

**BANQUE DES MASCAREIGNES LTÉE**

**UNAUDITED FINANCIAL STATEMENTS**

**FOR THE QUARTER ENDED 31 MARCH 2007**

**Banque des Mascareignes Ltée**  
Unaudited Financial Statements  
for the quarter ended 31 March 2007

*Contents*

	Page
Unaudited Balance Sheet	2 – 3
Unaudited Income Statement	4
Unaudited Statement of Changes in Equity	5
Unaudited Cash Flow Statement	6 – 7
Notes to the Unaudited Financial Statements	8
Management discussion and analysis	9 - 28

## Banque des Mascareignes Ltée

### Unaudited Balance Sheet

at 31 March 2007

	31 March 2007 Rs'000	31 March 2006 Rs'000	31 December 2006 Rs'000
<b>ASSETS</b>			
Cash and cash equivalents	1,730,737	1,409,901	1,943,746
Derivative assets held for hedging	-	700	-
Loans and advances to banks	3,699,242	1,877,302	3,688,163
Loans and advances to customers	5,156,472	3,355,915	4,671,653
Investment securities	760,031	572,518	953,754
Equipment	85,035	81,838	88,417
Intangible assets	52,228	50,850	54,425
Deferred tax assets	33,372	31,182	31,857
Other assets	13,518	17,990	57,963
<b>Total assets</b>	<b>11,530,635</b>	<b>7,398,196</b>	<b>11,489,978</b>
<b>LIABILITIES</b>			
Derivative financial instruments	-	336	-
Deposits from banks	6,806,912	4,565,071	7,090,880
Deposits from customers	3,737,928	2,194,486	3,628,588
Subordinated loans	293,312	126,052	229,834
Current tax liabilities	-	964	-
Deferred tax liabilities	1,584	1,887	2,015
Other liabilities and provisions	50,585	50,331	56,223
<b>Total liabilities</b>	<b>10,890,321</b>	<b>6,939,127</b>	<b>11,007,540</b>
<b>Equity</b>			
Share capital	615,334	423,720	466,584
Revenue reserves	(36,339)	(25,639)	(39,550)
Other reserves	61,319	60,988	55,404
<b>Total equity</b>	<b>640,314</b>	<b>459,069</b>	<b>482,438</b>
<b>Total liabilities and equity</b>	<b>11,530,635</b>	<b>7,398,196</b>	<b>11,489,978</b>

**Banque des Mascareignes Ltée**

**Unaudited Balance Sheet (continued)**

at 31 March 2007

	<b>31 March 2007</b>	31 March 2006	31 December 2006
	<b>Rs'000</b>	Rs'000	Rs'000
<b>CONTINGENT LIABILITIES</b>			
Acceptances, guarantees, letters of credit, endorsements and other obligations on account of customers, spot and foreign exchange contracts	<b>720,723</b>	290,699	645,014
Commitments	<b>367,926</b>	287,217	354,020
Financial derivatives	-	443,727	-
	-----	-----	-----
	<b>1,088,649</b>	1,021,643	999,034
	=====	=====	=====
Inwards bills held for collection	<b>3,592</b>	6,852	3,684
	=====	=====	=====
Outwards bills held for collection	<b>8,941</b>	-	9,195
	=====	=====	=====

Approved by the Board of Directors on ..... and signed on its behalf by

.....  
**Chairman**

.....  
**Director**

.....  
**Chief Executive Officer**

## Banque des Mascareignes Ltée

### Unaudited Income Statement

for the quarter ended 31 March 2007

	Quarter ended 31 March 2007 Rs'000	Quarter ended 31 March 2006 Rs'000	Year ended 31 December 2006 Rs'000
Interest income	169,488	89,947	484,851
Interest expense	(132,449)	(62,081)	(360,450)
Net interest income	----- 37,039 -----	----- 27,866 -----	----- 124,401 -----
Fee and commission income	10,183	8,142	30,035
Fee and commission expense	(6,436)	(6,398)	(26,930)
Net fee and commission income	----- 3,747 -----	----- 1,744 -----	----- 3,105 -----
Net trading income	10,655	4,411	31,832
Net income from other financial instruments carried at fair value	-	-	(364)
Other operating income	1,439	1,133	5,365
	----- 12,094 -----	----- 5,544 -----	----- 36,833 -----
Operating income	52,880	35,154	164,339
Net impairment loss on financial assets	(8,230)	(1,699)	(13,541)
Personnel expenses	(16,749)	(14,153)	(66,490)
Operating lease expenses	(4,811)	(5,303)	(15,334)
Depreciation and amortisation	(8,730)	(6,121)	(26,339)
Other expenses	(12,992)	(15,718)	(65,771)
Profit/(loss) before income tax	----- 1,368 -----	----- (7,840) -----	----- (23,136) -----
Income tax	1,843	-	1,385
Profit/(loss) for the quarter / year	----- 3,211 =====	----- (7,840) =====	----- (21,751) =====

## Banque des Mascareignes Ltée

### Unaudited Statement of Changes in Equity

for the quarter ended 31 March 2007

	Quarter ended 31 March 2007 Rs'000	Quarter ended 31 March 2006 Rs'000	Year ended 31 December 2006 Rs'000
<b>Share capital</b>			
Balance at beginning of period	466,584	423,720	423,720
Share issue during the period	148,750	-	42,864
	-----	-----	-----
Balance at end of period	615,334	423,720	466,584
	-----	-----	-----
<b>Translation reserve</b>			
Balance at beginning of period / end of period	28,900	28,200	28,200
	-----	-----	-----
<b>Revenue reserve</b>			
Balance at beginning of period	(39,550)	(17,799)	(17,799)
Net profit/(loss) for the period	3,211	(7,840)	(21,751)
	-----	-----	-----
Balance at end of period	(36,339)	(25,639)	(39,550)
	-----	-----	-----
<b>Revaluation of financial instruments</b>			
Balance at beginning of period	(6,226)	(559)	(559)
Net value change on available-for-sale assets	5,915	(83)	(5,667)
	-----	-----	-----
Balance at end of period	(311)	(642)	(6,226)
	-----	-----	-----
<b>General risk reserve</b>			
Balance at beginning of period / end of period	28,709	28,709	28,709
	-----	-----	-----
<b>Statutory reserve</b>			
Balance at beginning of period / end of period	4,721	4,721	4,721
	-----	-----	-----
<b>Total</b>	<b>640,314</b>	<b>459,069</b>	<b>482,438</b>
	=====	=====	=====

## Banque des Mascareignes Ltée

### Unaudited Cash Flow Statement for the quarter ended 31 March 2007

	Quarter ended 31 March 2007 Rs'000	Quarter ended 31 March 2006 Rs'000	Year ended 31 December 2006 Rs'000
<b>Cash flow from operating activities</b>			
Net (loss)/profit before tax	1,368	(7,840)	(23,136)
<i>Adjustments for non-cash items</i>			
Depreciation and amortisation	8,730	6,121	26,338
Impairment of equipment	-	-	500
Loss on sale of fixed assets	-	15	8
Impairment on financial assets	8,230	1,704	13,541
Net interest income	(37,039)	(27,866)	(124,401)
Intangible assets written off			
Exchange rate adjustment			
Other non-cash movement	(18,259)	(5,908)	(169,004)
	----- (36,970)	----- (33,774)	----- (276,154)
Change in derivative assets held for hedging	-	1	700
Change in loans and advances to banks	(11,079)	85,820	(2,254,128)
Change in loans and advances to customers	(493,049)	30,522	(754,425)
Change in other assets	44,445	405,907	365,935
Change in derivative liabilities held for hedging	-	1	(335)
Change in deposits from banks	(283,968)	(126,964)	2,400,802
Change in deposits from customers	109,340	341,614	1,772,487
Change in other liabilities	(5,638)	(5,585)	307
	----- (676,919)	----- 697,542	----- 1,255,189
Interest received	176,512	89,946	484,851
Interest paid	(129,788)	(62,080)	(360,450)
Income tax paid	-	-	(126)
	----- (630,195)	----- 725,408	----- 1,379,464
Net cash from operating activities	=====	=====	=====

## Banque des Mascareignes Ltée

### Unaudited Cash Flow Statement (continued)

for the quarter ended 31 March 2007

	Quarter ended 31 March 2007 Rs'000	Quarter ended 31 March 2006 Rs'000	Year ended 31 December 2006 Rs'000
<b>Cash flows from investing activities</b>			
Purchase of investment securities	(398,205)	(454,015)	(1,872,194)
Proceeds from sale of investment securities	606,316	262,132	1,442,709
Purchase of equipment	(2,062)	-	(17,650)
Proceeds from sale of equipment	-	1	100
Purchase of intangible assets	(1,090)	-	(12,976)
	-----	-----	-----
<b>Net cash from/(used) in investing activities</b>	<b>204,959</b>	<b>(191,882)</b>	<b>(460,011)</b>
	=====	=====	=====
<b>Cash flows from financing activities</b>			
Increase in subordinated liabilities	63,478	-	105,053
Issue of shares	148,750	-	42,864
	-----	-----	-----
<b>Net cash from financing activities</b>	<b>212,228</b>	<b>-</b>	<b>147,917</b>
	-----	-----	-----
Net (decrease)/increase in cash and cash equivalents	(213,008)	533,526	1,067,370
Cash and cash equivalents at beginning of period	1,943,745	876,375	876,375
	-----	-----	-----
<b>Cash and cash equivalents at end of period</b>	<b>1,730,737</b>	<b>1,409,901</b>	<b>1,943,745</b>
	=====	=====	=====

## **Banque des Mascareignes Ltée**

### **Notes to and forming part of the unaudited financial statements** *for the quarter ended 31 March 2007*

#### **1. Significant accounting policies**

The financial statements are unaudited and have been prepared in accordance with and comply with IAS 34 – Interim Financial Reporting.

##### *Basis of preparation*

The financial statements are prepared using the same accounting policies as those adopted in the financial statements for the year ended 31 December 2006.

# Banque des Mascareignes Ltée

## Management discussion and analysis

### Introduction

*Banque des Mascareignes Ltée* (BM) is incorporated in Mauritius and is held by *Financière Océor* (79 %) and the *Banque de la Reunion* (21%). It is part of the *Groupe Caisse d'Epargne*, a former French banking group.

*Banque des Mascareignes* offers a wide range of banking products and services and operates in the retail, corporate, global business and international finance markets from its head office in Port Louis and six branches: Port Louis, Flacq, Grand Baie, Curepipe, Tamarin and Quatre Bornes.

### 1. Cautionary statement

The *Banque des Mascareignes* has made several forward looking statements concerning the financial position, business strategy, plans and objectives of the management. Such forward looking statements require the reader to make assumptions and are subject to inherent risks and uncertainties.

It is therefore advisable for the readers of the present Management Discussion and Analysis are therefore cautioned not to place undue reliance on these forward looking statements as a number of factors may cause actual future results, conditions, actions or events to differ from the targets, prospects, estimates or intentions expressed in those forward looking statements.

*Banque des Mascareignes* does not undertake to update any forward-looking statements which may be made, from time to time, by the organisation or on its behalf.

### 2. Financial review

Banque des Mascareignes's main financial figures are as follows :

#### Balance Sheet as at 31 March 2007

Total Assets	= MUR 11,531 m
Loans and advances	= MUR 5,856 m
Deposits	= MUR 3,738 m
Capital Base (Tier 1 & Tier 2)	= MUR 931 m

#### Income Statement for the period from 1 January 2007 to 31 March 2007

Net interest and other income before provision for credit impairment losses	= MUR 52.9 m
Non-interest expense and losses	= MUR 43.3m
Net Profit before provision for credit impairment losses	= MUR 11.4m
Provision for credit impairment losses	= MUR 8.2 m
Net Profit for the period	= MUR 3,2 m

## **Banque des Mascareignes Ltée**

### **Management discussion and analysis**

#### **2.1 Analysis of Income Statement**

##### ***2.1.1 Net interest and other income rises at a rate of 50% compared to previous year same quarter, but remains lower than budgeted.***

During the first three months of the year, net interest and other income amounts to MUR 52.9 m before provision for credit impairment losses compared to MUR 35.2 m for the same quarter of 2006 and achieves 21% of annual budget. Domestic activities generate MUR 30.3 m for the first 3 months which represent 174% of last year's first quarter figure. Net interest and other income generated by international activities is 27% higher than last year, that is MUR 22.6 m.

Net interest and other income is made up of 70% of net interest income, 20% of foreign exchange gain and 7% of net commission income. For domestic activities, net interest income makes up 58%, foreign exchange gain 30% and commissions 12% of total net interest and other income for this sector. As far as international activities are concerned, net interest income constitutes a significant proportion of revenue (72%) given that it is a credit intensive activity.

#### **Review**

- Overall, net interest income is below target level. Even if both loans and deposits have increased by 69% and 70% respectively compared to same quarter of previous year, international loans have not yet reached targeted level. The average spread for both retail banking activities and international financing activities has tightened compared to 2006 and are still below target.
- Gain on foreign exchange transactions are up to expectation particularly on the domestic segment. Banque des Mascareignes will continue to consolidate its exports customers' base especially corporates so as to further develop its capacity to earn foreign exchange profits.
- The level of net commission fees targeted for the quarter has been attained with good results in respect of international operations and customer service provided.

##### ***2.1.2 Non-interest expense and losses are well contained within budget.***

Expenses amount to MUR 43.3 m which represent 23% of annual target. Expenses are generally well controlled. The proportion of IT costs to net interest and other income has gone down compared to previous periods.

A committee to monitor expenses meets on a quarterly basis. Its objectives are to inculcate a cost-cutting culture within the organisation and to lead an action plan for cost control.

##### ***2.1.3 Credits risks are properly controlled.***

Increase in specific provision for credit impairment loss amounts to MUR 2.3 m in line with estimation for the quarter.

# Banque des Mascareignes Ltée

## Management discussion and analysis

### 2.1.4 Net profit for the period is recorded but remains lower than target.

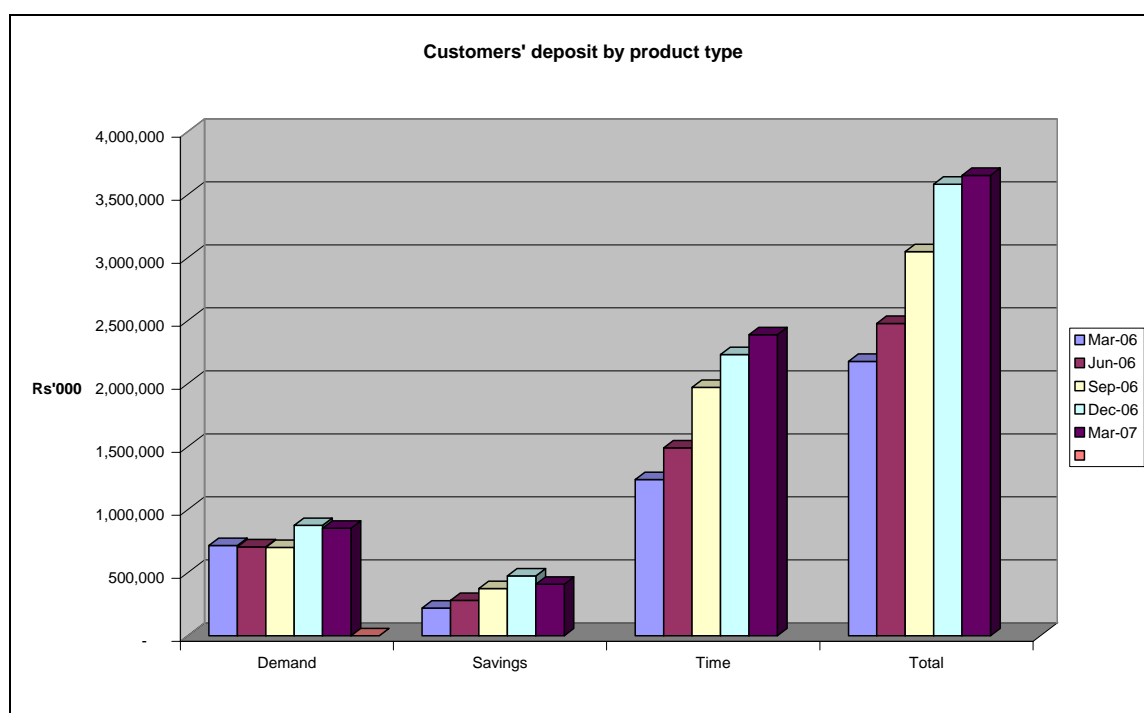
Net profit for the 3 months period amounts to MUR 3.2 m. This is due to an excess of net interest and other income over operational expenses of MUR 1.4 m and an increase in deferred tax asset of MUR 1.8 m.

## 2.2 Analysis of Balance Sheet

### 2.2.1 Liabilities.

Customers' deposits increased by 70% during the first three months of the year compared to same period last year. Targeted level has been reached with significant inflows during the month of March. 42% of deposits are in foreign currencies while 88% of loans and advances are denominated in foreign currencies.

The last opened branch in Quatre Bornes is operational since November 2006.



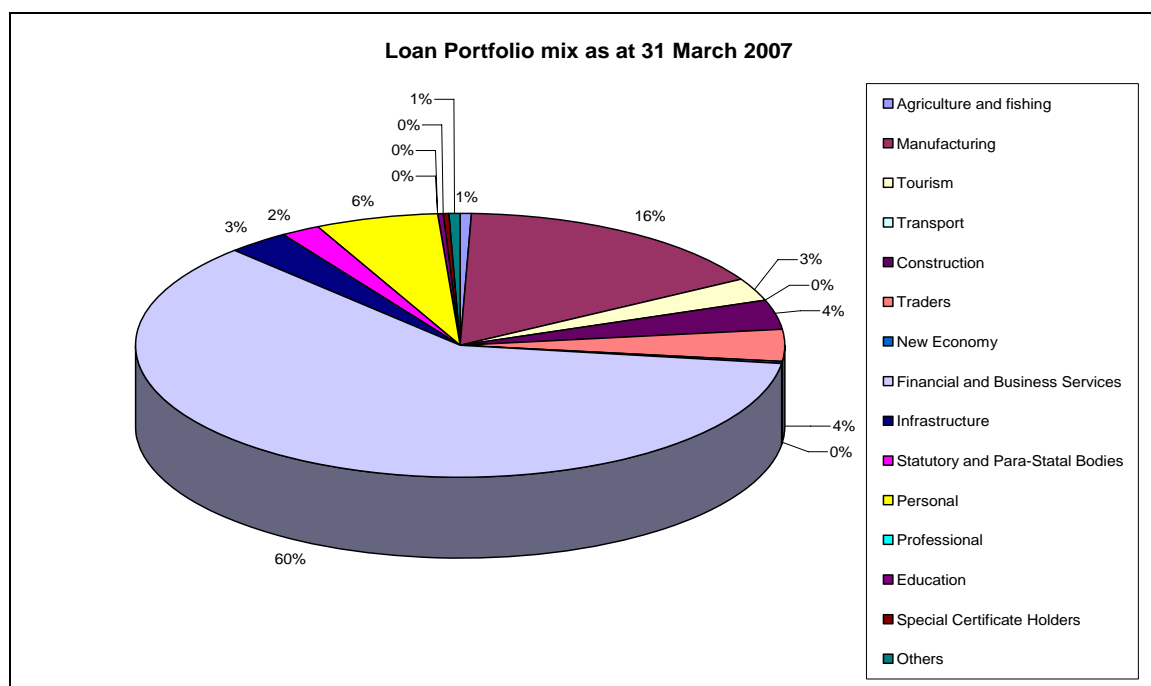
Deposits from banks are well above budget due to interbank borrowings needed to refinance international loans in foreign currencies.

**Banque des Mascareignes Ltée**  
**Management discussion and analysis**

**2.2.2 Assets**

Loans and advances have grown by 69% during the three months compared to first quarter of 2006. Budget is reached at 91%.

This positive trend has arisen due to the rapidly growing loans activity on the domestic market, mainly housing loans to individuals and financing of equipment, investment and working capital to corporate customers.



The six largest loans granted by the bank account for 25% of the total loan portfolio and relate to international financing activity.

**Details of six Largest Credits**

	SECTOR	AMOUNT(Rs'000)	% of Capital Base
CLIENT 1	Financial institution	492,635	52.94%
CLIENT 2	Financial institution	427,048	45.89%
CLIENT 3	Financial institution	333,714	35.86%
CLIENT 4	Large Corporate	333,174	35.80%
CLIENT 5	Quasi Sovereign	322,300	34.64%
CLIENT 6	Financial institution	322,300	34.64%
		<b>2,231,171</b>	<b>239.77%</b>

## Banque des Mascareignes Ltée

### Management discussion and analysis

Acquisitions of fixed and intangible assets during the three months are mainly related to IT and the opening of the new branch at Quatre Bornes.

#### 2.2.3 Capital structure

At the end the first quarter of 2007, paid-up capital stood at MUR 615 m. Tier 1 capital amounted to MUR 609 m. General provisions and subordinated debt made up Tier 2 capital of MUR 322 m. At 31 March 2007, total risk weighted assets amounted to MUR 7,571 m resulting in a capital adequacy ratio of 12.29%.

Table below shows the components of Tier 1 and Tier 2 capital as at the end of March 2006.

#### Capital Structure

	Rs'000
Paid up capital	615,334
Statutory reserve	4 721
Balance in profit and loss retained earnings	(11,352)
<b>Total Tier 1 Capital (A)</b>	<b>608,704</b>
General provisions against unidentified losses	28 709
Subordinated debt	293,124
<b>Total Tier 2 supplementary capital (B)</b>	<b>321,833</b>
<b>Total (net) capital A+B</b>	<b>930,537</b>

### 2.3 Summary of financials

Comments on the main indicators:

- Profitability
  - Cost to income ratio has improved
  - IT costs are lower as a proportion of net interest and other income
  - Net profit is recorded compared to net losses arising till end of 2006
  - The proportion of staff costs to net interest and other income is lower (31.67% compared to 40.45% in 2006)
  - ROE has improved.
- Statutory
  - All indicators are within limits.
- Commercial productivity
  - All indicators show a marked improvement.
- Risk
  - All indicators are well controlled.

# Banque des Mascareignes Ltée

## Management discussion and analysis

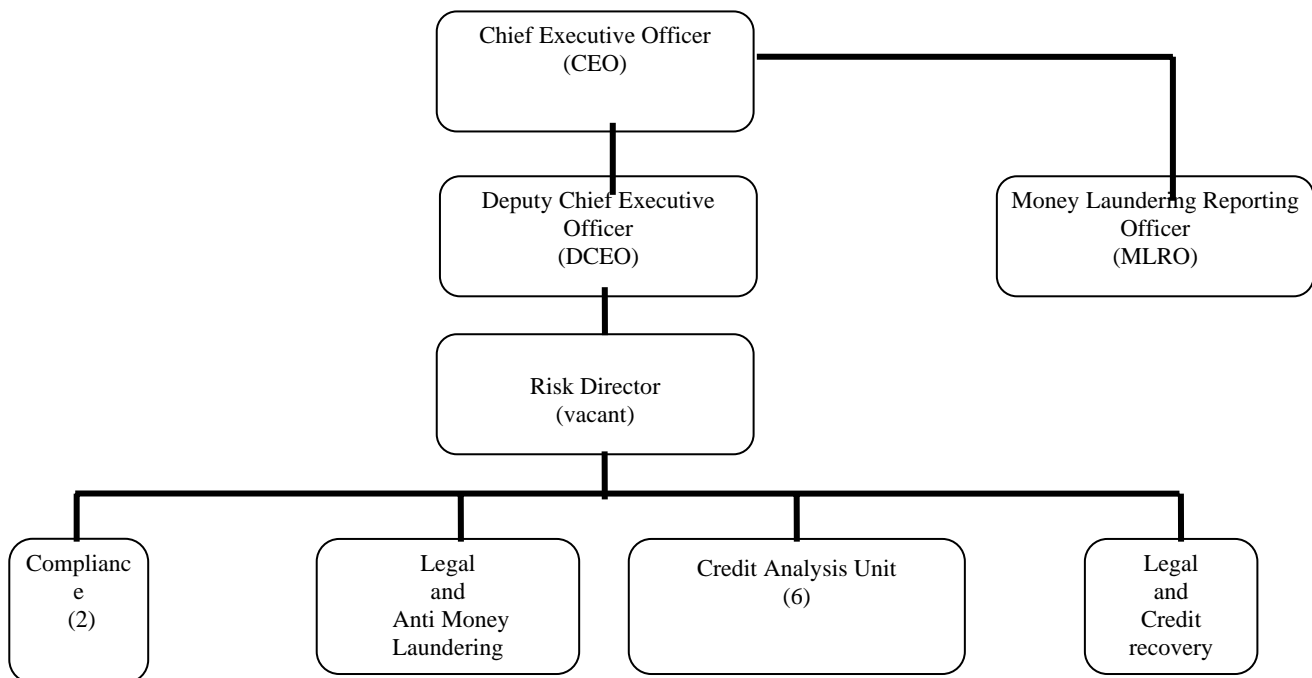
### 3. RISK MANAGEMENT POLICIES AND CONTROLS

The Board of Directors and the bank's management have taken a number of measures to formalise a framework of risk management policies and controls. Made up of a comprehensive set of procedures, processes, controls and reporting requirements as well as a number of risk management committees, these measures have as main purpose the efficient and timely identification, measurement, mitigation and monitoring of the risks faced by the Bank.

The Board oversees the risk management activities of the bank directly and via the Audit Committee, which has been delegated responsibility of closer scrutiny of risk management.

#### 3.1 Risk Management

The Bank places significant reliance on its framework of controls to ensure that risks are properly and widely defined, understood and communicated. Accordingly the BM has set up a risk function which is organised as follows:



A Risk Director has been appointed to take up his function as from beginning of second semester. He will take responsibility for various risk functions. Currently responsibility for key risk areas are distributed as stated hereunder:

## **Banque des Mascareignes Ltée**

### **Management discussion and analysis**

#### *Compliance Officer (Responsable de la Conformité et des Risques Opérationnels)*

In addition to the existing legal requirements, namely the Banking Act 2004 and the Bank of Mauritius Guidance Notes on *Anti Money Laundering and Combating the Financing of Terrorism*, the Bank is also subject to the directives of the *Groupe Caisse d'Epargne* to which it belongs. To be fully compliant with these norms, the Bank has therefore appointed a Compliance Officer who monitors that proper policies, procedures and actions plans are implemented to ensure compliance with laws and regulations.

The Compliance officer is also responsible for coordinating operational risks function, managing the anti- money laundering (AML) function as well as the monitoring of market risks. He is supported by the Legal Officer in AML matters.

#### *Money Laundering Reporting Officer (MLRO)*

The MLRO reports to the CEO. In appointing the MLRO, the Bank complies with the Financial Intelligence and Anti-Money Laundering Regulations 2003 and the Bank of Mauritius Guidance Notes on Anti Money Laundering and Combating the Financing of Terrorism.

The main functions of the MLRO include:

- the investigation of any reported suspicious transactions,
- the review of suspicious transactions reports and the query of the nature of these transactions with the branches
- the reporting of any suspicious transactions if need be to the Financial Intelligence Unit.

The credit function is segregated into a number of units with distinct areas of responsibility:

#### *(a) Credit Analysis (Service Engagements)*

The main responsibilities of this unit include the:

- analysis of credit proposals from the front office
- management of the decision making process when granting credit facilities
- monitoring of credit risks
- setting up of management tools to monitor credit risks and ensuring that credit policies are applied.

#### *(b) Legal Unit*

- vetting of legal documents and credit related contracts.
- Vetting and verifying security documents

#### *(c) Credit Administration (Gestion Credit)*

The main responsibilities of this unit comprise of the:

- vetting of final credit documents
- disbursing of loans
- safekeeping of credit documents.

#### *(d) Credit Recovery (Recouvrement)*

Its main responsibilities include:

- monitoring of overdrawn accounts and of unauthorised overdrafts,
- setting up the management tool to monitor bad and doubtful debts
- the recovery of such debts,
-

## **Banque des Mascareignes Ltée**

### **Management discussion and analysis**

A guarantee policy has been set up and describes the types of securities which are required with respect to different types of facilities.

In addition, the risk function ensures that limits are set within the required areas (e.g treasury, credit) and within the regulatory framework, Group and shareholders funds constraints. Furthermore, it decides upon the required control systems and/or tools to mitigate the risks which may have a material impact on the financial and image aspects of the Bank.

#### **3.1.1 Risk Management Committee (Comité des risques)**

##### **Board Committees**

###### *Audit Committee (quarterly) [Comité d'Audit]*

The Audit Committee is made up of three independent members who are non executive directors of the Bank.

The Internal Auditor is required to be present at every meeting while the External Auditor should avail himself to attend as and when requested.

The main functions of this committee include the:

- review of the audited financial accounts and the budgets prior to their approval by the Board of Directors.
- review and appraisal of the internal control systems and risk framework of the Bank.
- monitoring of the performance of the Internal and External Auditors and ensuring that their recommendations have been acted upon by management.

###### *Conduct Review Committee (quarterly)*

The Conduct Review Committee (CRC) comprises of at least three independent directors. In addition to the quarterly meetings, the CRC may also meet in case of urgency.

The CRC reviews the Bank's practice in relation to related party transactions and ensures that such transactions which may have a material impact on the financial stability of the Bank are identified at source.

###### *Remuneration Committee (half yearly) [Comité de Rémunération]*

The Remuneration Committee comprises of three independent directors. The Chief Executive Officer is in attendance.

The main responsibilities of the committee include the approval of the remuneration of Directors and Senior Management and the review of the remuneration policy of the bank.

#### **3.1.2 Management Committees**

The decision making process of the Bank also includes several sub committees which are attended by one or more members of the senior management team together with relevant members of the middle management.

###### *Executive Committee (weekly) [Comité Exécutif]*

The Board of Directors of the Bank has delegated the daily running of the Bank to the Chief Executive Officer (CEO). This Executive Committee meets on a weekly basis and assists the CEO in its functions. It monitors performance, decides on key issues, approves action plans and oversees the bank's operations, including risk management matters.

## **Banque des Mascareignes Ltée**

### **Management discussion and analysis**

The committee members are as follows:

- the CEO
- the 2 Deputy CEOs
- the “Secrétaire General”
- the Finance Manager (*Directeur Financier*)
- the Operations Manager (*Directeur de l'Exploitation Bancaire*)

#### *Assets and Liabilities Committee (monthly)[Comité de Bilan]*

The Assets and Liabilities Committee (ALCO) assesses the liquidity, currency and interest rate risks. Moreover, it ensures that the overall asset / liability and market risk mix are managed effectively within limits and as prescribed by the Board of Directors and the guidelines of the Bank of Mauritius.

The members of the Committee comprise of:

- the CEO,
- the 2 Deputy CEOs
- the Head of Risk,
- the Finance Manager,
- the Treasurer,
- the Corporate Banking Manager,
- the Marketing Manager.

#### *Treasury Committee (weekly)[Comité de Trésorerie]*

The Treasury Committee comprises of the CEO, the two Deputy CEOs and the Treasurer. Its main objectives are to:

- review the market trends,
- review the various currency and short term liquidity position as well as the forecasted trends,
- examine proposals made in the ALCO and thereafter authorise relevant transactions to manage the liquidity positions of the Bank.

#### *Risk Management Committee (quarterly)[Comité des Risques]*

The main functions of the Risk Management Committee are to:

- review and assess the integrity of the risk control systems and ensure that the risk policies and strategies are managed efficiently,
- set out the nature, role, responsibility and authority of the risk management function within the Bank and outline the scope of risk management activities,
- monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risk, including emerging and prospective impacts,
- ensure compliance with such policies, and with overall risk profile of the Bank especially with respect to market risk, credit risk and operational risk.

## **Banque des Mascareignes Ltée**

## **Management discussion and analysis**

The members of the committee are:

- the Chief Executive Officer (CEO),
- the 2 Deputy CEOs
- the Head of Risk (Directeur des Risques),
- the Operations Manager (Responsable de l'Exploitation Bancaire),
- the Corporate Banking Manager,
- the Retail Manager (Responsable du Réseau des Agences),
- the Internal Auditor (l'Auditeur Interne),
- the Finance Manager.

### *Credit Committee (twice weekly) [Comité des Engagements]*

The main objectives of the Credit Committee are to:

- decide whether or not a credit facility will be granted to a customer after a thorough analysis of the risks involved,
- ensure via the credit analysis presented at the committee, that there are no breaches of either the internal or external rules.

It is made up of:

- the CEO,
- the Head of Risks,
- the Corporate Banking Manager,
- the Retail Manager,
- and the members of the Credit Analysis Unit.

### *Comité Gestion de Contentieux et Provisionnement*

The main functions of the “*Comité Gestion de Contentieux et de Provisionnement*” will be:

- to determine the amount of specific provisions to be provided to each impaired credit
- to determine and review the recovery strategy of impaired credits that are managed by the legal and credit recovery department of the Bank.

The committee is made up of the following members:

- the CEO,
- the 2 Deputy CEOs
- the Head of Risks,
- the Finance Manager,
- the Credit Recovery Manager (Responsable de Recouvrement),
- and the members of the Credit Analysis Unit.

### *Comité Watchlist et Transfert en Contentieux*

The objectives of the “*Comité Watchlist et Transfert en Contentieux*” will include:

- the monitoring of large credits,
- the assessment of impaired credits,
- the classification of impaired credits.

## **Banque des Mascareignes Ltée**

## Management discussion and analysis

The members are:

- the CEO,
- the 2 Deputy CEOs
- the Head of Risks,
- the Finance Manager,
- the Corporate Banking Manager,
- the Retail Manager (Responsable du Réseau des Agences),
- the Credit Recovery Manager (Responsable de Recouvrement),
- and the members of the Credit Analysis Unit.

### *Compliance Committee (monthly)[Comité de la Conformité]*

The Committee endorses the Compliance policy of the Bank and monitors its implementation.

Its main functions include:

- the approval of Policies with respect to Compliance, Internal Controls and Anti Money Laundering
- the implementation of these policies
- the approval of action plans and follow up on their implementations

It is made up of:

- the CEO or the Deputy CEO
- the Compliance Officer,
- the Retail Manager,
- the Finance Manager,
- the Operations Manager,
- the Legal Officer (*l'Assistant Juridique*),
- the Money Laundering Reporting Officer (MLRO).

### *Operational Risk Committee (quarterly)[Comité des Risques Opérationnels]*

This committee was set up in the first quarter of 2006 after the Board of Directors have approved the rules and regulations of the monitoring mechanisms of the Operational Risks. Its main functions will be to:

- ensure that the monitoring tools are operating as efficiently as they ought to be,
- review events as they occur, ensure that they are properly recorded and that there is a follow up of the recommendations made to ensure that these incidents do not recur.
- ensure that the list of potential operational risks which the Bank face, is kept up to date and that there is a follow up of the recommendations made to improve the controls which may mitigate those potential risks.

It will be made up of:

- the CEO and the members of the Senior management team
- the Compliance Officer
- the Internal Auditor
- the *Directeur des Risques Opérationnels et de la Conformité* of *Financière Océor* (via video conference)

## Banque des Mascareignes Ltée

### Management discussion and analysis

## 3.2 Credit risk

Credit Risk is associated to the inability or unwillingness of a counterparty to a financial instrument to fulfill its obligation. It relates to both on and off balance sheet assets.

### 3.2.1 Credit Risk Policies

*Banque des Mascareignes* has a *Charte Général de Politique Crédit* which sets the tone for the credit risk management culture of the Bank.

Furthermore, following the segmentation of the domestic market, the Bank has identified four major segments; namely the retail market, the professional market, the corporate (domestic) market and the international (international financing, global business) market. These markets are governed by distinct credit management policies.

- The retail market has a credit management policy which prescribes the award of credit facilities to individuals based on specific criteria and also after a thorough analysis of the counter party's financial and personal conditions.
- The corporate (domestic) credit management policy is similar to that of the retail market in that it also requires a thorough assessment of the counter party to be undertaken before a credit facility is granted. However, the credit policy for the corporate segment also sets a number of limits and constraints of total exposures per sector and per counterparty.
- The credit management policy for the Professional market is being drafted based on the credit risk management policy of the Corporate Market. Once the policy is finalised, it needs to be approved by the "*Comité des Risques*" and the Board of Directors.
- The International market has a credit management policy defining the level of exposure to be taken by the bank varying according to the type of counterparties.

### 3.2.2 Credit Analysis

For the credit analysis, the bank has set up some procedures which include some tools, to assess the level of credit risk of each counterparty. The procedures include the separation of the credit risk assessment department, "service des engagements", from the front office.

The tools which have been developed to identify the credit risk level are the "*note de synthèse*" and the "*grille de notation*".

#### *"note de synthèse"*

This document, allows the Credit Analysis Unit to assess the credit level of the counter party which may be for either the retail and for the corporate (domestic) segments. The "*note de synthèse*" takes into consideration the quantitative and qualitative aspects of the counterparty and highlights the risk factors associated with this counterparty.

#### *"grille de notation"*

This tool is used essentially for the retail market. It enables the financial and personal aspects of the counter party to be rated and graded.

#### *"Rating software"*

Credit analysis for the Corporate market has been enhanced in line with the Group Policies and Procedures which are Basle II compliant by the implementation of the Group software, *ANADEFI*, a credit analysis and rating system.

**Banque des Mascareignes Ltée**

**Management discussion and analysis**

In the post-review process, periodic appraisals are scheduled for the continuous assessment of counterparties. Updates of the credit risk level of counterparties are carried out.

### **3.2.3 Decision Making Process**

In the case of the retail market, the decision making process is based on the rating of the counterparty as projected by the internal rating system.

For some specific type of credit, senior management has authorised several limits and approval levels throughout the organisation; namely the “*Comité des engagements*”, the Deputy CEO, the Retail Manager, the branch managers.

Furthermore, for the *Domestic and International Corporate segment*, credit requests above certain respective thresholds are forwarded to *Financière Océor* to be reviewed by credit analysts and the final decision is then taken by the credit committee of *Financière Océor/ Group*.

### **3.2.4 Monitoring and control**

The Bank has set up several credit tools to monitor its credit exposure.

For the international market, the credit exposure is closely monitored country wise whilst for the domestic corporate market, a sector wise monitoring is carried out. The reporting is sent periodically to the Bank of Mauritius, to *Financière Océor* and also to “*Comité des Risques*” and “*Comité Exécutif*”.

## **3.3 Market Risk**

Market risk is the risk that movements in market prices adversely affect on and off-balance sheet positions. Its main components are:

- Interest rate risk,
- Foreign currency risk and
- Liquidity risk

The Treasury Committee, the ALCO and the Risk Management Committee are the committees that are involved in evaluating, managing and monitoring the market risks which it faces. A Liquidity Policy has been approved by the Board as well as a *Charte de Gestion Financiere*. In addition, the bank will implement a group asset and liability system (ALM SIS) that will be used to identify and manage main markets risks with the assistance of *Financière Océor*.

### **3.3.1 Foreign Currency Risk**

Foreign currency risk is connected to the movements in the foreign exchange rate and it has an impact upon the earnings and economic value of the bank.

## **Banque des Mascareignes Ltée**

### **Management discussion and analysis**

The Bank's foreign exchange exposure is monitored as stated by the Bank of Mauritius *Guideline for Calculation and Reporting of Foreign Exchange Exposures of Banks* by measuring:

- i) the exposure of the Bank in each single currency,
- ii) the overall foreign exchange exposure resulting from a mix of different positions in several foreign currencies.

The ALCO and the Risk Management Committee manage and monitor the foreign currency risk exposure of the Bank by means of predetermined limits:

- *Regulatory limit*

The net foreign currency position of the Bank should not exceed 30% of its tier 1 capital at any given point in time.

- *Limit set by the Group (Financière Océor)*

The Group authorised the Bank to maintain a net foreign currency position below a certain threshold.

- *Limits set for daily transactions*

The senior management has authorised several limits and approval levels throughout the organisation with respect to foreign currency transactions.

- *Limits set for each counterparty*

The "Comité des Risques" will set the limits which will determine the maximum volume and type of transactions which can be made with a particular party.

### **3.3.2 Liquidity Risk**

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they fall due and/ or to replace funds when they are withdrawn; the consequence of which may be the failure to repay depositors and fulfill commitments to lend.

The Liquidity Policy of the Bank sets out the manner in which the liquidity of the bank will be managed and monitored including the main limits.

The day to day funding is managed by monitoring future cash flows to ensure that requirements can be met. These include the replenishment of funds as they mature or are borrowed by customers.

We maintain an active presence on the retail market to attract deposits and maintain a portfolio of treasury bills and notes that can be sold on secondary market as the needs arise.

Regular reporting to ALCO, Treasury Committee, the Risk Management Committee and *Financière Océor* ensures that adequate review mechanisms are in place for the management of liquidity risks.

### **3.3.3 Interest rate risk**

Interest rate risk is the exposure of the Bank to movements in interest rates. It is also associated with applying different bases of interest rates to assets and corresponding liabilities

The Bank mitigates its exposure to interest fluctuations by attempting to hedge its assets/liability portfolio.

## **Banque des Mascareignes Ltée**

### **Management discussion and analysis**

The ALCO uses tables to monitor the interest rate risk. In 2006, a software will be implemented to enable a more stringent follow up of the interest rate risk to be carried out.

### **3.4 Operational Risk Management**

The Bank uses a number of systems to identify, measure and monitor the operational risks faced by the bank and to follow up upon the implementation of recommendations towards the mitigation of those risks.

These management tools are:

*“CartRisk” – An inventory of potential operational risks*

An inventory of the main potential operational risks which the Bank may face was undertaken in July 2005 and was recorded on “*CartRisk*”, an intranet based Group software. During this exercise, the Bank also assessed the financial impact in monetary terms as well as the impact on the reputation of the organisation. Furthermore, the related internal control systems were reviewed and action plans were established to improve the controls where necessary.

*ORiS – A register for events which have actually happened*

Towards the end of 2005, historical incidents which occurred at the Bank during 2005 were compiled in *ORiS*, an intranet based Group software.

*ORiS* is a tool which helps the relevant user within its work area to record incidents as and when they occur and to monitor the implementation of action plans which have been established to ensure that those incidents do not recur.

This tool also sorts the incidents into predefined categories and assesses the financial impacts and any impact on the reputation of the organization.

*ORiS – Key Risk Indicators*

The above mentioned software also include a module where there are key risk indicators (KRI) which follow the trend of particular risks and other KRIs which monitor specific internal control systems in place.

*Group follow up Questionnaire*

This document establishes at a given period in time, the status of the implementation of the various tools meant for managing and monitoring operational risks. It is forwarded to the Group on a half yearly basis.

*Operational Risk Committee*

This committee will meet on a quarterly basis and members will be joined via video conference by the *Directeur des Risques Operationnels et de la Conformité* of the Group on a half yearly basis.

## **Banque des Mascareignes Ltée**

### **Management discussion and analysis**

#### *Reporting Operational Risk*

This document consolidates and summarises the main information available from the above mentioned management tools (CartRisk, ORiS, questionnaire) and will be made available to the members of the Operational Risk Committee. It will enable them to:

- be aware of the type of risks faced by the Bank and their potential financial and reputational impacts on the organization,
- ensure that the internal control systems are adequate,
- decide on appropriate measures to mitigate or transfer the risks,
- monitor the implementation of actions taken to prevent or mitigate risks.

### **3.5 Compliance and Anti Money Laundering**

#### ***3.5.1 Compliance***

The compliance function is at the heart of the internal control system of the organisation. It is carried out by the Compliance officer who is independent from the operational aspects of the Bank and reports to the Deputy CEO.

His main responsibilities include:

- control and monitor the risks of non compliance
- identify the rules and regulations to abide by,
- set up rules and procedures and maintain them up to date,

The Compliance officer is also responsible for:

- regularly updating the AML handbook.
- the review of internal procedures
- carrying out compliance review
- the training of employees

A Compliance Committee has been set up and its main functions are to:

- approve the Policies with respect to Compliance, Internal Controls and Anti Money Laundering,
- implement these policies,
- approve action plans and follow up on their implementations.

It is made up of:

- the CEO or the Deputy CEO
- the Compliance Officer,
- the Retail Manager,
- the Finance Manager,
- the Operations Manager,
- the Legal Officer (*l'Assistant Juridique*),
- the Money Laundering Reporting Officer (MLRO).

## **Banque des Mascareignes Ltée**

### **Management discussion and analysis**

#### ***3.5.2 Anti Money Laundering***

*Banque des Mascareignes* has stated its aim of combating money laundering and the financing of terrorism in its « *Politique de Lutte contre le Blanchiment de Capitaux et de Lutte contre le Financement du Terrorisme* » (Anti Money Laundering and Combating the Financing of Terrorism Policy). The Policy takes into account all laws and regulations in force in the Republic of Mauritius, with particular emphasis being made on the Bank of Mauritius Guideline on AML/CFT as well as the guidelines from the Financial Intelligence Unit. The Bank also complies with the guidelines of its holding, *Financière Océor*, and its ultimate shareholder, *Groupe Caisse d'Épargne*. In case of conflicting legislation or guidelines, the rules in force in the Republic of Mauritius prevail.

In order to achieve its objectives in the fight against money laundering, *Banque des Mascareignes* has ensured that the following be set up and be implemented:

- An AML/CFT framework, policy and procedures
- An account opening policy and procedures
- The monitoring of suspicious or unusual transactions
- The reporting of suspicious transactions
- The training of all staff

The framework set up at *Banque des Mascareignes* includes:

- Responsibility for AML/CFT matters assigned to the Compliance function and the appointment of a Money laundering Reporting Officer (MLRO),
- A set of procedures which covers operational as well as compliance and audit aspects of AML/CFT.

Account Opening Procedures, compliant with mandatory aspects of AML/CFT, have been implemented

All transactions beyond a threshold are monitored via IT generated reports which enable unusual/suspicious transactions to be identified. These transactions require particular scrutiny. The current integrated software system is presently being upgraded and more monitoring reports than the ones currently being used, will be made available towards the end of the first quarter. Internal and external suspicious transaction reporting procedures have been set up.

All new recruits of the Bank receive a general training on AML/CFT within 15 days of their employment. All members of staff also receive specific training on AML/CFT aspects which allow them to deal with their respective field of work. To that effect a number of tools are made available to staff, namely CD ROMs, Internal Memos, booklets and generally refresher sessions. The members of staff are also informed about the penalties which are set by the existing legislation.

## **Banque des Mascareignes Ltée**

### **Management discussion and analysis**

#### **3.6 Internal Audit**

Internal Audit is an independent function which reports to the Board of Directors via the Audit Committee. Furthermore, it has a virtual reporting line to the Internal Audit of the *Financière Océor*. Its main functions are to:

- verify the adequacy of the internal control system (ICS) of the Bank,
- detect the weaknesses embedded in the ICS and to issue recommendations with a view to improve it,
- monitors the implementation of the above mentioned recommendations and those made by auditors from the Bank of Mauritius, Group auditors and external auditors.

#### **4. RELATED PARTY TRANSACTIONS POLICIES AND PRACTICES**

The aim of *Guideline on Related Party Transactions* is to promote self regulation and self discipline among financial institutions with a view to protecting such institutions from any harmful consequences of Related Party Transactions. As a general rule, all transactions with a Related Party must be carried out on terms and conditions that are at least as favourable to the Bank as market terms and conditions.

The Board has set up a Conduct Review Committee (CRC), which consists of at least three independent non-executive directors. The CRC will meet at least once every quarter or whenever a decision needs to be taken on a related party transaction which exceeds the Bank's internal materiality criteria. The CRC reviews all transactions initiated in the quarter under review. After each meeting the matters reviewed by the CRC are reported to the Board of Directors. The Bank reports on a yearly basis to the Bank of Mauritius on the proceedings of the CRC during the year.

Total Related Parties' credit exposure to the overall credit exposure at 31 March 2007 amounted to MUR 6.2 m representing less than 0.1% of the total credit exposure of the Bank and 1% of the Bank's Tier 1 Capital, of which none were non-performing.

#### **5. STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

##### **Fit and Proper test**

In line with the "*Bank of Mauritius Guidance Notes Fit & Proper Person Criteria*" issued in March 2005 and in line with the Banking Act 2004, *Banque des Mascareignes Ltée* has established and implemented a procedure to ensure that Directors, Senior Officers and its Shareholder are fit and proper persons.

- *Bank of Mauritius Guidance Notes on Fit and Proper Test*  
In addition to the requirements of the Océor network, *Banque des Mascareignes* also needs to comply with all guidelines and/or guidance notes from the Bank of Mauritius.  
In accordance with the «*Guidance Notes on Fit and Proper Person Criteria*» *Banque des Mascareignes* ensures that all members of staff attend to their respective duties in an honest and competent manner.  
All members of the Board of Directors as well as senior staff are required to duly fill in and sign the fit and proper questionnaires which are sent to the Bank of Mauritius in accordance with the

##### **Banque des Mascareignes Ltée**

##### **Management discussion and analysis**

guidance notes. All members of staff must also fill in and sign an internal fit and proper questionnaire based on the Bank of Mauritius model.

- Charte de déontologie of the OCEOR network

Banque des Mascareignes received the « *charte de déontologie* » of its holding, *Financière Océor*, at the end of 2005. The “*charte*” was sent to all employees in order to comply with the requirements of the Group.

The “*charte*” highlights the main duties and obligations of the banking profession and stresses the importance of keeping high ethical standards. Furthermore, it brings to the attention of all employees other focal points such as sustainable development and core principles, especially confidentiality, transparency, the prevention of conflicts of interests, as well as the fight against money laundering and combating the financing of terrorism.

## **5.2 Board of Directors and Management**

Board of Directors of *Banque des Mascareignes* bears the main responsibility to maintain high standards and good evolution of its corporate governance programme.

## **5.3 Responsibilities of the Board of Directors**

A strong effective Board of Directors is essential for safeguarding the interests of shareholders. The fundamental statutory duties of the Board of Directors are to supervise the management of the business and affairs of *Banque des Mascareignes*. The Board monitors the performance of the bank and ensures that management properly safeguards the assets of the bank. The Board’s mandate is to oversee the bank’s strategic direction, its organisational structure and its activities.

Other broad responsibilities of the Board include:

- exercising leadership, enterprise, integrity and judgment in directing the Company,
- appointing and measuring the Chief Executive Officer’s effectiveness in achieving corporate objectives,
- ensuring financial statements are true and fair and contain adequate disclosure,
- enforcing robust risk management, internal controls and legal/regulatory compliance,
- ensuring that an adequate and effective process of corporate governance is established and maintained.

The Board fulfills its proper governance responsibilities through various committees. The committees review technical and other issues in detail and take decisions and/or advise/make recommendations to the Board enabling the latter to take considered and informed decisions. The committees report to the Board after each meeting. The terms of references for these committees are in line with the model of the Code of Corporate Governance for Mauritius and international best practices.

The Board delegates the day-to-day running of the bank to the Chief Executive Officer.

Following the amalgamation of *Banque des Mascareignes Ltée* and the former Mascareignes International Bank Ltd, and in line with the existing legislation, the Board of Directors of the Bank comprises of ten members, of which nine are non-executive directors including the Chairman, with the only executive director being the Chief Executive Officer

## **Banque des Mascareignes Ltée**

### **Management discussion and analysis**

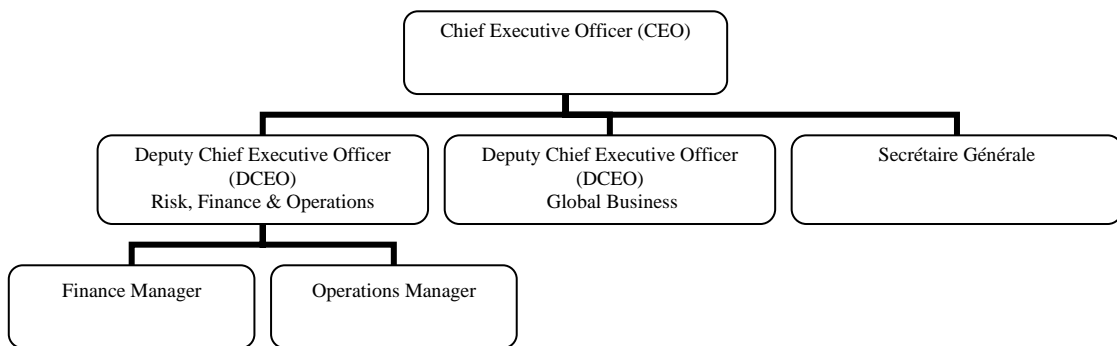
*Members of the Board of Directors:*

1. Charles MILHAUD, 63 years old
2. Guy COTRET, 57 years old

3. Bernard BOBROWSKI, 56 years old
4. Jean Louis FILIPPI, 42 years old
5. Gilbert MARTIN, 48 years old
6. Hervé FLIPO, 49 years old
7. Adolphe VALLET, 76 years old
8. Philippe LEDESMA, 48 years old
9. Christian MONTAGARD, 47 years old
10. Christian CAMUS, 50 years old

#### 5.4 The Executive Committee (Comité Exécutif)

The Board of Directors of the Bank has delegated the daily running of the Bank to the Chief Executive Officer (CEO).



This Executive Committee meets on a weekly basis where issues are debated and decisions are taken. The committee members are as follows:

- the COE
- the 2 Deputy CEOs
- the “*Secrétaire Générale*”
- the Finance Manager (*Directeur Financier*)
- the Operations Manager (*Directeur de l'Exploitation Bancaire*)