a continuing process and, in 2011, our Quatre Bornes branch will be moved to new premises with a view to providing a better banking environment to our clients. The Bank is also looking to relocate the Curepipe branch as well as establishing new branches in the North, East and West.

Since its launch in 2009 , Internet Banking has been well adopted by our customers, with a penetration rate of 10 % already. The number of users is bound to increase as customers get used to the convenience of remote and anytime banking and as new generation technologically-savvy clients join the ranks.

The Bank has 14 ATMS (through the wall) within its branch network. 65% of cash withdrawals are carried out at the ATMs following successful migration to VISA Debit Card in November 2010.

The Bank continues to invest in non-traditional channels: SMS top up was introduced in December 2010 and the Bank is closely looking at mobile banking. A mini call centre is currently being piloted for handling both inbound and outbound calls before being rolled out as a fully fledged call centre. The Bank is also exploring possibilities of doing e-commerce business under a risk-controlled environment.

Marketing

The Bank carried various Product marketing campaigns during the year using traditional media like press, radio, billboards as well as new media like the internet. The Bank also pursued a traditional door-to-door campaign, one of which was the VISA Debit Card Migration campaign where all customer households were visited by staff members to deliver the new cards as well as explain the benefits of the enhanced chip enabled card

Open days were also carried out in selected shopping centres with weekend opening in some branches for added convenience.

Outlook

With a full array of products and services, Retail Banking is well-poised to increase its market share, especially in the SME segment as well as in the younger segment who feel more attracted to the BANK ONE brand.

PRIVATE BANKING

Private Banking in 2010 has been all about the continuing provision and development of personalized banking, investment and financial services to create synergies between Bank One and affluent private individuals and their families. In line with the aims set out in the 2009 report, our focus has been to continue our development as a financial services hub for these High Net Worth clients, both locally and internationally across the Indo-African region.

At Bank One Private Bank, our mission in 2010 was simple - to continue to expand the delivery of the highest quality professional and personalised services, and meeting the needs and expectations of our High Net Worth financial clients both onshore and offshore.

To further this aim, Private Banking in 2010 adopted a two phase strategy of developing both its in-house capability and creating a globally diversified external network of service providers. This enhanced our ability to provide services as a one-stop-shop for affluent clients seeking financial solutions to their needs. We have accomplished this in two ways:

- Recruiting key individuals to enhance both the skills and knowledge base available to our Private Banking and Wealth Management operation; and
- Developing agreements with key, globally recognized, providers as a capability multiplier to both our research platform and to allow us to offer a bespoke portfolio creation service to allow us to tailor investments individually designed to meet our clients' needs.

The recruitment of key individuals has brought new capability to the Bank and has allowed the development of several exciting initiatives. These include:

- The acquisition of an FII (Foreign Institutional Investor licence), allowing us to facilitate direct investment into the powerful Indian economy;
- The acquisition of a Custodian licence, allowing us the ability to create in-house, new and innovative funds, tailored for inclusion into client portfolios, culminating in the launch of the first ever Capital Protected Fund linked to the Mauritian stock exchange; and
- A Portfolio Management System allowing us to effectively create and manage bespoke portfolios for our clients.

As a registered financial investment products distributor with the Financial Services Commission, since 2008, the Bank has continued to develop key global partnerships to expand our global research capabilities well beyond the local horizon with access to data and information from agreements with major international banks and financial institutions.

Outlook

At Bank One we will continue to provide investment and wealth management strategies tailored to meet the specific and unique requirements of our High Net Worth clients.

We will keep developing new and innovative products and facilitating the ongoing confidential management and servicing of our clients' portfolios. Our objective is to ensure that these investments remain both relevant and appropriate to the clients' needs over time, in the face of changing personal and economic circumstances.

We will, as a result, continue to provide our clients with the peace of mind in knowing that secure, confidential banking and investment services will be delivered effectively - first time, every time.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE BANKING

The Corporate Banking Division services the financial needs of corporate, institutional and government customers based in Mauritius. This is achieved through a specialised team of business bankers with vast expertise in transactional banking solutions and domestic markets.

The Corporate Division was able to benefit from a strong foundation in the past year of expansion to deliver a strong result in 2010, despite continued uncertainty in foreign markets and exchange rate volatility which continued to subdue business credit growth.

The core of our strategic focus in 2010 emphasised nurturing sustainable long-term relationships. The Corporate Division continued to offer our clients simplified and convenient banking solutions supported by a team of committed front liners. Our lending portfolio maintained robust growth throughout 2010 to reach Rs 4.1bn, up from Rs 3.31bn last year. This 24% increase was largely attributable to growth in our existing business and the ability to capitalise on our new products and services to meet a wider range of client demands.

The year under review was characterized by excess liquidity on the domestic market which enabled us to benefit from downward re-pricing of high yielding corporate deposits at maturity. This impacted positively on net margins, however partially offset by stiff competition on the Asset side. Corporate deposits closed the year at a level of Rs 2.53bn, up 4% from last year. Growth in our new long-term corporate deposits, for a business based on trust, demonstrates encouraging signs of improved market position and reputation.

A reduction in credit offtake put downward pressure on fee income and commissions compared to last year. While we anticipated competitive pressures would ensure that fees and charges would be contained during 2010, new products and services brought on new income streams in the Corporate Division which contributed positively to non-interest income revenues which remained flat year-on-year.

Outlook

Looking ahead, Corporate Banking will focus on enhancing profitability per customer by getting a better share of total business as well as reducing cost of servicing each client without diluting customer expectations in terms of service delivery. At the same time, Corporate Exposures will continue to be closely monitored to detect signs of distress as early as possible and take prompt remedial action. The operational momentum now gained will help to close the gap on lead market players and pave the way for a satisfying performance in 2011.

INTERNATIONAL BANKING

2010 was dominated by uncertainties and volatility in the International Market. Nevertheless, the International segment of the Bank fared well with year-on-year deposit growth of 122% and year-on-year advances growth of 93% against budgeted growth of 85%. The deposit base is well diversified and growth has been achieved with the support of local offshore service operators and our constant effort in sourcing customers from the region. Our focus still remains the growing African Market for customer acquisition without compromising on our KYC policies. On the assets side, deployment is mostly on short term tenure in low risk assets, albeit at fine spreads given prevalent world market conditions. The Bank also participated in specialized structured finance like aircraft leasing. During 2010, the Bank provided mezzanine finance for 4 Boeing Aircrafts to Emirates Airlines.

The International Banking segment of the Bank has shown constant growth. Within 30 months of its inception, it accounts for 38% of the Bank's total deposit base and 23% of the Bank's loan portfolio. The strategic intent is for this segment to contribute 50% of the Bank's assets, liabilities and profit within the medium term.

The International Banking Division continues to explore possibilities of expansion in the region as Africa takes prominence in the new world economic order.

TREASURY BUSINESS

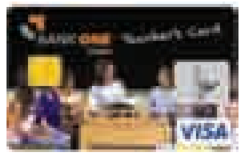
The Treasury Business Unit achieved in 2010 a Net Total Income of MUR 57.4 mio. This represents a 13% decrease over the previous year's income level (MUR 65.788 mio in 2009).

The lower volume of exports generated, as well as reduced import payments besides the high volatility of key currencies, led to many operators staying on the fence, hence resulting in much lower treaded volume throughout all Treasuries.

Margin was strongly hammered down and profit from merchant deals has dropped. However, in order to compensate, Treasury increased trading activity in both conventional products (Proprietary Trading) and innovative products (Derivatives/ Structured Products).

Looking forward, in 2011 we anticipate the global economic growth to recover at a very slow pace, especially in our traditional export markets but commodity prices are on a continuing upward trend. We expect Merchant volumes and margins to remain low; Treasury will therefore focus on more non-traditional income streams as was the case last year. The Bank has been able to develop strong capabilities in these areas and looks forward to enhanced Treasury Incomes. In addition, the Bank is exploring the option of investing in a Treasury software with a view to fully automating the operations and processes of the Treasury department.

WE BUILD... DIGNITY

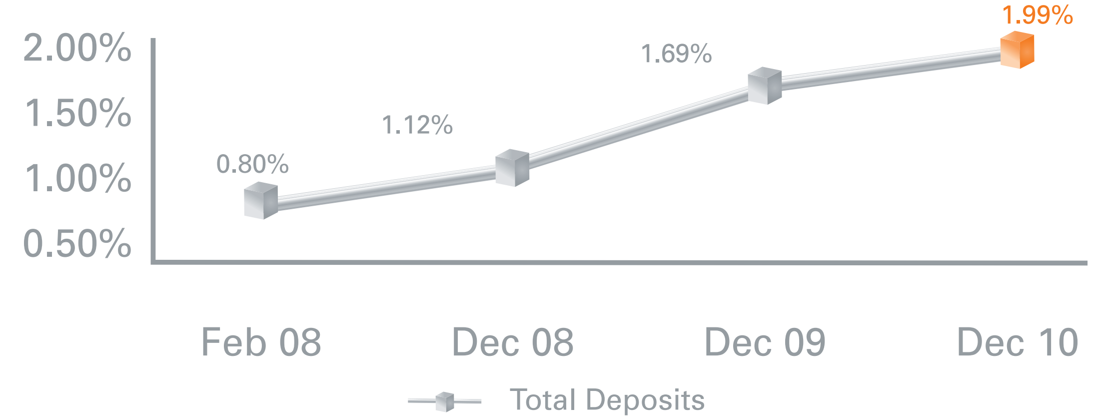


At Bank One, we value the tasks teachers perform and the effort they put in everyday to enhance the development of our new citizens. We have launched a VISA Teachers' Card exclusively for them. With this card, the school teacher has an added possibility to manage his/her budget with less hassle, as access to credit is available anytime by either withdrawing cash at our ATMs or using the card to make purchases at any point of sale.

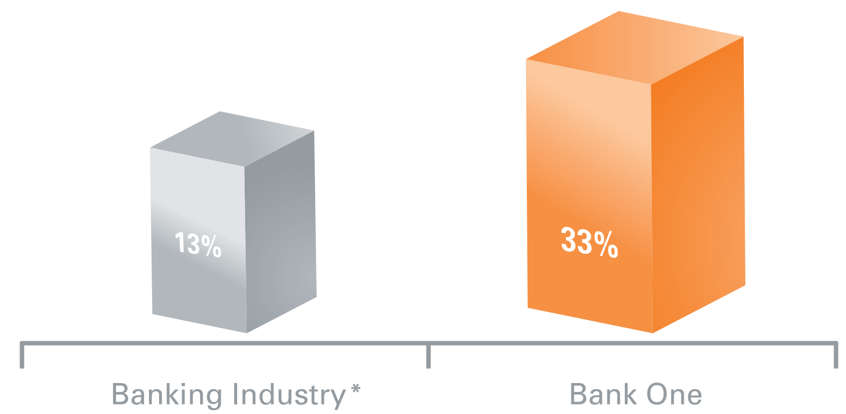
MARKET SHARE - DECEMBER 2010

	Feb 08	Dec 08	Dec 09	Dec 10
DEPOSITS				
Industry	515,843,563,140	548,143,933,461	559,831,264,041	**633,640,598,336**
Demand	127,000,046,920	146,204,835,918	198,595,367,473	**221,318,041,695**
Savings	85,242,485,817	94,482,061,873	110,120,446,626	**128,047,948,448**
Time	303,510,464,331	307,391,884,063	251,048,838,633	**284,231,943,689**
Margin	90,566,072	65,151,607	66,611,309	**42,664,504**
Low Cost Deposit	212,333,098,809	240,752,049,398	308,782,425,408	**349,408,654,647**
BANK ONE	4,106,038,381	6,133,604,520	9,479,434,023	**12,598,707,513**
Demand	122,812,062	724,925,393	1,488,398,757	**2,983,921,173**
Savings	1,070,019,837	1,181,391,566	2,408,766,061	**2,903,154,939**
Time	2,910,099,793	4,224,112,190	5,581,368,281	**6,710,747,892**
Margin	3,106,689	3,175,372	900,925	**883,510**
Low Cost Deposit	1,195,938,588	1,909,492,330	3,898,065,742	**5,887,959,621**
LOANS & ADVANCES				
Industry	150,499,173,903	187,555,524,230	189,682,496,511	**220,891,654,568**
Customers (MUR)	118,844,328,753	141,154,694,504	146,202,348,708	**168,788,686,959**
Customers (FCY)	31,654,845,150	46,400,829,726	43,480,147,803	**52,102,967,609**
BANK ONE	1,860,251,967	4,769,179,503	6,171,025,398	**8,383,362,162**
Customers (MUR)	1,853,012,795	3,955,820,721	5,042,748,537	**5,912,048,192**
Customers (FCY)	7,239,172	813,358,782	1,128,276,861	**2,471,313,970**
TOTAL ASSETS				
Industry	702,440,655,264	752,411,383,068	749,427,031,692	**858,234,707,412**
BANK ONE	4,461,638,053	6,817,098,199	10,522,706,688	**13,948,613,269**
Market Share	**0.80%**	**1.12%**	**1.69%**	**1.99%**
Advances MUR	**1.56%**	**2.80%**	**3.45%**	**3.50%**
Advances FCY	**0.02%**	**1.75%**	**2.59%**	**4.74%**
Total Advances	**1.24%**	**2.54%**	**3.25%**	**3.80%**
Time Deposit	**0.96%**	**1.37%**	**2.22%**	**2.36%**
Total Deposits	**0.80%**	**1.12%**	**1.69%**	**1.99%**
Total Assets	**0.64%**	**0.91%**	**1.40%**	**1.63%**
Low Cost Deposit	**0.56%**	**0.79%**	**1.26%**	**1.69%**

TOTAL DEPOSITS



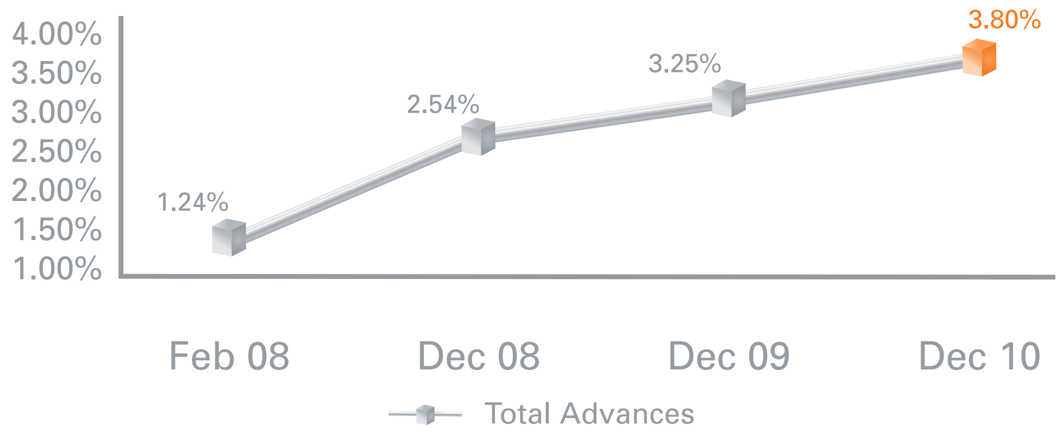
GROWTH 2010 - DEPOSIT BASE



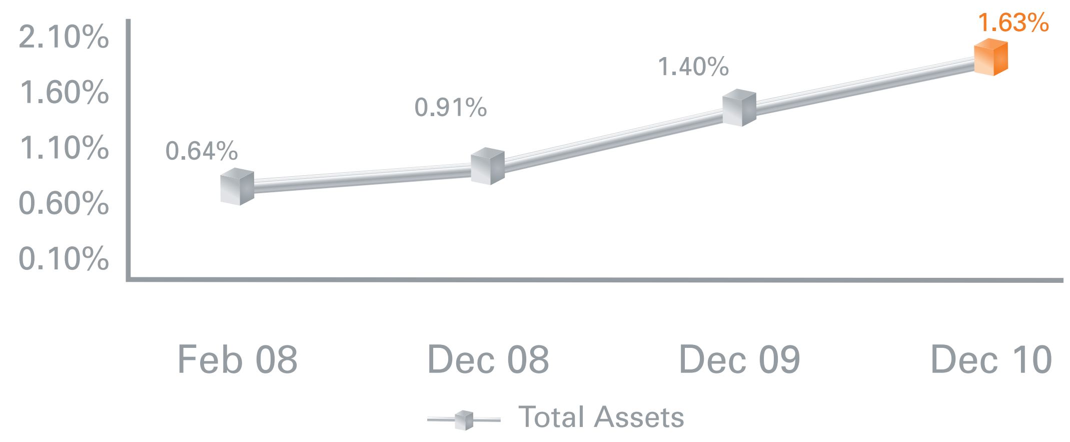
** Source - Bank of Mauritius Monthly Statistical Bulletin*

MARKET SHARE - DECEMBER 2010

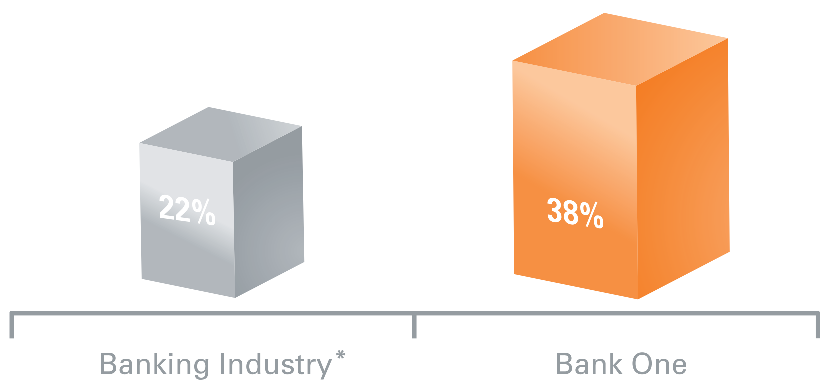
TOTAL ADVANCES



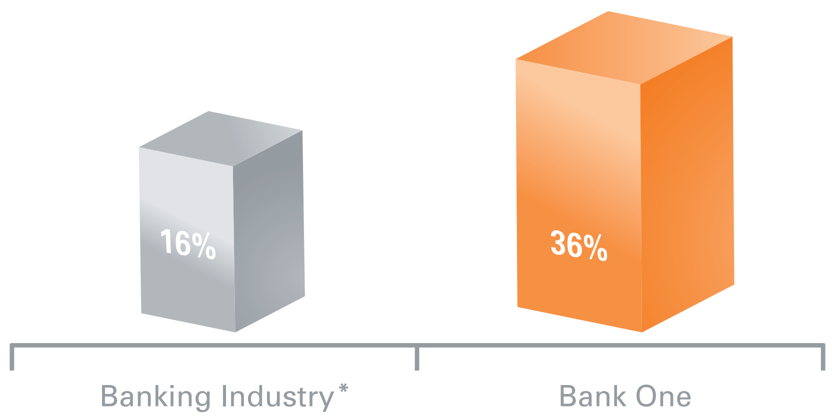
TOTAL ASSETS



GROWTH 2010 - TOTAL ADVANCES



GROWTH 2010 - TOTAL ASSETS



Source - Bank of Mauritius Monthly Statistical Bulletin

Source - Bank of Mauritius Monthly Statistical Bulletin

WE BUILD...
HAPPINESS

NEST
Bank One Home Loan

The most difficult phase in a young married couple's life is at the very beginning. They often hardly have any savings to put in as equity in a new property. Also, cash flow is always tight, especially if a new baby is on the way.

Bank One has designed NEST, a home loan that gives more money than a traditional loan, with a flexible repayment plan matching the couple's cash flow. Repayment can escalate as income grows. Buying a home is now much more affordable.

RISK MANAGEMENT

RISK MANAGEMENT

Commercial banks are in the risk business. Bank One is working to strengthen and enhance risk management. Its fundamental risk management policy is to gain an accurate understanding and awareness of each type of risk, and to establish a suitable risk management framework to ensure sound, appropriate management and secure stable income. The objective is not to eliminate risks but to achieve an appropriate balance between risk and return.

The Bank has established independent functional risk units which are responsible for management of specific identified risks. The functional risk units quantify the risks according to consistent criteria and Board-approved policies and limits and executes comprehensive risk management that controls the amount of risk within a scope appropriate to the Bank's operating capabilities. Based on this approach, the Bank sets limits for the amount of Credit Risk, market risk, Operational Risk, Country Risk and overall risk, within the prudential guidelines covering these risks, to both maintain sound operations and generate stable earnings. Other risks like Compliance Risk, Strategic Risk and Reputational Risk are assessed and monitored on a qualitative basis

The Board sets the risk policies and monitors the progress and implementation on a quarterly basis, through various Board Committees. Moreover, the various Management Committees meet once a month to comprehensively gauge, evaluate and monitor the occurrence and management of each type of risk. Market risks, with underlying volatility, are monitored on a much more frequent basis.

RISK MANAGEMENT POLICIES AND CONTROLS:

Risk Management is focused on the following major areas:

(i) Credit Risk
(ii) Concentration Risk
(iii) Market Risk including Interest Rate, Liquidity Risk and Foreign Exchange Risk
(iv) Operational Risk
(v) Country Risk
(vi) Compliance Risk
(vii) Strategic Risk
(viii) Reputational Risk

Credit Risk occurs mainly in the bank's credit portfolios compromising retail lending, corporate lending, cross border lending, treasury and financial institutions wholesale lending.

Interest Rate Risk means the risk to the bank's financial condition resulting from adverse movements in Interest Rates.

Foreign Exchange Risk is defined as the potential that movements in exchange rates may adversely affect the bank's financial condition.

Liquidity Risk is the risk of financial loss that arises when funds required to meet repayments, withdrawals and other commitments cannot be obtained in time due to lack of market liquidity which prevents quick and effective liquidation of positions of portfolios.

Operational Risk is the risk of loss (direct or indirect) resulting from inadequate or failed internal processes, people and systems or from external events.

The risk management aspects are further discussed under the different risk categories as required under Basel II disclosure guidelines.

THE RISK MANAGEMENT FRAMEWORK:

The Bank has put in place a comprehensive Risk Management Framework to understand and manage the risks it faces in conducting its banking operations.

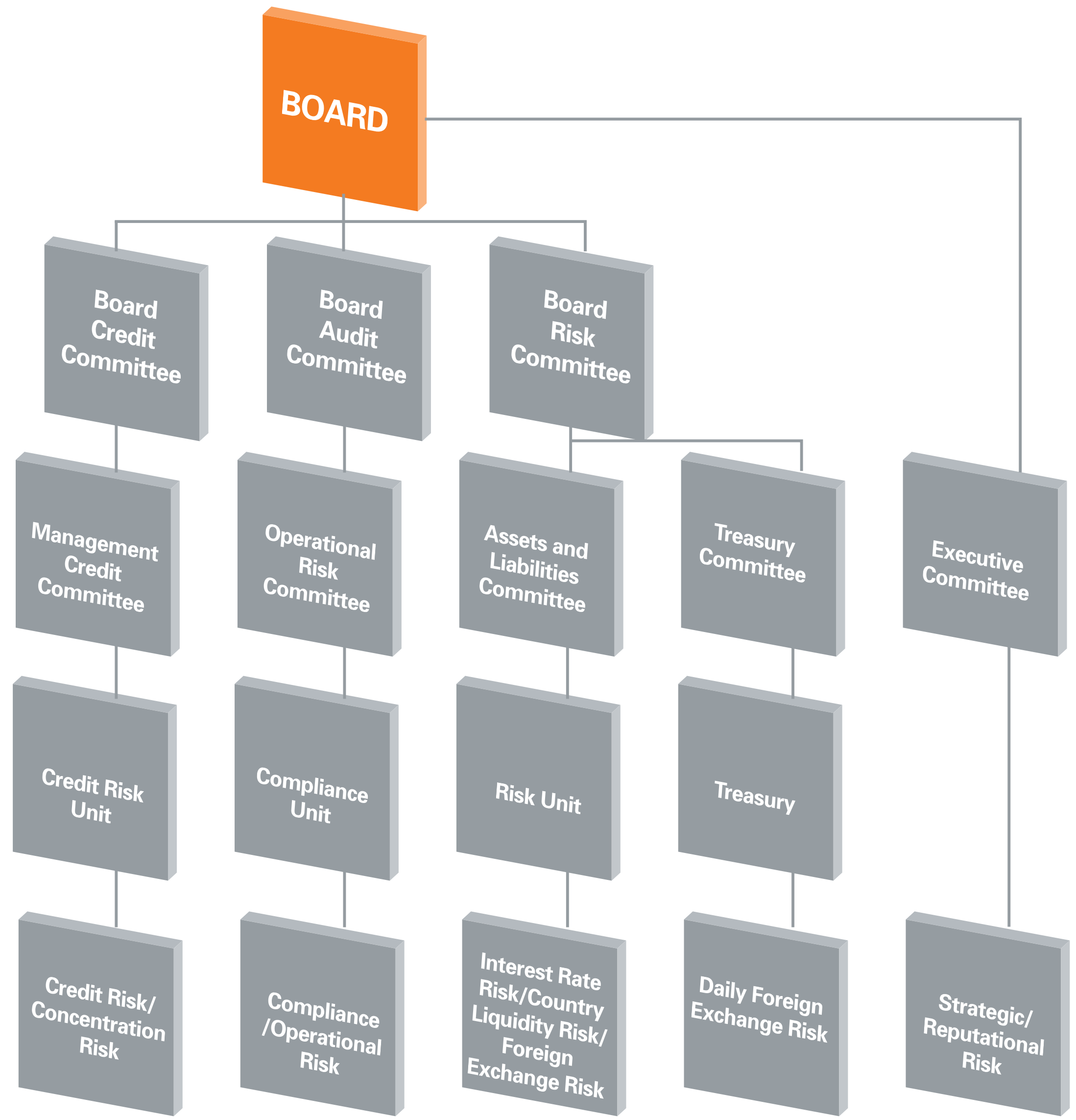
The responsibilities of the Board in relation to risk control are:

- To approve the overall strategy and policies to ensure that credit and other risks are properly managed at both the transaction and portfolio level;
- To review all risk policies at least on an annual basis.
- The management of risk, both financial and non-financial, conducted through operational and administrative control systems including the functioning of the Audit Committee; review of Key Performance Indicators (against forecasts), operational statistics and policy compliance; and
- Financial performance analysis against budgets and analysis of variations in key non-financial measures.

Through different Management Committees, management oversees and guides the management of different risks which are more particularly dealt with by centralized Functional Risk Units.

FUNCTIONAL RISK UNITS (FRU):

Bank One has adopted a centralised Risk Management framework. The independent Functional Risk Units are responsible for ensuring that policies and mandates are established for the Bank as a whole. These include Credit Risk Management Unit, Compliance Unit , Treasury Back Office and Risk Unit which are headed by experienced and qualified personnel to the extent possible. The FRUs monitor and report the risk positions to the Board via the different Risk Committees and Management Committees, set standards for financial risks and data integrity and ensure that the financial risk are considered in the product planning and pricing process. FRUs review and recommend all credit and risk exposure policies for the Bank. In determining risk policies, FRUs take into account the guidelines issued by the Bank of Mauritius and general business direction and risk environment.



Within the Risk Management Framework, the Board of Directors approves the Risk Strategy, Risk Policies and prudential limits under which Management carries out operations. The Board has also set up the Risk Committees to which it delegates some of its main responsibilities to monitor and ensure the effectiveness of the risk process.

Implementation of the policies is delegated to Management and the Risk Management Units which operate independently from line functions and act as a Risk Support unit.

RISK MANAGEMENT

CAPITAL MANAGEMENT & BASEL II

BASEL II

In line with the Basel II accord, a revised framework for "International Convergence of Capital Measurement and Capital standards", and the subsequent guidelines issued by the Bank of Mauritius, Bank One has implemented the standardized approach for the measurement of Credit Risk and Market Risk and the Basic Indicator Approach for the Operational Risk. These are the default approaches as specified in the Basel II guidelines.

Basel II Accord is structured around three "pillars".

Pillar 1

The basis for the calculation of the regulatory capital adequacy ratio is illustrated under this Pillar by setting the definition and calculations of the Risk Weighted Assets and then calculating the regulatory capital base.

The Bank of Mauritius has set a minimum Capital Adequacy Ratio of 10% for all locally incorporated banks.

Approaches adopted for determining regulatory capital requirements

The approach adopted by Bank One for determining regulatory capital requirements under the Bank of Mauritius Basel II guidelines is as follows:

a) Credit Risk: Standardised approach
b) Market Risk: Standardised approach
c) Operational Risk: Basic Indicator approach

Pillar 2

Pillar 2 "The supervisory review process" is intended not only to ensure that banks have adequate capital to support all the risks in their business, but also to encourage banks to develop and use better risk management techniques in monitoring and managing their risks.

Pillar 2 comprises two processes:

- Internal Capital Adequacy Assessment Process (ICAAP), and
- Supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. Breach of the internal minimum CAR will act as a "trigger" for remedial action to be taken by management with immediate effect thereafter. The Internal minimum CAR represents the capital position which the Bank will maintain the additional buffer over the regulatory minimum CAR to accommodate any capital requirements under Pillar 2.

Pillar 3

The purpose of Pillar 3 "Market Discipline" is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which allows market participants to assess certain specified information on the scope of application of Basel II, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution. Disclosures consist of both quantitative and qualitative information and are provided at the consolidated level.

BASEL III

The Basel Committee issued on 16 December 2010 the Basel III rules text, which presents the details of new global regulatory standards on bank capital adequacy and liquidity.

The framework sets out higher and better-quality capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk-based requirement, measures to promote the build up of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards. The objective of the reforms is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.

Under Basel III, greater focus would be placed on Tier 1 capital to absorb losses. The Committee is introducing transitional arrangements to implement the new standards that help ensure that the banking sector can meet the higher capital standards through reasonable earnings retention and capital raising, while still supporting lending to the economy. Banks could be required to be fully compliant to Basel III framework as from 1st January 2018. The new standards implications are still being examined at various country level.

CAPITAL STRUCTURE AND MANAGEMENT

Bank One is subject to Basel II capital adequacy guidelines as stipulated by the Bank of Mauritius. The Bank's capital management approach is driven by its strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which it operates. Sufficient capital must be in place to support current and projected business activities according to its own internal assessment and to meet regulatory requirements. The capital adequacy framework is supported by a Board-approved internal capital adequacy assessment process, which encompasses our capital planning for current and future periods by taking into consideration our strategic focus and business plan and assessment of all material risks including stress testing.

The Bank's objectives when managing capital are:

- To comply with the capital requirements set by the regulator;
- To safeguard the Bank's ability to continue its business as a going concern;
- To maximize returns to shareholders and optimize the benefits to stakeholders;
- To maintain a strong capital base to support the development of its business.

Capital Adequacy ratio measures the Bank's capital to the risk weighted assets. The minimum capital that is required to hold is based on the risk-weighted assets, its on-balance sheet, off-balance sheet and market risk positions, measured and risk-weighted according to criteria defined by the Bank of Mauritius.

Though the minimum required capital as per BIS is 8%, the Bank of Mauritius has set the minimum capital adequacy requirements at 10%.

Capital Adequacy and the use of eligible capital are monitored regularly by Management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Mauritius for supervisory purposes. The required information is submitted to the Bank of Mauritius on a quarterly basis.

The eligible capital available to support risk-weighted assets consists of Tier 1 and Tier II capital. Tier I capital consists of core capital, share premium, statutory reserves and revenue reserves, whereas Tier II capital consists of undisclosed reserves, revaluation reserves, subordinated debt, general banking reserves and portfolio provisions. 50% of investment in other financial institutions, goodwill, intangibles are deducted from Tier I capital and balance 50% from Tier II capital.

During the year, the Bank further strengthened its capital base with the raising of Rs 100M of subordinated debt from Anglo-Mauritius Assurance Society Limited. Our focus and objective is to maintain the capital strength of the Bank in order to support business growth.

RISK MANAGEMENT

The table below shows the components of Tier I and Tier II capital and the Capital Adequacy ratios for the last three years under Basel framework.

	Dec 10 Rs 000	Basel II Dec 09 Rs 000	Basel I Dec 08 Rs 000
Core Capital (Tier 1 Capital)			
Paid up capital	**551,456**	551,456	269,456
Calls on shares			222,000
Statutory reserve	**28,618**	3,319	1,519
Retained earnings	**151,574**	8,586	
Less deductions			
Accumulated losses	**-**	-	(28,102)
Goodwill	**(15,147)**	(15,147)	(15,147)
Intangibles	**(31,005)**	(32,528)	(10,884)
Deferred tax	**(49,461)**	(68,961)	
Unrealised cumulative losses	**(654)**	-	
Less investments in capital of other banks	**(10,453)**	(10,997)	
Total Tier 1 Capital	**624,928**	435,728	438,842
Supplementary Capital (Tier 2 Capital)			
Reserves arising from revaluation of assets	**34,059**	34,059	53,765
Portfolio provision	**85,390**	70,690	58,814
Fair Value Gain from securities	**-**	1,428	
Term Subordinated Debt	**281,376**	178578	
Less investments in capital of other banks	**(10,453)**	(10,997)	
Total Tier 2 capital	**390,372**	273,758	112,579
Less investments			(19,124)
Total capital base	**1,015,300**	709,486	532,297
Risk Weighted Assets for:			
Credit Risk	**8,506,388**	5,958,387	4,597,190
Equity Risk		-	-
Market Risk	**32,471**	46,092	29,193
Operational Risk	**394,017**	208,849	78,702
Total Risk Weighted Assets	**8,932,876**	6,213,328	4,705,085
Capital Adequacy Ratio	**11.37%**	11.42%	11.31%

RISK WEIGHTED ASSETS

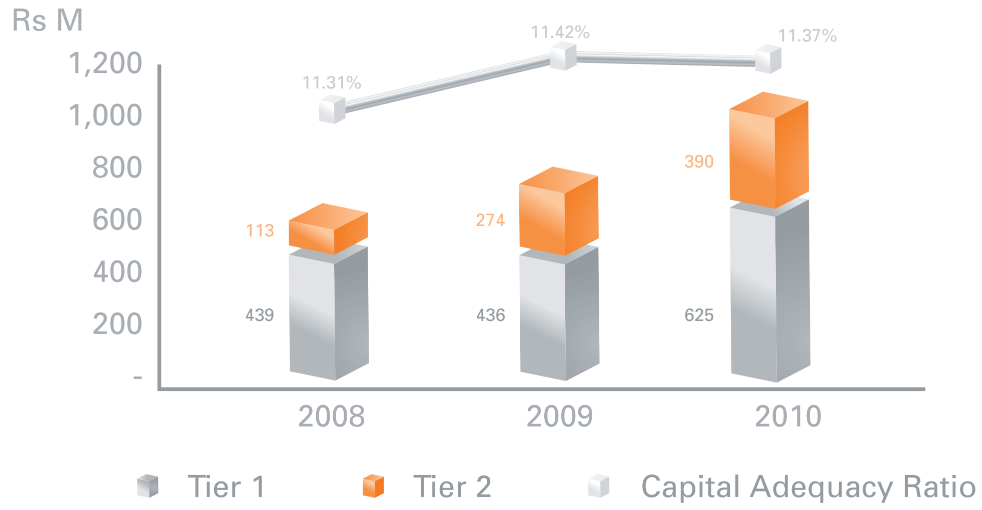
On-Balance Sheet Items – Under Basel II Guidelines	Dec 10 Amt Rs 000	Dec 10 Risk Weight %	Dec 10 Risk Weighted Amt Rs 000	Dec 09 Risk Weighted Amt Rs 000	Dec 08 Risk Weighted Amt Rs 000
Cash in Hand & with Central Bank	**1,072,817**	**0%**	**-**	-	-
Balance and placements with banks	**2,826,700**	**20% - 50%**	**809,876**	538,720	91,390
Balance in process of collection	**46,755**	**20%**	**9,351**	53,867	3,062
Treasury bills and GOM bills	**1,005,065**	**0%**	**-**	-	
Other investments	**411,205**	**20% - 100%**	**105,263**	66,932	729,144
Fixed and other assets	**397,487**	**100%**	**397,487**	417,005	
Loans and advances	**8,151,630**	**0% - 100%**	**6,649,510**	4,554,881	3,563,488
			7,971,487	5,631,405	4,387,084

Risk Weighted Off-Balance Sheet Items	Dec 10 Rs 000	Dec 10 Credit Conversion Factor %	Dec 10 Risk Weight %	Dec 10 Risk Weighted Amt Rs 000	Dec 09 Risk Weighted Amt Rs 000	Dec 08 Risk Weighted Amt Rs 000
Acceptances and Bills of exchange	**173,978**	**100**	**100**	**173,978**	169,244	124,888
Other guarantees	**682,040**	**50**	**100**	**341,020**	141,701	56,239
Letters of credit	**99,515**	**20**	**100**	**19,903**	16,037	28,979
				534,901	326,982	210,106

RISK MANAGEMENT

Risk Weighted Exposures	Dec 10	Dec 09	Dec 08
	Rs 000	Rs 000	Rs 000
Risk Weighted On-Balance Sheet Assets	7,971,487	5,631,405	4,387,084
Risk Weighted Off-Balance Sheet Assets Exposures	534,901	326,982	210,106
Risk Weighted Market Risk	32,471	46,092	
Total Risk Weighted Assets	**8,538,859**	**6,004,479**	**4,597,190**

Risk Weighted Assets for Operational Risk	Dec 10	Dec 09	Dec 08
	Rs 000	Rs 000	Rs 000
Average Gross Income for last 3 years	262,678	139,233	52,468
Capital Charge	39,402	20,885	7,870
Equivalent Risk Weighted Assets	**394,017**	**208,849**	**78,802**



SUPERVISORY REVIEW PROCESS (SRP)

The Bank of Mauritius issued a Guideline on `Supervisory Review Process` in April 2010. It requires banks to develop and put in place, with the approval of their Board, an ICAAP commensurate with their size, level of complexity, risk profile and scope of operations. In terms of Principles of Proportionality given in the Bank of Mauritius guidelines, banks are expected to migrate to and adopt progressively sophisticated ICAAP approaches in designing their ICAAP, from simple to moderately complex to complex, based on their activities and risk management practices. Looking to the range and complexity of our activities, we have adopted the simple approach.

The SRP rests on four fundamental principles, which enunciate the broad responsibilities of both banks and supervisors with respect to Pillar 1 minimum capital requirements.

Principle 1 – Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.

Principle 2 – Supervisors should review and evaluate banks' internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure their compliance with regulatory capital ratios. Supervisors should take appropriate supervisory action if they are not satisfied with the result of this process.

Principle 3 – Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum.

Principle 4 – Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank and should require rapid remedial action if capital is not maintained or restored.

The SRP encompasses four elements which emanate from the four principles stated above: the ICAAP, the SREP, the dialogue between the central bank and the banks and the supervisory response.

The Internal Capital Adequacy Assessment Process (ICAAP)
Good banking practice requires banks to identify the risks to which they are exposed and to manage and mitigate those risks. Consistent with that, a bank is expected to have an ICAAP for assessing its overall capital adequacy in relation to its risk profile and a strategy for maintaining its capital levels. Its chosen internal capital targets should be well-founded and consistent with its overall risk profile and current operating environment.

The essential elements of a sound ICAAP include:

(a) policies and procedures designed to ensure that the bank identifies, measures, and reports all material risks including new risks;

(b) a process reflecting the size, complexity and business strategy of the bank that relates capital to the level of risk;

(c) a process that states the bank's capital adequacy goals with respect to risks, taking account of the bank's strategic focus, business plan and operating environment;

(d) a process of internal controls, reviews and audit to ensure the integrity of the overall management process.

INTERNAL ASSESSMENT OF CAPITAL

The Bank's capital management framework includes a comprehensive internal capital adequacy assessment process (ICAAP) conducted semi-annually and which determines the adequate level of capitalisation for Bank One to meet regulatory norms and current and future business needs, including under stress scenarios.

The ICAAP encompasses capital planning for a certain time horizon, identification and measurement of material risks and the relationship between risk and capital. Capital Adequacy and risk management is aligned and the Bank's capital management framework is complemented by its risk management framework which includes a comprehensive assessment of all material risks.

The Bank formulates its internal capital level targets based on the ICAAP and endeavours to maintain its capital adequacy level in accordance with the targeted levels at all times.

As part of ICAAP, the Bank has conducted stress testing under historical and stress test scenarios to assess the impact of stress on its capital position as at 31 December 2010. The methodology for the stress testing is approved by the Board of Directors. The results of stress testing are reported to the Board of Directors and to the Bank of Mauritius.

RISK MANAGEMENT

METHODOLOGY AND ASSUMPTIONS

The Capital Model used in the ICAAP is based upon the Capital to Risk (Weighted) Asset Ratio (CAR) calculations for the Pillar 1 risks, i.e. Credit, Market and Operational Risk, with additional capital requirements assessed for the risks not covered under Pillar 1 and identified as material to the business of the Bank.

Methodology of Assessment for Material Risks

Type of Risk	Methodology for Assessment
Operational Risk	Risk and Control Self Assessment/ Operational Risk Heat map
Concentration Risk	HH Index and Stress Testing
Country Risk	Quantitative and Qualitative Assessment
Liquidity Risk	Ratio Analysis and Stress Testing
Interest Rate Risk in Banking Book	Gap Analysis and Stress Testing
Compliance Risk	Qualitative Assessment
Reputational Risk	Reputation Heat map
Compliance Risk	Qualitative Assessment

STRESS TESTING

Stress tests represent an important tool for exploring potential vulnerabilities to exceptional but plausible events. Bank One has designed its own stress tests based on two levels of severity which is consistent to its capabilities, product offerings and risk profiles.

Based on the stress testing framework, which is approved by the Board, Bank One conducts stress tests on its various portfolios and assesses the impact on its capital level and the adequacy of capital buffers for current and future periods. Bank One periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of market conditions.

The business and capital plans and the stress testing results of the Bank are integrated into the ICAAP.

The Stress Test Policy of the Bank details:

- methodology for constructing appropriate and plausible single factor and/or multifactor stress tests;
- procedure for setting the stress tolerance limits;
- procedure for monitoring the stress loss limits;
- remedial actions, if required, at the relevant stages in response to stress testing results;
- authorities designated to activate the remedial actions; and
- need for identification of the responsibilities assigned to various levels/functional units and reporting lines.

Risk Type	Scenario I Assumptions	Scenario II Assumptions
Credit Risk	■ Downgrade of one notch ratings to all loans to banks' portfolios and foreign bonds portfolios. ■ 50% of the total residential property is affected by an increase in Risk Weights from 35% to 75% due to a decline in property value. ■ Risk Weight of 100% instead of 75% applied to 50% of the overall regulatory retail portfolio within granularity criterion. ■ 3% of corporate portfolio turns to be impaired where specific provision is less than 20% assuming a decline in property value (R.W from 100% to 150%). ■ Assuming 15% of Import LC accepted by the Bank(R.W from 20% to 100%) ■ Default in 5% of performance bonds/ guarantees (R.W from 50% to 100%). ■ All existing impaired acs which carry a Risk Weight of 100% are increase to 150% and those carrying 50% to 100%.	■ Downgrade of two notches ratings to all loans to banks' portfolios and foreign bonds portfolios. ■ An increase in Risk Weights from 35% to 75% in residential property due to a decline in property value applicable to the total portfolio. ■ Risk Weight increase by 25 percentage points by the regulator for all retail loans which are within granularity criterion (75% to 100%). ■ 5% of corporate portfolio turns to be impaired where specific provision is less than 20% assuming a decline in property value (R.W from 100% to 150%). ■ Assuming 25% of Import LC accepted by the Bank.(R.W from 20% to 100%). ■ Default in 10% of performance bonds/ guarantees (R.W from 50% to 100%). ■ All existing impaired acs carry Risk Weight of 150%.
Market Risk	■ Increase of 5% in net Foreign Exchange exposure.	■ Increase of 10% in net Foreign Exchange exposure.
Operational Risk	■ Risk Weighted Assets for Operational Risk is multiplied by 12 times instead of 10 times. (15% of average 3 years Gross income)	■ Risk Weighted Assets for Operational Risk is multiplied by 15 times instead of 10 times. (15% of average 3 years Gross income)
Liquidity Risk	■ The percentage of cumulative gap to total outflows (up to stress period of 3 months) falls to (-) 20% from +14 % under normal situation.	■ The percentage of cumulative gap to total outflows (up to stress period of 3 months) falls to (-) 30% from +14% under normal situation.
Interest Rate in Banking Book (IRBB)	■ Negative Interest Rate shock of 100bps across all maturity buckets.	■ Negative Interest Rate shock of 200bps across all maturity buckets.
IRR Trading Book	■ A decrease in our total assets where Interest Rate Risk in trading book will become applicable, (just above 5% of total assets) thus results in a capital charge for both general market risk and specific risk.	■ A decrease in our total assets where Interest Rate Risk in trading book will become applicable, (just above 5% of total assets) thus results in a capital charge for both general market risk and specific risk.

Stress tests based on two levels of severity (Scenario 1 and 2) have been worked out based on December 2010 figures and the additional capital requirements are given below.

RISK MANAGEMENT

INTERNAL CAPITAL ASSESSMENT ON ACCOUNT OF STRESS TESTS (RS M)

Risk Analyzed	As on 31 December 2010 Pillar 1	Pillar 2 Stress 1	Pillar 2 Stress 2
	Rs M	Rs M	Rs M
Credit Risk	851	922	945
Market Risk	3	3	3
Operational Risk	39	47	59
Concentration Risk	-	-	-
Country Risk	-	-	-
Liquidity Risk	-	-	-
Interest Rate Risk in Banking Book	-	3	7
Reputation Risk	-	-	-
Strategic Risk	-	-	-
Compliance Risk	-	-	-
Total Capital Requirement	893	975	1014

The Bank had sufficient capital cushion available as on 31.12.2010, if all the envisaged stress conditions under both scenarios crystallize at the same time, to meet regulatory capital requirements

CREDIT RISK

The Bank's main Credit Risk is that borrowers or counterparties may default on their payment obligations due to the Bank. These obligations arise from the Bank's lending and investment activities

Credit Risk Management Framework

The Bank has a comprehensive Risk Governance Structure which promotes sound risk management for optimal risk–reward trade off.

Under its Credit Policy, the Board delegates its credit sanctioning powers to the Board Credit Committee, the Management Credit Committee, the Chief Executive Officer, the Deputy CEO, the Head of Credit Risk and the Deputy Head of Credit Risk.

The Head of Credit Risk is responsible for monitoring the Credit Risk exposure of the Bank and reports to the Board Credit Committee monthly.

Credit Risk Management Process

Credit Risk Management Process at Bank One provides for a centralised management in view of the size of the business. Overall credit process includes comprehensive credit policy, judgmental credit underwriting, risk measurement, credit training programmes, continual loan review and audit process. The Credit Policy, which is approved by the Board, defines the credit environment, risk appetite, risk exposure limits and parameters for risk taking. The Credit Policy is subject to compulsory annual review. The Policy is updated with ad hoc reviews and addendums to take into account changes in the environment.

Credit Risk Measurement

(a) Loans and advances

In measuring Credit Risk on loans and advances to customers and to banks and other financial institutions at a counterparty level, the Bank considers:

(i) current exposures to the counterparty

(ii) the likely loss on the defaulted obligations after considering recovery and collateral realisation (the "loss given default"). The Bank assesses "probability of default" on internally designed judgmental rating but is currently examining solutions from approved Rating Agencies.

These Credit Risk measurements operate to control and monitor credit performance of borrowers through on-going credit review, loan classification, collection, Credit Risk mitigation including realisation of collateral, and provision of impairment on problem loans as required by the Bank's Credit Policy and procedures and regulatory guidelines.

(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 which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties 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 lending.

Commitments to extend credit include 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 of maturity of credit commitments because longer-term commitments generally have a greater degree of Credit Risk than shorter-term commitments.

	As at 31.12.10	As at 31.12.09
	Rs 000	Rs 000
Credit Related Commitments	798,686	915,271

(c) Bank placements and lending to banks

For bank placements or lending to banks, external ratings such as Standard & Poor's, Moody's and Fitch ratings are used for managing the Credit Risk exposures. The instruments provide a better credit quality, help to diversify risk exposures and income streams, and to maintain a readily available source of funds to meet the funding and liquidity requirements of the Bank from time to time.

RISK LIMIT CONTROL AND MITIGATION POLICIES

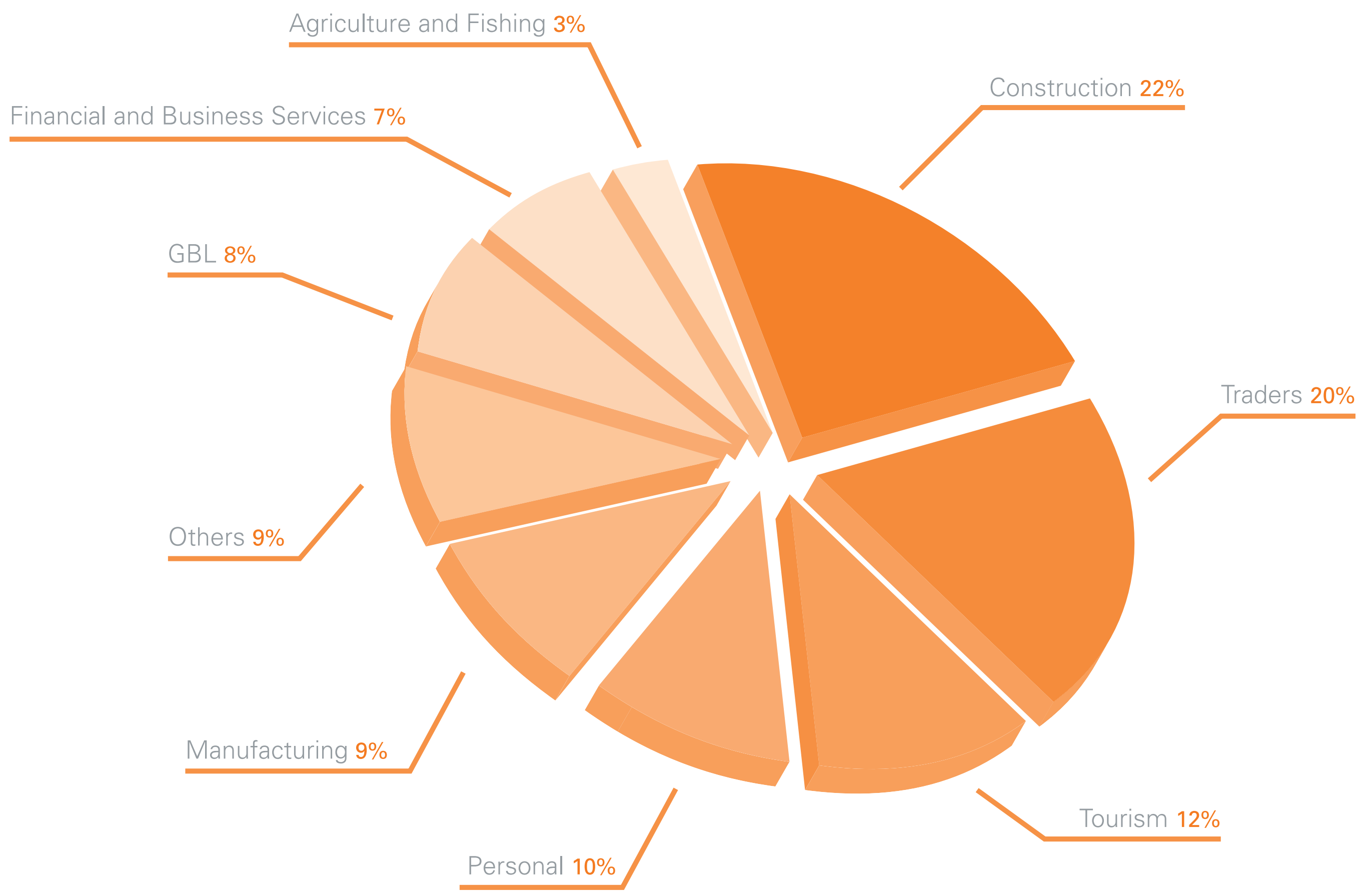
The Bank manages controls and limits concentration of Credit Risk wherever they are identified in particular, to individual counterparties, groups, industries and countries.

The Bank structures the level of Credit Risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an on-going basis and are subject to at least a quarterly review. Limits on the level of Credit Risk by industry sector and by country are approved by the Board.

RISK MANAGEMENT

SECTORWISE DISTRIBUTION

LOAN PORTFOLIO MIX-BANK



SECTORWISE CREDIT EXPOSURE

Sectors	O/S Balance Dec 10 Rs 000	O/S Balance Dec 09 Rs 000
Agriculture & Fishing	281,396	218,956
Manufacturing	601,776	233,013
Export Enterprise Certificate Holders	150,145	169,737
Tourism	1,035,824	823,403
Transport	104,804	73,860
Construction	1,769,008	1,337,147
Traders	1,621,360	1,336,647
Information Communication and Technology	245,923	170,816
Financial and Business Services	625,913	632,385
State and Local Government	2,709	3,419
Public Non-Financial Corporations	9,307	54,573
Health Development Certificate Holders	892	3,399
Modernisation & Expansion Enterprise Certificate Holders	326	184
Personal 1	819,791	527,355
Professional 2	15,317	13,070
Education	83,408	86,273
Media, Entertainment and Recreational Activities	43,707	51,369
Other	274,117	435,419
Total	**8,383,363**	**6,171,025**

The exposure to any one borrower or counterparty including banks is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Exposures to Credit Risk are also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by regular review and revision of these limits where appropriate.

To avoid concentration of risk, large exposures to individual customers or related groups are limited to a percentage of the capital base as defined by the Bank of Mauritius guidelines, and exposures to industry sectors and countries/regions are managed within limits under the Credit Policy to achieve a balanced portfolio. These are reviewed monthly by the Board Credit Committee and quarterly by the Board.

WE BUILD... EXCELLENCE

Bank One looks for excellence in whatever it does.

Vélo Club des Jeunes Cyclistes de Curepipe (VCJC), one of the leading cycling teams of the island, shares our values – striving to achieve excellence. This is why the VCJC Team is always ahead of the competition. Bank One is proud to be associated with VCJC, with Yannick Lincoln and Aurélie Halbwachs and with cycling as a sport.

RISK MANAGEMENT

SECTORWISE CREDIT EXPOSURE

Sectors	Dec 10			Dec 09		
	Fund Based Facilities Rs 000	Non-Fund Based Facilities Rs 000	Total Rs 000	Fund Based Facilities Rs 000	Non-Fund Based Facilities Rs 000	Total Rs 000
Agriculture & Fishing	281,396	1,557	**282,953**	218,956	5,454	224,410
Manufacturing	601,776	53,443	**655,220**	233,013	17,857	250,870
Export Enterprise Certificate Holders	150,145	9,020	**159,165**	169,737	15,292	185,029
Tourism	1,035,824	18,116	**1,053,940**	823,403	18,283	841,686
Transport	104,804	65	**104,869**	73,860	50	73,910
Construction	1,769,008	646,719	**2,415,727**	1,337,147	230,752	1,567,899
Traders	1,621,360	311,790	**1,933,150**	1,336,647	321,442	1,658,089
Information Communication and Technology	245,923	170	**246,094**	170,816	1,184	172,000
Financial and Business Services	625,913	35,708	**661,621**	632,385	17,952	650,337
Infrastructure	0	0	**0**	0	8,102	8,102
Global Business Licence Holders	697,640	110,312	**807,952**	180,439	18,810	199,249
State and Local Government	2,709	0	**2,709**	3,419	0	3,419
Public Non-financial Corporations	9,307	4,500	**13,807**	54,573	4,000	58,573
Health Development Certificate Holders	892	0	**892**	3,399	60	3,459
Modernisation & Expansion Enterprise Cert Holders	326	0	**326**	184	0	184
Personal 1	819,791	84,294	**904,086**	527,355	24,625	551,980
Professional 2	15,317	0	**15,317**	13,070	0	13,070
Education	83,408	15	**83,423**	86,273	15	86,288
Media, Entertainment and Recreational Activities	43,707	0	**43,705**	51,369	4,267	55,636
Other	274,117	35,562	**309,679**	435,419	20,452	455,871
Total	**8,383,363**	**1,311,271**	**9,694,634**	**6,171,025**	**689,787**	**6,860,812**

CONCENTRATION RISK:

The Bank seeks to diversify its Credit Risk by limiting exposure to single borrower or group of related borrowers. Concentration of Credit Risk is governed by guidelines on Credit Concentration Limits issued by the Bank of Mauritius and which are effective as from 1 January 2009. Management monitors Risk concentration daily. Large credit concentrations (concentration in excess of 15% of Bank's capital base) are reported to the Board Credit Committee on a monthly basis and to the Board on a quarterly basis.

Top 6 large exposures represented 153.27% of capital base as at 31 December 2010 as compared to 193.01% as at 31 December 2009. Traditionally, a distinction is made between concentration of loans to individual borrowers (single Borrower concentration) and an uneven distribution across sectors of the industry or geographical regions (sectoral concentration).

A further category consists of risks arising from a concentration of exposures to enterprises connected with one another through bilateral business relations (say a group of related companies) with the resultant danger of contagion effects, in the event of default of one of these borrowers.

This classification of Concentration Risk in the credit portfolios into three categories essentially matches those detailed in the Basel II Framework.

Moreover, the Framework defines concentration in respect of individual collateral providers or certain kinds of collateral as a further risk category and classifying this as an indirect Concentration Risk as they have an impact only in the event of default.

As a prudential measure aimed at better risk management and avoidance of concentration of Credit Risks, Bank One has fixed limits on its exposure to the following:

- to individual borrowers;
- to group borrowers; and
- to specific industry or sectors and credit portfolio.

Assessment

The most well-known and commonly used approach available to assess Credit Concentrations is the Herfindahl-Hirschman Index (HHI). HHI is a simple model-free approach for quantifying undiversified idiosyncratic risk. The HHI is defined as the sum of the squares of the relative portfolio shares of all borrowers. Well-diversified portfolios with a very large number of very small firms have an HHI value close to zero, whereas heavily concentrated portfolios can have a considerably higher HHI value. The following table relates the HHI with the level of risk:

HHI AND CONCENTRATION RISK LEVEL

HH Index	Level of Risk
<1,000	Low Risk
1,000 - 1,800	Moderate Risk
>1,800	High Risk

Individual Exposures

The HHI for the portfolio of top 10 Individual Borrowers stood at 1080 as on 31 December 2010, which is well within the threshold of 'Lower Moderate Risk'.

Group Exposures

The HHI for the portfolio of the above Group Borrowers stood at 1028 as on 31 December 2010, indicating 'Lower Moderate Risk'. These exposures are monitored very closely at Board Credit Committee.

Industry Exposures

The Bank's total exposure to any industry as on 31 December 2010 has not exceeded limits set under the Credit Policy.
The HHI for industry exposure as at 31 December 2010 was 1369, showing moderate industry Concentration Risk.

RISK MANAGEMENT

GEOGRAPHICAL SECTORS

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party located in an area which is different from that of the counterparty.

At 31 December 2010, over 87 % of the Bank's advances to customers, including related impaired advances and overdue advances, categorised on the basis of the geographical location of the borrower were classified under Mauritius. HHI for cross border exposure was 545.38 indicating low risk

The following table analyses the cross border exposure of the Bank in relation to loans and advances, investment in securities and balances as well as placements with banks.

As at 31 December 2010	Banks and other financial institutions Rs 000	Public Sector Entities Rs 000	Others Rs 000	Total Rs 000
Africa and Middle East	226,196	-	642,560	868,756
North and South America	1,364,019	-	17,181	1,381,200
Europe	625,948	-	85,732	711,680
Asia Pacific	1,059,253	-	344,643	1,403,896
TOTAL	**3,275,416**	**-**	**1,090,115**	**4,365,532**

75% of cross border exposure is on banks and financial institutions with ratings of investment grade.

ECAI RATING

Standard & Poor's Ratings Services ("Standard & Poor's), Moody's Investors Services ("Moody's") and Fitch Ratings are the external credit assessment institutions ("ECAIs") that the Bank uses for the assessment of its Credit Risk exposures to banks, sovereigns, public sector entities, as well as exposures to rated corporates.

Maximum exposure	Dec 10 Rs 000	Dec 09 Rs 000
Credit Risk exposure relating to on-balance sheet assets are as follows:		
Cash and balances with banks	**2,397,507**	990,382
Placements with banks	**908,528**	1,529,584
Financial assets at fair value through profit or loss		
Derivative financial instruments	**6,258**	5,080
Loans and advances to customers		
Loans to individuals		
- Mortgages	**523,454**	321,496
- Others	**3,322,513**	1,271,337
Loans to corporate entities		
- Term loans and Overdrafts	**4,435,922**	4,412,468
Advances to banks	**101,474**	165,724
Other assets	**703,478**	700,890
Available-for-sale securities held to maturity Securities	**1,415,165**	1,083,592
Credit Risk exposures relating to off-balance sheet items as follows:		
Financial guarantees and other credit related contingent liabilities	**2,282,304**	1,621,446
Loan commitments and other credit related commitments	**798,686**	915,271
At 31 December	**16,895,289**	**13,017,270**

RISK MANAGEMENT AND OTHER DISCLOSURES

IMPAIRMENT AND PROVISIONING POLICIES

Impairment provisions are recognised for financial reporting purposes under International Accounting Standard (IAS 39) and Bank of Mauritius guidelines based on objective evidence of impairment.

Objective evidence, under IAS 39 is based on the following criteria, amongst others:

- Significant financial difficulty of borrower;
- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity to debt ratio, net income percentage of sales);
- Breach of loan covenants and conditions;
- Initiation of Bankruptcy proceedings or high probability of Bankruptcy or other insolvency proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Diversion of funds; and
- Loss of confidence in borrower's integrity.

The Bank's policy requires the assessment of individual credits that are above materiality thresholds on a monthly basis.

Impairment allowances on individually-assessed accounts are determined by an evaluation of the possible loss at balance sheet date on a case-by-case basis, and are applied to all individual accounts. The allowance is arrived at after deducting present value of future cash flows and discounted net realisable value of collateral from the carrying value of the loan. Net realisable value of collateral is based on an independent valuation from a qualified appraiser. These valuations are updated every 3 years or earlier where warranted.

CREDIT QUALITY

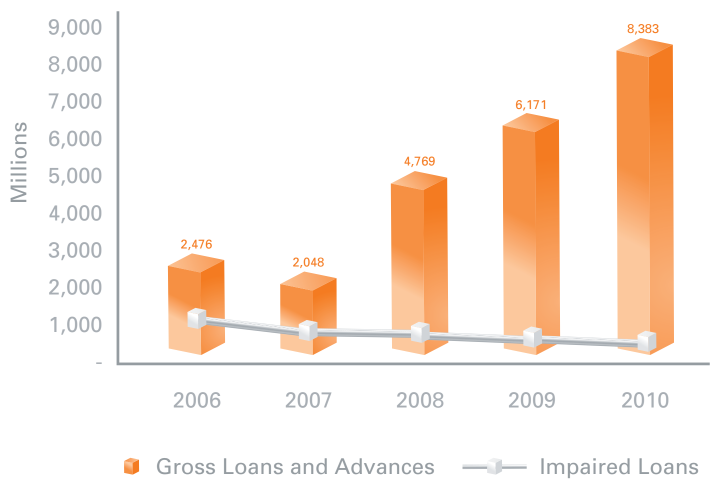
Despite the global recession and the difficult economic conditions prevailing, impairment has been contained to a satisfactory level although new delinquent accounts have been registered during the second half of the year 2010. The improved trend shown in the credit quality over the previous years has been maintained and the gross Non Performing Loans (NPL) ratio has been reduced to 5%, thereby showing once again the effectiveness of the monitoring system of Credit Risk and recovery. The NPL ratio to total loans decreased from 7.62% to 5% in 2010.

Net impaired ratio stood at 2.42 % in December 2010, at same levels as 2009.

The percentage cover of NPL by specific provision stood at 54% as at 31 December 2010 and the remaining portion of NPL is adequately secured by sufficient collaterals held by the Bank and such collaterals have been suitably assessed in strict conformity with the Bank of Mauritius guidelines on Credit Impairment and Income Recognition and the prevailing market conditions.

	Dec 10	Dec 09	Dec 08
	Rs M	Rs M	Rs M
Impaired Advances	427	470	535
Impaired Advances/Total Advances	5.09%	7.62%	11%
Net Impaired Advances/Net Advances	2.42%	2.41%	4%
Allowance for Impairment Losses	317	402	436
Provision Coverage Ratio	74.27%	85.52%	81%

IMPAIRED ADVANCES AND TOTAL ADVANCES



LOANS AND ADVANCES

Loans and advances are summarised as follows:

Bank	Dec 10		Dec 09	
	Loans and Advances to Customers Rs 000	Loans and Advances to Banks Rs 000	Loans and Advances to Customers Rs 000	Loans and Advances to Banks Rs 000
Neither past due nor impaired	7,323,378	101,474	5,163,382	165,724
Past due but not impaired	531,510	-	371,559	-
Impaired	427,001	-	470,360	-
Gross Advances	8,281,889	101,474	6,005,301	165,724
Less: allowance for impairment	(316,108)	(1,015)	(400,618)	(1,657)
Net	7,965,781	100,459	5,604,683	164,067

During the period ended 31 December 2010, the Bank's total loans and advances increased by 35.8 % as a result of the expansion of the lending business. When entering into new relationships, the Bank undertakes proper risk assessment in accordance with credit policies and procedures, review and approval of new risk limits, financial and credit reviews with an emphasis on proper risk and return balance. In order to minimise the potential increase of Credit Risk exposure, the Bank focused more on the business with large corporate enterprises or banks with good credit rating, extending credit to a diversified pool of small-and-medium sized enterprises approved with proper consideration of their risk profiles and collateral pledged to the Bank, and granting secured and unsecured credit to retail customers based on customers' income, occupation, collateral to be pledged and credit limit allowed for different loan types.

RISK MANAGEMENT AND OTHER DISCLOSURES

Loans and Advances past due but not impaired

Bank as at 31 December 2010	Individual (retail customers)		Corporate entities		Total loans and advances to customers
	Retail & Mortgages	Others	Loans & Overdrafts	Others	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Past due up to 1 month	148,764	1,552	130,089		280,405
Past due more than 1 month and up to 3 months	135,347		89,068		224,415
Past due more than 3 month and up to 6 months	25,084			1,606	26,690
Total	**309,195**	**1,552**	**219,157**	**1,606**	**5 31,510**

The past due and not impaired accounts are those due to committed cash flows which are marginally delayed but would be received within short periods.

CREDIT RISK MITIGATION

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

Irrespective of whether collateral is taken, all decisions are based upon the customer's or counterparty's credit profile, cash flow performance and ability to repay.

The Bank employs a range of policies and practices to mitigate Credit Risk. The most traditional of these is the taking of security for advances.

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

Longer-term finance and lending to corporate entities are generally secured and individual credit facilities are generally unsecured except for mortgages. In addition, in order to minimise credit loss, the Bank endeavours to seek additional collateral from the counterparty as soon as impairment indicators are noticed on individual loans and advances.

The value of all real estate properties taken as collateral is appraised prior to the inception of the loans. For property collateral, their open market values are appraised at least every three years. For property collateral that has been repossessed, the Bank's policy is to arrange for realisation as soon as practical.

Table: Gross advances to customers by industry sector classified according to the usage of loans and analysed by % covered by collateral.

Sectors	Dec 10		Dec 09	
	Gross amount of Loans Rs 000	% Gross Advances covered by Collateral	Gross amount of Loans Rs 000	% Gross Advances covered by Collateral
Agriculture & Fishing	281,396	98%	218,956	98%
Manufacturing	601,776	99%	233,013	99%
Manufacturing-EPZ	150,145	72%	169,737	60%
Tourism	1,035,824	95%	823,403	94%
Transport	104,804	99%	73,860	97%
Construction	1,769,008	99%	1,337,147	98%
Traders	1,621,360	97%	1,336,647	95%
Information Communication and Technology	245,923	100%	170,816	100%
Financial and Business Services	625,913	100%	632,385	100%
Infrastructure		0%		0%
Global Business Licence Holders	697,640	100%	180,439	100%
State and Local Government	2,709	100%	3,419	100%
Public Non-financial Corporations	9,307	100%	54,573	100%
Health Development Certificate Holders	892	100%	3,399	100%
Modernisation & Expansion Enterprise Cert Holders	326	100%	184	100%
Personal	819,791	76%	527,356	75%
Professional	15,317	100%	13,070	100%
Education	83,408	100%	86,273	100%
Media, Entertainment and Recreational Activities	43,707	40%	51,369	50%
Other	274,117	100%	254,979	100%
Total	**8,383,363**		**6,171,025**	

RISK MANAGEMENT AND OTHER DISCLOSURES

MARKET RISK

Market Risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices.

Market Risk exposure for different transactions is managed within the risk limits and guidelines approved by the Board Risk Committee, Asset and Liability Management Committee and Treasury Committee. Risk limits are set by different risk types. Limits comprise a combination of notional stop loss and sensitivity. All trading positions are subject to daily mark-to-market.

Risk Unit as an independent risk management and control unit, identifies, measures, monitors and controls the risk exposures against approved limits and initiates specific action to ensure the overall and the individual market risks are managed within an acceptable level. Any exceptions have to be reviewed and sanctioned by the appropriate level of Management/Board.

MARKET RISK INSTRUMENT TECHNIQUE

Within the risk management framework and policies established by the Board, various triggers are established to provide an early alert to management on different levels of exposures of the Bank's banking book activities to Foreign Exchange Risk, Interest Rate Risk, and Liquidity Risk. Sensitivity analysis and stress testing covering shocks and shifts in Interest Rates on the Bank's on and off-balance sheet positions, liquidity drift under bank specific and general market crisis scenarios are performed to gauge the market risk inherent in the banking book VaR(Value at Risk) methodology has been adopted to measure and control the Foreign Exchange Risk.

FOREIGN EXCHANGE RISK

Foreign Exchange Rate Risk is the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. It exists when a bank's assets do not equal its liabilities in a currency and may adversely affect a bank's financial condition.

Bank One has in place comprehensive risk management frameworks to measure, monitor and mitigate the Foreign Exchange. Board approved limits for Open Positions, individual currency holdings, cut loss limits, have been implemented. Treasury Back Office which functions independently from the Treasury Front Office, monitors these limits on a daily basis and reports to the Management. Further, on a weekly basis, Treasury Committee of the Management closely reviews the performance/open positions of the Treasury. Through monthly Assets and Liabilities Committee(ALCO) meetings, and quarterly Board Risk Committee meetings a further review is conducted. The Bank also submits a daily report on open positions to the Bank of Mauritius.

As a prudential measure, in addition to normal maximum limits imposed on foreign currency exposure (Individual, Currency-wise, Gross and Gap limits), the Bank also fixed a VaR limit. This limit is intended to apprise Management of the probable absolute loss the Bank can incur on a given time frequency. In other words, it helps in determining the risk appetite of the Bank based on the maximum loss it is ready to sustain. Bank One is active mainly in three currencies, viz. USD, EUR and GBP. Other currencies are traded rarely. We adopted 5 day VaR at 99% confidence level which gives a better risk picture for the near time horizon and action plan can be drawn up to minimize risk in such an eventuality. Accordingly, as at December 2010, the VaR limits vs the actual potential loss are given in the table hereunder.

VaR Limit vs Actual Position December 2010			
	USD	EUR	GBP
VaR Limit	2 M	1.5 M	1 M
Actual potential loss	0.15 M	0.09 M	0.37 M

INTEREST RATE RISK

Interest Rate Risk is the exposure of the Bank's financial condition to adverse movements in Interest Rate. Changes in Interest Rates affect a bank's earnings by changing its Net Interest Income (NII) and the level of other interest-sensitive income and expenses. Changes in Interest Rates also affect the underlying value of the Bank's assets, liabilities and off-balance sheet items (OBS) as the present value of future cash flows change when Interest Rate changes. Effective management of Interest Rate Risk is essential for the safety and soundness of the Bank

The immediate impact of changes in Interest Rates is on the Bank's earnings through its Net Interest Income (NII). When viewed from this perspective, it is known as 'earnings perspective'. The risk from the earnings perspective can be measured as changes in the NII or Net Interest Margin.

A long-term impact of changing Interest Rates is on the Bank's Value or Net Worth as the economic value of banks' assets, liabilities and off-balance sheet positions get affected due to variation in Market Interest Rates. This perspective is known as 'economic value' perspective.

At Bank One, an independent Risk Department uses the Gap Analysis and Earnings at Risk method for the assessment of the Interest Rate Risk. These Gap limits are approved by the Board in line with the Bank of Mauritius Guidelines on Measurement and Management of Market Risk. Through the monthly ALCO Management Committee meetings, the various GAP limits and the actual gaps are reviewed and necessary strategies, through immunization and optimization techniques, implemented. ALCO reports to the Risk Committee of the Board on a quarterly basis. A detailed analysis of the Gap positions is included in the Note 2(g) of the Financial Statements. Earnings at Risk methodology is used at Bank One to assess the impact of various Interest Rate change scenarios on Non Interest Income over a 12 month horizon, as required under Bank of Mauritius and Basel II guidelines. The Bank was initially faced with a substantial volume of long-term High Fixed Rate Deposits, as legacy. Under new Management, the Bank converted most of these Fixed Rate liabilities to floating rate, thereby significantly immunizing the Balance sheet to interest shocks.

Interest Movement	Impact on Earnings on a/c of interest basis Rs M
+25 bps -25 bps	-0.897 +0.897
+50 bps -50bps	-1.794 +1.794
+75 bps -75 bps	-2.692 +2.692
+100 bps -100 bps	-3.589 +3.589
+200 bps -200 bps	-7.179 +7.179

ASSETS AND LIABILITIES COMMITTEE (ALCO)

Asset Liability Management (ALM) is a structured decision-making process for matching and mismatching the mix of assets and liabilities, while assuming reasonable amounts of Gap and Liquidity Risk, given its expectations of the future and the potential consequences of Interest Rate movements, liquidity constraints, and Foreign Exchange exposure and capital adequacy. ALCO is a management committee which is responsible for evaluating, monitoring, managing market (including, Interest Rate Risk and Foreign Exchange Risk), and liquidity. ALCO reports to the Risk Committee of the Board on a quarterly basis. ALCO meets at least once monthly.

OPERATIONAL RISK

Operational Risk is defined as 'the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes Strategic and Reputational Risk'. (Basel Committee on Banking Supervision).

The primary aim of Bank One is the early identification, prevention and mitigation of Operational Risks. The Bank has an Operational Risk framework, as set in its Operational Risk Management Policy, to ensure that Operational Risks within the organisation are properly identified, assessed and controlled in a structured, systematic and consistent manner. Furthermore, all major Operational Risk issues are reported and discussed at the monthly Operational Risk forum (Management Operational Risk Committee) and quarterly to the Board Risk Committee.

Basel II introduces Operational Risk as a specific area of risk against which capital has to be put aside and which needs to be developed as a new discipline in its own right and managed comprehensively against a set of minimum standards.

The framework and standards adopted by Bank One for Operational Risk capital computation follow the Basel II Basic Indicator Approach. However, in line with the Bank of Mauritius requirements and as part of our preparation for the Advanced Measurement Approach under Basel II, a comprehensive loss events and incidents database has been established to monitor Operational Risk.

Risk and Control Self Assessment (RCSA) is a tool used by Bank One for comprehensively identifying and assessing Operational Risks. The outcome of this exercise, together with explanations and action plan, is communicated to the Board Risk Committee at least on a half-yearly basis.

In order to manage Operational Risk, Bank One has implemented an organisational structure which calls for high levels of ethics and integrity across all levels of the enterprise whereby every employee is responsible for the management of Operational Risk. Additional encumbrance is placed on managers and control units to ensure that there is adherence to policy and procedures regarding operation controls.

Processes and procedures are regularly updated to cater for changes in systems and introduction of new products and activities. Appropriate levels of authority are delegated to employees based on their capability and experience. There is also adequate segregation of duties between origination, authorisation and execution of transactions to ensure better controls. The Bank's IT Security Policy lays down the processes and procedures in order to protect the organisation's core and critical systems against misuse and external threat.

Training and regular communication targeting all employees to keep them abreast of developments in their areas of operation are means used by the Bank to embed an Operational Risk Awareness culture throughout the organisation.

In line with regulatory requirements, a Money Laundering Reporting Officer scrutinises all transactions above a certain threshold or having an unusual pattern and makes sure that all suspicious transactions are reported to the relevant authorities. Furthermore, the Compliance team ensures that the Bank complies with all regulatory requirements and internal policies and procedures. The Compliance Report is submitted to the Management Operational Risk Committee and the Board Risk Committee.

As a solution to Operational Risk arising from external events that could affect business continuity, the Bank has implemented a disaster recovery site located in the centre of the island. All data and applications are replicated and the site can be activated in case the primary operation centre is not accessible.

As part of the Operational Risk management framework, the Bank makes use of insurance to mitigate the risk of high impact loss events.

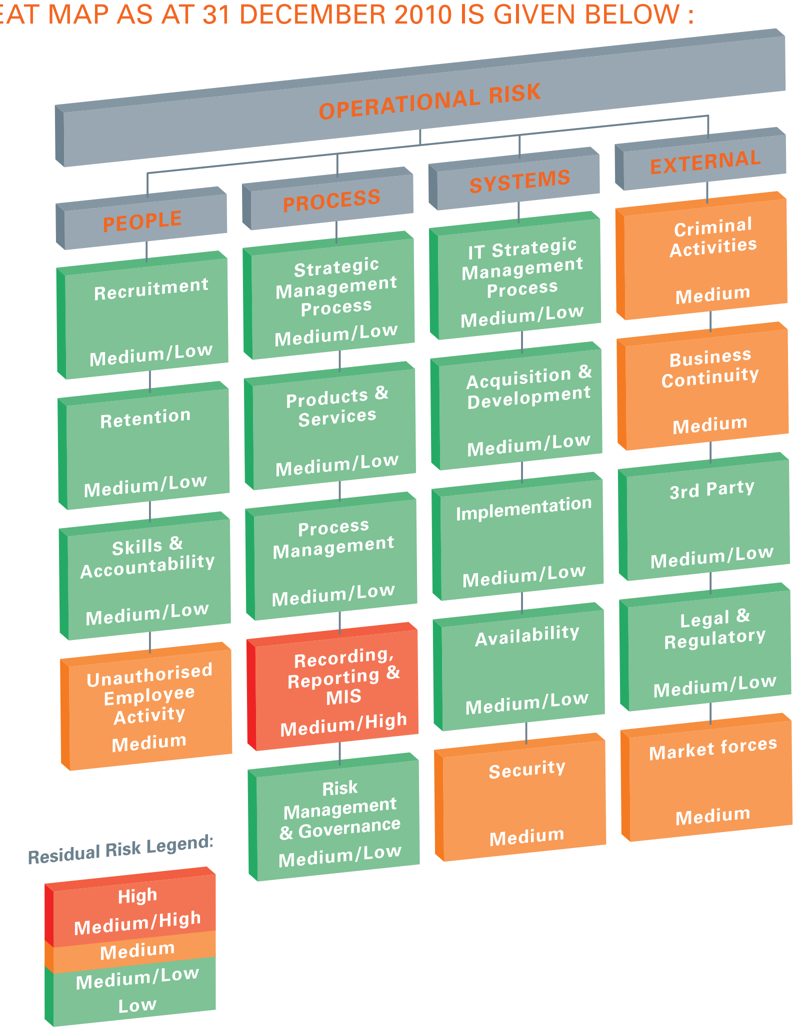
RISK MANAGEMENT AND OTHER DISCLOSURES

MONITORING AND MEASURING OPERATIONAL RISK

The Bank tracks internal loss data by category on an ongoing basis; the gross loss is taken after any insurance recovered.

Capital charge is under the Basic Indicator Approach where capital charge for Operational Risk is taken at 15 % of average gross income over past 3 years .

OPERATIONAL RISK HEAT MAP AS AT 31 DECEMBER 2010 IS GIVEN BELOW :



The Bank exposure to Operational Risk is at an acceptable level and adequate systems are in place (given the size, scale and complexity of the Bank's operations) to detect, manage, monitor and mitigate Operational Risk issues.

It is our objective to maintain residual risks at the lowest level. Risk rating under Process – Recording, reporting & MIS is expected to improve in Q1 2011 as the Bank is currently reviewing its MIS requirements with the assistance of IT consultants.

For the other areas where risk rating is at Medium, the Bank is closely and constantly monitoring the situation in order to maintain its risk exposure to an acceptable level.

COUNTRY RISK

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

The objective is to provide a framework for effective identification, assessment and measurement of Country Risk and for provisions thereof.

Responsibility for ensuring the effective management of the Bank's Country Risk does not solely rest with Senior Management, but is also a responsibility of all staff associated with International Lending and Monitoring Exposure of the Bank.

Country Risk Management Framework

The framework provides a definition of Country Risk and details the principles of how Country Risk is to be managed for all types of international exposures in the Bank. The Management has the overall responsibility to ensure that this framework is adopted to effectively manage Country Risks.

Prior to undertaking any type of International Exposure, potential risks are identified and evaluated. Responsibilities for these risks and controls are assigned and appropriate action taken (mitigation, acceptance or avoidance of the risks) in accordance with the statutory guidelines.

Risk Management Unit

- Implement and monitor compliance with the Country Risk Management policy, including defining the model to quantify the provision required for Country Risk in line with the policy of the Bank;
- Monitor, assess and support Country Risk management practices;
- Assist the Management in anticipating Country Risk exposures;
- Report to the Management on the state of risk and risk practices;
- Continuously research and analyze the social, political and economic developments in the various countries where the bank has exposures; and
- Prepare and submit quarterly reports to Board Risk Committee through the Management.

ASSESSMENT OF COUNTRY RISK

In assessing the risk of a country, the Bank considers both the quantitative and qualitative factors of the country.

In developing quantitative assessments of the risk of a country, the Bank takes into account the size and maturity profile of its external borrowing as well as its macroeconomic variables (including forecasts), fiscal, monetary, exchange rate and financial sector policies and relevant statistics.

Factors typically used in qualitative assessments of Country Risk include the quality of the policy-making function, social and political stability and the legal and regulatory environment of the country.

Bank One also conducts its own Country Risk assessment, instead of relying entirely on external assessment

The results of Country Risk analysis are integrated closely with the process of formulating marketing strategies, approving credits, assigning country ratings, setting country exposure limits and provisioning.

COUNTRY EXPOSURE LIMITS

Country exposure limits and sub limits (if any) are approved by the Board Risk Committee and the limit setting and recommendations to Board Risk Committee are proposed by the Risk Management Unit, independent from the business units.

Risk Weighted exposures in any single country should not to exceed 250% of the Bank's capital base. However, exceptions to this can be obtained with specific approval from the full Board. Total cross border risk weighted exposures for the Bank should not exceed 500% of the capital base of the Bank.

The limits are reviewed on an annual basis and Interim review reports are submitted during the year in response to substantive changes if any in a country's risk profile.

The Bank set exposure limits for individual countries (particularly for countries in emerging markets) and sub limits to manage and monitor Country Risk. Country exposure limits apply to all on- and off-balance sheet exposures to foreign obligors.

MEASUREMENT OF COUNTRY RISK

The system of measurement is based on the size and complexity of its international lending operations and is detailed enough to permit an adequate analysis of the different types of risk.

On-balance sheet exposures normally include loans and advances, investment in shares and securities (except those excluded from total (gross) capital in the Capital Adequacy Ratio computation) and funds in foreign bank accounts including nostro accounts.

RISK MANAGEMENT AND OTHER DISCLOSURES

Off-balance sheet exposures representing potential claims that do not appear on the balance sheet, such as letters of credit, acceptances, and other legally binding commitments to lend to foreign clients shall be converted into credit equivalents on the basis of the conversion actors set out in the Bank of Mauritius guidelines on "standardized approach to Credit Risk"

As counterparties may be more exposed to local country conditions than others, the following criteria for measuring risk for different exposures should be adopted.

- Banking Sector
- Public Sector exposures
- Private Sector exposures

MONITORING & REPORTING OF COUNTRY EXPOSURES

Management reviews the country exposures and the country specific strategy on a monthly basis through the Management Credit Committee (MCC) and submits quarterly reports to the Board Risk Committee.

The Bank gathers in a timely manner, information about developments in exposed countries that may have a bearing on the Country Risk assessment, e.g rating agencies. Particular attention is paid to potential contagion risk in the region

COUNTRY RISK PROVISIONING

Provisioning policy and approach

Aggregate exposures to a particular country, for the purpose of computing the allowance for Country Risk, include loans and advances, investment in shares and securities (excluding equity investments), funds in foreign bank accounts and non fund based facilities converted into credit equivalents on the basis of conversion factors as per the Guideline on Standardized Approach to Credit Risk.

Risk weights for claims on sovereigns in currency other than their local currency, as provided in the Bank of Mauritius guidelines on "Eligible Capital" are used as reference for determining the "Country Risk Ratings".

For the FY ended December 2010, the Bank adopted a Board approved internal Country Risk rating and provisioning criteria and made provision of Rs 2M, included in Portfolio Provisions.

LIQUIDITY RISK

Liquidity Risk is defined within Bank One as the risk of financial loss that arises when funds required to meet repayments, withdrawals and other commitments cannot be obtained in time due to lack of Market liquidity which prevents quick and effective liquidation of positions or portfolios. The management of Liquidity Risk is undertaken within limits and other policy parameters set by the Board by ALCO which reviews on a monthly basis compliance to those policies and reports to the Board Risk Committee on a quarterly basis. Treasury is responsible for the daily liquidity management. Monitoring is closely made through the weekly Treasury Committee. The Bank monitors liquidity both on a static basis as well as on a dynamic basis taking into consideration all possible future inflows and outflows. The liquidity gap table is shown in Note 2(f) to the financial statement.

The Bank is comfortably positioned in terms of liquidity under static or dynamic scenarios which include stress scenarios

COMPLIANCE RISK

Compliance Risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformity with, the laws, rules, regulations, prescribed practices, internal policies, and procedures or ethical standards. Compliance Risk also arises in situations where the laws or rules governing certain Bank products or activities of the Bank's clients may be ambiguous or untested. This risk exposes the institution to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance Risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and an inability to enforce contracts.

Compliance laws, rules and standards generally also cover matters such as observing proper standards of market conduct, managing conflicts of interest, treating customers fairly and ensuring the suitability of customer service.

The Bank is subject to extensive supervisory and regulatory governance. Any significant business development must be approved by the Bank of Mauritius.

The approach to Compliance Risk in Bank One is as follows:

1. Establish appropriate framework covering proper management oversight, system controls and other related matters;
2. Establishing written guidance to staff on the appropriate implementation of policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines;
3. Periodical review of changes in law and regulations in order to ensure that the Bank addresses the risk arising from such changes;
4. Monitoring of compliance with existing rules and regulations while mitigating the effects of any unintentional non-compliance;
5. Ensure to conduct periodical compliance training to compliance function and to educate all staff with respect to compliance with the applicable laws, rules and standards;
6. Productive dialogue with regulators in order to ensure effective two-way communication; and
7. Assist Management in promoting a culture of integrity, including actions to raise staff awareness on Fraud Prevention and Anti-Money Laundering and Combating the Financing of Terrorism.

The Board of Directors has the final responsibility for compliance which it exercises through the Board Audit Committee and other delegated authority to line management. The Bank has adopted a centralized compliance function (Compliance Manager) who also assumes the function of Money Laundering Reporting Officer (MLRO) and is independent from the business activities of the Bank. The Compliance Officer identifies, assesses, monitors and reports on the Bank's Compliance Risk, thus assisting Management in discharging their compliance accountabilities.

The main accountabilities are:

1. To set policies and standards on compliance issues for the Bank on a proactive basis and foster the development of a Bank-wide compliance culture;
2. To assess the appropriateness of internal procedures and guidelines, promptly following up on any identified deficiencies in the policies and procedures and, where necessary, formulate proposals for amendments;
3. To undertake investigations into breaches, potential breaches or regulatory issues when considered necessary and in conjunction with Audit when appropriate;
4. To report to the Management and the Board Committee all breaches or potential breaches he is aware of;
5. To establish and manage the compliance function of the Bank and ensure that it is operating in accordance with the requirements of the procedures, guidelines and manuals; and
6. To provide training to business areas in the procedures and practices to activate compliance with relevant Laws and Regulations.

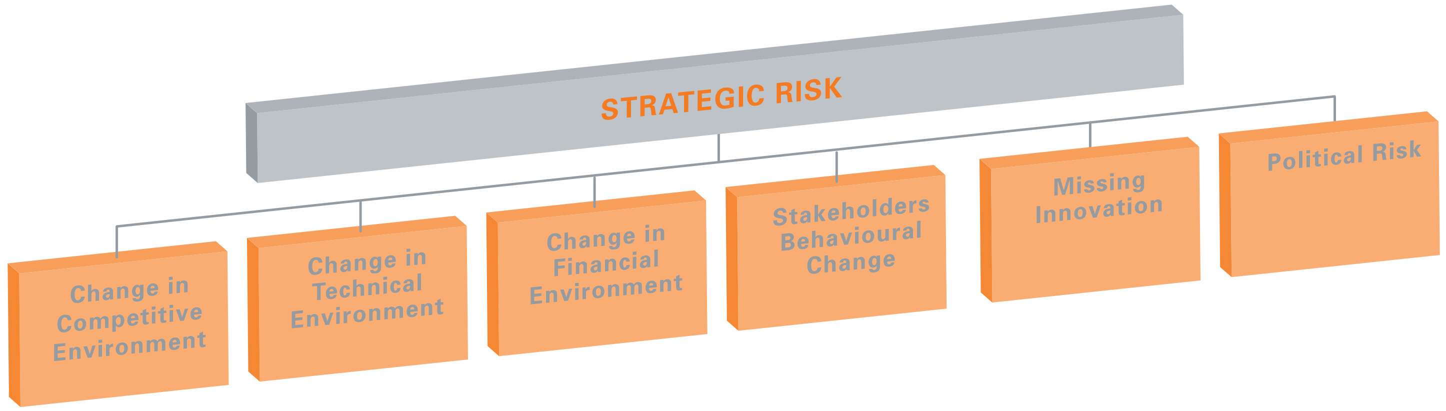
In regard to the Bank's Anti-Money Laundering and Combating Financing of Terrorism obligations, the Compliance function is duty-bound to ensure that the Bank has put in place adequate processes and that these processes are being appropriately implemented and that adequate training is given to staff.

STRATEGIC RISK

Strategic Risk generally refers to the corporate risk that may bring significant immediate or future negative impact on the financial and market positions of the Bank because of poor strategic decisions, unacceptable financial performance, improper implementation of strategies and lack of effective response to the market changes. The Board of Directors, assisted by senior Management, is directly responsible for the management of Strategic Risk. The Board of Directors sets the strategic goals and key direction of the Bank, ensures business strategies are developed to achieve these goals, oversees the strategic development and implementation to secure compatibility with the strategic goals, reviews business performance, ensures proper resources are available to achieve the Bank's objectives and authorises Management to take appropriate action.

The business strategy of the Bank, covering a five year planning cycle 2009-2014, has been well-defined and documented and approved by the Board. This strategy document is reviewed once a year and forms the basis of the annual business budget and operating plan of the Bank. To support the Bank's five year business strategy, detailed strategies are developed and documented separately by function, in the areas of product development, marketing and sales, human resource development and information and communication technology, amongst others.

Bank One closely monitors the Strategic Risk, through the regular review of various factors that create significant immediate or future negative impact, as detailed hereunder, and monitors and mitigates the risk through periodical close scrutiny by the Senior Management and Board of the Bank.



RISK MANAGEMENT AND OTHER DISCLOSURES

REPUTATION RISK

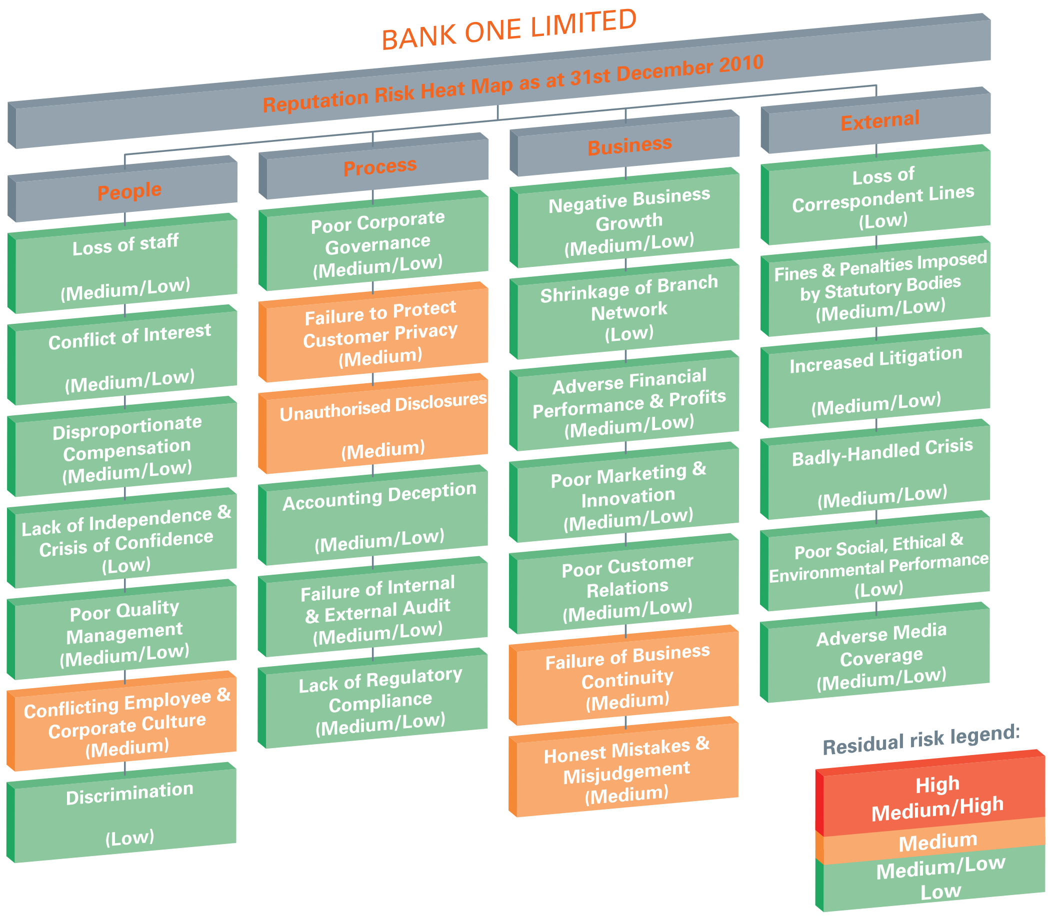
Reputation Risk can be defined as the risk arising from negative perception on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect a bank's ability to maintain existing or establish new business relationships and continued access to sources of funding.

Reputation Risk is the potential that negative publicity regarding the Bank's business practices, whether true or not, will cause a decline in the customer base, or lead to costly litigation, or revenue reductions. Reputation Risk can also cause liquidity constraints and significant depreciation in the market capitalization. This risk may result from the Bank's failure to effectively manage any or all of the other risk types.Reputation Risk also involves external perception and extends to a failure to effectively manage events following initial damage.

The Bank manages Reputation Risks through a high standard of corporate governance and regular Board and Management oversight, maintenance of effective policies and procedures with emphasis on internal control, risk management and compliance; proper handling of customer complaints or dissatisfaction and adherence to efficient business practices. Standards have been set and policies and procedures established to reduce vulnerability to Reputation Risk.

Reputation Risk is closely monitored by the top Management of the Bank that includes DCEO and CEO and a quarterly heat map, giving ratings to various components that can cause Reputation Risk, is submitted to the Board Risk Committee, who in turn reports the progress / status to the Board of the Bank.

The Reputation Risk profile of the Bank has significantly improved with the rebranding and significantly improved, performance of the Bank.



CONFLICTING EMPLOYEE AND CORPORATE CULTURE

The Bank has embarked on a cultural change programme, with the assistance of an external consultant. Several workshops have been organised with all staff members. This exercise, which started in July 2010, is still in progress and expected to be completed by May 2011. Until full completion, risk rating is retained at "Medium".

FAILURE OF BUSINESS CONTINUITY

The Disaster Recovery site has been implemented and tests performed successfully in December 2010. Rating of Medium risk (yellow) has however been retained, even though the project is complete. In due course, as and when staff become more acquainted with the procedures and periodic tests are performed, further upgrade will be considered.

HONEST MISTAKES AND MISJUDGMENT

To mitigate the above risk factor, staff are given regular training. Procedures and policies are in place and regular reviews and routine checks are also carried out by the Internal Audit and Compliance Department. Following a prudential approach, a rating of Medium risk is maintained.

Overall much progress has been made since 2008 to bring Reputational Risk exposure to an acceptable level. The Bank has put in place systems to constantly monitor the risk factors, especially in areas requiring improvements, in order to further reduce Reputational Risk.

INTERNAL AUDIT

The role of the Internal Audit is to provide to the Management, the Audit Committee and the Board of Directors, independent, objective assurance and consulting services aimed at enhancing and sustaining sound Internal Control in all business activities of the Bank. The Internal Audit reports to the Audit Committee, which comprises independent Directors.

To this end, the Internal Audit follows a disciplined risk based approach to evaluate, assess and improve the effectiveness of risk management, control and governance processes. The overall audit strategy and audit timetable are embodied in the approved internal audit plan.

To fulfil its responsibilities, the Internal Audit reviews systems and processes to assess their operating effectiveness and efficiency; evaluates accounting systems and internal control; evaluates the relevance, reliability and integrity of Management Information System; assesses the extent of compliance with established policies and regulations; appraises the use of resources with regard to economy, efficiency and effectiveness; assesses the means of safeguarding assets. Internal Audit advises and recommends, in a consulting capacity, on systems of control, accounting and operational matters.

The Internal Audit findings and recommendations, along with follow up reports, are presented and discussed with Management at the monthly Operational Risk Committee. Risk issues are brought independently to the attention of the Audit Committee which meets on a quarterly basis. Any issues which require prompt attention are reported immediately to the relevant authorities.

WE BUILD... PROSPERITY

MoneYtree

Saving requires sacrificing current consumption for the future and savers look for an appropriate reward for such sacrifice with the savings being available in times of need without penalty.

Money Tree is a flexible high interest yield savings account coupled to a fixed deposit. The customer enjoys the double benefit of both high yield and liquidity. According to popular belief, the Money Tree plant is a symbol of good fortune.

STATEMENT OF MANAGEMENT'S Responsibility For Financial Reporting

The Bank's financial statements (consolidated) and the financial statements for the Bank's operations in Mauritius presented in this annual report have been prepared by the Management, which is responsible for their integrity, consistency, objectivity and reliability. International Accounting Standards/International Financial Reporting Standards as well as the requirements of the Banking Act 2004 and the guidelines issued there under have been applied and Management has exercised its judgment and made best estimates where deemed necessary.

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

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

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

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

The Bank's external auditors, BDO De Chazal Du Mee 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.

JEAN-PIERRE DALAIS
Chairman of the Board of Directors
16 March 2011

RAJ DUSSOYE
Chief Executive Officer
16 March 2011

PRATUL HEMRAJ DHARAMSHI SHAH
Director and Chairman of Audit Committee
16 March 2011

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

REPORT OF THE AUDITORS

This report is made solely to the members of BANK ONE Limited (the "Bank"), as a body, in accordance with Section 205 of the Companies Act 2001. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of BANK ONE Limited on pages 3 to 52 which comprise the statement of financial position at 31 December 2010, 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 keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and 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 Banking Act 2004. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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 control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements on pages 3 to 52 give a true and fair view of the financial position of the Bank at 31 December 2010, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Companies Act 2001
We have no relationship with, or interests in, the Bank, other than in our capacity as auditors, tax advisers and dealings in the ordinary course of business. We have obtained all information and explanations we have required. In our opinion, proper accounting records have been kept by the Bank as far as it appears from our examination of those records.

Banking Act 2004
In our opinion, the financial statements have been prepared on a basis consistent with that of the preceding year 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 ("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.

BDO & Co
Chartered Accountants

Port Louis,
Mauritius.

Per Ameenah Ramdin F.C.C.A

WE BUILD... TRUST

Running a small business is a tough job. Our SME clients bring us their aspirations and their daily challenges. In order to help them achieve their goals, Bank One is there to listen. Our Branch Managers and SME specialists talk to them nearly every day to bring them solutions specific to their needs. This is only possible through a bond of trust between the SME client and the Bank, so that clients can open up and the Bank can better understand them.

FINANCIAL STATEMENTS for the year ended 31 December 2010

STATEMENT OF FINANCIAL POSITION AS AT 31 December 2010

	Note	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
ASSETS				
Cash and cash equivalents	13	3,339,743	2,519,966	528,949
Derivative assets held for risk management	14	6,258	5,080	18,522
Loans and advances to banks	15	100,459	164,067	400,831
Loans and advances to customers	16	7,965,781	5,604,683	3,931,820
Investment securities	17	1,415,166	1,083,592	956,796
Property plant and equipment	18	322,116	327,795	318,914
Intangible assets	19	46,152	47,676	26,031
Deferred tax assets	20	49,461	68,961	68,253
Other assets	21	703,478	700,890	566,982
Total assets		13,948,614	10,522,710	6,817,098
LIABILITIES				
Deposits from customers	22	12,598,708	9,479,512	6,133,712
Derivative liabilities held for risk management	14	5,995	1,821	-
Other borrowed funds	23	-	-	5,406
Subordinated liabilities	24	281,376	178,578	-
Current tax liabilities	25	6,115	534	-
Other liabilities	26	249,738	220,044	141,420
		13,141,932	9,880,489	6,280,538
Shareholders' equity				
Stated capital	28	551,456	491,456	269,456
Share capital pending allotment	28	-	60,000	-
Calls on shares	28	-	-	222,000
Other reserves		103,652	82,179	73,206
Retained earnings/(Revenue deficit)		151,574	8,586	(28,102)
		806,682	642,221	536,560
Total equity and liabilities		13,948,614	10,522,710	6,817,098

These financial statements were approved for issue by the Board of Directors on 16 March 2011

Jean-Pierre Dalais
Chairman of the Board of Directors

Raj Dussoye
Chief Executive Officer

Pratul Hemraj Dharamshi Shah
Director and Chairman of Audit Committee

The notes on pages 104 to 147 form an integral part of these financial statements.
Auditors' report on page 95.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Year ended Dec 10 Rs 000	Year ended Dec 09 Rs 000	18 months period to Dec 08 Rs 000
Interest income		731,286	607,295	593,717
Interest expense		(439,124)	(474,754)	(564,348)
Net Interest income	3	292,162	132,541	29,369
Fee and commission income		114,249	69,826	29,455
Fee and commission expense		(19,694)	(6,396)	(5,835)
Net fee and commission income	4	94,555	63,430	23,620
Net trading income	5	57,416	65,788	49,588
Other operating income	6	10,278	13,259	675
		67,694	79,047	50,263
Operating income		454,411	275,018	103,252
Net impairment loss on financial assets	7	(26,421)	10,700	(29,048)
Personnel expenses	8	(173,235)	(144,646)	(125,636)
Depreciation and amortisation		(34,640)	(30,422)	(35,456)
Other expenses	9	(83,593)	(68,336)	(86,814)
		(317,889)	(232,704)	(276,954)
Operating profit/(loss) before exceptional items		136,522	42,314	(173,702)
Profit on sale and recovery assets	10	59,322	-	30,190
Profit/(loss) before income tax		195,844	42,314	(143,512)
Income tax expense	11	(27,556)	(3,826)	22,708
Profit/(loss) for the year/period		168,288	38,488	(120,804)
Earnings/(loss) per share (Rs)	12	30.93	7.83	(23.51)
Statement of Comprehensive Income for the year ended 31 December 2010				
Profit/(loss) for the year/period		168,288	38,488	(120,804)
Other comprehensive income :				
Net (loss)/gain on available for sale investment securities		(3,827)	3,173	-
Release of deferred tax on revaluation reserve		-	4,000	-
Total comprehensive income for the year/period		164,461	45,661	(120,804)

The notes on pages 104 to 147 form an integral part of these financial statements.
Auditors' report on page 95.

Notes to the Financial Statements for the year ended 31 December 2010

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Year ended Dec 10 Rs 000	Year ended Dec 09 Rs 000	18 months period to Dec 08 Rs 000
Cash flows from operating activities				
Profit/(loss) for the year/period		168,288	38,488	(120,804)
Income tax expense recognised		27,556	3,826	(22,708)
Net movement in derivatives		2,996	(3,259)	-
Depreciation of property, plant and equipment	18	26,965	26,999	34,609
Amortisation of intangible assets	19	7,675	3,424	846
Impairment on financial assets	15(c)&16(e)	45,694	19,682	(3,079)
Release of provisions for credit impairment	15(c)&16(e)	(130,846)	(53,936)	-
Gain on sale of land and property,plant and equipment		(51)	(834)	(13,486)
Gain on sale of other assets		(645)	(2,413)	-
Others		3,756	-	-
Income tax paid		(2,475)	-	-
Fair value gain on disposal of available for sale securities		(9,582)	(8,819)	(16,911)
Changes in operating assets and liabilities				
Decrease/(increase) in loans and advances				
-to banks		64,250	239,155	(404,879)
-to customers		(2,276,588)	(1,641,000)	(2,316,676)
Increase in other assets		(5,024)	(127,455)	(100,137)
Increase in deposits from customers		3,119,196	3,345,800	2,023,312
Increase in other liabilities		29,694	78,622	34,790
Net cash from/(used in) operating activities		1,070,859	1,918,280	(905,123)
Cash flows (used in)/from investing activities				
Purchase of investment securities		(448,066)	(954,255)	-
Proceeds from sale and redemption of investment securities		288,231	1,021,669	969,294
Purchase of available for sale investments		(461,533)	(348,433)	-
Proceeds from sale of available for sale investments		295,549	166,214	-
Purchase of property,plant and equipment	18	(21,286)	(36,359)	(33,715)
Proceeds from sale of property and equipment		51	1,313	207
Proceeds from sale of non-banking assets		3,081	14,485	-
Purchase of intangible assets	19	(6,151)	(25,069)	(26,304)
Net cash (used in)/from investing activities		(350,124)	(160,435)	909,482
Cash flows from financing activities				
Proceeds from subordinated liabilities	24	99,042	178,578	-
Share capital pending allotment	28	-	60,000	-
Issue of shares	28	-	-	254,136
Net cash from financing activities		99,042	238,578	254,136
Net increase in cash and cash equivalents		819,777	1,996,423	258,495
Cash and cash equivalents at beginning of year/period		2,519,966	523,543	265,048
Cash and cash equivalents at end of year/period	13	3,339,743	2,519,966	523,543

The notes on pages 104 to 147 form an integral part of these financial statements.
Auditors' report on page 95.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Stated capital Rs 000	Called but not paid shares Rs 000	Share Capital pending allotment Rs 000	Capital reserve Rs 000	Revaluation surplus Rs 000	Statutory reserve Rs 000	Fair value Reserve Rs 000	Retained earnings/ (revenue deficit) Rs 000	Total Rs 000
Balance as at 1 July 2007	**450,000**	**-**	**-**	**25,000**	**71,687**	**1,519**	**-**	**(341,978)**	**206,228**
Total comprehensive income for the period	-	-	-	-	-	-	-	(120,804)	(120,804)
Movement during the period	254,136	222,000	-	(25,000)		-	-	-	451,136
Capital Reduction	(434,680)	-	-	-	-	-	-	434,680	-
	269,456	222,000	-	-	71,687	1,519	-	(28,102)	536,560
Balance as at 31 December 2008	**269,456**	**222,000**	**-**	**-**	**71,687**	**1,519**	**-**	**(28,102)**	**536,560**
Share capital pending allotment	-	-	60,000	-	-	-	-	-	60,000
Called but not paid shares transferred to Stated Capital	222,000	(222,000)	-	-	-	-	-	-	-
Transfer to statutory reserve	-	-	-	-	-	1,800	-	(1,800)	-
Total comprehensive income for the year	-	-	-	-	4,000	-	3,173	38,488	45,661
Balance as at 31 December 2009	**491,456**	**-**	**60,000**	**-**	**75,687**	**3,319**	**3,173**	**8,586**	**642,221**
Share capital pending allotment transferred to Stated Capital	60,000	-	(60,000)	-	-	-	-	-	-
Transfer to statutory reserve *	-	-	-	-	-	25,300		(25,300)	-
Total comprehensive income for the year	-	-	-	-	-	-	(3,827)	168,288	164,461
Balance as at 31 December 2010	**551,456**	**-**	**-**	**-**	**75,687**	**28,619**	**(654)**	**151,574**	**806,682**

* In line with Section 21 (1) of the Banking Act 2004, 15% of the net profit for the year has been transferred to a statutory reserve account.

The notes on pages 104 to 147 form an integral part of these financial statements.
Auditors' report on pages 95.

Notes to the Financial Statements for the year ended 31 December 2010

1.1 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements of BANK ONE Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and instructions, Guidelines and Guidance Notes issued by the Bank of Mauritius, in so far as the operations of the Bank are concerned.

Where necessary, comparatives figures have been amended to conform with changes in presentation, or in accounting policies in the current year. The financial statements are prepared under the historical cost convention except for available for sale financial assets, derivative contracts and land & buildings, which have been measured at fair value.

Standards, Ame ndments t o p ublished S tandards a nd Interpretations effective in the reporting period

IAS 27, 'Consolidated and Separate Financial Statements' (Revised 2008), requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The revised standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. This IAS will not have any impact on the Bank's financial statements.

IFRS 3, 'Business Combinations' (Revised 2008), continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. This IFRS will not have any impact on the Bank's financial statements.

Amendments to IAS 39, 'Eligible hedged items', prohibit designating inflation as a hedgeable component of a fixed rate debt. In a hedge of one-sided risk with options, it prohibits including time value in the hedged risk. The amendment is not expected to have any impact on the Bank's financial statements.

Amendments to IFRS 1 and IAS 27, 'Cost of an Investment in a Subsidiary', clarify that the cost of a subsidiary, jointly controlled entity or associate in a parent's separate financial statements, on transition to IFRS, is determined under IAS 27 or as a deemed cost. Dividends from a subsidiary, jointly controlled entity or associate are recognised as income. There is no longer a distinction between pre-acquisition and post-acquisition dividends. The cost of the investment of a new parent in a group (in a reorganisation meeting certain criteria) is measured at the carrying amount of its share of equity as shown in the separate financial statements of the previous parent. The amendment is not expected to have any impact on the Bank's financial statements

IFRIC 17, 'Distributions of Non-cash Assets to Owners', clarifies that a dividend payable is recognised when appropriately authorised and no longer at the entity's discretion. An entity measures distributions of assets other than cash when it pays dividends to its owners, at the fair value of the net assets to be distributed. The difference between fair value of the dividend paid and the carrying amount of the net assets distributed is recognised in profit or loss. This IFRIC will not have any impact on the Bank's financial statements.

IFRIC 18, 'Transfers of Assets from Customers', addresses the treatment for assets transferred from a customer in return for connection to a network or ongoing access to goods or services, or both. It requires the transferred assets to be recognised initially at fair value and the related revenue to be recognised immediately; or, if there is a future service obligation, revenue is deferred and recognised over the relevant service period. This IFRIC will not have any impact on the Bank's financial statements.

Amendments to IFRS 1, 'Additional Exemptions for First-time Adopters', exempt entities that use the full cost method for oil and gas properties from retrospective application of IFRSs. It also exempts entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining whether an arrangement contains a lease'. The amendment is not expected to have any impact on the Bank's financial statements.

Amendments to IFRS 2, 'Group Cash-settled Share-based Payment Transactions'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. This amendment is not expected to have any impact on the Bank's financial statements.

Improvements to IFRSs (issued 22 May 2008)

IFRS 5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations', clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. The amendment will not have an impact on the Bank's operations.

Improvements to IFRSs (issued 16 April 2009)

IAS 1 (Amendment), 'Presentation of Financial Statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. This amendment is not expected to have any impact on the Bank's financial statements.

IAS 7 (Amendment), 'Statement of Cash Flows', clarifies that only expenditure that results in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities. This amendment is unlikely to have an impact on the Bank's financial statements.

IAS 17 (Amendment) 'Leases', clarifies that when a lease includes both land and buildings, classification as a finance or operating lease is performed separately in accordance with IAS 17's general principles. Prior to the amendment, IAS 17 generally required a lease of land with an indefinite useful life to be classified as an operating lease, unless title passed at the end of the lease term. A lease newly classified as a finance lease should be recognised retrospectively. The amendment will not have an impact on the Bank's operations.

IAS 18 (Amendment), 'Revenue'. An additional paragraph has been added to the appendix to IAS 18, providing guidance on whether an entity is acting as principal or agent.

IAS 36 (Amendment), 'Impairment of Assets', clarifies that for the purpose of impairment testing, the cash-generating unit or groups of cash-generating units to which goodwill is allocated should not be larger than an operating segment (as defined by IFRS 8, 'Operating segments') before aggregation. The amendment will not have an impact on the Bank's operations.

IAS 38 (Amendment), 'Intangible Assets', clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment removes the exceptions from recognising intangible assets on the basis that their fair values cannot be reliably measured. Intangible assets acquired in a business combination that are separable or arise from contractual or other legal rights should be recognised. The amendment specifies different valuation techniques that may be used to value intangible assets where there is no active market. The amendment is unlikely to have an impact on the Bank's financial statements.

IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' clarifies that the scope exemption within IAS 39 only applies to forward contracts that will result in a business combination at a future date, as long as the term of the forward contract does 'not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction'. The amendment removes reference to transactions between segments as being hedgeable transactions in individual or separate financial statements and clarifies that amounts deferred in equity are only reclassified to profit or loss when the underlying hedged cash flows affect profit or loss. The amendment is not expected to have an impact on the Bank's income statement/statement of comprehensive income.

IFRS 2 (Amendment), 'Share-based Payment', confirms that, transactions in which the entity acquires goods as part of the net assets acquired in a business combination as defined by IFRS 3 (2008) Business Combinations, contribution of a business on formation of a joint venture and common control transactions are excluded from the scope of IFRS 2 Share-based Payment. The amendment will not have an impact on the Bank's operations.

IFRS 5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The amendment will not have an impact on the Bank's operations.

IFRS 8 (Amendment), 'Operating Segments', clarifies that the requirement for disclosing a measure of segment assets is only required when the Chief Operating Decision Maker reviews that information. This amendment is unlikely to have an impact on the Bank's financial statements.

IFRIC 9 (Amendment), 'Reassessment of Embedded Derivatives', clarifies that embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture are outside the scope of IFRIC 9. This amendment is unlikely to have an impact on the Bank's financial statements.

IFRIC 16 (Amendment), 'Hedges of a Net Investment in a Foreign Operation', clarifies that hedging instruments may be held by any entity or entities within the group. This includes a foreign operation that itself is being hedged. This amendment is unlikely to have an impact on the Bank's financial statements.

Notes to the Financial Statements for the year ended 31 December 2010

Standards, Ame ndments t o p ublished S tandards a nd Interpretations issued but not yet effective

Certain standards, amendments to published standards and interpretations have been issued that are mandatory for accounting periods beginning on or after 1 January 2011 or later periods, but which the Bank has not early adopted.

At t he r eporting d ate o f t hese financial s tatements, t he following were in issue but not yet effective:

- Classification of Rights Issues (Amendment to IAS 32) (Effective 1 February 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (Effective 1 July 2010)
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement IAS 24 Related Party Disclosures (Revised 2009); and
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS1).

Deferred Tax:

- Recovery of Underlying Assets (Amendments to IAS 12)
- IFRS 9 Financial Instruments;
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7);
- Amendment to IFRS 1 Limited Exemption from Comparatives; and
- IFRS 7 Disclosures for First-time Adopters (Effective 1 July 2010).

Improvements to IFRSs (issued 6 May 2010)

- IFRS 1 First-time Adoption of International Financial Reporting Standards;
- IFRS 3 Business Combinations (Effective 1 July 2010);
- IFRS 7 Financial Instruments: Disclosures;
- IAS 1 Presentation of Financial Statements;
- IAS 27 Consolidated and Separate Financial Statements (Effective 1 July 2010);
- IAS 34 Interim Financial Reporting; and
- IFRIC 13 Customer Loyalty Programmes.

Where relevant the Bank is still evaluating the effect of these amendments to published Standards, Standards and Interpretations issued but not yet effective, on the presentation of its financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. In particular information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised are described in Note 1.2.

(b) Foreign currency translation

Trading transactions denominated in foreign currencies are accounted for at the closing rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities expressed in foreign currencies are reported at the closing rate of exchange ruling at the reporting date. Differences arising from reporting monetary items are dealt with through the Income Statement.

(c) Functional and presentation currency

These financial statements are prepared in Mauritian Rupees (Rs.), which is the Bank's functional currency. Except as indicated, financial information presented in Mauritian Rupees has been rounded to the nearest thousand.

(d) Derivative Financial Instruments

Derivative financial instruments include foreign exchange contracts and currency swaps. These are initially recognised in the Statement of financial position at cost and subsequently remeasured at their fair value. Fair values of derivatives between two external currencies are based on Interest Rate differential between the two currencies. Fair values of forwards involving Mauritian Rupees are based on treasury bills rate or LIBOR. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank's derivative transactions, while providing effective economic hedges under the Bank's risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in the Income Statement.

(e) Interest income and expense

Interest income and expense are recognised in the Income Statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter suspended and recognised only upon receipt.

(f) Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

(g) Net trading income

Net trading income comprises net gains on forex trading and translation differences.

(h) Sale and repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are retained in the Statement of financial position as Government securities and Treasury bills and the counterparty liability is included in amount due to other banks or deposits, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as amount due from other banks or loans and advances, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repos agreements using the effective yield method.

(i) Investment securities

The Bank classifies its investment securities as held-to-maturity or available-for-sale assets. Management determines the appropriate classification of its investments at the time of the purchase. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities 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 are classified as available-for-sale.

Available for sale investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale listed financial assets are subsequently remeasured at fair value based on quoted bid prices. Fair values for unlisted equity securities are estimated using maintainable earnings or net assets bases refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in statement of comprehensive income. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instruments original effective Interest Rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Interest earned while holding investment securities is reported as interest income.

All regular way purchases and sales of investment securities are recognised at trade date which is the date that the Bank commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

(j) Financial A sset - D esignation a t f air v alue t hrough profit or loss

The Bank has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

The recoverable amount of an instrument measured at fair value is the present value of the expected future cash flows discounted at the current market rate of interest for a similar financial asset. Changes in the fair value of instruments designated at fair value through profit or loss are recognised in the Income Statement.

Interest earned while holding investment securities is reported as interest income. Dividends receivable are included separately in 'dividend income' when the entities right to receive payment is established.

(k) Offsetting financial instruments

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

(l) Loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower (at draw-down) are categorised as loans by the Bank and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate these loans as is determinable by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to borrowers. An allowance for loan impairment is established if there is the objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of the loans. 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 collateral, discounted at the original effective Interest Rate of the loans.

Notes to the Financial Statements for the year ended 31 December 2010

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the end of the reporting date. These have been estimated upon the historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectible, it is written off against the related provision for impairment; subsequent recoveries are credited to the provision for loan losses in the Income Statement.

If the amount of the impairment subsequently decreases due to an event occuring after the write-down, the release of the provision is credited as a reduction of the provision for loan losses.

(m) Purchase of business

Goodwill represents the excess of the cost of an acquisition over the fair value of the business's assets and liabilities acquired.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

(n) Property, plant and equipment

Property, plant and equipment are carried at historical cost or deemed cost less accumulated depreciation.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Revaluation surpluses arising in prior years are credited to reserves. Any subsequent decrease is first charged to reserves. Thereafter, decreases are charged to the Income Statement to the extent that the decrease exceeds any amount formerly held in reserves in respect of the same asset.

(n) Property, plant and equipment (cont'd)

Depreciation is calculated to write down the cost or amount of the valuation of such assets to their residual values on a straight-line basis over their estimated useful lives as follows:

Buildings	50 years
Computer and Office equipment	3-5 years
Furniture, fixtures	10 years
Motor Vehicles	5 years

Land is not depreciated.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are recognised as income or expense in the Income Statement. On disposal of a revalued asset, the associated portion of the Revaluation surplus is released to the Income Statement. Repairs and renewals are charged to the Income Statement when the expenditure is incurred.

(o) Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, but not exceeding a period of five years.

(p) Cash and cash equivalents

For the purposes of the Statement of cash flows, cash and cash equivalents comprise cash and balances with Central Banks and amounts due to and from other banks. A further breakdown of cash and cash equivalents is given in notes 13 and 23 to the financial statements. Cash and cash equivalents do not include the mandatory balances with Central Bank.

(q) 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.

(r) Employee benefits

The Bank makes contributions to:

(i) a defined benefits plan that provides pension for employees upon retirement and is wholly funded. The assets of the funded plan are held and administered independently by the Anglo Mauritius Assurance Society Limited. The main assumptions made in the actuarial valuation of the pension fund are listed in note 27 to the financial statements.Changes in the fair value of the defined benefit plan liability are recognised as personnel expense in the Income Statement.

(ii) a defined contribution plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due.

(s) Deferred tax

Deferred tax is provided for, using the liability method, on all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation of property, plant and equipment, provisions for impairment losses on loans and advances and provisions for employee benefits.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductable temporary differences can be utilised.

The rates enacted or subsequently enacted at the reporting date are used to determine deferred tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(t) Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective yield method.

(u) Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are disclosed as liabilities with corresponding contra-assets.

(v) Segmental reporting

In accordance with the Bank of Mauritius Guidelines, the Bank's business has been split into Segment A and Segment B:

- Segment B is essentially directed to the provision of international financial services that give rise to foreign source income. Such services may be fund based or non-fund based; and
- Segment A relates to banking business other than Segment B business.

Expenditure incurred by the Bank but which is not directly attributable to its income derived from Mauritius or its foreign source income is apportioned in a fair and reasonable manner.

(w) Share Capital

Ordinary shares are classified as equity.

(i) Share issue costs
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(x) Dividend policy

The Bank will distribute a reasonable part of its profits, to the extent permitted by law and the Bank of Mauritius Guidelines, and in accordance with sound financial principles, provided that its financial situation allows such distribution.

1.2 USE OF ESTIMATES AND JUDGEMENTS

Management discussed the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 1.1(l).

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

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for Country Risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Notes to the Financial Statements for the year ended 31 December 2010

Fair value estimation

Fair value estimation

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

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

If one or more significant inputs are not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Dividend policy

The Bank will distribute a reasonable part of its profits, to the extent permitted by law and the Bank of Mauritius guidelines, and in accordance with sound financial principles provided that its financial situation allows such distribution. Dividend will be charged to equity when declared.

2. FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

The Bank's activities expose it to a variety of financial risks, market risk (including currency risk and Interest Rate Risk),Credit Risk and Liquidity Risk.

The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Bank's financial performance.

Risk management is carried out by the risk department under policies approved by the Board of Directors.

The Risk department identifies, evaluates and monitors financial risk in close cooperation with the operating units including Treasury. The Board (Risk Management Committee) 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 and investment of excess liquidity.

(b) Credit Risk

Credit Risk arises when customers or counterparties are not able to fulfill their contractual obligations under the contract. Credit Risk Management at the Bank is under the responsibility of the Credit Risk Management unit. The Board of Directors has delegated the function of formulating all matters of credit related policy and procedures in the Bank to the Board Credit Committee.

Credit quality of loans and advances

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Neither past due nor impaired	**7,424,852**	5,329,105	3,902,902
Past due but not impaired	**531,510**	371,559	331,570
Impaired	**427,001**	470,361	534,708
Gross	**8,383,363**	6,171,025	4,769,180
Less allowance for credit impairment	**(317,123)**	(402,275)	(436,529)
Net	**8,066,240**	5,768,750	4,332,651
Fair value of collaterals of past due but not impaired	**531,510**	371,559	331,570
Net impaired loans after specific allowances	**195,269**	138,776	173,697
Fair value of collaterals of impaired loans	**229,984**	174,116	221,816

Loans and advances renegotiated

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Loans and advances renegotiated	**64,928**	170,257	14,072
Fair value of collaterals	**64,928**	170,257	14,072

Notes to the Financial Statements for the year ended 31 December 2010

2. FINANCIAL RISK MANAGEMENT (CONT'D)

Maximum exposure to Credit Risk before collateral and other Credit Risk enhancements:

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Are as follows:			
Balances with banks in Mauritius, banks abroad and and inter bank loans	**3,339,743**	2,519,966	523,543
Derivatives Financial Instruments	**6,258**	5,080	18,522
Securities (MDLS)	**109,121**	108,710	108,298
Treasury and other eligible bills	**1,285,138**	952,888	829,374
Loans and advances to customers & banks	**8,383,363**	6,171,025	4,769,180
Other Assets	**703,478**	700,890	585,504
	13,827,101	10,458,559	6,834,421
Are as follows:			
Financial guarantees	**2,282,304**	1,621,446	1,338,352
Loans commitments and other credit related liabilities	**798,686**	915,271	586,053
Total	**16,908,091**	12,995,276	8,758,826

Types of collateral and credit enhancements held at year end

Fixed and Floating charges on Properties and other assets
Privilege D`Inscription
Lien on vehicle/equipment/machinery
Pledge on shares/rent/proceeds of crops
Lien on deposits
Assignment of Life Policy/general insurance policy
Bank Guarantee/personal guarantee/Government Guarantee

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Market risk

Market risk arises from activities undertaken in or impacted by financial markets generally. This includes the risk of gain or loss arising from the movement in market price of a financial asset or liability as well as ancillary risks such as liquidity and funding risk.

The Bank has adopted a centralised Risk Management Framework which controls risks on an enterprise wide basis.

Within this framework, the Board of Directors approves the risk strategy, risk policies and prudential limits within which the operations are to be carried out. The Board has also set up the Board Risk Committee to which is delegated some of its main responsibilities to monitor and ensure the effectiveness of the risk process.

Implementation of the policies and business strategies are delegated to Management and the Risk Management Unit. Market risk is under the control of the Asset and Liability Committee of the Bank.

The Bank is exposed to equity and securities price risk because of investments held and classified as available-for-sale financial asset. If the fair value had increased/decreased by 5%, the impact of increases/decreases in fair value analysis would be +Rs 18M.

(d) Capital Structure

The minimum capital adequacy ratio is fixed at 10% and is calculated as follows:

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Tier 1 Capital	**624,928**	435,728	438,842
Tier 2 Capital	**390,372**	273,758	112,579
Less Investment	**-**	-	(19,124)
Total Capital Base	**1,015,300**	709,486	532,297
Total Risk Weighted Assets	**8,932,876**	6,213,328	4,705,085
Capital Adequacy Ratio	**11.37%**	11.42%	11.31%

Notes to the Financial Statements for the year ended 31 December 2010

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Currency risk

Currency risk is defined as the potential movements in foreign exchanges rates that may adversely affect the bank's financial condition. Limits are monitored on a daily basis and reported by Treasury Back Office and Risk Management Unit. Exposure/limits are also reported to ALCO and Board Risk Committee on a monthly and quarterly basis respectively.

Concentration of assets, liabilities and off-balance sheet items

At 31 December 2010	USD Rs 000	EURO Rs 000	GBP Rs 000	MUR Rs 000	OTHERS Rs 000	TOTAL Rs 000
ASSETS						
Cash and cash equivalents	2,034,885	443,977	260,271	500,008	100,602	3,339,743
Derivative financial instruments	3,060	643	249	2,272	34	6,258
Loans and advances to banks	86,024	11,090	4,360	-	-	101,474
Loans and advances to customers	2,016,468	291,818	61,466	5,912,048	89	8,281,889
Investment Securities	369,848	-	32,850	1,012,468	-	1,415,166
Goodwill and intangible assets	-	-	-	46,152	-	46,152
Property,plant and equipment	-	-	-	322,116	-	322,116
Deferred tax assets	-	-	-	49,461	-	49,461
Other assets	20,752	3,788	12,146	666,787	5	703,478
	4,531,037	751,316	371,342	8,511,312	100,730	14,265,737
Allowance for credit impairment						(317,123)
Total Assets						13,948,614
LIABILITIES						
Deposits	4,127,489	718,475	450,160	7,270,751	31,833	12,598,708
Derivative financial instruments	1,475	1,224	3,213	83	-	5,995
Subordinated liabilities	182,335	-	-	99,041	-	281,376
Current tax liabilities	-	-	-	6,115	-	6,115
Other liabilities	50,565	629	5,726	192,809	9	249,738
Total liabilities	4,361,864	720,328	459,099	7,568,799	31,842	13,141,932
Net on balance sheet position	169,173	30,988	(87,757)	942,513	68,888	1,123,805
Less allowance for credit impairment						(317,123)
						806,682
Currency forwards and swaps						
Contractual/nominal amount	355,316	95,757	301,179	158,969	17,206	928,427
Credit commitments	172,298	12,369	-	614,019	-	798,686

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Currency risk

At 31 December 2009	USD Rs 000	EURO Rs 000	GBP Rs 000	MUR Rs 000	OTHERS Rs 000	TOTAL Rs 000
Total assets	1,966,738	888,058	386,388	7,581,131	102,670	10,924,985
Total liabilities	1,936,524	744,248	388,831	6,784,550	26,336	9,880,489
Net on balance sheet position	30,214	143,810	(2,443)	796,581	76,334	1,044,496
Less allowance for credit impairment						(402,275)
						642,221
Credit commitments	134,144	-	-	781,127	-	915,271

At 31 December 2008	USD Rs 000	EURO Rs 000	GBP Rs 000	MUR Rs 000	OTHERS Rs 000	TOTAL Rs 000
Total assets	661,905	305,882	210,265	6,016,592	58,983	7,253,627
Total liabilities	662,733	303,812	213,104	5,041,831	59,058	6,280,538
Net on balance sheet position	(828)	2,070	(2,839)	974,761	(75)	973,089
Less allowance for credit impairment						(436,529)
						536,560
Credit commitments	11,804	-	863	573,386	-	586,053

(f) Interest Rate Risk

Interest Rate Risk is the exposure of the bank's financial condition to adverse movements in Interest Rate. Changes in Interest Rates affect a bank's earnings by changing its Net Interest Income and the level of other interest sensitive income and expenses. It also affects the underlying value of the Bank's assets, liabilities and off balance sheet items.

The following techniques are being used for measuring Interest Rate Risk:
- Gap Analysis
- Duration

The Gap report is generated by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity or next repricing period, whichever is earlier. All investments, advances, deposits, borrowings, purchased funds that mature within a specified timeframe are Interest Rate sensitive.

The standard duration approach is adopted to arrive at an approximation of the Bank's exposure to Changes in the Economic value as the Bank size and operations are considered as non complex.

Notes to the Financial Statements for the year ended 31 December 2010

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(f) Interest Sensitivity of Assets and Liabilities-Repricing Analysis

At 31 December 2010	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 Years	> 3 Years	Non Interest Sensitive	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
ASSETS								
Cash and cash equivalents	964,991	384,063	189,588	61,450	-	-	1,739,651	**3,339,743**
Derivative financial instruments	-	-	-	-	-	-	6,258	**6,258**
Loans and advances to banks	82,878	18,596	-	-	-	-	-	**101,474**
Loans and advances to customers	563,946	5,064,391	370,474	378,552	313,049	1,164,476	427,001	**8,281,889**
Investment securities	68,140	336,001	19,992	9,988	626,735	333,403	20,907	**1,415,166**
Goodwill and other intangible assets	-	-	-	-	-	-	46,152	**46,152**
Property, plant and equipment	-	-	-	-	-	-	322,116	**322,116**
Deffered tax assets	-	-	-	-	-	-	49,461	**49,461**
Other assets	-	-	-	-	-	-	703,478	**703,478**
	1,679,955	5,803,051	580,054	449,990	939,784	1,497,879	3,315,024	**14,265,737**
Less allowances for credit impairment								**(317,123)**
Total assets								**13,948,614**
LIABILITIES								
Deposits	1,186,605	6,361,511	374,740	1,108,234	446,462	151,967	2,969,189	**12,598,708**
Derivative financial instruments	-	-	-	-	-	-	5,995	**5,995**
Subordinated liabilities	-	99,041	-	-	-	182,335	-	**281,376**
Current tax liabilities	-	-	-	-	-	-	6,115	**6,115**
Other liabilities	-	-	-	-	-	-	249,738	**249,738**
Total liabilities	1,186,605	6,460,552	374,740	1,108,234	446,462	334,302	3,231,037	**13,141,932**
								806,682
Interest Rate sensitivity gap	493,350	(657,501)	205,314	(658,244)	493,322	1,163,577	83,987	**1,123,805**
Less allowances for credit impairment								**(317,123)**
								806,682

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(f) Interest Sensitivity of Assets and Liabilities- Repricing Analysis

As at 31 December 2009	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 Years	> 3 Years	Non Interest Sensitive	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Total assets	2,351,671	4,602,326	233,269	55,730	513,990	843,070	2,324,929	**10,924,985**
Total liabilities	1,777,901	4,611,527	781,675	516,724	1,009,796	424,754	758,112	**9,880,489**
Interest Rate sensitivity gap	573,770	(9,201)	(548,406)	(460,994)	(495,806)	418,316	1,566,817	**1,044,496**
Less allowances for credit impairment								**(402,275)**
								642,221

As at 31 December 2008	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 Years	> 3 Years	Non Interest Sensitive	TOTAL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Total assets	3,855,449	198,942	185,951	466,571	121,814	389,185	2,035,715	**7,253,627**
Total liabilities	2,706,991	570,001	256,898	754,449	806,650	524,016	661,533	**6,280,538**
Interest Rate sensitivity gap	1,148,458	(371,059)	(70,947)	(287,878)	(684,836)	(134,831)	1,374,182	**973,089**
Less allowances for credit impairment								**(436,529)**
								536,560

(g) Liquidity Risk

Liquidity Risk is the risk of financial loss that arises when funds are required to meet repayments, withdrawals and other commitments that cannot be obtained in time due to lack of market liquidity which prevents quick and effective liquidation of positions or portfolios. Different dimensions of Liquidity Risks are:

(i) funding risk
(ii) time risk
(iii) call risk.

The Bank uses the Maturity Gap Report for measurement and management of Liquidity Risk. The Maturity Gap Report slots the inflows and outflows in different Maturity Buckets as defined by the Bank of Mauritius, according to the expected timing of cash flows.

Notes to the Financial Statements for the year ended 31 December 2010

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(g) Liquidity Risk

Maturities of Assets & Liabilities:

As at 31 December 2010	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	> 3 Years Rs 000	Non Maturity Items Rs 000	TOTAL Rs 000
ASSETS								
Cash and cash equivalents	2,704,642	384,063	189,588	61,450	-	-	-	**3,339,743**
Derivative financial instruments	3,669	786	1,803	-	-	-	-	**6,258**
Loans and advances to banks	82,878	18,596	-	-	-	-	-	**101,474**
Loans and advances to customers	2,148,535	348,813	378,028	482,954	770,977	3,725,581	427,001	**8,281,889**
Investment securities	68,140	336,001	19,992	9,988	626,735	333,403	20,907	**1,415,166**
Goodwill and other intangible assets	-	-	-	-	-	-	46,152	**46,152**
Property, plant and equipment	-	-	-	-	-	-	322,116	**322,116**
Deferred tax assets	-	-	-	-	-	-	49,461	**49,461**
Other assets	-	-	-	-	-	-	703,478	**703,478**
	5,007,864	1,088,259	589,411	554,392	1,397,712	4,058,984	1,569,115	**14,265,737**
Less Allowances for Credit Impairment								**(317,123)**
Total assets								**13,948,614**
LIABILITIES								
Deposits	7,920,140	1,080,818	891,410	1,528,250	967,015	210,190	885	**12,598,708**
Derivative financial instruments	3,465	755	1,775	-	-	-	-	**5,995**
Subordinated liabilities	-	-	-	-	-	281,376	-	**281,376**
Current tax liabilities	-	-	6,115	-	-	-	-	**6,115**
Other liabilities	-	-	-	-	-	-	249,738	**249,738**
Total liabilities	7,923,605	1,081,573	899,300	1,528,250	967,015	491,566	250,623	**13,141,932**
Net liquidity gap	(2,915,741)	6,686	(309,889)	(973,858)	430,697	3,567,418	1,318,492	**1,123,805**
Less allowances for credit impairment								**(317,123)**
								806,682

2. FINANCIAL RISK MANAGEMENT (CONT'D)

(g) Liquidity Risk

As at 31 December 2009	Up to 1 month Rs 000	1-3 months Rs 000	3-6 months Rs 000	6-12 months Rs 000	1-5 Years Rs 000	> 5 Years Rs 000	Non Maturity Items Rs 000	TOTAL Rs 000
Total assets	3,758,271	1,011,874	617,772	755,524	1,170,764	2,362,984	1,247,796	**10,924,985**
Total liabilities	5,435,573	997,049	990,510	847,804	1,084,465	493,055	32,033	**9,880,489**
Net Liquidity Gap	(1,677,302)	14,825	(372,738)	(92,280)	86,299	1,869,929	1,215,763	**1,044,496**
Less allowances for credit impairment								**(402,275)**
								642,221

As at 31 December 2008	Up to 1 month Rs 000	1-3 months Rs 000	3-6 months Rs 000	6-12 months Rs 000	1-5 Years Rs 000	> 5 Years Rs 000	Non Maturity Items Rs 000	TOTAL Rs 000
Total assets	2,042,491	479,346	336,535	975,296	702,926	1,439,979	1,277,054	**7,253,627**
Total liabilities	2,413,643	625,011	391,605	1,198,756	1,378,659	243,358	29,506	**6,280,538**
Net Liquidity Gap	(371,152)	(145,665)	(55,070)	(223,460)	(675,733)	1,196,621	1,247,548	**973,089**
Less allowances for credit impairment								**(436,529)**
								536,560

Notes to the Financial Statements for the year ended 31 December 2010

3. NET INTEREST INCOME

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Interest income			
Loans and advances to banks	**5,199**	12,342	9,798
Loans and advances to customers	**604,575**	482,818	327,856
Investment securities	**98,084**	91,843	239,971
Placements with other banks	**23,428**	20,292	16,092
Total Interest income	**731,286**	607,295	593,717
Interest expense			
Deposits from customers	**(422,010)**	(466,404)	(562,720)
Borrowings from banks	**(402)**	(1,633)	(1,628)
Other Interest expense	**(16,712)**	(6,717)	
Total Interest expense	**(439,124)**	(474,754)	(564,348)
Net Interest income	**292,162**	132,541	29,369

(a)

Segment A	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Interest income			
Loans and advances to customers	**559,058**	461,526	315,506
Investment securities	**75,200**	86,485	239,971
Placements with other banks	**739**	748	2,108
Total Interest income	**634,997**	548,759	557,585
Interest expense			
Deposits from customers	**(397,882)**	(434,743)	(532,511)
Borrowings from banks	**(402)**	(1,619)	(1,628)
Other Interest Expense	**(2,714)**	-	-
Total Interest expense	**(400,998)**	(436,362)	(534,139)
Net Interest income	**233,999**	112,397	23,446

(b)

Segment B	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Interest income			
Loans and advances from banks	**5,199**	12,342	9,798
Loans and advances from customers	**45,517**	21,292	12,350
Investment Securities	**22,884**	5,358	
Placements with other banks	**22,689**	19,544	13,984
Total Interest income	**96,289**	58,536	36,132
Interest expense			
Deposits from customers	**(24,128)**	(31,661)	(30,209)
Borrowings from banks	**-**	(14)	-
Other Interest Expense	**(13,998)**	(6,717)	-
Total Interest expense	**(38,126)**	(38,392)	(30,209)
Net Interest income	**58,163**	20,144	5,923

4. NET FEE AND COMMISSION INCOME

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Fee and Commission Income			
Retail banking customer fees	**27,736**	21,613	7,995
Corporate banking credit related fees	**30,599**	26,411	11,510
International banking customer fees	**50,407**	20,603	2,130
Other	**5,507**	1,199	7,820
Total fee and commission income	**114,249**	69,826	29,455
Fee and commission expense			
Interbank transaction fees	**(2,479)**	(2,175)	(1,764)
Other	**(17,215)**	(4,221)	(4,071)
Total fee and commission expense	**(19,694)**	(6,396)	(5,835)
Net fee and commission income	**94,555**	63,430	23,620

(a)

Segment A	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Fee and Commission Income			
Retail banking customer fees	**27,736**	21,613	7,995
Corporate banking credit related fees	**30,599**	26,411	11,510
Other	**5,507**	1,199	7,820
Total fee and commission income	**63,842**	49,223	27,325
Fee and commission expense			
Interbank transaction fees	**(1,806)**	(2,175)	(1,754)
Other	**(17,215)**	(4,123)	(4,071)
Total fee and commission expense	**(19,021)**	(6,298)	(5,825)
Net fee and commission income	**44,821**	42,925	21,500

(b)

Segment B	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Fee and Commission Income			
International banking customer fees	**50,407**	20,603	2,130
Total fee and commission income	**50,407**	20,603	2,130
Fee and commission expense			
International banking customer fees	**(673)**	-	(10)
Other	**-**	(98)	-
Total fee and commission expense	**(673)**	(98)	(10)
Net fee and commission income	**49,734**	20,505	2,120

Notes to the Financial Statements for the year ended 31 December 2010

5. NET TRADING INCOME

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Foreign exchange	**57,416**	65,788	49,588
	57,416	65,788	49,588

(a) Segment A	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Foreign exchange	**12,573**	46,585	49,396
	12,573	46,585	49,396

(b) Segment B	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Foreign exchange	**44,843**	19,203	192
	44,843	19,203	192

6. OTHER OPERATING INCOME

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Rental income	**-**	1,190	489
Other	**10,278**	12,069	186
	10,278	13,259	675

(a) Segment A	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Rental income	**-**	1,190	489
Other	**696**	3,250	186
	696	4,440	675

(b) Segment B	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Gain on sale of available for sale securities	**9,582**	8,819	-
	9,582	8,819	-

7. NET IMPAIRMENT ON FINANCIAL ASSETS

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Provision for bad and doubtful debts	**(39,179)**	(7,501)	(40,793)
Bad debts written off for which no provisions were made	**-**	(500)	(1,338)
Provisions released during the year	**8,146**	13,770	12,326
Recoveries of advances written off	**4,612**	4,931	757
Net Allowance for Credit Impairment	**(26,421)**	10,700	(29,048)

(a) Segment A	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Provision for bad and doubtful debts	**(32,149)**	(6,741)	(33,175)
Bad debts written off for which no provisions were made	**-**	(500)	(1,338)
Provisions released during the year	**8,146**	13,770	12,326
Recoveries of advances written off	**4,612**	4,930	757
Net Allowance for Credit Impairment	**(19,391)**	11,459	(21,430)

(b) Segment B	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Provision for bad and doubtful debts	**(7,030)**	(759)	(7,618)
Net Allowance for Credit Impairment	**(7,030)**	(759)	(7,618)

Notes to the Financial Statements for the year ended 31 December 2010

8. PERSONNEL EXPENSES

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Wages and salaries	**(97,678)**	(88,272)	(80,626)
Compulsory social security obligations	**(3,425)**	(3,544)	(3,377)
Contributions to defined benefit plans (note 27)	**(3,782)**	(4,021)	(4,004)
Deferred contribution plan	**(6,133)**	(5,361)	-
Increase in liability for defined benefit plans (note 27)	**(2,671)**	(1,282)	(1,650)
Other personnel expenses	**(59,546)**	(42,166)	(35,979)
	(173,235)	(144,646)	(125,636)

(a) **Segment A**

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Wages and salaries	**(80,512)**	(83,275)	(78,502)
Compulsory social security obligations	**(2,957)**	(3,432)	(3,334)
Contributions to defined benefit plans	**(3,567)**	(3,958)	(4,564)
Deferred contribution plan (note 27)	**(4,416)**	(4,835)	-
Increase in liability for defined benefit plans (note 27)	**(2,671)**	(1,282)	(1,650)
Other personnel expenses	**(50,837)**	(40,588)	(34,730)
	(144,960)	(137,370)	(122,780)

(b) **Segment B**

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Wages and salaries	**(17,166)**	(4,997)	(2,124)
Compulsory social security obligations	**(468)**	(112)	(43)
Contributions to defined benefit plans	**(215)**	(63)	-
Deferred contribution plan	**(1,717)**	(526)	-
Other personnel expenses	**(8,709)**	(1,578)	(689)
	(28,275)	(7,276)	(2,856)

9. OTHER EXPENSES

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Software licensing & other information technology cost	**(22,930)**	(17,242)	(17,328)
Others	**(60,663)**	(51,094)	(69,486)
	(83,593)	(68,336)	(86,814)

(a) **Segment A**

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Software licensing and other information technology cost	**(21,710)**	(16,906)	(17,324)
Other	**(53,919)**	(49,144)	(69,023)
	(75,629)	(66,050)	(86,347)

(b) **Segment B**

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Software licensing and other information technology cost	**(1,220)**	(336)	(4)
Other operating expenses	**(6,744)**	(1,950)	(463)
	(7,964)	(2,286)	(467)

10. PROFIT ON SALE AND RECOVERY OF ASSETS

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Profit on transfer of leasehold land	**-**	-	13,279
Financial assets recovered (Note 31)	**59,322**	-	16,911
	59,322	-	30,190
(a) **Segment A**			
Profit on transfer of leasehold land	**-**	-	13,279
	-	-	13,279
(b) **Segment B**			
Financial assets recovered (Note 31)	**59,322**	-	16,911
	59,322	-	16,911

Notes to the Financial Statements for the year ended 31 December 2010

11. INCOME TAX EXPENSE RECOGNISED IN THE INCOME STATEMENT

		Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
(a)	**Current tax expense**			
	Current period	**8,056**	534	-
(b)	**Deferred tax expense**			
	Originated and reversal of temporary differences (note 20)	**19,500**	3,292	(22,708)
		27,556	3,826	(22,708)

(c)	**Reconciliation of effective tax rate**	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
	Profit/(loss) before income tax	**195,844**	42,314	(143,512)
	Income tax at a rate of 3% & 15% (2009 & 2008: 3% & 15%)	**8,118**	(627)	(20,891)
	Non-deductible expenses	**590**	897	2,715
	Income not subject to tax	**(2,089)**	(265)	(4,532)
	Special levy on banks	**5,565**	534	-
	Corporate social responsibility fund	**550**	-	-
	(Overprovision)/underprovision in prior years	**1,940**	(525)	-
	Other timing differences	**12,882**	3,812	-
	Total income tax in income statement	**27,556**	3,826	(22,708)

Segment A	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Current tax expense			
Current period	**6,527**	-	-

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Deferred tax expense			
Originated and reversal of temporary differences	**19,962**	3,292	(22,528)

Segment B	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Current tax expense			
Current period	**1,529**	534	-

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Deferred tax expense			
Originated and reversal of temporary differences	**(462)**	-	(180)

12. EARNINGS /(LOSS) PER SHARE

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Profit/(loss) for the year/period	**168,288**	38,488	(120,804)
Weighted average number of ordinary shares	**5,440,587**	4,914,560	5,137,760
Earnings/(loss) per share - Basic (Rs.)	**30.93**	7.83	(23.51)

13. CASH AND CASH EQUIVALENTS

	Dec 10 Rs 000	Dec 09 Rs 000	18 month period to Dec 08 Rs 000
Cash in hand	**105,962**	79,168	61,786
Foreign currency notes and coins	**14,963**	6,870	7,659
Unrestricted balances with central banks (note 1)	**392,206**	184,250	2,553
Money market placements (note 2)	**657,491**	1,529,584	122,560
Other bank placements	**251,038**	-	-
Inter bank Loans	**-**	300,000	-
Balances with banks abroad	**1,913,939**	420,094	334,391
Balance with other financial institutions	**4,144**	-	-
	3,339,743	2,519,966	528,949

1. Balances with central banks over and above the minimum cash reserve requirement (CRR) as disclosed in note 21.

2. Money market placements are defined as investments maturing in less than three months.

Notes to the Financial Statements for the year ended 31 December 2010

14. DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT

	Contractual/ Nominal Amount	Fair Value Assets	Fair Value Liabilities
	Rs 000	Rs 000	Rs 000
As at 31 December 2010			
Currency forwards	291,728	2,728	3,849
Currency SWAPS	636,699	3,530	2,146
	928,427	6,258	5,995
As at 31 December 2009			
Currency forwards	902,474	5,080	1,821
As at 31 December 2008			
Currency forwards	843,940	18,522	-

15. LOANS AND ADVANCES TO BANKS

	Dec 10	Dec 09	Dec 08
	Rs 000	Rs 000	Rs 000
Outside Mauritius	**101,474**	165,724	404,879
	101,474	165,724	404,879
Less allowance for credit impairment	**(1,015)**	(1,657)	(4,048)
	100,459	164,067	400,831

(a)

Segment B	Dec 10	Dec 09	Dec 08
	Rs 000	Rs 000	Rs 000
Outside Mauritius	**101,474**	165,724	404,879
	101,474	165,724	404,879
Less allowance for credit impairment	**(1,015)**	(1,657)	(4,048)
	100,459	164,067	400,831

(b)

Remaining term to maturity	Dec 10	Dec 09	Dec 08
	Rs 000	Rs 000	Rs 000
Up to 3 months	**101,474**	132,003	246,870
Over 3 months and up to 6 months	**-**	33,721	33,553
Over 6 months and up to 12 months	**-**	-	124,456
	101,474	165,724	404,879

15. LOANS AND ADVANCES TO BANKS (CONT'D)

(c)

Allowance for credit impairment	Specific allowances for impairment	Collective/portfolio allowances and general provisions for impairment	Total
	Rs 000	Rs 000	Rs 000
Balance as at 1 July 2007	-	-	-
Provision for credit impairment for the period	-	4,048	4,048
Balance as at 31 December2008	-	**4,048**	**4,048**
Release during the period	-	(2,391)	(2,391)
Balance as at 31 December2009	-	**1,657**	**1,657**
Release during the period	-	(642)	(642)
Balance as at 31 December 2010	-	**1,015**	**1,015**

16. LOANS AND ADVANCES TO CUSTOMERS

	Dec 10	Dec 09	Dec 08
	Rs 000	Rs 000	Rs 000
Retail customers			
- Credit Cards	**49,004**	3,102	-
- Mortgages	**523,454**	321,496	208,773
- Other retail loans	**1,565,706**	1,204,206	794,001
Corporate customers	**4,435,922**	3,703,656	2,973,698
Governments	**2,709**	3,419	22,483
Entities outside Mauritius	**1,705,094**	769,423	365,346
	8,281,889	6,005,301	4,364,301
Less: allowance for credit impairment	**(316,108)**	(400,618)	(432,481)
	7,965,781	5,604,683	3,931,820

(a)

Segment A	Dec 10	Dec 09	Dec 08
	Rs 000	Rs 000	Rs 000
Retail customers			
- Credit Cards	**49,004**	3,102	-
- Mortgages	**523,454**	321,496	208,773
- Other retail loans	**1,565,706**	1,204,206	794,001
Corporate customers	**4,435,922**	3,703,656	2,973,698
Governments	**2,709**	3,419	22,483
	6,576,795	5,235,878	3,998,955
Less allowance for credit impairment	**(301,717)**	(393,899)	(428,911)
	6,275,078	4,841,979	3,570,044

Notes to the Financial Statements for the year ended 31 December 2010

16. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(b) Segment B	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Entities outside Mauritius	**1,705,094**	769,423	365,346
	1,705,094	769,423	365,346
Less allowance for credit impairment	**(14,391)**	(6,719)	(3,570)
	1,690,703	762,704	361,776

(c) Remaining term to maturity	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Up to 3 months	**2,497,348**	2,719,216	1,821,496
Over 3 months and up to 6 months	**378,028**	185,928	265,849
Over 6 months and up to 12 months	**482,954**	109,216	425,839
Over 1 year and up to 5 years	**1,919,645**	1,406,197	1,125,541
Over 5 years	**3,003,914**	1,584,744	725,576
	8,281,889	6,005,301	4,364,301

(d) Credit concentration of risk by industry sectors	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Agriculture and Fishing	**281,396**	218,956	153,902
Manufacturing	**751,921**	402,750	464,661
of which EPZ	***150,145***	*169,737*	*180,389*
Tourism	**1,035,824**	823,403	716,164
Transport	**104,804**	73,860	36,824
Construction	**1,769,008**	1,337,147	688,138
Financial and business services	**524,439**	466,662	590,718
Traders	**1,621,360**	1,336,647	1,042,247
Personal	**819,791**	527,354	337,200
of which credit cards	***49,004***	*3,102*	-
Professional	**15,317**	13,070	890
Global business license holders	**697,640**	180,440	-
Others	**660,389**	625,011	333,557
	8,281,889	6,005,301	4,364,301

16. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Segment A			
Agriculture and Fishing	**172,895**	206,169	153,902
Manufacturing	**645,494**	401,846	304,226
of which EPZ	***150,145***	*169,737*	*180,389*
Tourism	**871,641**	722,334	601,914
Transport	**104,804**	73,860	36,824
Construction	**1,672,050**	1,293,867	669,727
Financial and business services	**509,877**	461,841	530,492
Traders	**1,557,716**	1,287,111	1,042,247
Personal	**689,071**	494,380	325,162
of which credit cards	***49,004***	*3,102*	-
Professional	**15,317**	13,070	890
Others	**337,930**	281,399	333,557
	6,576,795	5,235,878	3,998,941
Segment B			
Agriculture and Fishing	**108,501**	12,786	-
Manufacturing	**106,427**	904	160,435
Tourism	**164,183**	101,069	114,250
Construction	**96,958**	43,280	18,411
Financial and business services	**14,562**	4,820	60,226
Traders	**63,644**	49,536	-
Personal	**130,720**	32,974	12,038
Global business license holders	**697,640**	180,440	-
Others	**322,459**	343,612	-
	1,705,094	769,423	365,360

Others include the following sectors: Media, Entertainment & Recreational Activities, Education,Modernisation & Expansion Enterprise Certificate Holders, Health Development Certificate Holders, Public Nonfinancial Corporations, State and Local Government, Infrastructure, ICT and other.

Notes to the Financial Statements for the year ended 31 December 2010

16. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(e) Allowance for credit impairment

	Specific allowances for impairment	Collective/portfolio allowances and general provisions for impairment	Total
	Rs 000	Rs 000	Rs 000
Balance as at 30 June 2007	404,608	10,000	**414,608**
Provision for credit impairment for the year	20,247	61,470	**81,717**
Loans written off out of allowance	(51,518)	-	**(51,518)**
Provisions released	(12,326)	-	**(12,326)**
Balance at end of December 2008	361,011	71,470	**432,481**
Provision for credit impairment for the year	10,289	9,393	**19,682**
Loans written off out of allowance	(28,567)	-	**(28,567)**
Provisions released	(11,149)	(11,829)	**(22,978)**
Balance at end of December 2009	331,584	69,034	**400,618**
Provision for credit impairment for the year	30,994	15,342	**46,336**
Loans written off out of allowance	(122,501)	-	**(122,501)**
Provisions released	(8,345)	-	**(8,345)**
Balance at end of December 2010	**231,732**	**84,376**	**316,108**

(f) Investment in finance leases

	Up to 1 Year	1 to 5 Years	Over 5 years	31 Dec 10 Total	31 Dec 09 Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
The amount of investments in finance leases included in the loans and advances to customers					
Gross investment in finance leases	2,445	122,572	59,376	**184,393**	103,012
Unearned finance income	(1,582)	(41,218)	(20,754)	**(63,554)**	(26,469)
Present value of minimum lease payments	863	81,354	38,622	**120,839**	76,543
Allowance for impairment				**(1,208)**	(765)
				119,631	75,778

16. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(g) Allowance for credit impairment by industry sectors

	Dec 10					Dec 09	Dec 08
	Gross amount of loans	Impaired loans	Specific allowances for credit impairment	Collective/ portfolio allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Agriculture and Fishing	281,396	24,468	5,514	1,452	**6,966**	6,151	5,297
Manufacturing	751,921	47,350	40,965	6,677	**47,642**	74,964	76,895
of which EPZ	*150,145*	*42,461*	*37,490*	*1,077*	***38,567***	*70,324*	*71,973*
Tourism	1,035,824	66,768	17,816	9,569	**27,385**	60,085	64,173
Transport	104,804	2,187	1,395	878	**2,273**	2,973	2,524
Construction	1,769,008	68,202	46,284	15,904	**62,188**	58,298	56,640
Financial and business services	524,439	-	-	3,640	**3,640**	3,109	5,567
Traders	1,621,360	138,097	57,775	26,790	**84,565**	90,827	143,138
Personal	819,791	39,859	31,410	6,590	**38,000**	42,574	46,199
of which credit cards	*49,004*	-	-	*490*	***490***	*31*	-
Professional	15,317	-	-	146	**146**	123	-
Global business license holders	697,640	-	-	6,473	**6,473**	-	-
Others	660,389	40,070	30,573	6,257	**36,830**	61,514	32,048
	8,281,889	427,001	231,732	84,376	**316,108**	400,618	432,481

(h) Allowance for credit impairment by industry sectors

	Dec 10					Dec 09	Dec 08
	Gross amount of loans	Impaired loans	Specific allowances for credit impairment	Collective/ portfolio allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment	Total allowances for credit impairment
Segment A	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Agriculture and Fishing	172,895	24,468	5,514	1,452	**6,966**	6,151	5,297
Manufacturing	645,494	47,350	40,965	5,913	**46,878**	74,955	75,290
of which EPZ	*150,145*	*42,461*	*37,490*	*1,077*	***38,567***	*70,324*	*71,973*
Tourism	871,641	66,768	17,816	7,989	**25,805**	59,074	63,030
Transport	104,804	2,187	1,395	878	**2,273**	2,973	2,524
Construction	1,672,050	64,366	46,207	15,388	**61,595**	58,050	56,456
Financial and Business Services	509,877	-		3,618	**3,618**	3,075	4,961
Traders	1,557,716	138,097	57,775	26,230	**84,005**	90,391	143,212
Personal	689,071	38,668	31,342	5,773	**37,115**	42,468	46,093
of which credit cards	*49,004*	-	-	*490*	***490***	*31*	-
Professional	15,317	-	-	146	**146**	123	-
Others	337,930	40,070	30,573	2,743	**33,316**	56,639	32,048
	6,576,795	421,974	231,587	70,130	**301,717**	393,899	428,911

Notes to the Financial Statements for the year ended 31 December 2010

16. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(i)

Allowance for credit impairment by industry sectors	Gross amount of loans	Impaired loans	Dec 10 Specific allowances for credit impairment	Collective/ portfolio allowances for credit impairment	Total allowances for credit impairment	Dec 09 Total allowances for credit impairment	Dec 08 Total allowances for credit impairment
Segment B	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Agriculture and Fishing	108,501	-	-	-	**-**	-	-
Manufacturing	106,427	-	-	764	**764**	9	1,605
Tourism	164,183	-	-	1,580	**1,580**	1,011	1,143
Construction	96,958	3,836	77	516	**593**	248	111
Financial and Business Services	14,562	-	-	22	**22**	34	606
Traders	63,644	-	-	560	**560**	436	-
Personal	130,720	1,191	68	817	**885**	106	105
Global business license holders	697,640	-	-	6,473	**6,473**		-
Others	322,459	-	-	3,514	**3,514**	4,875	-
	1,705,094	5,027	145	14,246	**14,391**	6,719	3,570

17. INVESTMENT SECURITIES

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Held to maturity investment securities	**1,030,111**	870,257	937,672
Available for sale investment securities	**385,055**	213,335	19,124
	1,415,166	1,083,592	956,796

(a)

Held to maturity investment securities	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Government bonds	**476,595**	485,669	384,625
Treasury Bills / Notes issued by Government of Mauritius	**9,993**	226,768	12,596
Bank of Mauritius Bills	**395,852**	-	432,153
Mauritius Development Loan Stock	**109,121**	108,710	108,298
Corporate bonds	**38,550**	49,111	-
	1,030,111	870,257	937,672
Segment A			
Government of Mauritius bonds	**476,595**	485,669	384,625
Treasury Bills / Notes issued by Government of Mauritius	**9,993**	226,768	12,596
Bank of Mauritius Bills	**395,852**	-	432,153
Mauritius Development Loan Stock	**109,121**	108,710	108,298
	991,561	821,146	937,672
Segment B			
Corporate bonds	**38,550**	49,111	-
	38,550	49,111	-

(b)

Available for sale investment securities	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Equity shares of companies in Oriental Commercial Bank Ltd (Kenya)	**20,907**	21,994	19,124
Corporate bonds	**364,148**	191,341	-
	385,055	213,335	19,124

The Bank holds 4,597,210 shares, representing 5.59% shareholding of Oriental Commercial Bank Ltd,incorporated and operating in Kenya.

Segment B	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Equity shares in Oriental Commercial Bank Ltd (Kenya)	**20,907**	21,994	19,124
Corporate bonds	**364,148**	191,341	-
	385,055	213,335	19,124

Notes to the Financial Statements for the year ended 31 December 2010

18. PROPERTY, PLANT AND EQUIPMENT

Cost or Valuation	Leasehold Land	Land and buildings	Computer and other equipment	Other fixed assets	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 30 June 2007	2,000	280,000	121,410	58,387	**461,797**
Acquisitions	-	-	17,624	16,091	**33,715**
Scrapped	-	-	(43)	-	**(43)**
Disposals	(2,000)	-	-	(926)	**(2,926)**
Balance as at 31 December 2008	-	280,000	138,991	73,552	**492,543**
Acquisitions	-	-	12,457	23,902	**36,359**
Scrapped	-	-	(4,504)	(1,612)	**(6,116)**
Disposals	-	-	(36)	(8,577)	**(8,613)**
Balance as at 31 December 2009	-	280,000	146,908	87,265	**514,173**
Acquisitions	-	-	6,933	14,353	**21,286**
Scrapped	-	-	(1,132)	-	**(1,132)**
Disposals	-	-	-	(655)	**(655)**
Balance as at 31 December 2010	-	280,000	152,709	100,963	**533,672**
Accumulated depreciation					
Balance as at 30 June 2007	-	12,245	82,117	45,607	**139,969**
Depreciation for the period	-	7,110	19,703	7,796	**34,609**
Scrapped	-	-	(23)	-	**(23)**
Disposal adjustment	-	-		(926)	**(926)**
Balance at end of December 2008	-	19,355	101,797	52,477	**173,629**
Depreciation for the year	-	4,740	14,292	7,967	**26,999**
Scrapped	-	-	(4,504)	(1,612)	**(6,116)**
Disposal adjustment	-	-	(25)	(8,109)	**(8,134)**
Balance at end of December 2009	-	24,095	111,560	50,723	**186,378**
Depreciation for the year	-	4,740	14,421	7,804	**26,965**
Scrapped	-	-	(1,132)	-	**(1,132)**
Disposal adjustment	-	-	-	(655)	**(655)**
Balance at end of December 10	-	28,835	124,849	57,872	**211,556**
Net book value at end of December 2010	-	251,165	27,860	43,091	**322,116**
Net book value at end of December 2009	-	255,905	35,348	36,542	**327,795**
Net book value at end of December 2008	-	260,645	37,194	21,075	**318,914**
Net book value as at 31 December 2010 by segments					
Segment A	-	244,447	27,694	43,091	**315,232**
Segment B	-	6,718	166	-	**6,884**
	-	251,165	27,860	43,091	**322,116**
Net book value as at 31 December 2009 by segments					
Segment A	-	249,207	35,200	36,542	**320,949**
Segment B	-	6,698	148	-	**6,846**
	-	255,905	35,348	36,542	**327,795**
Net book value as at 31 December 2008 by segments					
Segment A	-	260,645	37,026	21,075	**318,746**
Segment B	-	-	168	-	**168**
	-	260,645	37,194	21,075	**318,914**

19. INTANGIBLE ASSETS

	Goodwill	Computer Software	Total
	Rs 000	Rs 000	Rs 000
Cost			
Balance as at 30 June 2007	-	36,594	**36,594**
Additions	15,147	11,157	**26,304**
Balance as at 31 December 2008	15,147	47,751	**62,898**
Additions	-	25,069	**25,069**
Balance as at 31 December 2009	15,147	72,820	**87,967**
Additions	-	6,151	**6,151**
Balance as at 31 December 2010	15,147	78,971	**94,118**
Amortisation			
Balance as at 30 June 2007	-	36,021	**36,021**
Charge for the period	-	846	**846**
Balance as at 31 December 2008	-	36,867	**36,867**
Charge for the year		3,424	**3,424**
Balance as at 31 December 2009	-	40,291	**40,291**
Charge for the year	-	7,675	**7,675**
Balance as at 31 December 2010	-	47,966	**47,966**
Net book value at end of December 2010	15,147	31,005	**46,152**
Net book value at end of December 2009	15,147	32,529	**47,676**
Net book value at end of December 2008	15,147	10,884	**26,031**
Net book value as at 31 December 2010 by segments			
Segment A	15,147	29,770	**44,917**
Segment B		1,235	**1,235**
	15,147	31,005	**46,152**
Net book value as at 31 December 2009 by segments			
Segment A	15,147	31,599	**46,746**
Segment B	-	930	**930**
	15,147	32,529	**47,676**
Net book value as at 31 December 2008 by segments			
Segment A	15,147	10,874	**26,021**
Segment B	-	10	**10**
	15,147	10,884	**26,031**

Goodwill represents the excess of the cost paid for the purchase of Edge Forex over the fair value of assets acquired.

Notes to the Financial Statements for the year ended 31 December 2010

20. DEFERRED TAX ASSETS

The movement on the deferred income tax account is as follows:

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
At start of year/period	**68,961**	68,253	45,545
Release of deferred tax on revaluation surplus	**-**	4,000	-
Income Statement charge (note 11)	**(19,500)**	(3,292)	22,708
At end of year/period	**49,461**	68,961	68,253
Deferred tax asset			
Allowances for loan losses	**45,720**	60,341	64,763
Tax losses carried forward	**16,816**	23,060	21,654
Retirement benefit obligation	**4,913**	4,513	4,320
	67,449	87,914	90,737
Deferred tax liabilities			
Accelerated capital allowances	**5,120**	5,796	4,950
Revaluation reserve	**12,868**	13,157	17,534
	17,988	18,953	22,484
	49,461	68,961	68,253

21. OTHER ASSETS

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Mandatory balances with Central Bank*	**559,686**	335,477	228,142
Balance due in clearing	**22,664**	243,415	15,308
Accrued interest receivable	**42,729**	38,488	11,620
Non-banking assets acquired in satisfaction of debts	**11,987**	14,423	26,495
Other	**66,412**	69,087	285,417
	703,478	700,890	566,982

* Balances to be maintained with Central Bank as cash reserve requirement.

21. OTHER ASSETS

Segment A	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Mandatory balances with Central Bank	**559,686**	335,477	228,142
Balance due in clearing	**22,664**	243,415	15,308
Accrued interest receivable	**22,885**	25,428	11,125
Non-banking assets acquired in satisfaction of debts	**11,987**	14,423	26,495
Others	**52,615**	69,044	303,857
	669,837	687,787	584,927

Segment B	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Accrued interest receivable	**19,844**	13,060	495
Others	**13,797**	43	82
	33,641	13,103	577

22. DEPOSITS FROM CUSTOMERS

(a) **Deposits comprise the following:**	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Retail customers	**5,281,957**	4,881,515	3,767,814
Corporates	**2,491,055**	2,396,961	1,477,992
International	**4,775,612**	2,152,828	871,942
Government	**50,084**	48,208	15,964
	12,598,708	9,479,512	6,133,712

Notes to the Financial Statements for the year ended 31 December 2010

22. DEPOSITS FROM CUSTOMERS (CONT'D)

(b) The table below shows the remaining maturity term for deposits by type of customer:

			Time deposits with remaining term to maturity					
	Current accounts	Savings accounts	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months	Over 1 year and up to 5 years	Over 5 years	Totals
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
At 31 December 2010								
Retail customers	301,803	2,164,439	1,177,890	241,037	320,323	1,076,465	-	**5,281,957**
Corporate customers	479,906	325,380	780,891	365,008	522,470	17,400	-	**2,491,055**
International customers	2,201,328	412,136	1,153,101	285,365	645,458	78,225	-	**4,775,613**
Government	-	2,083	2,000	-	40,000	6,000	-	**50,083**
Total	2,983,037	2,904,038	3,113,882	891,410	1,528,251	1,178,090	-	**12,598,708**
At 31 December 2009								
Retail customers	302,619	1,742,767	951,764	242,408	459,917	1,171,478	10,562	**4,881,515**
Corporate customers	380,721	386,565	1,012,137	506,286	104,628	6,623	-	**2,396,960**
International customers	806,529	239,139	506,382	225,355	245,639	128,669	1,115	**2,152,828**
Government	-	39,803	405	-	-	8,000	-	**48,208**
Total	1,489,869	2,408,274	2,470,688	974,049	810,184	1,314,771	11,677	**9,479,512**
At 31 December 2008								
Retail customers	180,277	1,053,404	416,719	201,271	618,145	1,190,230	107,768	**3,767,814**
Corporate customers	188,894	43,248	565,278	198,102	473,830	8,641	-	**1,477,993**
International customers	78,988	146,600	409,240	34,270	64,488	137,339	1,017	**871,942**
Government	38	8,925	-	-	7,000	-	-	**15,963**
Total	448,197	1,252,177	1,391,237	433,643	1,163,463	1,336,210	108,785	**6,133,712**

23. OTHER BORROWED FUNDS

	Dec 10	Dec 09	Dec 08
	Rs 000	Rs 000	Rs 000
Borrowings from Central Banks	**-**	-	5,406
	-	-	5,406
Segment A			
Borrowings from Central Banks	**-**	-	5,406
	-	-	5,406

24. SUBORDINATED LIABILITIES

Remaining term to maturity	Dec 10	Dec 09	Dec 08
	Rs 000	Rs 000	Rs 000
Over 3 years and up to 4 years	**16,576**	-	-
Over 4 years and up to 5 years	**33,152**	16,234	-
Over 5 years	**231,648**	162,344	-
	281,376	178,578	-
Segment A			
Over 5 years	**99,042**	-	-
	99,042	-	-
Segment B			
Over 3 years and up to 4 years	**16,576**	-	-
Over 4 years and up to 5 years	**33,152**	16,234	-
Over 5 years	**132,606**	162,344	-
	182,334	178,578	-

25. CURRENT TAX LIABILITIES

	Dec 10	Dec 09	Dec 08
	Rs 000	Rs 000	Rs 000
Special levy on banks	**5,565**	534	-
Corporate social responsibility fund	**550**	-	-
	6,115	534	-

Notes to the Financial Statements for the year ended 31 December 2010

26. OTHER LIABILITIES

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Liability for defined pension plan (note 27)	**32,755**	30,084	28,802
Bills Payable	**14,284**	19,783	7,844
Other Payables	**72,913**	23,459	15,788
Accrued Interest	**129,786**	146,718	88,986
	249,738	220,044	141,420
Segment A			
Liability for defined pension plan (note 27)	**32,755**	30,084	28,802
Bills Payable	**14,284**	19,783	7,844
Other Payables	**33,830**	23,309	15,788
Accrued Interest	**108,693**	129,822	78,672
	189,562	202,998	131,106
Segment B			
Accrued Interest	**21,093**	16,896	10,314
Other Payables	**39,083**	150	-
	60,176	17,046	10,314

27. PENSION OBLIGATIONS

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
(a) Amounts recognised in the Balance Sheet			
Pension obligations under defined benefit plan(Note (i))	**32,755**	30,084	28,802

(i) The Bank makes contributions to a defined benefits plan that provides pension for employees upon retirement and is wholly funded. The assets of the funded plan are held and administered independently by the Anglo Mauritius Assurance Society Limited.

The following information is based on actuarial valuation report dated 31 December 2010 submitted by the Anglo Mauritius Assurance Society Limited.

27. PENSION OBLIGATIONS (CONT'D)

(ii) The amounts recognised in the Balance Sheet are as follows:

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Present value of funded obligations	**61,613**	56,246	47,762
Fair value of plan assets	**(27,353)**	(25,347)	(23,509)
Unrecognised actuarial gain	**(1,505)**	(815)	4,549
Liability in the balance sheet	**32,755**	30,084	28,802
(iii) The movement in the defined benefit obligation over the year is as follows:			
At start of year/period	**56,246**	47,762	39,621
Current service cost	**2,678**	2,371	2,804
Interest cost	**5,866**	4,972	6,386
Actuarial gain/(losses)	**(90)**	4,299	4,314
Transfer	**(3,087)**	(3,158)	(5,363)
At end of year/period	**61,613**	56,246	47,762

(iv) Movement in the fair value of plan assets of the year is as follows :

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
At start of year/period	**25,347**	23,509	22,716
Expected return on plan assets	**2,561**	2,490	3,655
Employer's contribution	**3,782**	4,021	4,004
Scheme expenses	**(153)**	(165)	(172)
Cost of incurring risk benefits	**(317)**	(285)	(527)
Actuarial (losses)/gains	**(780)**	(1,065)	(804)
Transfer	**(3,087)**	(3,158)	(5,363)
At end of year/period	**27,353**	25,347	23,509

Notes to the Financial Statements for the year ended 31 December 2010

27. PENSION OBLIGATIONS (CONT'D)

(v) The amounts recognised in the Income Statement are as follows:

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Current service cost	**2,678**	2,371	2,804
Scheme Expenses	**153**	165	172
Cost of insuring risk benefits	**317**	285	527
Interest cost	**5,866**	4,972	6,386
Expected return on plan assets	**(2,561)**	(2,490)	(3,655)
Actuarial loss/(gain) recognised	**-**	-	(580)
Total included in staff costs	**6,453**	5,303	5,654
Total expense shown as :			
Contributions (note 8)	**3,782**	4,021	4,004
Increase in liability for defined benefit plans (note 8)	**2,671**	1,282	1,650
	6,453	5,303	5,654

(vi) Movement in the liability recognised in the Balance Sheet:

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
At 1 January/1 July	**30,084**	28,802	27,152
Total expense as above	**6,453**	5,303	5,654
Contributions paid	**(3,782)**	(4,021)	(4,004)
At 31 December	**32,755**	30,084	28,802
Actual return on plan assets	**1,781**	1,425	2,851

(vii) The assets in the plan were :

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000	Jun-07 Rs 000
Local equities	**10,257**	9,505	8,816	6,815
Overseas equities	**6,154**	5,703	5,290	3,407
Fixed interest	**9,574**	8,872	8,228	11,358
Properties	**1,368**	1,267	1,175	1,136
Total market value of assets	**27,353**	25,347	23,509	22,716
Present value of plan liability	**(61,613)**	(56,246)	(47,762)	(39,621)
(Deficit)/surplus	**(34,260)**	(30,899)	(24,253)	(16,905)
Unrecognised actuarial (gain)/loss	**1,505**	815	(4,549)	(10,247)
Net (liability)/asset for retirement obligation recognised in the Balance Sheet	**(32,755)**	(30,084)	(28,802)	(27,152)

27. PENSION OBLIGATIONS (CONT'D)

The principal actuarial assumptions at end of year:

	Dec 10 %	Dec 09 %	Dec 08 %
Discount rate	**9.5**	10	10
Expected return on plan assets	**10**	11	11
Future long-term salary inrease	**8**	8	8
Future guaranteed pension increase	**-**	-	-

(viii) The assets of the plan are invested in Anglo Mauritius' deposit administration fund. The latter is expected to produce a smooth progression of return from one year to the next. The breakdown of the assets above corresponds to a notional allocation of the underlying investments based on the long term strategy of the fund

As the fund is expected to produce a smooth return, a fairly reasonable indication of future returns can be obtained by looking at historical ones. Therefore, the long term expected return on asset assumption has been based on historical performance of the fund.

In terms of the individual expected returns, the expected return on equities has been based on an equity risk premium above a risk free rate. The risk free rate has been measured in accordance to the yields on government bonds at the measurement date.

The fixed interest portfolio includes government bonds, debentures, mortgages and cash. The expected return for this asset class has been based on yields of government bonds at the measurement date.

(ix) Expected employer contribution in respect of :
(i) defined benefit plan for year 2011 - Rs 3.6M.
(ii) defined contribution plan - the employer contributes around 10% of the expected salary.

28. SHARE CAPITAL

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Shares at no par value			
Stated capital	**551,456**	491,456	269,456
At start of year/period	**491,456**	269,456	450,000
Issue of shares	**60,000**	222,000	254,136
Capital reduction	**-**	-	(434,680)
At end of year/period	**551,456**	491,456	269,456
Calls on shares			
Ordinary shares	**-**	-	222,000
Capital pending allotment			
Ordinary shares	**-**	60,000	-

Notes to the Financial Statements for the year ended 31 December 2010

29. CONTINGENT LIABILITIES

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Acceptances on account of customers	**40,616**	90,501	50,527
Guarantees on account of customers	**802,628**	489,067	226,059
Letters of credit and other obligations on account of customers	**411,390**	92,812	151,549
Spot foreign exchange contracts	**928,427**	902,474	843,940
Other contingent items	**99,243**	46,593	66,277
	2,282,304	1,621,446	1,338,352
Segment A			
Acceptances on account of customers	**40,616**	90,501	50,527
Guarantees on account of customers	**643,184**	390,016	226,059
Letters of credit and other obligations on account of customers	**363,324**	85,720	151,549
Foreign exchange contracts	**928,427**	902,474	843,940
Other contingent items	**94,185**	46,593	66,277
	2,069,736	1,515,303	1,338,352
Segment B			
Guarantees on account of customers	**159,444**	99,051	-
Letters of credit and other obligations on account of customers	**48,066**	7,092	-
Other contingent items	**5,058**	-	-
	212,568	106,143	-

30. COMMITMENTS

	Dec 10 Rs 000	Dec 09 Rs 000	Dec 08 Rs 000
Undrawn credit facilities	**798,686**	915,271	586,053
Segment A	**659,471**	781,127	586,053
Segment B	**139,215**	134,144	-

31. CONTINGENT ASSET

The Bank is entitled to net proceeds on recovery of certain assets by the Liquidator of Delphis Bank Limited (in liquidation). These matters are subject to legal court cases and likely to be determined within the next twelve to twenty four months. During the year, some of these assets have been recovered and accounted for as exceptional item for an amount of Rs 59M.

32. RELATED PARTIES

	Nature of relationship Rs 000	2010 Rs 000	2009 Rs 000	2008 Rs 000
Loans and advances	Related companies	**144,663**	113,396	663,190
	Key management personnel	**16,821**	14,866	3,402
Deposits	Related companies	**129,912**	171,886	2,413
	Key management personnel	**3,281**	5,889	4,871
Interest income	Related companies	**7,227**	14,166	29,135
	Key management personnel	**508**	360	109
Interest expense	Holding company	**-**	-	-
	Related companies	**3,504**	1,059	158
	Key management personnel	**198**	231	176
Fees and expenses	Directors	**1,705**	598	305
	Related company	**-**	-	-
Contingent liabilities	Related companies	**33,581**	433,983	155,000

Related company relates to transactions with enterprises in which shareholders, key directors/key management personnel have significant interest as the defined in the guideline issued by the Bank of Mauritius.

Top 6 related party exposures as at 31 December 2010 amounted to Rs 178M, representing 28.58% of Tier 1 capital.

Total related party exposure under Category 1 (as defined in the Guideline on Retaled Party Transactions issued by the Bank of Mauritius in January 2009) was 29.58% of Tier 1 capital.

Certain counterparties disclosed in 2008 are no longer related parties due to change in ownership and due to revised guideline issued by the Bank of Mauritius.

No related party credit exposure has been classified as impaired for the last 3 years.

All the above related party transactions were carried out under market terms and conditions with the exception of loans to key management personnel who benefited from preferential rates as applicable to staff.

Notes to the Financial Statements for the year ended 31 December 2010

32. RELATED PARTIES (CONT'D)

Key management personnel compensation

	2010	2009	2008
	Rs 000	Rs 000	Rs 000
Remuneration and other benefits relating to key management personnel, including directors were as follows:			
Salaries and short term employee benefits	40,821	29,949	20,360
Post employment benefits	-	2,227	1,360

Balance Sheets as at 31 December 2010	Dec 10 BANK	Dec 10 SEGMENT A	Dec 10 SEGMENT B	Dec 09 BANK	Dec 09 SEGMENT A	Dec 09 SEGMENT B	Dec 08 BANK	Dec 08 SEGMENT A	Dec 08 SEGMENT B
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
ASSETS									
Cash and cash equivalents	3,339,743	517,275	2,822,468	2,519,966	570,288	1,949,677	528,949	83,383	445,566
Derivative assets held for risk management	6,258	6,258	-	5,080	5,080	-	18,522	18,522	-
Loan and advances to banks	100,459	-	100,459	164,067	-	164,067	400,831	-	400,831
Loan and advances to customers	7,965,781	6,275,078	1,690,703	5,604,683	4,841,979	762,704	3,931,820	3,570,044	361,776
Investment securities	1,415,166	991,562	423,604	1,083,592	821,146	262,446	956,796	937,672	19,124
Property, plant and equipment	322,116	315,232	6,884	327,795	320,949	6,846	318,914	318,746	168
Intangible asset	46,152	44,917	1,235	47,676	46,746	930	26,031	26,021	10
Deferred tax asset	49,461	48,999	462	68,961	68,961	-	68,253	68,253	-
Other assets	703,478	669,837	33,641	700,890	687,787	13,103	566,982	566,405	577
Total assets	13,948,614	8,869,158	5,079,456	10,522,710	7,362,938	3,159,773	6,817,098	5,589,046	1,228,052

33. SEGMENTAL REPORTING

Statement of Financial Position as at 31 December 2010	Dec 10 BANK	Dec 10 SEGMENT A	Dec 10 SEGMENT B	Dec 09 BANK	Dec 09 SEGMENT A	Dec 09 SEGMENT B	Dec 08 BANK	Dec 08 SEGMENT A	Dec 08 SEGMENT B
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
ASSETS									
Cash and cash equivalents	3,339,743	517,275	2,822,468	2,519,966	570,288	1,949,677	528,949	83,383	445,566
Derivative assets held for risk management	6,258	6,258	-	5,080	5,080	-	18,522	18,522	-
Loan and advances to banks	100,459	-	100,459	164,067	-	164,067	400,831	-	400,831
Loan and advances to customers	7,965,781	6,275,078	1,690,703	5,604,683	4,841,979	762,704	3,931,820	3,570,044	361,776
Investment securities	1,415,166	991,562	423,604	1,083,592	821,146	262,446	956,796	937,672	19,124
Property, plant and equipment	322,116	315,232	6,884	327,795	320,949	6,846	318,914	318,746	168
Intangible asset	46,152	44,917	1,235	47,676	46,746	930	26,031	26,021	10
Deferred tax asset	49,461	48,999	462	68,961	68,961	-	68,253	68,253	-
Other assets	703,478	669,837	33,641	700,890	687,787	13,103	566,982	566,405	577
Total assets	13,948,614	8,869,158	5,079,456	10,522,710	7,362,938	3,159,773	6,817,098	5,589,046	1,228,052
LIABILITIES									
Deposits from customers	12,598,708	7,823,096	4,775,612	9,479,511	7,326,683	2,152,828	6,133,712	5,261,770	871,942
Derivative liabilities held for risk management	5,995	5,995	-	1,821	1,821	-			
Other borrowed funds	-	-	-	-	-	-	5,406	5,406	-
Subordinated liabilities	281,376	99,041	182,335	178,578	-	178,578			
Other liabilities	249,738	189,562	60,176	220,044	202,998	17,046	141,420	131,106	10,314
Current tax liabilities	6,115	6,115	-	534	-	-	-	-	-
	13,141,932	8,123,809	5,018,123	9,880,488	7,531,502	2,348,452	6,280,538	5,398,282	882,256
Shareholders' Equity									
Stated capital	551,456	408,077	143,379	491,456	491,456	-	269,456	269,456	-
Share capital pending allotment	-	-	-	60,000	60,000	-			
Calls on shares	-	-	-	-	-	-	222,000	222,000	-
Reserves	103,652	79,006	24,646	82,179	82,179	-	73,206	73,206	-
Retained Earnings	151,574	(49,285)	200,859	8,586	(41,482)	50,068	(28,102)	(22,387)	(5,715)
	806,682	437,798	368,884	642,221	592,153	50,068	536,560	542,275	(5,715)
TOTAL EQUITY AND LIABILITIES	13,948,614	8,561,607	5,387,007	10,522,710	8,123,655	2,398,520	6,817,098	5,940,557	876,541

Notes to the Financial Statements for the year ended 31 December 2010

33. SEGMENTAL REPORTING (CONT'D)

Income Statements for the period ended 31 December 2010	Year ended Dec 10			Year ended Dec 09			18 month period ended Dec 08		
	BANK	SEGMENT A	SEGMENT B	BANK	SEGMENT A	SEGMENT B	BANK	SEGMENT A	SEGMENT B
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
INTEREST INCOME	731,286	634,997	96,289	607,295	548,759	58,536	593,717	557,585	36,132
Interest expense	(439,124)	(400,998)	(38,126)	(474,754)	(436,362)	(38,392)	(564,348)	(534,139)	(30,209)
Net Interest income	292,162	233,999	58,163	132,541	112,397	20,144	29,369	23,446	5,923
Fee and commission income	114,249	63,842	50,407	69,826	49,223	20,603	29,455	27,325	2,130
Fee and commission expense	(19,694)	(19,021)	(673)	(6,396)	(6,298)	(98)	(5,835)	(5,825)	(10)
Net fee and commssion income	94,555	44,821	49,734	63,430	42,925	20,505	23,620	21,500	2,120
Net trading income	57,416	12,573	44,843	65,788	46,585	19,203	49,588	49,396	192
Other operating income	10,278	696	9,582	13,259	4,440	8,819	675	675	-
	67,694	13,269	54,425	79,047	51,025	28,022	50,263	50,071	192
Operating income	454,411	292,089	162,322	275,018	206,347	68,671	103,252	95,017	8,235
Non Interest Expenses									
Net impairment loss in financial assets	(26,421)	(19,391)	(7,030)	10,700	11,459	(759)	(29,048)	(21,430)	(7,618)
Personel expenses	(173,235)	(144,960)	(28,275)	(144,646)	(137,370)	(7,276)	(125,636)	(122,780)	(2,856)
Depreciation & amortisation	(34,640)	(33,423)	(1,217)	(30,422)	(30,189)	(233)	(35,456)	(35,446)	(10)
Other expenses	(83,593)	(75,629)	(7,964)	(68,336)	(66,050)	(2,286)	(86,814)	(86,347)	(467)
	(317,889)	(273,403)	(44,486)	(232,704)	(222,150)	(10,554)	(276,954)	(266,003)	(10,951)
Operating loss before exceptional items	136,522	18,686	117,836	42,314	(15,803)	58,117	(173,702)	(170,986)	(2,716)
Exceptional items	59,322	-	59,322	-	-	-	30,190	30,190	-
Profit / (loss) before tax	195,844	18,686	177,158	42,314	(15,803)	58,117	(143,512)	(140,796)	(2,716)
Income tax expense	(27,556)	(26,489)	(1,067)	(3,826)	(3,292)	(534)	20,708	20,708	-
Profit / (loss) after tax	168,288	(7,803)	176,091	38,488	(19,095)	57,583	(122,804)	(120,088)	(2,716)

WE ARE CLOSER TO YOU THROUGH OUR NETWORK OF 14 BRANCHES